# ADDIS ABABA UNIVERSITY SCHOOL OF COMMERCE

# THE ASSESSMENT OF USING BALANCED SCORECARD ON STRATEGIC PERFORMANCE IN ETHIOPIAN BANKS: THE CASE OF COMMERCIAL BANK OF ETHIOPIA


***By:***

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**A Thesis Submitted to the Department of Logistics and Supply Chain Management in Partial Fulfillment of the Requirements for Masters of Art Degree in Logistics and Supply Chain Management**

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June, 2017

Addis Ababa, Ethiopia

## Statement of Declaration

I, Tamiru Hailu, declare that this Master's research entitled **"**The assessment of using balanced scorecard on strategic performance in Ethiopian banks: The case of commercial bank of Ethiopia (CBE)" is submitted in partial fulfillment of the requirements for the degree of Master's of Arts in Logistics and Supply chain management, at Addis Ababa University, School of Commerce. The thesis is my original work and has not been presented for a degree in any other university and all sources of materials used for the thesis have been duly acknowledged.

Signature_____

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**DEPARTMENT OF LOGISTICS AND SUPPLY CHAIN MANAGEMENT**

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## Acknowledgements

First and foremost, I praise Lord for giving me the tenacity to complete this study.

Secondly, I would like to express my deep sense of gratitude and appreciation to, Dr Berhanu Denu, for his consistent advices, precious suggestions, and unreserved encouragement in providing directions to work hard. I am also grateful to Employees and Management of CBE for their support by availing every valuable information and documents that are needed for this research.

Finally yet important, special thanks go to my friends and all those who helped me in completing this thesis, for their support in every step I went through, without their assistance and guidance this could not be possible.

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## *ABSTRACT*

*The balanced scorecard is one of the management tools that help an organization to achieve its vision by aligning the organization's strategic goals to every employee's activity. It has been largely used as strategy and performance framework in private sector organizations throughout the world. After the introduction of New Public Management, it started to be used in public organizations in order to facilitate the performance management process. In spite of the increase in the number of studies about its usefulness and futility for the private sector, there is still a need to test the feasibility of the BSC as a management framework in the government domain.*

*The general objective of the research is to assess the benefits of using Balanced Scorecard (BSC) in Ethiopian banks particularly commercial bank of Ethiopia to fill the huge vacuum in the performance and competitiveness evaluation of banks in Ethiopia by providing information on performance of banks in Ethiopia via applying balanced scorecard model which balances financial and non-financial perspectives (customer perspective, internal business processes perspective and learning and growth perspective) very well.*

*In this research study the BSC significance has been discussed and analyzed, the organizations if implement the BSC model in the organizations only then the performance of the employees as well as the performance o f the organizations will get improved. In this research study the mixed methodology has been used, in the quantitative research methods the questionnaire are being filled and interviews are also be conducted from the Bank's managers (Branch managers & Customer Service Managers) in qualitative aspects. The study used convenience sampling methods to select employees and managers of Commercial Bank of Ethiopia (CBE) as respondents.*

*In this research study the close ended as well as the open ended questions are being used. Thus after analysis it can be proved that the performance of the organizations and employees can be improved by implementing the BSC model in the organizations.*

# CHAPTER 1: INTRODUCTION

## 1.1 Background of the study

Financial sector and its role in the process of economic development have attracted notable attention since the early 1990s. The financial sector plays a fundamental role in economic development. A very close relationship exists between financial sector growth and economic growth. Financial sector includes banking system, microfinance, insurances and other financial institutions. Out of which banking system forms the central part in the financial sector.

The banking system plays a vital role in determining the economic standing of any developed or developing country. The health of the economy is closely related to the soundness of its banking system. In a developing country like Ethiopia the banking system as a whole play a very important role in the progress of economic development. Hence banking system, as far as it is the heart of a country's economy, should be wisely, systematically, and competently operated and controlled so as to enable it to compete and survive in the fierce and dynamic competitive business environment of the information age both in the short run as well as in the long run. An effective and efficient operation and controlling system needs comprehensive, flexible and multi-criteria performance measurement.

The increasing complexity and multi-faceted business environments, and the fact that the economy was in transition from product-driven to service-driven and the changing composition of the workforce has led to an increasing interest for new methods of running and controlling businesses. According to studies by Dixon, Nanni, & Vollman (1990), Ernst & Young (1998), Neely (1998), and Daly (1996), evaluation system which is based on performance has more validity than the evaluation system which is utterly based on the financials.

The method of monitoring performance should be dynamic in order to adapt to internal and external changes. In spite of all these changes, most businesses still rely on traditional measures of performance based on centuries-old accounting model, which failed to accurately reflect the true health (and future prospects) of an organization. The need for better information to respond to rapidly changing market conditions was obvious. In response to these stresses, and the shortcomings of traditional financial performance measures, a number of frameworks that adopt a multidimensional view of performance measurement have been developed, most notable of which has been the Balance scorecard (BSC) by Professor Robert Kaplan and David Norton during a research project with 12 companies in the late 1980s.

The Balanced Scorecard is an incorporated set of financial and non-financial measures employed in a firm's strategy executing procedure which underlines the strategy of communication with the members and for providing feedback for attaining goals of the organization (Mendoza & Zrihen, 2001). The Balanced scorecard addresses the need for multiple measures of performance and provides a strategic framework, which specifically encourages the use of both financial and non-financial measures along four perspectives – financial, customers, internal business process, and learning and growth – to measure firm performance (Kaplan & Norton, 1996b) which in turn must all be linked to the organizations strategic vision.

On the outset therefore, the BSC appears to have all the answers for choosing the most appropriate measures of company performance, which are governed by the organization's strategic orientation and external competitive environment and also it holds true for all Ethiopian banks including CBE as a case study. They need to adopt the multi-dimensional performance measures, particularly BSC so as to compete and survive in today's competitive banking business which has undergone massive technological changes. The need and roles of these banking institutions are the rationale for this study, in which balanced Scorecard framework will be used as a reference to assess their present strategic performance.

## 1.2 The Commercial Bank of Ethiopia

The state Bank of Ethiopia was founded in 1942 with twin objectives: performing the duties of both commercial and central banking. In 1963, the Commercial Bank of Ethiopia (CBE) was legally established as share Company to take over the commercial banking activities of the state bank of Ethiopia. In 1974 revolution, CBE got its strength by merging with the privately owned Addis Ababa Bank. Since then, it has been playing significant role in the development endeavor of the country.

The CBE, which is striving to embark into a world-class commercial bank, is rendering state-of-the art and reliable services to its millions of customers both locally and abroad. The business strategies of the banks focus on the stakeholders it serves.

As at June 30th 2016 the number of branches reached 1,140 and stretched across the length and breadth of the country with 384.6 billion Birr capital (The leading African bank with assets of 384.6 billion Birr as on June 30th 2016).

(Commercial Bank of Ethiopia, http://www.combanketh.et/AboutUs/CompanyProfile.aspx)

And also Currently CBE has more than 13.3 million account holders and the number of Mobile and Internet Banking users also reached more than 1,352,000 as of September 30th 2016 (68% active users). Active ATM card holders reached more than 3 million (61% active users). (Commercial Bank of Ethiopia, http://www.combanketh.et/AboutUs/CompanyProfile.aspx)

The state owned CBE still dominates the market in terms of assets, deposits, capital, customer base, and branch network, despite the growing competition from private banks over the last 15 years and it plays a catalytic role in the economic progress & development of the country.

### 1.2.1 Vision and Values at CBE

The strategic vision of CBE is "To become a world-class commercial bank". This vision therefore emphasizes on striving to embark into a world-class commercial bank.

CBE has a set of values and principles that define how its staffs must behave and conduct themselves in the performance of their duties. CBE communicates clearly its vision, mission and values through this expected behaviors and guiding principles.

CBE's core values are embodied in the "CBE Behaviors" and the "CBE Guiding Principles" which are listed below. The significance of these core values is to properly align corporate objectives with that of individual employees in order to create strategic congruence. This is to ensure that employees are properly directed and focused on key business or strategic areas that are part of the broad corporate strategy of the bank. This also forms the non-financial measures that assess the quality of each individual's contributions towards the achievement of overall corporate goal, profitability.

The CBE values include the following points:

a) It stands for quality;

b) It is a learning organization;

c) It is committed to unparalleled customer satisfaction;

d) Its employees are its valuable assets;

e) It is committed to maximizing shareholder value Execute at top speed; and;

f) Upholds transparency, accountability and professionalism;

g) "We are an equal-opportunity employer", and

h) "We are corporate citizens"

Commercial Bank of Ethiopia,
http://www.combanketh.et/portals/0/Resources/Documents/profile/final%20CBE%20booklet.pdf

### 1.3 Statement of the problem

Traditionally, financial measures have been serving as the performance measurement of all organizations all over the world starting from the invention of double entry system. The financial measures were sufficient enough to indicate the performance of the machine like nature of the corporate entities during the industrial age. This was because the competition during this age was ruled by scope and economies of scale i.e. management of intangibles assets to create long term capabilities and customer relationship were not critical to succeed. These measures have been also considered as effective and objective measures to evaluate the effectiveness and efficiency of business operations or divisions in utilization both financial and physical assets of the business organizations.

Despite their apparent effectiveness and objectivity, financial indicators are fraught with a number of limitations which exposed them to increasing critics by a number of researchers and authors by 1990s (Neely et al., 1995; Marr and Schiuma, 2002). Kaplan and Norton (1996) for instance, argue that in order to compete and survive in the information age, in which information forms fundamental part within the trade and industry, it is not longer enough to rely solely on financial measures because they could conduce to an incorrect picture of the effectiveness and profitability of a business. In a changing world it may well be wrong to assume that past results will be repeated as conditions change (Brazley, Hancock, Berry, & Jarvis, 1999).

The acknowledgement of these limitations has led to the views that financial accounting model should be expanded to incorporate the valuation of the company's intangible and intellectual assets, such as high-quality product and services, motivated and skilled employees (via the measurement of human capital), responsive and predictable internal processes, and satisfied and loyal customers in order to reflect the assets and capabilities that are critical for success in today's and tomorrow's competitive environment (Burr & Girardi, 2002; Kaplan & Atkinson, 1998; Lev & Zarowin, 1998).

These all clearly show that the broader demand for applying the balanced scorecard, which appears to have all the answers for choosing the most appropriate measures of strategic performance of organizations in general and commercial banks in particular has become high significance with the latest developments of various technologies. Hence, the simulation of the benefits of balanced scorecard and checking the results before and after the balanced scorecard is substantial for accomplishing the expected results pertinent to the capacity o f the systems.

Almost all of the commercial banks in Ethiopia solely depend on purely financial indicators to measure their performance and competitiveness in the banking industry that do not take into account the effect of the leading, forward-looking, and critical performance measures (non-financial perspectives) and therefore creates a huge vacuum in the performance and competitiveness evaluation of banks in the country , which this study seeks to fill in by providing information on performance of banks in Ethiopia specifically CBE via applying balanced scorecard model which balances financial and non-financial perspectives very well.

## 1.4 Objectives of the study

### 1.4.1 General objectives

The main aim of this thesis is to assess the benefits of using Balanced Scorecard (B.S.C.) in Ethiopian banks particularly commercial bank of Ethiopia.

### 1.4.2 Specific objectives of the study

The main aims of this research can be achieved by satisfying the following objectives:

• To assess the uses of Balanced Scorecard in CBE.

