

**BALANCED SCORECARD AS A STRATEGY IMPLEMENTATION TOOL
AT AAR KENYA LTD**

BY

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DECLARATION

Student's declaration

This research project is my original work and has not been submitted for a degree course in this or any other university

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Supervisors Declaration

The project has been submitted for examination with my approval as a University Supervisor

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DEDICATION

I would like to dedicate this to my dear parents Henry Kariuki and Grace Kariuki for sacrifice they made to make me who I am today.

ACKNOWLEDGEMENT

I would like to thank the almighty for the gift of life, knowledge, wisdom and strength and health to see me through this project.

I would also like to sincerely thank my supervisor Dr Z.B. Awino for his continuous guidance, invaluable assistance and patience throughout the project. Thank you for accommodating me in your tight schedule and May God reward you abundantly

Special thanks to my CEO Jagi Gakunju who encouraged me and was available any time to respond to my questions and all the other managers colleagues who spent their valuable time to respond to my interview. Special thanks to my friends and classmates who kept me going even when the going was tough. May God bless you all

ABSTRACT

The balanced scorecard is a strategic planning and management system that is used extensively in business and industry, government, and nonprofit organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals. It was originated by Drs. Robert Kaplan (Harvard Business School) and David Norton as a performance measurement framework that added strategic non-financial performance measures to traditional financial metrics to give managers and executives a more 'balanced' view of organizational performance. For most organization formulating strategy is one of the easiest part but implementing the strategy is the hardest part. The balanced score card is a tool that was developed by Kaplan and Norton in the early 1990s to help organization in implementing strategy. Balanced score can enables organizations to a align the vision and strategy with activities of each individual employee in the organization. With the use of balanced score card employees are able to see where they fit in the overall vision of the organization and their contribution towards realizing the organization strategy. The objective of this study was establish how AAR Kenya Ltd uses the balanced score card to implement strategy and also find out the challenges the organization has faced and how it has dealt with those challenges. The study found out that AAR Kenya Ltd has been using the balanced score card for the last five years and it has reap immense benefits. The organization according to the study uses all the four perspectives of the balanced score card; Internal business process, customer perspective, Financial perspective and learning and growth perspective. When developing the KPIs for each employee the organization puts a weighting that has a bias on the employees area of operation in the organization. The study recommended that there is need for further training to employees to deepen the understating of the balanced score card by all within the organization and what is expected from each of the employee in contributing to the overall organization goals. The study also recommended automation of the balanced score card process to ease the tedious process of employees filling data manually. This will also create more objectivity and avoid chances of manipulation to achieve better scores.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the study

The balanced scorecard is a strategic planning and management system that is used extensively in business and industry, government, and nonprofit organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals. It was originated by Drs. Robert Kaplan (Harvard Business School) and David Norton as a performance measurement framework that added strategic non-financial performance measures to traditional financial metrics to give managers and executives a more 'balanced' view of organizational performance.

While the phrase balanced scorecard was coined in the early 1990s, the roots of this type of approach are deep, and include the pioneering work of General Electric on performance measurement reporting in the 1950's and the work of French process engineers (who created the *Tableau de Bord* – literally, a "dashboard" of performance measures) in the early part of the 20th century (Chadler, 1962).

Many managers have a challenge finding the measurement tool that reflects strategy of the business in addition to indicating how well it performs. The traditional means of measuring results have been through financial reporting using an accounting model developed centuries ago. However these models do not incorporate the valuation of a company's intangible and intellectual assets, such as high quality products and services, motivated and skilled employees and satisfied customers. These intangible assets are equally critical to the long term success of the business. Firms do exist with the aim of maximizing the shareholders wealth. The use of financial indicators only is criticized because focus is historical statistics and focus on short term objectives rather than future long term objectives of the firm (Druly, 2004).

The balanced score card is a complementary strategic model that considers financial and non-financial measures. Johnson (2001) defines the balanced score card as a management model that translates the organizational mission and strategy into a collection of performance measures (Kaplan and Norton 2001). The balanced score card is also an integrated management system consisting of three components; strategic management system, communication tool and measurements system (Niven, 2003.) The balanced score card is applicable in any organization, including public and non-profit making organizations (Kaplan 2001; Niven 2003). However, each accounting and management model should be adapted in the context that they operate. A uniform approach of the balanced score card in business may lead to dysfunctional consequences (Johnson 2001).

According to Kaplan and Norton (1996), disconnect between strategy formulation and strategy implementation is caused by barriers erected by traditional management systems. They have identified these as the systems organizations use to establish and communicate strategy and directions, allocate resources, define departmental, team and individual goals and directions and provide feedback. Strategy analysis and choice are of little value in an organization unless the strategies are capable of being implemented. Strategic change does not take place simply because it is considered desirable; it takes place because it can be made to work and put to work by the organizational members. Execution of strategy depends on people, who are the most important resource in an organization. How they are organized is crucial to the effectiveness of strategy (Johnson and Scholes, 1999).

The balanced scorecard has evolved from its early use as a simple performance measurement framework to a full strategic planning and management system. The “new” balanced scorecard transforms an organization’s strategic plan from an attractive but passive document into the "marching orders" for the organization on a daily basis. AAR Kenya Ltd has been operating in a turbulent business environment for the last 28 years. The company has enjoyed business leadership over the years and use of balanced score card to implement strategy was a big step to ensure that company remains ahead of the park. The company uses the balanced score card to align its functional strategies with its overall business strategy. According to Niven (2003) the implementation of the balanced score card methodology implies that it is necessary to adjust.

1.1.1 Concept of strategy

Strategy has its origin in the army, derived from the word ‘strategos’ which means the art of deploying forces to battle (Mintzberg et al, 1991) strategy is basically a set of decision making rules for guidance of organization behavior (Ansoff 1990) and is a concept that entered the business vocabulary in the 1950s in response to an increasing focus on external discontinuities. Strategy is defined as the “direction and scope of an organization over the long-term, which achieves advantage for the organization through its configuration of resources within a changing environment and to fulfill stakeholder expectations” (Johnson and Scholes 2005, p70). Strategic management is basically the process of strategy formulation and implementation (Mintzberg et al 1991).

Strategies exist in a number of levels in an organization. Corporate strategy is concerned with the overall purpose and scope of the organization to meet the expectations of the owners or major stakeholders and add value to the different parts of the organization. At business unit strategies is about how to compete successfully in a certain market. Whereas corporate strategy is about the organization as a whole where the decisions are related to a strategic business unit SBU Johnson and Scholes (1999).

According to Pearce and Robinson (2005), strategy is a firms large scale, future oriented plan for interacting with the environment to achieve its objectives. It’s a company’s game plan. They state that the plan does not necessarily detail all future deployment of people material and finances but it provides a framework for managerial decisions. Strategy reflects a firms awareness of how, where, when to compete, against who to compete and for what purpose. Johnson, Scholes and Whittington (2005) describe strategy as direction and scope of the firm in the long term, which achieves and advantages in changing environment through configuration of resources and competencies with the aim of fulfilling stakeholder expectations.

1.1.2 Strategy implementation

Strategy implementation follows strategy formulation. It is the most challenging stage and determines the success of failure of a strategy. It is concerned with aligning the organization structure, systems and processes with the chosen strategy (Byars et al, 1996). There are many

challenges that organizations face in implementing strategy. There is need for leadership, which provides direction in strategy implementation from top management to managers at various levels in the organization. At the organization structure may affect the organizations internal capability in terms of delivering on strategy. There is the challenge of adequate financial and human resources among others. Sang (2007).

Strategy implementation has been referred to as the action phase of strategic management process (Pearce and Robinson, 2005) and involves translating strategic thought into organization action. This follows consensus on corporate business strategy and long term objectives of the firm. Strategy implementation implies a shift for managers from planning their work to working their plan. Many organizations successfully formulate strategies. They develop action plans consider organization structure, fund their strategies but yet fail to successfully implement their strategies. The challenge is that these activities lack linkages. Linkage involves tying together all the activities of the organization to make sure all the organization resources are rowing in the same direction (Birnaum 2009).

Strategy implementation involves organization of the firm's resources and motivation of the staff to achieve objectives. The environmental conditions facing many firms have change rapidly. Today's global competitive environment is complex, dynamic, and largely unpredictable. To deal with this unprecedented level of change, a lot of thinking has gone into strategy formulation. Strategic management is about managing the future, and effective strategy formulation is crucial, as it directs the attention and actions of an organization. The assessment of strategy formulation processes has become crucial for practitioners and researchers alike on order to conduct and evaluate different formulation strategies (Otley, 1999).

Kaplan and Norton (1996) have identified four challenges to strategy implementation. First organizations develop visions and strategies that are not actionable. This occurs when the organization cannot translate its vision and strategy into terms that can be understood and acted upon. Secondly, the formulated strategies may not be linked to departmental, team and individual goals. The implication is that long term requirements of the organization goals are not translated into goals for departments, teams and individuals. Rather, departmental performance remains focused meeting financial budgets established as part of traditional

management control process. Third and organization can formulate strategies to long term resource allocations. This arises as a result of organizations separating their long-term strategic planning and annual budgeting yet strategic management is about performance of organizations.

An important concept of strategic planning is an understanding that in order to flourish, everyone needs to work to ensure that team' goals are met (Johnson, 1997). According to Havner (2001) strategy implementation skills are not easily mastered. Strategy implementation is the most difficult part of most managers jobs, more difficult than strategy formulation. For example, US managers spend than 10 billion pounds on strategic analysis and formulation. The ability to implement strategies is one of the most critical management skills. Manager's keen on succeeding at strategy implementation must master systems thinking to be able to coordinate a wide range of efforts aimed at transforming intentions into actions.

