



**SAINT MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES
MBA PROGRAM**

**PRACTICES AND CHALLENGES OF IMPLEMENTING
BALANCED SCORECARD IN STATE OWNED BANKS
OF ETHIOPIA**

**BY
AMSALU MAMO HAILE**

**OCTOBER 2014
ADDIS ABABA, ETHIOPIA**

**PRACTICES AND CHALLENGES OF IMPLEMENTING BALANCED
SCORECARD IN STATE OWNED BANKS OF ETHIOPIA**

BY

AMSALU MAMO HAILE

ENROLMENT No: SGS/0076/2005

**A THESIS SUBMITTED TO SAINT MARY'S UNIVERSITY, SCHOOL OF
GRADUATE STUDIES, IN PARTIAL FULLFILMENT OF THE
REQUIREMENT FOR THE DEGREE OF MASTERS OF BUSINESS
ADMINSTRATION**

ADVISOR

MESFIN LEMMA (PhD)

OCTOBER 2014

ADDIS ABABA, ETHIOPIA

**SAINT MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES
MBA PROGRAM**

**PRACTICES AND CHALLENGES OF IMPLEMENTING
BALANCED SCORECARD IN STATE OWNED BANKS OF
ETHIOPIA**

**BY
AMSALU MAMO HAILE**

APPROVED BY BOARD OF EXAMINERS

Dean, Graduate Studies

Signature

Advisor

Signature

External Examiner

Signature

Internal Examiner

Signature

DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Dr. Mesfin Lemma. All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

Name

St. Mary's University, Addis Ababa

Signature

October 2014

ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a university advisor.

Advisor

St. Mary's University, Addis Ababa

Signature

October 2014

Acknowledgements

First and foremost, I want to extend unreserved thanks and praise to the Almighty God of Israel who has given me an eternal life through His son Jesus Christ.

This thesis would not have been possible without the help, support and patience of my advisor and supervisor, Dr. Mesfin Lemma, not to mention his advice and unsurpassed knowledge of Strategic Management, for which I am extremely grateful.

I would like to express my deepest gratitude to the employees and management of Commercial Bank of Ethiopia (CBE), Development Bank of Ethiopia (DBE), and Construction and Business Bank (CBB) for their support and cooperation in providing me with the necessary information. I am most grateful to Ato Wogayehu, Manager-Strategic Management Team of CBE, Ato Getachew, Director- Strategic Planning, Development and effectiveness process of DBE, and Ato Turi Goshe-Director, Strategic Management and Communication Process of CBB, for their support and patience.

Last, but by no means least, I thank my family, friends, and colleagues for their support and encouragement throughout the course.

For any errors or inadequacies that may remain in this work, of course, the responsibility is entirely my own.

Table of Contents

| | |
|--|------|
| Acknowledgements | i |
| List of Tables..... | vi |
| List of Figures | vii |
| Abstract | viii |
| CHAPTER ONE | |
| INTRODUCTION..... | 1 |
| 1.1. Background of the Study..... | 1 |
| 1.2. Brief Background of The Ethiopian Public Banks..... | 3 |
| 1.2.1. Commercial Bank of Ethiopia (CBE)..... | 3 |
| 1.2.2. Development Bank of Ethiopia (DBE)..... | 4 |
| 1.2.3. Construction and Business Bank (CBB)..... | 4 |
| 1.3. Statement of the Problem..... | 5 |
| 1.4. Research Questions..... | 6 |
| 1.5. Objectives of the Study..... | 6 |
| 1.6. Significance of the Study | 7 |
| 1.7. Scope of the Study | 7 |
| 1.8. Limitations of the Study..... | 8 |
| 1.9. Definition of Terms..... | 8 |
| 1.10. Organization of the Paper..... | 9 |
| CHAPTER TWO | |
| REVIEW OF RELATED LITERATURE..... | 10 |
| 2.1. Theoretical Literature Review | 10 |
| 2.1.1. Rethinking Performance Management | 10 |
| 2.1.2. Criticisms of the Overabundant Use of the Financial Measures..... | 12 |
| 2.1.3. Origin and Meaning of the Balanced Scorecard | 14 |
| 2.1.4. Implementing the Balanced Scorecard | 16 |
| 2.2. Empirical Literature Review | 17 |

| | |
|--|----|
| 2.2.1. Challenges of Implementing the Balanced Scorecard | 19 |
| 2.2.2. Office of Strategic Management (OSM)..... | 20 |
| 2.3. Conceptual Framework | 22 |
| CHAPTER THREE | |
| RESEARCH DESIGN AND METHODS..... | 27 |
| 3.1. Research Design | 27 |
| 3.2. Source of Data | 27 |
| 3.3. Population..... | 28 |
| 3.4. Sample Size and Sampling Technique | 28 |
| 3.5. Data Collection Tools..... | 29 |
| 3.6. Reliability Test | 29 |
| 3.7. Method of Analysis | 29 |
| 3.8. Ethical Considerations..... | 30 |
| CHAPTER FOUR | |
| DATA PRESENTATION, ANALYSIS AND INTERPRETATION | 31 |
| 4.1. Respondents' Profile | 31 |
| 4.2. Analysis of the Variables..... | 32 |
| 4.2.1. Concept Clarity of the Balanced Scorecard..... | 33 |
| 4.2.2. Executive Sponsorship | 34 |
| 4.2.3. Balanced scorecard education and training | 36 |
| 4.2.4. IT Support..... | 38 |
| 4.2.5. Competent Project Team/Dedicated Process..... | 40 |
| 4.2.6. Organizational Level Participation | 42 |
| 4.2.7. Key Performance Indicators | 43 |
| 4.2.8. Planning and Communication | 45 |
| 4.3. Analysis of the Interview..... | 47 |
| 4.3.1. Commercial Bank of Ethiopia | 47 |
| 4.3.2. Development Bank of Ethiopia | 48 |

4.3.3. Construction and Business Bank 49

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS51

4.1. Summary 51

4.2. Conclusions 53

4.3. Recommendations 54

APPENDIXi

List of Acronyms

| | |
|--------|---|
| BPR | Business Process Reengineering |
| BSC | Balanced Scorecard |
| CBB | Construction and Business Bank |
| CBE | Commercial Bank of Ethiopia |
| CEO | Chief Executive Officer |
| DBE | Development Bank of Ethiopia |
| ISHOPA | Imperial Savings and Home Ownerships Public Association |
| IT | Information Technology |
| KPI | Key Performance Indicators |
| OSM | Office of Strategic Management |
| SPSS | Statistical Package for Social Scientists |

List of Tables

| | |
|--|----|
| Table 4.1: Concept Clarity on Balanced Scorecard | 33 |
| Table 4.2: Level of Concept Clarity of the Balanced Scorecard by Banks..... | 34 |
| Table 4.3: Level of Executive Sponsorship..... | 35 |
| Table 4.4: Executive Sponsorship Across Banks..... | 36 |
| Table 4.5: Education and Training..... | 37 |
| Table 4.6: Bank Level BSC Education and Training..... | 38 |
| Table 4.7: BSC Automation..... | 39 |
| Table 4.8: IT Support of BSC Across Banks..... | 39 |
| Table 4.9: Effectiveness of Dedicated Project Team..... | 40 |
| Table 4.10: Effectiveness of Dedicated Project Team across Banks..... | 41 |
| Table 4.11: BSC Participation..... | 42 |
| Table 4.12: Level of Participation Across Banks..... | 43 |
| Table 4.13: Evaluation of KPIs..... | 44 |
| Table 4.14: Evaluation of KPIs Across Banks..... | 45 |
| Table 4.15: Planning and Communication of BSC System..... | 46 |
| Table 4.16: Planning and Communication of BSC system across Banks..... | 47 |

List of Figures

Fig. 4.1: Respondents Profile by Positions.....31

Fig. 4.2: Respondents Profile by Work Experience.....32

Abstract

This study assessed the overall implementation and challenges faced while implementing the balanced scorecard system as a performance measurement, strategic management and communication system in three state owned banks of Ethiopia: Commercial Bank of Ethiopia (CBE); Construction and Business Bank (CBB) and Development Bank of Ethiopia (DBE). The study tried to evaluate the challenges faced as compared to the standard literatures of the system. In order to assess the implementation status of the stated banks, the study has been conducted by designing five-point likert scale questionnaires and semi-structured interview questions. The total population size of the study was 654 involving department managers, team managers and non-management senior officers of the stated banks. The study adopted non-probability purposive sampling technique to select 150 respondents who have the working knowledge of the system of which the responses of 105 respondents were analyzed. Common implementation challenges such as limited understanding of BSC, lack of executive sponsorship, lack of BSC education and training, inadequate IT support, inadequate project team and organizational participation, inadequate key performance indicators (KPIs) and lack of planning and communication were observed in the stated banks at different level. However, lack of formal BSC education and training, lack of planning and communication, lack of organizational participation and inadequate IT support were the major challenges identified. The study advised those banks to conduct intensive awareness creation activities, ensure organizational level participation, develop strong implementation and monitoring mechanism and back the system with relevant IT system to effectively take advantage of the Balanced Scorecard system.

Key words: *Balanced scorecard, Ethiopian public banks, Performance measurement,*

CHAPTER ONE

INTRODUCTION

This chapter gives an outline of the overall study specifically stating the statement of the problem which motivated the researcher combined with research questions. The chapter also delimits the scope and significance of the study.

1.1. Background of the Study

Performance measurement system enables informed decisions to be made and actions to be taken because it quantifies the efficiency and effectiveness of past actions through the acquisition, collation, sorting, analysis and interpretation of appropriate data (Kermally, 1997).

It is clear that the rules of the game for business have changed materially over the last decade. Or, at the very least, the rules of the game are in the process of radical change. Success for organizations today is measured very differently than it was yesterday. Of course financial performance is still essential. Delivering profit growth or enhancing shareholder value is still at the top of every executive's agenda, but it is now widely recognized that delivering financial performance alone is insufficient. Even more importantly, it is now generally accepted that the level of financial performance achieved today is a function of decisions made 6–18 months or even longer (Kermally, 1997).

According to Norton and Kaplan (1992) during 1980s, many executives were convinced that traditional measures of financial performance didn't let them manage effectively and wanted to replace them with operational measures. Arguing that executives should track both financial and operational metrics, Norton and Kaplan suggested four sets of parameters, which finally leads to the birth of the Balanced Scorecard.

The Balanced Scorecard is a set of measures that gives top managers a fast but comprehensive view of the business. In addition to the traditional financial measures that tell the results of actions already taken, the balanced scorecard accompanies other operational measures on customer satisfaction, internal processes, and the organization's innovation measures that are drivers of future financial performance (Norton and Kaplan, 1992).

In addition to this, these authors have found out that apart from being a tool of performance management, the BSC 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 (Norton and Kaplan, 1996).

Regardless of these benefits that are promised by the balanced scorecard, empirical studies show that there are challenges of implementation. According to Pujas (2010) common challenges of implementation of BSC are limited understanding of BSC, lack of executive sponsorship, lack of BSC education and training, inadequate IT support, inadequate project team, not involving the whole organization, inadequate key performance indicators (KPIs) and lack of planning and communication.

Ensuring the efficiency and stability of the banking system can play a vital role for the successful implementation of the monetary and economic policies of a country. Yet, to achieve such objective it would be essential to put in place reform measures that enhance the contribution of the banking system towards economic development. Recently, the Ethiopian banks, especially, public banks are implementing different change management tools to bring about institutional transformations. Among these the major ones are Business Process Re-engineering (BPR) and Balanced Scorecard (BSC).

Ethiopian Banking sector broadly composes the public or government owned banks and private banks. As of December 31, 2013, there are sixteen private owned commercial banks and three public owned banks. From the three public banks, Commercial Bank of Ethiopia and Construction and Business Bank are commercial banks and the Development Bank of Ethiopia is a specialized bank established to assist development projects. These public banks are supervised by the Public Financial Enterprise Agency which is responsible to oversee

their overall efficiency and effectiveness and it also facilitates the development and implementation of change management tools on behalf of the owner.

This study, therefore, assessed the overall implementation of the balanced scorecard system as a performance measurement, strategic management and communication system in the three state owned banks: Commercial Bank of Ethiopia; Construction and Business Bank and Development Bank of Ethiopia and tries to evaluate the challenges faced as compared to the standard literatures of the system.

1.2. Brief Background of The Ethiopian Public Banks

1.2.1. Commercial Bank of Ethiopia

CBE is the leading bank in Ethiopia which was established back in 1942. It is pioneer to introduce modern banking to the country. Currently, CBE has more than 7 million account holders and more than 18,000 employees. And it has a strong correspondent relationship with more than 50 renowned foreign banks like Commerz Bank A.G., Royal Bank of Canada, City Bank, HSBC Bank and others. As of December 31, 2013, the bank has 780 branches stretched across the country and it has opened two branches in South Sudan and has been in the business there since June, 2009. The current vision of the bank is *“To become a world-class commercial bank by the year 2025”* (www.combanketh.com).

