

# Evaluating the application of a balanced scorecard by a development finance institution: A case study

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## **ABSTRACT**

**KEYWORDS:** Balanced Scorecard; Strategic Management; Small Enterprise Finance Agency; Development Finance Institutions

Development finance institutions (DFIs) play a significant role in the development finance industry. DFIs mainly focus on the funding of economic development initiatives which targets the reduction of unemployment; addressing inequality; women empowerment; and poverty alleviation, amongst others. These institutions are usually majority-owned by national governments, source their capital from the national- and international markets, and they also receive government grants and guarantees. These sources of capital require the DFIs to pursue both the profit- and development objectives, in their ongoing drive to create value for their stakeholders. To achieve these sometimes-contradicting objectives, DFIs design, implement and measure the performance of their strategies. The Balanced Scorecard tool measures the performance on their strategies and it incorporates both the financial- and non-financial measures.

The purpose of this study is to evaluate how a DFI perceives the application of the BSC as a strategic management- and a performance measurement tool. The appropriate theoretical framework the study was nested in, is the stakeholder theory. The study adopts a qualitative case study approach of a DFI, located in South Africa. The literature review conducted focused on strategic management, performance measurement and the Balanced Scorecard. The empirical study entailed face-to-face semi-structured interviews with five participants from the DFI using a newly-developed questionnaire. The results of the empirical study were grouped into themes identified during the interviews and literature review.

The findings indicate that in their attempt to meet the ever-growing demands of the Small-, Medium-, and Micro Enterprises, DFIs face the challenge of conducting their business in a financially sustainable manner. Furthermore, the application of a BSC as strategic management- and a performance measurement tool by a DFI is perceived to be effective. It is recommended that the DFI improves the communication of the BSC tool within departments to ensure that there is a consistent understanding and application of the tool.

**LIST OF ABBREVIATIONS AND ACRONYMS USED**

BSC	Balanced Scorecard
DFIs	Development Finance Institutions
DSBD	Department of Small Business Development
NEF	National Empowerment Fund
SEFA	Small Enterprise Finance Agency
SMMEs	Small-, Medium-, and Micro Enterprises
DSBD	Department of Small Business Development

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# CHAPTER 1

## 1 INTRODUCTION

### 1.1 Background

Finance plays a critical role in the value chains of all the economic activities (Nagaria, 2016:12). Development finance, with its focus on development, is the catalyst of economic activity and development in most countries, especially in developing countries. In these developing countries access to finance by the small-, medium-, and micro enterprises (SMMEs), in particular, prolong economic development (Griffith & Evans, 2012).

Development Finance Institutions (DFIs) are among the main role players in the development finance industry; they specialize in funding economic development initiatives and are usually majority owned by national governments (Aprodev, 2013). The main purpose of the DFIs is to focus on the sustainable development of the private sector, which in turn can lead to poverty reduction through job creation (Aprodev, 2013). Jouanjean *et al.* (2015:16) emphasized the DFIs purpose and role as drivers of high quality investments in developing countries.

It is evident from the above that DFIs play an important role in the developmental agenda of any state. Their role is further emphasized by the initiatives they fund which targets poverty alleviation, women empowerment and addressing inequality, among others (SEFA, 2017:05). This role places DFIs and their operations in a space in-between the provision of public aid and private investment (Griffith & Evans, 2012).

DFIs source their capital requirements from national- and international capital markets and also receive government grants and guarantees which improve their credit worthiness (Aprodev, 2013). The DFIs provide finance to clients in the form of i) equity capital, ii) term-loans, iii) grants, and iv) credit guarantees (Jouanjean *et al.*, 2015:16). The DFIs' clients are mainly in sectors where there is a reluctance by commercial banks to invest (Aprodev, 2013). Therefore, DFIs address the access to finance challenges faced by entrepreneurs – the majority of which do not have a borrowing track record and therefore lack credit worthiness.

The above-mentioned sources of capital require the DFIs to pursue both the profit- and development objectives (Griffith & Evans, 2012). These objectives require the DFIs to conduct their businesses in a financially sustainable and profitable manner (Bayai & Ikhide, 2016:20). From the above it is clear that to meet these sometimes-contradicting objectives, DFIs must design, implement and measure the performance of their strategies.

The question, however, remains on how can a DFI develop, implement, as well as measure, the performance of its strategies?

In the past, in measuring the effectiveness and efficiency of their strategies, organisations implemented performance measurement systems which are one-dimensional, and these specifically focused on the financial dimensions (Soares *et al.*, 2017:2361). The Balanced Scorecard (BSC) framework, however, focuses on measuring both the financial and non-financial dimensions which then challenge organisations to purposefully pursue their strategic objectives (Kerai & Saleh, 2017:27).

The BSC is a performance measurement tool which translates strategy into measurable objectives and integrates different features to measure an organisation's success (CIMA, 2016:549). The BSC emerged in the early 1990s as a framework known for providing a combination of financial and non-financial measures and a link between strategy and these performance measures (Langfield-Smith, 2005:62). As early as 1996, Kaplan and Norton (1996:53) described the BSC as a tool which presents a balanced view of present performance, and those items which will drive future performance. The BSC is based on the following four distinct perspectives (Kaplan & Norton, 1996:53):

- (i) financial performance;
- (ii) customer knowledge;
- (iii) internal business processes; and
- (iv) learning and growth.

These four distinctive perspectives, in a properly constructed BSC, permit organisations a balance between the short- and long-term strategic objectives. Organisations are therefore able to focus on the areas generating current value and also at those which will drive future performance (Kaplan & Norton, 1996:53).

Organisations make use of the BSC to identify and align strategic initiatives, link budgets with strategy, align the organisation with strategy, and to conduct periodic strategic performance reviews (CIMA, 2016:550). The BSC has evolved over the years from a tool representing an organisation's strategic vision to a tool applied by organisations in the development of specific strategic actions (Busco & Quattrone, 2015:1236). Werner and Fuyuan (2012:88) concurred that the BSC assists managers, through strategy maps, to develop objectives, targets, measures and initiatives aligned to the company strategy. The BSC makes strategy development and performance measurement to be organically cohesive and ensure a comprehensive performance

evaluation (Chewei & Lihong, 2013:93). One of the key goals in the development of the BSC was to link the selected performance measures with the specific strategy of a business unit (Gardiner *et al.*, 2003).

The BSC should include key performance indicators (KPIs) measures such as i) revenue growth, ii) market share, iii) customer satisfaction, iv) customer retention, and v) skills of employees (Alam *et al.*, 2011:210). These KPIs and the BSC perspectives will be further explored through the review of existing literature.

This study follows a case study approach. The selected case study organisation is described below.

### **1.1.1 Case study**

The case study utilized in this research project is the Small Enterprise Finance Agency (SEFA), a wholly-owned subsidiary of the Industrial Development Corporation of South Africa Ltd (IDC). Its mandate includes fostering the establishment, survival and growth of the SMMEs and cooperatives through the provision of financial- and non-financial support (SEFA, 2017:06). SEFA utilizes the BSC performance management tool (SEFA, 2017:11).

To highlight the knowledge gap in the literature, a review of extant literature was performed.

## **1.2 Literature review**

Global studies explored the successes and failures of implementing and applying the BSC as both strategic management- and a performance measurement tool, in various industries such as education, telecommunication and banking. Other studies also attempted to compare the BSC with other traditional financial performance management techniques.

Strategic management refers to how management structures the organisation and the processes they implement in pursuing the organisations' objectives and to create value for its stakeholders (Louw & Venter, 2013:22). The BSC assists organisations to translate their strategies into logical designs and to identify the critical elements of these strategies (Kaplan & Norton, 2001:147). Louw and Venter (2013:119) further noted that the BSC is a useful tool to provide guidance, to control and challenge organisations to pursue and achieve their intended strategic objectives. Executives of many organisations make use of more than one performance measure, consisting of a combination of both financial- and non-financial measures, to obtain a balanced view of current performance, and focus their efforts on important areas of their organisations (Kaplan & Norton, 1992:1).

The BSC has – since its introduction – been implemented by many organisations around the world. The technique has been implemented with varying success by both for-profit and not-for-profit organisations. There are examples in the literature of successful implementation by for-profit organisations (Fischer *et al.*, 2016:61). Alam *et al.* (2011:210), in agreement with this view, stated that it was evident that there was a connection between achieving good performances, as well as outcomes, and the utilisation of the BSC phenomenon by industrial companies in Jordan.

Contrary to the view that mainly for-profit organisations have seen success with the application of the BSC, a study conducted by Krunic and Lutisky (2012:51) at a secondary education provider, found that the BSC offered various opportunities on cost management and a platform to develop efficiencies in the provision of an effective education process. This study illustrates that there is potential value to be derived from the application of the BSC by not-for-profit organisations.

On the other hand, Khanmohammadi *et al.* (2015:128) enter the debate by stating that a telecommunication company cited, among others, high implementation costs, a lack of understanding of the BSC tool, and the difficulty on operationalizing the BSC, as some of the reasons for not utilizing the technique. Rompo (2011:46) reinforces this theme by listing ineffective communication as a factor which may lead to a lack of understanding of the BSC concept, and this may result in resistance by those who should operationalize strategy into their daily activities within organisations. These studies put forward arguments of the importance of effective communication of the BSC and its metrics to all the employees within the organisation. This should ensure that everyone within the organisation fully understands how the BSC fits in their daily responsibilities and activities.

A study conducted on the implementation of the BSC within a commercial bank by De Necker (2003), can be considered as closely related to the intended research area. This study described the views and perceptions of the sales consultants on the implementation of the BSC. It was further noted that almost all the perspectives of the BSC implemented for regional consultants, needed to be revisited. The latter suggests ineffective communication and a misunderstanding of the BSC. However, this study was done more than fifteen years ago and specifically focused on a commercial bank whose mandate is vastly different from that of a government-owned DFI.

It is evident from the above literature that the application of the BSC by both for-profit and not-for-profit organisations is widely studied. However, there is no specific evidence that could be found in the literature of previous research on the application of the BSC by a South African DFI, and in particular, one whose focus is the SMMEs. This research aims to address this knowledge gap.

### **1.3 Theoretical framework**

In research, theories are used to provide the lens which shapes how the entire study is structured. This lens shapes the questions to be asked in gathering data and how this data will be analysed and interpreted (Creswell, 2014). For the purposes of this study, the stakeholder theory is deemed the most appropriate as the four perspectives of the BSC cover the key stakeholders: shareholders, lenders, customers and employees. Freeman *et al.* (2004:364) describe value creation by different people who join hands and cooperate with the ultimate objective of improving everyone's circumstances, as the foundation on which the stakeholder theory is built. In this case study, the stated key stakeholders ought to work in tandem to ensure SEFA renders its services in a financially sustainable manner and in turn improve their individual circumstances.

### **1.4 The rationale for the study**

Whilst some microfinance institutions have rendered their services in a financially sustainable manner, others have in large failed to do so (Gul *et al.*, 2017:1). These institutions face a number of challenges with regard to their financial sustainability as they are expected to play a role in, among others, poverty alleviation and reducing unemployment (Bogan, 2012:1058). SEFA, with its mandate to contribute towards poverty alleviation and job creation, has to execute this mandate in a manner that ensures it is sustainable in the long run (SEFA, 2017:19). Thus, to balance its developmental mandate and the need to be financially sustainable requires proper implementation and measurement of its strategies.

It is evident from the above that DFIs face significant pressures in balancing the objectives of making profits and being catalysts for economic development. This study adds to the existing literature by exploring the application of the BSC as strategic management- and a performance measurement tool at a South African DFI.

### **1.5 Problem statement**

The stakeholders' expectations to deliver results in terms of reducing poverty and inequality, puts constant pressure on the DFIs (Vervynckt, 2015). These expectations to perform sustainably are further exacerbated by the seemingly high failure rate of the SMMEs in South Africa (Fatoki & Maleka, 2016:307). It was further noted by Fatoki and Maleka (2016:307) that the average lifespan of SMMEs is only three years from inception – access to finance is one of the main reasons cited for this high failure rate. These expectations require the DFIs to conduct their lending business in a financially sustainable manner. It is evident from the analysis of existing literature that the BSC provides a balanced view of financial- and non-financial performance measures, and also an indication of where future value could be created (Kaplan & Norton,

1992:1). The analysis of the existing research and literature identified a gap relating to the value to be derived from the application of the BSC in the development finance industry.

