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IMPACT OF BALANCED SCORECARD USAGE ON THE PERFORMANCE OF COMMERCIAL BANKS

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ABSTRACT

The study sought to examine the impact of balance scorecard usage on the performance of commercial banks in Kenya. The study location was in Nakuru District, Kenya where a census research design was adopted. Convenient sampling was utilized to select 72 respondents from 18 commercial banks in Nakuru. A likert scale was employed to gauge the degree of response in terms of strength or weakness on a scale of one to five. Descriptive statistics was employed to analyze the data and Pearson's correlation was utilized to test the relationship between two or more variables. The study concludes that the effectiveness of BSC usage lies on the organizations dynamics, execution, monitoring and evaluation procedures adopted. It is recommended that for banks to become more competitive and satisfy the needs of customers they need to develop products and services that have competitive advantage.

Keywords: Balanced scorecard, performance, commercial banks

INTRODUCTION

Nature of Balance Scorecard

The BSC is a performance management approach that enables organizations to clarify their vision and strategy and translate them into action (Mooraj et al., 1999). It provides feedback around both the internal business processes and external outcomes in order to improve strategic performance and results continuously. When fully deployed, the BSC transforms strategic planning into the nerve center of an enterprise (Chan, 2004). Building a BSC should encourage business units to link their financial objectives to corporate strategy. Kaplan & Norton (2001) state that the customer perspective enables companies to align their customer outcome measures i.e. satisfaction, loyalty and retention to market segments.

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Business unit mangers must translate their mission and strategy statements into specific market and customer based objectives. Businesses must identify the market segments in their existing and potential customer populations and then select segments they choose to compete. Identifying the value propositions that will be delivered to targeted segments becomes the key to developing objectives and measures for the customer perspective (Hayes, 1992). Thus, the customer perspective of the scorecard translates an organization's mission and strategy into specific objectives regarding targeted customers that can be communicated throughout the organization.

Internal business processes are the mechanisms through which organizational performance expectations are achieved. Customer-based measures are important, but they must be translated into measures of what the organization must do internally to meet its customers' expectations. This perspective focuses on the internal business results that lead to financial success and satisfied customers. Therefore, managers need to focus on those critical internal operations that enable them to satisfy customer needs (Kaplan & Norton, 1992).

The learning and growth perspective drives the organization learning and growth process. The objectives established in the financial, customer, and internal business process perspectives identify where the organization must excel to achieve breakthrough performance. The objectives in the learning and growth perspective provide the infrastructure to enable ambitious objectives in the other three perspectives to be achieved.

Organizational Performance

The administration of performance management is complex. Managers have many demands on their time and so their attention must be rationed (Aaker, 1992). For performance management to work there must be sufficient attention paid to key processes by line managers. A firm must be inclined to not only carrying out the various formal requirements, but also in undertaking the various informal activities which help increase employees' perceptions of fairness and their credibility in the management process. Prominent in this regard could be ongoing appraisal, coaching, counseling, and monitoring. Managers can be constrained by short-term goals of the company. This can lead to managers and employees concentrating on narrowly prescribed tasks, making commitments to teamwork problematic. The bureaucracy of the management process is also of concern for managers, taking as it does a considerable amount of their time in an already presumed schedule.

In the journey of organizational transformation, the critical challenge lies in evolving a performing organization so that the business deliverables can contribute to the operative efficiency of the organization (Meyer, 2002). In the context of organizational performance management, the BSC is a strategic management tool that improves performance and organizational success (Brignall & Modell, 2000; Ellinson & Wambsganss, 2001; Johnsen, 2001; Kaplan, 2001; Niven, 2003; Wilson et al., 2003). Studies on organizational performance management have centered on employee performance management practices in the private security services industry; relationship between performance management principles and firm performance; involvement of unionized employees in the application of performance management program.