The bank has 12 processes structured under a president. In addition to this, the overall branches of the bank have been structured under fifteen districts of which eleven are found outside the capital. The office which is entitled to initiate the development and implementation of change management tools such as balanced scorecard is known as the Office of Strategic Management. The office is directly accountable to the president of the bank and the director of the office is the permanent member of the executive management team. CBE has been implementing the balanced scorecard as its strategic management, performance measurement and communication tool since July 2008 (www.combanketh.com).

1.2.2. Development Bank of Ethiopia

The history of Development Bank of Ethiopia goes back to 1909 when the first attempts of its kind known as the *Societe Nationale d’Ethiopie Pour le Development de l’agriculture et de Commerce* (The Society for the promotion of Agriculture and Trade) was established in the Menilik II era. Since then, the bank has taken different names at different times although its mission and business purpose has not undergone significant changes. Currently, as of December 31, 2013, the bank has paid up capital of birr 1.8 billion with total branch network of 32 (www.dbe.com.et).

The bank has 18 processes structured under four vice presidents and a president. The office which is entitled to initiate the development and implementation of change management tools such as balanced scorecard is known as the Strategic Planning, Development and effectiveness process. The office is accountable to the Vice President-Corporate Services of the bank and the director of the office is the permanent member of the bank’s executive management team. The bank has commenced implementing the balanced scorecard starting from July, 2009 (www.dbe.com.et).

1.2.3. Construction and Business Bank

Construction and Business Bank evolved from the merger of two financial institutions, the Savings and Mortgage Corporation of Ethiopia S.C and the Imperial Savings and Home Ownerships Public Association (ISHOPA), which were nationalized and formed Housing and Savings Bank on the onset of the Socialist Era of Ethiopia. Following the financial sector reform of the country in 1994, it has been transformed and renamed to Construction and Business Bank to provide a full-fledged universal banking service. As of December 31, 2013, CBB has 105 branches across the country with total employees of 1,775. The bank’s vision is stated as “*To be the best performing bank in Ethiopia by 2020*” (www.cbb.com.et).

The bank has 13 processes structured under three vice presidents and a president. The office which is entitled to initiate the development and implementation of change management tools such as the balanced scorecard is known as the Strategic Management and Communication process. The process is directly accountable to the president of the bank and the director of

the process is the permanent member and executive secretary of the bank's executive management team. The bank has officially introduced the BSC system in August, 2011 (www.cbb.com.et).

1.3. Statement of the Problem

Ethiopian state-owned banks embarked on developing and implementing BSC at different times. The oldest in implementing the BSC is the CBE working with the system for the last six years and currently they have implemented individual level scorecard in some selective work units. And that of DBE spent the last five years working with BSC and currently has cascaded its corporate scorecard down to the individual level and have aligned their reward system. On the other hand, CBB is the last one to adapt and introduce the system as its performance and strategic management tool and it has been working with the system for the last two years and currently, it has cascaded the system down to the individual level starting from the second half fiscal year of the 2013/14.

All these banks were motivated to introduce balanced scorecard for the following basic reasons: to sustain the improvements that were introduced following the business process re-engineering study, to measure their performance from different perspectives and to link reward and compensation with performance. And the common feature is that in all of these banks, the initiative/motivation of implementing the balanced scorecard came from the owner, the government.

Balanced scorecard has promised many benefits, according to Lawson, Hatch and Desroches (2008), mainly there are two benefits organizations can expect from effectively implementing the balanced scorecard. These are operational and strategic benefits. Among the operational benefits, the major one is tracking progress toward achieving organizational goals, measuring performance at various levels from various perspectives. On the other hand, major strategic benefits are communicating strategy to everyone, and linking and aligning the organization around strategy.

The study wonders if these benefits and promises of the balanced scorecard are being materialized in Ethiopian public banks and assessed the gaps in implementing the balanced scorecard.

On the other hand, there are obviously common implementation challenges that can be faced by any organization while implementing the balanced scorecard. Mainly BSC requires implementers to focus on three axes of considerations: The **people issues** and challenges in change management; the **process issues** that require a removal and addition of new processes to enable the transformation and **the issue of technology** that sustains and enables the continuous improvement (Nair, 2004).

The study focused on assessing if such and other challenges are faced by these public banks and how they conquered them. In doing this, the study identified implementation gap between the theoretical way of effective implementation of BSC and the actual practice undertaken by these banks.

1.4. Research Questions

To systematically address the stated problem, the study raised the following research questions.

1. As compared to the standard literature, how is Balanced Scorecard being implemented in public banks?
2. What are the challenges in the implementation of the BSC in these banks?
3. What are the key factors that influence successful implementation of BSC in these public banks?

1.5. Objectives of the Study

The general objective of the study is to assess the overall practices of implementing balanced scorecard in Ethiopian public banks and sort out challenges faced during implementation.

Whereas the specific objectives of the study are:

1. To evaluate the challenges of implementing BSC in these public banks;
2. To assess how the balanced scorecard is implemented in public banks and evaluate the key success factors for effective implementation;
3. To present possible recommendations for the implementation challenges identified;

1.6. Significance of the Study

The following are the major significances of the study:

1. The study provides some insight about balanced scorecard implementation to the management and board of directors of the Banks under study;
2. It serves as an indicator for decision makers to identify the gap between the expected benefits of the balanced scorecard and the existing benefits that these banks are getting;
3. The study informs decision makers of other private banks who would like to implement the system about the challenges faced by these banks while implementing the balanced scorecard;
4. The study suggests ways and means in tackling the obstacles faced by these banks while implementing balanced scorecard;
5. It shall be used as a reference for the upcoming researches on other banks and fill the current gaps in empirical literature by shedding some light for further studies especially implementation of the system in Ethiopian companies;

1.7. Scope of the Study

The scope of the study was limited to assessing the implementation gaps and challenges faced by the three public banks: Commercial Bank of Ethiopia, Development Bank of Ethiopia and Construction and Business Bank. The study conducted the survey on employees and management of the stated banks located at their respective head offices in Addis Ababa. The study assessed the implementation status of the system till December 31, 2013.

1.8. Limitations of the Study

The major limitation of the study was shortage of relevant empirical literature since the system is a newly emerged concept. Moreover, shortage of time and availability of relevant documents that clearly shows the overall implementation of the balanced scorecard system in the public banks' was also among the major challenges.

1.9. Definition of Terms

- ✓ **Balanced Scorecard:** is a tool that 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 (Norton and Kaplan, 1996).
- ✓ **BSC Champion/Team Leader:** is a responsible person who guides the process both logistically and philosophically by scheduling meetings, tracking progress, providing relevant background materials to team members, and offering subject matter expertise on the Balanced Scorecard concept.
- ✓ **Balanced Scorecard Perspective:** the performance lens through which the organization shall gauge its performance. Mainly, they are four: Financial, Customer, Internal business process and Learning and Growth (Niven, 2006).
- ✓ **Cascading:** refers to the process of developing Balanced Scorecards at each and every level of your organization (Niven, 2006).
- ✓ **Lag Measure (Performance Measures):** are measures focusing on results at the end of a time period. They normally characterize historical performance and are easy to identify and capture (Niven, 2006).
- ✓ **Lead Measure (Performance Drivers):** are measures that drive or lead to the performance of lag measures. They normally measure intermediate processes and activities.
- ✓ **Management Members:** refers to the employees of the banks under study who are branch managers, team managers/leaders, department directors, v/presidents and presidents.

- ✓ **Non-management Members:** refers to the employees of the banks under study who are not management members, as listed above.
- ✓ **State Owned Banks:** refers to banks which are 100% owned by the government of the Federal Democratic Republic of the Ethiopia.
- ✓ **Strategy map:** is the process of linking all the strategic objectives within the four perspectives into a cause-and-effect map (Nair, 2004).
- ✓ **Tiers:** the levels through which the balanced scorecard is implemented throughout the organization. Usually, the first tier scorecard is the corporate level scorecard and the last tier scorecard is the individual or employee level scorecard (Niven, 2006).

1.10. Organization of the Paper

The paper was organized into five chapters. The first chapter deals with introductory part consisting of the background of the study, statement of the problem, research questions, objectives of the study, definition of terms, significance of the study, and scope of the study.

The rest of the paper was organized as follows: Chapter two presents empirical and theoretical review of the literature related to the concept of balanced scorecard, its implementation and challenges faced; Chapter three provides research design and methods employed in the analysis; Chapter four contains the data presentation, analysis and interpretation; and Chapter five gives the conclusion and recommendations. A reference of related literature that was referred while writing the paper and appendices are included after chapter five.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

The primary purpose of this chapter is to get a hold of the theoretical and empirical understanding of the concept of the balanced scorecard. In doing this, the overall concept of the performance management is briefly stated and the over reliance of companies on financial measures is criticized. Then, the chapter briefly introduces the origin and meaning of the balanced scorecard and what it takes to implement it. In the final parts of the chapter, the common challenges of implementing the balanced scorecard and the conceptual framework of the study is stated.

2.1. Theoretical Literature Review

2.1.1. Rethinking Performance Management

All organizations formulate strategies to determine the direction of their businesses. At a strategic level the fundamental questions asked are what business do we want to be in? How are we going to achieve our mission? What kind of competencies and structure do we need to meet our objectives? And finally what is the time scale of achievement? Strategic decisions determine the direction of business and tactical decisions decide the nature and the type of operations (Kermally, 1997).

Having set up the direction and the operations, the next stage is to formulate performance measures to assess the progress. In some situations being on the right track is not good enough. Businesses have to move faster in order to remain competitive. It is very important to measure progress against the objectives set. There is a need for regular monitoring and review. If there are any adjustments to be made we have to make quick decisions to get back on track (Kermally, 1997).

Performance management is about setting standards of performance and tracking performance to monitor business results consistent with strategic business objectives.

Performance can be focused on processes, products and people (customers, employees). Unfortunately in practice many organizations focus on financial performance and pay very little attention to processes and people (Kaplan and Norton, 1992).

As long as business organizations have existed, the traditional method of measurement has been financial. Bookkeeping records used to facilitate financial transactions can be traced back literally thousands of years. At the turn of the twentieth century, financial measurement innovations were critical to the success of the early industrial giants, such as General Motors. That should not come as a surprise since the financial metrics of the time were the perfect complement to the machinelike nature of the corporate entities and management philosophy of the day. Competition was ruled by scope and economies of scale with financial measures providing the yardsticks of success (Niven, 2006).

Management processes and programs are built around frameworks. Traditional management systems have been built around a financial framework, usually the ROI model originated at the turn of this century by DuPont. The financial framework worked well as long as financial measures could capture the great majority of value-creating (or value-destroying) activities that occurred during quarterly and annual periods. This framework became less valuable as more and more of an organization's activities involved investments in relationships, technologies, and capabilities that could not be valued in the historical-cost financial model (Kaplan and Norton, 1996).

Just as great ships must chart their position before undergoing ocean voyages, businesses must measure their position before knowing their direction. The challenge has been in finding the tools to measure this organization's "voyage." The true fallacy of measurement is that it is not an end but a means to a new beginning. Measurement is the driver of the next direction, not just the documenter of today's position. Business needs measurement that can sustain the changing tides of the climate of commerce. Businesses hunger for a framework to measure its location in the continuous journey to its final destination or goal. From this

measurement comes the rudder of management, and from the rudder comes direction (Nair, 2004).

2.1.2. Criticisms of the Overabundant Use of the Financial Measures

According to Niven (2006), it is clear that the rules of the game for business have changed materially over the last decade. Or, at the very least, the rules of the game are in the process of radical change. Success for organizations today is measured very differently than it was yesterday. Of course financial performance is still essential. Delivering profit growth or enhancing shareholder value is still at the top of every executive's agenda, but it is now widely recognized that delivering financial performance alone is insufficient. Even more importantly, it is now generally accepted that the level of financial performance achieved today is a function of decisions made 6–18 months or even longer.

The following are the major criticisms levied against the overabundant use of the financial measures:

Not consistent with today's business realities. Today's organizational value-creating activities are not captured in the tangible, fixed assets of the firm. Instead, value rests in the ideas of people scattered throughout the firm, in customer and supplier relationships, in databases of key information, and in cultures capable of innovation and quality. Traditional financial measures were designed to compare previous periods based on internal standards of performance. These metrics are of little assistance in providing early indications of customer, quality, or employee problems or opportunities.

Driving by rearview mirror. Financial measures provide an excellent review of past performance and events in the organization. They represent a coherent articulation and summary of activities of the firm in prior periods. However, this detailed financial view has no predictive power for the future. As we all know, and as experience has shown, great financial results in one month, quarter, or even year are in no way indicative of future financial performance.

Tend to reinforce functional silos. Financial statements in organizations are normally prepared by functional area: Individual department statements are prepared and rolled up into the business unit's numbers, which ultimately are compiled as part of the overall organizational picture. This approach is inconsistent with today's organization, in which much of the work is cross-functional in nature. Today we see teams comprised of many functional areas coming together to solve pressing problems and create value in never-imagined ways. Regardless of industry or organization type, teamwork has emerged as a must-have characteristic of winning enterprises in today's business environment.

Sacrifice long-term thinking. Many change programs feature severe cost-cutting measures that may have a very positive impact on the organization's short-term financial statements. However, these cost-reduction efforts often target the long-term value-creating activities of the firm, such as research and development, associate development, and customer relationship management. This focus on short-term gains at the expense of long-term value creation may lead to sub optimization of the organization's resources.

