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**INFLUENCE OF BALANCED SCORECARD ON CORPORATE
PERFORMANCE: A CASE OF KENYA ENERGY GENERATION COMPANY
(KenGen)**

Peter Jobando (MBA/0105/07)

**A Dissertation Submitted in partial fulfillment of the requirements of
Master of Business Administration at
Strathmore Business School, Nairobi**

May, 2017

DECLARATION

I declare that this work has not been previously submitted and approved for the award of a degree by this or any other University. To the best of my knowledge and belief, the report contains no material previously published or written by another person.

Peter Jobando.......... [Signature].....26/05/2017..... [Date]

Approval

The dissertation of Peter Jobando was reviewed and approved for examination by the following:

Dr. Everlyne Makhanu Sign.....,..... Date

Faculty Affiliation:

Institution: Strathmore Business School

ABSTRACT

The aim of this study was to determine the influence of the Balanced Scorecard (BSC) on the corporate performance, with major focus on KenGen. The specific objectives were to determine the extent to which KenGen has implemented BSC and to establish the effect of BSC on the performance of KenGen. The research design was descriptive design and the quantitative technique was used. The target population was the 98 functional managers of KenGen based at the headquarters. Purposive sampling was used to select only the functional managers and due to the manageability of the population, census study was employed. The instrument of data collection was the questionnaire. Descriptive statistics namely tables, mean, standard deviation and frequency distribution were used. Linear regression was used to determine the relationship between the corporate performance and operational activities. The organization largely practices financial perspective practices such as the focus on increased revenue, cost reduction, growth of coverage, and resource utilization among others. There was a positive relationship between financial perspective and organizational performance. The study further established that the organization employed customer focus practices such as retention, customer satisfaction, attracting new customers among others. The study concludes that there was a positive relationship between customer focus and organizational performance. The study found that the organization employed internal business practices such as meeting customer quality, product development, efficiency in product development and service and customer satisfaction. The results found a positive relationship between the internal business and organizational performance. The study established that the organization besides embracing technology, it invested a lot in technology. The organization also took seriously employee satisfaction and emphasized employee training. The study concluded that there was a positive relationship between innovation and learning and organizational performance. The study recommended that the firms in the energy sector should adopt BSC as a strategy to enhance their organizational performance as more implementation of BSC implies more enhanced organizational performance. The study further recommended that the management of the firms in the energy sector should employ more internal business processes as a strategy to enhance organizational performance as it has the highest influence on the organizational performance. The management of the energy sector firms and KenGen in particular should employ more of innovation and learning as a strategy as the study findings have proved that more technology and learning have an influence on the performance of the organization.

Key words: *Balanced Score Card, Performance, Implementation, challenges, Performance Measurement*

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LIST OF ABBREVIATIONS

BSC	-	Balance Scorecard
EAP&L	-	East African Power and Lighting Company
ERC	-	Energy Regulatory Commission
ERS	-	Economic Recovery Strategy
GDC	-	Geothermal Development Company
IPP	-	Independent Power Producers
KenGen	-	Kenya Electricity Generating Company Limited
KETRACO	-	Kenya Electricity Transmission Company
KPC	-	Kenya Power Company
KPI	-	key performance indicators
KPLC	-	Kenya Power and Lighting Company Limited
MOE	-	Ministry of Energy
NPM	-	New Public Management
NSE	-	Nairobi securities Exchange
PM	-	Performance Measurements
PMQ	-	Performance Measurement Questionnaire
PMS	-	Performance Management System
REA	-	Rural Electrification Authority
SMART	-	Strategic Measurement Analysis and Reporting Technique
SME	-	Small and Medium Enterprises

CHAPTER ONE

INTRODUCTION TO THE STUDY

1.1 Background information

The reforms in the public sector over the last decade predominantly focus on customers (Aberbach & Christensen, 2005). Barzelay (2001) and Lane (2000) highlighted the various approaches to reforms by the government sectors among others through privatization, decentralization and management of results. These reforms happened under New Public Management (NPM) which increases efficiency and effectiveness in aim at creating excellent organization (Sharifah, 2013). The NPM entails the public sector reform by traditional public administration system (professional bureaucracy) in favour of business management style peculiar to private sector (Nghidinwa, 2007). A few researches however, argued that NPM did not take into account the distinctive features or characteristics of the public sector (Brown, Waterhouse & Flynn, 2003; Vickers and Kouzmin, 2001).

Hoque (2005) believed that to ensure the success of public sector's organization, it should use a broader-based information system which promotes performance of activities rather than financial measure alone. In Kenya, one of the strategies adopted by the government as a transformational tool to enhance its service delivery was the adoption of performance measurement (GoK, 2006; GoK, 2008). The purpose of measuring performance is not only to know how a business is performing but also to enable it to perform better. The ultimate aim of implementing a performance measurement system is to improve the performance of an organization so that it may better serve its customers, employees, owners, and other stakeholders (Nghidinwa, 2007). Performance measurement generates data that will inform the users where the business is, how it is doing, and where it is going. A performance measurement system enables an enterprise to plan, measure and control its performance according to a pre-defined strategy (Okwo & Marire, 2012).

Researchers assert that there has been a paradigm shift from the traditional financial performance measurement approach to an approach integrating both financial and non-financial measures (Atkinson & Kaplan, 2003; Hoque & James, 2000; Malina & Selto, 2001; Simons, 2000). Organizations have a variety of goals and objectives and hence it is more unlikely that a single measure or even several measures of the same type will effectively assess organizational progress towards all of those goals and objectives, a primary goal is to be financially solvent.

Literature and surveys suggest that Balanced Scorecard (BSC), introduced by Kaplan and Norton in the 1990s, prevails as the most influential and widely accepted performance management system (PMS) (Paranjape *et al.*, 2006). Overall, objective of BSC is to align company's strategy, structure, measurements and incentives (Allen *et al.*, 2005). BSC is based on a mixture of usually 15-20 strategy-oriented financial and non-financial measures of 4 key perspectives (financial, customer, internal business processes and learning and growth) that provide an extensive overview of the company (Lawrie & Cobbold, 2004). According to Kaplan key factor that contributes to BSC success is that it enables to link the company vision and strategy with employees' everyday activities into clear strategic priorities and initiatives. Therefore, this modern performance measurements (PM) helps the managers to execute company strategy more successfully (De Waal, 2003). In addition, many researchers identify positive behavioral effects related to this contemporary PMS implementation (Neely *et al.* 1997; Martinez *et al.* 2005; Bititci *et al.*, 2006; Ukko *et al.* 2007).

Chan (2004) suggested that Balanced Scorecard (hereafter BSC) as a performance measurement tool can be the essential tool for the public sector's organization transformation process and this is being validated by those whose had implemented BSC in their organization. Indeed, there is growing evidence on BSC suitability for application in the not-for profit sector, especially the government sector (Irwin, 2002; Kloot & Martin, 2000). The BSC fulfilled the requirement of many public sector organizations which need to look at performance from many objectives and stakeholders. With BSC's focus on key performance indicators (KPIs), the management can focus on the important

measurements that drive the organization performance by linking these KPIs in causal relationships with desired result. This will also provide information for better performance management. The BSC has a twofold potential: first, to become a measurement instrument to guide performance in public administration and second, to enhance democratic accountability and responsibility which can improve the public agencies performance.

BSC applications in the public sector had not been studied by many researchers (Yeung and Conneil, 2006); Greatbanks and Tapp, 2007). Studies had shown that the level of success BSC use in public sector varies (Niven, 2005, 2006). Further, the success or failure factors in the public sector have not been well examined even though a few studies have identified factors that practitioners perceive as critical to the successful implementation of public sector BSCs, or see as resulting in unsuccessful or non-implementation (Radnor & Lovell, 2003; Chan, 2004; Yeung & Connell, 2006). Even when the potential use of the BSC in the public sector applications is obvious, still there are very few empirical literature available particularly, on the issues and challenges that exist in public sector BSC implementation.

1.1.1 Balanced Scorecard Implementation

The BSC is the most widely applied performance management system today. It was originally developed as a performance measurement system in 1992 by Dr. Robert Kaplan and Dr. David Norton at the Harvard Business School and later developed into a performance management tool. The basic idea of a BSC is that learning is necessary to improve internal business processes; this improvement is necessary to improve customer satisfaction; which in turn leads to improved financial results. The BSC emphasizes improvement and not just attainment of certain objectives and if an organization does not continually improve, it will eventually lose out to competitors that do (Kaplan, 2010). With the BSC, company executives can measure and manage how their business units create value for current and future customers, how they must build and enhance internal capabilities, and the investment in people, systems, and procedures necessary to improve future performance.

This method aims at making the business strategy more measurable and concrete. Additionally, it forces the business managers to think about what the strategy and vision are really about and what are the actions that lead to fulfilling the ideas named in the strategy and vision? The key differentiator of the Balance Score Card in performance measurement is its ability to combine both lagging indicators (financial perspective) with leading indicators (Customer and Innovation perspectives). The Balance Score Card is context specific because the performance objectives between firms vary and are dictated by the priorities of the firm at the moment. The new balanced score card transforms an organization's strategic plan from an attractive, but passive document into the marching orders for the organization on a daily basis. It provides a framework that not only provides performance measurements but helps planners identify what should be done, measured and executed (Kaplan & Norton, 1996). Kaplan and Norton (1992, 1996, and 2001) propose the use of four performance dimensions: Learning and Growth Perspective, Internal Business Perspective, Customer Perspective and Financial Perspective. According to Kaplan and Norton, the ultimate goal of implementing the Balanced Scorecard is the achievement of superior, long-term financial results. In relation to this, study considers how the Balanced Scorecard by the SMEs has enhanced their performance.

The BSC's performance measurement capability has been considered from a number of unique but valid perspectives by various scholars (Davis, 1996 & Feurer, 1995) Bainbridge provides a comprehensive overview of the same, considering all key aspects of the concept, albeit very briefly. His contribution offers the best executive summary from which a sound overview of the BSC can be obtained (Bainbridge, 1996). Hoque and James (2000) surveyed 66 Australian manufacturing firms (66/188 =35.1% response rate). BSC usage was measured using a 20 item scale similar to that developed by Hoque et al. (1997). This study used the Balance attribute to determine balanced scorecard use by the responding organization. The survey instrument comprised items that incorporate Kaplan and Norton's (1992) four dimensions of the BSC. It asked respondents to indicate the extent to which each item was used to assess their organization's performance on a fully anchored, five point Likert scale. Hoque and James (2000) noted that their BSC

measure might not have picked up the strategic linkages of a real BSC. Hoque and James (2000) did find support for the hypothesis that larger organizations tend to make more use of the Balanced Scorecard and it suggests that greater BSC usage is associated with improved performance.

Bran and Company (2003) management tools report, which surveyed more than 6000 global businesses, found that 62% were using a BSC. General Electric, Wall Mart and Mobil are among the well-publicized companies using the BSC. A survey by Silk, (1998), estimated that 60% of fortune 1000 firms had experimented with the BSC. In the UK, a survey of large divisionalized organizations by Drury, (2004) indicated that 43% used the BSC at the divisional level. Evidence suggests that by 2001, the balanced scorecard had been adopted by 44% of organizations worldwide (57% in the UK, 46% in the US and 26% in Germany and Austria). More recent data suggests that 85% of organizations will have performance measurement system initiatives underway by the end of 2004 (Silk, 1998; Speckbacher *et al*, 2003).

1.1.2 Energy Sector in Kenya

The history of Kenya's energy sector can be traced back to 1922 when the East African Power and Lighting Company (EAP&L) was established through a merger of two companies. These were; the Mombasa Electric Power and Lighting Company established in 1908 by a Mombasa merchant Harrali Esmailjee Jeevanjee and Nairobi Power and Lighting Syndicate also formed in 1908 by engineer Clement Hertz. The Kenya Power Company (KPC) was later formed in 1954 as a subsidiary of the EAP&L with the sole mandate of constructing electricity transmission lines between Nairobi and Tororo in Uganda. This infrastructure was mainly to enable Kenya import electricity from the Owen Falls Dam in Uganda. With many operations of EAP&L largely confined to Kenya, the company finally changed its name to Kenya Power and Lighting Company Limited (KPLC) in 1983. KPC was 100% government owned.

Following the structural adjustments program in the 1990s, the Government of Kenya officially liberalized power generation as part of the power sector reforms in 1996. Among the first reforms to take place was the unbundling of the state utility in 1997. Kenya Electricity Generating Company Limited (KenGen) became responsible for the generation assets while KPLC assumed responsibility for all distribution and transmission. The Electricity Regulatory Board was also established under the 1997 electric power Act as the sub sector regulator. Reforms in the power sector have continued to take place especially with energy policy development of 2004 and the subsequent enactment of the energy Act of 2006 which established the Energy Regulatory Commission and the Rural Electrification Authority. The sessional paper No 4 of 2004 on energy also provides for the creation of the Geothermal Development Company (GDC) and Kenya Electricity Transmission Company (KETRACO). GDC is a special purpose vehicle for geothermal resource development and KETRACO is a state owned transmission company.

