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The assessment of balanced scorecard implementation in the commercial bank of Ethiopia: The case of three branches in East Addis Ababa Districts

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Abstract
The objective of the study is to assess the Implementation of Balanced Scorecard in the Commercial Bank of Ethiopia. The CBE has 109 branches in East Addis Ababa district. Out of 109 in this district, the researcher selected three branches targeting all employees and management staff. The primary data were collected using questionnaires and interview. The data were analysed using graphs, tables and percentages. The findings show that the Bank achieved many benefits from the BSC implementation by aligning day-to-day activities to its strategy, improved service delivery system and organization performance, raised employees understanding of the bank vision, mission and values, and enhanced resource. However, there are still many challenges. There is lack of leadership commitment and support with regard to awareness creation for employees. Besides, the top management tends to focus on strategy formulation than strategic implementation. From the employees part there is lack of readiness in terms of mentality, skill and competence toward BSC implementation. Furthermore, problems in setting performance measurement and linking performance with reward system is hindering the effectiveness of the BSC in the branches. Lack of employees' participation, negative attitude of employees toward BSC implementation, poor monitoring and evaluation system and lack of linkage with rewards adversely affect benefit obtained from BSC implementation. To alleviate the problems the bank should work on changing the attitude and perception of employees toward BSC by promoting its benefits. To achieve this attitude change CBE should undertake trainings to help employees acquire adequate knowledge and understanding of BSC. Target setting should be fair and realistic ensuring appropriate combination of mutually agreed financial and non-financial target among performers considering the nature and position of jobholders.

Keywords: Balanced scorecard, implementation challenges, performance evaluation

1. Introduction

The Balanced Scorecard (BSC) is a carefully selected set of quantifiable measures derived from an organization's strategy and is a management tool with three main elements namely; measurement system, strategic management system and communication (Bremser and Barsky 2004) [2]. BSC provides a logical connection between the vision, mission and strategic objectives with the desired results in terms of customer and stakeholder needs, financial, internal processes and capacity building (learning and growth) which are linked through cause-and -effect relationships.

BSC is different from other strategic measurement systems in that it is more than collection of financial and non-financial measures. It contains outcome measures and the performance drivers of outcomes, linked together in cause- and- effect relationships and thus aim to be a feed-forward control system). Since the concept was introduced in the early 1990's by Kaplan and Norton as performance measurement system, the balanced scorecard (BSC) has attracted considerable interest among different practitioners and researchers.

Consequently, BSC is broadly accepted and implemented in thousands of companies across the world and penetrated even non-profit organizations and organizations in public sector (Petr, Wagner and Michal, 2012). Due to its wide acceptance and effectiveness, the Harvard Business Review (Niven, 2005) proclaimed the balanced scorecard (BSC) as one of the 75 most influential ideas to the twentieth century. Balanced scorecard is becoming popular in governmental organizations. The city of Charlotte, North Carolina is one example from government run organizations to which is widely considered the best example of balanced scorecard success in such bureaus (Niven 2005).

This study focuses on the commercial Bank of Ethiopia. The history of the Commercial Bank of Ethiopia (CBE) dates back to the establishment of the State Bank of Ethiopia in 1942. It has been playing significant roles in the development of the country as financial intermediary. It was mainly established to perform major banking services such as accepting saving, demand and time deposits; providing short, medium and long-term loans; buying and selling foreign exchanges; buying and selling negotiable instruments and securities issued by the government, private organizations or any other person; and engaging in other banking activities customarily carried out by commercial banks.

The Bank has a process-oriented corporate structure each process is headed by a Process Owner. The bank performs its operations through the core and support processes. The Core processes are Customer Accounts and Transaction Services (CATS), Credit, Trade Service, Interest Free banking. Support Processes are Human Resource Management, Information Systems, Facilities Management, Finance, Business Development, Risk and Compliance Management, Internal Audit, Legal and Loan Recovery, Office of strategy management, and E-Payment Process.

