INSTITUTIONALIZING THE BALANCED SCORECARD TO ENHANCE EMPLOYEE PERFORMANCE: LESSONS FROM THE COOPERATIVE BANK OF KENYA

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ABSTRACT

This study sought to investigate the effect of balanced scorecard on employee performance. The study was guided by the following specific objectives, that is, incentives and rewards, growth and learning, internal business processes and customer orientation and their influence on employee performance in Co-operative bank of Kenya. This study took a descriptive research design. The target population of this study was Cooperative bank while the study population was 300 management staff. Simple random sampling technique was used to select the sample to be included in the study where a sample size of 60 Managers was chosen. The study employed a questionnaire to collect primary data. The questionnaire comprised of both open and close-ended questions which generated both qualitative and quantitative data. Quantitative data was coded and entered into Statistical Packages for Social Scientists (SPSS Version 20.0) and analysed using descriptive statistics. Descriptive statistics involved the use of absolute and relative (percentages) frequencies, measures of central tendency and dispersion (mean and standard deviation respectively). Quantitative data was presented in tables and graphs while the explanation to the same was presented in prose.

Key Words: *balanced scorecard, employee performance, Co-operative bank*

INTRODUCTION

The concept of the balanced scorecard (BSC) was first presented in the early 1990s. By 2000 some surveys indicated that a majority of firms in the United States, and Scandinavia used scorecards or at least intended to do so soon. Others, like Bain's management tools survey, indicated a slight drop in usage to 36 per cent, but with a high average satisfaction with the tool. The number of software packages for scorecard on the market was growing and exceeds 100 today. In only ten years, the idea of the balanced scorecard has certainly made its mark (Gadenne, 2000). At the time when the Balanced Scorecard was introduced, it was thought that the Balanced Scorecard was about measurement, not about strategy. It began with the premise that an exclusive reliance on financial measures in a management system was causing organizations to do the wrong things. Financial measures are lag indicators; they report on outcomes, the consequences of past actions. Exclusive reliance on financial indicators promoted short-term behaviour that sacrificed long-term value creation for short-term performance. The Balanced Scorecard approach retained measures of financial performance, the lagging indicators, but supplemented them with measures on the drivers, the lead indicators, of future financial performance (Brown, 2000). In Kenya, measurement of performance has evolved from being completely absent to the detailed and continuous measurement of performance on an on-going basis. In post-independent Kenya, performance measurement has over the decades been conducted in various organizations but mostly in the private and formal sector. Today a number of leading organizations especially in the private sector have adopted the balanced scorecard as a management and measurement tool. In the Banking sector specifically, banks including Standard Chartered and Barclays have adopted the balanced scorecard.

RESEARCH GAP

Banking system in any economy is a vital service industry and where it is competitive and efficient, it is able to spur efficiency and innovation in the economy (Falkena & Shaw, 2004). In Kenya, Commercial Banks have been competing to win the customer over the others in terms of price, service standards, advertising, innovation in products and services offered relationship management and product differentiation (Mbiti & Weil, 2011). Cooperative Bank went public and was listed on December 22 2008. As at the close of 2011, Co-op Bank had a staff establishment of 3,193 employees. Co-operative bank increased its customers between the year 2006 and 2009 from a customer base of 527,000 in 2006, to nearly 4 million accounts in 2009 accounting for over 47% of all bank accounts in Kenya (Cooperative Bank, 2012). Additionally, the proportion of households that had a bank account rose from 14% in 2006 to 23% in 2009. This growth was attributed to the adoption of the balanced score card by the bank.

There is an increasing trend towards implementing balanced scorecard (BSC) as a set of performance indicators (Zelman, Pink and Matthias, 2003). In the literature review, the feasibility and value of using balanced scorecard to measure performance has been evidenced (Chan and Ho, 2000). The need to remain competitive, productive and open to the challenges of the future in the face of organizational change is becoming more important than ever, and the demand for innovative technology and service in the information age environment is just one of the challenges facing companies today (Kaplan and Norton 1996). Organizations are recognizing that a different approach to strategic management and organizational development, one that could respond to these challenges, was needed. On the strategic level the Balanced Scorecard translates an organization's mission and strategy into a comprehensive set of performance measures that provides the framework for a strategic measurement and management system. A successful Scorecard programme demands a high level of commitment and time. External consultants or knowledgeable internal practitioners can play a critical role in launching a successful programme (Kaplan and Norton, 1996).