• To assess the perception regarding Balanced Scorecard Technique in CBE.

• To recognize the business needs that persuades the management to bring in Balanced Scorecard technique into their strategic decision making process.

• To explore the difficulties faced in the application of BSC (Balanced Scorecard) in CBE.

• To assess the management support on Balanced Scorecard.

• To examine whether BSC can provide more information in performance of CBE than financial metrics alone.

### 1.5 Relevance of the study

As BSC has become one of the important reform implementation tools in the Ethiopian public sector and the objective of BSC is to realize the organizational vision and objectives; so this paper shows the relevance of BSC in public sector in general and banking industry in particular;

Furthermore, the significance of this research study is that the researcher gets to know about the BSC (Balanced Scorecard) and how its implication evaluates the performance of Ethiopian Banks. The researcher gets to know either by implementing BSC (Balanced Scorecard) Ethiopian Banks can efficiently measure the performance of their organizations or not and what more actions should be taken by the management of the organizations in order to make more

improvements in the performance evaluation procedure. Stockholders, potential investors, and business partners will be assisted in their understanding of performance measurements and the way in which to determine the progress of the companies.

Finally, it would be helpful for academic studies on performance evaluation of banking sector in the country and can help to trigger other study in the area and can be used as an input for further research.

### 1.6 Scope of the study

The study focuses only to commercial bank of Ethiopia and its performance assessment using balanced scorecard framework (financial measures, customers' measures, internal/operational process measures and learning and growth measures). However due to time and budget constraint the scope of this study is limited to the information that was gathered from selected branch employees of CBE in Addis Ababa. This limits the realm of the study by discriminating CBE employees those are not in the selected branch and also it does not address direct customers view. Therefore in this study the view of the customers and again employees view other than the selected branches are not addressed.

### 1.7 Limitation of the study

Since the paper deals with the assessment of using BSC on strategic performance in Ethiopian Banks, one of the limitations it has is dwelling on one organization due to time and resource problem and also the findings of this study might not be generalized to the entire population as only the views of selected branch employees were taken. Additionally related literatures to this study area are very limited. Therefore, getting appropriate related literatures was very time taking. Despite these limitations, the study can help in arousing more future research in the area.

## 1.8 Organization of the Research Report

The thesis has been organized in the following manner:

**Chapter 1:** Provides the introduction to the study. This chapter sets out the aims and the objectives of the study and defines the problem statement, Relevance of the study, Scope of the study, Limitation of the study and also the Organization of the Research report.

**Chapter 2:** Details the findings from the literature about the historical background of BSC (Balanced Scorecard) and its implication in Banks for evaluating performance. In this section, the literatures pertinent to the topic of the dissertation and similar studies have been discussed.

**Chapter 3:** Describes the research methodology followed in carrying out this research. This section discusses the Balanced Scorecard applications and its benefits. This chapter covers the methodology articulation, and justifies the methodology adopted and its linkage to the research.

**Chapter 4:** Analyses the results obtained from the research and focuses on the analysis of the Ethiopian Banks and then evaluate the uses of BSC (Balanced Scorecard) methodology by analyzing questionnaire for different practical points related to this field, then analysis the data attain from the research methods like interview response from Organization's management.

**Chapter 5:** It concludes the research study findings which are extracted out from the chapter 4 analysis and discussion. Thus, this chapter includes the conclusions and recommendations for future research based on the findings of research project.

# CHAPTER 2: LITERATURE REVIEW

## 2.1. INTRODUCTION

This chapter reviews literature on performance management and describes the factors that influence performance measures both traditional financial and non-financial indicators in order to meet organizational objectives. And also it describes an overview of the theory as well as describing the historical foundation and the development of the theory. Specific frame works, which can be utilized by organizations to measure performance in this way, are also reviewed, with a particular focus on the Balanced Scorecard (BSC) as a measurement tool which meets the demands of contemporary organizations (Duursema, 1999; Itter &Larker, 1998a; Kaplan et at., 1992).

Strategy is vital to an organization's success. However, if an organization is unable to effectively implement, communicate and cascade the strategy throughout the organization, companies may have a low rate of success and could experience failure. Harvard Business Review (2005) defined strategy as a well thought out plan to give an organization a competitive advantage through differentiation. Strategy aligns with the mission and values of an organization, where the company desires to be in the future, and how the group plans to get there.

The balanced scorecard was introduced as a performance measurement approach to assess the activity of both tangible and intangible assets of an organization. Kaplan and Norton (1992) described current performance measurements, based on internal financial data, as obsolete and unresponsive to the activity of an organization. The balanced scorecard approach was introduced to move organizations away from financially biased measurement to a more balanced approach that links four perspectives of an organization's success: financial, customer, internal processes and learning and growth. The balanced scorecard framework has evolved from this multi-perspective performance measurement system to a complex strategy management and control system.

There has been a revolution of performance measurement techniques and frameworks in the last 20 years, and the balanced scorecard framework is by far the most popular. According to Atkinson, Balakrishnan, Booth, Cote, Grout, Malmi, Roberts, Uliana, and Wu (1997), the balanced scorecard is considered one of the most significant developments in management accounting. The concept has received much praise and a great deal of usage in the public, private, and non-profit sectors. Strategy-focused consultants have made millions of dollars helping organizations-implement the balanced scorecard framework (Ben 2002, 40).

BSC (Balanced Scorecard) defines as a theory or management approach that was first viewed in the Harvard Business (KAPLAN, R. S. and NORTON, D. P. 1996). The new improvement on this theory appeared in the Kaplan and Norton book. The balance scorecard defined as: "The Balanced Scorecard translates an organization's mission and strategy into a comprehensive set of performance measures that provides the framework for a strategic measurement and management system."

To ensure a balance scorecard, the organizational management team copies the mission, vision, and strategy into a scorecard. This scorecard depicts the long term and short term success of the strategy. The scorecard should have the outcome measures which represent the excellent prior performance, and the performance-drivers that lead to the successful future performance. While the management team have balanced scorecard, then they have the four strategic management team processes, which are:

1. Clarify and translate vision and strategy.
2. Communicate and link strategic objectives and measures.
3. Plan, set targets, and aligns strategic initiatives.
4. Enhance strategic feedback and learning.

The new improvement of this term was doing by the companies which implement the balance scorecard to their strategic management processes. Kaplan and Norton argued that the implementation of the theory has the same importance of the improvement of the strategy. They clarified that the successful implementation leads to the principles of the strategic management (KAPLAN, R. S. and NORTON, D. P. 2001):

1. Translate the strategy to operational terms.
2. Align the organization to the strategy.
3. Make strategy everyone's everyday job.
4. Make strategy a continual process.
5. Mobilize change through executive leadership.

The scorecard is paired with a strategy map to be used as a visual to communicate and correlate the intangible assets to tangible assets. It is a simple map showing how the foundation of people and technology affect process, customer satisfaction and eventually financial measures.

It is a communication tool to show employees how their jobs fit in to the organization's strategy (Kaplan 2001, 50).

## 2.2. Organizations Performance Measurement

Measuring performance is a vital part of monitoring an organization's progress. It comprises measuring the actual performance outcomes or results of an organization against its intended goals. This requires a top-down approach to setting performance criteria rather than a bottom-up approach that often see occurring in many organizations.

In a more strategic sense, performance measurement is seen as an important way of keeping a company on track in achieving the company's objectives and as a monitoring mechanism employed by the owners of a company where ownership and management are separated (Baker & Wruk, 1989; Bushman et al., 1995; Delaney & Husekid, 1996; Huselid, 1995).

If measures of performance are to be effective, the measures need to be based on a company's strategic objectives in order for employees to understand and be committed to the achievement of those objectives (Becker et al., 1996; Hronec, 1993; Kaplan, 1983). According to Otley (1980), performance measures used in one company may not be appropriate for another company facing a different situation or different set of circumstances.

Defining performance for an individual company is highly dependent upon the company's business objective and strategy and is therefore quite unique (Fitzergerald et al., 1993, Hoffectker et al., 1994; Kaplan et al., 1992). For many firms however, the main performance indicators would typically include some combination of indicators across two broad categories: financial indicators and non-financial indicators (D'Souza et al., 2000 Eccles, 1991; Hoffectker et al., 1994).

### 2.2.1. Traditional Financial Measures

Traditional performance measures appeared in early 1900s and have been used since then, in various forms, to measure the financial performance of corporations. As several empirical studies have been indicate that, various financial performance measures provide expanded financial information to present and potential investors, and other interested users through the various components of quarterly and annual reports, including balance sheets, profits and loss statements and cash flow statement evaluate the effectiveness and efficiency by which operating divisions use financial and physical capital to create value for shareholders.

A variety of financial accounting measures of performance are used in order to provide such information. Some of the more popular measures include: earnings, cash flow, return on investment(ROI), return on assets (ROA), return on equity(ROE), return capital employed per share, price/earning ratio, return on sales, asset turn over, overhead/sales ratio, etc. (Gumbus &Lyons, 2002; Ittner & Larker, 2003).

Despite their apparent objectivity, financial indicators are, fraught with a number of limitations, which need to be acknowledged. Perhaps most notable, as Beechey and Garlick (1999), Clarke(1997), and Hemmer (1996) point out, is that financial measures are backward looking and do not reflect the long-term and future consequences of managerial action. In a changing world it may well be wrong to assume that past results will be repeated as conditions change (Bazley et al., 1999). Ideally, financial accounting information is intended to report objectivity the economic events of the firm. In reality, however, financial statements are management assertions within information required by law, institutional best practice and any additional information which the company wishes to supply, thereby introducing considerable potential for subjectivity (Brailsford et al., 2004).

Using operating profit or other financial indicators as the sole measures for incentive purposes, for example, may encourage managerial focus on short-term and may distort the decision-making process (Ittner et al., 2003). For instance, research and development spending reduces current-period accounting earning yet generates substantial, albeit uncertain, returns in the future (Duuresema, 1999; Ennew et al., 1993). As a result managers may be tempted to cut research and development to improve their accounting-based performance even through it will sacrifice the long-term (Cowen & Hoffer 1982).

Acknowledgement of these limitations has led to views that financial accounting model should be expanded to incorporate the valuation of the company's intangible and intellectual assets, such as high-quality products and services, motivated and skilled employees (via the measurement of the human capital), responsive and predictable internal processes, and satisfied and loyal customers in order to reflect the assets and capabilities that are critical for success in today's and tomorrow's competitive environment (Bur & Girardi, 2002; Kaplan & Atkinson, 1998; Lev & Zarowin, 1998). These types of performance measures can be categorized as non-financial.

### 2.2.2. Non-Financial Performance Measures

Since the early 1980s there has been a global momentum in the economy. Capital markets – indeed, almost all financial institutions – became more and more global in outlook. Moreover, investors started to be more sophisticated than ever and wanted to know all possible details about a company. What has the company been paying for dividends in the past was not enough for investors. Financial statements, such as the balance sheet and profit and loss account, prepared in traditional way were no longer enough. Cash flow had become a more important measure. Many consulting firms, academics and practitioners observed such global trends. They were moving forward from the traditional audit, on which they were focused for so many years, in order to keep pace with the new trends. Indeed the essential purpose for many firms became the maximization of their value so as to keep satisfied their shareholders as well as their employees, customers, suppliers, and their communities (Black, Wright and Bachman, 1998).