Whereas the strategic planning tools have developed consistently over the past 20 years, the tools for implementing strategy have not developed as quickly. The questions that executives have and which remain un-answered are how to manage the strategic planning process in order to ensure that the resultant strategies are realistic. Problems often encountered in operationalization of strategic plans include lack of accuracy of the plans inconsistency in objectives and in-adequate rewards for efforts expended in planning process. The best strategic plans are worthless if the organization cannot implement them and react effectively to them (Pearce and Robinson, 1991). Strategy implementation has been referred to as the action phase of the strategic management process (Pearce and Robinson) and involves translating strategic thought into organizational action.

1.1.3The balanced score card

The balance scorecard (BSC), developed by Robert Kaplan and David Norton in the early 1990s, has over the years proved to be a powerful tool for translating strategy into action. It was initially developed as a performance management tool (Kaplan and Norton 1992). Kahihu (2005) describes the BSC as a management tool that provides stakeholders with a comprehensive measure of how the organization is progressing towards the achievement of

its strategic goals and argues that the BSC should reinforce the objectives of the organization by reinforcing indicators that are important in achieving strategy. Kaplan and Norton (1996) highlight that most companies operational and management control systems are built around financial measures and targets, which bear little relation to the company's progress in achieving long-term strategic objectives.

The emphasis most companies place on short term financial measures leaves the gap between development of strategy and its implementation. The balance score card goes beyond standard financial measures to include additional perspectives: The customer perspective, the internal process perspective, and the learning and growth perspective (Kaplan and Norton, 1992) Financial perspective includes measures such as operating income, return on capital employed and economic value added, Customer perspective focuses on measures such as customer satisfaction, customer retention, and market share in target segments. Business perspective looks at measures such as cost, throughput and quality. Learning and growth perspective focuses on measures such as employee satisfaction, employee retention skills etc.

Niven (2005) supports the argument against sole reliance of financial information, and notes that however important financial measures are, they must be supplemented with other indicators that predict future financial success. He compares the use of financial measures alone, with driving a car with rear mirror, which only shows a good view of where one has been, but little guidance on the road ahead. What is needed is performance measurement system that balances the historical accuracy and integrity of financial measures with drivers of future financial success.

The balance score card has been adopted by sixty nine percent of the companies according to a survey by Kiragu (2005). Some companies were fond of implementing BSC perspectives though not calling it BSC. The balanced set of performance measures tell a concise yet complete story about the achievement and the performance of the organizations towards its mission and goals. It provides a holistic view of what is happening in the organization. By tying these performance measures to rewards, the balanced score card ensures that employees will do what is best for the organization.

1.1.4 Insurance Industry in Kenya

The insurance industry in Kenya is governed by the insurance Act CAP 487 and regulated by the Insurance Regulatory Authority. There are 44 insurance companies for the year 2011 (IRA public notice). Twenty companies write non-life insurance business only, nine write life insurance business only while fifteen are composite (both life and non-life) 16 general insurance firms have healthcare insurance as one of the offerings in their portfolio. (AKI 2010).

The insurance industry is highly competitive part of the financial services industry. Insurance is the business of undertaking liability by way of insurance (including reinsurance) in respect of any loss of life and personal injury and any loss or damage, including liability to pay damages or compensation, contingent upon the happening of a specified event (Insurance Act, CAP 487). The insurance regulatory authority (IRA) has the key responsibility of industry regulation and compliance. Though recently created, the genesis of the authority goes as far back as 1987 when the government with a view to maintaining stability in the sector established a regulatory agent- commissioner of insurance, resident in a department in the ministry of finance to oversee operations and management of the insurance sector.

The industry is highly competitive with forty six licensed insurance companies at the end of year 2010. Fourteen companies wrote both general and life business, twenty two wrote only general insurance while only nine wrote life insurance. The penetration of insurance in Kenya as a percentage of gross domestic products is estimated at around 3% (AKI 2010). In-order to help increase penetration and change the face of the insurance industry the regular has put a more stringent regulatory framework. The regulator has authority to inspect insurance companies on short notice and make recommendations for senior management if deemed fit in order to protect to protect the interests of the insured public. The insurance companies are expected to settle claims promptly failure to which the regulator can attach the assets of the insurance company. The entry of other financial player into the industry and more particularly the banking industry through ban assurance has heightened competition in the industry.

The growth of micro and small and medium scale business has opened new frontiers for insurance business to increase penetration. This has a future growth area with more insurance companies now offering innovative products to tap this market segment. An example is where small scale farmers in rural areas are being offered insurance product to cover crop

failure a hitherto unknown are of insurance. Technology has also aided growth and penetration of insurance by increasing not only more modes of communication but also increasing the distribution channels of insurance products. Trends such as mobile money transfer systems have enabled premiums to paid easily (AKI 2010).

From AKI, IRA and the AIBK to the insurance underwriters, experts in insurance are embracing a new strategy that is aimed at ensuring the industry commands the respect they deserve and that more customers are taking up the services in-order to drive insurance penetration and counter the negative perceptions that insurers are just out to fleece their customers. Part one, section 2 (1) of the insurance act, CAP 487 of the laws of Kenya defines insurance business as a business of undertaking liability by way of insurance (including re-insurance), in respect of any loss of life and personal injury and any loss or damage, including liability to pay damage or compensation, contingent upon happening of a specific event...in return for payment of one or more premiums. The main players in the insurance industry are insurance companies, re-insurance companies, intermediaries such as insurance brokers and insurance agents, risk managers or loss adjusters and other service providers (Insurance regulatory authority, 2010).

The statute regulating the insurance industry is the insurance Act; Laws of Kenya, Chapter 487. The office of the commissioner of insurance was established under its provisions to strengthen the government regulation under the ministry of finance. The insurance self-regulates itself through the association of Kenya insurers (AKI) which was established in 1987 as a consultative and advisory body to insurance companies and registered under the society act Cap 108 of laws of Kenya (www.akinsure.com). The professional body of the industry is the insurance institute of Kenya which deals with training and professional education. According to (AKI) insurance industry report there are 21 medical insurance providers with AAR Kenya being among them. There is a cut-throat competition within the industry and hence the need to ensure proper implementation of strategy for long-term survival.

Mitchell and Fields, (1996) contend that the establishment of a dynamic insurance industry is a part of the responsibility of the legislators and supervisors. It is their role to set an enabling environment for the healthy development of the insurance industry and to deal with the incidence of market failures and imperfections. A common cited reason for low demand for insurance in Kenya is the limited understanding of its benefits (Ndungu 2010) Many people do not understand the concept of insurance and how it works. The changes in the economic environment has reduced the ordinary Kenyans purchasing power with increased inflation and increased cost of living. Most Kenyans therefore cannot afford the high insurance premiums and would more often than not spend little income to purchase basic commodities and like food and pay school fees for the children. The major hindrance though is not more the issue of affordability but the issue of perception about insurance. Most people see insurance as a reserve for the wealthy people in society. They see it as a reserve for the rich, something that is irrelevant, too expensive or even unfair (Cohen and Sebastad, 2005).

1.1.5 AAR and BSC Brief history

When AAR started operating in 1984, the primary business was evacuation of medical and accident casualties, both by road and air. As membership increased, so did the needs of clients, creating more opportunities to comprehensively provide healthcare packages for clients. The flexibility, innovation and readiness to respond to the needs of clients that have today made the AAR the leading healthcare company in East Africa, as encapsulated in the vision and mission AAR is the largest and most successful private healthcare company with a footprint in the East African region. With 18 health centers spread over Kenya, Uganda and Tanzania; which provide preventative and curative healthcare to clients from all walks of life. AAR also offer rescue and evacuation services to members from anywhere in the world. With a current membership of close to 150,000, AAR is not only the leader in healthcare but also the preferred provider for both the public and private sectors in East Africa. Committed to fulfilling the vision and are continuously on the lookout for opportunities on the continent. AAR has received and is studying a number of special interests and invites from the governments of countries neighboring Eastern Africa - including Somalia, Ethiopia and Sudan – who wish to benefit from AAR services in their countries (www.aarhealth.com).

We have implemented robust clinical and administration systems to create and support service delivery. Our ever-growing number of health centers throughout the region, increased membership and diversification of skills base, has placed us at an advantageous position to be

at the helm of healthcare in Africa (AAR CEO Jagi Gakunju). AAR has been using the balance score card for the last five years. The process is guided by the group HR Manager. The company uses the balance score card to implement strategy, measure performance against various indicators evaluate employee performance and reward the top performers.

1.2 Research problem

Organizations exist in complex and turbulent economic, legal, demographic, technological, political and social environment. According to Kotler, 2000 successful firms know the importance of constantly watching and adapting to the ever changing business environment. Organizations therefore have to align themselves well to cope with the changing environment by assessing their internal capabilities and resources that will help them adapt to the changing environment. The balance scorecard is a performance measurement and strategic management tool. It translates an organization mission and strategy into a balanced set of integrated performance measures to fit in the theory of business in a chain of cause and effect relationship, the organization will have a better idea of how to achieve its potential competitive advantage (Kaplan and Norton, 1996) Johnson and Scholes (2005) underscores the importance of the BSC in addressing the discrepancy existing in terms of performance indicators, whereby there is no good mix of qualitative and quantitative indicators, the latter dominated by financial analysis. The balanced score card measure the organization performance from the four perspectives; financial perspective, learning and growth perspective, internal process perspective and finally the customer perspective. Strategic analysis and choice are of little value in an organization unless the strategies are capable of being implemented. Strategic change does not take place simply because it is considered desirable; it takes place if it can be made to work and put into effect by the organizational members (Johnson and Scholes , 1999). Implementing strategy can make a sound strategic decision ineffective or a debatable choice successful (Mintzberg, Quin and Ghoshal, 1999). Many organizations are good and developing and formulating strategies but the challenge comes in when it comes to implementation.