The need to remain competitive, productive and bring organizational change is becoming more important than ever. In order to achieve its mission and vision, CBE is using management tools one of which is BSC that is rolled out to ensure measurement and management in the organisation.

A well-implemented Balanced Scorecard can provide the bridge between Strategy and Execution. This needs a clear implementation methodology by cascading the BSC from the top to the lower individual level and further build highly performing teams and individuals.

A Balanced Scorecard implementation is a new approach to management in CBE. Thus, it is important to assess its implementation and understand the challenges. Most studies conducted on CBE so far are limited to corporate level and lack in depth analysis at lower (branch) level. This study however focused on Branch level implementation with the objective to study and fill the gap in the implementation of BSC at lower level.

1.1 Research objectives

The general objective of the study is to assess the implementation of Balanced Scorecard in the Commercial Bank of Ethiopia with reference to its three branches in eastern district of Addis Ababa. Specifically it focuses on

- The assessment of BSC and its implementation issues from employee and management perspectives at branches and.
- The identification of the challenges of Balanced score card implementation at branch level.

1.2 Methodology

1.2.1 Research design

Qualitative and quantitative approaches are the two main approaches used in this study. Quantitative research is often based on measurable numbers. All phenomena is, however, not measurable and a qualitative approach is used for in-depth assessment of some variables.

1.2.2 Study population

The CBE has 109 branches in the East Addis Ababa district. The study population are employees and managers of these branches. There were 80 employees and 9 managers.

1.2.3 Sample and sampling techniques

Out of 109 branches in East Addis Ababa district of CBE, the researcher followed non-probability sampling and selected three branches which were convenient in terms of availability and ease of obtaining data. The branches selected for this case study were “Tefera Degefe”, “Lam-beret”, and “Megenagna” branches.

From the sampled branches, the research targeted all employees and management staff to ensure representation across functional units at branch level.

1.2.4 Data collection Instruments and sources of data

The primary data which is the main source of information for the study was collected using questionnaires and semi-structured interviews with branch level staff. Relevant literature and secondary sources were also reviewed to enrich the study.

1.2.4.1 Sources of Data

a. **Primary sources:** This study heavily relied on the primary sources of data i.e. branch level employees and management
b. **Secondary sources:** The study used the secondary such as prior research and other documents including documents and manuals used for the implementation of balanced score card, strategic plans and reports relate to BSC and journals pertinent to the study.

1.2.5 Data analysis

The researcher used statistical method to analyse the data. The results area presented using tables, charts, graphs and the researchers summarized the findings.

2. Literature review

According to Kaplan and Norton (1996, p. 25) [7], “The Balanced Scorecard translates mission and strategy into objectives and measures, organized into four different perspectives: financial, customer, internal business process, and learning and growth”. They (Kaplan & Norton, 1996, p. 25) [7] also add that, “The four perspectives of the scorecard permit a balance between short-and long-term objectives, between outcomes desired and the performance drivers of those outcomes, and between hard objective measures and softer, more subjective measures”. In Kaplan and Norton’s view (1996) [7], strategies are developed following a cause and effect approach. In this vein, “The measurement system should make the relationships (hypotheses) among objectives (and measures) in the various perspectives explicit so that they can be managed and validated” (Kaplan & Norton, 1996, p. 30) [7]. For example, investments in learning will lead to a better internal business process, which, in turn, is likely to improve a customer’s satisfaction and loyalty, and therefore result in a higher return on investments, which would satisfy shareholders (Kaplan & Norton, 2001) [8].