The emergence of non-financial indicators as important to monitoring company performance reflects the realization that customer satisfaction or quality, that are best captured by non-financial performance measures (Barua, Kriebel, & Mukhopadhyy, 1995); Johnson and Kaplan, (1987). Others suggest that non-financial measures are superior to short-term financial measures as indicators of progress towards achieving long-term goals (Banker, potter & Srinivasan, 1998; Beechey et al., 1999; Buckmaster, 2000). A study by Hiromoto (1988) found increasing use of non-financial indicators for performance measurement at companies in Japan, while the American Quality Foundation and Emst & Young cited a dramatic increase in the use of quality measures in setting compensation for senior managers in the U.S., Japan, Germany, and Canada (Hauser, Simester, &Wernerfelt, 1994).

A number of factors account for the increasing emphasis on non-financial indicators. Non-financial measures are believed to be better indicators of managerial effort and therefore valuable in evaluating managerial performance (Johnson, Anderson, & Fornell., 1995; Kaplan & Norton, 2001). Non-financial measures of performance are also believed to be better predictors of long term performance, and therefore are used to help refocus managers on long term aspects of their actions (Johnson et al., 1987).

Profit and other financial measures show the effects of nonfinancial activities and achievements, whereas, operational measures of customers satisfaction, internal processes, and the organization's innovation and improvement activities are believed to be the drivers of futures financial performance (Cross et al., 1992; Eccles, 1991); Euskel et al., 1993). Non-financial indicators such as orders received unfilled orders and on-time shipments may anticipate subsequent financial performance results (Rees et al., 1994). As result, non-financial measures may also be an important source of information on firm failure (Kaplan et al., 1996) and less susceptible to manipulation (Singlton-Green, 1993). Non-financial indicators are generally not dependent on managerial judgment as in allocations and valuations and therefore, are more likely to be timely, reflect true process, and be understood (Rees et al., 1994).

### 2.2.3. Importance of Multiple Measures of Performance

Many observers of business practice have criticized the exclusive use of financial performance measures, which may create a short-term mentality among managers. Financial measures can induce managers to make short-run business decisions that may not be optimal for long-term business success. Managers may strive for short-term financial results at the expense of other areas such as research and development, thus sacrificing long-run success. Financial measures tend to capture the current impact of decisions, missing the link between short-run actions and long-run strategy. Andersen (2001) suggests that traditional profitability measures assess past performance, while strategic long-term performance needs more forward-looking measures. Over the last two decades, professional and academic authors have stressed the need to rely more on non-financial measures of performance. Companies are shifting from financial performance measurement systems to systems containing a broader set of measures (Chabrow 2002, 20). Attention has been focused on value creation through the use of performance measurement systems that examine the drivers of customer value, shareholder value and organizational innovation.

It is increasingly recommended that managers (and researchers) expand performance measurement systems to include non-financial information, such as productivity and quality data whilst retaining the traditional financial rations (Kaplan, 1983; Kaplan & Norton, 1992) as no one single measure provides consistent evidence of the correlation between all stakeholders' satisfaction and firm performance (Brossy & Balkcom, 1994; Otley, 1980, 1994).

This new emphasis on utilizing both financial and non-financial indicators has led to the development of approaches using multiple measures of performance, such as Benchmarking, Total Quality Management (TQM) and The European Foundation for Quality Management department, process, or practice within the organization (EFQM), the Balanced Scorecard (BSC), to name a few. However, one of the most popular approaches which assert the need for multiple performance indicators is the Balanced Scorecard (Kaplan et al., 1992).

### 2.3. Historical Foundations of Balanced Scorecard

The time line for balanced scorecard tracks closely with the timeline for practices in accounting and finance. Analogically the application the Balanced Scorecard is taking from large businesses and applied to smaller. The needs more or less do corroborate while the functioning varies. Balanced Scorecard has been successfully used to assess the health of organizations using multiple dimensions. Although not specifically designed for Family Firms, these approaches can used effectively to measure the performance of these firms along economic, operational and social dimensions (Sharma, P.2003, p. 10).

The balanced scorecard was first introduced in 1992 to help businesses better monitor performance. The balanced scorecard was designed to translate an organization's strategy into terms that could be understood and acted upon by everyone in the organization. Toward that end, the first balanced scorecard used the language of measurement to define the meaning of strategic concepts such as quality, customer satisfaction, and growth. This important tool gave birth to the development of a one-page strategy summary known as a strategy map. These two tools have worked their way into the field of education. Although not yet widely used, the popularity of the balanced scorecard is growing. The balanced scorecard is built around an organization's mission. Main goal areas that support the mission are identified and strategic objectives are assigned to each. Each strategic objective corresponds to units of measure, trend data, and an annual measurable goal. The use of the balanced scorecard forces school systems and individual organizations to act immediately upon data linked specifically to the goals established within the document itself.

The business world has long recognized that in order to function effectively, an organization has to be aligned around its strategy. The challenge is to align management processes and systems to strategy. In response to the need for strategic enterprise management, the Balanced Scorecard Concept was introduced in a 1992 Harvard Business Review article (Callahan 1998, 46).

Locating and identifying the shortfalls of Balanced Score Card system, Bieker and Waxenberger propose an advanced level of Balanced Scorecard which is Sustainable Balanced Scorecard (SBSC). The theme includes important aspects such as environment and sustainability which apparently was being left out by the initial Balanced Scorecard technique. Stress is laid on for using SBSC (Sustainable Balanced Scorecard) as a planning tool which incorporates sustainability and environment. Mostly both these are separately handled by separate function of an organization. The importance of SBSC (Sustainable Balanced Scorecard) is even more important for some organizations as they seldom ever have a function support for sustainability and environment. This would naturally help global sustainability and an environmental friendly work environment for most, along with five major perspectives – Finance, Customer, Processes, Learning and Society.

### 2.4. Theoretical Background of Balanced Scorecard

The initial thinking of the BSC concept was introduced in an article written by Kaplan and Norton and published in the *Harvard Business Review* in the year of 1992. These scholars believed that companies needed to maintain a strategic management control system that does not only include financial measurements; rather, it was crucial that the historical financial measures should be harmonized with aspects that would include organization's future performance in order to be successful on the market place (Malin Olstand and Enisa Duljevic, P. 2008, p. 19).

Balanced scorecard has been responsible for creating, expanding, and popularizing a number of terms and concepts that are used in management and strategy literature today. The term, balanced, can be traced to the Greek playwright, Euripides, who espoused the value of a balanced life, and to the organization trust literature that recommends balanced reporting as a basic requirement of trust in an organization. The term, scorecard, simply refers to an approach of documenting results of an activity. Sporting activities, such as golf, use scorecards to document the performance expectations (e.g., par, yardage, handicap), actual score on a hole, and the overall score of the round (usually considered 18 holes).

Most large organizations have used balanced scorecard as a management tool, amongst these some have found it useful while some failed to extract its usefulness. "For a decade, large firms have subscribed to the Balanced Scorecard approach, with mixed results. Most failures follow an inconsistent or half-hearted application of the Balanced Scorecard, or unwillingness to consider

the Balanced Scorecard a dynamic process of self improvement." (C. W. Von Berge and Daniel C. Bene, 2011. p. 1). The BSC (Balanced Scorecard) explicitly focuses on links among business decisions and outcomes, in an attempt to guide strategy development, implementation and communication. The BSC (Balanced Scorecard) may also provide reliable feedback for purposes of management control and performance evaluation. The BSC (Balanced Scorecard) is a management system that is potentially better reflective of the modern business environment. Specifically, in today's economy, many intangible assets (such as knowledge) have an important impact on a company's success. Traditional accounting measures do not folly (or sometimes even partially) account for these assets, (e.g., financial measures of performance treat investments in human capital as expenses [Johnson, 1992].)

Almost every organization claims to have company objectives, mission and vision mentioned on their company profiles. But the question is doing they actually mean that? When most organizations talk about business objectives in their management meetings, the focus is usually on the financial aspects of the company. The focus comes naturally as first aim of every 'Profit Maximizing' organization is to sustain itself. But dominance of profitability in management strategy as the only objective sidelines other if not equally but very important objectives (Vitale Mavrinac 1994, 17). In order to fill this gap between manifested objectives and the management focus, two individuals came up with the concept of 'Balanced Scorecard'. Kaplan and Norton proposed the BSC (Balanced Scorecard) technique as answer to the heavy bias falling on financial aspects of the business in management strategies, performance measurement and focus. "In 1992 Robert S.Kaplan's and David P.Nortons concept of balanced scorecard revolutionized conventional thinking about performance metrics. By going beyond traditional measures of financial performance, the concept has given a generation of managers a better understanding of how their company is really doing" (Robert S.Kaplan and David P.Norton 2007, p.2).

From a management strategy point of view, the aim of balance score card it to bring in the company objectives, mission and vision into perspective though key performance indicators and decision making. Although the selection of relevant performance measures will depend upon the specific situation facing each company, the BSC is perhaps most groundbreaking in stressing the necessity of both financial and non-financial indicators and putting them on more or less equal footing (Hoffectker et al., 1994; Kaplan et al., 1992; Kaplan et al., 1996).

## 2.5. The Four Perspectives integrated in the BSC

Kaplan and Norton made a distinction between four perspectives related to customers, internality, learning and growth as well as the financial aspect in their development of the BSC. These perspectives are not mutual exclusive to one another; rather, they affect each other to quite a high degree. In the end, it all comes down to reaching a satisfying long term financial growth within companies. In this sense, non financial aspects are included in the BSC as a way of giving the financial perspectives a little "push" in the right direction. In the following paragraphs, then, we will elaborate what is meant by each perspective as well as describing why these elements of perspectives are seen as important indicators of the BSC.

**The Customer Perspective:** The customer perspective aims first and foremost at creating value for the customers and as such, it is important for the organization to identify the market segment of which will be profitable and contribute to the company's financial objectives. The outcome measures, as it were, should be adapted to the customer groups and the pinpointed market segments, which, in turn, can be facilitated by linking the performance drivers. According to Kaplan and Norton (1999) the organization should translate its vision, business concept and strategies in to measures that really matters to the customers. It is also important for the organization to be able to focus the strategy to targeted customer groups. The main reason for this is that if the organization has a strategy where the aim is to satisfy all customers, they might instead create a turnover, meaning that they may create a situation where no one gets satisfied (Kaplan and Norton, 1999). Considering this, it is of great importance that the organization puts forward good analysis of what their customers expect of them.

Kaplan and Norton (1999) state that the outcome measures regarding the customer perspective, entitled *the customer core measurements*, should be tailored to the targeted customer groups for best results on financial objectives. These measures include market share, customer retention, customer satisfaction, customer acquisition, and customer profitability. In general, in order to understand the creation of the customer core measurements it is important to understand the customer value propositions and in this sense, we understand that the customers are very important to the organization in the way of generating profitability.

**The Internal Perspective:** Kaplan and Norton (1999) has criticized the traditional management control systems for focusing too much on controlling and developing already existing operational process and not so much on stimulating the development of new processes. The BSC, on the

other hand, evaluates and identifies new processes which can make it easier for the organization to control the financial objectives as well as retaining their customers and at the same time attract new ones. Kaplan and Norton (1999) state that the organization need to evaluate the processes that generate the right form of value for the customers and thereby lead to fulfillment of the expectations of the shareholders.