The insurance industry in Kenya has had a low growth and very slow uptake. Insurance regulatory authority annual figures have shown growth in the industry but the uptake of insurance in the market has remained relatively low at below 3%. The medical insurance industry has become very competitive with many insurance players hitherto not offering

medical insurance jumping into the fray. With this reality AAR Kenya Ltd had to come up with sound strategies to sustain and consolidate its lead in this market and therefore the need to adopt balance score card to implement strategy and measure performance.

The balance score card has been adopted by sixty nine percent of the companies according to a survey by Kiragu (2005). Some companies were fond of implementing BSC perspectives though not calling it BSC. The balanced set of performance measures tell a concise yet complete story about the achievement and the performance of the organizations towards its mission and goals. It provides a holistic view of what is happening in the organization. By tying these performance measures to rewards, the balanced score card ensures that employees will do what is best for the organization.

Locally several studies have been conducted in Kenya by various researchers on the use of balanced score card. Use of balanced score card in strategy development and implementation at Safaricom Ltd (Karimi 2010); A study of the implementation of the balanced score card as a continuous improvement tool at Kenya Revenue Authority (Murimi 2008); Application of the balanced score card in performance management among commercial banks in Kenya (Wangeci 2008); A study of the balance score card in strategy formulation and implementation at Telkom Kenya (Kariuki 2007); Application of the balanced score card in implementation of strategy at KRA (Kamau 2006); Study on the application of the balance score card in strategy application at Barclays Bank (Renato 2007); Use of the balanced score card in strategy implementation by quoted companies in the NSE (Njiru 2007) but none has been done on the sue of balanced score card at AAR Kenya Ltd.

Does the balanced score card work as a business strategy implementation tool for AAR Kenya Ltd?

1.3 Research objective

The objective of this study was to assess the implementation of strategy using the balanced score card at AAR Kenya Ltd

1.4 Value of the research

The essence of strategic management revolves around trying to define what business we are in, what our basic direction for the future are, what our culture and leadership styles are and our overall attitude to strategic change is and should be. We also need establish who our

customers are, our level of competitiveness and our competitive advantage, to be innovative and creative so as to improve our business processes and how and where to add value within the business (Johnson, Scholes and Whittington, 2009) According to Arieu (2007), "there is strategic consistency when the actions of an organization are consistent with the expectations of management, and these in turn are with the market and the context.

The balance scorecard (BSC), developed by Robert Kaplan and David Norton in the early 1990s, has over the years proved to be a powerful tool for translating strategy into action. It was initially developed as a performance management tool (Kaplan and Norton 1992), Kahihu (2005) describes the BSC as a management tool that provides stakeholders with a comprehensive measure of how the organization is progressing towards the achievement of its strategic goals and argues that the BSC should reinforce the objectives of the organization by reinforcing indicators that are important in achieving strategy.

Lynch and Cross (1995) who identified three criteria's that must be met by performance management systems if they are to effectively mediate between and organizations strategy and its day to day activities. These necessary conditions comprised; that the system must explicitly link operational targets to strategic goals; its must integrate financial and non-financial performance information; and the system should focus on business activities on meeting customer requirements. It is asserted that the balanced score card fundamentally meets these criteria by providing a truly strategic control system (Mooraj et al., 1999) The advantages of implementing the balanced score card are such that it aligns individual actions to achieving the organizational objectives, addresses all the critical aspects of running the organization, it measures performance objectively, helps identify areas that require more attention and at a glance capture the overall picture of the business performance.

Strategic management includes not only the management team but can also include the Board of Directors and other stakeholders of the organization. The research is useful to the organization coming at a critical time when AAR Kenya Ltd is facing stiff competition from other key players in medical insurance. It will help management evaluate the success of using the BSC to implement strategy and look at challenges and areas that need attention and improvement Academicians will benefit from this study because it will add to the existing body of knowledge on using the balance score card to implement strategy.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter seeks to explain the strategic management concept, its origin and its application in today's management practice. It also explains the strategy implementation and gives a detailed explanation of the balanced score card while explaining the various perspectives of the balanced score card.

2.2 The concept of strategy

Strategy can be defined as the direction and scope of an organization over the long-term, which achieves advantage for the organization through its configuration of resources within a changing environment and to fulfill stakeholder expectations (Johnson and Scholes 2005, pg 70) Strategy therefore is a long term direction and organization takes in relation to the environment in which it operates. It is seen as a 'game plan' which provides a framework for managerial decisions, though it does not precisely detail all future deployment of organizational resources.

There are three levels of strategy namely the corporate level, the business level strategy and the functional level strategy (Pierce II, Robinson Jr. 2009). Strategic management is defined as the set of decisions and actions that result in the formulation and implementation of plans designed to achieve an organization's objectives. This involves formulating the vision and

mission, carrying out a situation analysis, to establish its internal capabilities and assessing the external environment. The best desirable options are then selected, evaluating each option in light of the organization's mission. Long term grand objectives are selected, with the aim of achieving the most desirable options. This is expected to cascade through development of annual plans and short-term objectives, allocation of resources to achieve these objectives (Pierce II and Robinson 1997).

The essence of strategic management therefore revolves around trying to define what business we are in, what our basic direction for the future are, what our culture and leadership styles are and our overall attitude to strategic change is and should be. We also need establish who our customers are, our level of competitiveness and our competitive advantage, to be innovative and creative so as to improve our business processes and how and where to add value within the business (Johnson, Scholes and Whittington, 2009) According to Arieu (2007), "there is strategic consistency when the actions of an organization are consistent with the expectations of management, and these in turn are with the market and the context." Strategic management includes not only the management team but can also include the Board of Directors and other stakeholders of the organization. It depends on the organizational structure.

“Strategic management is an ongoing process that evaluates and controls the business and the industries in which the company is involved; assesses its competitors and sets goals and strategies to meet all existing and potential competitors; and then reassesses each strategy annually or quarterly [i.e. regularly] to determine how it has been implemented and whether it has succeeded or needs replacement by a new strategy to meet changed circumstances, new technology, new competitors, a new economic environment., or a new social, financial, or political environment” (Lamb,1984).

According to Pearce and Robinson (2005), strategy is a firms large scale, future oriented plan for interacting with the environment to achieve its objectives. It's a company's game plan. They state that the plan does not necessarily detail all future deployment of people material and finances but it provides a framework for managerial decisions. Strategy reflects a firms awareness of how, where, when to compete, against who to compete and for what purpose. Johnson, Scholes and Whittington (2005) describe strategy as direction and scope of the firm in the long term, which achieves and advantages in changing environment through

configuration of resources and competencies with the aim of fulfilling stakeholder expectations.

Ansoff and Mc Donnel (1990) observe that strategic planning establishes purposes, guidelines and strategies constraints of the firm. Implementation is the process of causing the firm to behave in accordance with the purposes, guidelines and strategies. Control evaluates the organizations performance and determines the needed adjustments in planning and implementation. Where Johnson et.al, (2006) are concerned, strategy implementation revolves around ensuring that strategies are working in practice. It involves various activities including structuring an organization to achieve successful performance, enabling success through the way in which resources within the organization are configured. Whereas enabling success is important, the extent to which new strategies are built on given resources and competency strengths of the organization is also crucial. To effectively manage change, there will be need to understand how the context of an organization should influence the approach to change, different types and roles of people to manage the change, styles to be adopted and the levels of effecting the change.

2.3 Strategy implementation process

Strategy implementation is what determines the success of strategy. A strategy however well defined and ambitious will be a total failure if it fails at the implementation stage. In general, implementation involves for basic elements namely; identification of the general strategic objectives, formulation of specific plans, resource allocation, budgeting and monitoring and control procedures (Pearson and Robinson 2009). Hunger and Wheelan (1995) are of the view that implementing the strategy is a process by which management translates strategies and policies into action. Through the development of programs, budgets and procedures. The purpose is to complete the transition from strategic planning to strategy implementation and inculcate it throughout the system.

Strategy implementation involves translation of strategy into guidelines of the daily activities and for the organization staffs who are involved it making it a reality. The strategy and the firm must become one. The strategy therefore must be reflected in the way the firm organizes its activities and in the firm's values and beliefs. For this to be achieved clear action plans and short term objectives, functional tactics, policies and guidelines need to be created with

proper alignment to strategy. There is need for strategic controls that steer execution of strategy, continuous evaluation to show deviations and corrective actions leading to continuous improvement in the course of strategy implementation (Pearce 11 and Robinson 1997).

Strategy implementation has been referred to as the action phase of strategic management process (Pearce and Robinson, 2005) and involves translating strategic thought into organization action. This follows consensus on corporate business strategy and long term objectives of the firm. Strategy implementation implies a shift for managers from planning their work to working their plan. Many organizations successfully formulate strategies. They develop action plans consider organization structure, fund their strategies but yet fail to successfully implement their strategies. The challenge is that these activities lack linkages.