Researchers assert that there has been a paradigm shift from the traditional financial performance measurement approach to an approach integrating both financial and non-financial measures (Kaplan, 2003). Organizations have a variety of goals and objectives and hence it is more unlikely that a single measure will effectively assess organizational progress towards all of those goals and objectives. Some of the most important intangible assets a company can have are relationships with customers and with employees. Employee loyalty and customer loyalty are closely linked, and retaining both is essential for success. The quality of important relationships must be reflected in a performance measurement framework. Performance measures are usually used to track progress towards a target. The measures are a surrogate for the target itself. They determine how, and on what bases, managers and other employees focus their time and efforts. Non-financial indicators are, in effect, surrogate measures for financial performance. Financial and non-financial performance measures can be combined through the BSC that ultimately links all aspects of performance to the firm's strategies.

2.1 Performance and the balanced scorecard

Literature from various resources exhibit that performance measurement ordinarily designed around financial, operational and management control system. Prior to 1980's, organizations used financial indicators like, return on equity, net profit and return on investment to measure their performance, however it is very well known that financial indicators are well in very short term. To achieve a competitive edge, and to retain customers; organizations should be innovative to fulfil the ever changing needs of their customers.

Performance measurement incorporating non-financial measures has been a topic of great interest throughout most of the 1990s. This is because non-financial measures overcome the limitations of just using financial performance measures. "Soft" measures, such as employee satisfaction and commitment, are coming to the fore as protagonists of the business performance measurement revolution urge organizations to complement their traditional financial focus with softer data. Kaplan & Norton (1992) [6] suggest that what is needed is "a balanced presentation of both financial and operational measures". In addition, while traditional financial measures report on what happened during the last period without indicating how managers can improve performance in the next, the scorecard functions as the cornerstone of the organization's current and future success (Kaplan & Norton, 1996) [7].

The balanced scorecard translates an organization's mission and strategy into a comprehensive set of performance measures that provides the framework for a strategic measurement and management system (Kumari, 2011) [9]. The four perspectives of the scorecard permit a balance between short-term and long-term objectives, between desired outcomes and the performance drivers of those outcomes, and between the objective measures and softer, more subjective measures. While the multiplicity of measures on a balanced scorecard seems confusing to some people, properly constructed scorecards contain a unity of purpose since all the measures are directed towards achieving an integrated strategy. Currently, the Balanced Scorecard is a powerful and widely accepted framework for defining performance measures and communicating objectives and vision to the organization. A balance of measures across these four perspectives is what gives the BSC its name. However, the measures that make up a scorecard do not exist in isolation from each other. They relate to a set of objectives that are themselves linked, the final link usually relating to financial outcomes of one form or another. Measures in this context can be used to communicate not simply control.

2.2 The balanced scorecard in Ethiopia

Changes in the socioeconomic and political landscape in Ethiopia have resulted in changes in management of public institutions. The quests for efficiency, accountability, and transparency have forced institutions to adopt organizational strategies and management structures that are popular in business organizations.

To this effect, Ethiopia has introduced a range of approaches that broadly fall into the category of 'New Public Management'. The main successive reform tools include Business Process Re-engineering (BPR), BSC and the Citizen Charters.

Building on earlier efforts to establish strategic planning norms and an employee result-oriented performance appraisal system, the federal government introduced the BSC in 2010 (Menwuyelet Fentie, 2014) [10]. The BSC is being used as a planning, change management, and communication tool, and is also considered as an opportunity to embed strategic management principles into the plan. The BSC incorporates the higher-level goals identified by the country's Growth and Transformation Plan (GTP) and tries to operationalize these goals.

According to Menwuyelet (2014) [10], three reasons are cited as rationales to implement BSC in Ethiopian Federal civil service organizations, namely:

- To have better performance evaluation system in civil service organizations
- To put in practice the Federal Civil Servants' proclamation no. 515/99 (proclamation for administration of Ethiopian Federal Civil Service employees)
- To focus on strategies and link the day to day activities to strategies with well-balanced and multi perspective performance evaluation system

A ministry or agency provides a highest expression of tangible and identifiable results that the government expects, below the Ministry or Agency level, the results are further cascaded down to process teams and individual members of staff. BSC set targets for output and interventions for which measures or indicators are set.