Locally, a few studies on balanced scorecard have been done which includes; the Application of the balanced scorecard in implementation of strategy at KRA (Kamau, 2006) and application of the balanced scorecard in strategy application at Barclays bank (Renato, 2007). Mghanga (2010) also did a study on the application of the balanced scorecard in strategy implementation at the Kenya Commercial bank. The study established that the Kenya Commercial Bank had applied the balanced score card in strategy implementation and performance management. The study also found out that the balanced scorecard had helped the organization translate its strategy into action. To the researcher's knowledge, no study has been done in Kenya on the effect of the balanced scorecard on employee performance in the banking industry and hence this study seeks to fill the knowledge gap.

GENERAL OBJECTIVE

The General objective of this study was to analyse the effect of balanced scorecard on employee performance.

SPECIFIC OBJECTIVES

1. To investigate whether incentives and rewards influences employee performance in Co-operative bank of Kenya
2. To establish whether growth and learning influences employee performance in Co-operative bank of Kenya
3. To evaluate the effect of internal business processes on employee performance in Co-operative bank of Kenya
4. To investigate whether customer orientation influences employee performance in Co-operative bank of Kenya

LITERATURE REVIEW

The Balanced Scorecard

According to Kaplan and Norton (2001) the balanced scorecard was developed to solve a measurement problem. The ability of organizations to develop, nurture and mobilize tangible assets was critical for success. The financial measurements could however not capture value adding activities, skills, competencies, effective and responsive operating processes, innovation in products and services, customer loyalty and relationships, and political and regulatory and societal approval. Howard Rohm, the Vice President of the Balanced Scorecard Institute and President Howard Rohm Consultants defines the Balanced Scorecard as a Performance Management system that can be used in any size of organization to align vision and mission with customer requirements and day -to-day work management and evaluate business strategy, monitor operations efficiency, improvements, build organization capacity and communicate progress to all employees.

The scorecard allows the measurement of financial and customer results, operations and organization capacity. Originally developed in the early 1990s, the Balanced Scorecard has migrated over time to become a full Performance Management system applicable to both private sector and public (and not-for-profit) organizations. Emphasis has shifted from just the measurement of financial and non-financial performance, to the management (and execution) of business strategy. The Balanced scorecard links vision and strategy to employees' everyday actions by translating the abstract strategy into clear strategic priorities and initiatives and relating these to clear tangible strategic outcomes the organization and its employees have to strive for: satisfied shareholders, delighted customers, efficient and effective processes and a motivated workforce" (De Waal, 2003).

Employee Performance

The Business Dictionary (2012) defines employee performance as the job related activities expected of a worker and how well those activities were executed. Many business personnel directors assess the employee performance of each staff member on an annual or quarterly basis in order to help them identify suggested areas for improvement. An employee is an individual who works part-time or full-time under a contract of employment, whether oral or written, express or implied, and has recognized rights and duties (Business Dictionary, 2012). Kaplan and Norton (1990), while undertaking a multi-company research study called "Measuring Performance in the Organisation of the Future" concluded that; to evaluate the organisational and employee performance in performance appraisal management processes, the BSC provides a framework of various measures to ensure the complete and balanced view of the performance of the employees, unlike the conventional approach which measures employee performance only on a few parameters like the action processes, results achieved or the financial measures. The study identified the need for an improved management control system based on an understanding of actual performance against important strategic goals, which the authors called "the BSC" (Cobbold & Lawrie, 2004; Andersen et al, 2004). BSC therefore focuses on the measures that drive performance.

Perceived Effects of balanced scorecard on employee performance

Incentives and Rewards

Aligning incentives or linking rewards to performance through effective evaluation and performance appraisals is critical. Consistent with the balanced scorecard concept, theoretical work on performance evaluation using multiple signals in agency settings indicates that financial measures alone may not provide the most efficient means to motivate managers to act in the manner desired by the firm's owners (Feltham and Xie, 2004). In theory, the bonus contract should include any performance measure that provides incremental information about desired managerial actions in order to efficiently motivate the manager (Holmstrom, 2009). These models indicate that, subject to the associated costs, the inclusion of additional performance measures that provide information on managerial actions will improve incentive contracting with the manager.