In light of the above-mentioned expectations and challenges, the following question can be asked: *Is the application of the BSC, as strategic management- and a performance measurement tool by a DFI, perceived to be effective in its pursuance of the profit- and development objectives for the stakeholders concerned?*

## **1.6 Research objectives**

The main objective of this study is to evaluate how a DFI perceives the application of the BSC as a strategic management- and a performance measurement tool.

The secondary objectives, supporting the main objective, are as follows:

- Identifying and presenting the appropriate research methodology to achieve the stated objectives (Chapter 2);
- Conducting a literature review to explore the concept of the BSC as strategic management- and a performance measurement tool (Chapter 3);
- Contextualizing the concept of the BSC within the SEFA through semi-structured interviews (Chapter 4); and
- Summarizing the findings and making recommendations based on the results in chapter 4 (Chapter 5).

The stated research objectives are achieved through the implementation of the research approach, design and method as detailed in the section below.

## **1.7 Research methodology**

This study consists of a combination of a literature review and an empirical study.

### **1.7.1 Literature review**

A review of the literature is carried out to primarily find out what others had to say about the research area (Biggam, 2008:50). A literature review is undertaken to bring context to the application of the BSC as a strategic management- and performance measurement tool by a DFI.

The main sources of the literature review are academic peer-reviewed articles, governmental publications, internet documents, textbooks, and other related media content.

### **1.7.2 Empirical research**

The study is conducted as a case study at SEFA, a DFI which already applies the BSC as a strategic management- and performance measurement tool. The primary aim of the empirical research is to establish whether it is perceived that the BSC is applied effectively by this DFI or not. The effectiveness of the BSC as a performance measurement tool is evaluated based on the four distinctive perspectives of the BSC. The results are evaluated against the primary and secondary research objectives.

This is an exploratory study and data will be collected using qualitative data collection techniques. This will be in the form of face-to-face semi-structured interviews with personnel in the finance, strategy, human capital, sales and marketing portfolios of the case study DFI – SEFA.

SEFA had a staff complement of 236 at the end of the 2017 financial year (SEFA, 2017:63). Of this total, 150 are estimated to be based at the head office in Centurion, and the balance is spread across the regional offices in all nine provinces of South Africa. A total of six face-to-face interviews are conducted with selected employees at the head office. The questions are developed based on the literature review and comprise open-ended questions.

### **1.8 Paradigmatic assumptions and perspectives**

Interpretive researchers hold the view that there are many interpretations of reality and these interpretations are dependent on the context within which they are made and the timing thereof (Biggam, 2008:93). This study will follow the interpretivist perspective as it aims to evaluate different perspectives of the BSC as a strategic management- and performance measurement tool.

According to Neuman (2014:94), the ontology position is focused on the fundamental nature of what really exists in the world, and it has two basic positions namely: the realist and the nominalist. The world exists independently of humans and their interpretations of it according to the realist, whereas the nominalists assume that humans experience the world through interpretations and inner subjectivity (Neuman, 2014:94). The nominalist ontology position is adopted for this study as it reflects the subjective perspectives of the BSC.

Epistemology position is primarily concerned with our understanding of the world around us and what is required to create new knowledge (Neuman, 2014:95). The case study is based on the nominalist epistemology position due to the subjectivity of the perceptions of the different professionals.

## 1.9 Key definitions

The following key definitions are applicable for the purposes of this study:

**Balanced Scorecard:** A management system that provides an organisation with a framework to translate its mission and strategies into measurable outcomes which motivate consistent improvements in critical areas such as i) product, ii) customer, iii) process and iv) market development (Kaplan & Norton, 1993:4).

**Strategic Management:** It is primarily concerned with the organisation's overall effectiveness of the choices made and direction taken in pursuing value creation in the long-term within the environment it operates (Louw & Venter, 2013:22).

**Performance Measurement:** It is a system that organisations implement to assess the effectiveness and the efficiency of the utilisation of its resources in pursuance of its strategic objectives. This system may assess both the financial- and non-financial information (CIMA, 2016:533).

## 1.10 Ethics approval

This research study was approved by the North-West University's Economic and Management Sciences Research Ethics Committee (EMS-REC) with ethics number: NWU-01389-19-A4. The ethical certificate is attached as Appendix 1. A review of the ethical considerations is provided in chapter 2 (section 2.6).

## 1.11 Chapter overview

The following is a high-level summary of the content of each chapter:

### *Chapter 1: Introduction*

The first chapter introduces the background to development finance and the BSC in order to provide context to the case study. In this chapter, the problem statement is provided as well as the research objectives and the research methodology. The paradigmatic assumptions of the study are presented followed by key definitions pertinent to the research. The ethics approval is described with the chapter concluding with a chapter overview.

### *Chapter 2: Research methodology*

This chapter will discuss in detail the chosen research design and methodology. An overview of the selected research paradigm and research approach followed are provided. The most

appropriate research design of the study is then discussed. The research methodology section describes how the data was collected and analysed. The chapter will conclude with a discussion of the ethical considerations.

#### *Chapter 3: The Balanced Scorecard and DFIs*

Chapter 3 will focus in more detail on the application of the BSC model in various industries. A literature review on the successes and failures of the BSC will be conducted. The role of DFIs in the South African economy will also be presented.

#### *Chapter 4: Empirical research findings*

The aim of this chapter is to present and analyse the empirical findings of the study. Data collected during the semi-structured face-to-face interviews will be presented in this chapter. The results will be compared with extant literature to identify key findings.

#### *Chapter 5: Conclusions and recommendations*

In conclusion, the findings of the case study will be summarized, and conclusions drawn for each of the research objectives. The chapter will conclude with the discussion of the limitations of the case study and recommendations for future studies.

The next chapter will present the research methodology followed for this study.

# CHAPTER 2

## 2 RESEARCH METHODOLOGY

### 2.1 Introduction

Chapter 2 details the research approach, design and methodology applied to evaluate if the application of the BSC as a strategic- and a performance measurement tool by a DFI is perceived to be effective in its pursuance of the profit- and development objectives. The chapter’s main aim is to address the first secondary objective as outlined in Chapter 1 (refer to section 1.6, first bullet) of identifying and presenting the appropriate research methodology necessary to achieve the research objectives.

Mouton (2001:55) emphasized the importance of clearly distinguishing research design from research methodology, and defined research design as a plan or a blueprint of how a researcher intends to carry out the study. While research design focuses on the plan to achieve the end product, research methodology on the other hand constitutes the path a researcher takes to find answers to the research questions (Kumar, 2019:44). Table 2-1 below presents a summary of the differences between research design and -methodology.

**Table 2-1: Summary of the differences between Research Design and Methodology**

Research design	Research methodology
Focuses on the end product: What kind of study is being planned and what kind of result is aimed at?	Focuses on the research process and the kind of tools and procedures to be used.
Point of departure: Research problem or question.	Point of departure: Specific tasks (data collection or sampling) at hand.
Focuses on the logic of the research: What kind of evidence is required to address the research question adequately?	Focuses on the individual steps in the research process and the most “objective” (unbiased) procedures to be employed.

Source: (Mouton, 2001:56)

The chapter also provides an overview of the research paradigm and identifies the appropriate one to this study. A discussion of the different research approaches and the identification of a suitable approach follows. The research design most appropriate to the study is then discussed. The research methodology section discusses in detail how the study will be conducted to meet the research objectives. The chapter is concluded by the discussion of the ethical considerations.

## 2.2 Paradigm

Maxwell (2005:36) defined paradigms as a set of general assumptions about the nature of the world and how humans understand it. In agreement with this definition, Christensen and Johnson (2012:31) referred to paradigms as perspectives researchers hold about research on the basis of shared assumptions, values, concepts and practices. Neuman (2014:96) said paradigms include among other things: basic assumptions, questions and techniques asked/used in the study and examples of good research. Paradigms offer researchers alternative ways of investigating problems, and they are more like different sets of tools for different tasks (Blaikie & Priest, 2017).

Paradigms serve as a starting point and a foundation for researchers which allow them an opportunity to conceptualize and articulate their chosen research approach when designing their studies (Davies & Fisher, 2018:25). Lukka (2010:115) emphasized the importance and purpose of paradigms in management accounting research and stated in this regard that: paradigms play a critical role in building a researcher's identity as they are about what is to be studied, the type of research questions to be asked, data collection methods, and how the collected data should be analysed and interpreted.

There is a wide array of alternatives when it comes to paradigms and these include positivism, critical theory, and interpretivism (Blaikie & Priest, 2017). The positivism paradigm assumes that reality is context-free and thus exists independently of humans and their interpretations of it (Alharthi & Rehman, 2016:59). The critical theory scholars aim to promote social change in ways that embrace freedom and participatory democracy and promote resistance to social injustice (Denzin, 2017:16). Supporters of the interpretivism paradigm believe that true knowledge is obtained through deep understanding and interpretation of concepts and subjects; and this is attained through developing subjective meanings of these concepts and subjects (Rahi, 2017:5). This study will follow the interpretivism paradigm as it aims to evaluate the individual perspectives of the BSC as strategic management- and a performance measurement tool.

According to De Villiers and Fouché (2015:142), what constitutes as valid research is based on two key underlying philosophical assumptions, namely: the ontology assumption, and the epistemology assumption. The ontology assumption is the researcher's view of the world, where reality exists independently of the researcher from the realist perspective, whereas from the normalist perspective reality depends on various circumstances and factors (De Villiers & Fouché, 2015:142). The epistemology assumption concerns the very bases of knowledge, its acquisition and how we communicate it to other humans (Cohen *et al.*, 2007:7). This study will adopt the normalist ontology perspective as the perspectives of the BSC depend on various factors and circumstances and subjective perspectives of individuals.

## 2.3 Research approach

A research approach refers to a detailed plan and specific procedures a researcher employs to collect, analyse and interpret data (Creswell, 2014). Creswell (2014) further states that the nature of the research and the researcher's personal experiences inform the selection of the research approach, and consequently advanced the following three research approaches:

- (i) *Qualitative research*: It is an approach that researchers employ to explore and understand the meaning individuals, as well as groups, assign to problems of social or human nature. With this approach data collection involves emerging questions at the participant's setting. The collected data is then analysed *inductively* starting from the particular to general themes, and then the researcher interprets the collected data assigning meaning to it. Researchers who employ this approach supports the inductive style of looking at research and indeed a focus on individual meaning. The final written report for this approach has a flexible structure.
- (ii) *Quantitative research*: This approach is employed to test the objective theories through a process of examining relationships among variables. Through statistical procedures, the researcher measures and analyses collected data typically on instruments. Researchers who employ this approach have assumptions to test theories *deductively*, ensuring there is a level of protection against bias, allowing for alternative explanations and creating room for generalizing and replicating the research findings. The final written report in this approach has a set structure.
- (iii) *Mixed research*: Is an approach which researchers employ to the inquiry that combines the elements of both the qualitative- and the quantitative approach. This approach uses distinct designs which may comprise theoretical frameworks and philosophical assumptions. At the centre of this approach is the assumption that when compared to the qualitative- and the quantitative approach, it results in a better and more complete understanding of the research problem.

The main objective of this study is to evaluate how a DFI perceives the application of the BSC as a strategic management- and a performance measurement tool. This objective will be achieved through an approach which involves data collection, analysis and interpretation of the personal experiences and subjective views of the research participants through semi-structured interviews with open-ended questions. This objective and the related approach to achieve it reflects the characteristics of qualitative research. It can therefore be concluded that the research approach implemented in this study is qualitative in nature following inductive reasoning.

## 2.4 Research design

According to Hofstee (2006:113), in the research design section, a researcher name and discuss the overall technique of the study. Research design is a type of inquiry which provides specific direction for procedures within the selected research approach (Creswell, 2014). Yin (2009:26) on the other hand defined research design as a logical sequence which links the collected data with the research question and ultimately the related conclusions.