Financial measures are not relevant to many levels of the organization. Financial reports by their very nature are abstraction. "Abstraction" in this context is defined as moving to another level, leaving certain characteristics out. When we roll up financial statements throughout the organization that is exactly what we are doing: compiling information at a higher and higher level until it is almost unrecognizable and useless in the decision making of most managers and employees. Employees at all levels of the organization need performance data they can act on. This information must be imbued with relevance for their day-to-day activities.

2.1.3. Origin and Meaning of the Balanced Scorecard

Back in 1990, Nolan Norton Institute, the research arm of KPMG, sponsored a one- year multi-company study, "Measuring Performance in the Organization of the Future." The study was motivated by a belief that existing performance measurement approaches, primarily relying on financial accounting measures, were becoming obsolete. The study participants believed that reliance on summary financial-performance measures were hindering organizations' abilities to create future economic value (Kaplan and Norton, 1992).

Representatives from a dozen companies: manufacturing and service, heavy industry and high-tech-met bi-monthly throughout 1990 to develop a new performance-measurement model. Art Schneiderman, the then vice president of quality improvement and productivity at Analog Devices, came to one meeting to share his company's experiences with the scorecard.

The subsequent group discussions on this experience of adopting the scorecard model to measure performance led to an expansion of the scorecard to what is finally labeled a "Balanced Scorecard," organized around four distinct perspectives- financial, customer, internal, and innovation and learning. The name reflected the balance provided between short and long-term objectives, between financial and non-financial measures, between lagging and leading indicators, and between external and internal performance perspectives. Several participants experimented with building prototype Balanced Scorecards at pilot sites in their companies. They reported back to the study group on the acceptance, the barriers, and the opportunities of the Balanced Scorecard. The conclusion of the study, in December 1990, documented the feasibility and the benefits from such a balanced measurement system (Kaplan and Norton, 1992).

This finally gives birth to the concept of the Balanced Scorecard which has subsequently been developed to one of the world's known strategic management, performance measurement and strategy communication tools.

The Balanced Scorecard (BSC) 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. The scorecard measures organizational performance across four linked perspectives: financial, customer, internal business process, and learning and growth (Kaplan and Norton, 1992).

The balanced scorecard aims to provide performance measures at strategic level, business unit level, process level and individual level. According to Kermally (1997), from a financial perspective, a business can measure its growth, liquidity, shareholder value, cash flow, return on capital employed and other significant indicators. From an internal business perspective, the measures could focus on cycle time, unit cost, defect rate, safety rate and other operational variables. From an organizational learning perspective, one would assess technological capability, time to market, new product introduction, rate of improvement, employee attitude, etc. And from a customer perspective, the measures would relate to assessing market share, customer satisfaction, supplier relationship/partnership, key accounts and so on.

Organizations adopt the Balanced Scorecard because it retains a focus on short-term financial results, but also recognizes the value of building intangible assets and competitive capabilities (Kaplan and Norton, 1996).

According to Kaplan and Norton (1992), the major benefits of the balanced scorecard over the traditional performance management system can be summarized as follows:

- It helps companies to focus on what needs to be done in order to create a “breakthrough performance”.
- It acts as an integrating device for a variety of often disconnected corporate programmes, such as quality, re-engineering, process redesign and customer service.
- It translates strategy into performance measures and targets.

- It helps break down corporate-wide measures so that local managers and employees can see what they need to do to improve organizational effectiveness.
- It provides a comprehensive view that overturns the traditional idea of the organization as a collection of isolated, independent functions and departments.
- It provides a framework within which performance can be managed at corporate, unit, team and individual levels.

2.1.4. Implementing the Balanced Scorecard

According to Armstrong (2006), the major steps required to introduce and operate a balanced scorecard approach are:

Define the elements of the scorecard: It is necessary to establish the constituents of the balanced scorecard – the perspectives from which performance requirements will be defined and measured as a basis for improvement. The elements usually include financial, process and customer factors. People factors covering development, motivation, leadership, and so forth are sometimes substituted for learning and growth. At this stage, it is also necessary to define clearly the objectives of the balanced scorecard approach.

Identify performance drivers: The second step is to identify the performance drivers for each of the categories – for example, repeating and expanding sales from existing customers, the internal processes at which the company must excel, the needs and wants of customers and the particular people skills the organization needs now and in the future. Links will need to be established between each of these areas so that they are mutually reinforcing. For example, high levels of customer service in defined areas will lead to better financial performance; customer service levels can be improved by attention to processes such as on-time delivery, and customer care will be enhanced if the right people are selected and given the training to develop the necessary skills.

Identify performance measures: The third step is to determine how performance in each of the categories will be measured. In some areas such as finance and customer service it may be quite easy to determine quantitative measures such as sales or levels of service as assessed by surveys, questionnaires and mystery shopping. The measures for the process and change in perspectives may, however, have to focus on the achievement of development programmes to meet defined specifications and to deliver expected results.

Communicate: This fourth step is to communicate to all employees what the balanced scorecard is, why it is important, how it will work, the part they will be expected to play and how they and the organization will benefit from it.

Operationalize: The fifth step is to operationalize the system. This means developing policies, procedures and processes that ensure that it is applied at all levels in the organization – strategically at the top, tactically in the middle – and as a matter of continuing importance so far as working practices are concerned to all employees.

Train: The sixth step is to provide training for everyone in the organization on the operation of the balanced scorecard and on what, on their different levels, they are expected to do about managing and implementing the process.

Monitoring, evaluation and review: Finally, the operation of the balanced scorecard should be monitored and its effectiveness evaluated in agreement with its objectives. A review can then take place to decide on where improvements or amendments need to be made and how they will take place.

2.2. Empirical Literature Review

An organization's measurement system strongly affects the behavior of people both inside and outside the organization. If companies are to survive and prosper in information age competition, they must use measurement and management systems derived from their strategies and capabilities. Unfortunately, according to Kaplan and Norton (1996) many

organizations espouse strategies about customer relationships, core competencies, and organizational capabilities while motivating and measuring performance only with financial measures.

Balanced Scorecard is not only an indicator of appraisal system, but also a strategic management system. The use of the Balanced Scorecard breaks the traditional single-use financial indicators method which measure performance. It adds the future drivers in the financial indicators, which is customer factors, internal business processes and employee learning and growth (Zhang and Li, 2009).

The Balanced Scorecard retains financial measurement as a critical summary of managerial and business performance, but it highlights a more general and integrated set of measurements that link current customer, internal process, employee, and system performance to long-term financial success.

The Balanced Scorecard, as the embodiment of business unit strategy, should be communicated upward in an organization to corporate headquarters, and the corporate board of directors. Conventional rhetoric declares that a principal responsibility of the board is to provide oversight of corporate and business unit strategy. In practice, however, corporate boards spend more time reviewing and analyzing quarterly financial results than engaging in detailed strategic reviews and analysis (Kaplan and Norton, 1996).

The BSC project requires an architect (member of the senior executives) who can frame and facilitate the process, and collect relevant background information for constructing the scorecard. But the scorecard should represent the collective wisdom and energies of the senior executive team of the business unit and it should also get the active sponsorship and participation of the senior executives.

The architects, in the experience of Kaplan and Norton (1996), have usually been senior staff managers of the organizations. They reported that they have seen people from a broad range

of backgrounds managing and facilitating the development process of a Balanced Scorecard in their firms:

2.2.1. Challenges of Implementing the Balanced Scorecard

In their study to assess the challenges faced by organizations that implemented the balanced scorecard system, Domanovic, Bogićević and Savovic (2011) concluded that generally very little or no company has implemented the concept of balanced scorecard in the way the literature explains and the way it is implemented by companies in other countries. Though this was concluded from a sample of a small number, the study states that these companies were reputable companies in Serbia.

Similarly, according to Kaplan and Norton (1992), during the first couple of years of introducing the balanced scorecard in some of the companies, as the controllers and finance vice presidents of these companies took the concept back to their organizations, the project participants found that they could not implement the balanced scorecard without the involvement of the senior managers who had the most complete picture of the company's vision and priorities. This was revealing, because most existing performance measurement systems have been designed and overseen by financial experts.

Othman (2009) as cited by Pujas (2010) states that one reason why BSC initiatives fail is that many initiatives are not Balanced Scorecard programs in the first place. He goes on to say that very often organizations do not understand what exactly the Balanced Scorecard is and what its implementation involves, regardless of whether they implement the BSC themselves or whether they hire a consultant from the outside.

Similarly, according to Niven (2005) no initiative in an organization, regardless of its potential, has any chance of success without a sponsor in top management. The same applies with the Balanced Scorecard. Niven (2005) stresses the importance of top management for the success of the Balanced Scorecard initiative. He argues that if top management does not

support the BSC initiative, and, more importantly, does not appreciate its role in solving real-life problems, the BSC will show mediocre results and will probably fail.

In addition to this, if a company wants to implement the Balanced Scorecard properly and reap all the benefits this concept may bring, people should first learn about it. Niven (2006) noted that organizations, after deciding to implement the Balanced Scorecard, conceive that it can be done without much learning. According to him, due to its seeming simplicity, people in charge very often conclude that thorough education and training are not required. Such a conclusion will permanently harm the BSC initiative and lead to failure.

On the other hand, according to Niven (2006) as cited by Pujas (2010) if information is not duly entered into the system, the Balanced Scorecard initiative will probably be worthless. Even if the needed information has been recorded in the Scorecard and its databases, unless it has been retrieved and viewed by the people who are supposed to benefit from the system, it will not make any worthwhile contribution to the organization. Therefore, the other implementation challenge is lack of IT. Niven (2006) emphasizes the problem of gathering and entering data into the Balanced Scorecard. In his view, this can sometimes represent a unique challenge.

In general the common challenges of implementing the balanced scorecard, according to Pujas (2010), can be summarized as: limited understanding of BSC, lack of executive sponsorship, lack of BSC education and training, inadequate IT support, inadequate project team, organizational participation, inadequate key performance indicators (KPIs) and lack of planning and communication.

2.2.2. Office of Strategic Management

In order to effectively implement the balanced Scorecard, Kaplan and Norton (2005) advise the establishment of an independent office at the highest hierarchy. According to them, strategy at many companies is almost completely disconnected from execution. Establishing a dedicated unit to orchestrate both will help bridge this gap. Accordingly, the pioneers of the

balanced scorecard system recommend the establishment of an office they named Office of Strategic Management to monitor and control the overall implementation of the system through the organization.

According to them, this might appear to be nothing more than a new name for the familiar strategic planning unit. But the two are quite different. The typical planning function facilitates the annual strategic planning process but takes little or no leadership role in seeing that the strategy gets executed. However, a unit with responsibility for the implementation of strategy becomes a convenient focal point for ideas that percolate up through the organization. Two key foundations stones must be in place before building and cascading a balanced scorecard. These are Senior Management Sponsorship and Project Management.

Kaplan and Norton (2005) in their introduction of the Office of the Strategic Management (OSM) stated the basic functions of the OSM as follows:

Create and manage the scorecard: OSM, as the owner of the scorecard process, shall ensure that any changes made at the annual strategy-planning meeting get translated into the company's strategy map and Balanced Scorecard. The OSM shall also standardize the terminology and measurement definitions across the organization, selects and manages the scorecard reporting systems, and ensures the integrity of the scorecard data.

Align the organization: a company can execute its strategy well only if it aligns the strategies of its business units, support functions, and external partner with its broad enterprise strategy. Therefore, the OSM oversees the process of developing scorecard and cascading them through the levels of the organization.

Review Strategy: for all their professed commitment to strategy, senior managers spend remarkably little time reviewing it. Companies that manage strategy well have top managers that regularly meet once a month to review performance and to make adjustments. Arranging and managing this meeting shall be the core function of the OSM.

Develop Strategy: The OSM is responsible to perform external and internal competitive analysis, conduct scenario planning, organizes and runs an annual strategy meeting, and coaches the executive team on strategic options.

Communicate strategy: effective communication to employees about strategy, targets, and initiatives is vital if employees are to contribute to the strategy. Therefore, OSM shall actively promote understanding of the company's strategy and the scorecard in all business units and support functions. Strategy communication, therefore, is the natural turf of the OSM.

Apart from these, Kaplan and Norton (2005) noted that there are other three key processes necessary for successful strategy implementation: planning and budgeting, human resource alignment, and knowledge management. These processes are critical for effective strategy execution, and the OSM should play a consultative and integrative role with the respective functional departments.

2.3. Conceptual Framework

Balanced Scorecard is a performance measurement and strategic management tool that provides a balance between certain relatively opposing forces of strategy: short term and long term objectives; Internal and external influences; Leading and lagging indicators and measures; Financial and non-financial goals; It also aligns strategic goals with objectives, targets, and metrics and it cascades corporate strategy to all levels of the organization.

Taking these and other detailed benefits into consideration, the government has initiated the adaption and implementation of BSC in all for-profit and not-for-profit public organizations. As a result, all public financial institutions also engaged themselves in the development and implementation of BSC. Currently, all the three public banks (Commercial Bank of Ethiopia, Development Bank of Ethiopia and Construction and Business Bank have finalized developing the BSC as their performance measurement system. Especially, the Commercial Bank of Ethiopia has been using the BSC for the last three years.