Although Kaplan and Norton (2006) argue that the proper role of the balanced scorecard in determining compensation is not yet clear, a recent survey of scorecard implementations found that 70 per cent of the respondents already use the balanced scorecard or some variant for compensation purposes, and 17 per cent are actively considering its use for this purpose. Similarly, research by Ittner et al. (2007) indicates that 36 per cent of U.S. firms now use both financial and non-financial measures in their chief executive officers' annual bonus contracts, with the weights placed on these measures a function of the firms' strategic objectives. One question raised by the widespread use of scorecard-based compensation plans is the effectiveness of adding additional performance measures to incentive plans.

Growth and Learning

Learning and growth perspective refers to building organizational capacity through educated, skilled employee and peer services; developing and enabling staff to provide high-quality, evidence-based and culturally competent services utilizing technology and efficient and effective organizational design; planning for future needs. According to Marko Rillo (2000), learning and growth perspective identifies the infrastructure that the organisation must build to create long-term growth and improvement. Organisational learning and growth comes from three principal sources of; people, systems, and organisational procedures. It requires businesses to invest in re-skilling employees, enhancing information technology and systems, and aligning organisational procedures and routines. Intense global competition also requires that companies continually improve their capabilities for delivering value to customers and shareholders. The financial, customer, and internal business process objectives on the BSC will typically reveal large gaps between existing capabilities of people, systems, and procedures and what will be required to achieve targets for breakthrough performance. To close these gaps, businesses and organisations will have to invest in re-skilling employees, enhancing information technology and systems, and aligning organisational procedures and routines (Marko Rillo, 2000). These objectives are articulated in the learning and growth perspective of the BSC.

Internal Business Processes orientation

According to Fields (2007), business processes are comprised of interconnected activities that transform particular inputs into customer-focused outputs working across departments. It emphasizes delivering value to customers by streamlining and accelerating work patterns. Here the organization looks at their main business processes like production, logistics or sales and then set goals related to such things as quality, time/efficiency, and cost reduction. The organization then explores ways of improving internal systems and functions (Schutta 2006, McCormack and Johnson, 2001). According to Kaplan and Norton (1996), the internal business process perspective focuses on improving existing processes. The BSC will identify entirely new processes at which the organisation must excel to meet customer and financial objectives. The internal business process objective highlights the processes most critical for the organization’s strategy to succeed and incorporates innovation processes into the internal business process perspective. According to Sethi and King (2003), the business process orientation is a social technical approach that brings about behavioral improvement as well as material change. It helps to mould employee behaviour and attitude via self-management. These elements help to improve both efficiency and effectiveness by reducing the cost of doing business and enhancing customer satisfaction.

Customer Orientation

Recent management philosophy has shown an increasing realization of the importance of customer focus and customer satisfaction in any organization. Improving service delivery calls for a shift away from inward looking, bureaucratic systems, processes and attitudes, and a search for new ways of working which place the needs of the customer first. Kaplan and Norton (2002) argued that the cost of customer dissatisfaction is substantial. It includes the cost of replacing lost customers, recovery costs involved in satisfying displeased customers, the impact of negative word-of-mouth, poor employee morale due to working with disgruntled customers, and the cost of 'opening doors' for competitors (Massnick, 2008). For this reason major effort is directed at determining how to ensure and increase customer loyalty. Olve et al. (2009) suggested that, organisations usually become familiar with customers' purchasing processes only when they embrace customer focus.

According to Sharon Caudle (2008), the customer perspective asks how an organization should appear to customers to achieve the organization's vision. Customer objectives identify customer and market segments where the business would compete and what performance would be expected for these targeted segments. The scorecard focuses on customer concerns primarily in four categories: time, quality, performance and service, and cost. These are called leading indicators. If customers are not satisfied they will eventually find other suppliers that will meet their needs. Poor performance from this perspective is thus a leading indicator of future decline (Kaplan and Norton 2002).