Researchers usually design their studies by making use of a variation of one or more research designs (Hofstee, 2006:113). To this end, Biggam (2008:83) identified the following research designs: Survey Research, Ethnography Research, Experimental Research, Case Study Research, Historical Research, Action Research and Grounded Theory Research. The research design that will be used in this study is a case study.

Neuman (2014:42) defined case study research as an in-depth investigation of a wide-spread volume of information for one period or over a period of time about a few cases. In agreement with this definition, Leedy and Ormrod (2013:100) stated that a case study is a type of qualitative research which involves an in-depth gathering of data about a single cause for the purposes of learning more about a poorly understood situation.

According to Cohen *et al.* (2007:285), a single case study research design provides a method to assess interventions for an individual subject, and these interventions can be directed and replicated over time on groups and across different situations or subjects. Cohen *et al.* (2007:78) further stated that a choice of the research design is directed by the notion of 'fitness for purpose' since there is not a single blueprint on research planning. Algozzine and Hancock (2006:31) reinforce this notion by stating that a selection of a research design is driven by how well it allows for a thorough and detailed investigation of the research question.

The case study design provides the much-needed focus, emphasises the depth of a study, based on the assumption that reality is better understood through social interactions and constructions, and the phenomenon of the study is situated in a complex context (Biggam, 2008:93). In agreement with this, Neuman (2014:42) emphasised that case study research design investigates intensively a single or a few cases, whilst focusing on the finer details of each case and its context.

A case study is not intended to study an organisation in its entirety, but to focus on a specific issue or unit of analysis (Noor, 2008:1604). In this study, a case study research design will thus allow for a detailed inquiry into how the BSC is perceived, by investing time to focus on the finer details of the BSC and its implementation as a strategic- and performance measurement tool at only one DFI.

According to Algozzine and Hancock (2006:33), there are three types of case study design, namely: the exploratory design which determines the feasibility of the proposed research procedures or defines questions of a subsequent study; the explanatory design which establish the cause-and-effect relationships of events and outcomes; and the descriptive design which attempts to present a detailed account of a certain phenomenon within the context of the study. This study will adopt the exploratory case study research design.

## **2.5 Research methodology**

The research methodology is the general approach chosen by a researcher to carry out a study; to some extent, the selected approach dictates the tools the researcher selects for the study (Leedy & Ormrod, 2013:7). A research methodology rests on the foundation of the ontological- and epistemological paradigm assumptions (Neuman, 2014:93). This section is categorised into four sub-sections: (i) sampling and site selection, (ii) data collection techniques, (iii) data analysis, and (iv) methodological rigour.

### **2.5.1 Sampling and site selection**

The quality, or lack thereof, of a research study, is not only dependent on the appropriateness of the selected research methodology, but also on the suitability of the selected sampling strategy (Cohen *et al.*, 2007:100). The following three broad naturalistic sample selection approaches were identified and defined by Marshall (1996:523) as follows:

- (i) *Convenience sample*: The technique has an element of convenience and involves the selection of the most accessible to the study. It is the least rigorous technique in terms of time, effort and money a researcher invests on the study. Some of its shortcomings include a lack of intellectual integrity and yielding data of poor quality.
- (ii) *Judgement sample*: It is also known as purposeful sampling. With this technique, a researcher actively selects what is considered the most productive sample to properly answer the research question. A framework of variables which may influence an individual's contribution may be developed based on reviewed literature and evidence from the study.
- (iii) *Theoretical sample*: To a greater or lesser extent, samples in qualitative study designs are usually theory-driven due to their iterative process. As a result, this technique necessitates the building of interpretive theories from emerging data and the subsequent selection of further samples in order to examine and elaborate on this theory.

If the goal of the study is to obtain insights into a phenomenon, as is often the case in interpretivist studies, the qualitative researcher purposefully selects a sample which will increase the

understanding of the phenomenon (Leech & Onwuegbuzie, 2007:242). In line with the selected interpretivist ontology perspective and the chosen qualitative research approach, this study will thus follow the purposeful sample selection technique. With that said, a total of six face-to-face interviews will be conducted with selected employees at the DFI's head office. This is in line with research conducted by Maluleke (2019) who conducted five semi-structured interviews as a data collection technique for his masters' dissertation. The following purposive sampling methods were applied in the selection of participants:

- *Critical case sampling*: This is a method where a few critical cases are selected and examined. The selection is on the basis of questions like "if that group is having problems, then can we be sure all the groups are having problems?" (Alkassim *et al.*, 2016:3). This will be utilized in the selection of participants from the finance, strategy, human capital, sales and marketing portfolios of the case study.
- *Maximum variation sampling*: This method is built by identifying key dimensions of variations and then selecting participants that vary from each other as much as possible (Suri, 2011:75). This method will be used to select a sample of professionals in various management functions.
- *Expert sampling*: It is a sampling method which involves the selection of experts in a particular field (Alkassim *et al.*, 2016:3). This will be used to select experts in the fields of finance, strategy, human capital, sales and marketing.
- *Confirming and disconfirming sampling*: Patton (2002:39) defined this as a method which entails the selection of additional examples which confirms, adds richness and credibility to the findings (confirming sampling); and examples which provides rival interpretations (disconfirming sampling). This will be utilized in the selection of additional participants in the various management functions.

## **2.5.2 Data collection techniques**

According to Nieuwenhuis (2014), various data collection techniques such as interviews, documents studies and observations are used in qualitative research. Accordingly, this study consists of a literature review and a qualitative empirical study and data will be collected using qualitative data collection technique, namely: face-to-face semi-structured interviews with open-ended questions.

Data collection through interviews is more suitable in instances where a researcher requires adequate information using probing questions (Walliman, 2011:99). Semi-structured interviews are widely used as a result of the expectation that participants' can openly express their viewpoints (Flick, 2009:150). A total of six face-to-face interviews will be conducted with selected employees at the head office.

### **2.5.3 Data analysis**

The analysis of data in qualitative research involves organizing, accounting for and explaining gathered data; this in short means making sense of how participants define the situation while identifying themes, regularities and patterns (Cohen *et al.*, 2007:461). Neuman (2014:477), on the other hand, argued that data analysis in qualitative research approach begins in the data-gathering stage, although tentative and incomplete; but emphasized the importance of properly analysing data gathered.

There is not a single correct way of analysing data, but the objective of data analysis determines the kind of the analysis a qualitative researcher undertakes in line with the principle of fitness for purpose (Cohen *et al.*, 2007:461). This study is based on the data analysis techniques prescribed by Ranjit Kumar. Kumar (2019:402) argued that in qualitative research, how a researcher process and analyse data depends on how the findings will be communicated, and as such proposed these three broad ways to communicate these findings:

- (i) Developing a narrative to describe a situation, episode, event or instance;
- (ii) Identifying the main themes that emerge from the field notes or transcription of your interviews and writing about them;
- (iii) In addition to the above two, also quantifying, by indicating their frequency of occurrence, the main themes in order to provide their prevalence.

In this study, the findings will be processed and analysed through identifying the main themes that emerge from qualitative data gathered during the semi-structured interviews and writing about them. This will be achieved by making use of content analysis. Content analysis means analysing the contents of the interviews or observational field notes to identify the main themes emerging from responses of the respondents (Kumar, 2019:402). According to Kumar (2019:402) this process involves, (i) identifying main themes; (ii) assigning codes to main themes; (iii) classifying responses under main themes and; (vi) integrate themes and responses into the text of your report.

### **2.5.4 Methodological rigour**

Methodological rigour consists of a combination of a series of elements (such as evaluation design, measurement strategies, time frames, etc) which can be used to determine the level of confidence with which conclusions can be drawn from the results of a study (Braverman & Arnold, 2008:72). Tobin and Begley (2004:388) identified validity and reliability as key variables of methodological rigour in quantitative research. Validity refers to the extent a measurement instrument measures what it is intended to measure and can be established through

(i) considering content validity, (ii) criterion-related validity, and (iii) construct validity (Johnson & Long, 2000:30). Noble and Smith (2015: 34) described reliability as the consistency with which the measuring instruments measure what is intended to measure.

The validity and reliability of a qualitative study can be judged by its trustworthiness and authenticity (Kumar, 2019:276). Connelly (2016:435) described the five criteria which can be utilized to determine the trustworthiness of a study as follows:

- (i) *Credibility*: It can be achieved by ensuring that a study was conducted using standard procedures which are typically used for the selected qualitative approach. To this end, peer-debriefing, member-checking and prolonged engagement with participants are examples of techniques which may be utilized to establish credibility.
- (ii) *Dependability*: Refers to the stability of collected data over time and over the conditions of the study.
- (iii) *Confirm ability*: It refers to the degree of consistency of the findings of a study and these could be repeated. Confirmability in qualitative research may be achieved through methods such as maintaining an audit trail of analysis as well as detailed notes of all their decisions.
- (iv) *Transferability*: It relates to the researchers' ability to conduct a study in such a way that the findings are useful to individuals in different settings.
- (v) *Authenticity*: Researchers in qualitative research portray fairly and fully the deepest meaning of a phenomenon as well as different ranges of realities with the ultimate aim of increasing readers' understanding.

In order to ensure the validity and the reliability of the study, the same questions will be asked in all the six face-to-face interviews. Furthermore, the interviewees in the six face-to-face interviews will be afforded an opportunity to openly add comments to their responses to the questions.

### **2.5.5 Data saturation**

When assessing the quality – that is if the collected data answers the research questions – of qualitative research, a common aspect is that of measuring the saturation of a set of data (Lowe *et al.*, 2018:192). Constantinou *et al.* (2017:5) argued that saturation means a researcher has reached the appropriate depth to make sense of the collected data. Furthermore, Constantinou *et al.* (2017:5) stated that data is saturated when it no longer provides new information or new themes. The intended number of participants to reach data saturation for the research project is six in total.

## **2.6 Ethical considerations**

Ethical thinking assists researchers in making the right choices and also provides a framework to interrogate the selected choices (Dent, 2018:38). Dent (2018:38) further states that this framework is defined by a set of principles which serve as a guide in making these decisions. According to Fouka and Mantzourou (2011), research ethics are very important in the daily work of researchers and require them to at all times protect the dignity of the research subjects and the publication thereof of the related results.

Ethical consideration calls for the need to conduct research in a sound and moral manner, and this must be based on laid down ethical principles (Akaranga & Makau, 2016:1). Akaranga and Makau (2016:3) put an emphasis on this point by stating that it is vital to observe all the appropriate values throughout all the stages of a research study.

The study will be conducted with adherence to the highest possible ethical standards. This will entail maintaining the confidentiality of the participants and the information gathered throughout all the stages of the study. Furthermore, all participants will be given an option to take part (or not) in the research study.

## **2.7 Summary**

The chapter aimed to address the first secondary objective of the study, which is identifying and presenting the appropriate research methodology necessary to achieve the research objectives. To this end, an understanding and distinction between research design and research methodology were made. The purpose of the research paradigm was described as well as the identification of the interpretivism as the most appropriate paradigm. In addition to this, the ontological and epistemology assumptions were discussed and the normalist ontology perspective was adopted for this study.

The three research approaches were discussed, namely: qualitative, quantitative and mixed-method approaches. This study evaluates participants' perceptions of the research problem in words, and as such reflects the characteristics of a qualitative research approach. The research design was based on an exploratory case study as advocated for by Algozzine and Hancock (2006). The sampling strategy was purposeful sampling, while the data collection technique was the use of semi-structured interviews. The qualitative data collected was processed and analysed making use of content analysis to identify the main themes which emerged from field notes. The methodological rigour of the study was discussed to ensure the validity and reliability of the study. The chapter is concluded by a discussion of the study's ethical considerations.

The next chapter will conduct a literature review on the BSC and its use as strategic management- and a performance measurement tool.

## **CHAPTER 3**

### **3 THE BALANCED SCORECARD AND DFIs**

#### **3.1 Introduction**

The purpose of this chapter is to address the following secondary objective which was outlined in Chapter 1 (refer to section 1.6, second bullet): Conducting a literature review to explore the concept of the BSC as strategic management- and a performance measurement tool.