As of 2012, the civil service's "Individual Employee Performance Management and Measurement" directive was incorporated into the BSC. The management of individual performance is now being addressed through a system of individual performance agreements that are linked to team and organizational targets derived from the four dimensions of the BSC. These include: I) finance, ii) learning and growth; iii) client/customer satisfaction, and iv) processes (time volume, frequency). The first set of annual performance agreements for individuals were signed in July 2012. Currently 60 percent of the score is allocated towards achieving the agreed upon specific tasks and goals, while 40 percent is dedicated to attitude or behavioural aspects (this can also be seen as a reaction to earlier criticism of assessments introduced by the BPR that were seen as overemphasizing 'attitudes'). Thus, the BSC seeks to create direct links between employees' performance and the strategy of an organization towards its clients/citizens, budget, internal processes, and learning and growth. Both employee and organization performance reviews are carried out twice a year, in December and June.

The challenges at the design level includes on how to set higher-level objectives. Firstly the sectors focused on their very mission, later among the 18 higher-level objectives almost all sectors took 17 and only one unique objective-related to their mandates. These resulted in cascading difficulty as well as later on measuring performances of each sector i.e. the shared 17 objectives are not relevant to all sectors.

3. Data analysis and presentation

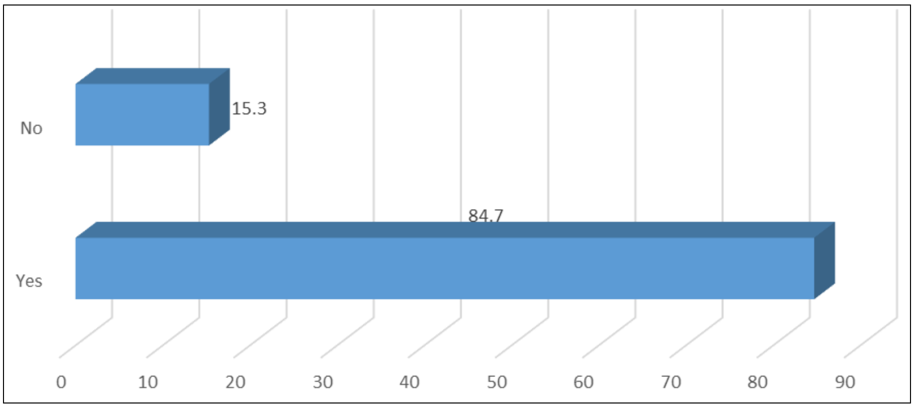
From the study questionnaires distributed to the total staff members (i.e. 80 professional and 9 managerial staffs) of Tefera Degefe, Lam-beret, and Megenagna branch, 72 responses (i.e. 90% response rate) were collected from employees and 8 managerial staff (i.e. 89% response rate) were interviewed.

3.1 BSC Implementation assessment

The success of balanced scorecard performance strategy depends on a number of factors. Apart from the creation of awareness about the performance strategy, it requires implementation follow up and data tracking of individual performance and the subsequent measure to be taken. Having best BSC design does not guarantee the achievement of the goals. The section that follows addresses these and related issues.

a) Awareness

Staff awareness especially for sensitive issues like performance evaluation is mandatory. Staff awareness mostly determines their motivation and their courage to perform their duties. Awareness can be made through oral introduction, formal training, module distribution, or internal publications or in any appropriate methods.



***Source*: Researcher's field survey 2019**

Fig 1: Awareness

On the question of whether respondents are aware of balanced scorecard method in their branch; majority (84.7%) of them are aware of its existence while 15.3% of them are not aware of BSC in the branch. The interview with Managers shows, awareness about BSC is created through training of new staff and materials circulated to existing staffs through portal, outlook, and Gieom. But formal orientation has not been given to all existing staffs.

b) Evaluation

The researcher asked respondents whether they have been evaluated in the bank or not. As indicated on table 1 below majority i.e. 93.1% of them have been evaluated so far, while the remaining 6.9% of respondents are not evaluated mostly (5.6%) because targets are not specified for them and the remaining 1.4% do not know why they are not evaluated. And As per the interview, each branch has an obligation to evaluate all staff except those in probation.