In order to make satisfying result measurements regarding the internal perspective, Norton and Kaplan recommended that businesses should structure an entire internal chain of processes, which include the following steeps; (a) the process of innovation; (b) the process of supply, and (c)the process of future markets. The purpose with the first steep – the process of innovation – is to identify present and future customer needs and develop solutions concerning the identified customer factors. Further, the process of supply aims at generating available products/services to existing customers. Finally, the process of future markets would offer services following the actual purchase, which, in turn, aims at increasing the value for the customer. Aspects like service effectiveness, warranties, treatment of defects and return, etc., concern the increasing future value for the customers (Kaplan and Norton, 1999).

The generic measurement objectives that are in focus regarding the internal perspective are quality, lead time, cost, and product launching. These measurements make it possible for the organization to evaluate and improve existing processes from a cost, quality and time perspective. It can be understood that Kaplan and Norton assume that the BSC within the internal perspective obtains the objectives and measurements from concrete strategies where the purpose is, in the end, to fulfill the shareholder's and customer's expectations.

**The Learning and Growth Perspective:** The third perspective the BSC stress gives the organization the possibility to evaluate the capacity for long term renewal. The organization's strength when having the ability to innovate, improve and learn is directly connected to how well the organization creates value. Kaplan and Norton (1999) assume that the objectives in the learning and growth perspective have a critical and driving influence on the other two perspectives discussed above as well as the financial perspective that we will discuss shortly. One main reason for why the BSC is connected with the importance of this perspective is that many companies today dully focus on retaining savings by decreasing the investments in employee, and it can much too often be forgotten how these decisions can influence the long

term effects on firms. Kaplan and Norton (1999) state that if companies avoid this quite important aspect it can end up in a debilitated futuristic competitive success.

Kaplan and Norton (1999) define three generic categories for the learning perspective; (a) Employee Capability; (b) Information System Capabilities; and (c) Motivation, Empowerment and Alignment. The first category is directed to evaluating the employees' abilities and skills in order to detect what kind of possibilities are conducted in processing and performance improvements. It is, as can be understood, the employees that are closest to the internal processes and the customers. It is of great importance that the employees feel satisfied with their work because it affects, in turn, the degree of motivation. If this degree of motivation is high the level of productivity will increase, and, at the same time, the eagerness to reach the organizations set of objectives will arise among the employees. The second category – Information Systems Capabilities – makes it possible for the employees to get access to important information that include a substantial set of areas within the organization in order to be able to perform better as well as working towards the business' objectives. This information includes data concerning the customers, the internal processes and the financial consequences regarding the employees' decisions (Kaplan and Norton, 1999). The last category, that is, Motivation, Empowerment, and Alignment, handles the question whether the organization's environment reasonably suitable for the employees in order to make it possible for them to feel the motivation and have the initiative power needed with the purpose of carrying out good results. Put more simplistically, if the organization has expectations regarding their employees it is crucial that they feel that they are motivated so that they can act in the expected way. The organization, as it were, also needs to give enough space and trust in favor of their employees so that they feel secure enough in order to make their own decisions (Kaplan and Norton, 1999).

**The Financial Perspective:** The financial perspective informs us about the results of a company's strategies, the implementation success as well as the evaluation of the improvements of the organization's profit. This perspective unites the other perspectives' objectives and measurements and the organization's connection between its strategies. The other three above discussed perspectives and the financial perspective are meant to be linked through a cause and effect relationship. This process should facilitate the company's performance in the long run and reflect a clear picture of the organizations' strategy connecting its long term sets of objectives. Further, this reflection includes evaluating the outcome measures. When evaluating the success

of the outcome measures in relation to the organizations objectives the business therefore needs to include the performance driver and outcome measures into a cause and effect relationship (Kaplan and Norton, 1999).

Financial measures are valuable in conveying the readily measurable economic consequences of action already taken. Financial measures are typically focused on profitability-related measures (the basis on which shareholders, in turn, typically gauge the success of their investments), such as return on capital, return on equity, return on sales, etc., (Kaplan et al., 1992; Lipe et al., 2000). These measures are necessary for any organization trying to measure performance for a number of reasons. First, reporting of financial measures is expected and governed under law. Second, reporting of certain types of financial measures of firm performance is required by institutional bodies. For instance, in the case of Ethiopia, the national bank of Ethiopia needs each commercial Bank, to prepare their financial statements and annual reports. Third, reporting of financial measures is expected from all stakeholders and is ingrained in history as way of framing and comparing organizational performance.

In General, Keeping these four perspectives in focus for strategic management and operations by simply ensuring that the focus in not simply on one aspect while ignoring the rest. So when it comes to applying the balanced scorecard, the smaller number of interested internal parties reduces challenges to effective communication and facilitates corporate-wide team participation (Valerie 2006, 429). Organizations today have a scorecard for most functions (e.g., HR scorecard, IT scorecard, stakeholder scorecard), but they are often not balanced scorecards. The balanced scorecard refers to a set of performance measures that is used to manage and control the strategy of an organization. The balanced scorecard begins after the vision and strategy of an organization are developed and is meant to ensure that the organization is tracking measures that represent progress in executing the strategy.

### 2.6. The Importance of the Balanced Scorecard Technique

The main proponents of the BSC, Kaplan and Norton (1992; 2002), assert the BSC has beneficial values to implementing organizations. In the original conception of the BSC, the main benefits were to assist organizations to develop and implement effective business strategies (Kaplan and Norton, 1992). Madsen and Stenheim (2014) add that, despite a large body of scholarship on the BSC criticizing or remaining skeptical about a clear-cut relationship between the BSC and

business performance, the widespread practice of the BSC suggests its use has some beneficial values, whether perceived or real, to thousands of organizations that have implemented it.

The balanced scorecard technique gained popularity as it was realized that taking finance as the only performance indicator for organizational progress was not sufficient. The need is to incorporate more indicators and measures in the decision making process. The argument which promotes the balanced scorecard culture is that most organizations initially only focused on financial aims while ignoring key performance indicators for organization such as customer service, learning and growth and internal business process. In 1992 Robert S.Kaplan's and David P.Nortons concept of balanced scorecard revolutionized conventional thinking about performance metrics. By going beyond traditional measures of financial performance, the concept has given a generation of managers a better understanding of how their company is really doing (Robert S.Kaplan and David P.Norton 2007, p.2). Organizations which are not involved in balanced scorecard technique for the purpose of measuring their standings and making their decisions were actually failing to look in the long run. Their concern is that measurement systems that focus on the wrong aspects of performance can undermine the enterprise's strategic mission by perpetuating short-sighted business practices. (Hoffecker & Goldenberg, 1994). In order to create a perpetual progressive system which incorporated four important variables for measuring performance and making important strategic decisions balanced scorecard technique/method was introduced by two individual from Harvard Business School (Kaplan and Norton.2007).

The Balanced Scorecard system asks for thinking beyond the set financial goals which were usually the agenda of most management meetings. The biggest drawback of working with just financial numbers and aims is that they reflect simply the past behavior and hardly ever reflect the current or future picture. The balanced scorecard was in its earlier ages was simply a performance measuring tool, gradually it has become a complete management system which involves elaborate strategic questions pertaining to the organization.

Almost every organization may it be small or large has a set of vision and goals which it claims to be aiming at achieve. Interestingly they are always mentioned with the company name but seldom incorporated in the decision making processes. Balanced scorecard is one simple technique which ensures that these goals and visions are on the table while important strategic decisions are being made.

## 2.7. The Problems/Limitations of the Balanced Scorecard

The persistence of problems encountered during implementation, high rates of implementation failure and considerable variations in both interpretation and practice of the BSC demonstrates serious limitations in concept and in practice (Pessanha and Prochnik, 2006). According to Antonsen (2010), implementing the BSC requires an organization to gather new data, which could create work overload for some departments. It could potentially lead to employee resistance and cynicism as well as to managerial resistance due to increased availability of information with the potential to upset the current power balance.

The other major difficulty in incorporating Balanced Scorecard is regarding how to incorporate so many perspectives in decision making as many organizations are following a simple rule in processing, Make profit and be legally right. The companies are may not accustomed to including so many perspectives and had a hard time establishing how to incorporate them. The issue is that the real benefits of Balanced Scorecard are in the long run and in the greater picture. The long run is bound to show only in the long run and hence in order to feel the positive effects of such a strategy, companies shall need to wait the long time and then see the change.

Similarly, the effectiveness of the BSC will suffer if the included non-financial measures are not linked to or aligned with the firm's strategic objectives (Kaplan &Norton., 1996). Kaplan and Norton (1996) concede these potential limitations and argue that "Scorecards built upon lagging, non-strategic indicators represent only a limited application of full power of the BSC".

The BSC is also weakened if too many performance indicators are included, and some researchers have noted a tendency for the number of performance measures to increase over time with the result risk of weakening the critical link between performance measures and organizational strategy (Gering & Rosmarin, 2000b; Gering & Rosmarin, 2002). Gering and Venkatramen (2000) conclude that the BSC can be ineffective or even potentially damaging if it becomes a "scorecards", pitting different and sometimes conflicting indicators against each other and on an equal footing.

A problem highlighted by Kaplan regarding the thinking patterns of employees is that how a very minute percentage of employees at an organization actually are inclined with the mission of that organization. "However a recent Data suggests that only 5 percent of the workforce understands the company's strategy, only 25 percent of managers have incentive linked to company's strategy. 60 percent of organizations don't even link budgets to strategies and less than 85 percent of executive teams spend less than 1 hour per month discussing strategy" (Kaplan and Norton, 2001).

## 2.8. SUMMARY

As it has been already discussed, the BSC system is based on the concept that financial measures alone may not be sufficient to measure corporate performance. Since the goal of making measurements is to permit managers to see their company more clearly from many perspectives and hence to make wiser long term decisions, It is believed that the BSC may provide an integrated framework to help managers to obtain information from all parts of their organization for better strategic decisions. Furthermore there is a much greater acceptance for Balanced Scorecard as a management tool and hence the number of firms incorporating it and implementing strategies via it is going to increase in the future.

It is important to note that the balanced scorecard does not necessarily need to be introduced to a working organization only. The same technique can be applied to new organizations which will be better organized; mission oriented and most importantly shall attract more financing due to the planning which is done on the Balanced Scorecard technique. Adopting the Balanced Scorecard approach during the planning stages of a business venture has its distinct advantages in terms of its ability to help a management team clearly articulate the goals of the venture, and the activities that will realize the goals. It also will highlight areas with the greatest need for change, and may prove useful in securing the necessary external backing for the business (Andersen, H. et al. 2001. P 8).

Apart from keeping a balance between the perspectives the Balanced Scorecard gave a clear benefit when companies were able to identify cost cutting opportunity.”Most companies claimed that the implementation of the Balanced Scorecard has led to the identification of cost reduction opportunities in their organizations which, in turn, has resulted in improvement in the bottom line (Manoj Anand, 2005, pp. 11-25). However, the cost, time and expertise required to repeatedly update/change the balanced scorecard are expected to be relatively high as compared to the benefits associated with it. Given the current trends and findings, customized application of balanced scorecard technique is positively affecting the organizations performance.

# CHAPTER 3: METHODOLOGY

## 3.1. INTRODUCTION

A number of researches have been carried out on Balanced Scorecards model, but there is still a certain lack of research on the application of Balanced Scorecard technique in banking industries particularly in developing country's banks. The aim of this paper is to explore the optimal research methodology which could be applied to gauge the usefulness of Balanced Scorecard as a strategic management tool by Ethiopian banks, specifically CBE.