The reforms in the electricity sector have seen a complete reorganization of functions hitherto concentrated in the ministry of energy and the Kenya Power and Lighting Company Limited. This was a result of the need to place responsibilities to specific institutions that would specialize in the mandates vested in them under the Energy Act to enhance efficiency. Accordingly the institutions were unbundled into generation, transmission, distribution, oversight and policy functions. The institutional structure in the electricity sub sector in Kenya comprise the Ministry of Energy (MOE), Energy Regulatory Commission (ERC), Kenya Electricity Generating Company (KenGen), Kenya Power and Lighting Company (KPLC), the Rural Electrification Authority (REA), Kenya Electricity Transmission Company (KETRACO), Geothermal Development Company (GDC) and Independent Power Producers (IPPs).

1.1.3 Kenya Electricity Generating Company (KenGen)

KenGen is a limited liability company, registered under the companies Act of Kenya. The company was incorporated in 1954 as Kenya Power Company Limited (KPC), but later re-

launched as KenGen in 1998. This was after the implementation of the energy sector reforms. KenGen listed 30% of its shares at the Nairobi securities Exchange, (NSE).in 2006, with the government of Kenya owning the balance of 70% of the shares, (KenGen, 2009). KenGen's core business is to develop, manage, operate power generation plants and supply electric power to the Kenyan Market and the East African Region. It is the leading electric power generator in Kenya, producing about 80% of electricity consumed in the country.

The company uses various sources to generate electricity ranging from hydro, geothermal, thermal and wind. Hydro is the leading source of electricity, with an installed capacity of 811.9 MW, which is about 53% of the country's total installed capacity (KenGen, 2014). It sells the power in bulk to Kenya Power and Lighting Company (KPLC) which distributes to consumers. The company is now operating in a liberalized market and is in direct competition with five (5) Independent Power Producers who between them produce about 25% of the country's electric power. KenGen was chosen for the study based on the fact that it has adopted the use of BSC.

1.1.4 Corporate Performance

The concept of corporate performance is based upon the idea that an organization is the voluntary association of productive assets, including human, physical, and capital resources, for the purpose of achieving a shared purpose (Alchian & Demsetz, 1972; Barney, 2001; Jensen & Meckling, 1976; Simon, 1976). Those providing the assets will only commit them to the organization if they are satisfied with the value they receive in exchange, relative to alternative uses of the assets. As a consequence, the essence of performance is the creation of value, provided the value created by the use of the contributed assets is equal to or greater than the value expected by those contributing the assets, the assets will continue to be made available to the organization and the organization will continue to exist. Therefore, value creation, as defined by the resource provider, is the essential overall performance criteria for any organization. How that value is created is the essence of most empirical research in management.

According to Chen (2002), corporate performance means the “transformation of inputs into outputs for achieving certain outcomes. With regard to its content, performance informs about the relation between minimal and effective cost (economy), between effective cost and realized output (efficiency) and between output and achieved outcome (effectiveness)”. There are various ways to understand corporate performance. Corporate performance therefore, can be judged by many different constituencies, resulting in many different interpretations of “successful performance”. Each of these perspectives of organizational performance can be argued to be unique. Further, each organization has a unique set of circumstances, making performance measurement inherently situational (Cameron & Whetton, 1983). Both of these issues are problematic for researchers, since theory building involves making and testing assertions that explain or predict a particular phenomenon that holds true across a broad range of specific instances (Van de Ven, 1989; Weick, 1989). In this study, performance will be measured in terms of growth of branches and of employees and profitability.

1.2 Problem Statement

The Kenyan government acknowledges that over the years there has been poor performance in the public sector, especially in the management of public resources which has hindered the realization of sustainable economic growth (GoK, 2005). The government reiterates in the Economic Recovery Strategy (ERS) (2003) some of the factors that adversely affect the performance of the public sector. These include: excessive regulations and controls, frequent political interference, poor management, outright mismanagement and bloated staff establishment. To improve performance, the government has continued to undertake a number of reform measures. Such measures include: introduction of service charters, competitive recruitment and vetting of senior management, and introduction of performance measurement among others.

The government of Kenya introduced the performance measurement as a strategy to enhance its service delivery. Several state corporations have since adopted the BSC as a performance measurement tool. Despite the adoption of these reforms, the government

has continued to be on the receiving end being accused of poor service delivery, continued corruption which is growing out of hand, inefficiency among others. Balanced scorecard has been linked to improved performance of the organizations. There is therefore need to carry out a study to determine the influence the implementation of BSC has had on the performance of state corporations in the energy sub-sector.

Previous studies have linked BSC to organizational performance have produced mixed results. McAdam and Walker (2003) found that the BSC implementation was promising. A study by Elefalk, Carmona and Gronlund (2003) established that BSC helped the Swedish National Police Board to improve the use of resources by focusing on core functions, develop performance measurements and avoid focusing on figures. Christesen (2008) found no significant relationship between BSC and revenue and net income while Hoque and James (2000) found that effective implementation of BSC raised overall performance of the company.

Various studies have been conducted on the balanced score card on an array of dimensions in Kenya. For instance Kiragu, (2005) did a survey on the adoption of the balanced score card by selected companies in Kenya which majorly concentrated on manufacturing firms. Kariuki (2007) conducted a study on the application of the balanced score card in strategic management at Flashcom Ltd a communication company. Mwangi (2006) undertook a study on the application of the balanced score card in implementation of strategy at the Kenya Revenue Authority. Njiru (2007) studied the use of the balanced score card in strategy implementation by quoted companies in the Nairobi Stock Exchange. And Sang (2006) did a study on the implementation of the balanced score card at the United Nations Development Program – Somalia. While these studies are beneficial to the researcher, none was done on the influence of BSC on the performance of state corporations in Kenya. There is need to add knowledge through research on the influence of BSC implementation on the performance of the state corporations in general and firms in the energy sector, hence a knowledge gap. It is therefore this gap which the study seeks to fill.

1.3 Objectives of the Study

The main objective of the study was to determine the influence of balanced scorecard on performance of corporate in Kenya with major focus on KenGen.

1.3.1 Specific Objectives

- i. To determine the extent to which KenGen has implemented the BSC.
- ii. To establish the influence of BSC on the performance of KenGen.

1.4 Research Questions

- i. To what extent has KenGen implemented the BSC?
- ii. What is the influence of BSC on the performance of KenGen?

1.5 Significance of the Study

The BSC has for a long time been used as a benchmark for measuring performance of the organizations. However, most of the studies have been done on the large manufacturing firms in the developed countries. This study may be of significance to:

The management of KenGen in particular and State Corporation in the energy sector in Kenya in general may gain understanding on the effect of the performance of the corporation.

The government of Kenya and policy makers in particular in the energy sector as they may be able to make informed policies on the use of BSC on enhanced the performance of the state corporations which form the important part of the economy. These policies may enhance the performance of the state corporations which have been accused of poor performance in terms of service delivery.

Contributing to the existing body of literature on the use of BSC as a performance measurement tool on the organizational performance as it may highlight how the

adoption of BSC has influenced the performance of the state corporations in Kenya. This may also be a basis for further research as the study is only limited to a given parameters.

1.6 Scope of the Study

The study focused on KenGen, a state corporation in the energy sector in Kenya. The study performed a comparative analysis of before and after the implementation of BSC to evaluate the influence of BSC on the organizational performance.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter elaborates the concept of Balance Scorecard (BSC) by reviewing various literal works from the authors of BSC i.e. Kaplan and Norton as well as other researchers of the same. The overview of organizational performance and how it's influenced by the BSC is also presented in the chapter. The chapter also presents the theories adopted by the researcher to explain the relationship between the BSC and organizational performance.

2.2 Theoretical Framework

This study is anchored on two theories namely, open systems theory and resource based theory.

2.2.1 Open System Theory

Karl Ludwig von Bertalanffy (1988) defined an open system as a "system in exchange of matter with its environment, presenting import and export, building-up and breaking-down of its material components". Open systems theory has varied applications in various disciplines such as social science, anthropology, history to mention a few. In management the theory states that as organizations and communities conduct their business they influence and change their external environments, while at the same time being influenced by external changes in local and global environments. This two-way influential change is known as active adaptive change.

Open System theory of management states that, as organizations and communities conduct their business, they influence and change their external environments, while at the same time being influenced by external changes in local and global environments

(Chaharbaghi & Lynch, 1999). This two-way influential change is known as Change Active Adaptive. Organizations and communities are open systems i.e. changing and influencing each other over time. To be able to study an organization under this feature the following terms and definitions are outlined:

The boundary refers to an arbitrary line that outlines the area to be studied in the organization. The environment which includes all the identified aspects and influences to the area under study that are outside the system. Inputs in this context will refer to anything that comes into the identified system from the environment. These will include customers' orders, power supplies, technological equipment, raw material, and labour/Human resource. Processes here will refer to the whole cycle that converts inputs into outputs. This encompasses production and planning processes as well as marketing the organization's products and completing the sales process (Chaharbaghi & Lynch, 1999).

Outputs will refer to anything that leaves the identified system and is transferred to the environment. They will include products and services but the systems approach also considers waste and losses as outputs. This systems approach identified the negative feedback control loop as the most common adaptive mechanism for open systems. The Negative Feedback Control Loop, as its name implies, attempts to eliminate those differences that are identified between the desired results and the actual results. This theory is applicable to this study as it seeks to enhance its performance by adopting strategies such as the BSC with the aim of improving both its products and services whether through finances through cost management, customer satisfaction leading to retention and attraction of new customers, efficiency in production systems and service delivery and enhancing employee skills through training and adoption of latest technology.

2.2.2 Resource Based Theory

Mahoney and Pandian (1992) state a resource-based view of a firm explains its ability to deliver sustainable competitive advantage when resources are managed such that their outcomes cannot be imitated by competitors, which ultimately creates a competitive barrier. Barney JB (1991) summarizes the criteria for evaluating resources as VRIN i.e. Valuable, Rare, In-imitable and Non Substitutable.

Chaharbaghi and Lynch (1999) Resource Based view provides the understanding that certain unique existing resources will result in superior performance and ultimately build a competitive advantage. Sustainability of such an advantage will be determined by the ability of competitors to imitate such resources. However, the existing resources of a firm may not be adequate to facilitate the future market requirement, due to volatility of the contemporary markets. There is a vital need to modify and develop resources in order to encounter the future market competition.

Makadok (2001) emphasizes the distinction between capabilities and resources by defining capabilities as a special type of resource, specifically an organizationally embedded non-transferable firm-specific resource whose sole purpose is to improve the productivity of the other resources possessed by the firm.

The resource based view has been a common interest for management researchers and numerous writings could be found for same. A resource-based view of a firm explains its ability to deliver sustainable competitive advantage when resources are managed such that their outcomes cannot be imitated by competitors, which ultimately creates a competitive barrier (Mahoney & Pandian 1992). The theory is beneficial to the study as it explains the importance of efficient use of resources in the organization for competitive advantage without which will lead to waste. The BSC is a performance measurement tool aimed at evaluating non-financial organizational performance by looking at the various aspects such as customer perspective, the internal business processes, the innovation and learning, and the financial perspective with the aim of gaining a competitive advantage.

2.3 Overview of Performance Measurement Systems

Harbour (1997) defined performance measurement as “the process of measuring work accomplishment and outputs, as well as measuring in-process parameters that affect work output and accomplishments”. The process is adopted to quantify the achievements and quality of outputs due to improved efficiency and effectiveness in an organizational or system’s environment. Performance measurement enables an organisation to know where it has come from, its current situation and to chart the course for where it wants to be in future (Higgins & Hack, 2004). Essentially, performance measurement analyzes the success of a work group, program, or organization's efforts by comparing data on what actually happened to what was intended. Data is said to be lifeblood of a business and the way it is generated, maintained and exchanged throughout the enterprise determines its ability to operate efficiently and effectively (Abbott, 2006).

A performance measure is defined by Neely *et al.* (2005) as: “*a metric used to quantify the efficiency and/or effectiveness of an action*”. Although this definition was produced on the basis of a review of the performance measurement literature, it is limited when viewed in the context of the broader performance literature reviewed in this research. Efficiency and effectiveness are broad descriptions of performance, but the literature also includes research on softer aspects of performance such as quality of life (Skevington, 1999) and more qualitative aspects of performance in general (Teece 1992), that are not viewed from such a mechanistic, operational viewpoint. The definition presents measures as objective, though the human element involved in using a measure suggests that there is some subjectivity involved (Johnson & Kaplan, 1987). The discussion of quantification is not inclusive of softer, qualitative measures and the term ‘metric’ is a narrower term that is often used to replace ‘measure’, alluding to quantitative, decimal scales. Expressing the concept of measurement, Farbey *et al.* (1999) described how a measurement procedure maps and preserves the difference in a set of symbols and the difference in attribute of a collection of entities. This expresses the same basic phenomena as Neely *et al.* (ibid.), yet reflects the broader concepts in the literature.