Table 1: Evaluation

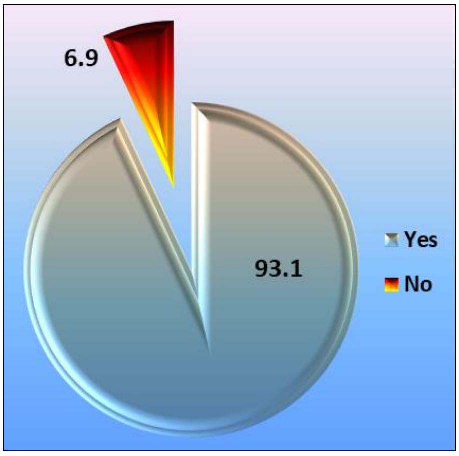
Evaluated in the bank	Frequency	Percent
Yes	67	93.1
No	5	6.9
Total	72	100

***Source*:** Researcher's field survey 2019

Regarding the evaluation interval, all of the respondents that are evaluated indicated that they are evaluated quarterly as per the Bank's requirement.

c) Targets

To measure performance objectively there should be targets allotted to employees as target setting is one of the central points of the balanced scorecard. Accordingly, to assess the existence and issues related with targets respondents were asked if there is any target that is allotted to them that will serve as a measurement for their evaluation?"



***Source*:** Researcher's field survey 2019

Fig 2: Targets

93.1% of the respondents have targets assigned to them quarterly while the remaining 6.9% i.e those are not evaluated did not have targets.

Table 2: Target Attainability

Targets are achievable	Frequency	Percent
Yes	27	40.3
No	40	59.7
Total	67	100

***Source*:** Researcher's field survey 2019

Target setting alone is not enough. It must be realistic and relevant to the Bank's mission.

Regarding the attainability of targets, as indicated on table 2 above, more than half of the respondents 59.7% said their targets are not attainable. As per the interview target allotment is done based on cascading the branch target to each respective performer. The target setting process and how and why each staff is assigned with a certain target needs to be clear to employees.

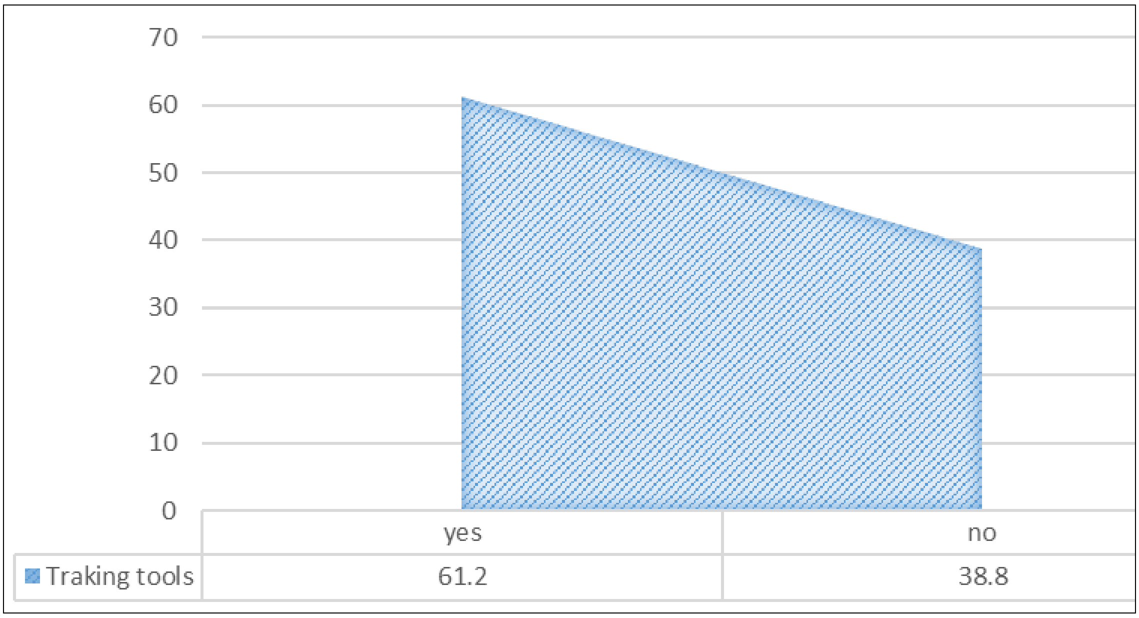
The researcher suspects that either there are some targets which are not realistic or there has been a cascading problem of Bank's missions.