Linkage involves tying together all the activities of the organization to make sure all the organization resources are rowing in the same direction (Birnaum, 2009). Strategy implementation involves organization of the firm's resources and motivation of the staff to achieve objectives. The environmental conditions facing many firms have change rapidly. Today's global competitive environment is complex, dynamic, and largely unpredictable. To deal with this unprecedented level of change, a lot of thinking has gone into strategy formulation. Strategic management is about managing the future, and effective strategy formulation is crucial, as it directs the attention and actions of an organization. The assessment of strategy formulation processes has become crucial for practitioners and researchers alike in order to conduct and evaluate different formulation strategies (Otley, 1999).

Kaplan and Norton (1996) have identified four challenges to strategy implementation. First organizations develop visions and strategies that are not actionable. This occurs when the organization cannot translate its vision and strategy into terms that can be understood and acted upon. Secondly, the formulated strategies may not be linked to departmental, team and individual goals. The implication is that long term requirements of the organization goals are not translated into goals for departments, teams and individuals. Rather, departmental performance remains focused meeting financial budgets established as part of traditional management control process. Third and organization can formulate strategies to long term resource allocations. This arises as a result of organizations separating their long-term

strategic planning and annual budgeting yet strategic management is about performance of organizations.

An important concept of strategic planning is an understanding that in order to flourish, everyone needs to work to ensure that team' goals are met (Johnson, 1997). According to Havner (2001) strategy implementation skills are not easily mastered. Strategy implementation is the most difficult part of most managers jobs, more difficult than strategy formulation. For example, US managers spend than 10 billion pounds on strategic analysis and formulation. The ability to implement strategies is one of the most critical management skills. Manager's keen on succeeding at strategy implementation must master systems thinking to be able to coordinate a wide range of efforts aimed at transforming intentions into actions.

Whereas the strategic planning tools have developed consistently over the past 20 years, the tools for implementing strategy have not developed as quickly. The questions that executives have and which remain un-answered are how to manage the strategic planning process in order to ensure that the resultant strategies are realistic. Problems often encountered in operationalization of strategic plans include lack of accuracy of the plans inconsistency in objectives and in-adequate rewards for efforts expended in planning process. The best strategic plans are worthless if the organization cannot implement them and react effectively to them (Pearce and Robinson, 1991). Strategy implementation has been referred to as the action phase of the strategic management process (Pearce and Robinson) and involves translating strategic thought into organizational action.

Why do firms fail to successfully implement strategy? Pearce 11 and Robinson (1997) highlight contributors to successful implementation of strategy as the organization structure, leadership provided by CEO and key managers, the organization culture and the organization reward system. Managing strategic change is also an important aspect of strategic implementation

Ansoff and Mc Donnel (1990) have identified several challenged to the implementation of strategy, one pre-strategy decision making process are heavily political in nature. Strategy introduces elements of rationality which are disruptive to the historical culture of the firm, and threatening to the political processes. A natural reaction to the organizational members is to fight against the disruption of the historical power structures, rather than confront the

challenges posed by the changing environment. Two the introduction of strategic planning triggers conflict between the previous profit making activities and new innovative activities.

Organizations generally lack capacity or motivational systems to think and act strategically. They also lack information about themselves and the environment which is needed for effective strategic planning and the managerial talents capable of formulating implementation. Kaplan and Norton (1996) have identified four major challenges to strategy implementation. They have conceived these as the barriers created by management systems to establish and communicate strategy and directions, allocate resources, define departmental, team and individual goals and directions and provide feedback.

Specifically they have recognized the existence of barriers with organizations; visions and strategies that are not actionable, strategies that are not linked to departmental, team and individual goals, strategies that not linked resource allocations. Visions and strategies that are not actionable become a hindrance when the organization cannot translate its strategy into terms that can be understood and agreed upon. Where disagreement exists between how to translate the lofty vision and mission statements into actions, the result is fragmentation and sub-optimization of efforts (Kaplan and Norton, 2001). This arises where the CEO and his senior management team have failed to gain consensus on the vision and strategy.

2.4 The balanced score card approach

The balanced scorecard is a strategic planning and management system that is used extensively in business and industry, government, and nonprofit organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals. It was originated by Drs. Robert Kaplan (Harvard Business School) and David Norton as a performance measurement framework that added strategic non-financial performance measures to traditional financial metrics to give managers and executives a more 'balanced' view of organizational performance. While the phrase balanced scorecard was coined in the early 1990s, the roots of the this type of approach are deep, and include the pioneering work of General Electric on performance measurement reporting in the 1950's and the work of French process engineers (who created the *Tableau de Bord* – literally, a "dashboard" of performance measures) in the early part of the 20th century (Chadler, 1962).

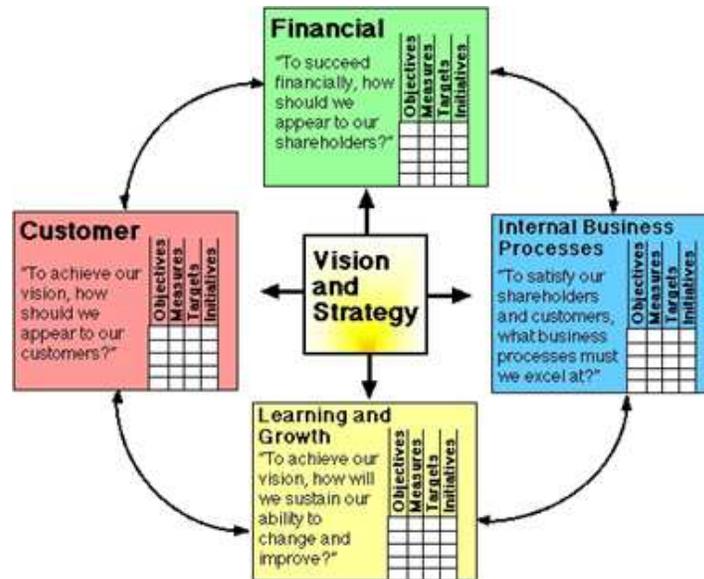
The balanced scorecard has evolved from its early use as a simple performance measurement framework to a full strategic planning and management system. The “new” balanced scorecard transforms an organization’s strategic plan from an attractive but passive document into the "marching orders" for the organization on a daily basis. It provides a framework that not only provides performance measurements, but helps planners identify what should be done and measured. It enables executives to truly execute their strategies (Kaplan and Norton 1992). Recognizing some of the weaknesses and vagueness of previous management approaches, the balanced scorecard approach provides a clear prescription as to what companies should measure in order to 'balance' the financial perspective.

The balanced scorecard is a management system (not only a measurement system) that enables organizations to clarify their vision and strategy and translate them into action. It provides feedback around both the internal business processes and external outcomes in order to continuously improve strategic performance and results. When fully deployed, the balanced scorecard transforms strategic planning from an academic exercise into the nerve center of an enterprise (Kaplan and Norton 1992). Kaplan and Norton (1962) describe the innovation of the balanced scorecard as follows: "The balanced scorecard retains traditional financial measures. But financial measures tell the story of past events, an adequate story for industrial age companies for which investments in long-term capabilities and customer relationships were not critical for success. These financial measures are inadequate, however, for guiding and evaluating the journey for information age companies.

The balance score card goes beyond standard financial measures to include additional perspectives: The customer perspective, the internal process perspective, and the learning and growth perspective (Kaplan and Norton, 1992) Financial perspective includes measures such as operating income, return on capital employed and economic value added, Customer perspective focuses on measures such as customer satisfaction, customer retention, and market share in target segments. Business perspective looks at measures such as cost, throughput and quality. Learning and growth perspective focuses on measures such as employee satisfaction, employee retention and skills.

Niven (2005) supports the argument against sole reliance of financial information, and notes that however important financial measures are, they must be supplemented with other indicators that predict future financial success. He compares the use of financial measures alone, with driving a car with rear mirror, which only shows a good view of where one has

been, but little guidance on the road ahead. What is needed is performance measurement system that balances the historical accuracy and integrity of financial measures with drivers of future financial success.



Source: Robert S. Kaplan and David P. Norton, “Using the Balanced Scorecard as a Strategic Management System,” Harvard Business Review (January-February 1996): 76.

Figure 1: Components of the balanced score card

2.5 The four Perspectives of the balanced score card

Kaplan and Norton (1992) suggest that we view the organization from four perspectives, and develop metrics, collect data and analyze it relative to each of these perspectives:

The learning and growth perspective identifies the infrastructure that the organization must build to create long-term growth and improvement. It includes employee training and corporate cultural attitudes related to both individual and corporate self-improvement. In a knowledge-worker organization, people; the only repository of knowledge are the main resource. In the current climate of rapid technological change, it is becoming necessary for knowledge workers to be in a continuous learning mode. Metrics can be put into place to guide managers in focusing training funds where they can help the most. In any case, learning and growth constitute the essential foundation for success of any knowledge-worker organization (Kaplan and Norton 1992). Kaplan and Norton (1992) emphasize that 'learning'

is more than 'training'; it also includes things like mentors and tutors within the organization, as well as that ease of communication.

The internal business perspective refers to internal business processes. The organization must identify the key processes to excel in order to continue adding value to the customers. Metrics based on this perspective allow the managers to know how well their business is running, and whether its products and services conform to customer requirements (the mission). These metrics have to be carefully designed by those who know these processes most intimately. To satisfy the customer organizations may have to identify entirely new internal processes rather than focusing efforts on incremental improvement of existing activities. Service development and delivery, partnering with community, and reporting are examples of key areas represented in this perspective (Heskett, 1986).