RESEARCH METHODOLOGY

Research Design

This study took a descriptive research design. According to Coopers and Schindler (2003) descriptive studies are more formalized and typically structured with clearly stated hypotheses or investigative questions. It serves a variety of research objectives such as descriptions of phenomenon or characteristics associated with a subject population, estimates of proportions of a population that have these characteristics and discovery of associations among different variables.

Target Population

Target population as described by Borg and Crall (2009) is a universal set of study of all members of real or hypothetical set of people, events or objects to which an investigator generalized the result. The target population of this study was Cooperative bank while the study population was 300 management staff, that is, unit heads, departmental heads, and credit managers working in head office units. This population was chosen since the people in the management were the ones involved in the day to day running of the bank and thus were well conversant with the information required in the study.

Sampling and Sample Size

For this study, simple random sampling technique was used to select the sample to be included in the study. The method was chosen because every element in the population (Management team) had an equal chance of being selected as the sample. According to Sekaran (2011) simple random sampling has the lease bias and offered the most generalization and hence for the study to be more representative, it was important that the right method was chosen. Mugenda and Mugenda (2003) states that the descriptive studies 20% of the accessible population is a representative sample. Out of the 300 officers, the study will focus on a sample size of 60 Managers.

Data collection

The study employed a questionnaire to collect primary data. Questionnaires are appropriate for studies since they collect information that is not directly observable as they inquire about feelings, motivations, attitudes, accomplishments as well as experiences of individuals, Mellenbergh (2008). The questionnaire comprised of both open and close-ended questions.

Data Analysis

The study generated both qualitative and quantitative data. Quantitative data was coded and entered into Statistical Packages for Social Scientists (SPSS Version 20.0) and analysed using descriptive statistics. Qualitative data was analysed based on the content matter of the responses. Responses with common themes or patterns were grouped together into coherent categories. Descriptive statistics involved the use of absolute and relative (percentages) frequencies, measures of central tendency and dispersion (mean and standard deviation respectively). Quantitative data was presented in tables and graphs while the explanation to the same was presented in prose.

DISCUSSION OF FINDINGS

Incentives and Rewards

On incentives and rewards the study found out that the bank had a policy of rewarding employees on exemplary performance. The study also found out that the bank uses both financial and non-financial measures in the employees' annual bonus contracts and that aligning incentives or linking rewards to performance through effective evaluation and performance appraisals is critical. It further established that the bonus contract should include any performance measure that provides incremental information about desired managerial actions in order to efficiently motivate the manager and that the inclusion of additional performance measures that provide information on managerial actions will improve incentive contracting with the manager and formula-based plans may allow bonuses to be paid even when performance is unbalanced. The study further established that incentives and rewards influence employee performance to a very great extent.

Growth and Learning

On growth and learning the study established that the banks had put into place programs for training and capacity building for their employees' growth and learning and that the training and capacity building programs are effective in equipping the employees with the necessary skills to assist them in executing their duties and enhance their performance. The training and capacity building programs also enable the employees to create and build long term growth and improvement in the organisation. The study also found out that learning and growth perspective identifies the infrastructure that the organisation must build to create long-term growth and improvement and that growth and learning is the foundation of any strategy and focuses on the intangible assets of an organization. Additionally the study established that growth and learning perspective answers the question on achieving the organization's vision by sustaining its ability to change and improve and that the bank invests in re-skilling employees, enhancing information technology and systems, and aligning organisational procedures and routines. The study further found out that growth and learning influence employee performance to a great extent as evidenced by majority of the respondents (65%).

Internal Business Processes Orientation

To the objective of internal business processes orientation, the study established that the organisation's process structures, management systems and measurement systems highly facilitates the employees work performance and that the organization's process values and beliefs improves work performance. Further the study found out that business process orientation demands better employee performance, that process structures are the structural elements, boundaries and activities of the business process and that the quality and efficiency of business processes help to boost the performance of employees. Additionally the study found out that process management and measurement systems describe methods of measuring process performance and rewards for process improvement and that process values and beliefs represent a process oriented organisational culture that emphasizes customer orientation, teamwork, empowerment, cross-functional coordination and continuous improvement and business process orientation is a social technical approach that brings about behavioral improvement as well as material change. Further the study found out that internal business processes orientation influence employee performance to a great extent. Majority (68%) of the respondents indicated that internal business processes orientation influence employee performance to a great extent.