Moreover, respondents indicated that there is no performance follow-up and support practice that is done by the immediate and top management. Unavailability of such measures will affect employees' performance.

d) Data tracking

As per the Employees Performance Management Supervisors Guide of CBE 2018, Data tracking is the next step to be followed after signing contractual agreement in the performance management process. Data tracking is the responsibility of the immediate supervisor to adequately capture and document performance throughout the performance appraisal period.

As stated in the guide for Business targets performance, supervisors shall design their own data tracking formats or use the designed data tracking formats if tracking formats are previously designed by the process/sub process/team. For behavioural performances, supervisors can use a variety of record keeping methods. They might use a diary, performance logs, hand-written records, typed notes, or notes on the computer designated specifically for the employee. List the performance expectations and goals for the appraisal cycle and space to document date, skills exhibited results of behaviour and other comments. Data tracked for assigned employees shall be compiled and collected by the supervisors at least once within a month.



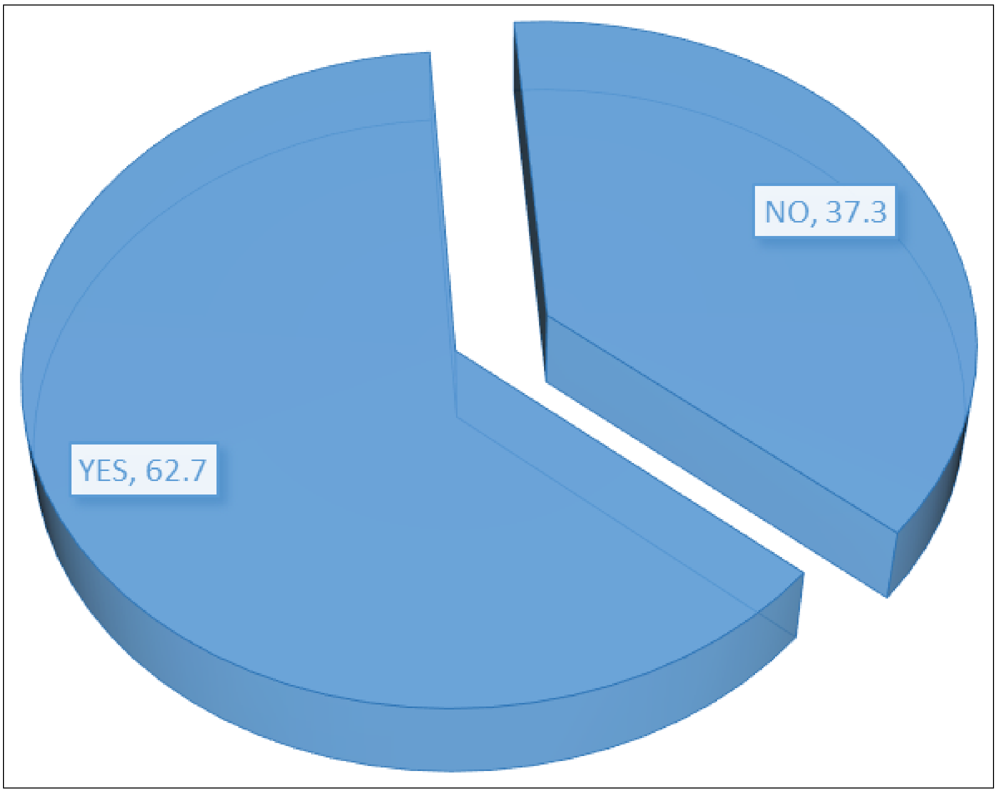
***Source*:** Researcher's field survey 2019