In the Previous chapters the researcher tried to review different literatures and studies related to balanced scorecard, performance measurement, relevance of performance measurement, financial and non-financial performance measures in reasonable depth. The review of the literature helped the researcher to better understand that balanced scorecard is the most notable multidimensional performance measurement model and to develop a conceptualized frame of reference which was used as a guide in collection of necessary data to reach the research objectives. The research objectives achieved through relevant and related literature references, theories and mainly through empirical data that were collected using the research methodology as discussed in this chapter, believed as the most appropriate for the study on focus.

### 3.2. Research Design and Methodology

Research methodology is a documented process for the management of projects that contain procedures, definitions & explanations of techniques used to collect, analyze, store & present the information as a part of research process. In order to attain the most appropriate result, the researcher used the two research approaches depending on their appropriateness to the research that he plans to conduct. The two research approaches can be quantitative methods, qualitative methods, both or together. For the quantitative method, questionnaires were developed. In connection with qualitative aspects the researcher uses an interview method and collecting in-depth information asking questions such as why do you say that?

The research was descriptive in nature. It determines the perception of BSC (Balanced Scorecard) and its application process, its usefulness and repercussions of its incorporation in the organization's decision making.

### 3.3. Research Method and Design Appropriateness

Research methods comprise mixed method approaches. Researchers choose study designs that facilitate data gathering and analysis relevant to a problem of interest. Whereas quantitative designs enable researchers to examine variable-variable relationships, a qualitative inquiry is an effective means by which researchers gain insight into contextual factors specific to a central phenomenon. The findings corroborated and qualitative analysis applied over quantitative output in order to display a more clear and holistic picture.

#### 3.3.1. Quantitative Research Methods

The objective of quantitative research is to develop and employ mathematical models, theories and/or hypotheses pertaining to phenomena. The process of measurement is central to quantitative research because it provides the fundamental connection between empirical observation and mathematical expression of quantitative relationships (Asymmetric, 2011).

Quantitative methods involve the use of survey, observation and questionnaire (Board of Studies New South Wales [NSW], 1999) which enable data (concrete or conceptual) to be collected, measured and compared with a standard. A survey is a method which uses different techniques such as observation, interview or a written list of questions called a questionnaire. Surveying is the process of conducting a study from representative samples of specific populations. A questionnaire is a technique for collecting data beyond the physical reach of the researcher, that is, from a large or diverse sample of people. The quantitative analysis laid upon the number of respondents terming the BSC (Balanced Scorecard) technique as Satisfactory or not Satisfactory to their company needs.

#### 3.3.2. Qualitative Research Methods

Qualitative research is used to help the researcher to understand how people feel and why they feel as they do. It involves a phenomenological perspective whereby researchers aim to understand, report, and evaluate the meaning of events for people in particular situations, that is, how their social world is structured by the participants in it. It is concerned with collecting in-depth information asking questions such as why do you say that? The focus of qualitative methodologies is the way in which participants (rather than the researcher) interpret their experiences and construct reality. Some examples are depth interview, group discussion, open-ended questionnaire and participant observation. Qualitative methodologies include interview, participant observation, ethnographic studies, and focus group. (Board of Studies NSW, 1999). Qualitative aspects of the research included in-depth research based on structured interview.

### 3.4. Data Collection

For this research study the instruments used for collecting the most appropriate data are via questionnaire and interviews. A questionnaire is a structured technique for collecting primary data. It is generally a series of written questions for which the respondents has to provide the answers (Bell 1999). According to Board of Studies NSW, (1999) the questionnaire should be designed to fulfill a specific research objective; it should be brief and the sequence of the questions logical. Therefore, as questionnaire is an impersonal instrument for collecting information, it should contain clear questions; worded as simply as possible to avoid any confusion or ambiguity since the researcher probably not present to explain what was meant by any one particular question.

Besides; some interview questions conducted from the management of the Company about the incorporation of BSC (Balanced Scorecard) for evaluating performance:

- ✓ To find out the reasons behind changing the strategy implementation tool to Balanced Scorecard.
- ✓ To investigate the importance level of Balanced Scorecard in Ethiopian banks businesses' strategy.
- ✓ To understand how the management support and belief on Balanced Scorecard.

#### 3.4.1. Sample and Sampling Techniques

Due to the limit of time and costs, the sample was limited to the employees and managers (Branch manager and Customer service manager) of commercial bank of Ethiopia who are voluntary to give the necessary data to the study on hand. The study uses convenience sampling techniques to select employees and managers due to the constraint of time and cost, hard to reach the nature of population (that is the number of the employees is very large hence it is very difficult to take probability sampling due to time and cost constraint, most employees is not as such voluntary to fill the questionnaire due to pretext of time shortage and the shop-mailing nature of the banking service.

The population size were all branches of commercial bank of Ethiopia that have already started their banking operation in Ethiopia and six voluntary branch, which allow the researcher to get the necessary information for the study at hand, were used as sample size, given the timeframe for the completion of the thesis. A total of 90 employees (15 employees from each branch) were involved in filling the questionnaires developed to them.

# CHAPTER 4: DATA PRESENTATION AND INTERPRETATION

## 4.1. INTRODUCTION

This chapter presents the empirical data collected from the survey; the data presented on table with SPSS data processing results, followed by the data analyses which are combined with theories and empirical data.

### 4.2. Descriptive Analysis of the Questionnaire

The questionnaire was designed to obtain perceptions regarding the implementation of Balanced Scorecard (BSC) in the organizations for evaluating the performance. It intended to obtain the precise expectations organizations with Balanced scored methodology had in their mind. Along with inquiring the perceptions which lead to adoption of BSC (Balanced Scorecard), the questionnaire also inquires about its performance up till now. The key areas of analysis which forms the basis of establishing how the balanced scorecard can be used to assess the performance of commercial bank of Ethiopia are:

**i.** To analyze how, when and why the organization choose Balanced Scorecard Methodology. The factors which persuaded them to choose it are as following:
   - Financial Perceptive.
   - Customer Satisfaction Perceptive.
   - Internal Business Process Perspective.
   - Learning and Development Perspective.

**ii.** To gain insight as to how thoroughly organizations are implementing BSC (Balanced Scorecard) and what opinions employees have regarding it.

**iii.** Obtain opinions regarding BSC (Quantitative/Closed Ended Questions).

The response part is analyzed in the following two sections. The first one contains responses obtained for the closed ended questions and the second part contains response analysis for the open ended questions. At the end of the report original (The way it was taken out in the field) questionnaire is attached.

### 4.2.1. Reliability Testing

The alpha Reliability for each of four variables is presented in table 1 below. As Hair et al., (1995) states the value of 0.70 is a "commonly used threshold for acceptable reliability", and thus, is considered acceptable for research (Page et al., 2000; Sekaran, 2003).

**Table 1: Reliability Statistics**

| Variables | Cronbach's alpha | No of items |
|---|---|---|
| Financial perspective | .711 | 5 |
| Customer perspective | .761 | 6 |
| Internal process perspective | .839 | 7 |
| Learning and growth perspective | .719 | 12 |

***Table 1*** showed that reliability statistics of the variables. Regarding to reliability, the researcher used cronbach's alpha coefficient to test the reliability the cronbach's alpha confident ranges between 0 and 1. If the Cronbach's alpha coefficient value is above .70, it implies that the presence of strong reliability. Accordingly financial perspective was reliable at .711 with 6 items, customer perspective was reliable at .761 with 6 items, internal process perspective was reliable at .839 with 7 items and leaning and growth prospective was reliable at .719 with 12 items. Thus, all dimensions (perspective) of BSC were reliable at above .70. This implies that all the perspective (dimension) of BSC has acceptable reliability.

### 4.2.2. Implementation of BSC (BALANCD SCORE CARD)

Balanced scored card has 4 dimensions (perspectives). This study has an intention to assess the uses of balanced score card on the strategic performance of commercial bank of Ethiopia in the context of the four dimension (Perspective) for each dimension hypothetical statements were designed. The result presented as follows.

**Financial perspective**

Under this section 5 hypothetical issues were included to assess the financial perspective of balanced score card. The result presented as follows.

**Table 2: Respondents Report on Financial Perspective**

| Statement | Extremely significant | Very significant | Significant | Insignificant | No effect at all | Mean | SD |
|---|---|---|---|---|---|---|---|
| | F(%) | F(%) | F(%) | F(%) | F(%) | | |
| Financial return satisfy stakeholders expectations | 23(25.6) | 44(48.9) | 20(22.2) | 2(2.2) | 1(1.1) | 2.044 | .819 |
| Profitability, economic value added | 28(31.1) | 47(52.2) | 12(13.3) | 3(3.3) | | 1.888 | .756 |
| Sales growth | 26(28.9) | 42(46.7) | 21(23.3) | 1(1.1) | | 1.966 | .756 |
| Cash flow generated | 33(36.7) | 33(36.7) | 22(24.4) | 2(2.2) | | 1.922 | .837 |
| Return on capital employed (Economic value added) | 16(17.8) | 48(53.3) | 18(20) | 7(7.8) | 1(1.1) | 2.211 | .867 |

***Table 2*** illustrated that respondents report on the financial perspectives of Benefits of implementing BSC. Regarding to financial perspectives the following statements were designed. The result presented as follows.

- *Financial returns satisfy stakeholder expectations:*

The response regarding stakeholder satisfaction from financial returns was mostly between extremely Significant and Significant, 44(48.9%) of the responds confirmed that the financial return satisfaction of stakeholder expectation is very significant while 23(25.6%) of them said that extremely significant. Moreover, 20(22.2%) of them confirmed that the financial return satisfaction of stakeholder expectation was significant. The mean is concentrated far from the standard deviation. This implies that the financial return satisfaction of stakeholders' expectation was very significant factor.

- *Profitability, economic value added:*

Around 47(52.2%) of the respondents replied that implementation of BSC (Balanced Scorecard) gives profitability and added economic value very significantly and also 28(31.1%) of the respondents confirmed it as extremely significant factor. Whereas, 3(3.3%) of them thought that profitability and economic value adding as insignificant factor.

- *Sales growth:*

Nearly all respondents expected Sales growth from the implementation of BSC (Balanced Scorecard). Around 42(46.7%) of the respondents reported that sales growth was very significant while 26(28.9%) of the respondents confirmed that sales growth was extremely significant. The calculated mean was 1.966 which was concentrated far from the standard deviation .756. From the above finding it is possible to suggest that sales growth was very significant factor for implementing Balanced Scorecard in their organizations.

- *Cash flow generated*:

Majority of the respondents expect cash flow generation from the implementation of BSC (Balanced Scorecard). Most of the respondents found it as very significant and extremely significant factor (73.4% which makes a total of 66 respondents) for them leading to implementation of it. Around 22(24.4%) of the respondents reported that cash flow generated was significant factor. The remaining 2(2.2%) respondents thought of it as insignificant factor.

- *Return on capital employed (Economic value added):*

Majority of the respondent felt that Return on Capital has been increased by employing BSC (Balanced Scorecard). Most of the respondents found it very significant factor and they were 53.3 % (48 employees) of the total respondents. Around 18(20%) of the respondents said significant while 16 (17.8%) of them thought as extremely significant factor. The remaining 7.8% (7 employees) found it as insignificant and only 1.1 % (1 employee) thought has no effect at all.