The third is the customer perspective. This perspective identifies the customers and the market segments in which the business unit will compete in the identified target segments. The metrics used here are customers satisfaction, customer retention, customer acquisition, customer profitability and market and account share in the identified target markets. Recent management philosophy has shown an increasing realization of the importance of customer focus and customer satisfaction in any business Arverson (1998). These are leading indicators: if customers are not satisfied, they will eventually find other suppliers that will meet their needs. Poor performance from this perspective is thus a leading indicator of future decline, even though the current financial picture may look good. In developing metrics for satisfaction, customers should be analyzed in terms of kinds of customers and the kinds of processes for which we are providing a product or service to those customer groups.

The fourth perspective is the financial perspective, without which, Niven (2003) argues that the BSC would be incomplete. Arverson (1998) argue that Kaplan and Norton (1992) do not disregard the traditional need for financial data. Timely and accurate funding data will always be a priority, and managers will do whatever necessary to provide it. In fact, often there is more than enough handling and processing of financial data. With the implementation of a corporate database, it is hoped that more of the processing can be centralized and automated. But the point is that the current emphasis on financials leads to the "unbalanced" situation with regard to other perspectives.

The fourth perspective is the financial perspective, without which, Niven (2003) argues that the BSC would be incomplete. Arverson (1998) argue that Kaplan and Norton (1992) do not disregard the traditional need for financial data. Timely and accurate funding data will always be a priority, and managers will do whatever necessary to provide it. In fact, often there is more than enough handling and processing of financial data. With the implementation of a corporate database, it is hoped that more of the processing can be centralized and automated. But the point is that the current emphasis on financials leads to the "unbalanced" situation with regard to other perspectives. Strategy maps are communication tools used to tell a story of how value is created for the organization. They show a logical, step-by-step connection between strategic objectives (shown as ovals on the map) in the form of a cause-and-effect chain.

.Generally speaking, improving performance in the objectives found in the Learning & Growth perspective (the bottom row) enables the organization to improve its Internal Process perspective Objectives (the next row up), which in turn enables the organization to create desirable results in the Customer and Financial perspectives. The balanced scorecard is not a piece of software. Unfortunately, many people believe that implementing software amounts to implementing a balanced scorecard. Once a scorecard has been developed and implemented, however, performance management software can be used to get the right performance information to the right people at the right time. Automation adds structure and discipline to implementing the Balanced Scorecard system, helps transform disparate corporate data into information and knowledge, and helps communicate performance information.

2.4 Balanced score card as a strategy implementation tool

Kaplan and Norton (1992) suggest that we view the organization from four perspectives, and develop metrics, collect data and analyze it relative to each of these perspectives. The BSC was initially developed as a performance tool due to the weaknesses existing in the reliance of only one performance measure, mainly financial. In the course of its adoption, it came out very clearly that it could be used as an effective tool for translating an organizations strategy into operational terms ie. Short-term objective and measures, which are in line with the overall strategy. Kaplan and Norton (1996).

Strategy is usually abstract, long-term complex yet for it to be successfully implemented it has to cascade down the organization. Kaplan and Norton (1996) have suggested four

management processes that contribute in linking long-term strategic objectives with short-term actions. The first process is translating the vision to ensure that managers come to a consensus around the organization's mission and strategy. The outcome of this process is to clear terms that will help employees realize the organization vision.

The second process is communicating and linking objectives and measures to all levels of the organization so that employees understand the long-term strategy and as result have their departmental and individual objectives aligned with it. Those at the operational level should be able to fully understand the strategy and align their day to day work with the strategy Lyons and Gumbus (2004). It would also be useful to link rewards to performance measures. The third process is business planning where companies integrate their business with financial plans; integration of strategic planning and budgeting process. Short term plans and targets are identified and aligned to long term objectives. The fourth and final process ie feedback and learning. Kaplan and Norton (1996). The balance score card goes beyond standard financial measures to include additional perspectives:

The customer perspective, the internal process perspective, and the learning and growth perspective (Kaplan and Norton, 1992) Financial perspective includes measures such as operating income, return on capital employed and economic value added, Customer perspective focuses on measures such as customer satisfaction, customer retention, and market share in target segments. Business perspective looks at measures such as cost, throughput and quality. Learning and growth perspective focuses on measures such as employee satisfaction, employee retention skills etc Niven (2005) supports the argument against sole reliance of financial information, and notes that however important financial measures are, they must be supplemented with other indicators that predict future financial success. He compares the use of financial measures alone, with driving a car with rear mirror, which only shows a good view of where one has been, but little guidance on the road ahead. What is needed is performance measurement system that balances the historical accuracy and integrity of financial measures with drivers of the future.

In a knowledge-worker organization, people; the only repository of knowledge are the main resource. In the current climate of rapid technological change, it is becoming necessary for knowledge workers to be in a continuous learning mode. Metrics can be put into place to guide managers in focusing training funds where they can help the most. In any case, learning

and growth constitute the essential foundation for success of any knowledge-worker organization (Kaplan and Norton 1992). Kaplan and Norton (1992) emphasize that 'learning' is more than 'training'; it also includes things like mentors and tutors within the organization, as well as that ease of communication among workers that allows them to readily get help on a problem when it is needed. It also includes technological tools; what the Baldrige criteria call "high performance work systems."

According to Kaplan and Norton (1996), disconnect between strategy formulation and strategy implementation is caused by barriers erected by traditional management systems. They have identified these as the systems organizations use to establish and communicate strategy and directions, allocate resources, define departmental, team and individual goals and directions and provide feedback. Strategy analysis and choice are of little value in an organization unless the strategies are capable of being implemented. Strategic change does not take place simply because its considered desirable; its takes place because it can be made to work and put to work by the organizational members.

Execution of strategy depends on people, who are the most important resource in an organization. How they are organized is crucial to the effectiveness of strategy (Johnson and Scholes, 1999). The balanced scorecard has evolved from its early use as a simple performance measurement framework to a full strategic planning and management system. The "new" balanced scorecard transforms an organization's strategic plan from an attractive but passive document into the "marching orders" for the organization on a daily basis.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter explains the research design that will be used, data collection methods and how data analysis will be done.

3.2 Research Design

The research design for this project was a case study. The reason for this was because there was only one unit of study. A case study is an in depth analysis of a particular phenomenon. It was preferred in this case as it placed much emphasis on the application of the concept under study and other interrelations. The study utilized a descriptive case study approach to achieve its set objectives. According to Yazici (2009) a descriptive study is a process of collecting data from the members of a population in order to determine the current of the subject under study with respect to one or more variables.

A case study is very popular form of qualitative analysis and involves a careful observation of a social unit be that unit a person, a family, an institution, or a cultural group or even the entire group (Kothari 1990; Young 1990). Other methods of research such as survey would not have been appropriate as they tend to generalize the phenomenon being studied and therefore do not provide the required in depth the focus thus will be an in depth analysis of the sue of balanced score card in strategy implementation at AAR Kenya Ltd

3.3 Data collection

The data for this study was obtained from primary and secondary sources. Primary data was collected using the interview guide while secondary data was collected by use of desk research techniques from published reports and other company documents. The interview guide had open ended questions. The open ended questions enabled the researcher to collect qualitative data. The interview guide was designed to get information on how the balanced score card was used as strategy implementation tool where the main issues of the study were put into focus.

The data will be collected from heads of department concerned with strategy implementation at AAR Kenya Ltd. The Group CEO Group, Chief Operation Officer, Group Human resource Manager, Human Resource Manager Kenya, Group Strategy Director, Sales Manager Kenya and General Manager Group Care and Group Finance Manager. This data will be collected using the interview guide (Appendix II). The interviewer will obtain permission to conduct the interviews.

3.4 Data analysis

The data collected was analyzed using content analysis of written materials drawn from from the personal expressions of participants. The data collected from interviews was then summarized according to the study theme being effectiveness of the balanced score card a s strategic implementation tool at AAR Kenya. According to Cooper and Schindler (2011) content analysis measures the semantic content of what aspects of the message. Its breadth makes it flexible and wide-ranging tool that is used as a methodology or problem specific technique.

Data collected from the interviewees will be cleaned and checked for completeness. Content analysis will be used as data collected is qualitative in nature. Content analysis breadth makes it a flexible and wide-ranging tool that may be used as a methodology or problem specific technique. Cooper & Emoly, 1995). The data will be summarized and tabulated as per the issues being investigated. The data was then presented in a continuous prose as a qualitative report on the balanced scored card as strategic implementation toll at AAR Kenya Ltd.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION OF RESULTS AND DISCUSSION

4.1 Introduction

This chapter discusses the findings; analysis and presentation of the balanced score card in strategy implementation at AAR Kenya Ltd. The data was collected using an interview guide and the findings analyzed in accordance with the research objectives. The data was collected from the Group CEO and the managers in charge of various business units within the company. The response to the interview guide was six out of eight which represented 75% which is acceptable.

4.2 Discussions and findings

The study sought to find out how AAR Kenya uses the balanced score card in strategy implementation. This therefore is a discussion of the findings, analysis and interpretation. AAR Kenya used the balanced score card in strategy implementation and every management aspect of the business revolves around the balance score card from setting objectives for all the employees, performance appraisal to and recognition among other management activities.

The company uses the four pillars of the balanced score card to measure performance which is reviewed on half yearly basis. The study also found out that the company has a five strategic plan which is broken down to yearly and monthly targets. It is then cascaded downwards to departmental targets and down to individual targets. Kaplan and Norton (1992) assert that balanced score card presents a tool from translating an organization's mission (embodied in its strategy) into more tangible goals, actions and performance measures. This enabled AAR Kenya to transform it to measurable objectives.