As suggested by the Neely *et al.* (2005) definition and criticism of it, views of measures and the process of measurement in the literature come from a variety of philosophical viewpoints from natural science to social science. The different perspectives of measures cover both objective natural science and subjective social science measures and measurement processes. The latter tend to be more qualitative, taking far more account of the role of humans in the measurement process, than quantitative natural science views. However the qualitative aspects of subjective social science measures are often given numerical values and turned into quantitative measures (Chiesa, 2007). Literature on the background to performance measures also discusses issues of validity of measures and whether to use nominal, ordinal, interval or ratio scales for example (Bryman, 2004). On a broader view, the literature predominantly takes a rational Chandlerian, coordination and allocation view of measures (Chandler, 1977), though literature on choosing and implementing measures suggests a more Mintzbergian view that an over-obsession with quantification is harmful (Mintzberg, 1996).

Being a prominent part of the performance literature, discussion of performance measurement reflects themes in the development of the performance literature as a whole. For example financial performance measures are often used in the accounting based literature (Biddle *et al.*, 1997, Ferguson & Leistikow, 1997), the early literature (Ridgway, 1956) and often where a sole performance measure is used (Hendricks & Singhal, 2003).

2.4 Balanced Scorecard

The Balance Score Card is comprised of four dimensions namely; Customer perspective, internal business process perspective, Innovation and learning perspective and financial perspective. The first three dimensions, enable the tool provide leading measures of performance while the last dimension provides a lagging measure of performance. This Customer perspective captures the ability of the organization to provide quality goods and services, the effectiveness of their delivery, and overall customer service and satisfaction. To this effect, many organizations today have a mission, focused on the

customer and measuring how an organization is performing from its customers' perspective has become a priority for top management (Kaplan & Norton, 1992). The BSC demands that managers translate their general mission statement on customer service into specific measures that also reflect the factors that really matter to customers. In a public organization model, the principal driver of performance is different from in the strictly commercial environment; namely, customer and stakeholder interests take prominence over financial results. In general, many public organizations have a different, perhaps greater, stewardship responsibility and focus than private sector entities (Procurement Executives Association, 1998).

The business processes perspective is primarily an analysis of the organization's internal processes. 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). Organizations should decide at what processes and competencies they must excel and specify measures for each. Key internal processes are monitored to ensure that outcomes will be satisfactory. The measures should also link top management's judgment about key internal processes and competencies to the action taken by individuals that affect overall corporate objectives. Further (Kaplan & Norton, 1996) notes that these linkages ensures that employees at lower levels in the organization have clear targets for actions, decisions and improvement activities that will contribute to the organization's overall mission. Customer and internal business process measures identify the parameters that the organization considers most important for competitive success.

Financial perspective measures indicate whether the organization's strategy, implementation and execution are contributing to bottom-line improvement. It shows the results of the strategic choices made in the other perspectives. By making fundamental improvements in their operations, the financial numbers will take care of themselves,

according to Kaplan & Norton (1992). In the public arena, the “*financial*” perspective differs from that of the traditional private sector. Private sector financial objectives generally represent clear long-range targets for profit-seeking organizations, operating in a purely commercial environment PEA (1998). Financial considerations for public organizations should be measured by how effectively and efficiently they meet the needs of their constituencies. Therefore for the government the financial perspective emphasizes cost-efficiency, i.e. the ability to deliver maximum value to the customer.

2.5 Empirical Review

Many previous studies investigated the relationship between the balanced scorecard (BSC) and organization performance. Davis and Albright (2004) found that there is a positive relationship between the use of the balanced scorecard and high level of the financial performance. Hoque and James (2000) found that the use of the balanced scorecard raised the overall performance of company regardless of the organization size, product life circle, or market position. Christesen (2008) studied the impact of the balanced scorecard usage on the performance of 61 companies; 32 companies were balanced scorecard users and 29 companies were not balanced scorecard users. Christesen (2008) found that there was no statistically significant relationship between balanced scorecard and revenue on one hand and balanced scorecard and net income on the other hand. However, the return on assets had a significant relationship with the balanced scorecard.

2.5.1 Influence of BSC’s Financial perspective on organizational performance

The financial perspective seeks to answer the question: to succeed financially, how should we appear to our shareholders? According to Al-Najjar and Kalaf (2012) Financial measures convey the economic consequences for the actions already taken by the organization, and focus on the profitability related measures on which the shareholders verify the profitability of their investment. Therefore, under this perspective managers are required to generate measures that answer the question: To succeed financially, how

should organizations appear to shareholders? Kaplan and Norton acknowledged the need for traditional financial data.

The accurate and timely financial data are necessary for the efficient and smooth direction of the organization. The provision of the right and timely financial data to the right person in the organization helps much in the process of making the right decision in the right moment. Under this perspective the most common performance measures incorporated are: Return on Investment (ROI), Cash Flow, Net Operating Income, Revenue Growth. The financial perspective looks at how the investors or the shareholders see the firm in terms of dividend payout ratio, improvement on the cost structure, profit after tax, return on capital employed (ROCE) and growth in the sales volume (Etim & Agara, 2011). Wood and Sangster (2002) also viewed this perspective of the balanced scorecard that accounting has long been associated with and includes the use of such measures as return on capital employed, earnings per share and other financial ratios. Examples of such measures are: Return on capital employed, return on net assets, reduction of administrative expenses, reduction in bad debts, reduction in debtor days, and reduction in gearing.

Kaplan and Norton do not disregard the traditional need for financial data. Timely and accurate funding data will always be a priority, and managers will do whatever necessary to provide it. In fact, often there is more than enough handling and processing of financial data. With the implementation of a corporate database, it is hoped that more of the processing can be centralized and automated. But the point is that the current emphasis on financial perspective leads to the unbalanced situation with regard to other perspectives. There is perhaps a need to include additional financial-related data, such as risk assessment and cost-benefit data in this category Kaplan and Norton (1996). In the word of Atarereand Oroka (n.d), this perspective specifies the financial performance objective anticipated from pursuing the organizational strategy. It also deals with the economic consequences of the outcomes expected from achieving the objectives specified from the other three perspectives. According to Kaplan and Norton (1992) the three core financial themes that can drive the business strategy are:

- i. Revenue Growth: A revenue growth deals with every action/activity that can increase the revenue base of an organization (Koutsoyiannis, 1979). This theme focuses on how to increase the number of new products, develop new customer and how to change to a more profitable product (or service) mix.
- ii. Cost Reduction: this theme focuses on how to reduce product/service cost per unit and how to reduce selling/general administration cost.
- iii. Asset Utilization: this theme measures financial performance, such as: Return on investment and Economic value added.

A critical appraisal of the financial perspective revealed, therefore, that the focus is on minimizing cost and maximizing revenue inflow. All steps/ activities geared in this direction are therefore arrived at holding cost constant or reducing it while improving inflow of income. Hoque and James (2000) also reveal improved performance with a greater usage of the BSC in a sample of Australian manufacturing companies. Their study measured organizational performance in terms of return on investment, sales margin, capacity utilization, customer satisfaction, and product quality. Similar improvements were also found in service industries. For instance, Davis and Albright (2004) studied the BSC in the banking industry in the US and found superior financial performance for branches adopting the BSC compared with the non-BSC adopting branches. Additionally, companies implementing more sophisticated BSCs have been found to claim greater benefits and satisfaction than those with less developed BSCs (Speckbacher, *et. al.*, 2003).

Performance measures are traditionally strongly influenced by financial reporting, which resulted in the development of numerous financial measures. Mostly used financial measures are return on assets (ROA), return on equity (ROE), return on investment (ROI), profit margin, earnings per share, and the value per employee. These traditional financial indicators are no longer perceived as appropriate means of exercising control management (Neely, 2007). A change in the perspective occurred in the mid-1980s. Performance measures were no longer strictly focused on finance. Organizations began to

increasingly implement non-financial performance measures, such as customer retention, customer satisfaction, employee turnover, and the development of new products.

Most organizations that have made an attempt to move toward process orientation agree that it does indeed provide numerous benefits, including cost savings through a more efficient execution of work, improved customer focus, better integration across the organization, etc. Main advantages of process-based organizational structure, in comparison to functional one, are in economical design of business processes, as well as in reducing cycle time (Sikavica & Novak, 1999), while there is also a dramatically increased flexibility of the firm along with improved customer satisfaction. Namely, even though processes don't appear on the balance sheet as such, managers intuitively recognize that they are assets, not expenses (Keen, 1997). A key source of process benefit is improving hand-offs between functions, which can occur only when processes are broadly defined (Oden, 1999). A process orientation leads to cycle time reduction by doing a good job of coordinating work across functions. In addition, some costs are reduced with a process organization. The faster time cycles mean reduced inventories and faster receipt of cash. The reduced working capital translates into reduced costs of carrying inventory and cash. Other costs are reduced because duplication of work across functions is eliminated. A process organization eliminates such redundant activities, verifying input once for all functions (Galbraith, 2002).

2.5.2 Influence of BSC's Customer perspective on corporate performance

According to Kairu *et al.* (2013) this perspective captures the ability of the organization to provide quality goods and services, the effectiveness of their delivery, and overall customer service and satisfaction. This will result from price, quality, availability, selection, functionality, service, partnerships and brand value propositions, which will lead to increased customer acquisition and retention (Gekonge, 2005). The BSC demands that managers translate their general mission statement on customer service into specific measures that reflect the factors that really matter to customers (Kaplan & Norton, 1992). Customers' concerns tend to fall into four categories: time, quality, performance and

service, and cost. Satisfied customers buy a product again, talk favorably to others about the product, pay less attention to competing brands and advertising, and buy other products from the company (Kotler & Armstrong, 2004). Recent management philosophy has shown an increasing realization of the importance of customer focus and customer satisfaction in any business (Chabrow, 2002; Holloway, 2002; Needleman, 2003).

According to Horngren *et al* (2012), this perspective helps managers evaluate the question, how do customers see organizations? Customer satisfaction is a top priority for long-term company success. If customers are not happy, they will not come back. Therefore, customer satisfaction is critical to achieving the company's financial goals outlined in the financial perspective of the balanced scorecard. Customers are typically concerned with four specific product or service attributes: (i) the product's price, (ii) the product's quality, (iii) the service quality at the time of sale, and (iv) the product's delivery time (the shorter the better). Since each of these attributes is critical to making the customer happy, most companies have specific objectives for each of these attributes.

Businesses commonly use customer perspective key performance indicators (KPIs), such as customer satisfaction ratings, to assess how they are performing on these attributes. No doubt you have filled out a customer satisfaction survey. Because customer satisfaction is crucial, customer satisfaction ratings often determine the extent to which bonuses are granted to restaurant managers. For example, if customer satisfaction ratings are greater than average, the KPI will be positive. If customer satisfaction ratings are lower than average, management will want to devise measures to improve customer satisfaction. Other typical customer perspective KPIs includes percentage of market share, increase in the number of customers, number of repeat customers, and rate of on-time deliveries. According to the balanced scorecard institute, recent management philosophy has shown an increasing realization of the importance of customer focus and customer satisfaction in any business. These are 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, even though the current financial picture may look good. In developing metrics for satisfaction, customers should be

analyzed in terms of kinds of customers and the kinds of processes for which we are providing a product or service to those customer groups.

In the words of Al-Najjar & Kalaf (2012), this perspective provides a view on how customers perceive the organization. The customer perspective should be considered the central element of any business strategy that provide the unique mix of products, price, relationship, and image that the company offers to its customers. In this perspective the organization should demonstrate how it differentiates itself from the competitors by retaining, attracting, and sustaining relationships with its targeted customers. Therefore, managers are required to generate measures to answer the following question: "To achieve our vision, how should we appear to our customers?" Typical measures used under this perspective are: customer satisfaction, customer complaints, customer lost/won and sales from new product. Atarere & Oroka (n.d), viewed that this perspective is focused primarily on the customer and market segment in which the business will compete. It further underpins the revenue element for the financial perspective objective as this will be realized from patronage of customers.

Therefore, the achievement of the customer objective should ensure that the target revenue will be generated. The core objectives of this perspective are:

- i. Increasing the Market Share: - The theme is focused on all activities that the organization can employ to improve its share of the market. This may be through advertisement, sales, promotions, low-prize of products and services.
- ii. Increasing Customer Retention: - the focus of this theme is to ensure that old customers continue to patronize the organization. Strategic measures that can be taken include; improving customer-organizational relationship, responding to customers' complaints/suggestions, offering after-sale services to customers.
- iii. Increasing Customer Acquisition: - the focus here is to increase total sales to new customers. Strategic measures to be taken include giving out free samples to new market segments, penetration of new market segments, and introduction of new products and/or improving on existing old products.