Fig 3: Tracking tools

61.2% of respondents confirmed its existence while 38.8% replied "there is no data tracking ways". Subjective judgment will bring loss of fairness on the evaluation process. To measure performance of employees objectively, the data that are required are collected through data trucking tools. As per the data gathered through interview the management replied there are 16 (sixteen) data tracking formats that are used for error registration, daily average transaction, cash holding limit, discrepancy and the like. But they are not available with all responsible staffs and they are not filled out regularly. This will result in subjective evaluation that is not based on evidence due to lack of objectively kept data.

e) Feedback

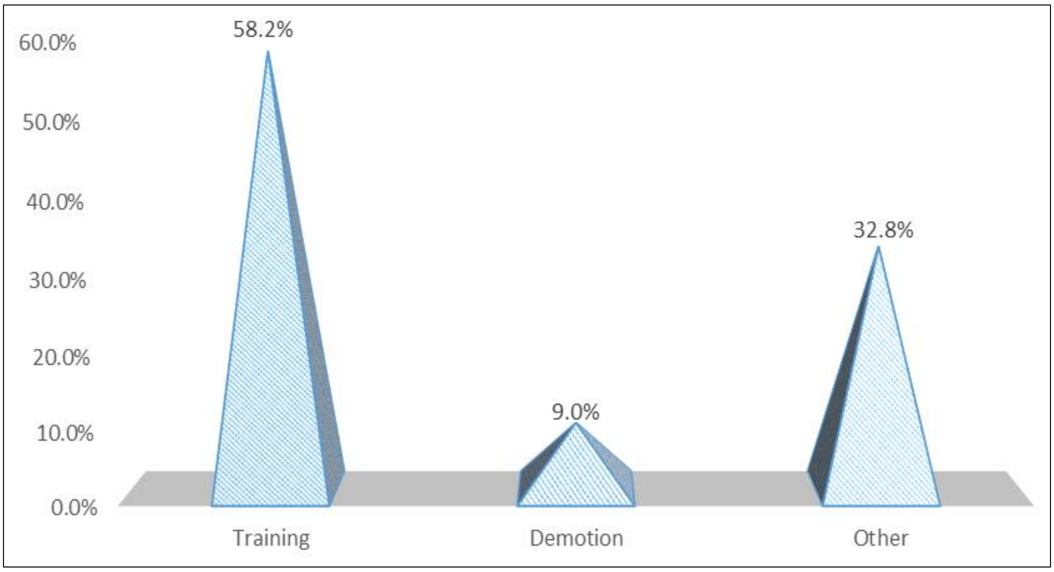
As per the data gathered from employee's performance appraisal user guide of CBE 2018, an effective appraisal process requires employee feedback.



Source: Researcher's field survey 2019

Fig 4: Feedback

Appraisal systems that provide formal feedback every quarter and once a year are more likely to be deficient. In order for an appraisal system to be maximally effective, there must be formal and frequent informal performance feedback, majority of respondents (62.7%) replied that they get feedback from their evaluators, while the remaining (37.3%) answered they do not receive their performance feedback. This variation will create gap in the implementation of BSC.