4.2.1 Background and general information

.AAR Kenya started using the balanced score card five years ago and has consistently used the tool since then. The use of balanced score card was necessitated by the need to align strategy with individual performances; a need to focus on out-put of employees rather than input. AAR Kenya initially used to formulate strategies with times span of five years but reduced this to three years due to the volatile and unpredictable environment the company found itself operating in. The strategy implementation is reviewed annually.

The use of balanced score card is used very consistently with reviews for all employees done quarterly. The CEO and indeed most of the senior managers had copies of balanced score cards on top of their desks at all times for ease of reference. According to Drury (2004) top management support is very crucial in successful implementation of the balanced score card. Balanced score card at AAR Kenya is used as the main tool strategy implementation but the organization also uses customer satisfaction surveys alongside the balanced score card.

4.2.2 Customers perspective

This perspective identifies the customers and the market segments in which the business unit will compete in the identified target segments. The metrics used here are customer satisfaction, customer retention, customer acquisition, customer profitability and market and account share in the identified target markets. Recent management philosophy has shown an increasing realization of the importance of customer focus and customer satisfaction in any business Arverson (1998). These are leading indicators: if customers are not satisfied, they will eventually find other suppliers that will meet their needs. Poor performance from this perspective is thus a leading indicator of future decline, even though the current financial picture may look good. In developing metrics for satisfaction, customers should be analyzed in terms of kinds of customers and the kinds of processes for which we are providing a product or service to those customer groups. The customer perspective focuses on two critical questions; who are our customers and what is the value proposition in serving them (Kaplan and Norton, 2000).

This is measured using the customer satisfaction surveys and mystery shopper surveys that are done regularly by the organization. It is also measure using customers retention and acquisition of new customers which has greatly improved since balanced score card was introduced. To ensure that the strategies implemented are customer centric an audit is always done to ensure that strategy implemented is done from the eyes of the customer. The study indicated that to succeed in this industry a thorough understanding of customer expectations are required. AAR Kenya has adopted a very unique model of business to meeting the ever changing needs of the customers; splitting the company into three key business units to better meet the customer needs. These are AAR Insurance which is the insurance and marketing arm of the business; AAR Health care which focuses on health delivery putting more emphasis to preventive treatment.

4.2.3 Financial perspective

The balance score card goes beyond standard financial measures to include additional perspectives: The customer perspective, the internal process perspective, and the learning and growth perspective (Kaplan and Norton, 1992) Financial perspective includes measures such as operating income, return on capital employed and economic value added. Financial objectives play a dual role of defining financial performance expected from strategy and serve as ultimate target objectives from all other balanced score card objectives (Kaplan and Norton).

According to the study since the company started using the balanced score card 5 years ago the company went into profitability phase and since then it has never failed to report steady growth in profitability. The balanced score card is cascaded downwards to every staff daily duties and activities with weighting biased on the area of operation. The team in sales have a higher weighting on revenue and membership growth while the team in operations have a higher weighting efficiency and cost cutting. The team on the front office has a higher weighting on customer satisfaction. Therefore KPAs and KPIs for each department have developed but the overall objectives are communicated to all employees regardless of their level. This year's overall objective for the company is revenue growth; profitability growth and membership growth. When all these are achieved the company is able to meeting overall financial goals.

4.2.4 Internal business processes

The internal business perspective refers to internal business processes. The organization must identify the key processes to excel in order to continue adding value to the customers Metrics based on this perspective allow the managers to know how well their business is running, and whether its products and services conform to customer requirements (the mission). These metrics have to be carefully designed by those who know these processes most intimately. To satisfy the customer organizations may have to identify entirely new internal processes rather than focusing efforts on incremental improvement of existing activities. Service development and delivery, partnering with community, and reporting are examples of key areas represented in this perspective (Heskett, 1986).

Internal business process objectives address the question of which processes are most critical for satisfying customers and shareholders. These are processes in which the firm must concentrate its efforts to excel (Kaplan and Norton, 2001). According to the study balanced score card has helped the organization identify bottlenecks to good services delivery and remove them. Inadequate areas have been identified and mechanisms to address those areas developed. The organization has heavily invested in information technology to automate most of areas of operation; standardize service delivery and improve on turnaround time.

AAR Kenya is able to at the click of a button utilization reports for clients premiums. It also enables the company develop disease trend analysis and advice on the areas of intervention for various ailments. To ensure a fit between the organization strategies the organization is a member of all the Association and Kenya Insurers (AKI) and other key organizations in the industry and complies with all the requirements of the insurance regulator Insurance regulatory Authority (IRA). The organization also complies with government regulations and ensures it meets all government regulations and monitors and complies with all changes in laws, regulation and capitalization requirements. It also monitors changes in the competition environment, suppliers, hospitals, doctors and all other stakeholders within the industry.

The successful implementation of strategy using the balanced score card is enforced by the director of strategy who ensures employee within the organization complies. The use of balance score card has improved the organizations relationship with suppliers, doctors, preferred providers and hospitals because with improved financial performance the organizations is able to pay bills on time and therefore become a better customer to the service providers. According to the study the organization has not provided sufficiently resources for effective strategy implementation and more needs to be done especially to deepen the understanding of the balanced score by the employees.

4.2.5 Learning and growth perspective

The learning and growth perspective identifies the infrastructure that the organization must build to create long-term growth and improvement. It includes employee training and corporate cultural attitudes related to both individual and corporate self-improvement. In a knowledge-worker organization, people; the only repository of knowledge are the main

resource. In the current climate of rapid technological change, it is becoming necessary for knowledge workers to be in a continuous learning mode. Metrics can be put into place to guide managers in focusing training funds where they can help the most. In any case, learning and growth constitute the essential foundation for success of any knowledge-worker organization (Kaplan and Norton 1992).

Kaplan and Norton (2001) observe that the ability to meet ambitious targets for financial, customer and internal business perspective objectives depends on organization's capability for learning and growth. Performance drivers for organizational and individual objectives must be aligned as articulated in the balanced score card. According to the study staffs at AAR Kenya have been trained to understand the key pillars of strategy implementation using the balanced score card in order to align their activities with the overall strategy. The organization has developed a training program called CESAAR (Customer Excellence Service Achieves AAR Results) which helps the staff understand why they do what they are doing and how much they need to improve or strengthen to achieve their results. The organization ensures that even the tea maker understands that their activities contribute to the overall strategy implementation.

The strategy implementation is therefore cascaded to the lowest level. The respondents said that the lower you go in the hierarchy the more activities for each employees become tangible. To overcome resistance in strategy implementation using the balanced score card the organization ties rewards to performance. This ensures that every employee is incentivized to achieve their activity targets. These incentives are given annually to the employees with the highest set scores in the balanced score card. According to (Kaplan and Norton 1996) motivation is an important component even for skilled employees with superb access to information so as to effectively contribute to organizational success

4.2.6 Key success factors in strategy implementation using BSC

According to the study the key success factors implementation of strategy using the balanced score organizing thorough training to all the employees to make sure all of them understand the balanced score card and what is expected of them in strategy implementation. The staff regardless of their level in the organization should understand the vision of the company. Every employee in organization even the new ones are expected to recite and understand the

company vision; To be the provider of choice for innovative and quality healthcare solutions in Africa; mission; We provide healthcare solutions that make a difference to live

The important factor is to create balanced score champions who keep the momentum going and remind others in times of complacency to live to the company's vision. The organization has established training for trainers who retrain the existing staff and the new ones joining the organization. The organization also conducts a corporate induction for all employees who have joined the organization within three months to inculcate the organizational culture. The other success factor is to always be customer oriented.

4.2.7 Key benefits

Kaplan and Norton (1992) suggest that we view the organization from four perspectives, and develop metrics, collect data and analyze it relative to each of these perspectives. The BSC was initially developed as a performance tool due to the weaknesses existing in the reliance of only one performance measure, mainly financial.

According to the study findings AAR Kenya has through use of balanced score card separated the organization into three business units namely; AAR Health services which is the insurance and marketing arm of the business. AAR health care which is the health delivery arm of the business and AAR Rescue services which manages both road and air rescue and evacuation. This has upshot of this that every business unit can now look at itself as revenue generating unit rather than a cost center. This has led to more accountability for each business unit, more efficiency, and hence more revenue and profitability to the entire organization. This has led to staff becoming more specialized in their respective business units by focusing on what they are good at.

4.2.8 Challenges

Kaplan and Norton (2001) observed that having only a few individuals who clearly understand the concept of the balanced score card could be a challenge to effective strategy implementation. From the study it was observed that one of the main challenges in strategy implementation is resistance to change from the employees. This created by lack of staff understanding of the balanced score card and how it works in strategy implementation. The

organization is managing this by conducting continuous training and creating performance incentives.

The other challenge has been keeping the momentum going and avoiding complacency. Staff get very charged after training but the fire dies after a few months which means the organization has to invest in continuous training and put mechanisms in place to ensure follow-up and compliance and all times. The organization achieves this through use of balanced score card champions. The organizations also intends to introduce an external auditor to monitor compliance and ensure that process is not manipulated to give certain staff favorable results. The importance of the balanced score card was however underscored by all the respondents where they said managing an organization without a balanced score card would be like driving in the desert without a compass

4.2.9 Discussion

The balanced score card is a tool that was developed by Kaplan and Norton in the early 1990s to help organization in implementing strategy. Balanced score can enables organizations to a align the vision and strategy with activities of each individual employee in the organization. With the use of balanced score card employees are able to see where they fit in the overall vision of the organization and their contribution towards realizing the organization strategy. The objective of this study was establish how AAR Kenya Ltd uses the balanced score card to implement strategy and also find out the challenges the organization has faced and how it has dealt with those challenges.