Though these banks established an ad hoc team to study and develop the system and adapt it to their context, the implementation process is apparently turns out to be full of challenges. From the preliminary informal observation of the student researcher, the major repeatedly shown challenges are limited awareness about the BSC, limited senior management commitment, problem of keeping the scorecard at the top, and the problem of introducing the balanced scorecard merely for compensation.

However, these challenges are not systematically sorted out and the effect and depth of each of these challenges on the implementation were not structurally studied. As a result, it is not possible to work them out and deal with them accordingly for the smooth implementation of the system.

Apart from these, the student researcher believes that the theoretical concepts of the balanced scorecard were not followed in these banks and this might be the other challenge that makes these banks unable to fully garner the benefits of adopting the system.

The student researcher believes that the implementation practices of BSC are not well studied in the nation. But knowing and closely studying the implementation practices and the obvious challenges faced will initiate decision makers to immediately address the challenges. It also helps others similar organizations take lessons for effective implementation of the same without making similar mistakes made by the already implementing organizations.

Regardless of all the popular benefits that are promised by the balanced scorecard, empirical studies, such as Pujas (2010), show that the following are key success factors of BSC implementation.

- **Balanced Scorecard Concept Clarity:** refers to the failure to understand what exactly the Balanced Scorecard is and what its implementation involves. The researcher tried to measure this challenge by designing four relevant questions that include the meaning and feature of the balanced scorecard and its implementation steps.

- **Executive Sponsorship:** represents the support of the top management of the organization during the development and implementation of the system. Five questions about the commitment and level of support of the top management were designed to measure the status of the stated challenge.

- **Lack of BSC Education and Training:** like any system, the implementation of the balanced scorecard, requires the creation of sufficient awareness which obviously requires conducting continuous training and education. The study measured the status of this challenge in Ethiopian public banks by designing five relevant questions and analyzing the result accordingly.

- **Inadequate IT Support:** According to Niven (2006), the problem of gathering and entering data into the Balanced Scorecard is emphasized during the implementation process. To overcome such problem and smoothen the implementation process, the system should be supported by an appropriate IT system. The existence and usage of the same has been measured by designing three relevant questions and analyzing the responses gathered.

- **Effective Project Team:** To create a Balanced Scorecard that is capable of implementing the company strategy, linking individuals, creating new behavior and enhancing communication, a team of people is needed. Many ambitious initiatives have failed just because they were led by ineffective teams. The effectiveness of the teams organized by the respective public banks to help implement the BSC is measured by designing three questions

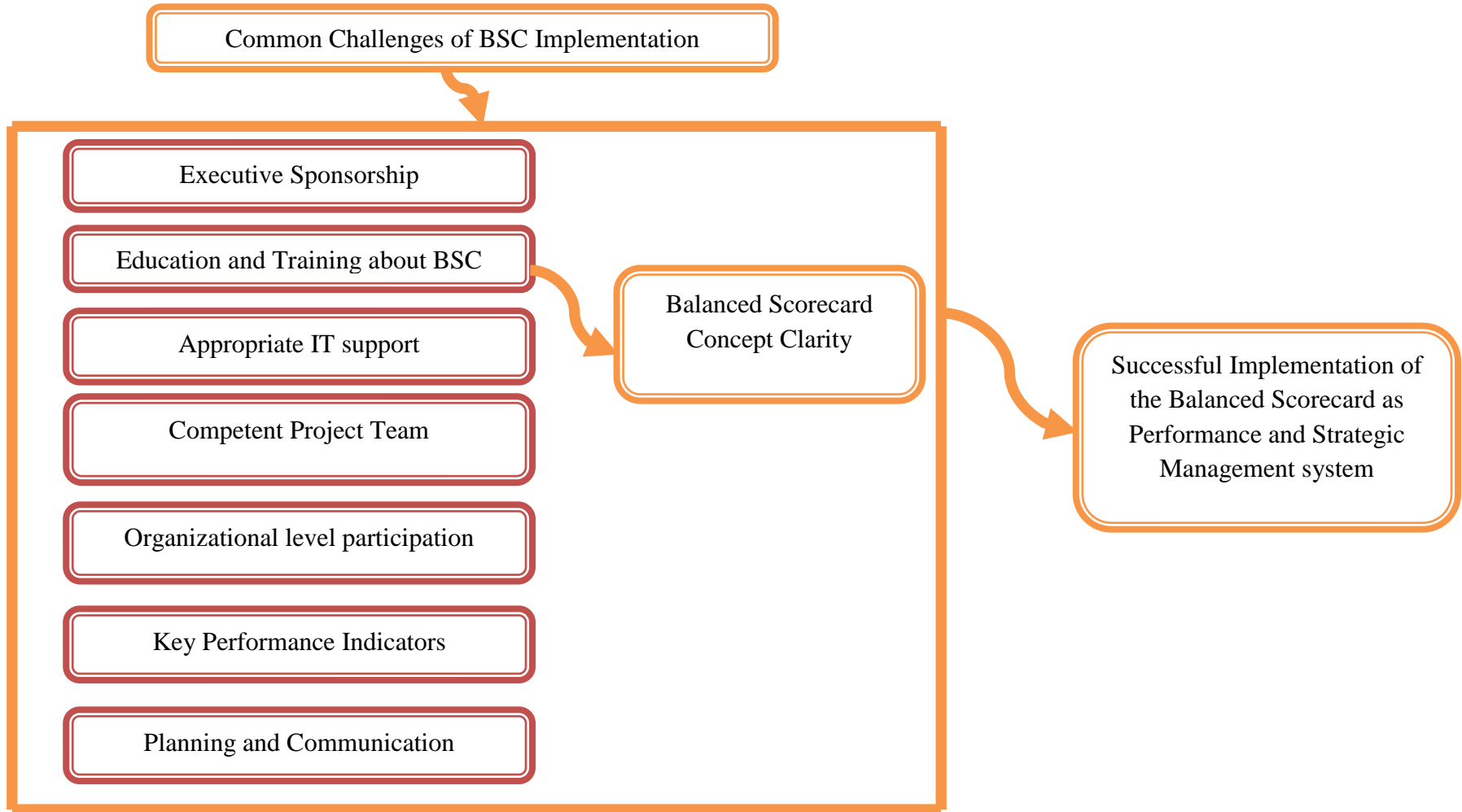
- **Lack of Participation:** According to Pujas (2010), during the implementation process, if the importance of employee involvement is not understood, the organization may miss the opportunity to benefit from the employees' knowledge that is directly related to the areas in which they exert influence. The level of participation in the stated banks has been measured by designing four relevant questions.

- **Adequate Key Performance Indicators (KPIs):** refers to the measurement of the strategic objectives of the balances scorecard. The decision about what metrics to incorporate in the balanced scorecard is perceived as one of the most difficult parts of the initiative (Niven, 2006). Therefore, due consideration should be made by the implementer while designing the scorecard. The appropriateness of the KPI's of the banks under study is measured by designing four relevant questions in the standard likert scale questionnaire.

- **Planning and Communication:** similar to any system, the implementation of the balanced scorecard system requires a precise development plan to guide the selected team during the BSC journey. Without a formal plan showing the implementation path in advance, there is the risk of confusion. To measure the same in Ethiopian public banks, five relevant questions with five scale likert scale were designed and analyzed.

Finally, the researcher presupposes that if such success factors are well addressed in the stated public banks, the overall implementation of the balanced scorecard system, as their performance measurement and strategic management system, would be successful.

Figure 1: Conceptual Framework



Source: Self-Extracted

CHAPTER THREE

RESEARCH DESIGN AND METHODS

This chapter gives an outline of the research methodology that was used in the study. Here, the plan of the research and the detailed tactics that helped to answer the research questions and arrive at conclusions are presented.

3.1. Research Design

The study adopted descriptive research technique with a primary purpose of assessing the practices and challenges faced by public banks in implementing the balanced scorecard as their performance and strategic management system.

The overall development and implementation of the balanced scorecard based on these banks' document on the corporate, process and individual level balanced scorecard is evaluated against the standard theoretically and empirically acknowledged practices of implementing the balanced scorecard.

The study employed quantitative research method. Both primary and secondary data was gathered from lower level and middle level managers as well as non-management senior officers of these public banks.

3.2. Source of Data

For primary data collection, the study used structured survey method and collected data by designing questionnaire with 5-point likert type closed-ended questions and semi-structured interview questions. In addition, semi-structured interview questions were prepared and responsible managers and directors of these banks for overseeing the implementation of the balanced scorecard were interviewed for the overall process of the implementation.

3.3. Population

The target population for the study includes management members which are process owners; team managers/leaders numbered 169 and non-management senior Officers of the Ethiopian public banks, which are 485. All of them are working in their respective Head Offices. The researcher believes that full information about the development of the balanced scorecard and the possible challenges faced during the process of implementation can be garnered by targeting the stated portion of employees and the management of the bank.

3.4. Sample Size and Sampling Technique

With regard to sampling technique, Non-probability sampling, specifically purposive sampling technique is used by purposely selecting individuals and groups which the researcher believed has better access to the development and implementation of the balanced scorecard system. The study adopts purposive or non-probability sampling method. This sampling method involves purposive or deliberate selection of particular units of the universe for constituting a sample, which represents the universe.

According to Maxwell (1999), purposive or judgmental sampling is a non-probability sampling technique that uses judgment and deliberate effort to pick individuals who meet specific criteria of the study. This sampling technique is appropriate for at least three situations. It selects cases that are especially informative for the specific study, and it is also relevant for conducting case study analysis to find important individuals and/or groups that are important for the study.

The distribution of the sample size was given in the manner based on the total employees of the banks under study and the time taken by these banks in adopting the balanced scorecard system. Accordingly, the researcher randomly took equal number of samples from the Development Bank of Ethiopia (DBE) and Construction and Business Bank (CBB) with each of them getting 45 (15 from management and 30 from non-management). And that of the Commercial Bank of Ethiopia was 60 (18 from management and 42 from non-management).

The composition of the respondents was from the management (Vice Presidents, Directors, and Team Managers/Leaders) and purposively selected non-management professional level employees.

3.5. Data Collection Tools

The study largely depended on primary data, which is collected through survey method by using standard questionnaires that was arranged in standardized 5-point Likert's scale, as well as through interviewing experts who have the relevant exposure in the development and implementation of the balanced scorecard system. The standard questionnaire was targeting the management and highly professional employees of the banks. In addition, secondary data such as relevant balanced scorecard documents were referred to.

3.6. Reliability Test

According to Nunnally and Bernstein (1994) stated in Sixholo (2011), Cronbach's alpha is used to test the reliability of the quantitative questionnaire for internal consistence. An alpha value with a lower limit of 0.7 and upper limit of 0.9 was considered acceptable. The reliability test run for the questionnaire of the study showed Cronbach's alpha of 0.885 showing an acceptable internal consistence.

3.7. Method of Analysis

After collecting and sorting all relevant primary data using the data collection tools, quantitative responses were sorted, coded, computed and analyzed using Statistical Package for Social Sciences (SPSS) version 20. Appropriate statistical analysis such as frequencies and percentiles were used. The data was presented using tables.

3.8. Ethical Considerations

In conducting the research, the researcher was taken into account the following ethical considerations:

- Any relevant data for the study was collected by issuing an official letter to the concerned bank.
- Respondents were informed fully about the purpose, methods and intended possible uses of the research, what their participation in the research entails and what risks, if any, are involved.
- The confidentiality of information supplied and the anonymity of respondents is respected.

CHAPTER FOUR

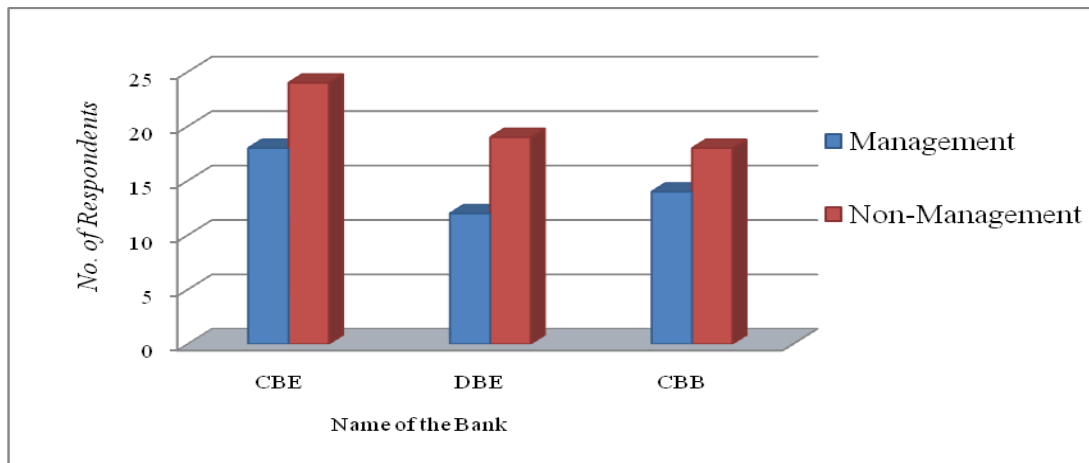
DATA PRESENTATION, ANALYSIS AND INTERPRETATION

This chapter basically provides the data analysis and discussion part of the study. The data collected from respondents was systematically presented and detail analysis of the findings from the questionnaires and interview was conducted and presented with detail interpretation.