- iv. Increasing Customer Satisfaction: - The focus here is on customer-survey satisfaction ratings. Strategic measures that can be taken include administering of questionnaires to customers, monitoring number of repeated patronage by old customers, etc.

Wood and Sangster (2002), suggest that you must identify the customer and market segments in which the organization operates. Measurements should then be made of factors such as customer satisfaction, retention, acquisition, customer profitability and market share. It answers the question, how does the organization appear to its customers? Possible measures are: Customer satisfaction, customer retention, increasing customer base, reduction in delivery times, and reduction in rate of goods returned by customers. A review of this perspective showed that a customer of an organization is a king and should be served and handle with care, he/she is the engine wire of an organization because no firm will survive without a loyal customer. It is important to satisfy customers as these could lead to market share expansion because the satisfied customers will serve as advertisers of an organization's product and in the same way customers can decrease market share when feel dissatisfied.

Aderson, Fornell and Rust (1997) investigated whether there are conditions under which there are tradeoffs between customer satisfaction and productivity. They found that the association between changes in customer satisfaction and changes in productivity is positive for goods while both customer satisfaction and productivity are positively associated with return on investment for goods and services.

Rigby and Bilodeau (2005) stated that 57% of firms worldwide use the balanced scorecard. Stivers, *et al.* (1998) investigated the non-financial practices in USA and Canada; they found that customer service market performance and goal achievement measures were classified as the most important measure, whereas, innovation and employee involvement categories were classified as less important. Gosselin (2005) found that management in Canadian manufacturing companies is still giving much more

weight to financial measures. Chenhall and Langfield-Smith (1998) pointed out that Australian manufacturing companies use set of non-financial measures such as customer satisfaction, employee attitudes, team performance. Abdel-Maksoud *et al.* (2005) found that UK manufacturing companies are using a broad set of non-financial performance measures such as customer measures, quality measures, efficiency and utilization measures and employee measures.

The majority of researchers agree that the devotion of a company and managers to customer focus increases the customer focus of their employees (Liaw *et al.*, 2010), which also influences customer retention (Jones *et al.*, 2003). Researchers report on companies trying to improve customer relationships by forming global customer teams, relationship marketing teams (Marinova, 2010), by the customer retention management (CRM) process (Reinartz, Krafft and Hoyer, 2004) and by knowledge management (Bueren *et al.*, 2005). Rust *et al.* (1996) claim that “organizations with satisfied employees have satisfied customers” which in turn leads to higher customer retention. The latter increases a company’s performance (Reinartz, Krafft & Hoyer, 2003).

Furthermore, research shows the positive relationship between employee and customer satisfaction, which leads to higher customer loyalty and impacts a company’s financial performance (Wangenheim *et al.*, 2007; Goldstein, 2003). Papasolomou-Doukakis (2002) explain that employee development is used to motivate employees and to achieve customer satisfaction and retention. Furthermore, Liao and Subramony (2008) show on a case of a global manufacturer operating in 16 countries that employees’ customer-oriented attitudes are most apparent in customer-contact roles, followed by production roles and finally in support roles with a positive relationship between senior leader and employee for all three functional roles.

Research also shows the importance of an employee who has direct contact with customers on performance (Stock & Hoyer, 2005, Peccei & Rosenthal, 2013). Karna *et al.* (2009) recognized the importance of customer orientation, technical competence, co-operational skills, communication and information flow in the construction projects.

Moreover, they claim that projects which succeed in one area are more likely to succeed in all areas and vice versa. Furthermore, Karna *et al.* (2009) emphasized the importance of schedule and planning since any defects in the initial phases could have extended detrimental effects towards the final stages.

2.5.3 Influence of BSC's internal business processes on corporate performance

The perspective, according to Gekonge (2005) as quoted by Kairu *et al.* (2013), internal processes perspective focuses on the internal business results that lead to financial success and satisfied customers. To meet the organizational objectives and customers' expectations, organizations must identify the key business processes at which they must excel. These key business processes are monitored to ensure that outcomes will always be satisfactory. The internal processes perspective reports on the efficiency of internal processes and procedures. The premise behind this perspective is that customer-based measures are important, but they must be translated into measures of what the organization must do internally to meet its customers' expectations (Kaplan & Norton, 1992).

Al-Najjar and Kalaf (2012) were of the view that internal business processes provide the organization with the means by which performance expectations may be accomplished. This perspective refers to the internal business processes of the organization and, therefore, managers are required to provide measures that answer the following question: "To satisfy our customers and shareholders, what business processes must we excel at?" The central theme of this perspective is the results of the internal business processes which lead to financial success and satisfied customers. Typically the measures of this perspective are based on producing goods and services in the most efficient and effective methods. Commonly used measures for this perspective are: cost of quality, cost of non-conformance, process innovation, time saving.

Wood and Sangster (2002) identified possible measures such as reduction in quality control rejection rate, reduced production lead times, and increased level of production

capacity utilization. Etim and Agara (2011) identified the measures under this perspective to include, defect rate, response to customers' complaints, quality of after sales service, internal process bureaucracy, process completion time, quality and skill of staff and their level of motivation. Atarere and Oroka (n.d) suggested that managers are required to identify the critical internal processes in which the organization must excel in implementing its strategies. Critical processes should be identified, that are required to achieve the organization's customer and financial objectives. Kaplan and Norton (1992) also identified three process value-chains on who to apply the internal process perspectives. These are:

- i. Innovation Process:-here, the managers research the needs of customers and then create the product or service that best meet those needs.
- ii. Operations Process: -This process represents the short wave of value creation. It is concerned with producing and delivering existing products and services to customers.
- iii. Post-Sales Service Process: -It represents the final item in the process value chain for the operations process perspective. It focuses on how responsive the organization is to the customer after the product or service has been delivered. After sale services include warrantee and repair activities, treatment of defect and returns, administration of customer payments and resolution of customer problems/complaints.

In planning any internal processes, it is good to look at the strengths and weaknesses of the organization which are internal and take advantages of opportunities as well as facing the identified threats to overcome them. Success of an organization will depend on its strength, weakness, opportunities and threats facing its ability to strategies itself at any time. The existing literatures failed to incorporate the SWOT analysis as means of internal business processes that could lead to success of every organization.

An increasing number of academics are now extolling the central role of business processes in improving performance. Most recently, Kaplan and Norton's book "Strategy Maps: Converting Intangible Assets into Tangible Outcomes" places business processes

at the centre of their approach of measuring a firm's progress in implementing strategy (Spanyi, 2004). They wanted to emphasize that in a process of moving to a process enterprise, therefore, managers need to conduct a thorough analysis to determine what aspects of process performance are most directly linked to achieving the organization's overall objectives (Hammer & Stanton, 2001).

Process performance management is of great importance for organizations, since it helps to control, assess, and enhance processes and organizations. It potentially leads to significant financial and non-financial improvements (e.g. increase in revenue, cost reductions, improvement of cycle time, a higher customer satisfaction, adds value, employee satisfaction, better cooperation). Although the nature of the relationship between process performance measurement and organizational performance is unclear (Gonzalez *et al.*, 2010), and is still being explored, there are some indications of a positive relationship. It might be argued that a positive relationship will occur, if process performance measurement is systematically supported by top management and is harmonized with the strategic goals of the organization.

Implementing business process as a way of organizing and operating in an organization will improve internal coordination and break down the functional silos that exist in most companies. Research has shown that this increase in cooperation and decrease in conflict improve both short- and long-term performance of an organization (McCormack, Johnson & Walker, 2003). Furthermore, the more business process oriented an organization is, the better it performs both from an overall perspective as well as from the perspective of the employees.

Although along process orientation is constantly improved organizational performance mentioned, there are rare authors which have empirically investigated that relationship. Two of them are McCormack and Johnson (2001), who conducted an empirical study to explore the relationship between business process and enhanced business performance. The research results showed that internal business process is critical in reducing conflict and encouraging greater connectedness within an organization, while improving business

performance. Their results indicate a surprisingly strong relationship between business process and overall performance. Considering all the factors that can potentially affect business performance, this finding is compelling (McCormack & Johnson, 2001).

However, experiences are showing that companies are managing their business processes with different success, what depends on established balance between organizational structure and organization's environment. In other words, not all the news about process transformation has been good. Many firms have found that even dramatic levels of process improvement often do not translate into better business performance (Keen, 1997). Furthermore, most organizations only have some of their processes well defined and are only beginning to use process measures and process management techniques to control their organizations (Harmon, 2003). All aforementioned emphasizes even more the importance of studying a process orientation as an important factor in modern business.

2.5.4 Influence of BSC's Innovation and learning on corporate performance

This perspective looks at how an employee of an organization learns and grow in his/her career to improve the performance of the organization. According to Kairu *et al.* (2013), the learning and growth perspective examines the ability of employees (skills, talents, knowledge and training), the quality of information systems (systems, databases and networks) and the effects of organizational alignment (culture, leadership, alignment and teamwork), in supporting the accomplishment of organizational objectives. Processes will only succeed if adequately skilled and motivated employees, supplied with accurate and timely information and led by effective leadership, are driving them. They will lead to production and delivery of quality products and services; and eventually successful financial performance (Gekonge, 2005).

Under this perspective managers must identify measures to answer the following question: To achieve our vision, how will we sustain our ability to change and improve? Actually, this perspective is related to the employees of the organization, and it measures

the extent to which the organization exerts efforts to provide its employees with opportunities to grow and learn in their domain. Kaplan and Norton acknowledged that the learning and growth measures are the most difficult to select; therefore they suggest the following measures as examples: employee empowerment, employee motivation, employee capabilities, and information systems capabilities (Al-Najjar & Kalaf 2012). Atarere & Oroka (n.d) go further to explain the learning and growth perspective as below; this perspective ensures that an organization will continue to have loyal and satisfied customers in the future and to continue to make excellent use of its resources.

The organization and its employees must therefore keep learning and developing. Hence, capabilities that an organization need to create long term growth and improvement should be encouraged. Kaplan and Norton (1992) identified two major enabling factors for this perspective to be actualized which are:

- i. Increasing Employee's Capabilities: - The focus is to ensure that every employee is able to deliver a service that would put the company in the best advantageous position. Strategic measure that can be taken to achieve this include: constant training of staff to master existing ways of doing the job as well as adopting new ways and making staff attend internal and external workshops and seminars on new trends relating to the job and industry.
- ii. Increase Motivation, Empowerment and Alignment:-The focus here is to take individual goals into consideration when formulating organizational goals to bring these in alignment. Strategic measures that can be taken include: training existing staff to acquire new knowledge of the job rather than replace them with new staff and welcoming individual suggestions on ways to improve existing products/processes or developing newer and better ones.

According to Etim and Agara (2011), learning and growth consider the flexibility of a firm and its adaptability to change in the business environment, how fast new technology is deployed to counteract change in business environment, total firm capabilities and innovativeness. According to Kaplan and Norton (1992), a company innovative ability, learning and improvement skills tied directly to the company's value and growth. Wood

& Sangster (2002) further look at this perspective as the one which identifies the human relations, technological and general systems infrastructure that the organization must develop if it is to achieve long-term growth and organizational improvement. Appropriate measures would include those relating to the level of relevant employee skills, how up to date the organization's IT systems and programs are, and the ability of the organization's system architecture to provide the information in an efficient, timely and cost effective way.

One of the key aspects in this perspective is appropriate and timely development of people and systems and development of measures to monitor and confirm that this is being done. It answers the question, how will the organization continue to change and improve? They suggest these examples of possible measures: Increase level of spending per head on employee training, reduced employee absenteeism rate, reduced staff turnover rate, increased range of products, increased proportion of new product sales as a proportion of total sales, greater reporting flexibility in the information system, increase in the range of information available on demand from the information system. The ability of an organization to have competent employees is an indication of success but these employees need to continue to learn in order to meet up with the quick changing environment of business activities across the globe. The above literatures could not mention the important of employee welfare in their discussion and employees will not think of growing themselves for the benefit of the organization if their compensation is not commensurate with their effort. It is therefore good to improve staff welfare for maximum growth of the organization.

In order to cope with the current external opportunities and threats, it is argued that organizations have to learn, that is, acquire new knowledge and skills that will improve their existing and future performance (Child, Faulkner, & Tallman, 2005; Ortenblad, 2001). In fact, it is proposed that the only competitive advantage the company of the future will have is the ability of its managers to learn faster than the competitors. Many other researchers suggest that the effective strategy for sustaining and improving a firm's

competitive edge and performance is organizational learning (Mavondo, Chimhanzi, & Stewart, 2005).