A literature review involves the selection of available documents on a specific topic with information, ideas, data as well as evidence which is written from a particular standpoint which aims to express certain views on the topic (Hart, 1998:13). Salkind (2012:39) on the other hand stated that the literature review provides a perspective on the research topic which one cannot get without knowing what other researchers have done on the topic as well as areas for future research.

It is through a literature review that we can understand the breadth and depth of the existing body of knowledge and work, and thus identify potential gaps to further explore (Watson & Xiao, 2019:112). Watson and Xiao (2019:112) further stated that the advancement of knowledge must be built on existing prior work; and in order to push the frontier of knowledge, we first must establish where the frontier is currently.

The literature review will play a critical role in identifying and developing questions appropriate for face-to-face semi-structured interviews.

The introduction above is followed below by providing an overview of the South African development finance industry and the related environment. The chapter also defines strategic management and performance measurement. This is followed by an in-depth analysis and discussion of the BSC. The chapter proceeds to explore the integration of the stakeholder theoretical framework with the BSC. The chapter concludes with a summary of what was covered during the literature review and connects this chapter with what is to be covered in the subsequent chapter.

#### **3.2 The development finance industry and the environment**

Development finance is provided by both the commercial banks and the Development Finance Institutions (DFIs). DFIs can promote sustainable socio-economic development and enable investments through the provision of higher risk loans, equity and guarantees (Rivera & Fullerton,

2015:29). The microfinance-space has evolved over the last four (4) decades into a comprehensive financial mechanism which assists the previously unbanked sections of the society to gain access to financial credit, savings and other related services (Ferdinand *et al.*, 2017:15).

According to Lefilleur (2016:8), Sub-Saharan Africa has by far the least developed financial sector in the whole world. Lefilleur (2016:8) further argued that even after taking the differences in the Gross Domestic Product (GDP) into consideration, the African financial sector remains very much underdeveloped. The DFIs can play an important role in the carrying out of the pan-African capital-intensive operations through targeted actions which support the banking sector (Lefilleur, 2016:8). The financing requirements of Africa's infrastructure projects are substantial. The funding of these projects is, however, hampered by the limited number of bankable projects; the absence of well-developed projects and the related programme plans, which can be funded by the DFIs and commercial banks alike (Ntsimane, 2017:24).

The DFIs at the South African provincial level are thinly stretched and lack sufficient resources and capacity required to address the ever-growing demands of SMMEs (Guliwe, 2018:20). As a result of the unrealized capitalisation, the National Empowerment Fund (NEF) could only approve 8% of the total value of submitted applications of R33,4 billion (NEF, 2019:47). Owing to its high-risk appetite and balancing this with its developmental mandate, the IDC faced a substantial increase in its impairment charge and the organisation thus established a dedicated unit within the corporation to focus on the strategic management of its key subsidiaries and investments (IDC, 2018:23). From the literature review above, it can be concluded that the SEFA (a wholly-owned subsidiary of the IDC) face similar challenges pertaining to the under-capitalisation, lack of capacity and increasing impairment charges.

### **3.3 Strategic management, performance measurement and the role of the BSC**

The BSC is used extensively worldwide as a strategic planning and management system by for-profit, nonprofit and government institutions to align their business activities to their visions and strategies (Kshatriya *et al.*, 2017:75). The BSC assists companies in achieving their long-term strategic goals through harmonizing performance measures with their visions, missions, strategies and values (Muda *et al.*, 2018). Table 3.1 below provides the key definitions of the concepts of vision, mission, strategy and the BSC.

**Table 3-1: Key strategic management definitions**

<b>Concepts</b>	<b>Definition</b>
Balanced Scorecard	The Balanced Scorecard 'is an approach to the provision of information to management to assist in strategic policy formulation and achievement. It emphasizes the need to provide the user with a set of information which addresses all relevant areas of performance in an objective and unbiased fashion. The information provided may include both financial and non-financial elements, and cover areas such as profitability, customer satisfaction, internal efficiency and innovation'. (CIMA Official Terminology)
Mission	'Mission describes an organisation's basic purpose, and what it is trying to achieve. As such it can guide strategic decisions and helps to identify the organisation's values.'
Strategy	A strategy is a 'course of action, including the specification of resources required, to achieve a specific objective'. (CIMA Official Terminology)
Vision	'Vision statements should express the organisation's aspirations, with a view to mobilizing the motivation and energy of its employees in order to realize those aspirations. However, vision can also give a general sense of direction to an organisation, which provides a framework to develop specific objectives and the detail of the organisation's strategy.'

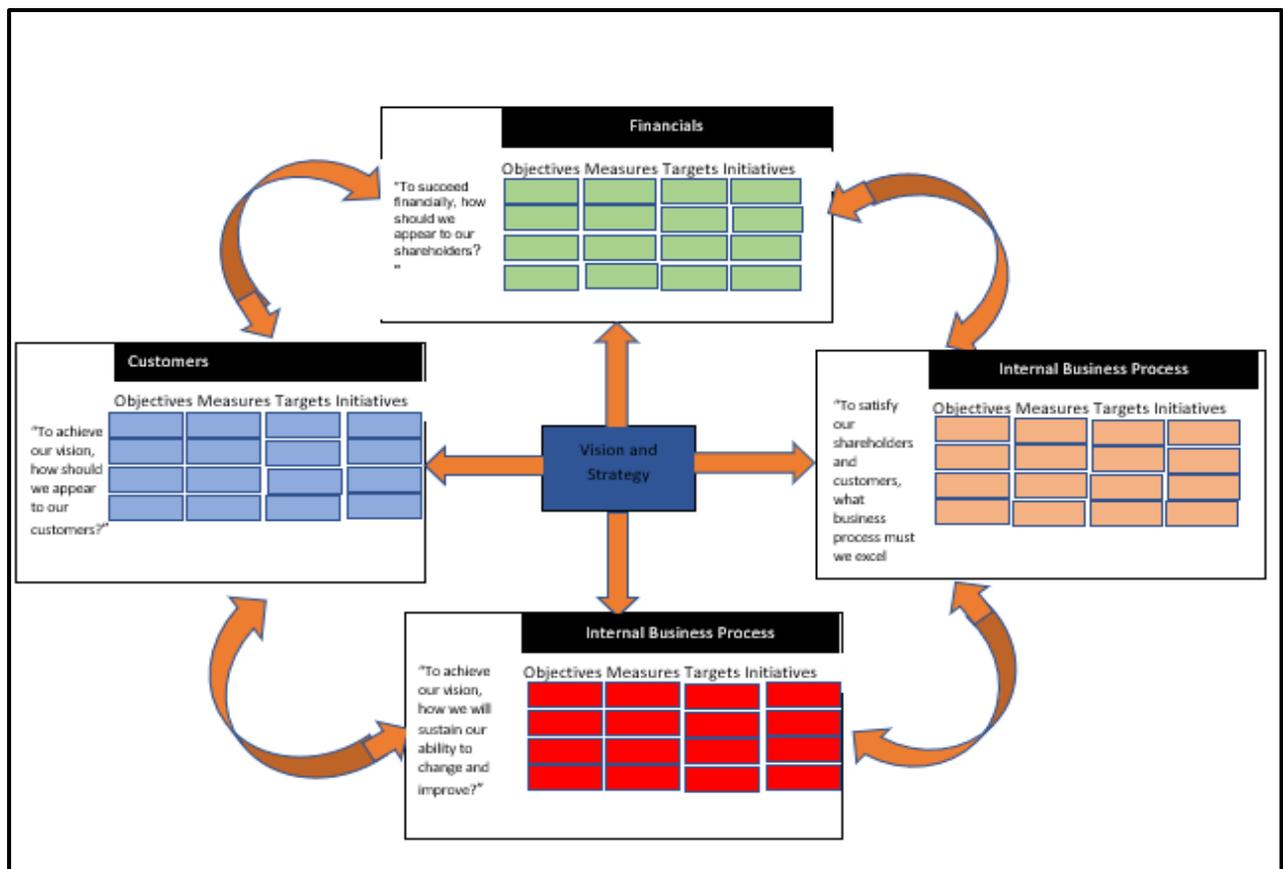
Source: (CIMA, 2016)

According to Mari and Micheli (2013:146) the constant need for organisations to establish links between their plans, decisions, actions and the results thereof, has continuously generated substantial interest in measuring organisations' performances. The measurement of performance is a key function within organisations as it provides a platform for giving value-added feedback into the decision-making processes and the analysis of structural issues (Gawankar *et al.*, 2015). Performance management assists organisations in managing their performances in accordance with their corporate strategies and goals (Hasan, 2017:88). In measuring performance, many a time, organisations link it to their turnover, but this is not the only performance measure of a company (Kshatriya *et al.*, 2017:75). Kshatriya *et al.* (2017:75) further stated that in addition to retaining financial measurement as a critical summary of managerial and business performance, the BSC also highlights the more general and integrated set of measurements that link its four perspectives to long-term financial success.

### 3.4 Balanced Scorecard

The BSC was designed by Kaplan and Norton more than twenty-five years ago. As early as 1996, Kaplan and Norton (1996:53) described the BSC as a tool which presents a balanced view of present performance, and those items which will drive future performance. In agreement with this view, Syalom (2015:7) stated that the BSC provides a framework for leaders of organisations to communicate their mission, strategy and factors that drive current and future success to their employees, and thus assists in directing the resources towards achieving long-term goals.

**Figure 3-1: Balanced Scorecard**



Source: Kaplan and Norton (1996)

The BSC highlights the links between operational and financial performance by integrating various performance measures. It offers four perspectives on performance as presented in Figure 3-1 (CIMA, 2016:548; Kaplan & Norton, 1996:53):

- (i) Financial;
- (ii) Customer;
- (iii) Innovation and learning; and

(iv) Internal business.

Al-Hosaini and Sofian (2015:26) argued that the search for a performance measurement tool in the form of key indicators necessitated the incorporation of the four BSC perspectives, which form the basis on which organisation's performance can be assessed. These perspectives are further discussed below.

#### **3.4.1 Financial perspective**

This is considered the most important of the four perspectives concerning the implementation and assessment of the organisation's key strategies (Al-Hosaini & Sofian, 2015:26). Hakkak and Ghodsi (2015:298) described this perspective as the indices used by the shareholders and the broader stakeholder community to determine the financial performance of an organisation. According to Messeghem *et al.* (2018:658), the finance perspective is used to evaluate how well an organisation meets the set objectives of investors.

#### **3.4.2 Customer perspective**

This perspective provides a context within which an organisation's intangible assets are utilised in pursuance of a defined target client's value proposition (Valdez *et al.*, 2017:164). Dobrovic *et al.* (2018:59) stated that the customer perspective uses goals such as customer satisfaction, acquiring new customers and increasing market share to look at an organisation from the customers' point of view. Organisations should determine how they would like to appear to their customers and in turn compare this with how customers perceive them (Werner & Fuyuan, 2012:88).

#### **3.4.3 Innovation and learning perspective**

This perspective identifies the resources in the form of human capital, information capital and organisational capital required to support the value creation process and align these to the organisation's critical internal processes (Valdez *et al.*, 2017:164). According to Hakkak and Ghodsi (2015:298), the perspective includes measures employed to ensure that employees' growth and learning results in the achievement of the other stakeholders' perspectives. In support of the above views, Anjomshoae *et al.* (2017:24) highlight that this perspective ensures that value is created on a sustainable basis through improving internal processes and enabling organisational growth.

#### **3.4.4 Internal business perspective**

The perspective refers to the internal processes which must exist for the organisation to satisfy the financial- and the customer perspectives (Hakkak & Ghodsi, 2015:298). According to Al-Hosaini and Sofian (2015:26), this perspective places an emphasis on the need for institutions to consistently add value on their process whilst striving to offer better services to their customers. In agreement with this view, Valdez *et al.* (2017:164) add that in this perspective the search for the most efficient and effective processes leads to the implementation of mechanisms to detect deficiencies and correct them so that processes can be improved.