4.1. Respondents' Profile

The total questionnaire distributed to all banks was 150. Sixty of them were distributed to Commercial Bank of Ethiopia, 45 questionnaires were distributed to each of the Development Bank of Ethiopia and Construction and Business Bank. The total questionnaire filled out and returned back was 105, which is 70.0% response rate.

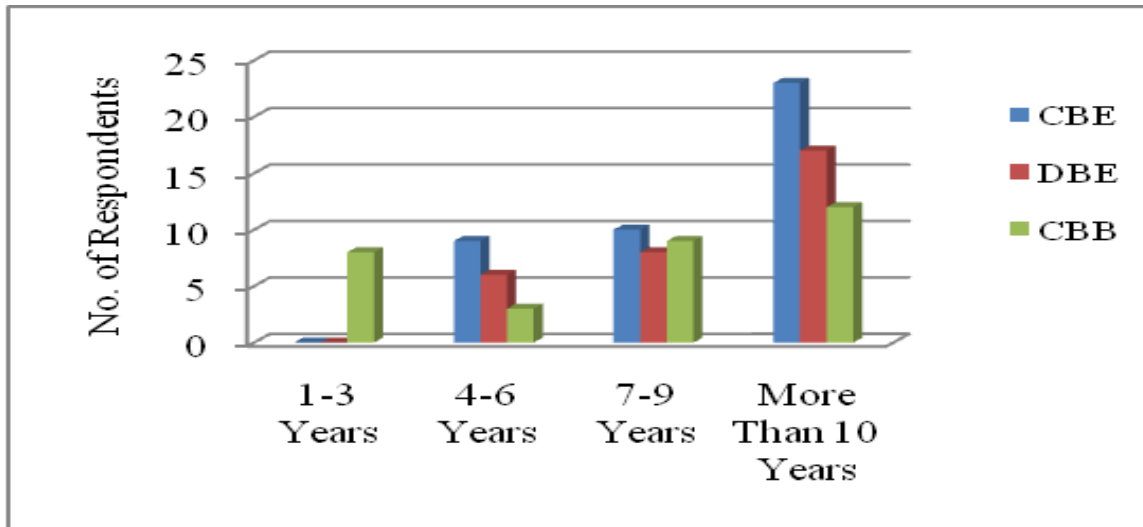
Fig. 4.1: Respondents profile by positions



Source: Own calculation, September 2014

With regard to the position of the respondents, 41.9% of them were management members and the remaining 58.1% were non-management senior officers. On the other hand, 42.9% of respondents have worked from 4 to 9 years of experience, and 49.5% of them have been working for their respective banks for more than 10 years.

Fig. 4.2: Respondents profile by Work experience



Source: Own Calculation, September 2014

4.2. Analysis of the Variables

In order to answer the research questions, eight variables that refer to the common challenges of balanced scorecard implementation based on the study of Pujas (2010) which are limited understanding of BSC, lack of executive sponsorship, lack of BSC education and training, inadequate IT support, inadequate project team, organizational participation, inadequate key performance indicators (KPIs) and lack of planning and communication are taken to design the questionnaire and analyze the response of employees and the management of Ethiopian Public Banks. These variables are the major success factors for effective implementation of the balanced scorecard system.

For each variable, the researcher has managed to design three to five questions to better represent the variable from different directions. After inserting the raw Likert scale data to SPSS 20, the researcher has analyzed and summarized the responses by taking the average of the response results obtained under each variable to arrive at the average response towards the stated variable.

Hereunder are the questions under each variable and the analysis of the summarized responses for the questions.

4.2.1. Concept Clarity of the Balanced Scorecard

According to Kaplan and Norton (1992), one of the crucial factors for the successful implementation of the balanced scorecard is to create clarity of the concept of the balanced scorecard system weigh before starting implementation of the system. To check whether the concept is immersed in these public banks, the sample respondents were asked to express their level of agreement with some basic questions about the concept of the balanced scorecard.

Accordingly, a minimum mean response of 4.25 and the maximum mean response of 4.43 was registered and representing a significant level of agreement. This implies that in all the banks under study, though slightly different from each other, the basic concept and awareness about the balanced scorecard has been encouragingly created.

Table 4.1: Concept Clarity on Balanced Scorecard

| <i>Questions</i> | | <i>Strongly Disagree</i> | <i>Disagree</i> | <i>Neutral</i> | <i>Agree</i> | <i>Strongly Agree</i> | <i>Mean Score</i> |
|---|----------|--------------------------|-----------------|----------------|--------------|-----------------------|-------------------|
| <i>BSC links short term operational performance with long term strategic objectives</i> | <i>N</i> | 0 | 2 | 7 | 44 | 52 | 4.39 |
| | <i>%</i> | - | 1.90 | 6.67 | 41.90 | 49.52 | |
| <i>BSC creates ability to translate vision into operational strategy</i> | <i>N</i> | 0 | 2 | 4 | 46 | 53 | 4.43 |
| | <i>%</i> | - | 1.90 | 3.81 | 43.81 | 50.48 | |
| <i>The Bank used BSC to set business strategies and objectives</i> | <i>N</i> | 1 | 4 | 11 | 41 | 48 | 4.25 |
| | <i>%</i> | 0.95 | 3.81 | 10.48 | 39.05 | 45.71 | |
| <i>BSC rolls down vision from corporate to division, to individual employees</i> | <i>N</i> | 1 | 3 | 6 | 45 | 50 | 4.33 |
| | <i>%</i> | 0.95 | 2.86 | 5.71 | 42.86 | 47.62 | |

Source: Customized from data collected, September 2014

When we compare the relative awareness created across banks with regard to the concept of the balanced scorecard, the Development Bank of Ethiopia has created better awareness about the concept of the balanced scorecard, with an average mean score of 4.71, followed by the Commercial Bank of Ethiopia with an average mean score of 4.44. On the other hand, the

response from the Construction and Business Bank has an average mean score of 3.88, implying the limited, still satisfactory, level of awareness about the concept of the balanced scorecard, which is the result of the late introduction of the system in the stated bank and the resulting inadequate awareness creation activities.

Table 4.2: Level of Concept Clarity of the Balanced Scorecard by Banks

| Name of the Bank | BSC links short term operational performance with long term strategic objectives | BSC creates ability to translate vision into operational strategy | The Bank used BSC to set business strategies and objectives | BSC rolls down vision from corporate to division, to individual employees | Average Mean |
|--------------------------------|---|--|--|--|---------------------|
| Commercial Bank of Ethiopia | 4.40 | 4.45 | 4.40 | 4.50 | 4.44 |
| Development Bank of Ethiopia | 4.74 | 4.71 | 4.65 | 4.74 | 4.71 |
| Construction and Business Bank | 4.03 | 4.13 | 3.66 | 3.72 | 3.88 |

Source: Customized from data collected, September 2014

4.2.2. Executive Sponsorship

According to Niven (2006) executive sponsorship, for the Balanced Scorecard implementation effort, is the crucial part. Suffice it to say that if the company's leader is not aligned with the goals and objectives of the Balanced Scorecard and does not believe in the merits of the tool, all the efforts will be severely compromised. An executive sponsor must provide leadership for the program in both words and deeds.

The study tried to measure the opinion of the sample respondents on whether they agreed on the level of executive sponsorship in their respective banks.

Table 4.3: Level of Executive Sponsorship

| <i>Questions</i> | | <i>Strongly Disagree</i> | <i>Disagree</i> | <i>Neutral</i> | <i>Agree</i> | <i>Strongly Agree</i> | <i>Mean Score</i> |
|---|----------|--------------------------|-----------------|----------------|--------------|-----------------------|-------------------|
| <i>Top Management of the Bank took the initiative</i> | <i>N</i> | 0 | 8 | 11 | 55 | 31 | 4.04 |
| | <i>%</i> | - | 7.62 | 10.48 | 52.38 | 29.52 | |
| <i>There was full support from the management</i> | <i>N</i> | 6 | 18 | 16 | 30 | 35 | 3.67 |
| | <i>%</i> | 5.71 | 17.14 | 15.24 | 28.57 | 33.33 | |
| <i>BSC is one of the priorities of the Bank</i> | <i>N</i> | 1 | 13 | 24 | 42 | 25 | 3.73 |
| | <i>%</i> | 0.95 | 12.38 | 22.86 | 40.00 | 23.81 | |
| <i>Top management periodically monitors progress of BSC</i> | <i>N</i> | 0 | 4 | 11 | 47 | 43 | 4.23 |
| | <i>%</i> | - | 3.81 | 10.48 | 44.76 | 40.95 | |
| <i>Top Management works closely with the champion</i> | <i>N</i> | 2 | 27 | 25 | 30 | 21 | 3.39 |
| | <i>%</i> | 1.90 | 25.71 | 23.81 | 28.57 | 20.00 | |

Source: Customized from data collected, September 2014

To a question presented to them with regard to Top management's commitment in periodically monitoring the progress of the BSC implementation, the respondents agreed to the management's commitment for the implementation depicting mean score of 4.23. On the other hand, minimum mean score of 3.39 was registered to the question requesting the level of Top management's involvement with the BSC champion. This implies that the executives of the banks under study have sufficiently supported the implementation process by taking the BSC as one of the priorities of the bank. However, as they have loads of other responsibilities, there is a tendency of overlooking closely working with the BSC champion.

Comparing the level of executive sponsorship across banks under study, respondents from the Development Bank of Ethiopia have significantly agreed to the existence of the necessary support and sponsorship from their executives showing a mean score of 4.17. This is mainly because of the fact that the management of the stated bank regularly follows the status of the implementation and gives briefing to the overall employees at the executive level.

On the other hand, there is a relatively lower level of agreement registered from Commercial Bank of Ethiopia and Construction and Business Bank with regard to the level of executive sponsorship, with mean score of 3.60 and 3.74 respectively. This implies that the level of executive sponsorship of these banks is not to the level that is expected but still it is encouraging.

Table 4.4: Executive Sponsorship across Banks

| Name of the Bank | Top Management of the Bank took the initiative | There was full support from the management | BSC is one of the priorities of the Bank | Top management periodically monitors progress of BSC | Top Management works closely with the champion | Average Mean |
|--------------------------------|---|---|---|---|---|---------------------|
| Commercial Bank of Ethiopia | 4.10 | 2.98 | 3.55 | 4.21 | 3.19 | 3.60 |
| Development Bank of Ethiopia | 4.06 | 4.48 | 3.94 | 4.55 | 3.81 | 4.17 |
| Construction and Business Bank | 3.94 | 3.78 | 3.78 | 3.94 | 3.25 | 3.74 |

Source: Customized from data collected, September 2014

4.2.3. Balanced scorecard education and training

According to Niven (2007), organizations conduct awareness sessions during the time the Scorecard is trumpeted as a measurement system featuring financial and nonfinancial measures, but little information is offered about the many subtleties and complexities of the model. Often the deceptive simplicity of the Scorecard makes people susceptible to the false notion that in-depth training is not required.

Organizations, therefore, should take the necessary time at the beginning of the implementation to develop a comprehensive Scorecard curriculum that includes background on the concept, objectives in implementing the BSC, typical problems, success stories, and practical implementation details.

To measure the level of engagement of these banks in education and training, the following five questions were designed in the questionnaire distributed.

Table 4.5: BSC Education and Training

| <i>Questions</i> | | <i>Strongly Disagree</i> | <i>Disagree</i> | <i>Neutral</i> | <i>Agree</i> | <i>Strongly Agree</i> | <i>Mean Score</i> |
|---|----------|--------------------------|-----------------|----------------|--------------|-----------------------|-------------------|
| <i>The Bank has provided me training about the meaning of BSC</i> | <i>N</i> | 14 | 44 | 8 | 26 | 13 | 2.81 |
| | <i>%</i> | 13.33 | 41.90 | 7.62 | 24.76 | 12.38 | |
| <i>I have been informed about corporate objectives of the Bank</i> | <i>N</i> | 10 | 33 | 15 | 36 | 11 | 3.05 |
| | <i>%</i> | 9.52 | 31.43 | 14.29 | 34.29 | 10.48 | |
| <i>The bank informed all employees to clearly understand corporate level objectives</i> | <i>N</i> | 7 | 39 | 23 | 27 | 9 | 2.92 |
| | <i>%</i> | 6.67 | 37.14 | 21.90 | 25.71 | 8.57 | |
| <i>I understood alignment of my unit's objectives with the corporate level objectives</i> | <i>N</i> | 6 | 46 | 11 | 30 | 12 | 2.96 |
| | <i>%</i> | 5.71 | 43.81 | 10.48 | 28.57 | 11.43 | |
| <i>The bank provided me training to design my personal scorecard</i> | <i>N</i> | 8 | 31 | 13 | 34 | 19 | 3.24 |
| | <i>%</i> | 7.62 | 29.52 | 12.38 | 32.38 | 18.10 | |

Source: Customized from data collected, September 2014

The level of education and training with regard to BSC is insignificant, with a minimum mean score of 2.81 for a question presented to respondents if their bank has provided them training that equipped them sufficient knowledge about the meaning of BSC. On the other hand, the maximum mean score of 3.24 is recorded for the question presented to the respondents if their respective bank has provided them training to design their personal scorecard. This implies that totally, the level of training and education conducted by banks is not to the level that can create sufficient knowledge about the balanced scorecard and did not guide them in how to design their own scorecard.