Scholars also attest that the new knowledge and skills obtained through learning enhance firm's innovative capabilities thus improving the level of firms' competitiveness and performance (Keiser & Koch, 2008). Research shows that innovation is linked to the concepts of generation, acceptance, and implementation of new ideas, processes, products and services, and is determined by the firm's learning orientation (Drucker, 2002; Calantone, Cavusgil, & Zhao, 2002). Research also indicates that the effect of organizational learning on firm performance is likely to be both direct and indirect because the creation of innovative culture through learning allows firm to achieve a better competitive position and above-average performance (Bates & Khasawneh, 2005).

Levenson *et al.* (2006) found that individual managerial competencies positively influence individual performance. While some researchers (Dainty et al. 2004, Briscoe et al., 2001) found that customer focus competence is one of the most important competencies of successful construction project managers, other researchers (Egbu, 1999) did not include this competence on the list of most important factors for various projects (Spencer and Spencer, 1993). Additionally, researchers stressed the importance of relationship management with stakeholders and within teams for project success (Preiss & Murray, 2005, Wang & Huang, 2006). Auh and Menguc (2006) examined top management teams and found out that when the level of both functional and tenure diversity increases then the effect of customer orientation on organizational performance increases.

Organizational learning impacts on a firm's performance (Calantone *et al.*, 2002; Sadler-Smith *et al.*, 2001). Researchers have addressed the relationship between a firm's organizational learning and its performance, highlighting that learning creates new knowledge which can help firms respond quickly to customers' needs and industry changes (Nonaka, 1994; Senge, 1990). Baker and Sinkula (1999) and Farrell (2000) found that organizational learning yields promising results in organizations. By

empirically testing a model of the antecedents and consequences of organizational learning, Farrell (1999) found that organizational learning has a positive effect on organizational commitment and esprit de corps, and on organizational performance. Using the model developed by Sinkula *et al.* (1997), Calantone *et al.* (2002) examined the relationships between organizational learning, firm innovation capability and firm performance in US technology companies. They found a positive relationship between organizational learning and firm performance. In sum, it can be stated that in an environment in which organizational learning is encouraged, individuals will be motivated, encouraged to learn, develop and share new skills and knowledge (Farrell, 1999; Nonaka, 1991), thereby facilitating an improved firm performance.

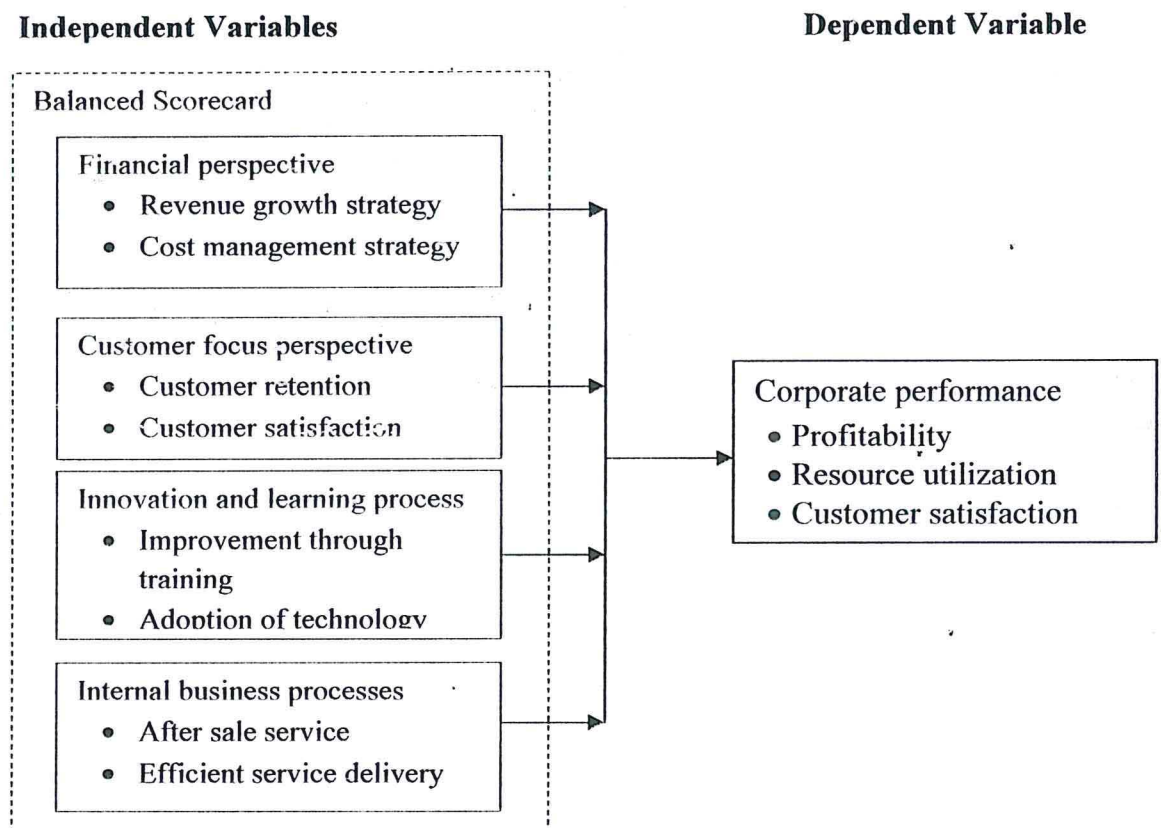
Researchers have hypothesized innovation as one possible mechanism by which firms can gain a competitive advantage in the marketplace through unique organizational resources (Barney, 1991; Damanpour & Evan, 1984). Adoption of an innovation is expected to result in organizational change that might affect the firm's performance (Rothwell, 1992). Research supports the argument that effective innovation serves as a key instrument for firm performance (Baker & Sinkula, 1999; Calantone *et al.*, 2002; Craig & Dibrell, 2006). Innovation provides organizations with new means of meeting customers' needs, which can lead to growth in sales and consequently enhance firm performance.

2.6 Research gaps

The reviewed literature on the effect of BSC on the organizational performance showed mixed results on the effect of the four perspectives of the BSC (namely the financial customer, internal business processes and innovation and learning perspectives) and the organizational performance. For instance Christesen (2008) found no significant relationship between BSC and revenue and net income while Hoque and James (2000) found that effective implementation of BSC raised overall performance of the company. These studies were on the private sector organizations and mainly in the developing countries. However, none of the studies was done on the effect of BSC on the

performance of state corporations in Kenya. Secondly, the fact that there was no clear results linking BSC and organizational performance makes it necessary to carry out a study to determine the effect of BSC on the performance of state corporations in Kenya.

2.7 Conceptual Framework



Source: Researcher (2017)

The operationalization of variables part shows the various theoretical statements through which the research used to measure the study constructs. The research questionnaire is designed in such a manner to allow the respondents to provide structure responses to each of the measurements shown for the research variables.

Table 2.1: Operationalization of Variables

Variable	Measurement	Scale	Analysis
Financial perspective	Revenue growth strategies Cost management strategies	5 point Likert scale	Descriptive Inferential
Customer focus perspective	Customer retention New customer acquisition Customer satisfaction	5 point Likert scale	Descriptive Inferential
Internal business processes	After sale service given to the customers Efficient production systems Efficient product and service delivery	5 point Likert scale	Descriptive Inferential
Innovation and learning	Improvement in employee capabilities through training Adoption of new technologies like ICT	5 point Likert scale	Descriptive Inferential
Corporate performance	Profitability Resource utilization Customer satisfaction	5 point Likert scale	Descriptive Inferential

2.8 Chapter Summary

Chapter two examined relevant literature review that pertained to the research questions. In order to gain more in-depth understanding in the subject area, the theories were reviewed. From the empirical review, the authors generally concurred on an existence of a correlation between BSC and state corporations performance from where the conceptual framework is formulated.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the research design and methodology that will be used in the study. It also justifies the choice of methodology to be applied in conducting the research as well as highlighted details of the target population, sampling technique, and instruments of data collection, data analysis, validity and reliability.

3.2 Research Design

The study used descriptive study research design. Descriptive research design determines and reports the way things are (Mugenda & Mugenda, 2003). It is used to give researcher an opportunity to use quantitative data in order to find data and characteristics about the population or phenomenon that is being studied. This approach was appropriate for this study because it involves fact finding and enquiries from the employees of the state corporation in the energy sector about the effect of the BSC implementation of organizational performance. Advantage of descriptive research is the unique data collection method which allows the respondents to provide an insight into work experiences in a way that other research methods can't (Swindells, 2004).

3.3 Target Population

Target population is the collection of elements that possess the information sought by the researcher (Orodho, 2005). The population of interest in this study was KenGen functional managers. According to the Human Resource Office, there were 98 functional managers at KenGen headquarters.

3.4 Sample and Sampling Procedures

The purposive sampling method was chosen as the most appropriate method for this research, as the researcher can apply her knowledge of the research problem to handpick the participants from management of KenGen. The burden of the judgment of who should be included in the sample remains with the researcher. According to the researcher, only the functional managers were in a position to provide the information of the impact of the BSC on the performance of the organization. Due to the manageability of the target population, census study was carried out in which all the 98 functional managers took part in the study.

3.5 Data Collection Methods

The study used primary data which will be collected through a questionnaire (Appendix II). The questionnaires contained both structured and unstructured questions. The questionnaire method was preferred for the study because of the nature of the respondents and size of the sample. Questionnaires were used to reach large number of respondents within a short duration of time. The questionnaire were divided into five parts with part one seeking information on the respondents demographic information and each of the other subsequent sections soliciting data on the various objectives. The researcher sought information on the influence of BSC on the corporate performance of the state firms in the energy sector. The study also sought information on the challenges the firms are facing in the implementation of the BSC. The researcher self-administered the questionnaires to the respondents. Where it was not be possible for the respondents to complete and return, the researcher used drop and pick later where the respondents were given time of a period of one week to complete and return the questionnaire.

3.6 Validity and Reliability of Data

A pilot study was conducted to find out if the respondents could answer the questions without difficulty. Respondents in the pretest were drawn from one firm, which was not part of the study. They were asked to evaluate the questions for relevance,

comprehension, meaning and clarity. The instruments were then modified on the basis of the pilot test before administering it to the study respondents. Cronbach Alpha was used to test reliability of the instrument. The study got a coefficient of 0.946 which is more than the recommended 0.70 (Saunders, Lewis & Thornhill, 2009), hence the instruments are deemed reliable. The individual tests are presented in Appendix III.

Table 3.1: Reliability Statistics

Cronbach's Alpha	N of Items
.946	28

3.7 Data Analysis

Descriptive statistics such as frequencies, percentages, means and standard deviation was used to analyze the data. According to Cooper and Schindler (2003), descriptive statistics have often been used in these types of studies. Inferential statistics tools such as correlation and regression (Muijs, 2004) were used for further analysis. The study used non-parametric statistics Spearman rank co-relation co-efficient test as the statistics test which assesses the linear correlation between the variables (Patrick, Smith & Pharm, 2009). Regression analysis was carried out to measure the relationship between variables and also establish the strength of linear association between the variables.

Linear Model specification

$$OP = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

The final findings were represented in diagrams using tables, charts, histograms and frequency charts among other statistical analysis and presentations.

3.8 Summary

Chapter three presents the approach to the data collection and the methodology. It also presented the target population, the sample and the procedure for the data analysis. Defining and designing a proper approach for data collection and analysis was important, as the results, conclusions and recommendations were dependent on this.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION, INTERPRETATION AND DISCUSSIONS

4.1 Introduction

This chapter presents the findings of the study and their interpretation. This is done in accordance with the study objectives.

4.2 Response Rate

The researcher gave out 98 questionnaires to the respondent out of which 89 completed and returned the questionnaires. This gave a response rate of 90.8% which is far above the recommended 50% response rate by Mugenda and Mugenda (2003). The findings are therefore suitable for generalization.