#### **3.5 Application of the stakeholder theoretical framework**

The stakeholder theory, as outlined in Chapter 1 (refer to section 1.3), is the theoretical framework applied in this research project. The framework is the most appropriate as it covers the key stakeholders which are also incorporated in the four distinct perspectives of the BSC. The stakeholder theory suggests that businesses exist primarily to create value for stakeholders as well as build relationships amongst them (Freeman & Dmytryev, 2017:10). Freeman and Dmytryez (2017:13) further argued that stakeholders are interdependent and thus creating value for one stakeholder contributes to value creation for other stakeholders. They argued that, for instance, a company which assists the community within which it operates may end up with shareholders who are better off to be recognized as more motivated and productive employees, increased sales and a higher corporate ranking.

According to Hasan (2017:88), financial performance measures are relied upon heavily by traditional performance management systems with the ultimate purpose of increasing shareholder value. Contrary to this view, Theodoulidis *et al.* (2017:173) argued that the stakeholder theory does not only recognize shareholders as an important stakeholder, it also recognizes the importance of other stakeholders. Furthermore, the stakeholder theory recognizes that profits and financial performance are indeed one of the outcomes of the stakeholder value creation process.

In this case study, in its ongoing drive to create value for the stakeholders the SEFA's BSC identifies its key stakeholders.

**Table 3-2: Key stakeholders of SEFA**

<b>SEFA'S STAKEHOLDERS</b>	
Customers	The SMMEs which SEFA funds and provides entrepreneurial support.
Government	The SEFA's shareholder via the IDC.
Employees	The people who work for the SEFA.
Intermediaries	Institutions which work with the SEFA to on-lend funds on specific projects.
Suppliers	Companies which provide goods and render services to the SEFA.

Source: Author

These stakeholders are incorporated in the four distinctive perspectives of the BSC, namely: Customer perspective; Financial perspective; Business process perspective; and People, learning and growth perspective (SEFA, 2017:11). The stakeholders represented by these perspectives are thus consistent with the stakeholder theory.

**3.6 Summary**

The objective of this chapter was to address the secondary research objective of conducting a literature review to explore the concept of the BSC as strategic management- and a performance measurement tool.

The chapter began with the explanation of the background and the purpose of a literature review in research, and thereafter its role in the development of questions to be used in the semi-structured face-to-face interviews is detailed. An overview of the DFIs environment is explained, followed by the definition of strategic management and performance measurement and the role of the BSC. This is then followed by a detailed discussion of the four perspectives of the BSC. The chapter concludes with the discussion of the integration of the Stakeholder theory framework with the BSC.

In the next chapter, the third secondary research objective of contextualizing the concept within the SEFA through semi-structured interviews will be discussed.

## **CHAPTER 4**

### **4 EMPIRICAL RESEARCH FINDINGS**

#### **4.1 Introduction**

The purpose of this chapter is to address the following secondary objective which was outlined in Chapter 1 (refer to section 1.6, third bullet): Contextualizing the concept of the BSC within the SEFA through semi-structured interviews. In this regard, the results of the semi-structured interviews will be documented and discussed. Furthermore, the chapter covers the examination of the results of the empirical study conducted at the SEFA to discern the extent to which the DFI perceives the application of the BSC as a strategic management- and a performance measurement tool. The data collection technique used for the empirical study was a newly developed questionnaire (see Appendix 2) completed during semi-structured interviews.

To address the main as well as the secondary objectives of the study, the questionnaire was developed based on the literature review, as discussed in Chapter 3. The questions included in the questionnaire were informed by the key themes and concepts identified as part of conducting the literature review, and the BSC's four perspectives as set out in Figure 3-1 in chapter 3. The questionnaire consisted of seven sections, namely i) Balanced Scorecard Alignment; ii) Communication; iii) Performance measurement; iv) Innovation and learning; v) Internal business; vi) Financial; and vii) Customer.

Although six participants were initially purposely sampled, only five participants were interviewed on a face-to-face basis (via the Microsoft Teams Platform) using the developed questionnaire. These interviews were all semi-structured in nature, were recorded and then transcribed. The transcripts of these interviews were used to compile the overall findings of the study. Furthermore, the literature review presented in chapters 1 and 3 were used to support the data gathered through the scheduled semi-structured interviews. The findings of the study will be discussed in accordance with the results of each section of the questionnaire.

#### **4.2 Participants' profiles**

As part of the empirical study, a total of eight potential interviewees were contacted with the aim of interviewing six of them. These eight potential participants from the SEFA were selected using the purposeful sampling strategy discussed in chapter 2 (refer to section 2.5.1), while only five were subsequently interviewed on a one-to-one basis. The sixth participant could not be interviewed because of the effect the COVID-19 pandemic had on the SEFA's operations and the resulting additional workload on its employees. These challenges to secure the sixth interview is

consistent with the theme noted by Guliwe (2018:20) that DFIs are thinly stretched, and lack the sufficient resources to address the ever-growing needs of the SMMEs. Although the intention was to reach data saturation with six interviews, by interview number five there was no new information to discover concerning some identified themes and the related questions. Despite that data saturation was not reached with all the questions, the researcher asserts that the sample size of five participants is adequate to analyse and, reach conclusions, and make the necessary recommendations based on the collected data.

The participants were a mix of male and female with various qualifications, skill sets and varying experience within and outside the SEFA. The participants represent various functions within the SEFA including finance, legal, strategy, and administration. The levels of seniority of the participants range from staff to senior management. The job titles of the participants are not provided to protect their anonymity. The selection of participants from across various functions, mix of males and females and with varying experiences ensured that a broad set of views and thoughts were expressed on the presented questions.

### **4.3 Semi-structured interviews results**

The overall findings of the semi-structured interviews are presented below in the sections referred to above, namely i) Balanced Scorecard Alignment; ii) Communication; iii) Performance measurement; iv) Innovation and learning; v) Internal business; vi) Financial; and vii) Customer.

#### **4.3.1 Balanced Scorecard Alignment**

This section of the questionnaire aimed to establish if the participants understand some of the fundamental concepts used in strategic management and performance measurement, especially as the BSC is a strategic management- and a performance measurement tool used by their organisation. Furthermore, these questions were intended to provide a context within which to discuss the application of the BSC by the SEFA; to establish their familiarity with and understanding of the SEFA's BSC; their perceptions on the alignment of their BSC with that of the institution; and if there is an alignment between what they do daily with the institution's BSC. Moreover, participants were asked to indicate if they understood their responsibilities towards achieving the SEFA's strategic objectives.

The first question in this section asked participants if they understand terms such as Vision, Mission, Strategy and the BSC. If the answer to the question was "yes", participants were asked to explain these terms in their own words. The first two terms which participants defined were Vision and Mission. All participants in their definitions of these terms demonstrated understanding as well the link which exists between these two important concepts in strategic management.

Furthermore, the participants gave practical examples of these terms as far as the SEFA is concerned. Below is how they explained these terms:

*“The Vision of the company is more to do with the mandate or the Mission and the Vision is more to do with the mandate and how the company sees itself in terms of their long-term objectives and what they intend to do.” – Participant 1*

*“And with Mission, I think for me, it must go similar with the Vision, ‘cause you wouldn’t have a Vision and not have a Mission of where you want to see your entity or business. Being that you must reach certain targets and target certain people so that you improve, or you develop the community or whoever that you would be assisting in that regard.” – Participant 2*

*“OK, things like a Mission Statement is basically an affirmation. I mean things like kuyasheshwa (we do things faster), you know, how speedy are we, are we reliable? Are we accessible? Where are we going and how are we trying to get there? What are we trying to achieve? I suppose that is a generic explanation of what a Mission would be.” – Participant 5*

The responses are in line with a definition of a mission and vision statement as provided by the Chartered Institute of Management Accountants (CIMA). According to CIMA (2016:43), a mission statement describes the basic purpose of an organisation and what it intends to achieve, whereas the vision provides an organisation with a sense of direction towards the future.

Before consideration is given to the participants’ understanding of the concept of strategy, a definition thereof is considered. Louw and Venter (2013:534) defined strategy as a direction an organisation takes over the long-term through the allocation of the necessary resources in pursuance of fulfilling the expectations of its stakeholders. All the participants were able to explain the ‘direction’ element of the definition. The manner in which they allocated the necessary resources did not come forth in their explanations. Below are examples of how participants defined strategy:

*“Strategy is more to do with the direction the company wants to take and how they intend to get there.” – Participant 1*

*“Strategy, I would say, it is a plan of action.” – Participant 4*

Furthermore, three participants in their explanation were able to establish a link strategy and the achievement of long-term goals and/ or objectives.

*“Strategy is a plan, it is a long-term plan that is crafted in order to achieve your long-term goals.” – Participant 4*

The last term that participants were asked to explain was the BSC. Drury (2015:603) defines the BSC as a strategic management technique utilized by organisations for the purposes of communicating and evaluating their mission and strategy. In their responses, the majority (four out of the five) of the participants demonstrated that they understand the concept as well as where it fits in within the organisation’s strategic and performance measurement frameworks. One participant’s explanation was inconsistent with the above definition of the BSC, a response which is consistent with the view expressed by Khanmohammadi *et al.* (2015:128) who stated that a telecommunication company cited a lack of understanding of the BSC tool as one of the reasons for not utilizing the technique. Participants defined the BSC as:

*“In terms of the Scorecard, I think on my side my understanding is that it is probably just a tool to evaluate whether you are meeting your company’s objectives during a set period of time.” – Participant 1*

*“Balanced Scorecard that is where you measure your performance against certain targets that you have set like you set a yardstick of I to want to reach certain, maybe a number of small businesses that I want to finance. I want to reach this much and then what is your actual that you have reached. That is measuring your actuals against your forecast.” – Participant 3*

From the above discussion points, it appears that four of the five the participants in this regard understand the terms used in strategic management and the usage of the BSC as strategic management- and a performance measurement tool including the concepts of vision, mission, strategy and the BSC.

In addition to defining the above terms, participants were further asked a number of questions which were intended to establish their understanding of the SEFA’s BSC and if there is an alignment between the SEFA’s BSC and its strategic objectives. The participants’ responses indicate that they understand the SEFA’s BSC and it is indeed aligned with the strategic objectives. This is consistent with the view of Werner and Fuyuan (2012:88) that the BSC assists managers in developing initiatives and objectives which are aligned with the strategy.

The first question put to the participants was for them to indicate whether they are familiar with the SEFA’s BSC. Four participants responded that they are indeed familiar with the SEFA’s BSC, with Participant 3 specifically saying *“Yes, I am familiar with it”*. Contrary to the four participants’

view that they are familiar with the SEFA's BSC, the other participant said *"No! I don't know. But usually, with Balanced Scorecards, we use them for funding, but I have never seen one and I don't know what one entails. I just know that they use it when they are funding just to check if the client will meet the basic criteria of the types of funding that SEFA offers."*

Participants were then asked to indicate whether they understood all the terminology used on the SEFA's BSC. Four of the five participants responded that they are indeed familiar with the SEFA's BSC, with Participant 5 specifically saying *"Generally, I would like to think that I do, hey"*.

The next question was for the participants to indicate if, in their view, the SEFA's BSC is aligned with its strategic objectives. Four out of five participants responded that there is indeed an alignment between the two, with Participant 1 specifically saying *"I would say, yes"*.

Participants were asked to indicate whether there is a departmental and an individual BSC. Four of the five participants responded that there is a departmental as well as an individual (albeit in the form of a personal performance agreement) BSC, with Participant 5 specifically saying *"I suppose yes there should be. There definitely is, because I know that our scorecard is segmented per department. And when it comes to individuals the performance appraisal is driven by what that particular department is intended to achieve"*.

In the next question, participants were asked to indicate whether their individual BSC or personal performance agreement is aligned with the SEFA's BSC. Four out of five participants responded that there is indeed an alignment of their individual BSC with the SEFA's BSC, with Participant 3 specifically saying *"Yes, it is"*.

Participants were then asked to indicate whether there is a link between what they do on a daily basis and the SEFA's BSC. Four of the five participants responded that there is indeed a link, with Participant 1 specifically saying *"There is"*.

The last question in this section asked participants to indicate if they understand their responsibilities towards achieving the strategic objectives as outlined on the SEFA's BSC. Four out of five participants responded that they understand their responsibilities towards achieving the strategic objectives as outlined in the SEFA's BSC, with Participant 2 specifically saying *"I would say, yes"*.