With regard to the level of BSC education and training provided across banks under study, respondents from all the three banks have proved the insufficient level of education and training provided, with maximum mean score of 3.28 by the respondents from the

Development Bank of Ethiopia and the minimum mean score of 2.80 by the respondents from the Commercial Bank of Ethiopia. This also implies the similar lower level of education and training provided by banks under study.

Table 4.6: Bank Level BSC Education and Training

| Name of the Bank | The Bank has provided me training about the meaning of BSC | I have been informed about corporate objectives of the Bank | The bank informed all employees to clearly understand corporate level objectives | I understood alignment of my unit's objectives with the corporate level objectives | The bank provided me training to design my personal scorecard | Average Mean |
|--------------------------------|---|--|---|---|--|---------------------|
| Commercial Bank of Ethiopia | 2.52 | 2.69 | 2.50 | 3.02 | 3.24 | 2.80 |
| Development Bank of Ethiopia | 3.13 | 3.29 | 3.55 | 2.84 | 3.61 | 3.28 |
| Construction and Business Bank | 2.88 | 3.28 | 2.88 | 3.00 | 2.88 | 2.98 |

Source: Customized from data collected, September 2014

4.2.4. IT Support

Automating the Balanced Scorecard provides a number of benefits and maximizes its use as a measurement system, strategic management system, and communication tool. The advanced analytics and decision support provided by even the simplest scorecard software allow organizations to perform intricate evaluations of performance and critically examine the relationships among their performance measures. Automation also supports true organization-wide deployment of the tool (Niven, 2006).

In order to assess the opinion of the respondents with regard to the level of automation of the balanced scorecard in their respective banks, three standard questions were included in the questionnaire on which the analysis hereunder is conducted:

Table 4.7: BSC Automation

| <i>Questions</i> | | <i>Strongly Disagree</i> | <i>Disagree</i> | <i>Neutral</i> | <i>Agree</i> | <i>Strongly Agree</i> | <i>Mean Score</i> |
|--|----------|--------------------------|-----------------|----------------|--------------|-----------------------|-------------------|
| <i>The Bank's BSC is fully automated</i> | <i>N</i> | 52 | 40 | 12 | 1 | 0 | 1.64 |
| | <i>%</i> | 49.52 | 38.10 | 11.43 | 0.95 | - | |
| <i>BSC is supported by IT in collecting, analyzing, reporting and distributing relevant data</i> | <i>N</i> | 44 | 39 | 15 | 7 | 0 | 1.86 |
| | <i>%</i> | 41.90 | 37.14 | 14.29 | 6.67 | - | |
| <i>An appropriate IT system is designed to help employees to collect data</i> | <i>N</i> | 46 | 35 | 17 | 7 | 0 | 1.86 |
| | <i>%</i> | 43.81 | 33.33 | 16.19 | 6.67 | - | |

Source: Customized from data collected, September 2014

With regard to the questions presented to the respondents if their respective bank's balanced scorecard system is fully automated, the respondents significantly disagreed with mean score of 1.64. And with regard to the question presented to them if their banks use other IT systems in the process of collecting, analyzing the data to easily make use of the bank's balanced scorecard system, still they are significantly disagreed to it. This implies that there is no any customized IT system being used by these banks in order to fully take hold of all the benefits that would be provided by the balanced scorecard system.

Table 4.8: IT Support of BSC across Banks

| Name of the Bank | The Bank's BSC is fully automated | BSC is supported by IT in collecting, analyzing, reporting and distributing relevant data | An appropriate IT system is designed to help employees to collect data | Average Mean |
|--------------------------------|--|--|---|---------------------|
| Commercial Bank of Ethiopia | 1.69 | 2.02 | 2.12 | 1.94 |
| Development Bank of Ethiopia | 1.42 | 1.45 | 1.45 | 1.44 |
| Construction and Business Bank | 1.78 | 2.03 | 1.91 | 1.91 |

Source: Customized from data collected, September 2014

As shown from the table above, when the response of the above listed questions is summarized on bank level, the result shows that even across banks there is not significant deviation on the consensus that there is not any customized IT system designed or acquired to assist the overall implementation of the balanced scorecard.

4.2.5. Competent Project Team/Dedicated Process

According to Kaplan and Norton (2005), the creation of a central office or process for strategy execution may appear to risk reinforcing top-down decision making and inhibiting local initiative, but it does just the opposite. A unit/team with responsibility for the implementation of new systems such as the balanced scorecard becomes a convenient focal point for ideas that percolate up through the organization.

Executing strategy and implementing a new system usually involves making changes that only a CEO can empower, and the office which is responsible for the implementation of BSC will be most effective when it has direct access to the CEO.

Table 4.9: Effectiveness of Dedicated Project Team

| <i>Questions</i> | | <i>Strongly Disagree</i> | <i>Disagree</i> | <i>Neutral</i> | <i>Agree</i> | <i>Strongly Agree</i> | <i>Mean Score</i> |
|---|----------|--------------------------|-----------------|----------------|--------------|-----------------------|-------------------|
| <i>Establishing a devoted process ensures success of BSC implementation</i> | <i>N</i> | 1 | 4 | 9 | 62 | 29 | 4.09 |
| | <i>%</i> | 0.95 | 3.81 | 8.57 | 59.05 | 27.62 | |
| <i>In the Bank, there is specific person to oversee BSC implementation</i> | <i>N</i> | 3 | 10 | 13 | 54 | 25 | 3.84 |
| | <i>%</i> | 2.86 | 9.52 | 12.38 | 51.43 | 23.81 | |
| <i>The process which is responsible to oversee BSC is effective</i> | <i>N</i> | 4 | 20 | 25 | 46 | 10 | 3.36 |
| | <i>%</i> | 3.81 | 19.05 | 23.81 | 43.81 | 9.52 | |

Source: Customized from data collected, September 2014

All the three public banks have an independent establishment to oversee the implementation of the balanced scorecard and the bank’s strategy. The awareness of the existence of this establishment and its duties are assessed by posing the above three questions. From the responses, we can observe that the respondents agreed to the concept of the usefulness of establishing an independent unit with mean score of 4.09. In addition, if they have awareness about the existence of this establishment in their own bank, they have loosely agreed with score of 3.84. this implies that though they have limited awareness about this independent office, still strong awareness creation should be made.

On the other hand, the respondents have doubts on the effectiveness of the process/department that is established to oversee the implementation of the balanced scorecard system, depicting it with the mean score of 3.36. This implies that the establishment and functionality of these bodies is not to the level that is required for effective support of the BSC implementation.

Table 4.10: Effectiveness of Dedicated Project Team across Banks

| Name of the Bank | Establishing a devoted process ensures success of BSC implementation | In the Bank, there is specific person to oversee BSC implementation | The process which is responsible to oversee BSC is effective | Average Mean |
|--------------------------------|---|--|---|---------------------|
| Commercial Bank of Ethiopia | 4.12 | 4.00 | 3.17 | 3.76 |
| Development Bank of Ethiopia | 4.16 | 4.26 | 3.90 | 4.11 |
| Construction and Business Bank | 3.97 | 3.22 | 3.09 | 3.43 |

Source: Customized from data collected, September 2014

Considering the response across banks, the awareness about the existence, functionality and effectiveness of the independent office to oversee the BSC is significantly positive for Development Bank of Ethiopia, with the mean score of 4.11, that of Commercial Bank of Ethiopia, with mean score of 3.76 and that of the Construction and Business Bank, with mean score of 3.43.

4.2.6. Organizational Level Participation

Organizations who have successfully implemented the balanced scorecard system, as their performance measurement and strategic management system have often reported that involving all employees and the management at all levels in the development and implementation of the BSC helps a lot to build a shared interest, and increases each individual's motivation to see the system succeed (Kermally, 1997).

With regard to measuring the level of organizational participation in these public banks, the under listed four questions were raised to the respondents, and according to their response, they significantly disagreed to the idea that all employees of the respective banks were involved in the implementation process of the balanced scorecard, with mean score of 2.69. Similarly, they have disagreed to the question presented to them if their supervisor's guided them in how to design their personal scorecard, with mean score of 2.78. And with regard to the timely provision of information about the balanced scorecard, the respondents have loosely agreed with the mean score of 3.56.

Table 4.11: BSC Participation

| <i>Questions</i> | | <i>Strongly Disagree</i> | <i>Disagree</i> | <i>Neutral</i> | <i>Agree</i> | <i>Strongly Agree</i> | <i>Mean Score</i> |
|---|----------|--------------------------|-----------------|----------------|--------------|-----------------------|-------------------|
| <i>All employees were involved in the implementation</i> | <i>N</i> | 9 | 46 | 22 | 25 | 3 | 2.69 |
| | <i>%</i> | 8.57 | 43.81 | 20.95 | 23.81 | 2.86 | |
| <i>BSC implementation was participatory</i> | <i>N</i> | 2 | 30 | 23 | 43 | 7 | 3.22 |
| | <i>%</i> | 1.90 | 28.57 | 21.90 | 40.95 | 6.67 | |
| <i>I was guided by my supervisor while I was designing my scorecard</i> | <i>N</i> | 8 | 51 | 12 | 24 | 10 | 2.78 |
| | <i>%</i> | 7.62 | 48.57 | 11.43 | 22.86 | 9.52 | |
| <i>Information on BSC is provided timely</i> | <i>N</i> | 7 | 19 | 13 | 40 | 26 | 3.56 |
| | <i>%</i> | 6.67 | 18.10 | 12.38 | 38.10 | 24.76 | |

Source: Customized from data collected, September 2014

With regard to level participation across banks, that of the Development Bank of Ethiopia, though limited, is slightly better with average mean score of 3.23 followed by the Commercial Bank of Ethiopia and the Construction and Business Bank with average mean score of 3.10 and 2.86 respectively. This implies that though there is a slight difference across banks, there is a limited level of employee participation while implementing the balanced scorecard.

Table 4.12: Level of Participation across Banks

| Name of the Bank | All employees were involved in the implementation | BSC implementation was participatory | I was guided by my supervisor while I was designing my scorecard | Information on BSC is provided timely | Average Mean |
|--------------------------------|--|---|---|--|---------------------|
| Commercial Bank of Ethiopia | 2.45 | 3.05 | 2.98 | 3.90 | 3.10 |
| Development Bank of Ethiopia | 2.90 | 3.84 | 2.55 | 3.61 | 3.23 |
| Construction and Business Bank | 2.78 | 2.84 | 2.75 | 3.06 | 2.86 |

Source: Customized from data collected, September 2014

4.2.7. Key Performance Indicators

With regard to the Key performance indicators used in the balanced scorecards at all levels, the clarity and their relevance to measure the performance and their alignment to the respective bank's strategies are measured by designing relevant questions.

With regard to the alignment of KPIs with the mission and vision of the bank concerning the sufficiency of the respective banks' KPIs to measure their strategic objectives, the respondents have a neutral agreement with mean score of 3.30 and 3.14 respectively. On the other hand, for

the question raised to the respondents if BSC complements the financial measures of past performance, the respondents have agreed to it with mean score of 4.14. This implies that there is a loose relationship of KPIs with the respective banks' mission and vision and there are inadequate key performance indicators on the respective scorecards.

Table 4.13: Evaluation of KPIs

| <i>Questions</i> | | <i>Strongly Disagree</i> | <i>Disagree</i> | <i>Neutral</i> | <i>Agree</i> | <i>Strongly Agree</i> | <i>Mean Score</i> |
|--|----------|--------------------------|-----------------|----------------|--------------|-----------------------|-------------------|
| <i>KPIs are designed based on the Bank's mission and vision</i> | <i>N</i> | 4 | 35 | 16 | 25 | 25 | 3.30 |
| | <i>%</i> | 3.81 | 33.33 | 15.24 | 23.81 | 23.81 | |
| <i>At all levels there is sufficient KPIs to measure objectives</i> | <i>N</i> | 13 | 29 | 16 | 24 | 23 | 3.14 |
| | <i>%</i> | 12.38 | 27.62 | 15.24 | 22.86 | 21.90 | |
| <i>BSC complements the financial measures of past performance</i> | <i>N</i> | 3 | 5 | 10 | 43 | 44 | 4.14 |
| | <i>%</i> | 2.86 | 4.76 | 9.52 | 40.95 | 41.90 | |
| <i>While designing BSC, Data collection method and its frequency was set</i> | <i>N</i> | 4 | 33 | 16 | 35 | 17 | 3.27 |
| | <i>%</i> | 3.81 | 31.43 | 15.24 | 33.33 | 16.19 | |

Source: Customized from data collected, September 2014

With regard to the response across banks, the respondents from the Development Bank of Ethiopia loosely agreed to the stated concepts about the KPIs, with mean score of 3.73 followed by the Commercial Bank of Ethiopia and Construction and Business Bank, with mean score of 3.45 and 3.23. This implies that though there is a slight difference across banks, there is a limited level of agreement on the stated questions regarding Key Performance Indicators.