Customer Orientation

On customer orientation the study found out that the bank had standardized measures of giving customer value and that the employees' individual work performance in regard to customer focus and customer satisfaction was excellent. The study further established that employees of the bank provide timely services to the customers, that poor performance from the customer orientation is a leading indicator of future decline, that improving service delivery calls for a shift away from inward looking, bureaucratic systems, processes and attitudes, and a search for new ways of working which place the needs of the customer first.

CONCLUSIONS

Based on the findings, the study concludes that the bank had a policy of rewarding employees on exemplary performance. The study further concludes that the bank uses both financial and non-financial measures in the employees' annual bonus contracts and that aligning incentives or linking rewards to performance through effective evaluation and performance appraisals is critical. It further concludes that the bonus contract should include any performance measure that provides incremental information about desired managerial actions in order to efficiently motivate the manager and that the inclusion of additional performance measures that provide information on managerial actions will improve incentive contracting with the manager and formula-based plans may allow bonuses to be paid even when performance is unbalanced. The study further concludes that incentives and rewards influence employee performance to a very great extent.

To the objective of growth and learning the study concludes that the banks had put into place programs for training and capacity building for their employees' growth and learning and that the training and capacity building programs are effective in equipping the employees with the necessary skills to assist them in executing their duties and enhance their performance. The training and capacity building programs also enable the employees to create and build long term growth and improvement in the organisation. Further the study concludes that growth and learning perspective answers the question on achieving the organization's vision by sustaining its ability to change and improve and that the bank invests in re-skilling employees, enhancing information technology and systems, and aligning organisational procedures and routines. Finally the study concludes that growth and learning influence employee performance to a great extent.

To the objective of internal business processes orientation, the study concludes that the organisation's process structures, management systems and measurement systems highly facilitates the employees work performance and that the organization's process values and beliefs improves work performance. Further the study concludes that business process orientation demands better employee performance, that process structures are the structural elements, boundaries and activities of the business process and that the quality and efficiency of business processes help to boost the performance of employees. The study finally concludes that internal business processes orientation influence employee performance to a great extent.

On the objective of customer orientation the study found out that the bank had standardized measures of giving customer value and that the employees' individual work performance in regard to customer focus and customer satisfaction was excellent. The study further concludes that employees of the bank provide timely services to the customers, that poor performance from the customer orientation is a leading indicator of future decline, that improving service delivery calls for a shift away from inward looking, bureaucratic systems, processes and attitudes, and a search for new ways of working which place the needs of the customer first.

RECOMMENDATIONS

The level at which the BSC operates varies according to how the organization chooses to apply the model, or the level at which the top level managers analyses the process. In principle, the BSC framework if implemented correctly can add value to the organisation by adding clarity to communicate strategy across an organisation. The organisation presented in this study is moving toward a scoreboard performance measurement system, featuring many different performance indicators and performance targets. Knowledge of the BSC can help sort out, prioritize and align the various indicators.

The organisation should use the BSC as a vehicle for communication by cascading it down through the organisation and by defining measures that relate to more detailed activities. This would make it possible to use the scorecard as a basis for setting personal goals and linking these goals to employees' personal rewards. The study recommends full involvement of all employees in goal setting as a critical component of BSC because it allows the employees to identify with the targets to be achieved and subsequently becoming effective. Feedback, learning and growth provide the most innovative and most important aspect of the entire BSC management process. The organisation should become a real learning organisation. Open professional feedback sessions with the employees should be held regularly. Information received through these sessions can result in modifications. Non-financial indicators are usually drivers, informing the manager of likely future performance. For example, learning new knowledge and skills, a lag indicator for learning and growth, is a lead indicator of the organisations' employees' ability to ensure best practices at harvest are in place. With investment in staff learning and personal growth, the organisation will have more ability to deliver to the customer's quality specifications identified in its customer related goals.

The BSC offers a perspective on how to link the various key indicators on performance targets altogether. The bank management can validate the balanced scorecard as tool for measuring the performance of its business and that of its employees. There will be need however to ensure effective follow up and review of the deliverables to ensure that all staff are comfortable that the tool measures their performance effectively. It would also be of interest to the bank to look into the relationship between education level and response to BSC as well as the related response to it either negative or positive.

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