### 4.3.2 Communication

The questions in this section were intended to establish if there was effective communication within the institution about the BSC and the strategic objectives. Effective internal communication between management and staff is important to ensure there is no misunderstanding of the BSC and strategic objectives of the institution. Furthermore, effective communication assists in ensuring that employees work towards the set targets and objectives on a daily basis.

Participants were asked if their line managers shared with them the strategic objectives for the year and presented the BSC at a departmental level. Three participants responded that their line manager did not share with the department the strategic objectives for the year and the BSC. Below is an example:

*“It was not shared by the Line Manager, it was shared by the Department of Strategy. They did not really present it. The communication was via e-mail where they share the Corporate plan with all the staff members.” – Participant 1*

*“At that level, I wouldn’t say yes per-sé. But our line manager shares with us the Corporate plan which has the BSC.” – Participant 3*

The responses indicate ineffective communication of the BSC within departments, a factor that was listed by Rompo (2011:46) as a contributor towards a lack of understanding of the BSC as well as resistance by those who are meant to operationalize it on a daily basis.

### 4.3.3 Performance Measurement

The questions asked in this section were aimed at establishing how the participants’ performance is measured, and if the employees were included in the process of setting individual targets. Furthermore, these questions were intended to solicit the participants’ views regarding measuring performance using the BSC only, or if they think a combination of different tools (matrix) was a better fit. Employees within SEFA sign a personal performance agreement at the beginning of each financial year, which is aligned to the SEFA’s BSC. This agreement is utilised to measure individual performance. Four of the five participants agreed that their individual performance is measured in terms of their performance agreement.

*“There is a performance agreement that is agreed upon between the staff member and the line manager who represents the company. In terms of those objectives or requirements within the agreement that is then evaluated half-yearly and also at the end of each financial year to see if someone met their targets or not.” – Participant 1*

*“Departmental yes, there are divisional targets that people need to reach. Individuals yes, individual targets will be targets that are incorporated in the SEFA’s Corporate plan, the overall organisation Corporate plan. Where now divisions will need to go into the SEFA’s Corporate plan and extract what is related to their divisions. Once they have extracted that from the Corporate plan now they have to cascade down to the individual.” – Participant 2*

All participants indicated that after signing the performance agreement at the beginning of the financial year, their performance is then measured at mid-year and again at the end of the financial year.

*“It should be twice a year. We have a mid-term review, and we have an annual assessment.” – Participant 5*

Two participants indicated that they are given ongoing feedback on their performance against the BSC, whereas three said there is no individual ongoing feedback. Below are examples of the feedback from participants:

*“On that, I would say, yes. Because we normally engage a lot with the manager, and we also have what you call monthly meetings where you will discuss divisional objectives and divisional targets or divisional goals. Like feedback meetings that we have on a monthly basis. Yes, I would say yes.” – Participant 2*

*“No. Only when we do the agreement on that first day and then the last time that we do, but no, not really. So, you wouldn’t know if you are doing well or not until the day comes. Yeah.” – Participant 4*

Asked whether they are allowed to make inputs on the departmental and individual BSC/ performance agreement, all participants answered affirmatively. Participant 3 said, *“Yes, I am given an opportunity to make inputs like making suggestions.”* This concurs with the recommendation made by Fischer *et al.* (2016:66) that in order to ensure that the BSC is implemented effectively, it is critical that all the employees within the organisation expect the tool and the other related systems, and that they participate in its design.

Three participants indicated that departmental performance is measured on a monthly and on a quarterly basis. Participant 2 said, *“Yah, we have got monthly meetings and quarterly meetings where we will interrogate our quarterly targets and our yearly targets.”*

One participant indicated that they do not know about departmental performance. This is consistent with the challenge of ineffective communication identified by Rompo (2011:46) who indicated it as one of the challenges of implementing the BSC.

*“I wouldn’t know because they don’t tell us. We don’t know anything about departmental performance. So, the only time you would know about departmental performance is when you see your performance score and that’s where you would know what happened. But other than that we are not aware departmental. Well when I was still in the Call Centre I was not aware.” – Participant 4*

Three participants shared the common view that the BSC is not adequate as the only performance measurement tool. This emphasizes the importance of having a performance measurement matrix.

*“For the organisation, obviously for the organisation, it would be sufficient, but I don’t think it should be the only tool. There should be other performance measures, departmental performance measurements and also individual performance matrix. Because I think the BSC is more of a summary rather than a deep-dive in terms of the objectives of each department.” – Participant 1*

Two participants agreed that the BSC is sufficient as the only performance measurement tool. A theme consistent with the view of Kshatriya *et al.* (2017:75), that the BSC offers a comprehensive summary of the performance of the organisation.

*“I would say yes because the BSC is the combination of individual performances at the departmental level. Which means each and every individual submits his performance, and then the BSC is a way of a benchmark for measuring people’s performances and the organisational performance as a whole (overall). It is sufficient, that is what I can say.” – Participant 3*

#### **4.3.4 Innovation and learning**

The questions in this section were intended to establish whether the participants think the BSC affords them opportunities for personal development. Through innovation and learning initiatives, employees can develop the required skills and thus improve the quality of customer service. Employees are the engine without which an institution cannot achieve its intended outputs, and as a result of these companies invest a great deal in the training and improvement of their employees’ knowledge and skills (Krunic & Lutitsky, 2012:39).

All participants agreed that they are trained and have the skills to perform in accordance with the BSC. These responses are consistent with the view of Hakkak and Ghodsi (2015:298) that measures should be in place to ensure employees' learning and growth yield positive results for the other three BSC's perspectives. Below is an example:

*“So, in terms of the training, the training is facilitated by our Human Capital Department. So, there is a specific learning and development unit within that department. There are scheduled training which is available for certain individuals within the entity or it might be managerial training where all the managers go on that training. But also, within the department itself, if someone identifies that they need training in a specific area, whether speciality or where they lack, it might be advanced Excel training they can request to go on that specific training. So, there are opportunities to go on training and also to learn new different things.” – Participant 1*

Three participants indicated that the BSC offers opportunities to identify areas needing attention for personal growth.

*“I mean if I know what I am expected to do and I know the skills that are like in order for me to be able to achieve what in need to achieve for that year, there is always opportunities for me to ask for training and so forth in order to be able to do better and develop myself in the process. – Participant 4*

In contrast, two participants share the common view that the BSC does not offer opportunities to identify areas needing attention for personal growth.

*“That one is a bit of a difficult man. Have I seen that or heard of it? I would say no. Why am I saying that cause on our BSC there is study assistance to check how many people have studied in the organisation or how many people have grown or decided to take further studies? I think it was removed on our performance and study assistance fee/ the money for study assistance it was also cut. So, I would say no.” – Participant 4*

The above two contrasting views indicate a varying understanding of this BSC's perspective by employees within different departments. This indicates that there is inconsistent and ineffective communication of the BSC within departments as also noted in section 4.3.2.

All participants agreed that there is an individual development plan which is in line with the SEFA's BSC. This confirms the argument of Ndevu and Muller (2018:5) that the BSC assists in reaching compatibility between personal and organisational objectives.

*“In terms of the development plan for the individual, that is captured within the annual performance agreement for a particular individual. An individual may identify a development plan for themselves within that particular performance agreement after consultation with their line manager. So, it is something that each employee should incorporate in their performance agreement.” – Participant 1*

All participants held the same view that the BSC assists in ensuring that all employees focus on personal development. According to Anjomshoae *et al.* (2017:24), the learning and innovation perspective offers an opportunity to employees which in turn result in the creation of sustainable value through the improvement of internal business processes. Below is an example:

*“I would say yes. But my “yes” would have a “but”. Cause yes Corporate plan/ BSC is for organisational but then it also depends on an individual would an individual go to an extent of improving himself or would a person go in and say this is what I wanna do. This is what I wanna do for my clients and this is what I would do for myself. So, I would say yes but I would have a “but”; because within the person himself, does he want to do those things, does he want to improve? I would say in that sense yes.” – Participant 2*

#### **4.3.5 Internal business**

The questions in this section were aimed at establishing if the BSC, as a strategic- and a performance measurement tool, assists participants to focus on improving internal processes which in turn improves the quality of service the institution offers to its customers. The internal business processes are important in that they assist the institution in meeting its objective to improve the turnaround times for loan applications (SEFA, 2017:11). Furthermore, these questions were intended to establish the emphasis the institution places on its internal process and the related improvements.

In this regard, the participants were asked if, in their view, the BSC assists in identifying business processes which can be improved. Four participants indicated that the BSC assists in the identification of the internal business processes which can be improved. One participant stated:

*“I think yes. Yes. Because I think at some point there was time within the strategy unit that we must have automated processes, where now we would, like for example, we need to (but not phase off) but then we need to improve on our customer respondents. Like when a client has sent an e-mail there need to be that automated e-mail to say we acknowledge your enquiry regarding certain business, and then we will respond to you within or after a person has assessed your documentation. I would say in that sense yes, we do. There is an automation improvement on certain things, like we need to shy away from manual*

*things, we need to have automation of processes so that business can run quickly and then I think in that sense like also to, to, when we have our quarterly meetings where we need now to give feedback. Feedback that we need to know that this has been done already, I have reached my target for this quarter one or quarter two. I think in that sense, yes.” – Participant 2*

This point that the BSC assists in identifying the internal business processes which can improved, was confirmed by participant 3 who responded as follows:

*“Yes, it is because we will see there where we lacking as an organisation. Maybe the number of times or the number of people with disabilities that we have funded, maybe this year it didn’t increase compared to last year. Then it shows there the trend in the numbers what is our short-falling, and we can plan according to that. So, that is where we as strategy come and strategize how we can bridge that gap, and close that gap of a decline in performance.” – Participant 3*

The participant’s response is consistent with the views of Valdez *et al.* (2017:164) in that the BSC assists in the detection of deficiencies within the business processes in the search for improving the processes.

From the above it can be gathered that four of the five participants responded that the BSC does indeed assist in the identification of the internal business processes which can be improved within the SEFA. From the responses of the four participants the BSC is assisting the SEFA in the identification of the internal business processes which can be improved and indeed achieving its objective of improving loan applications turnaround times. This finding agrees with what Kronic and Lutitsky (2012:51) posit, i.e. that the BSC does indeed offer opportunities to develop efficiencies in the provision of an effective education process.

#### **4.3.6 Financial**

The questions in this section were aimed at establishing the participants’ understanding of the key concepts incorporated in the SEFA’s BSC as far as the financial perspective of the BSC is concerned. The financial perspective is considered as the most important in the assessment of the success of the organisation’s strategies (Al-Hosaini & Sofian, 2015:26). DFIs face several challenges regarding their financial sustainability because of the expectations that they should contribute to the reduction of unemployment and alleviation of poverty (Bogan, 2012:1058). Thus, an understanding by employees of the key concepts used in measuring the financial sustainability objective of an institution is important. Furthermore, the questions were also intended to

determine if participants understand their roles regarding operational costs which contribute towards the financial sustainability of the SEFA.

Participants were asked to define the cost-to-income ratio in their own words. According to Olarewaju *et al.* (2017:155) cost-to-income (CIR) ratio is a performance measurement ratio used by banks to highlight their achievements, and compare themselves to competitors. CIR achieves this by comparing the operating income to the operating costs. The cost-to-income ratio is one of the measures SEFA implemented for its financial sustainability objective (SEFA, 2017:12). Four participants correctly defined the cost-to-income ratio in their own words. This understanding and the related examples they gave, indicate that they understand this concept and its significance in the financial sustainability of the SEFA.

*“Basically, your cost-to-income ratio is a ratio that measures your expenses against your income. So, just saying how much of your profit goes towards your expenses. It is the inverse of your operating income ratio. – Participant 1*

In contrast to the rest of the participants, one participant indicated that they do not know what this ratio means. This view is in line with the same participant’s view that they do not know if their role contributes to the reduction of operational costs. The participant’s responses indicate a lack of understanding of the finance perspective of the BSC tool as noted by Khanmohammadi *et al.* (2015:128). Not being familiar with this ratio, and clarity around one’s role in reducing operational costs, may have the consequences of employees not striving to reduce operational costs which in turn contributes to the financial sustainability of the SEFA.