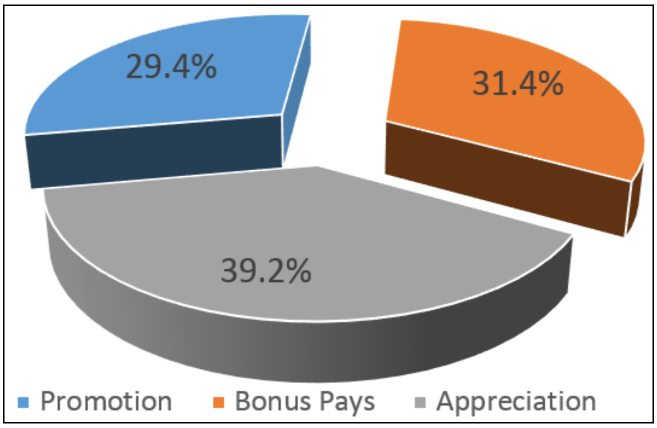
Source: Researcher's field survey 2 019

Fig 5: Effects of performance review

As per the above graph majority (58.2%) of respondents replied managers deal with under-performance through training and 32.8% responded that managers take other measures like changing branch and job rotation within the branch. 9% of respondents said supervisors demote under performers.

f) Reward

As indicated on the figure below, majority (39.2%) received Appreciation and recognition letter, 31.4% got bonus pays, and 29.4% received promotion.



Source: Researcher's field survey 2019

Fig 6: Reward

4. Summary of findings, conclusions and recommendations

4.1 Summary

The major challenges that the CBE had in the implementation of BSC includes lack of adequate training on balanced scorecard. Most respondents indicated the communication between supervisors and employees is not regular. This adversely impacted on employees' awareness.

The other problem is poor setting of measurement indicator The result from the majority of respondents implied the problem of setting right measurement and target for employees, wrongly appraisal score given for financial, nonfinancial and final ratings, poor linking of the Performance appraisal result with Reward system and recognition such as salaries, incentive, allowance, and bonus. This demoralizes employees in the implementation process. Half of respondents indicate lack of linkage of Employees performance with rewards and promotion and the organization does not use extrinsic and intrinsic reward system that has impact on employee's motivation and this creates unfavourable condition in the implementation of BSC. Employees indicate lack of readiness in terms of mentality, skill and competence and negative perception toward BSC implementation.

5. Conclusion

A balanced score card is a performance management tool for measuring whether the operations of a company are aligned with its larger-scale objectives in terms of vision and strategy. Similarly, CBE is currently implementing the balanced score card at all districts characterized as a strategic process aimed at the development of an appropriate culture linking people management, service issues, vision and long-term goals. This study concludes employee understood CBE's vision, mission and values. However, lack of awareness on the employees about BSC creates values and differentiation in the context of customers and stakeholders.

There is lack of leadership commitment and support with regard to awareness creation for employees, and they do not share information clearly and regularly about BSC within organization. Besides, the top management tends to focus on strategy formulation than strategic implementation. The implementation of BSC is not getting the attention from the management. The researcher also examined the attitude; perception and competence of performers toward BSC implementation. Findings conclude that, lack of readiness of employees in terms of mentality, skill and competence toward BSC implementation. Change of mind set is required in order to effectively implement BSC. The organization obtained the plenty of benefits from the BSC implementation process by aligning day to day activities to its strategy, the bank has improved service delivery system and organization performance, benefited from employees understanding of the bank vision, mission and values, and gained and enhanced resource mobilization effort and communication.

The major factors for the poor implementation of BSC include lack of follow up of top management on the effectiveness of BSC system, lack of BSC training, absence of accountability of BSC failures and inadequate commitment of middle level managers, operational managers, and employees toward BSC implementation. Further, problems in setting performance measurement and linkage performance with reward system hinder the effectiveness of the BSC in achieving the intended objectives. Lack of employees' participation, negative attitude of employees toward BSC implementation, poor monitoring and evaluation system and lack of linkage with rewards adversely affect benefit obtained from BSC implementation. The lesson derived call for actions to improve the overall performance and effective implementation of BSC at CBE.

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