The study found out that AAR Kenya Ltd has been using the balanced score card for the last five years and it has reap immense benefits. The organization according to the study uses all the four perspectives of the balanced score card; Internal business process, customer perspective, Financial perspective and learning and growth perspective. When developing the KPIs for each employee the organization puts a weighting that has a bias on the employees area of operation in the organization. The study recommended that there is need for further training to employees to deepen the understating of the balanced score card by all within the organization and what is expected from each of the employee in contributing to the overall organization goals. The study also recommended automation of the balanced score card

process to ease the tedious process of employees filling data manually. This will also create more objectivity and avoid chances of manipulation to achieve better scores.

AAR Kenya used the balanced score card in strategy implementation and every management aspect of the business revolves around the balance score card from setting objectives for all the employees, performance appraisal to and recognition among other management activities. The company uses the four pillars of the balanced score card to measure performance which is reviewed on half yearly basis. The study also found out that the company has a five strategic plan which is broken down to yearly and monthly targets. It is then cascaded downwards to departmental targets and down to individual targets. Kaplan and Norton (1992) assert that balanced score card presents a tool from translating an organizations mission (embodied in its strategy) into more tangible goals, actions and performance measures. This enabled AAR Kenya to transform it to measurable objectives.

The study also noted that balanced score card at AAR starts with setting broad board objectives which are then broken down to departmental targets and finally to individual targets, performance measures evaluations and feedback. The study also established that successful implementation of the balanced score card requires proper training on not only how the balance score card works but get everybody's understanding the company objectives and their role in meeting these objectives. All the activities are therefore aligned towards achieving the overall organization objectives. The KPIs and KPMs are developed and well explained to each staff.

Lynch and Cross (1995) who identified three criteria's that must be met by performance management systems if they are to effectively mediate between and organizations strategy and its day to day activities. These necessary conditions comprised; that the system must explicitly link operational targets to strategic goals; its must integrate financial and non-financial performance information; and the system should focus on business activities on meeting customer requirements. It is asserted that the balanced score card fundamentally meets these criteria by providing a truly strategic control system (Mooraj et al., 1999) The advantages of implementing the balanced score card are such that it aligns individual actions to achieving the organizational objectives, addresses all the critical aspects of running the organization, it measures performance objectively, helps identify areas that require more attention and at a glance capture the overall picture of the business performance.

The study showed that key factors for successful strategy implementation using the balance score card at AAR Kenya included involvement of all the stakeholders getting buy in from the top management and training all the employees on the company objectives and also on the understanding of the balanced score card. Goold (1991) asserted that successful strategy implementation requires sound mechanisms for directing activity and behavior, especially including effective communication systems as well as appropriate strategic and management controls. The importance of enabling sound two way communication within organizations is seen as fundamental to the effective implementation of strategy (Alexander, 1995)

According to the responses given by those interviewed at AAR Kenya the main challenges of implementing the balanced score card include the lack of understanding of balanced score card by staff; subjectivity in evaluating performance and tedious manual process of compiling the data. This challenge has however been overcome by continuous training of staff on the balanced score card. The study also revealed that to ensure successful implementation of the balanced score card at AAR staff are more involved in setting clear and precise goals and objectives and reward and recognition on good performers as an incentive

CHAPTER FIVE

SUMMARY, RECOMMENDATIONS AND CONCLUSIONS

5.1 Introduction

This section highlights summary of the findings; draw conclusions and make recommendations and suggestions for further research.

5.2 Summary

Kaplan and Norton (2001) observe that the ability to meet ambitious targets for financial, customer and internal business perspective objectives depends on organization's capability for learning and growth. Performance drivers for organizational and individual objectives must be aligned as articulated in the balanced score card. The objective of the study was study the use of balanced score card as a strategy implementation tool at AAR Kenya Ltd. Based on the findings in chapter four AAR Kenya Ltd has been using the balanced score card to implement strategy

AAR Kenya has been using the four perspectives of the balanced score card namely the customer perspective, internal business processes, financial perspective and growth and learning perspective. The benefits derived in using the balanced score have been increased profitability to the company; deepening of understanding of customer needs and improvement of internal processes by heavily investing in information technology. There have also been a few challenges faced in implementing the strategy using the balanced score card which are resistance to change by staff and lack sufficient investment by the company on the balanced score card

5.3 Conclusion

Financial objectives play a dual role of defining financial performance expected from strategy and serve as ultimate target objectives from all other balanced score card objectives (Kaplan and Norton). According to the study since the company started using the balanced score card 5 years ago the company went into profitability phase and since then it has never failed to report steady growth in profitability The board and top management staff support and commitment is crucial for success of balanced score card in strategy implementation. From

the study the researcher concludes that AAR Kenya has successfully used the balanced score card to implement strategy.

It has assisted the organization clarify the vision and mission and translate them into tangible actions for each of the staff. It has helped the organization to align strategy with individual staff activities. Other tools have been used to support the balanced score card and the main one being the customer satisfaction survey to gauge how the company meets the needs of its target customers. This has shown that the company has benefited immensely from the use of balanced score card. Some of the highlighted benefits are increased customer retention, customer and membership growth resulting to increased profitability. The company has created performance incentives bonus that serves to motivate employees who have the highest score, this incentive also serves to fight resistance from the staff on the use of balanced score card. The balanced score card has also helped the organization improve its relationship with its stakeholders. Better profitability means that the organization is able to meet all its obligations to its stakeholders.

5.4 Recommendations

Based on the findings the researcher recommends that there is need for further training to deepen the understanding of the balanced score card and the role that each staff plays in overall achievement of the organization goals. The organization staffs need to understand that the activities that they are required to carry with their departments are all geared to help the organization achieve its overall objectives. Failure by any of the staff to achieve their targets contributes to the overall shortfall in targets for the entire organization.

The study recommends that for successful strategy implementation using the balanced score card to take place everybody in the organization must be involved and must fully understand the overall organizational objectives. The training should also focus on removing the perception by staff that balanced score card is just another performance appraisal tool but see it as a strategy implementation tool that is meant to help the organization achieve its overall objective. The study also recommends the automation of balanced score card by use of the available balanced score card software to reduce the tedious work of compiling the data manually and reduce the chances of staff manipulating the data to achieve better scores

5.5 Limitations of the study

The study focused on the heads of departments who are involved in strategy implementation and left out the other staff who could have given their views on the balanced score card approach. The study also focused on AAR Kenya as the only unit of study. The application of the balance score card could differ in different organizations even when they are operating in the same industry and therefore the findings cannot be generalized to other organizations.

The study also faced both time and financial constraints as it could only be done in the evenings or when the researcher is off duty. The duration the study was conducted was limited and hence exhaustive and comprehensive research could be carried out on the implementation of balanced score card as a strategy implementation tool. Due to time and resource constraint the research study focused on AAR Kenya while it could have been extended to other companies within AAR Holdings including in Kenya and Uganda. This would have formed a good basis of comparison between the different companies.

5.6 Recommendations for further research

The study investigated the use of balanced score card as a strategy implementation tool at AAR Kenya ltd. The researcher suggests that further research is done on the use of balanced score card in strategy development in other organizations in the medical insurance industry to comprehensively understand the contribution balance scorecard has made in the performance of firms within the medical insurance industry, the challenges they have faced and how they have managed to overcome them.

The research should also be done in other industries outside the insurance industries, in the public sector and not for profit organizations. This would give a sufficient database of comparison between organizations in different sectors on successful implementation of balanced score card. This is because different organizations especially public and private sectors tend to have different strategic approaches

5.7 Implication of the balanced score card on Policy, Theory and Practice

Kaplan and Norton (1992) assert that balanced score card presents a tool from translating an organization's mission (embodied in its strategy) into more tangible goals, actions and performance measures. Overall, strategic planning in organizations has been only moderately successful, as only not many organizations especially in the area of strategy implementation. More effort is spent on developing strategies that are not usually followed though up to implementation. However some organizations have used the balanced scored card in strategy implementation and achieved tremendous results.

The use of balanced score card to implement strategy at AAR Kenya has enabled the organization to transform its overall board objectives to measurable objectives that are cascaded to departmental and individual targets Other tools have been used to support the balanced score card and the main one being the customer satisfaction survey to gauge how the company meets the needs of its target customers. This has shown that the company has benefited immensely from the use of balanced score card. Some of the highlighted benefits are increased customer retention, customer and membership growth resulting to increased profitability. The balanced score card has also helped the organization improve its relationship with its stakeholder.

Based on the findings the researcher recommends that there is need for further training to deepen the understanding of the balanced score card and the role that each staff plays in overall achievement of the organization goals. The organization staffs need to understand that the activities that they are required to carry with their departments are all geared to help the organization achieve its overall objectives. Failure by any of the staff to achieve their targets contributes to the overall shortfall in targets for the entire organization. The training should also focus on removing the perception by staff that balanced score card is just another performance appraisal tool. The study also recommends the automation of balanced score card by use of the available balanced score card software to reduce the tedious work of compiling data.

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www.aar.co.ke

APPENDICES

APPENDIX I

INTERVIEW GUIDE

Research objective: To assess the use of balanced scorecard as a strategy implementation tool at AAR.

General information

1. How often does AAR formulate/revise strategy
2. What informed the use of balance score card to implement strategy at AAR?
3. How consistently does AAR use BSC

4. Apart from BSC are there other tools used to implement strategy

Customer perspective

5. How does the use of balance score card improve service delivery to your valued customers?
6. How do you ensure that strategies that are implemented are customer focused/centric?