Another concept – which is also a measure used by the SEFA to measure its financial sustainability objective (SEFA, 2017:12) – participants were asked to define in their own words is accumulated impairments. An impairment loss is an amount by which the carrying amount of an asset exceeds its recoverable amount (IAS Plus, 2020). The Cambridge Dictionary (2018) describes accumulation as a collection of items and/ things which is done over a long period of time. Thus, accumulated impairments within the context of SEFA refers to the increasing unpaid loans over several financial years. As a DFI this is an important indicator of its financial sustainability. All the participants correctly defined the concept of accumulated impairments. Their definitions demonstrated an understanding of the advancement and repayment of the loans by the customers, a core business of the SEFA. One participant defined accumulated impairments as follows:

*“Accumulated impairment in my understanding is that of clients not paying back the money. So, the money is not coming back, and I am not able to assist other clients. And*

*when I keep on giving money out, still I am not finding/ receiving any money, any payments from the money that I have given out. So, at the end of the day I will have more impairments than me assisting other businesses. In that sense I would say money given out and not receiving it back from the clients.” – Participant 2*

This understanding of accumulated impairments was confirmed by all other four participants, with another participant stating:

*“Accumulated impairment would be debts that perhaps has been outstanding for longer than intended. Umm! Let’s say we agreed that we gonna loan people and by year number three all those loans are paid back, but by year number five some amounts, some accounts are simply not paid, and all arrangements are abandoned and gets to the point of write-offs and litigations. Where a debt starts costing more.” – Participant 5*

The last concept which participants were asked to define in their own words was growth in interest. Within the context of a DFI like SEFA, growth in interest measures if the growth in interest revenue is consistent with the related growth in its loan book. Two participants’ explanations were consistent with the description of this concept. Thus, demonstrating their understanding of how SEFA generates its revenue. One participant said:

*“Growth in interest that is the interest on the loans that I have given people and when the loans are growing how much the interest grows.” – Participant 3*

This understanding of the concept was confirmed by another participant which defined it as:

*“An institution like SEFA, which is a lending institution will mostly generate their revenue through interest that they charge on loans. So, a ratio like growth in interest will basically measure if your revenue is growing or the interest that you are generating on your loan base is growing. So that might be a better indication of your capital base, whether your capital base is growing or deteriorating on an annual basis.” – Participant 1*

The other three participants did not correctly define growth in interest. Their definitions indicate that they do not understand one of the main revenue streams of the SEFA. Furthermore, this indicates that they do not fully understand the finance perspective of the SEFA’s BSC. One participant defined the concept as follows:

*“Growth (in interest), we call that. It is a matter of basically inflation ummmh and how we compare to the rest of the economy. I mean when you talk about things like the Repo rate, you know, you have to talk about the value of money over time.” – Participant 5*

The participants were then asked if their roles and/ or their day-to-day responsibilities contributed towards the reduction of operational costs. Operational costs are one of the key variables used in the calculation of the cost-to-income ratio, and an important element in determining the financial sustainability of a DFI. Four participants indicated that their roles do contribute towards initiatives to reduce operational costs. It thus means that the BSC in this regard is offering the employees opportunities to reduce operational costs and consequently contributing to the financial sustainability of the SEFA. These views agree with the study conducted by Kronic and Lutitsky (2012:51) regarding the cost management opportunities the BSC offers an organisation if implemented appropriately. One participant described their role in reducing operational costs as follows:

*“In the form of giving advice to the top management on how to approach/ improve our business on how/ the way we offer services to our clients.” – Participant 3*

One participant indicated that they do not know if their role contributes to initiatives to reduce operational costs. This indicates that the SEFA’s BSC is possibly not presented and/ or communicated to all the employees at a departmental level.

#### **4.3.7 Customer**

The questions in this section were aimed at determining whether the participants make use of the customer feedback to improve their internal processes, and if the BSC assists in ensuring that all the employees focus on delivering quality customer service.

All participants agreed that customer feedback is used to improve internal processes. This implementation of customer feedback results in improved internal business processes and in turn improved customer service. Furthermore, utilizing customer feedback provides a context within which to utilize intangible assets to attain client value proposition (Valdez *et al.*, 2017:164). Below is an example:

*I do think it does. Because obviously some of the aspect within the BSC is not just quantitative, some of it has to do with service delivery as well. So, it is across the organisation, some of it might be looking at your financial indicators but the other aspect of the BSC is looking at the developmental impact of the institution and the impact that they have in terms of delivering our mandate to the end users.” – Participant 1*

Four of the five participants held a common view that the BSC assists in ensuring that employees focus on delivering quality customer service.

*“When I was in the Call Centre on my performance there was a portion that spoke to customer care. So, obviously since SEFA is a financing institution, our main focus is our customers. So, we do get rated on the way that we interact with our customers and the turnaround times on when we respond to the customers, and the kind of information that we are giving to our customers.” – Participant 4*

In contrast to the above views, one participant shared the view that on its own the BSC does not specifically drive the focus on quality customer service. This view indicates inconsistent understanding and implementation of the BSC tool within different departments.

*“I am not sure if a BSC on its own will be able to do that. Ultimately that is something that can be driven by SEFA’s Vision, Mission and Employee relations. Ummh! These are intangible things, and I think the BSC simply can’t accommodate that easily. It should be doing that but at the moment I don’t think the quality of customer service is that specifically driven.” – Participant 5*

#### **4.4 Summary**

The purpose of this chapter was to address the secondary research objective which was outlined in Chapter 1 (refer to section 1.6, third bullet): Contextualizing the concept of the BSC within the SEFA through semi-structured interviews. In this regard the results of the semi-structured interviews were documented and discussed. Furthermore, the chapter covered the examination of the results of the empirical study conducted at the SEFA to discern the extent to which the DFI perceives the application of the BSC as a strategic management- and a performance measurement tool.

The empirical study comprised semi-structured interviews. Members who partook in the research project included a mix of male and female participants, who brought a wide range of development finance expertise to the study. The selected participants are from within different functions within the SEFA, to obtain a wide range of views on the BSC and its application as strategic- and a performance measurement tool.

The first part of the questionnaire focused on the BSC alignment within the SEFA. This involved asking participants to define in their own words Vision, Mission, Strategy and the BSC. Most of the participants were familiar with these terms and were able to define them in their own words. One of the participants indicated that they do not know what a BSC is but further stated that they

know it is used when accessing funding applications by clients. The second part of the questionnaire focused on the communication theme. The questions in this section were intended to establish if there is effective communication of the BSC within the SEFA. The responses of the participants indicated that there is inconsistent and/or ineffective communication within the SEFA as far as the BSC is concerned.

In the third part of the questionnaire, questions focused on performance measurement were covered. From the responses of the majority of the participants, performance is measured consistently within the SEFA, and it is in line with the pre-agreed performance agreement. The fourth part of the questionnaire focused on innovation and learning. The questions sought participants' views on whether the BSC offers opportunities for personal development and growth. The fifth part focused on the internal business theme. The questions were aimed at establishing the emphasis placed on improving the internal processes in order to improve quality customer service. The sixth part of the questionnaire focused on the financial theme with questions aimed at establishing the participants' understanding of important concepts as far as a finance perspective is concerned. The seventh section focused on the customer theme. The questions in this section were intended to establish if customer feedback is utilized to improve internal business processes in order to improve customer value proposition.

The final chapter of this study, Chapter 5 below, will summarize this study and make the relevant conclusions and recommendations.

## **CHAPTER 5**

### **5 CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

The aim of this chapter is to address the fourth secondary objective as presented in chapter 1 (page 6). The chapter therefore summarizes and concludes this research project by (1) summarizing the literature review and the empirical study conducted at the SEFA, (2) recommending whether the application of a Balanced Scorecard (BSC) as strategic management- and a performance measurement tool by a DFI, is perceived to be effective in its pursuance of the profit- and the development objectives for the stakeholders, and (3) providing the conclusion on the research project.

The main objective of this study was to evaluate how a DFI perceives the application of the BSC as a strategic management- and a performance measurement tool. Furthermore, the following secondary objectives were identified to support the achievement of the main objective:

- Identifying and presenting the appropriate research methodology to achieve the stated research objectives (Chapter 2, page);
- Conducting a literature review to explore the concept of the BSC as a strategic management- and a performance measurement tool (Chapter 3, page);
- Contextualizing the concept of the BSC within the SEFA through semi-structured interviews (Chapter 4, page); and
- Summarizing the findings and making recommendations based on the results of the empirical study, substantiated by the literature review and recommend whether the application of a BSC as a strategic management- and a performance measurement tool is perceived to be effective (Chapter 5, page).

The study was conducted by undertaking a literature review and an empirical study. A summary of each is provided below.

#### **5.2 Literature review summary**

The background to the research project presented in chapter 1 (refer to page 1) set the scene about the importance of finance in all economic activities. An emphasis was then placed on the role of development finance in economic development, especially in developing countries.

Literature identified Development Finance Institutions (DFIs) as the main role players in the development finance space. DFIs are mainly majority-owned by governments, source their capital requirements from the capital markets, but they also receive government grants. These sources of financing mean that they pursue both the profit- and development objectives. These sometimes-contradicting objectives place significant pressure on the DFIs to conduct their business in a financially sustainable manner. In their attempts to achieve financial sustainability, DFIs are thus required to develop, implement and assess appropriate strategies.

A detailed literature review was conducted as part of the research project. The topics covered as part of the literature review included strategic management, performance measurement and the BSC. The literature review formed the foundation on which this study was based and was thus utilized in the development of the questionnaire used during the semi-structured, online face-to-face interviews, which constituted the empirical study. The literature review attempted to conceptualize the application of the BSC as a strategic management- and performance measurement tool by discussing strategic management, performance measurement and the BSC. Strategic management can generally be defined as the implementation of processes and structures by management of an organisation in the pursuance of its long-term strategic objectives. Gawankar *et al.* (2015) defined performance measurement as a key function within institutions which gives a framework for providing value added feedback into the decision-making processes.

It was found that there is a need for institutions, including DFIs, to constantly assess whether their strategic objectives are being achieved. Furthermore, it was found that organisations in the past focused on the financial measures to assess their performance to the detriment of other measures which are key to the value-added proposition. To address this anomaly, Kaplan and Norton introduced the BSC more than three decades ago. The BSC is a performance measurement tool which assists organisations in measuring the performance of their strategies, and which incorporates both the financial- and the non-financial measures. The literature review confirmed that BSC has been implemented with varying success by both for profit and not-for-profit organisations around the world. Accordingly, Khanmohammadi *et al.* (2015:128) and Rompo (2011:46) listed these amongst the reasons for the failure to implement the BSC: (1) high implementation costs; (2) lack of understanding of the BSC tool; (3) difficulty in operationalizing it; and (4) ineffective communication. Moreover, it was found that if implemented appropriately, the BSC tool gives a framework for organisations to strive to achieve their strategic objectives, as its four distinct perspectives drive organisations to focus on current- and future value creation.

The development finance industry and the environment were also reviewed, and it was found that both commercial banks and DFIs do provide access to development finance. Commercial banks

are, however, reluctant to fund some of the development projects as they are considered high risk. It was further found that the DFIs in South Africa are not adequately capitalized to deliver on their developmental mandate, and they also face substantial increases in impairment charges.

The stakeholder theory was integrated into the research project because it covers the key stakeholders (shareholders, lenders, customers and employees) which are incorporated in the four distinct perspectives of the BSC, namely: (i) Financial performance; (ii) Customer knowledge; (iii) Internal business processes; and (iv) Learning and growth. The stakeholder theory recognizes the importance of all stakeholders, and not just shareholders. This recognition of all stakeholders is aligned to the four BSC's perspectives.

### **5.3 Empirical study summary**

The empirical study involved the evaluation of the application of the BSC as a strategic management- and a performance measurement tool by a DFI. A qualitative case study was conducted at the SEFA. The study was conducted by employing semi-structured, online face-to-face interviews with five employees within the SEFA. The participants were a mixture of male and female representing a broad spectrum of knowledge and expertise within and outside the SEFA, including strategy, finance, legal and administration.