**Customer perspective**

Customer perspective was the second dimension of BSC (Balanced score card). To examine customer perspective 6 items (statements) were designed. The result given as follows.

**Table 3: Respondents Report on Customer Perspective**

| Statement | Extremely significant | Very significant | Significant | Insignificant | No effect at all | Mean | SD |
|---|---|---|---|---|---|---|---|
| | F(%) | F(%) | F(%) | F(%) | F(%) | | |
| Customer satisfaction | 29(32.2) | 33(36.7) | 23(25.6) | 5(5.6) | | 2.044 | .898 |
| Customer retention | 28(31.1) | 35(38.9) | 21(23.3) | 5(5.6) | 1(1.1) | 2.066 | .933 |
| Customer acquisition | 32(35.6) | 29(32.2) | 23(25.6) | 5(5.6) | 1(1.1) | 2.044 | .970 |
| Market share increase | 30(33.3) | 32(35.6) | 22(24.4) | 6(6.7) | | 2.044 | .923 |
| Lead time occurs | 23(25.6) | 21(23.3) | 39(43.3) | 7(7.8) | | 2.333 | .948 |
| On time delivery (if applicable) | 24(26.7) | 23(25.6) | 36(40) | 6(6.7) | 1(1.1) | 2.300 | .976 |

- *Customer satisfaction:*

Concerning with customer satisfaction, respondents felt that the implementation of BSC (Balanced Scorecard) in their organization helps towards customer satisfaction. Around 33(36.7%) of the respondents responded that customer satisfaction is very significant factor while 29(32.2%) of the respondents responded that customer satisfaction is extremely significant factor for the implementation of Balanced Scorecard Methodology in their organization. Less than 5.6% (5 employees) of them thought that these were insignificant enough factor for the implementation of Balanced Scorecard Methodology in their organizations.

- *Customer retention:*

Regarding to customer retention, Respondents felt that the implementation of BSC (Balanced Scorecard) in their organization helps towards improve client retention. 35(38.9%) of the respondents reported that customer retention was very significant factor while 28(31.1%) of the respondents reported that extremely significant. The remaining 5.6% (5 employees) found it as insignificant and only 1.1 % (1 employee) thought has no effect at all.

The calculated mean was 2.066 which were concentrated far from the standard deviation. 933 Thus, from the above findings it is possible to infer that customer retention was very significant factor. Therefore, respondents felt that the implementation of BSC (Balanced Scorecard) in their organization helps towards customer satisfaction and improve client retention.

- *Customer acquisition:*

Regarding to customer acquisition, 32(35.6%) of the respondents reported that customer acquisition is extremely significant while 29(32.2%) of the respondents reported that customer acquisition was very significant factor. The calculated mean was 2.044 which were concentrated far from the standard deviation .970. This implies that customer acquisition is extremely significant factor for bringing in BSC (Balanced Scorecard).

- *Market share increase:*

While 93.3% of the respondents (84 employees) did feel that the implementation of BSC (Balanced Scorecard) help in increasing market share but there were minority of 6.7 % respondents (6 employees) which did not agree with them at all. The calculated mean was 2.044 which were concentrated far from the standard deviation .923. This implies that, the majority of the respondents did feel that the implementation of BSC (Balanced Scorecard) help in increasing market share very significantly.

- *Lead time occurs:*

Around 39 respondents felt that there is a significant effect on lead time due to BSC (Balanced Scorecard) implementation; they believed this was an important reason for implementing BSC (Balanced Scorecard) in their organization. Almost 23(25.6%) of them thought it as extremely significant and 21(23.3%) of the respondents as very significant. But there were minority of 7.8% respondents (7 employees) which did not agree with them at all. The calculated mean was 2.333 which were concentrated far from the standard deviation .948. This implies that on time delivery was significant factor.

- *On time delivery (if applicable):*

With regard to delivery time, 36(40%) of the respondents said that on time delivery was significant factor while 24(26.7%) of them said that on time delivery was extremely significant factor and 23(25.6%) of the respondents said that on time delivery was very significant factor. The calculated mean was 2.300 which were concentrated far from the standard deviation .976. This implies that there is significant effect on the time of delivery due to BSC (Balanced Scorecard) implementation; they believed this was an important reason for implementing BSC (Balanced Scorecard) in their organization.

**Internal process perspective**

Internal process perspective was the third dimension of balanced score card. In this study, attempt was made to examine internal process perspective by designing statement. The result presented as follows.

**Table 4: Respondents Report on Internal Process Perspective**

| Statement | Extremely significant | Very significant | Significant | Insignificant | No effect at all | Mean | SD |
|---|---|---|---|---|---|---|---|
| | F(%) | F(%) | F(%) | F(%) | F(%) | | |
| The balanced score card provide management with a comprehensive picture of business operation | 32(35.6) | 32(35.6) | 23(25.6) | 3(3.3) | | 1.966 | .867 |
| Existence of measure how well the company identifies the customers' future needs. | 24(26.7) | 34(37.8) | 28(31.1) | 3(3.3) | 1(1.1) | 2.144 | .893 |
| Creativity and unexpected ideas increased | 26(28.9) | 24(26.7) | 32(35.6) | 6(6.7) | 2(2.2) | 2.266 | 1.025 |
| Existence of quality measures | 23(25.6) | 35(38.9) | 28(31.1) | 3(3.3) | 1(1.1) | 2.155 | .885 |
| Existence of cycle time measures | 24(26.7) | 35(38.9) | 27(30) | 3(3.3) | 1(1.1) | 2.133 | .889 |
| Existence of costs measure | 25(27.8) | 26(28.9) | 35(38.9) | 4(4.4) | | 2.200 | .901 |
| Existence of post sales service measures. | 20(22.2) | 28(31.1) | 35(38.9) | 7(7.8) | | 2.322 | .909 |

***Table 4:*** showed that respondents report on internal process perspective. Regarding to internal process perspective presented as follows.

- *The balanced score card provide management with a comprehensive picture of business: operation*

There was a strong perception that BSC (Balanced Scorecard) provided management with comprehensive picture business operations. Around 87(96.7%) out of the 90 respondents responded that they found it Significant and more than Significant contributing towards the decision of implementing BSC (Balanced Scorecard) in their organization. There were only 3 individuals (3.3%) who thought that this was an insignificant factor which leads to the bringing in of BSC (Balanced Scorecard). The calculated mean was 1.966 which was concentrated far

from the standard deviation .867. Thus, from the above findings it is possible to suggest that the balanced score card is very significant or extremely significant to provide management with a comprehensive picture of business operations.

- *Existence of measure how well the company identifies the customers' future need:*

Regarding to this statement, 34(37.8%) of the respondents reported that very significant factor while 28(31.1%) of the respondents reported that significant factor and 24(26.7%) of the respondents reported that extremely significant factor and according to them BSC (Balanced Scorecard) helps in identifying customer need. The calculated mean was 2.144 which were concentrated far from the standard deviation .893. According to this report, BSC (Balanced Scorecard) helps in identifying customer needs very significantly.

- *Creativity and unexpected ideas increased:*

Only 8.9% respondents (8 employees) thought that Creativity and unexpected ideas were hardly affected by the BSC (Balanced Scorecard) implementation. They thought of it as insignificant factor or a factor which had no link at all with the implementation of balanced scorecard mythology in their organization. Remaining 91.1% (82 employees) disagreed with them. From this finding, it is possible to suggest that Creativity and unexpected ideas had a significant link with the implementation of balanced scorecard mythology in their organization.

- *Existence of quality measures:*

Nearly all respondents (95.6%) felt this was significant or more than a significant motivational factor for implementing BSC (Balanced Scorecard) in their organization whereas, the remaining 4.4% (4 employees) disagreed with them. The calculated mean was 2.155 which were concentrated far from the standard deviation .885. From the above findings, it is possible to suggest that, the respondents felt this was very significant motivational factor for implementing BSC (Balanced Scorecard) in their organization.

- *Existence of cycle time measures:*

Existence of cycle time measures was a very significant factor for 38.9% (35 employees) of respondents to bring in BSC (Balanced Scorecard) method in their organization. The remaining 56.7% respondents found it either significant or extremely significant factor and only 4.4% of the respondents reported it as an insignificant factor or has no effect at all. The calculated mean was 2.133 which were concentrated far from the standard deviation .889. Thus, from the above report, it is possible to suggest that Existence of cycle time measures was a very significant factor to bring in BSC (Balanced Scorecard) method in their organization.

- *Existence of costs measure:*

86(95.6%) of respondents thought of that their decision making process has been influenced by implementing BSC (Balanced Scorecard) in their organization. Almost 38.9% (35 respondents) believed it as only significant, 28.9% (26 respondents) as very significant and 27.8% (25 respondents) believed it as an extremely significant factor for the adoption of BSC (Balanced Scorecard) in their organization. The remaining 4.4% (4 respondents) believed it as an insignificant factor. Thus, from the above findings, it is possible to suggest that, their decision making process has been influenced by implementing BSC (Balanced Scorecard) in their organization significantly.

- *Existence of post sales service measures:*

Regarding to Existence of post sales service measures, Almost 38.9% (35 respondents) felt that it was just a significant factor in motivating them towards BSC (Balanced Scorecard) implementations. Around 31.1% (28 respondents) thought it was very significant and 22.2% (20 respondents) as extremely significant factor. Only 7.8% (7 respondents) believed it as insignificant factor. The calculated mean was 2.322 which were concentrated far from the standard deviation of .909. From the above findings, it is possible to suggest that, it was a significant factor in motivating them towards BSC (Balanced Scorecard) implementation.

**Learning and Growth Perspective**

The other dimension of Balanced score card is learning and growth perspective. Regarding to leaning and growth perspective the following result was obtained.

**Table 5: Respondents Report on Learning and Growth Perspectives**

| Statement | Extremely significant | Very significant | Significant | Insignificant | No effect at all | Mean | SD |
|---|---|---|---|---|---|---|---|
| | F(%) | F(%) | F(%) | F(%) | F(%) | | |
| Increase of employee retention | 15(16.7) | 33(36.7) | 28(31.1) | 12(13.3) | 2(2.2) | 2.477 | .996 |
| Increase of employee training | 23(25.6) | 33(36.7) | 27(30) | 7(7.8) | | 2.200 | .914 |
| Increase of employee skills | 18(20) | 32(35.6) | 31(34.4) | 8(8.9) | 1(1.1) | 2.355 | .939 |
| Increase of employee satisfaction | 18(20.0) | 26(28.9) | 36(40.0) | 9(10.0) | 1(1.1) | 2.433 | .960 |
| Alignment of employee incentives with overall organization success factors | 23(25.6) | 33(36.7) | 25(27.8) | 8(8.9) | 1(1.1) | 2.233 | .972 |
| Increase of employee morale | 19(21.1) | 32(35.6) | 26(28.9) | 11(12.2) | 2(2.2) | 2.388 | 1.024 |
| System availability & "front line" customer information | 21(23.3) | 27(30.0) | 35(38.9) | 6(6.7) | 1(1.1) | 2.322 | .946 |
| Team members cooperation maximized | 23(25.6) | 27(30) | 28(31.1) | 11(12.2) | 1(1.1) | 2.333 | 1.027 |
| Team members are focused on helping one another succeed | 23(25.6) | 31(34.4) | 27(31.1) | 6(6.7) | 2(2.2) | 2.588 | 3.388 |
| Provision of strategic feedback and learning | 18(20) | 39(43.3) | 24(26.7) | 7(7.8) | 2(2.2) | 2.288 | .950 |
| Cross organization team occur- more open channels of communications | 22(24.4) | 38(42.2) | 24(26.7) | 6(6.7) | | 2.155 | .872 |
| Enthusiastic people | 12(13.3) | 39(43.3) | 35(38.9) | 4(4.4) | | 2.344 | .766 |

***Table 5*** reviles that, Respondents Report on Learning and Growth Perspectives. Following statements are regarding to Learning and Growth Perspectives.