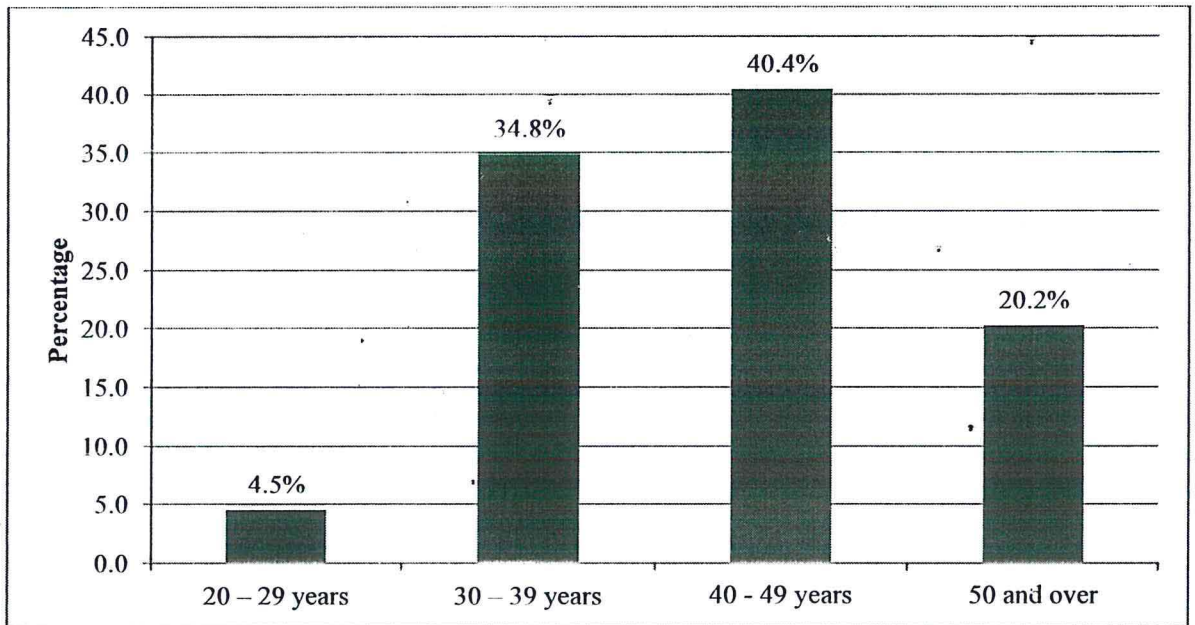
4.3 Respondents Biodata

In this section the study presents the findings on the respondents' demographic information such as age, highest level of education and how long they have been in the organization. The findings are presented in the following sections.

4.3.1 Distribution of Respondents by Age

The study sought to determine the distribution of the respondents by age bracket. The results are presented in Figure 4.1.

Figure 4.1: Distribution by Age Bracket

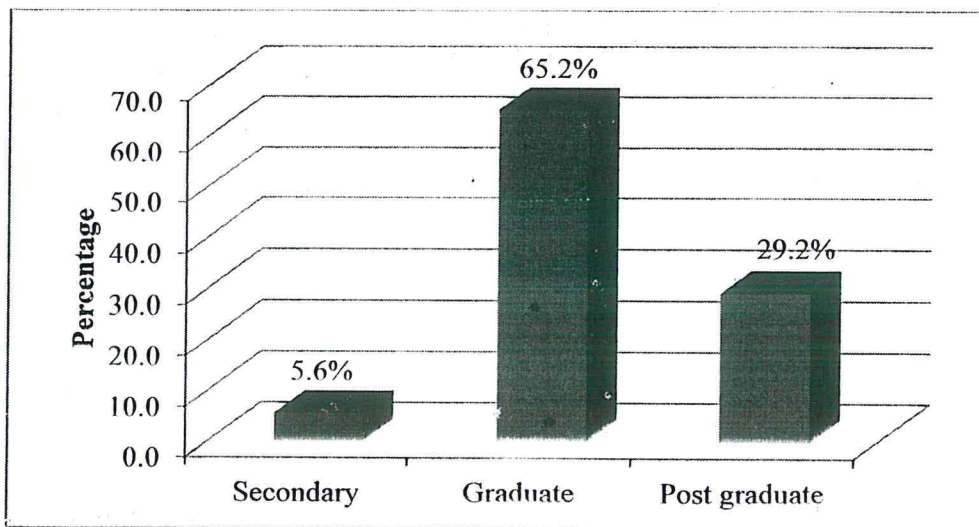


The results show that 40.4% of the respondents were aged between 40 and 49 years. The results further show that 34.8% of the respondents were aged between 30 and 39 years. The findings mean that most employees in the organization were aged over 40 years.

4.3.2 Distribution by Highest Level of Education

The respondents were asked to state their highest level of education. The findings are presented in Figure 4.2.

Figure 4.2: Distribution by Level of Education

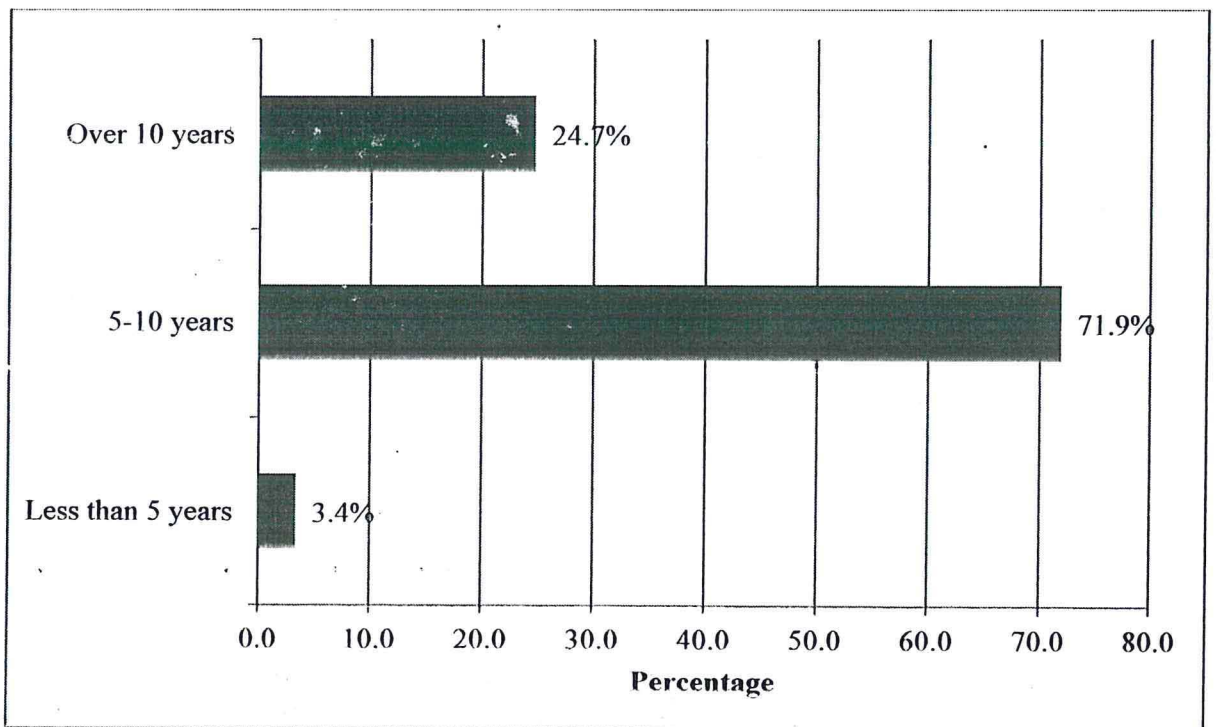


The results of the study presented in Figure 4.2 show that majority of the respondents (65.2%) were graduates while 29.2% of the respondents post graduate education. The findings mean that the respondents were highly learned and therefore the information received was informed.

4.3.3 Distribution by Duration in the Organization

The respondents were asked to state how long they have been in the organization. The findings are presented in Figure 4.3.

Figure 4.3: Distribution by Duration in the Organization



The study findings in Figure 4.3 show that majority of the respondents (71.9%) have been in the organization for between 5 and 10 years. The findings further show that 24.7% of the respondents have been in the organization for over 10 years. The results mean that the respondents have been in the organization long enough.

4.4 Objective 1: To determine the extent to which KenGen has implemented the BSC

The study sought to determine the extent to which KenGen had implemented BSC. The study tested various aspects of BSC including financial perspective, customer focus perspective, internal business perspective and innovation and learning perspective. The findings are presented in the subsequent sections.

4.4.1 Implementation of Financial Perspective

The respondents were asked to state the extent to which they agreed with the statements regarding the extent of the implementation of financial perspective. This was on a scale strongly disagree, disagree, neutral, agree and strongly agree. The score 0.0 to 0.9 is taken to represent strongly disagree, score 1.0 to 1.9 is taken to represent disagree, score 2.0 to 2.9 is taken to represent neither agree nor disagree, score 3.0 to 3.9 is taken to represent agree and score 4.0 to 4.9 is taken to represent strongly agree. The findings are presented in Table 4.1.

Table 4.1: Implementation of Financial Perspective

	N	Mean	Std. Dev
Organization has focused of how to increase its revenues	89	3.88	.766
Organization is concerned with the cost of reductions	89	3.57	.721
Organization working on growing its coverage	89	3.89	.745
Organization emphasizes on resource utilization	89	3.62	.746
Management invent new strategies to grow revenue	89	3.48	.724

The results of the study show that respondents general agreed with the statement that the organization focused on how to increase its revenue (mean score 3.88). The findings of the study further show that the respondents agreed with the statement that the organization was concerned with cost reduction (mean score 3.57). The respondents agreed that the organization was working on growing its coverage (mean score 3.89). The

study findings show that most of the respondents agreed with the statement that the organization emphasized on resource utilization (mean score 3.62). The study results revealed that the respondents agreed that the management invests new strategies to grow revenue (mean score 3.48). The results show that the deviations in all the responses as the standard deviations were less than one. The study findings mean that to a large extent the organization has implemented the financial perspective aspect of the balanced scorecard, as a strategy to measure its performance.

4.4.2 Implementation of Customer Focus Perspective

The respondents were asked to state the extent to which the management held the statements on customers focus perspective. This was on the scale of extremely unimportant, unimportant, not sure, important and extremely important. The findings are presented in Table 4.2.

Table 4.2: Implementation of Customer Focus Perspective

	N	Mean	Std. Dev
Management keen on retention of customers	89	3.70	.970
Well laid down strategies to retain the existing customers	89	3.24	.826
Customers complaints are addressed promptly	89	3.62	.983
Organization rewards loyal customers	89	3.39	.650
Management has a strategy of attracting new customers	89	2.96	.976
Organization takes keen interest in number of complaints by customers	89	3.55	.929
Management takes customer defections with keen interest	89	3.34	.656

The study findings show that the statement that the management was keen on retention of customers was important (mean score 3.70). The findings further show that the statement that there was well laid down strategies to retain the existing customers was important (mean score 3.24). The other statement regarded as important by the management was the prompt address of the customer complaints (mean score 3.62). The statement that the

organization rewarded loyal customers was regarded as important (mean 3.39). As to whether the management had a strategy of attracting new customers, the respondents were not sure (mean score 2.96). The findings show that interest on the number of complaints by customers was taken seriously by the management (mean score 3.55). The results revealed that the defection of the customers was taken with keen interest by the management (mean score 3.34). The results show that the responses were not dispersed as the standard deviations were less than one. The study findings mean that the organization has largely embraced the customer focus aspect of the balanced scorecard as a performance measurement strategy.

4.4.3 Implementation of Internal Business Perspective

The study sought to determine the extent to which the organization had implemented the internal business perspective. The respondents were asked to state the extent to which they agreed with the following statements with regard to the internal business practices in the organization. The findings are presented in Table 4.3.

Table 4.3: Implementation of Internal Business Perspective

	N	Mean	Std. Dev
Process ensures that any changes in customers and market requirements	87	3.26	.754
Product/delivery process meet customer quality and operational performance requirement	89	3.73	.951
Organization takes seriously product development	89	3.75	.992
Efficiency in product development and service quality is emphasized	89	3.72	.789
Company measures customer satisfaction through surveys and number of complaints	89	3.22	.598

The study findings show that the respondents agreed with the statement that the internal business process ensures that any changes in customer and market requirements (mean

score 3.26). The results further show that respondents agreed with the statement that the product or delivery process met customer quality and operational performance requirement (mean score 3.73). According to the study findings, most of the respondents agreed that organization took seriously product development (mean score, 3.75). The respondents agreed with the statement that efficiency in product development and service quality was emphasized (mean score, 3.72). The results show that the respondents agreed that the company measured customer satisfaction through surveys and number of complaints (mean score, 3.22). The findings of the study mean that to a large extent the respondents agreed with the statements regarding the internal business perspective. This means that the organization had implemented the internal business perspective aspect of the balanced scorecard performance measurement tool.

4.4.4 Implementation of Innovation and Learning Perspective

The study sought to determine the extent to which the organization had implemented the innovation and learning perspective. The respondents were therefore asked to state the extent to the organization practiced the aspects of innovation and learning practices. This was on a scale of no extent, small extent, moderate extent, large extent and very large extent. The findings are presented in Table 4.4.

Table 4.4: Practices of Innovation and Learning

	N	Mean	Std. Dev
Organization has embraced technology	89	3.76	.977
Organization invests a lot in technology	89	3.65	1.012
Organization takes seriously employee satisfaction	89	3.58	.927
Organization emphasizes on employee training	89	3.31	.632
Organization structure and system is reviewed based on the environmental change	89	3.25	.608
Flexibility to adopt new industry and market trends	89	3.55	.892

The study findings revealed that most of the respondents indicated that the organization embraced technology to a large extent (mean score, 3.76). According to the study findings, most of the respondents indicated that the organization invests a lot in technology to a large extent (mean score, 3.65). The results of the study revealed that the organization take seriously employee satisfaction to a large extent (mean score, 3.58). The results show that the respondents indicated that the organization emphasized on employee training to a large extent (mean score, 3.31). According to the study findings, the respondents indicated that the organization structure and system is reviewed based on the environmental change to a large extent (mean score 3.25). The findings also show that the respondents indicated that to a large extent, there was flexibility to adopt new industry and market trends (mean score, 3.55). The findings mean that to a large extent the organization practiced innovation and learning aspect of the BSC performance measurement tool.