Financial perspective

7. Has the use of BSC helped AAR achieve better financial results
8. How does AAR use BSC to measure/evaluate performance
9. How does AAR use the BSC to match its long term objectives and the action plans to ensure set goals and targets are met

Internal business processes

10. How has the use of balance score card improved internal business processes
11. How do you ensure a fit between AAR strategies and the external environment
12. Does the organization avail sufficient resources for effective strategy implementation using BSC
13. Has the use of balance score card improved your relationship with suppliers/doctors/preferred providers/hospitals?

Learning and growth perspective

14. Are AAR staffs trained to understand the BSC and its use in strategy implementation?
15. What is the involvement of middle level and low cadre staff in strategy implementation?
16. How does AAR manage resistance in strategy implementation?
17. Does the use of BSC cultivate effective communication and positive feedback through the process of strategy implementation

Conclusions

18. What are the key success factors in successful strategy implementation using BSC
19. What are the key benefits of BSC to AAR
20. What key lessons have been learned?

21. What are main challenges faced in strategy implementation using the BSC at AAR
22. Any other comment (s) on the use of balance score card at AAR?

APPENDIX II

INTRODUCTION LETTER

6th October 2012

Charles Kariuki
P. O Box 7824 00100
Nairobi

Dear Sir,

Re: Research project; Use of a balanced scorecard as a strategy implementation tool at AAR

I am a student undertaking a Masters of Business Administration at the University Of Nairobi. As a requirement to complete the program, I will need to submit a project report on a management problem.

I would like to do a research project on the area of strategy implementation "*Use of the balanced scorecard as a strategy implementation tool at AAR*"

I would like to request you to take some time to fill the attached questionnaire

The information gathered will be used solely for academic purpose and a copy of the same will be availed to you on request

Thank you

Yours faithfully

Charles Kariuki
Registration Number: D61/8904/2006

APPENDIX III

List of Kenyan Insurance Companies

1. AMACO Insurance Company Kenya
2. APA Insurance Company
3. Apollo Life Assurance Company
4. Blue Shield Insurance Company
5. British American Insurance Company
6. Cannon Assurance Company -Kenya
7. CFC Life Assurance Company
8. Chartis Kenya Insurance Company
9. Concord Insurance Company
10. Co-operative Insurance Company
11. Corporate Insurance Company
12. Directline Assurance Company
13. Fidelity Shield Insurance Company
14. First Assurance Company
15. Gateway Insurance
16. Geminia Insurance Company

17. General Accident Insurance Company
18. Heritage Insurance Company
19. Insurance Company of East Africa (ICEA)
20. Intra Africa Assurance Company
21. Jubilee Insurance Company
22. Kenindia Assurance Company
23. Kenyan Alliance Insurance Company
24. Kenya Orient Insurance Company
25. Lion of Kenya Insurance Company
26. Madison Insurance Company
27. Mayfair Insurance Company
28. Mercantile Insurance Company
29. Metropolitan Life Insurance Kenya Ltd.
30. Monarch Insurance Company
31. Occidental Insurance Company
32. Old Mutual Life Assurance Company
33. Pan Africa Life Assurance Company
34. Pacis Insurance Company Ltd
35. Phoenix of East Africa Assurance Company
36. Pioneer Life Assurance Company
37. Real Insurance Company
38. Tausi Assurance Company
39. Trident Insurance Company
40. Trinity Life Assurance Company
41. UAP Provincial Insurance Company

Source; (www.akinsurecom, 2012)

APPENDIX IV



UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE: 06/09/2012

TO WHOM IT MAY CONCERN

The bearer of this letter CHARLES KARIUKI

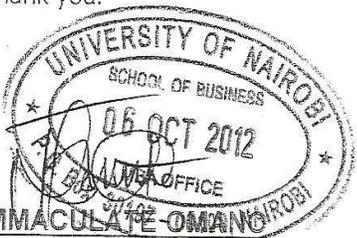
Registration No. D61/8904/06

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.


IMMACULATE OMANO
MBA ADMINISTRATOR
MBA OFFICE, AMBANK HOUSE

APPENDIX V



HEAD OFFICE: NAIROBI
AAR Kenya Limited
Williamson House, 4th Ngong Avenue
P.O. Box 41766 - 00100, Nairobi, Kenya
Tel: (254 20) 2895000/ 2715319
Fax: (254 20) 2715328
Dropping Zone No. 17
E-mail: info@aar.co.ke
Website: www.aarhealth.com

16th September 2012

The MBA Administrator
University of Nairobi
P.O Box 30197
NAIROBI

Dear Sir/Madam

Re: MBA RESEARCH PROJECT: CHARLES KARIUKI REG- D61/8904/2006.

The above refers

We acknowledge receipt of the request by the above student to use our organization as a case study for his MBA research project on the area of strategy implementation "*Use of the balanced scorecard as a strategy implementation tool at AAR*"

As a company we are committed to support any academic research leading to deepening of knowledge in area of management practice

We therefore grant the student permission to conduct his research in the organization and offer to support him access information necessary to complete his research project

Yours faithfully
AAR KENYA LTD.

RUTH WARUTERE

Human Resources Manager

APPENDIX VI

SAMPLE AAR KENYA BALANCED SCORE CARD

VISION

To be the provider of choice for innovative and quality health solutions in Africa

MISSION

We provide healthcare solutions that make a difference to life.

CORE VALUES

Timeliness, Quality of Work, Caring Attitude, Integrity

DIVISION/DEPARTMENT

AARHS

BROAD STRATEGIES – DIVISIONAL/DEPARTMENTAL

◆

Employee's Name:		Immediate Manager:	
Job Title:	Business Development Manager	Job Title:	Sales Manager
PR No.	818	For Period	2011
Department:	AARHS	From: Jan 2011	To: June 2011

PART I: WORKPLAN (WHAT IS TO BE ACCOMPLISHED)

1. FINANCIALS Key Result Areas (KPA's)	PERFORMANCE MEASURES (KPM's)	TARGET	ACTUAL	RATING					Weighting %	Weighted Rating	COMMENTS
				1	2	3	4	5			
Total Rating									30%	0.45	
2. CUSTOMER PERSPECTIVE Key Result Areas (KPA's)	PERFORMANCE MEASURES (KPM's)	TARGET	ACTUAL	RATING					Weighting %	Weighted Rating	COMMENTS
				1	2	3	4	5			
Total Rating									20%	0.28	
3. INTERNAL BUSINESS PROCESS. (KPA's)	PERFORMANCE MEASURES (KPM's)	TARGET	ACTUAL	RATING					Weighting %	Weighted Rating	COMMENTS
				1	2	3	4	5			
Total Rating									15%	0.57	
4. PEOPLE PERSPECTIVE Key Result Areas (KPA's)	PERFORMANCE MEASURES (KPM's)	TARGET	ACTUAL	RATING					Weighting %	Weighted Rating	COMMENTS
				1	2	3	4	5			

PART II: MITIGATING FACTORS/ AREAS OF DEVELOPMENT

1. PROBLEM AREA: REVENUE GROWTH
AGREED REMEDIAL ACTION:
BY WHEN:
PROBLEM AREA:
AGREED REMEDIAL ACTION:
BY WHEN:
PROBLEM AREA:
AGREED REMEDIAL ACTION
BY WHEN: CONTINOUS
PROBLEM AREA:
AGREED REMEDIAL ACTION
BY WHEN:

Employee's Name:		Immediate Manager:	
Job Title:	Business Development Manager	Job Title:	Sales Manager
PR No.	818	For Period	2011
Department:	AARHS	From:	Jan 2011 To: June 2011

PART I: WORKPLAN (WHAT IS TO BE ACCOMPLISHED)

1. FINANCIALS Key Result Areas (KPA's)	PERFORMANCE MEASURES (KPM's)	TARGET	ACTUAL	RATING					Weighting %	Weighted Rating	COMMENTS
				1	2	3	4	5			
Total Rating									30%	0.45	
2. CUSTOMER PERSPECTIVE Key Result Areas (KPA's)	PERFORMANCE MEASURES (KPM's)	TARGET	ACTUAL	1	2	3	4	5	Weighting %	Weighted Rating	COMMENTS
Total Rating									20%	0.28	
3. INTERNAL BUSINESS PROCESS. (KPA's)	PERFORMANCE MEASURES (KPM's)	TARGET	ACTUAL	1	2	3	4	5	Weighting %	Weighted Rating	COMMENTS
										0.16	
Total Rating									15%	0.57	
4. PEOPLE PERSPECTIVE Key Result Areas (KPA's)	PERFORMANCE MEASURES (KPM's)	TARGET	ACTUAL	1	2	3	4	5	Weighting %	Weighted Rating	COMMENTS

PART II: MITIGATING FACTORS/ AREAS OF DEVELOPMENT

2. PROBLEM AREA: REVENUE GROWTH
AGREED REMEDIAL ACTION:
BY WHEN:
PROBLEM AREA:
AGREED REMEDIAL ACTION:
BY WHEN:
PROBLEM AREA:
AGREED REMEDIAL ACTION
BY WHEN: CONTINOUS
PROBLEM AREA:
AGREED REMEDIAL ACTION
BY WHEN:

Employee's Comments	Manager's Comments (Please comment on the staff member's integrity, competence and efficiency in overall performance of duties.)

Job Holder

Signed.....
Date.....

Performance Appraisal Reviewer

Signed.....
Date.....

Performance Appraisal Reviewer's Manager

Signed..... Date.....