- *Increase of employee retention:*

Almost 15.5% (14 respondents) believed that implementation of BSC (Balanced Scorecard) hardly help in employees' retention. The remaining 84.5% (76 respondents) thought of it as a significant or more than a significant factor to have BSC (Balanced Scorecard) in their organization. From the above finding it is possible to suggest that increase of employee retention was very significant factor to have BSC (Balanced Scorecard) in their organization.

- *Increase of employee training:*

Regarding to this statement, 33(36.7%) of the respondents reported that it was very significant while 27(30%) of the respondents reported it was significant and 23(25.6%) of the respondents reported that extremely significant factor to increase the training of the employees but 7.8% (7 respondents) thought of it as insignificant factor. The calculated mean was 2.200 which were concentrated far from the standard deviation of .914. Thus, from the above finding it is possible to suggest that it is very significant factor to increase the training of the employees.

- *Increase of employee skills:*

Majority respondents felt that BSC (Balanced Scorecard) implementation would help in improving the employees' skill. Around 8.9% (8 respondents) replied it was not a significant enough factor to implement BSC (Balanced Scorecard) and only one individual replied that it has no effect at all. The calculated mean was 2.355 which were concentrated far from standard deviation of .939. From the above findings, it is possible to suggest that BSC (Balanced Scorecard) implementation would help in improving the employees' skill very significantly.

- *Increase of employee satisfaction:*

Around 40% (36 respondents) felt is as significant factor, 28.9% (26 respondents) felt is as very significant factor and 20% (18 respondents) thought it as a very significant factor. The remaining 11.1% (10 respondents) thought of it as insignificant factor and it has no effect at all. The calculated mean was 2.433 which were concentrated far from the standard deviation of .960. From the above finding it is possible to suggest that increase of employee satisfaction was significant factor.

- *Alignment of employee incentives with overall organization success factors:*

Regarding to this statement 33(36.7%) of the respondents reported that very significant factor while 25(27.8%) of the respondents reported that significant factor. The calculated mean was 2.233 which were concentrated far from the standard deviation of .972. Thus, from the above finding it is possible to suggest that alignment of employee incentives with overall organization success factors was very significant factor.

- *Increase of employee morale:*

The employee morale is expected to rise from BSC (Balanced Scorecard) and the respondents replied that it is significant or more than a significant factor. On the other hand 14.4% (13 respondents) felt that it was not significant enough factor for bringing in BSC (Balanced Scorecard) in their operations and for making management strategy. The calculated mean was 2.388 which was concentrated half far from the standard deviation of 1.024. Thus, the employee morale is expected to rise from BSC (Balanced Scorecard) and the majority of respondents replied that it is very significant factor.

- *System availability & "front line" customer information:*

With this regard 35(38.9%) of the respondents reported that significant while 27(30%) of the responds reported that very significant. The calculated mean was 2.322 which were concentrated far from the standard deviation of .946. Thus, System availability and front line customer information was significant enough factor for bringing in BSC (Balanced Scorecard) in their operations and for making management strategy.

- *Team members' cooperation maximized/*Team members are focused on helping one another succeed*:*

Around 86.7% (78 respondents) felt that team cooperation improvement due to BSC (Balanced Scorecard) was a significant or more than significant enough factor to integrate balanced scorecard technique in the organizational operations and decision making. Almost 13.3% (12 respondents) felt that the effect of BSC (Balanced Scorecard) on cooperation amongst clients was insignificant factor for them to adopt Balanced Scorecard Technique in the strategic decision.

- *Provision of strategic feedback and learning:*

To this regard, 39(43.3%) of the respondents reported that very significant factor while 24(26.7%) of the respondents reported that significant factor. The calculated mean was 2.288 which were concentrated far from the standard deviation of .950. Thus, from the above finding it is possible to suggest that BSC (Balanced Scorecard) implementation would help in improving provision of strategic feedback and learning very significantly.

- *Cross organization team occur- more open channels of communications/Enthusiastic people*

Majority of the respondents felt that implementation of BSC (Balanced Scorecard) in their organizations results in more open communication channels and this is significant or more than significant enough factor for adopting BSC (Balanced Scorecard). Around 4.4% (4 employees) respondents felt, if BSC (Balanced Scorecard) helped improve the enthusiasm of people, it was not a significant enough factor to adopt the technique.

### 4.2.3. Open ended questions

In addition to closed ended question respondents were asked their opinion about implementing the BSC (balanced scorecard) in descriptive manner (open questions). With regard to open ended questions, some respondents agreed with BSC (Balanced Scorecard) transforming strategy into action and desired behaviors by writing a reason "Clarification of the objectives and assist in achieving the main goal". The implementation of BSC resulted in competitive advantages, in the improvement of the processes, improvement in decisions and better solutions. Reduced time-frames with overall performance improvement are other advantages that have brought by the implementation of BSC (Balanced Scorecard) in their organizations.

Respondents replied that they agreed/strongly agreed that Balanced Scorecard helped in the alignment of the key performance measures with strategy at all levels in the organizations. The reasons for such positive response mentioned were clear objectives along with clear way of measuring a company's progress towards the aims it is trying to achieve. Moreover, the implementation of the methodology facilitate communication and understanding of business goals and strategies at all levels of an organization due to the existence of clarity in objective for all individuals working in the organization. They also replied that they are agreed that BSC (Balanced Scorecard) added value in their organizations by helping in organizing the actions and enhancing the operational connectivity.

However, Balanced Scorecard provides management with a comprehensive picture of business operations, the following are the major pitfalls which confronts during the implementation of BSC (Balanced Scorecard) in their organization:

- politicizing the tool
- Very good communication skills requirement which every employee does not have.
- Time Consuming and
- Early cascading are the major ones.

Even if there is no sameness in their answer for the question, how long has been implementing BSC (Balanced Scorecard) in their organization, majority of the respondents reported that as they had implemented at least five years back. Regarding to the schedules or deadlines committed in the implementation of BSC the following suggestion presented. Most of the respondents were committed to monthly implementation of Balanced Scorecard implementation deadline in their organization whereas the other respondents said quarterly based. Some others added that, everything is done based on the given schedule but they can't specify the time interval. The reason for this could be the way BSC (Balanced Scorecard) methodology is conveyed to the employees or how they perceive the optimal deadline for implanting BSC (Balanced Scorecard) based on their own understanding and also there were few responses which said that there was a different time limit for different departments, for some it was daily/weekly, for some quarterly/monthly or even together.

Respondents responded that they like the following things about BSC (Balanced Scorecard) implementation:

- ✓ It Excel customer satisfaction.
- ✓ It shortens service delivery time and providing quality service.
- ✓ It leads to operational Excellency.
- ✓ It being truthful and measurable.
- ✓ It differentiates employees who perform better from others.
- ✓ It included four important perspectives and translated it into four clear aspects.
- ✓ Comprehensiveness along with the cause and effect relationship

It helps to complete the job based on the given times and also it increase customer satisfaction. It measures the performance of employees of the organization individually. It promotes the day to day work of employees in smooth and timely manner. The other respondents explain the BSC in the so called "let you and your boss know what you worth".

According to respondents report, the motivation to implement BSC in their organization was to meet the organization's expectation as per specific determinants, to evaluate workers based on individual performance rather than supervisor subjective judgment.

Few individuals added that, BSC helps for employees to make the job simple and helps to measure individual performance that helps employee for promotion and other benefits. Some other respondents said that, since our organization is business institute and BSC helps to increase profitability of the company, quality service provision, customer satisfaction which in turn boosts company profit.

### 4.2.4. Interview

As per research ethics and confidentiality policy the branch managers and customer service managers of the selected branch were interviewed and the researcher asked the questions regarding the BSC (Balanced Scorecard) implementation. Some interview questions that have been asked about the incorporation of BSC (Balanced Scorecard) for evaluating performance are following:

- What were the major difficulties you faced during incorporating BSC (Balanced Scorecard) in the company?
- What is your level of satisfaction associated with BSC (Balanced Scorecard) implication?

***After the interview following are the facts and findings:***

As CBE is certainly a large company with a large work force, Implementation of Balanced Scorecard would have required implementing it in a number of departments. The implementation on the massive scale requires informing/communication among employees and the enlightening takes large time. The top managers' interest in such methodologies and philosophies of management is always an essentiality to bring innovations in the company operations. Since it has been more than 5 years after the implementation, it is expected that the resources of the company would have become accustomed to and understood its benefits better.

The overall feedback regarding the BSC (Balanced Scorecard) implementation is that it brings strategy in action, implementation throughout, reduced practices and improved processes. Commercial bank of Ethiopia finds help by BSC (Balanced Scorecard) for tracking and driving the growth based on its strategy. It is the most dominant comparative advantage which has brought by BSC (Balanced Scorecard). The respondent believed that more communication and clarity in role expectations have been brought by implementing Balanced Scorecard methodology. Interviewee felt that the value addition to their organization is, that BSC allows aligning different matrix to get a balanced view and also it enables to understand the cause and effect.

The major pitfall reported pertaining to BSC (Balanced Scorecard) were, it takes significant amount of planning and effort for implementation due to the size of the organization which asked for more planning and effort to implement it across all departments and also it needs lots of key performance indicator (a way of measuring a company's progress towards the aims it is trying to achieve).

***Table 6:*** **Test of model of BSC perspective to benefits of implementing BSC**

| **Model Summary** | | | | |
|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .634[a] | .403 | .374 | .40891 |
| a. Predictors: (Constant), Learning and Growth Perspective, Customer Perspective, Financial Perspective, Internal Process Perspective | | | | |

The R= .634 indicate the relationship among BSC perspectives (financial perspective, customer perspective internal process perspective, learning and growth perspective) on the benefits of implementing BSC.

The $R^2$ is .403 which means that 40.3% of the variation in benefits of implementing BSC to BSC perspective could be attributed to change BSC perspective and 59.7% variation in all benefits of implementing BSC on BSC perspectives (financial perspectives, customer perspectives, internal business perspective and learning and growth perspective) is explained by other perspective that are not within the control of the study.

**Table 7: ANNOVA Result**

| **ANOVA**[a] | | | | | | |
|---|---|---|---|---|---|---|
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 9.576 | 4 | 2.394 | 14.317 | .000[b] |
| | Residual | 14.213 | 85 | .167 | | |
| | Total | 23.789 | 89 | | | |
| a. Dependent Variable: benefit of implementing BSC | | | | | | |
| b. Predictors: (Constant), Learning and Growth Perspective, Customer Perspective, Financial Perspective, Internal Process Perspective | | | | | | |

***Table 7*** shows that output of the ANNOVA analysis and is used to test if there is a significant difference statistically among the group means in regard to benefits of implementing BSC. It is confirmed that the significant value is F(4, 89) = 14.317, P= .000 is less than 0.05. Therefore, there is statistical substantial difference in the mean benefits of implementing BSC degree of association among the different perspective at 95% confidence interval.