4.5 Objective 2: To establish the influence of BSC on the performance of KenGen

The study sought to determine the performance of KenGen and whether the performance and the influence of BSC on the performance of the organization. The respondents were asked to state the extent to which they agreed with the statements regarding the performance of the organization. The findings are presented in Table 4.5.

Table 4.5: Performance of the Organization

	N	Mean	Std. Dev
Profitability of my organization is described as satisfactory	89	3.43	.767
Profitability has been progressive over the last two years	89	3.46	.799
Profitability is attributed to good business practices	89	3.66	.825
Organization utilized its allocated resources satisfactorily	89	3.37	.858
Customer satisfaction is paramount in my organization	89	3.65	.880

The results of the study show that most of the respondents agreed that the profitability of the organization was described as satisfactory (mean score, 3.43). The findings also show that the respondents agreed that the profitability has been progressive over the last two years (mean score, 3.46). The findings revealed that most respondents agreed that the profitability was attributed to the good business practices (mean score, 3.66). The study findings show that respondents agreed that the organization utilized its allocated resources satisfactorily (mean score, 3.37). Finally, the results of the study show that most of the respondents agreed with the statement that customer satisfaction was paramount in the organization (mean score, 3.65). The study findings mean that the performance of the organization is satisfactory.

4.5.1 Correlation Analysis

The study conducted correlation analysis to test the strength of association/relationship between the research variables. Correlation is the measure of the relationship or association between two continuous numeric variables. Correlation indicates both direction and degree to which they co-vary with one another from case to case without implying that one is causing the other. Correlation analysis results give a correlation coefficient which measures the linear association between two variables (Crossman, 2013).

The value of correlation coefficient ranges between -1 and +1. A correlation coefficient of +1 indicates that two variables are perfectly related in a positive linear. A correlation of -1 indicates that two variables are negatively linearly related and a correlation coefficient of 0 indicates that there is no linear relationship between two variables. The findings of the study are presented in Table 4.6.

Table 4.6: Correlation

		Customer focus	Financial	Internal business	Innovation & learning	Performance
Customer focus	Pearson Corr	1				
	Sig. (2-tailed)					
Financial	Pearson Corr	.298**	1			
	Sig. (2-tailed)	.005				
Internal business	Pearson Corr	.823**	.212*	1		
	Sig. (2-tailed)	.000	.048			
Innovation & learning	Pearson Corr	.796**	.165	.939**	1	
	Sig. (2-tailed)	.000	.022	.000		
Performance	Pearson Corr	.721**	.210*	.837**	.923**	1
	Sig. (2-tailed)	.000	.048	.000	.000	

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

* . Correlation is significant at the 0.05 level (2-tailed).

The results of the correlation analysis revealed that customer focus is positively related to the financial perspective with a Pearson's Correlation Coefficient of $r = 0.298$ and at level of significance of 0.005, is statistically significant as the p-value is less than 0.05. This relationship was however not very strong. The results show that there is a relatively strong positive relationship between customer focus and internal business with a Pearson's Correlation Coefficient of $r = 0.823$ and at level of significance of 0.000, is statistically significant as the p-value is less than 0.05. The relationship between customer focus and innovation and learning was strong and positive with a Pearson's Correlation Coefficient of $r = 0.796$ and a level of significance of 0.000 hence statistically significant. The results show that the customer focus is positively related to organizational performance with a Pearson Correlation Coefficient of 0.721 and a level of significance of 0.000 hence statistically significant as the p-value is less than 0.05. The study results revealed that there was a positive though weak relationship between financial perspective and internal business practices with a Pearson's Correlation Coefficient of $r = 0.212$ and 0.048 level of significance which imply that the test is statistically significant. The study results show that financial perspective have a positive relationship with innovation and

learning with a Pearson Correlation Coefficient of 0.165 and a level of significance of 0.022 hence statistically significant as the p-value is less than 0.05. This relationship was however, weak. The results show that the financial perspective is positively related to organizational performance with a Pearson Correlation Coefficient of 0.210 and a level of significance of 0.048 hence statistically significant as the p-value is less than 0.05. The study results also show that the internal business practices and the innovation and learning are positively related with a Pearson Correlation Coefficient of 0.939 and a level of significance of 0.000 hence statistically significant as the p-value is less than 0.05. The findings show that the relationship between the internal business and organizational performance was strong and positive with a Pearson Correlation Coefficient of 0.837 and a level of significance of 0.000 hence statistically significant as the p-value is less than 0.05. Finally, the study show that the relationship between the innovation and learning and organizational performance was positive with a Pearson Correlation Coefficient of 0.923 and a level of significance of 0.000 hence statistically significant as the p-value is less than 0.05. The study findings mean that generally, there was a positive relationship between the variables.

4.5.2 Regression Analysis

The study further carried out regression analysis to establish the statistical significance relationship between the independent variables notably customer focus, financial perspective, internal business and innovation and training on the dependent variable which was organizational performance. According to Green and Salkind (2003) regression analysis is a statistics process of estimating the relationship between variables. Regression analysis helps in generating equation that describes the statistics relationship between one or more predictor variables and the response variable. The study tested the effect of individual variables on the performance of the organization.

Effect of Financial perspective of the BSC on organizational performance

The study sought to determine the effect of financial perspective of the BSC on the performance of the organization. The findings are presented in Table 4.7.

Table 4.7: Effect of Financial perspective on organizational performance

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1	(Constant)	1.195	.206	5.795	.000
	Financial Perspective	.702	.060	.784	11.792
R Square		.615			
F Statistics, Sig. level		139.056, .000			

a. Dependent Variable: Organizational performance

b. Predictors: (Constant), Financial Perspective

The results of the study show that there is a positive relationship between financial perspective and organizational performance. This is due to the fact that the better coefficient in Table 4.7 for financial perspective is positive. The findings further show that the relationship is strong. The findings mean that a unit change in financial perspective will result into a 0.702 positive change in the organization's performance. The study findings show that the coefficient of determination represented by the R square is 0615 which means that the model is a strong predictor of the relationship between the two variables. With F-statistics of 139.056 and a p-value of .000, the test was statistically significant. The findings of the study that financial perspective directly influences organizational performance are in agreement with Etim and Agara (2011) and Wood and Sangster (2002) that financial perspective leads to the improvement on the cost structure, the profit after tax and the return on the capital employed.

Effect of Customer perspective of the BSC on organizational performance

The study sought to determine the effect of customer focus perspective of the BSC on the performance of the organization. The findings are presented in Table 4.8.

Table 4.8: Effect of Customer perspective on organizational performance

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	1.140	.227		5.019	.000
	Customer focus perspective	.698	.064	.761	10.925	.000
R Square		.578				
F Statistics, Sig. level		119.366, 0.000				

a. Dependent Variable: Organizational performance

b. Predictors: (Constant), Customer focus perspective

The findings of the study show that there was a positive relationship between the BSC's customer focus perspective and organizational performance. The results show that the beta coefficient was 0.698 which imply that a unit change in customer focus perspective will result into a 0.698 change in organizational performance. The results further show that the model has a strong coefficient of determination, hence the model can be used to predict the effect of customer focus perspective on organizational performance. The test was statistically significant with F statistics of 5.019 and p-value of 0.000 (p-value < 0.05).

Effect of Internal business processes of the BSC on organizational performance

The study sought to establish the effect of internal business processes of the BSC on organizational performance. The findings are presented in Table 4.9.

Table 4.9: Effect of Internal business processes on organizational performance

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	1.043	.225		4.638	.000
	Internal business perspective	.725	.063	.776	11.459	.000
R Square		.601				
F Statistics, Sig. level		131.304, 0.000				

a. Dependent Variable: Organizational performance

b. Predictors: (Constant), Internal business perspective

The study findings show that there is a positive relationship between the internal business perspective and organizational performance. The findings show that the beta coefficient

was 0.725 implying that a unit change in the internal business process will result into a 0.725 positive change in organizational performance. The coefficient of determination of 0.601 implying that the model is strong predictor of the relationship between the variables. The results show that the test is statistically significant (p-value < 0.05).

Effect of Innovation and learning of the BSC on organizational performance

The study sought to determine the effect of innovation and learning perspective of the BSC on organizational performance. The findings are presented in Table 4.10.

Table 4.10: Effect of Innovation and learning on organizational performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.295	.189		6.868	.000
	Innovation and learning perspective	.664	.054	.799	12.380	.000
R Square		.638				
F Statistics, Sig. level		153.270, 0.000				

a. Dependent Variable: Organizational performance

b. Predictors: (Constant), Innovation and learning perspective

The study findings show that there was a positive relationship between innovation and learning perspective of BSC. The findings show that the beta coefficient is 0.664 implying that a unit change in innovation and learning perspective will result into a 0.664 change in organizational performance. The findings show that the test was statistically significant (p-value < 0.05).

Overall Regression

The study sought to determine the effect of all the independent variables (financial, customer focus, internal business and innovation and learning perspective of the BSC) on the organizational performance. The findings are presented in Table 4.11.

Table 4.11: Overall Effect of BSC on Corporate Performance

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.128	.214		5.262	.000
Financial	.039	.060	.039	.658	.012
Customer focus	.036	.091	.045	.396	.043
Internal business	.472	.132	.544	3.580	.001
Innovation & learning	.217	.124	.285	1.753	.043
R Square	.749				
F Statistics, Sig. level	61.147, .000				

a. Dependent Variable: Performance

The results shows that the coefficient of determination is 0.749; therefore, about 74.9% of the variation in the organizational performance is explained by customer focus, financial perspective, internal business practices and innovation and learning practices. The findings of the study mean that the regression equation appears to be very useful for making predictions of the relationship between the dependent variable (organizational performance) and independent variables (financial, customer focus, internal processes and innovation and learning perspective, since the value of R^2 is close to 1.

The model can be represented as:

$$\text{Organizational performance} = 1.128 + 0.039 \text{ Financial} + 0.036 \text{ Customer focus} + 0.472 \text{ Internal business} + 0.217 \text{ Innovation and learning}$$

The study established that there was a significant positive relationship between the independent variables and organizational performance. The study findings mean that a unit change in financial perspective will result into a 0.039 positive change in organizational performance. The results further mean that a unit change in the customer focus will result in to a 0.036 positive change in the organizational performance. The results also mean that a unit change in internal business practice will result into a 0.472

positive change in organizational performance. And finally, the findings mean that a unit change in innovation and learning will result in a 0.217 positive change in organizational performance. The study shows that all the tests were statistically as the p-values were less than 0.05). The results of the study therefore mean that there was a positive relationship between implementation of BSC and organizational performance.

CHAPTER FIVE

DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the discussions of the study findings, conclusions, recommendations, and suggestions for further research.

5.2 Discussion of the Findings

The results of the study findings revealed that the organization focused on how to increase its revenue (mean score 3.88). Besides, the organization was concerned with cost reduction (mean score 3.57). Organization further worked on growing its coverage (mean score 3.89). It was also revealed that the organization emphasized on resource utilization (mean score 3.62), while the management invested on new strategies to grow revenue (mean score 3.48). These findings agree with Wood and Sangster (2002) who observed that firms using financial perspective of the BSC use such measure as measures of return on capital employed, earnings per share and other financial ratios. The findings further agree with Etim and Agara (2011) who stated that those firms practicing financial perspective of the BSC are keen on improving their revenues, on the reduction costs through the minimization of administrative costs, and invention of how to grow their revenues.

The study established that the management was keen on retention of customers (mean score 3.70). There was well laid down strategies to retain the existing customers (mean score 3.24). The management regarded prompt address of customer complaints as important (mean score 3.62). The further established that the organization rewarded loyal customers (mean 3.39). The number of complaints by customers was taken seriously by the management (mean score 3.55) and finally that the management took keen interest on the defection of the customers (mean score 3.34). The findings that the organization uses

customer focus perspective of the BSC support the views of Chenhall and Lanfield-Smith (1998) and Abdel-Maksoud *et al* (2005) that most firms are now using non-financial measures such as customer focus perspective. The findings are further in agreement with Kairu *et al* (2013) and Gekonge (2005) that customer focus perspective focuses on organizations ability to provide goods and services, effectiveness in their deliveries and overall customer service and satisfaction. The findings agree with Kairu that such activities will lead to quality, availability, selection, functionality, partnership and brand value proposition which will lead to increased customer acquisition and retention. The study further agrees with Horngien *et al* (2012) that in these organizations, customer satisfaction is a top priority for long-term company success because if customers are not satisfied, they will not come back. The findings of the study are in agreement with Wood and Sangster (2002) who noted that by concentrating on customer satisfaction, the organization will increase its market share and profitability as customer satisfaction will lead to customer retention, increased customer base and customer loyalty. The findings are further in agreement with Aderson, Fornell and Rust (1997) who noted that customer focus will lead to customer satisfaction. According to them, customer satisfaction and productivity of a firm were positively associated with returns on investment for goods and services. The findings further support the views of Stivers (1998) that non-financial practices such as customer focus may influence the market performance of the organization.