Commercial Banks in Kenya

The banking sector was liberalised in 1995 and exchange controls lifted. The Central Bank Kenya (CBK) is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. Currently, there are forty-three commercial banks in Kenya according to the CBKs statistics. Thirty-five of the banks, most of which are small to medium sized, are locally-owned. The increasing competition amongst commercial banks in Kenya has forced the management to use various tools they deem best to improve their overall organizational performance. The choice of method to use to improve organization performance is the challenge that most of the commercial banks face (Lipe & Salterio, 2000). A switch from local and domestic competition to a "global" market place has led to increasing attention being given to performance measurement and strategic implementation (Lipe

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& Salterio, 2000; McCunn, 1998). The study sought to examine the impact of balance scorecard usage on the performance of commercial banks in Kenya.

LITERATURE REVIEW

BSC is a performance measurement tool that uses a strategy map to connect an organization's day-to-day processes to its organizational goals. Rather than capture how an organization currently operates, the BSC is concerned with creating a strategy to drive future direction, building in cause and effect linkages while simultaneously taking into account both financial and intangible resources that can determine success or failure (Kaplan & Norton, 1996). The BSC is a complementary strategic model that considers financial and non-financial measures. According to Johnsen (2001), BSC as a management model, that translates the organizational mission and strategy into a collection of performance measures. It is a complement of the Management by Objectives but "with more emphasis on feedback on results by formal and integrated performance measurement". Performance measures cannot be only based on financial measures but should consider others perspectives (Wilson et al., 2003). The BSC framework gives corporate goals through cause-and-effect relationships, and is filtered through four perspectives: financial, customer, internal processes, and learning and growth (also called intangibles) (Kaplan & Norton, 1996). By connecting financial to non-financial objectives, external to internal processes, and current to future performance, corporate strategy will be mapped more cohesively, and employees at all levels of the organization work towards the same goal.

Seventy percent of Chief Executive Officers failures come not because of poor strategy, but of poor execution (Niven, 2003). In addition, it is estimated that nine out of ten organizations fail to implement their strategies. The BSC has a documented history of successful implementation in several industries including banking. Benefits of implementation have included increased financial returns; greater employee alignment to overall goals; improved collaboration; and unrelenting focus on strategy (Mooraj et al., 1999, Niven, 2003). The BSC is an approach for driving organizational improvement toward pre-selected goals, which keeps track of progress through carefully selected measures. The BSC is also an integrated management system consisting of three components: strategic management system, communication tool, and measurement system (Niven, 2003).

A uniform approach of the BSC may lead to dysfunctional consequences (Johnsen, 2001). In sum, the implementation of the BSC methodology in the banking sector implies that it is necessary to adjust the language, framework and approach to the performance management and to the social mission that characterizes these organizations (Ho & Kidwell, 2000; Chan 2004; Niven, 2003; Holmes et al., 2006). Each organization should adapt the BSC to its own mission, strategic goals, values and culture, to assure a successful implementation (Niven, 2003).

RESEARCH METHODOLOGY

A census was conducted in all the 18 commercial banks within Nakuru District, Kenya. The population was conveniently obtained and this is due to the size of the banking industry in the target area. The sample was drawn from 18 operations managers, 18 human resource managers, 18 branch managers and 18 customer service mangers.

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Table 1: Study population

Bank	Operations managers	Human resource managers	Branch managers	Customer service managers	**Grand total**
Barclays bank	1	1	1	1	**4**
Bank of Africa	1	1	1	1	**4**
ABC Bank	1	1	1	1	**4**
Bank of Baroda	1	1	1	1	**4**
Chase bank	1	1	1	1	**4**
Commercial Bank of Africa	1	1	1	1	**4**
Consolidated Bank	1	1	1	1	**4**
Credit Bank	1	1	1	1	**4**
Equity Bank	1	1	1	1	**4**
Family Bank	1	1	1	1	**4**
Fina Bank	1	1	1	1	**4**
Housing Finance Co. Ltd	1	1	1	1	**4**
K-Rep Bank	1	1	1	1	**4**
KCB	1	1	1	1	**4**
National Bank	1	1	1	1	**4**
Oriental Commercial Bank	1	1	1	1	**4**
Standard Chartered Bank	1	1	1	1	**4**
Transnational Bank	1	1	1	1	**4**
Total	**18**	**18**	**18**	**18**	**72**

Source: Research Data (2012)

Convenient sampling was utilized due to proximity and accessibility of the sampling units. Each bank had one branch manager, one operations manager, one human resource manager and one customer service officer sampled for the study.