Table 4.14: Evaluation of KPIs across Banks

| Name of the Bank | KPIs are designed based on the Bank's mission and vision | At all levels there is sufficient KPIs to measure objectives | BSC complements the financial measures of past performance | While designing BSC, Data collection method and its frequency was set | Average Mean |
|--------------------------------|---|---|---|--|---------------------|
| Commercial Bank of Ethiopia | 3.57 | 2.81 | 4.21 | 3.19 | 3.45 |
| Development Bank of Ethiopia | 3.06 | 3.71 | 4.68 | 3.48 | 3.73 |
| Construction and Business Bank | 3.19 | 3.03 | 3.53 | 3.16 | 3.23 |

Source: Customized from data collected, September 2014

4.2.8. Planning and Communication

From the companies, Kaplan and Norton studied, it is managed to be recognized that effective balanced scorecard execution requires an effective planning and communication. This ensures that enterprise level plans are translated in to the plans of the various units and departments; executing strategic initiatives to deliver on the grand plan; and aligning employees' competency development plans, and their personal goals and incentives, with strategic objectives (Kaplan and Norton, 2005).

With regard to the level of planning and communication practices undertaken to implement the balanced scorecard, the following questions were included in the questionnaire distributed to them for which the response of the respondents is analyzed hereunder.

With regard to understanding the benefit of implementing the balanced scorecard whether they think the time of implementing the system is right for the respective banks, their response shows that they loosely disagreed about the questions, with mean score of 2.94 and 2.55 respectively. On the other hand, with regard to the clarity of the respective bank's strategy map and betterment of the system as compared with the previous performance measurement system,

they have depicted their level of agreement with mean score of 3.55 and 4.13 respectively. This implies that communication and awareness creation activities of the banks under study with regard to the benefit and implementation time of the system is weak.

Table 4.15: Planning and Communication of BSC System

| <i>Questions</i> | | <i>Strongly Disagree</i> | <i>Disagree</i> | <i>Neutral</i> | <i>Agree</i> | <i>Strongly Agree</i> | <i>Mean Score</i> |
|---|----------|--------------------------|-----------------|----------------|--------------|-----------------------|-------------------|
| <i>The Bank's Strategy map is clear and understandable</i> | <i>N</i> | 1 | 27 | 9 | 49 | 19 | 3.55 |
| | <i>%</i> | 0.95 | 25.71 | 8.57 | 46.67 | 18.10 | |
| <i>I understand the benefits of implementing BSC</i> | <i>N</i> | 7 | 44 | 12 | 32 | 10 | 2.94 |
| | <i>%</i> | 6.67 | 41.90 | 11.43 | 30.48 | 9.52 | |
| <i>BSC is better than previous measurement systems</i> | <i>N</i> | 0 | 2 | 12 | 61 | 30 | 4.13 |
| | <i>%</i> | - | 1.90 | 11.43 | 58.10 | 28.57 | |
| <i>BSC is relevant performance management tool for the Bank</i> | <i>N</i> | 2 | 30 | 6 | 47 | 20 | 3.50 |
| | <i>%</i> | 1.90 | 28.57 | 5.71 | 44.76 | 19.05 | |
| <i>It is the right time for the Bank to implement BSC</i> | <i>N</i> | 16 | 49 | 9 | 28 | 3 | 2.55 |
| | <i>%</i> | 15.24 | 46.67 | 8.57 | 26.67 | 2.86 | |

Source: Customized from data collected, September 2014

With regard to the extent of planning and communication activities conducted across banks, the finding depicts that there is inadequate effort that has been made by the banks under study on the stated issue. This is shown by the average mean score of 3.15, 3.45 and 3.47 recorded by the respondents from Commercial Bank of Ethiopia, Construction and Business Bank and Development Bank of Ethiopia respectively.

Table 4.16: Planning and Communication of BSC System Across Banks

| Name of the Bank | The Bank's Strategy map is clear and understandable | I understand the benefits of implementing BSC | BSC is better than previous measurement systems | BSC is relevant performance management tool for the Bank | It is the right time for the Bank to implement BSC | Average Mean |
|--------------------------------|--|--|--|---|---|---------------------|
| Commercial Bank of Ethiopia | 3.33 | 2.48 | 4.31 | 3.48 | 2.17 | 3.15 |
| Development Bank of Ethiopia | 3.55 | 3.10 | 4.23 | 3.39 | 3.10 | 3.47 |
| Construction and Business Bank | 3.84 | 3.41 | 3.81 | 3.66 | 2.53 | 3.45 |

Source: Customized from data collected, September 2014

4.3. Analysis of the Interview

In the effort to collect information with regard to the implementation of the balanced scorecard, concerned managers of the respective banks were interviewed about the overall process they went through, the challenges they have faced and the current status each bank is currently at.

Accordingly, the responses from the interview were analyzed in the following manner.

4.3.1. Commercial Bank of Ethiopia

The bank has officially started developing and implementing the balanced scorecard on August 2007. For a year and a half time since then, the bank had established a dedicated project team, composing members from every processes of the bank, in order to assess the benefit of adopting the system to the context of the bank and it has officially launched the implementation process since July 2008.

Prior to implementing the balanced scorecard, an independent office called Office of Strategic Management has been established which is accountable directly to the President of the bank. According to the Strategic Management team manager, the office has been primarily organized by having all the BSC study team members as its permanent staff.

The Office of Strategic Management has been primarily dealing with enabling and monitoring the overall implementation of the balanced scorecard system as the Bank's performance measurement and strategic management tool.

From the interview with the Manager, the researcher has managed to learn that the bank, after studying the system, has provided an intensive two weeks training to the overall management and has designed a corporate scorecard in balanced scorecard framework. Then the corporate scorecard has been presented to all processes of the bank and then the Executive Management Team has discussed on all corporate objectives and takes each objective on which each process has an influence on.

Accordingly, each process has designed its own scorecard and has been monitoring its performance quarterly since then. With regard to individual level scorecard, according to the manager, the bank has been faced with difficulties of obtaining key performance indicators that can objectively measure the individual performance but it has been cascading the corporate scorecard down to the branch/team level and measure their performance progress accordingly.

According to the Strategic Management Team Manager, the major challenges faced by the bank are lack of clarity of the concept of the balanced scorecard though in depth training was provided, difficulty of finding relevant KPIs, inability to back the system with relevant IT system.

4.3.2. Development Bank of Ethiopia

Development Bank of Ethiopia has started to implement the balanced scorecard system through its one of the processes named the Strategic Planning, Development and effectiveness

process. The bank has commenced implementing the balanced scorecard starting from July, 2009.

The office which is entitled to initiate the development and implementation of change management tools such as balanced scorecard is known as the Strategic Planning, Development and effectiveness process. The office is accountable to the Vice President-Corporate Services of the bank. Still now, the process is the one which is responsible to oversee and periodically monitor the implementation status of the system.

According to the Director of the process, by the time they developed the system, they have tried to benchmark different relevant institutions, especially the Commercial Bank of Ethiopia. After intensively looking into the system in the context of the bank, they have managed to develop the corporate scorecard and every process had then cascaded its own scorecard from the corporate scorecard.

According to the Director, the bank has been providing intensive balanced scorecard training to all the management and relevant employees prior to accomplishing every step for its smooth implementation.

Currently, the bank measures its performance using the balanced scorecard framework and cascaded its operational strategy to process, team and individual levels. It has also attached the reward system to the individual level performance.

According to the Director, the major challenges faced by the bank are inability to introduce relevant IT system, lack of active organizational level participation, lack of relevant benchmarking to individual level.

4.3.3. Construction and Business Bank

According to the Strategic Management and Communication Director of the bank, the bank has officially embarked on studying and adopting the balanced scorecard since August, 2011 by establishing a project team composing five employees representing different departments of the bank. The team took a year to adopt the system, provide training to the management and senior

non-management officers and assist the top management of the bank design the corporate level scorecard in balanced scorecard framework.

After the corporate scorecard has been developed and thoroughly discussed by the management, each process owner has taken the strategic objectives under his/her domain and has prepared its own process level scorecard by establishing process level cascading team. And the team and individual level cascading has been accomplished accordingly.

The overall balanced scorecard system implementation has been monitored and overseen by an independent process named the Strategic Management and Communication process which is directly accountable to the president of the bank. And the director of this process is the permanent member and executive secretary of the Executive Management Team which is the highest decision making body of the bank comprising the president and all three vice presidents.

Currently, as at December 30, 2013, the bank has fully cascaded the balanced scorecard system from the corporate level down to the process level, team level and individual levels. Those scorecards up to the team level have been measured for the last two years on quarterly basis. However, the preparation of the individual level scorecard has been finalized on June 30, 2013 and by the time this interview is conducted; the bank is compiling the semi-annual individual level scorecard performance progress report.

According to the Director, the major challenges faced by the bank are lack of clarity of the concept of the balanced scorecard though in depth training was provided, difficulty of finding relevant KPIs, in ability to back the system with relevant IT.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

In this chapter, the findings of the study are systematically summarized, relevant conclusions are drawn from the findings and the study has also tried to foreword relevant recommendations.

3.1. Summary of Major Findings

The main purpose of this study was to assess the overall implementation and challenges faced while implementing the balanced scorecard system as a performance measurement, strategic management and communication system in the three state owned banks: Commercial Bank of Ethiopia (CBE); Construction and Business Bank (CBB) and Development Bank of Ethiopia (DBE) and the study also tries to evaluate the challenges faced as compared to the standard literatures of the system.

Standardized questionnaire with 37 questions organized in eight themes in five-point likert scale were prepared and distributed to 150 respondents selected from the banks under study. While taking sample, non-probability purposive sampling has been adopted to purposively select respondents who are middle level managers (directors and team managers) and senior officers who have the working knowledge of the balanced scorecard system. Of the total questionnaire, it was managed to collect 105 of them, i.e. 70% response rate.

Accordingly, the analysis was conducted by taking each theme which are supposedly be a common challenge for BSC implementation. Each common challenge/theme has three to five questions that are suitably designed to measure the status of the banks with respect to the specific challenge and subsequent relevant analysis was made.

In addition to this, the directors and managers of the dedicated department who are responsible to monitor and oversee the implementation of BSC were interviewed by designing semi-

structured interview questions. Based on the interview, the current status, how the system was being implemented, and the way forward has been gathered and analyzed.

The major findings of the study results from secondary and primary data analysis are summarized as follows:

- From the interview conducted to the respective supervisors, it has been managed to analyze that the path those banks chose to implement the system is similar. This is mainly due to the fact that each bank implements the system by completely benchmarking the predecessor, with Commercial Bank of Ethiopia being the first to implement.
- As compared to the standard literature of the system, it has been managed to learn that most of the steps and implementation requirements, except BSC automation, has been implemented by the respective banks.
- From the questionnaire distributed, it has been managed to summarize the following findings:
 - With regard to creating concept clarity, executive sponsorship of banks, designing effective key performance indicators, establishing competent project team/dedicated process, the study has shown that the respondents have significantly agreed to the questions presented to evaluate the degree that those banks have been practicing with regard to the stated success factors.
 - On the other hand, the study has shown that with regard to the formal BSC education and training, planning and communication of the overall implementation, organizational level participation in the development and implementation of the system as well as BSC automation (IT support), the respondents have strongly expressed their limited agreement to the efforts being made by their respective public banks.

3.2. Conclusions

While conducting the study, a literature review of the BSC, its concepts and main characteristics was conducted. Previous studies were also used to identify the most important barriers to the successful implementation of the BSC. Case study research was then conducted on the three public banks of Ethiopia, which have implemented the system and have been using it for years.

The study can drive a general conclusion that with regard to how the balanced scorecard is being implemented in public banks, the banks have implemented the system almost in a similar manner as compared to the standard way of literature except that the automation of the system was nonexistent in all the three banks. The study has found out that there are different mechanisms undertaken by the respective banks with the intention of supporting their balanced scorecard system by IT. Other than this, the way these banks have implemented the system is similar due to the fact that the other two banks followed and benchmarked that of the Commercial Bank of Ethiopia's experience.

All the common challenges/key success factors of BSC implementation have been observed by these banks though at different level. However, with regard to creating concept clarity about the system, all the three banks have made an encouraging effort. Similarly, the sponsorship status of the system by their respective executives and the existence of sufficient KPIs to measure performance is also strong and the establishment of an independent office to oversee the implementation of the system has been undertaken and its competence and efficiency in taking over the stated task is also adequate.

On the other hand, there are some critical success factors that should be worked on to further reap the full benefit of the system. These are enhancing BSC education and training, automating the Balanced Scorecard, sustainably ensuring the organizational level participation to further instill the BSC concept and sustain its improved implementation, and strengthen the BSC planning process and its communication to the overall employees. Generally, it seems

safe to conclude that though these banks have been implementing the balanced scorecard system in a way that the literature advises, the stated challenges identified in the study have made banks not to grab the full benefit the balanced scorecard system.