According to the study findings, internal business process ensured that any changes in customer and market requirements (mean score 3.26). In the organization, the product or delivery process met customer quality and operational performance requirement (mean score 3.73). The organization took seriously product development (mean score, 3.75). The efficiency in product development and service quality was emphasized (mean score, 3.72). The company measured customer satisfaction through surveys and number of complaints (mean score, 3.22). The study findings agree with Etim and Agara (2011) that the internal business processes include defect rate, response to customer complaints, the quality of the after sale services and the quality and skills of staff and their motivation. The study findings are in agreement with the views of Kairu *et al* (2013) and Al-Najjar

(2012) that internal business processes lead into financial success and satisfied customers. The findings further agree with McCormack, Johnson and Walker (2003) that the internal business processes improve both the short and long-term performance of an organization. The findings also support the views of McCormack and Johnson (2001) that internal business process is critical in reducing conflict and encourage greater connectedness with an organization while improving business performance. They found a strong relationship between business processes and overall performance. These findings however, contradict the views of Keen (1997) and Harmon (2003) who noted that even dramatic levels of process improvement often do not translate into better business performance.

The study established that the organization embraced technology to a large extent (mean score, 3.76). According to most of the respondents, the organization invested a lot in technology (mean score, 3.65). The organization took seriously employee satisfaction (mean score, 3.58). The results showed that the organization emphasized on employee training (mean score, 3.31). To a large extent the organization structure and system is reviewed based on the environmental change (mean score 3.25). The findings revealed that to a large extent, there was flexibility to adopt new industry and market trends (mean score, 3.55). The study findings support the views of Kairu *et al* (2013) that innovation and learning perspective is concerned with the employees skills, talents, knowledge and training. The findings also agree with Kaplan and Norton (1992) that this perspective is concerned with increasing employee capabilities through training. The study findings also agree with Child, Faulkner and Tallman (2005) and Ortenblad (2001) that knowledge and skills improve organizations future performance. The findings also agree with Keiser and Koch (2008) that knowledge and skills obtained through learning enhance organizations competitiveness and hence performance. The findings support the views of Calantone *et al* (2002) and Sadler and Smith *et al* (2001) that there was a relationship between firms organizational learning and its performance as learning creates new knowledge which can help firms respond quickly to customers' needs and industry changes.

According to most of the respondents, the profitability of the organization was satisfactory (mean score, 3.43). The study further established that the profitability has been progressive over the last two years (mean score, 3.46). The findings revealed that the profitability was attributed to the good business practices (mean score, 3.66). The organization utilized its allocated resources satisfactorily (mean score, 3.37). Finally, customer satisfaction was paramount in the organization (mean score, 3.65). A correlation analysis revealed that there was a positive relationship between the variables. A regression analysis to determine the relationship between the dependent variable and the independent variable revealed that there was a positive relationship between the independent variables, financial perspective, customer focus, internal business and innovation and learning and organizational performance. The tests were statistically significant as p-values were less than 0.05. The findings of the study are in agreement with Keiser and Koch, (2008) who noted that the knowledge skills obtained through learning enhanced the firms innovative capabilities thus improving its competitiveness and performance. These findings also confirmed the views of Drucker (2002) and Calantone, Cavusgil and Zhao (2002) that innovation was linked implementation of new ideas, processes and products and services hence improved organizational performance. The study findings are in agreement with Hoque and James (2000) whom found in their study that the use of the balanced scorecard raised the overall performance of company regardless of the organization size, product life circle, or market position. Also supported by the findings were Davis and Albright (2004) study which was on the BSC in the banking industry in the US. They found superior financial performance for branches adopting the BSC compared with the non-BSC adopting branches. The findings however, contradict the views of Christesen (2008) who studied the impact of the balanced scorecard usage on the performance of 61 companies; 32 companies were balanced scorecard users and 29 companies were not balanced scorecard users, and found that there was no statistically significant relationship between balanced scorecard and revenue on one hand and balanced scorecard and net income on the other hand.

5.3 Conclusion

Based on the findings of the study, the study concludes that the organization largely practices financial perspective practices such as the focus on increased revenue, cost reduction, growth of coverage, and resource utilization among others. The study further established that the organization employed customer focus practices such as retention, customer satisfaction, attracting new customers among others. The study found that the organization employed internal business practices such as meeting customer quality, product development, efficiency in product development and service and customer satisfaction. The study established that the organization besides embracing technology, it invested a lot in technology. The organization also took seriously employee satisfaction and emphasized employee training.

The study found that there was a positive relationship between financial perspective and organizational performance. The study further concludes that there was a positive relationship between customer focus and organizational performance. The results also found a positive relationship between the internal business and organizational performance. Finally, there was a positive relationship between innovation and learning and organizational performance. Overall, there was a positive relationship between the BSC and the organizational performance.

The study established that the major challenges which the organization faced in the implementation of the BSC were the inadequate resources which affected allocation for the effective implementation, the top management commitment and lack of supervision and employee resistance as a result of ineffective communication.

5.4 Recommendations of the Study

The study made the following recommendations:

The firms in the energy sector should adopt BSC as a strategy to enhance their organizational performance as more implementation of BSC implies more enhanced organizational performance.

The management of the firms in the energy sector should employ more internal business processes as a strategy to enhance organizational performance as it has the highest influence on the organizational performance.

The management of the energy sector firms and KenGen in particular should employ more of innovation and learning as a strategy as the study findings have proved that more technology and learning have an influence on the performance of the organization.

The management of the state corporations and the KenGen in particular should in future provide adequate allocation for the effective implementation of BSC. Further, the management should take their supervisory role seriously to ensure effective implementation of the BSC. There is also need for effective communication to the employees of the impending change as a change management strategy so as to minimize employee resistance.

5.5 Suggestions for Further Research

This study was done on the effect of the BSC on the performance of KenGen. The study recommends that similar studies should be replicated in other firms in the sector. The study measured the performance in terms of profitability, resource utilization and customer satisfaction. There are other determinants of organizational performance such as return on assets, organizational growth among others. Therefore further studies should focus on other aspects of organizational performance.

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APPENDICES

APPENDIX I – INTRODUCTORY LETTER

Dear Sir/Madam

RE: REQUEST FOR RESEARCH DATA

I am a postgraduate student undertaking a Master degree at Strathmore University. I am currently developing a management dissertation whose theme is to determine the effect of balanced scorecard implementation on the performance state corporation in the energy sector in Kenya. To this end, I kindly request you to provide the requested information by filling out the attached questionnaire. The information required is purely for academic research purposes only and in no way will your name or that of your institution be implicated in the research findings. Your cooperation and quick response shall be highly appreciated.

Yours respectfully,

Peter Jobando

APPENDIX II: QUESTIONNAIRE

Instructions:

- i). Please do not write your name in this questionnaire
- ii). The information given in this questionnaire will be treated with absolute confidentiality and used for the purpose of research only.
- iii). Select the best answer honestly by the use of the tick [✓] and specify in words where necessary.
- iv). Answer all questions.

PART A: BACKGROUND INFORMATION

1. What is your age group?
 20 – 29 years [] 30 – 39 years [] 40 - 49 years []
 50 and over []
2. What is your highest level of education?
 Secondary [] Graduate [] Post graduate []
3. How long have you been in the organization?
 Less than 5 years [] 5 – 10 years [] over 10 years []

PART B: FINANCIAL PERSPECTIVES

State the extent to which you agree with the following statements on a scale of 1 to 5 where

- 1 = Strongly disagree
- 2 = Disagree
- 3 = Neutral
- 4 = Agree
- 5 = Strongly agree

	1	2	3	4	5
6. The organization has focused on how to increase its revenues					
7. The organization is concerned with the cost of reductions					
8. The organization has been working on how to grow its coverage with the view of growing its revenue					
9. The organization emphasizes on resource utilization					
10. The management invent new strategies for the growth of the business revenue					

11. In your opinion, state how the financial perspective has enhanced the performance of the organization _____

PART E: CUSTOMERFOCUS PERSPECTIVE

To what extent does the management hold the following statements important on a five point likert scale of 1-5 where:

1 = Extremely unimportant

2 = Unimportant

3 = Not sure

4 = Important

5 = Extremely important

		1	2	3	4	5
12	The management is keen on the retention of customers					
13	There are well laid down strategies to retain the existing customers					
14	The customers complaints are addressed promptly					
15	The organization rewards loyal customers					
16	The management has a strategy of attracting new customers					
17	The organization takes keen interest in the number of complaints by the customers					
18	The management takes customer defections with keen interest					

20. In your opinion, state how the customer perspective has enhanced the performance of the organization _____

PART D: INTERNAL BUSINESS PERSPECTIVE

State the extent to which the following statements on internal business you agree with the following statements on a scale of 1 to 5.

		1	2	3	4	5
21	The process ensures that any changes in customers and market requirements					
22	Product/delivery process meet customer quality and operational performance requirement					
23	The organization takes seriously product development					
24	The efficiency in product development and service quality is emphasized					
25	The company measures customer satisfaction through surveys and number of complaints					

29. In your opinion, state how the internal business perspective has enhanced the performance of the organization _____

PART C: INNOVATION AND LEARNING PERSPECTIVE

State the extent to which the following sentences regarding the use of innovation and learning on a scale of 1 to 5 where:

- 1 = Not at all
- 2 = Small extent
- 3 = Moderate extent
- 4 = Large extent
- 5 = Very large extent

		1	2	3	4	5
30	The organization has embraced technology					
31	The organization invests a lot in technology					
32	The organization takes seriously employee satisfaction					

33	The organization emphasizes on employee training					
34	The organization structure and system is reviewed based on the environmental change					
35	There is flexibility to adopt new industry and market trends					

36. In your opinion, state how the innovation and learning perspective has enhanced the performance of the organization _____

PART D: PERFORMANCE OF ORGANIZATIONS

To what extent would you agree with the following statements describing the performance of your organization on a scale of 1 – 5 where:

- 1 – Strongly disagree
- 2 – Disagree
- 3 – Neutral
- 4 – Agree
- 5 – Strongly agree

		1	2	3	4	5
37	The profitability of my organization is described as satisfactory					
38	Profitability has been progressive over the last two years					
39	The profitability is attributed to good business practices					
40	The organization utilized its allocated resources satisfactorily					
42	The customer satisfaction is paramount in my organization					

43. In your opinion, to what extent would you attribute the organizations performance to the adoption of the balanced score card?

Thank you.

APPENDIX III: RELIABILITY TEST RESULTS

Financial

	Corrected Item- Total Correlation	Cronbach's Alpha if Item Deleted
Organization has focused of how to increase its revenues	.866	.800
Organization is concerned with the cost of reductions	.630	.857
Organization working on growing its coverage	.847	.807
Organization emphasizes on resource utilization	.716	.837
Management invent new strategies to grow revenue	.515	.905

Customer focus

	Corrected Item- Total Correlation	Cronbach's Alpha if Item Deleted
Management keen on retention of customers	.613	.700
Well laid down strategies to retain the existing customers	.246	.777
Customers complaints are addressed promptly	.594	.704
Organization rewards loyal customers	.568	.721
Management has a strategy of attracting new customers	.501	.727
Organization takes keen interest in number of complaints by customers.	.313	.769
Management takes customer defections with keen interest	.626	.712

Internal Business

	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Process ensures that any changes in customers and market requirements	.350	.915
Product/delivery process meet customer quality and operational performance requirement	.889	.792
Organization takes seriously product development	.907	.786
Efficiency in product development and service quality is emphasized	.917	.783
Company measures customer satisfaction through surveys and number of complaints	.477	.890

Innovation and learning

	Corrected Item- Total Correlation	Cronbach's Alpha if Item Deleted
Organization has embraced technology	.891	.895
Organization invests a lot in technology	.855	.902
Organization takes seriously employee satisfaction	.915	.892
Organization emphasizes on employee training	.605	.932
Organization structure and system is reviewed based on the environmental change	.564	.936
Flexibility to adopt new industry and market trends	.900	.894

Performance

	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Profitability of my organization is described as satisfactory	.464	.854
Profitability has been progressive over the last two years	.708	.791
Profitability is attributed to good business practices	.744	.783
Organization utilized its allocated resources satisfactorily	.600	.823
Customer satisfaction is paramount in my organization	.724	.787