Table 2: Sample size

GROUP	TOTAL POP.	SAMPLE POP.	PERCENTAGE
Operations Manger	18	18	25%
Branch Manager	18	18	25%
Human Resource Manager	18	18	25%
Customer Service Manager	18	18	25%
TOTALS	72	72	100%

Source: Research Data (2012)

Primary data was collected using a semi-structured predetermined questionnaire with closed and open ended questions. A likert scale was used to gauge the degree of response in terms of strength or weakness on a scale of one to five. Descriptive statistics was employed to analyze the data and Pearson's correlation was utilized to test the relationship between two or more variables.

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FINDINGS

The study targeted 72 respondents who were selected through judgmental sampling of 18 commercial banks targeting 4 departments that were conveniently sampled. The respondents were operations managers, human resource officer, customer service officers and branch managers drawn from specific department of the banks.

In order to establish whether the BSC links mission and vision with objective measures a likert scale was developed with a range of 1-5 for measurement purposes.

Analysis based on linkage to mission and vision.

Table 3: BSC is an employee management system

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	17	30.4	30.4	30.4
	agree	33	58.9	58.9	89.3
	not sure	2	3.6	3.6	92.9
	disagree	2	3.6	3.6	96.4
	strongly disagree	2	3.6	3.6	100.0
	Total	56	100.0	100.0	

Source: Research Data (2012)

30.4% of the respondents strongly agree that BSC is an employee management system, 58.9% agree while 3.6% were not sure, disagree and strongly disagree respectively. Thus mentoring and training are important in achieving employee satisfaction and retention.

Table 4: BSC is a strategic management system

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	29	51.8	51.8	51.8
	agree	24	42.9	42.9	94.6
	not sure	2	3.6	3.6	98.2
	disagree	1	1.8	1.8	100.0
	Total	56	100.0	100.0	

Source: Research Data (2012)

51.8% of the respondents strongly agree that BSC is a strategic management system, 42.9% agree while 3.6% were not sure and 1.8% disagrees. This suggests that BSC is an approach for driving organizational improvement toward pre-selected goals, which keeps track of progress through carefully selected measures.

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Table 5: BSC complements the financial measures of past performance with operational measures that drive future performance and growth.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	13	23.2	23.2	23.2
	agree	24	42.9	42.9	66.1
	not sure	8	14.3	14.3	80.4
	disagree	5	8.9	8.9	89.3
	strongly disagree	6	10.7	10.7	100.0
	Total	56	100.0	100.0	

Source: Research Data (2012)

66.1% of respondents cumulatively confirm that BSC complements the financial measures of past performance with operational measures that drive future performance and growth, 14.3% were not sure, 8.9% disagree while 10.7% strongly disagree. By connecting financial to non-financial objectives, external to internal processes, and current to future performance, corporate strategy will be mapped cohesively.

Table 6: The benefits will outweigh the costs if BSC were implemented successfully.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	24	42.9	42.9	42.9
	agree	21	37.5	37.5	80.4
	not sure	6	10.7	10.7	91.1
	disagree	3	5.4	5.4	96.4
	strongly disagree	2	3.6	3.6	100.0
	Total	56	100.0	100.0	

Source: Research Data (2012)

42.9% of the respondents strongly agree that if the BSC was to be successfully implemented, benefits will outweigh the cost involved, 37.5% agree (cumulatively 80.4%), 10.7% were not sure, 5.4% disagree while 3.6% strongly disagree. This means that commercial banks will have unique competitive advantage reduced in terms of time-frames, improved processes, improved decisions and better solutions.