**Table 8: Regression analysis**

| **Coefficients** | | | | | | |
|---|---|---|---|---|---|---|
| Model | | Un-standardized Coefficients | | Standardized Coefficients | t | Sig. |
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | .970 | .308 | | 3.149 | .002 |
| | Financial Perspective | .599 | .098 | .555 | 6.080 | .000 |
| | Customer Perspective | -.118 | .049 | -.214 | -2.417 | .018 |
| | Internal Process Perspective | -.012 | .054 | -.021 | -.230 | .818 |
| | Learning and Growth Perspective | .072 | .046 | .142 | 1.582 | .117 |
| a. Dependent Variable: Benefit of Implementing BSC | | | | | | |

***Table 8*** showed that regression analysis. To this study, important part is un-standardized coefficients (β), t test and sign (P-value). An un-standardized β coefficient represents the effect of an independent variable on the dependent variable, not of the effect of the other independent variables. In this regression analysis the causal effect of each independent variable can be sorted out and estimated by solving as following.

$Y= \beta_o + B_1 X_1 + B_2 X_2 + B_3 X_3 + B_4 X_4$

$Y= .970 + .599 X_1 + .118 X_2 + -.012X_3 + .072X_4$

In the above equation is seen to have substantial impact on the benefits of implementing BSC. Financial perspective (β= .599, t= 6.080, P= .000). Hence finical perspective is a significant predictor of Benefits of implementing BSC. The other perspective which has great importance is customer perspective (β= -.118, t= -.2.417, P= .018). Thus, financial perspective and customer perspective has high influence on the benefits of implementing BSC.

# CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS

## 5.1. INTRODUCTION

This study was conducted with the purpose of assessing the uses of balanced scorecard on strategic performance in Ethiopian banks: the case of commercial bank of Ethiopia (CBE). A descriptive survey method of the research was used to conduct the survey. Data was collected using questionnaires and interview. For the literature review, a number of books have been used. The data collected was organized, analyzed and discussed. Accordingly, the following conclusion and recommendations are drawn from the major finding of the research.

### 5.1.1. Summary of the Major Findings

In Ethiopia, quite lots of public sector organizations have been employing BSC as change and strategic management system in the framework of Public Sector Capacity Building Initiatives. However; those organizations that exercise BSC as change and strategic management system have faced challenges with the design & its implementation. Consequently, CBE is found among those public organizations which apply BSC and obtained encouraging result.

The objective of this questionnaire was to obtain perceptions regarding the implementation of Balanced Scorecard (BSC) in the commercial bank of Ethiopia. It intended to obtain the precise expectations CBE with Balanced scored methodology had in their mind. Along with inquiring the perceptions which lead to adoption of BSC (Balanced Scorecard), the questionnaire also inquires about its performance up till now.

The research concluded with several useful and interesting findings through the replies obtained from the questionnaires. Balanced Scorecard is reported to be as a value added to their organization though generally creating more clarity in objectives, useful objective partitioning and organized action plans. The methodology is also bringing in realistic and relevant objectives for employees accordingly. Moreover, all the following aspects i.e. financial, customer satisfaction, internal business process perspective, and learning and growth perspective of Balanced Scorecard have been termed as either significant or more than significant motivational factors leading CBE to the application of it.

Therefore, the BSC (Balanced Scorecard) helps in enhancing the financial aspects of the organizations, in attaining the customer satisfaction, in their internal business process perspective and it also helps in increasing the learning and growth perspective regarding to all hypothetical statements were designed under each dimensions (perspective).

The unique competitive edges reported due to Balanced Scorecard methodology are the clarity it brings in organization objective and assist in achieving the main goal and overall performance improvement. Also BSC (Balanced Scorecard) is helping in the alignment of the key performance measures with strategy at all levels. Along with that it was also facilitating communication and better understanding regarding business goals and strategies.

There is also an agreement between the questionnaire and the interview results which make the overall information of the research is consistent and provides increase in the credibility for the research. As a final point, while CBE uses balanced scorecard at the beginning from other commercial banks in Ethiopia by using the training and Excel program which decrease the costs in significant way and using the balanced scorecard is very helpful for the companies, specifically in the banking industry so this research gives an opportunity to other Ethiopian banks to use the balanced scorecard with very low costs and innovative ways.

### 5.1.2. Recommendations

The following recommendations forwarded to different actors in the sector in regards to Balanced Scorecard Implementation can be made based on the conclusion provided by the research.

- The research indicates that their knowledge base regarding Balanced Score Card needs to be improved through more workshops. This would lead to more awareness regarding the methodology. Moreover the linkage between employee satisfactions with balanced scorecard methodology is relatively less strong as indicated by the closed ended parts of the questionnaire. More innovations in this regard are needed to bring in buy in from company employees as it an essential part on which company performance is gauged. As far as the enhancement of Balanced Scorecard Methodology is concerned, it can be improved through more communication, better understanding, and through involvement of more employees.
- Training should be given to the employees about BSC, in order to create awareness about the banks strategic objective, vision and mission, so that, employees know how their activities contribute to the bank's strategic objectives and to make a great deal of awareness about the specific activities.
- Avoid early cascading to individual level: cascading to individual level should be made after objectives measures are properly refined up, to prevent challenges such as, politicizing the tool which indicated as the major pitfall that confronts during the implementation of BSC (Balanced Scorecard) in their organization.
- The alignment of bank towards their strategy should be motivated through the incentive and reward systems. For the scorecard to create the cultural change and to achieve strategic objectives, incentive compensation must be connected to attainment of scorecard objectives and outcome.

There is the need to place emphasis on the fact that, when implementing this framework, banks must follow a well planned methodology and the advice that was given in different academicians and practitioners in order for them to reap the full benefit of their investment.

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**Appendix**: Questionnaire

# Addis Ababa University

## School of Commerce

### Department of Logistics and Supply Chain Management

**Survey of Bank Employees**

**Dear Participant,**

This questionnaire is designed to conduct a research on the topic of **"**The assessment of using balanced scorecard on strategic performance in Ethiopian banks: the case of commercial bank of Ethiopia (CBE)". The purpose of the study is for the partial fulfillment of the requirement of MA degree in Logistics and Supply Chain Management. For the successful accomplishment of the study, the response of employees of the bank will have pivotal role by being used as valuable input for the study. So, you are kindly requested to genuinely fill the questionnaire.

**Thank you in advance for your cooperation!**

***Instructions:-***

- Writing your name is unnecessary.
- Circle or put mark as per the questions required in the box or answer in the space provided.

**I. *This section represents your opinion about implementing the BSC (BALANCED SCORECARD), in quantitative manner (closed questions).***

Please rate the influence of the following factors in your decision about the Benefits of implementing BSC (BALANCED SCORECARD) in your organization using the following likerty key:

**A** = **Extremely significant B =Very significant C** = **Significant D = Insignificant E = No effect at all**

| | | A | B | C | D | E |
|---|---|---|---|---|---|---|
| **Financial Perspective** | | | | | | |
| **1.** | Financial returns satisfy stakeholder expectations | | | | | |
| **2.** | Profitability, Economic value added | | | | | |
| **3.** | Sales growth | | | | | |
| **4.** | Cash flow Generated | | | | | |
| **5.** | Return on capital employed (Economic Value Added) | | | | | |
| **Customer Perspective** | | | | | | |
| **6.** | Customer satisfaction. | | | | | |
| **7.** | Customer retention. | | | | | |
| **8.** | Customer acquisition. | | | | | |
| **9.** | Market share increase. | | | | | |
| **10.** | Lead-time occurs. | | | | | |
| **11.** | On time delivery (if applicable). | | | | | |
| **Internal Process Perspective** | | | | | | |
| **12.** | The Balanced Scorecard provides management with a comprehensive picture of business operations. | | | | | |
| **13.** | Existence of measures of how well the company identifies the customers' future needs. | | | | | |
| **14.** | Creativity and Unexpected Ideas Increased | | | | | |
| **15.** | Existence of quality measures. | | | | | |
| **16.** | Existence of cycle time measures. | | | | | |
| **17.** | Existence of costs measures | | | | | |
| **18.** | Existence of Post sales service measures | | | | | |
| **Learning and Growth Perspective** | | | | | | |
| **19.** | Increase of employee retention. | | | | | |
| **20.** | Increase of employee training. | | | | | |
| **21.** | Increase of employee skills. | | | | | |
| **22.** | Increase of employee satisfaction | | | | | |
| **23.** | Alignment of employee incentives with overall organization success factors | | | | | |
| **24.** | Increase of employee morale. | | | | | |
| **25.** | System availability & "front line" customer information | | | | | |
| **26.** | Team members cooperation maximized | | | | | |
| **27.** | Team members are focused on helping one another succeed | | | | | |
| **28.** | Provision of strategic feedback and learning. | | | | | |
| **29.** | Cross organizational team occur - More open channels of communications | | | | | |
| **30.** | Enthusiastic People. | | | | | |

**II.** ***This section represents your opinion about implementing the BSC (BALANCED SCORECARD), in descriptive manner (open ended questions).***

1. **How long have you been implementing BSC (BALANCED SCORECARD) in your organization?**
   **Below two years**

   **2-3 years □**

   **3-4 years □**

   **4-5 years □**

   **Above 5 years □**
2. **Is there any schedules or deadlines you are committed to regarding the implementation of BSC (BALANCED SCORECARD)?**

   _____

   _____
3. **What do you like most about BSC (BALANCED SCORECARD) implementation?**

   _____

   _____
4. **What most motivate you to implement BSC (BALANCED SCORECARD) in your organization?**

   _____

   _____
5. **Did the implementation of BSC (BALANCED SCORECARD) – Transforms strategy into action and desired behaviors?**

   _____

   _____
6. **How satisfied arc you with BSC (BALANCED SCORECARD) implementation?**

   _____

   _____
7. **Did the implementation of BSC (BALANCED SCORECARD) give any unique Competitive Advantage such as:**

   **a. Reduced Time-frames**
   **b. Improved Decisions and Better Solutions**
   **c. Improved Processes**
   **d. Any other competitive advantages? Please identify:**

   _____

   _____
8. **Did the implementation of BSC (BALANCED SCORECARD) help align key performance measures with strategy at all levels of an organization?**

   _____

   _____

9. **Did the implementation of the methodology facilitate communication and understanding of business goals and strategies at all levels of an organization.**

   _____

   _____

10. **In your opinion, do you see that BSC (BALANCED SCORECARD) added value for your organization? If the answer is yes how? If No why?**

    **Yes ☐ No ☐**

    ***How/Why***_____

    _____

11. **. What are the major pitfalls concerning the implementation of BSC (BALANCED SCORECARD) in your organization?**

    _____

    _____

*12.* **After BSC implemented in your organization ,what are the challenges encountered in your work in your position and overall in the organization?( the challenges may be in the sated target, the sated goal or the burden it causes , any… please state them**

    _____

    _____

    _____

13. **The Balanced Scorecard provides management with a comprehensive picture of business operations.**

    ***Agree*** ☐ ***Disagree*** ☐

    ***How***_____

    _____

# Gratitude

**Dear Sir/Madam,**
**I want to thank you for your time answering the questionnaire; your participation was much appreciated.**

**Student name: Tamiru Hailu**
**Email: tamiru1984@gmail.com**
**Telephone: 0913 814958**

- ***Please feel free to ask any questions regarding any item in the questionnaire.***