3.3. Recommendations

According to Niven (2006), no two BSC implementations are completely alike. Further, the same author states that organizations which decided to implement the tool should do so in a way that fits the individual culture, current management processes, and readiness for such a major change initiative. Therefore, the findings, results and recommendations of this thesis cannot be generalized and taken for granted by other companies, researchers or others interested in the topic. However, the stated findings recommendations and experiences can be adapted to the context of the organization.

To exploit the benefits of implementing the balanced scorecard as a performance management, strategic management and communication tool, the study proposes the following recommendations to be considered by Ethiopian Public banks:

- All banks should conduct intensive awareness creation activities to the employees about the meaning, benefit and the techniques of the balanced scorecard system from the balanced perspective of its nature as a strategic management system, performance measurement and strategy communication.
- Any newly introduced system in an organization, to be effectively implemented, should involve organizational level participation in its development and implementation. The same is true for BSC.
- Effective implementation plan and monitoring mechanism should be set and its progress should be attentively followed up by the executive management team of the banks.
- The undeveloped IT slowed the initiative and caused many frustrations for the system. Therefore, relevant IT-systems, BSC-software, should be implemented to facilitate and exploit the full benefits of the balanced scorecard.

- The processes/departments that are established to oversee the overall implementation of the balanced scorecard system should enhance their follow up systems by periodically monitoring implementation gaps and subsequently fill them by organizing awareness creation activities, and formal trainings in order instill the concept and benefit of BSC to all stakeholders.

At last, the researcher would like to recommend future researchers to further study the challenges faced with the implementation of the BSC system and other change management tools in the banking industry and organizations in others sectors of the economy.

REFERENCES

- Armstrong, M. (2006). *A Handbook of Management Techniques*. London: Kogan Page Limited, 3rded.
- Kaplan, S., & Norton, D.P. (1992). *The Balanced Scorecard-Measures that drive performance*. Harvard Business Review, January – February, pp.71-79.
- Kaplan, R.S., & Norton, D.P. (1996). *The Balanced Scorecard: Translating Strategy into Action*. Boston: Harvard Business School Press.
- Kaplan, R.S., & Norton, D.P. (2005). *The Office of Strategy Management*. Harvard Business Review, October, pp.1-9.
- Kermally, S. (1997). *Management Ideas in Brief*. Oxford: Linacre House, Jordan Hill.
- Lawson, R., Hatch, T. and Desroches, D. (2008). *Scorecard Best Practices*. Hoboken: John Wiley & Sons, Inc.
- Maxwell, J.A., (1999). *Qualitative Research Design: An Interactive Approach*. In Mbanjwa (2011). Implementation of a performance management system in the Northern Cape Department of Environment and Nature Conservation. London: SAGE publication.
- Nair, M. (2004). *Essentials of Balanced Scorecard*. Hoboken: John Wiley & Sons, Inc.

Niven, P. R. (2006). *Balanced Scorecard Step-by-Step - Maximizing Performance and Maintaining Results*. Hoboken: John Wiley & Sons, Inc.

Niven, P. R. (2005). *BSC Diagnostic*. Hoboken: John Wiley & Sons, Inc.

Nunnally, J.C., & Bernstein, I.H. (1994). *Psychometry Theory* (3rd ed.). In Sixholo (2011). *The Entrepreneurial Intentions of Academic Researchers in an Emerging Knowledge Economy*. University of Pretoria.

Othman, R. (2009). *How the Balanced Scorecard can fail: Some cases*, Borneo Bulletin, June 2, 2009.

Pujas, D. (2010). *Barriers to the Successful Implementation of the Balanced Scorecard*. Vienna: Modul University Vienna.

Zhang, Y. and Li, L. (2009). *Study on Balanced Scorecard of Commercial Bank in Performance Management System*. Nanchang. Proceedings of the 2009 International Symposium on Web Information Systems and Applications (WISA'09), May 22-24, pp.206-209.

Official website of the Commercial Bank of Ethiopia i.e. www.combanketh.com

Official website of the Development Bank of Ethiopia i.e. www.dbe.com

Official website of the Construction and Business Bank i.e. www.cbb.com

APPENDIX – I

**St. Mary’s University
School of Graduate Studies
Department of Management
MBA Program**

**Questionnaire filled by Employees and the Management of the Ethiopian
Public Banks**

(Commercial Bank of Ethiopia (CBE), Development Bank of Ethiopia (DBE) and Construction and Business Bank (CBB))

Dear Respondent,

I am conducting a research on ***“Practices and Challenges of Implementing the Balanced Scorecard in Ethiopian Public Banks”***. This research is conducted in partial fulfillment of the requirement for the Degree of Masters of Business Administration. The survey is intended to evaluate the overall implementation of the balanced scorecard (BSC) in Ethiopian public banks. The study shall also assess the challenges faced by these banks in implementing the balanced scorecard as their performance measurement, strategic management and communication tool.

Please note that the survey is developed to be anonymous and I, the researcher, will have no way of connecting the information to you personally. If you choose to participate in the survey, it will not take more than 20 minutes of your precious time. I do not foresee that you will experience any negative consequences by completing this questionnaire. The researcher will also keep any individual information provided herein confidential, and to analyze the feedback received only at group level.

It will be a great contribution if you may complete all the items covered in the questionnaire since your opinion is of utmost importance. I thank you in advance for sharing your valuable experience and time in completing the questionnaire.

If you require any further information, want feedback on the study or need to contact the researcher about any aspect of this study; please do not hesitate to do so through the address given hereunder.

With Regards,

Amsalu Mamo Haile

Part I: Respondent's Profile

Please indicate your appropriate choice among the options provided by circling the alphabet that best represents you.

1. Sex:
 - a. Male
 - b. Female
2. Name of Your Bank:
 - a. Commercial bank of Ethiopia
 - b. Development Bank of Ethiopia
 - c. Construction and Business Bank
3. Position you hold
 - a. Management
 - b. Non-management
4. Work Experience
 - a. 1 - 3 Years
 - b. 4 – 6 Years
 - c. 7 – 9 Years
 - d. More than 10 years

Part II

Please indicate how much you agree or disagree with each of the following statements by circling the number that best represents your opinion. “No.1” indicates “Strongly Disagree”, “No. 2” indicates “Disagree”, “No.3” indicates “Neutral”, “No.4” indicates “Agree”, and “No.5” indicates “Strongly Agree”.

| No. | Question | Strongly Agree (5) | Agree (4) | Neutral (3) | Disagree (2) | Strongly Disagree (1) |
|----------|---|--------------------|-----------|-------------|--------------|-----------------------|
| 1 | Concept of the Balanced Scorecard (BSC) | | | | | |
| 1.1. | BSC links short-term operational performance with long-term strategic objectives. | 5 | 4 | 3 | 2 | 1 |
| 1.2. | BSC creates the ability for management to translate a generic vision into a strategy that can build consensus and commitment throughout the bank. | 5 | 4 | 3 | 2 | 1 |
| 1.3. | The bank has used the Balanced Scorecard to set, track and achieve its key business strategies and objectives. | 5 | 4 | 3 | 2 | 1 |
| 1.4. | Balanced scorecard rolls down the bank’s vision from corporate to division, from division to teams/branches, down to individual employees. | 5 | 4 | 3 | 2 | 1 |
| 2 | Executive Sponsorship | | | | | |
| 2.1. | The top management of the bank took the initiative to implement the balanced scorecard. | 5 | 4 | 3 | 2 | 1 |
| 2.2. | There was full support from the top management of the bank when it was decided to start the BSC implementation. | 5 | 4 | 3 | 2 | 1 |

| No. | Question | Strongly Agree (5) | Agree (4) | Neutral (3) | Disagree (2) | Strongly Disagree (1) |
|----------|---|--------------------|-----------|-------------|--------------|-----------------------|
| 2.3. | The BSC initiative was one of the priorities of the bank when it was implemented. | 5 | 4 | 3 | 2 | 1 |
| 2.4. | The top management of the bank periodically monitors the progress of the balanced scorecard implementation. | 5 | 4 | 3 | 2 | 1 |
| 2.5. | The top management works closely with the BSC champion or the responsible process to implement the system. | 5 | 4 | 3 | 2 | 1 |
| 3 | Balanced scorecard education and training | | | | | |
| 3.1. | The bank has provided me a training that equipped me with a sufficient knowledge about the concept and meaning of the balanced scorecard. | 5 | 4 | 3 | 2 | 1 |
| 3.2. | I have been informed and understood the meaning of the corporate objective in each perspectives of the bank's corporate scorecard. | 5 | 4 | 3 | 2 | 1 |
| 3.3. | The bank has informed all employees to clearly understand the corporate level objectives of the bank. | 5 | 4 | 3 | 2 | 1 |
| 3.4. | I have understood the alignment of my work unit's objectives with the corporate level objectives and the bank's vision. | 5 | 4 | 3 | 2 | 1 |
| 3.5. | The bank has provided me a training to design my own personal scorecard in alignment to the process/team/branch scorecard. | 5 | 4 | 3 | 2 | 1 |

| No. | Question | Strongly Agree (5) | Agree (4) | Neutral (3) | Disagree (2) | Strongly Disagree (1) |
|----------|---|--------------------|-----------|-------------|--------------|-----------------------|
| 4 | IT support | | | | | |
| 4.1. | The Bank's balanced scorecard system is fully automated. | 5 | 4 | 3 | 2 | 1 |
| 4.2. | The balanced scorecard is supported by IT in collecting, analyzing, reporting and distributing relevant data. | 5 | 4 | 3 | 2 | 1 |
| 4.3. | An appropriate IT system has been designed to help employees collect record and report their periodic performance. | 5 | 4 | 3 | 2 | 1 |
| 5 | Competent Project team/Dedicated Process | | | | | |
| 5.1. | Establishing a specific process/department to exclusively monitor the implementation of the balanced scorecard ensures the success of the implementation. | 5 | 4 | 3 | 2 | 1 |
| 5.2. | In our Bank, there is a specific person (BSC champion) or department who is responsible to implement BSC. | 5 | 4 | 3 | 2 | 1 |
| 5.3. | The process that is responsible to oversee BSC implementation is handling its duties effectively. | 5 | 4 | 3 | 2 | 1 |
| 6 | Organization Level participation | | | | | |
| 6.1. | All employees of the bank have been involved in the implementation of BSC. | 5 | 4 | 3 | 2 | 1 |
| 6.2. | Balanced scorecards of the bank at all levels were prepared by participating all concerned parties. | 5 | 4 | 3 | 2 | 1 |

| No. | Question | Strongly Agree (5) | Agree (4) | Neutral (3) | Disagree (2) | Strongly Disagree (1) |
|----------|--|--------------------|-----------|-------------|--------------|-----------------------|
| 6.3. | I was properly guided by my immediate supervisor while I was designing my individual/work unit's balanced scorecard. | 5 | 4 | 3 | 2 | 1 |
| 6.4. | Information about the bank's balanced scorecard implementation status is being provided timely. | 5 | 4 | 3 | 2 | 1 |
| 7 | Key Performance Indicators | | | | | |
| 7.1. | Key measures of the bank in BSC are designed based on the Bank's mission and vision. | 5 | 4 | 3 | 2 | 1 |
| 7.2. | Balanced Scorecards at all levels have sufficient key performance indicators to measure objectives. | 5 | 4 | 3 | 2 | 1 |
| 7.3. | BSC complements the financial measures of past performance with operational measures that drive future performance and growth. | 5 | 4 | 3 | 2 | 1 |
| 7.4. | While designing the key performance indicators at all levels, the data collection method and its frequency were also set. | 5 | 4 | 3 | 2 | 1 |
| 8 | Planning and Communication | | | | | |
| 8.1. | The strategy map of the bank is clear and understandable | 5 | 4 | 3 | 2 | 1 |
| 8.2. | I understand the benefits of implementing the balanced scorecard as a performance measurement strategic management and communication system of the bank. | 5 | 4 | 3 | 2 | 1 |
| 8.3. | The balanced scorecard system is better than the previous performance measurement | 5 | 4 | 3 | 2 | 1 |

| No. | Question | | Strongly Agree (5) | Agree (4) | Neutral (3) | Disagree (2) | Strongly Disagree (1) |
|-----|----------|---|-----------------------|--------------|----------------|-----------------|--------------------------|
| | | system of the bank. | | | | | |
| | 8.4 | The BSC is a relevant performance management tool for the bank | 5 | 4 | 3 | 2 | 1 |
| | 8.5. | It is the right time for the bank to implement the balanced scorecard as its performance and strategic management | 5 | 4 | 3 | 2 | 1 |

APPENDIX – II

**St. Mary's University
School of Graduate Studies
Department of Management
MBA Program**

Interview Questions for Manager-Strategic Management Team of CBE,
Director- Strategic Planning, Development and effectiveness process of DBE,
and Director- Strategic Management and Communication Process of CBB.

1. When did your bank start implementing the balanced scorecard?
2. Can you elaborate the major activities accomplished to properly put into practice the balanced scorecard?
3. By your judgment, do you think the bank has implemented the BSC successfully?
4. What are the main challenges that you face while implementing the balanced scorecard?
5. Where was the initiation to develop and implement the balanced scorecard come from?