Table 7: BSC links an organization's mission and strategy with objective measures

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	32	57.1	57.1	57.1
	agree	16	28.6	28.6	85.7
	not sure	5	8.9	8.9	94.6

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	disagree	2	3.6	3.6	98.2
	strongly disagree	1	1.8	1.8	100.0
	Total	56	100.0	100.0	

Source: Research Data (2012)

57.1% of the respondents strongly agree that BSC links an organization's mission and strategy with objective measures, 28.6% agree, 8.9% were not sure, 3.6% disagree while 1.8% strongly disagrees. This demonstrates that the BSC translates mission and strategy into goals and measures and enables banks to link corporate strategy with key performance indicators at the divisional, departmental, employee level and communicate them across the enterprise.

Table 8: Correlation Matrixes

		BSC is an employee management system	BSC is a strategic management system	BSC is a collection of financial and non-financial measures	BSC complements financial measures	Benefits outweigh the costs if BSC were.	All employees are involved in the implementation of BSC	BSC links an org mission & strategy with objective measures
BSC is an employee management system	Pearson Correlation	1	.269*	.097	.098	-.010	-.019	-.083
	Sig. (2-tailed)		.045	.479	.472	.939	.892	.544
	N	56	56	56	56	56	56	56
BSC is a strategic management system	Pearson Correlation	.269*	1	.332*	.272*	.434**	.331*	.361**
	Sig. (2-tailed)	.045		.013	.043	.001	.013	.006
	N	56	56	56	56	56	56	56
BSC is a collection of fin and non-fin measures	Pearson Correlation	.097	.332*	1	.460**	.361**	.229	.279*
	Sig. (2-tailed)	.479	.013		.000	.006	.089	.037
	N	56	56	56	56	56	56	56
BSC complements financial measures	Pearson Correlation	.098	.272*	.460**	1	.105	.035	.398**
	Sig. (2-tailed)	.472	.043	.000		.442	.798	.002
	N	56	56	56	56	56	56	56
Benefits outweigh the costs if BSC were implemented successfully.	Pearson Correlation	-.010	.434**	.361**	.105	1	.291*	.566**
	Sig. (2-tailed)	.939	.001	.006	.442		.030	.000
	N	56	56	56	56	56	56	56
All employees are involved in the implementation of BSC	Pearson Correlation	-.019	.331*	.229	.035	.291*	1	.189
	Sig. (2-tailed)	.892	.013	.089	.798	.030		.164
	N	56	56	56	56	56	56	56

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BSC links an org mission & strategy with objective measures	Pearson Correlation	-.083	.361**	.279*	.398**	.566**	.189	1
	Sig. (2-tailed)	.544	.006	.037	.002	.000	.164	
	N	56	56	56	56	56	56	56

*. Correlation is significant at the 0.05 level (2-tailed). Source: Research Data (2012)

**. Correlation is significant at the 0.01 level (2-tailed).

From the above results, a positive correlation exists between the BSC links to organization mission and strategy; and to the involvement of employees in implementation of the BSC. This reveals that commercial banks need to involve staff in the usage of the BSC, as it will complement financial performance with operational measures of the banks. The results indicate a positive relationship between customer satisfaction variables pre and post purchase services, product quality and optimized service quality.

CONCLUSIONS

BSC usage has a positive impact in the performance of commercial banks. Majority of the respondents noted that they had achieved considerably in terms of BSC usage. This indicates that the BSC is a management system that enables organizations to clarify their vision and strategy and translate them into action. BSC provides feedback on the internal processes and external outcomes in order to continuously improve strategic performance and results. The effectiveness of BSC usage lies on organizations dynamics, the manner of execution and monitoring and evaluation procedures adopted.

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