To bring context to the discussion about the application of the BSC as a strategic management- and performance measurement tool within SEFA, participants were asked to explain in their own words the concepts of vision, mission, strategy and the BSC. All participants correctly defined vision and mission, and some even went further and applied these concepts within the context of the SEFA. When it came to strategy, it was found that participants were able to correctly explain the part which deals with 'direction organisations take' to achieve its objectives. All participants did not make mention of the allocation of necessary resources as part of their strategy explanation. It was found that four out of five participants correctly defined the BSC, whereas one participant's explanation was not consistent with its definition. This inconsistent definition could indicate a lack of understanding of the BSC tool. The interviews further revealed that there is an alignment between the SEFA's BSC and its strategic objectives, and that four out of five participants understand the SEFA's BSC.

From a communication theme's point of view, it was found that three of the five participants indicated that their line manager did not share with the department the BSC and strategic objectives for the year.

Measuring performance against set and/or established targets is a critical element of strategic management. It allows managers to identify problematic areas and then implement corrective

measures to ensure that the strategic objectives are achieved. The interviews revealed that four out of the five participants shared the common view that their individual performance is evaluated twice in a financial year, based on the personal performance agreement which they signed at the beginning of the financial year. Furthermore, two participants shared the common view that they receive ongoing feedback on their individual performance throughout the year, whereas three said they do not receive it. It was found that employees are allowed to make inputs to the individual as well as the departmental BSC. One participant indicated that they do not know about departmental performance. Furthermore, it was found that three participants agreed that the BSC on its own is not adequate as a performance measurement tool, a view not shared by the other two participants.

With regard to innovation and learning, it was found that participants are well trained to perform their responsibilities in accordance with the BSC and the related personal performance agreement they sign. Whether the BSC offers opportunities to identify areas needing attention for personal growth, contrary responses emerged with three participants responding in the affirmative and the other two indicating that it doesn't. There was consensus amongst all the participants regarding that there is an individual development plan in place at the SEFA, and that the BSC assists in ensuring that all employees focus on personal development.

In the internal business theme section of the questionnaire, it was found that four of the five participants shared the same view that the BSC assists in identifying internal processes which can be improved.

The financial perspective/ theme of the questionnaire is an important one as far as the financial sustainability of the SEFA is concerned. An understanding of this perspective is important given that the DFI's profit- and development objectives require them to conduct their business in a financially sustainable manner (Bayai & Ikhida, 2016:20). Four of the five participants correctly defined the cost to income ratio and demonstrated through their explanations how the concept is applied within the context of SEFA. All the participants correctly defined the concept of accumulated impairments. Two of the five participants correctly defined growth in interest, whereas the other three participants' definitions were inconsistent with its meaning as far as the SEFA is concerned. It was found that four of the five participants shared the common view that their roles contributed to initiative to reduce operational costs. One of the five participants did not know if their role contributed to reducing operational costs, a view consistent with that of not being able to define cost-to-income ratio.

It was found that all the participants agreed that they make use of customer feedback to improve the internal business processes. Furthermore, four of the five participants held the common view

that the BSC assists in ensuring that employees focus on the delivery of quality customer service. One participant indicated that the BSC currently does not specifically drive a focus on quality customer service.

#### **5.4 Key findings and recommendations**

The results of the empirical study, in broader terms, confirm that the application of the BSC as a strategic management- and a performance measurement tool by a DFI in pursuance of the profit- and development objectives for the stakeholders concerned is perceived to be effective. On the other hand, the results also revealed challenges with the implementation of the BSC as well as areas needing attention to enhance its application. This is further emphasized by the participants' recognition and the acknowledgement of the persistent need to constantly create value for the stakeholders, a theme consistent with the theoretical framework integrated into the research project, namely: the stakeholder theory.

From the findings that, (1) all participants did not make mention of the need to allocate the necessary resources to implement strategy; and (2) one participant's definition of the BSC was inconsistent with its meaning, it is recommended that these important concepts in strategic management be shared and explained to all within the SEFA, and in particular at departmental level. An understanding by all employees of the need to allocate resources, including financial resources, can improve the understanding of the importance of the SEFA conducting its business in a financially sustainable manner. This will likely improve the understanding of the BSC tool and its alignment to the SEFA's strategic objectives.

The literature review identified ineffective communication as one of the reasons organisations do not implement the BSC successfully. The findings of the empirical study revealed that: (1) some line managers did not share with their departments the BSC and strategic objectives for the year; (2) one participant did not know about departmental performance; and (3) one participant indicated that the BSC currently does not drive focus to improve customer service. It is thus recommended that SEFA revisits how the BSC is communicated at all levels. Moreover, the BSC's communication strategy should be consistent throughout the institution.

From the finding that three of the five participants did not receive ongoing performance during the financial year, it is recommended that formal- and informal ongoing individual performance feedback be provided throughout the financial year. The provision of ongoing feedback to employees improves their familiarity with organisational targets; improves their understanding of the work environment; and improves their understanding of their roles in relation to the

organisation's targets as well the related benefits they may receive from achieving these targets (Young & Steelman, 2014:239).

The finding that three of the five participants' view is that the BSC on its own as a performance measurement tool is inadequate and indicates a need for a performance measurement matrix, indicates the potential to refine the SEFA BSC's people, learning and growth perspective. It is recommended that additional individual tailored performance measures be considered and discussed with line managers for their possible inclusion in the personal performance agreements.

In response to the finding that two of the five participants indicated the BSC did not offer opportunities to identify areas needing attention for personal growth, it is recommended that line managers incorporate what this BSC perspective offers employees in their discussions with employees. Furthermore, this should also be linked to the personal performance agreement as well as the individual development plan of employees.

The importance of conducting the DFI's business in a financially sustainable manner was identified during the literature review. To enhance the understanding of the employees of this imperative, it is recommended that the financial perspective be communicated at departmental level, as a response to the finding that one participant incorrectly defined cost to income ratio, and three incorrectly defined growth in interest.

Finally, it is recommended that the BSC perspectives be communicated and/or presented to all employees within the SEFA. It is recommended that this communication should also take place at departmental/ unit level to ensure that there is consistent understanding of the BSC as a strategic management- and a performance measurement tool. Furthermore, it is recommended that the key strategic objectives covered in the four perspectives are included in the discussions within the departments and with individual employees during the signing of the personal agreements.

## **5.5 Concluding remarks**

The current economic climate has inevitably thrown the DFIs into the limelight as they are expected to play an even more meaningful role to resuscitate the struggling economy, as well as assist institutions badly affected by the COVID-19 pandemic. This is further exacerbated by the perceived high failure rate of the SMMEs, that the SEFA focus on in terms of funding and development. These challenges require the SEFA to be steadfast in the appropriate implementation and assessment of its strategies using the BSC. The research project has demonstrated that the application of the BSC as a strategic management- and a performance

measurement tool within SEFA is perceived to be effective. The research objectives of the study have therefore been achieved.

## **5.6 Limitations of the study**

The evaluation of the application of the BSC as a strategic management- and a performance measurement tool was performed on the development finance industry, and is therefore confined to a single industry. The results thereof cannot be made applicable to other industries.

Another limitation of this design of this research project was a case study at a single DFI, located in South Africa. The results of the study cannot be generalized across the DFIs in South Africa and sub-Saharan Africa. However, the principles when utilizing the BSC as a strategic management and a performance measurement tool in DFIs are still applicable.

It should also be noted that the SEFA has the head office and offices across all nine provinces of South Africa. With that said, all the participants in the research projects are based at the head office. The results, conclusions and recommendations are only limited to the employees at the head office.

A further limitation of the study was that because of the COVID-19 pandemic implications on the SEFA's operations, the researcher could not reach the intended number of participants. The planned number of participants to be interviewed were six; only five of them were however interviewed. The above resulted in no further interviews in this regard. At the end of interview five, data saturation was reached in some of the questions (refer chapter 2, 2.5.5 and chapter 4, 4.2).

## **5.7 Areas for future research**

The limitations listed in section 5.6 above provide a guideline of areas for future and further research. The following are opportunities for further research:

- The research can be extended to other DFIs both inside and outside South Africa.
- Research could be extended to other industries within South Africa.
- The study could be expanded to include SEFA's employees at all the provincial offices.
- Further research could be undertaken within the development finance industry by considering the use of other strategic management and performance measurement tools.

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## APPENDIX 1: RESEARCH ETHICS CERTIFICATE



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Prof S Middelberg

*Per e-mail*

Dear Prof Middelberg

### **EMS-REC FEEDBACK: 25102019**

**Student: Mudau, NP (28878310)(NWU-01389-19-A4)**

**Applicant: Prof S Middelberg – MCom in Management Accountancy**

*Your ethics application on, Evaluating the application of a balanced scorecard by a development finance institution: A case study, that served on the EMS-REC meeting of 25 October 2019, refers.*

#### **Outcome:**

Approved as a minimal risk study. A number NWU-01389-19-A4 is given for three years of ethics clearance.

Kind regards,

A handwritten signature in black ink, appearing to read 'Bennie Linde'.

Prof Bennie Linde

Chairperson: Economic and Management Sciences Research Ethics Committee (EMS-REC)  
Potchefstroom Campus

## APPENDIX 2: QUESTIONNAIRE

**Introduction by the researcher:** Before we can start with the interview please be aware of the following rights as a participant/ interviewee to this research project:

1. Your participation is entirely voluntarily, and you can at any time ask not to continue
2. You are not obliged to answer any question you feel uncomfortable with, and
3. Your identity will be kept confidential and will remain anonymous.

*What is your position within SEFA?*

#	Question
1	Do you understand terms such as Vision, Mission, Strategy and the Balanced Scorecard (BSC)? <i>If yes, please briefly explain them.</i>
2	Did your line manager share with the department the strategic objectives for the year?
3	Are you familiar with the SEFA's BSC?
4	Do you fully understand all the terminology used on SEFA's BSC?
5	Was the BSC presented by management to everyone within the department?
6	Is the SEFA'S BSC aligned with its strategic objectives?
7	Is there a departmental and an individual BSC?
8	Is your individual BSC aligned with the SEFA's BSC?
9	Is there a link between what you do on a daily basis and the BSC?
10	Do you understand your responsibilities towards achieving the strategic objectives as outlined in the BSC?
11	How is your individual performance measured?
12	Your individual performance is measured how often in a financial year?
13	Are you given individual ongoing feedback on your performance against your BSC?
14	Are you allowed to make inputs towards the departmental and your individual BSC? <i>If yes, please explain.</i>
15	Do you think you are trained/ have the skills to perform in accordance with the BSC? <i>Please motivate me.</i>
16	Does the BSC offer opportunities to identify areas needing attention for personal growth? <i>Please motivate me.</i>
17	Is there an individual development plan which is in line with the BSC?

18	Do you think that the BSC assists in ensuring that all employees focus on quality customer service, improvement of processes and personal development? <i>Please motivate me.</i>
19	Is the BSC assisting in identifying business processes which can be improved? <i>Please motivate me.</i>
20	What is your understanding of the terms such as Cost to income ratio, Accumulated impairment and Growth in interest? <i>If yes, please briefly explain them.</i>
21	Does your role contribute towards initiatives to reduce operational costs? <i>Please motivate.</i>
22	Do you constantly make use of customer feedback to improve your processes? <i>Please motivate.</i>
23	At a departmental level, how often do you measure performance against the BSC?
24	Do you think the BSC is sufficient as the only performance measurement tool? <i>Please motivate.</i>

**APPENDIX 3: LANGUAGE EDITOR’S DECLARATION**



**Cornelia van Biljon**  
Language Practitioner  
Language editing, translation, transcription, creative writing

*Language Editor’s Declaration*

To whom it may concern,

This declaration is certified that the manuscript listed below was edited for proper English language, spelling, grammar, punctuation and style by one or more of the qualified text editors at Cornelia in Africa.

**Author:** Ndivhaleni Mudau  
**Title:** Evaluating the application of a Balanced Scorecard by a development finance institution: A case study

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*Cornelia van Biljon*

B.A. Communication (2012) B.A. Language and Literature (2014)	
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