

FAQ Answer: Can I apply Balanced Scorecard to my small business?

Overview

Yes! The success of any business (large or small) ultimately relies on its ability to fulfil the expectations of its stakeholders: Balanced Scorecard is a tool that helps managers articulate an organisation's strategic goals and track progress towards achieving them. In any organisation, strategic goals are hopefully ultimately focused on fulfilling stakeholder expectations... But while the benefits of Balanced Scorecard are similar, there are important differences in the implementation of Balanced Scorecard between small and large organisations. In this FAQ we offer a brief explanation as to what these differences are, and how as a result, implementation is likely to vary. We will consider three core elements of Balanced Scorecard application – design, implementation and use.

Design

"The idea of the Scorecard is to describe the essential ingredients of business success"
(Olve et al. "Performance Drivers")

Balanced Scorecard provides an efficient mechanism for managers to both articulate and communicate their strategic goals and implementation plans, and to find out how effectively these goals / plans are being implemented. In large / complex organisations much of the utility of Balanced Scorecard comes largely from the communications elements: the two-way provision of concise and relevant summary information about 'what is going on' in the organisation. In smaller firms, our experience is that a greater proportion of the value of Balanced Scorecard comes from two other elements: the description of strategic vision and associated strategic objectives and priorities in a way that builds consensus; and impetus given to the development and application of more effective strategic management processes. As a result, Balanced Scorecard designs for smaller organisations tend to put less emphasis on measurement definition and data collection, and more emphasis on the management team interactions associated with the design and use of the strategic vision and objectives.

Implementation

"Setting goals and targets through consensus decision-making increases the sense of collective accountability. That encourages staff and management alike to participate more in the ongoing development of the business making better use of available resources."
(2GC Limited)

Even in a small organisation, Balanced Scorecard implementation should be a collective effort drawing upon the combined operational and strategic insights of key employees involved with running the business. In order to ensure ownership and relevance the future users of the Scorecard should also be those that design and drive the implementation of it. Strategic success is driven by managers causing other people to change their behaviour in appropriate / necessary ways – so a key part of implementation is ensuring that such behavioural changes occur.

The strategic Balanced Scorecard design and implementation process 2GC uses for small organisations is similar to that used for large organisations – see 2GC FAQ "How do I create a Balanced Scorecard for strategic control?" for more information. With efficient internal or external process facilitation, a small organisation can usually complete the initial design over a period of 4 – 6 weeks. Most of the work done is then done "live" during two one-day workshops. Additional design activities by each participant normally don't require more than ½ to 1-½ workdays.

Use

It is a truism, but a Balanced Scorecard needs to be used to realise its full value to an organisation. Many companies, it seems, introduce a Balanced Scorecard and then make few (if any) adjustments in their associated management behaviours that reflect its existence. Part of the reason is that such changes require long-term top management commitment to change: something generally easier to achieve in smaller firms with less people involved. The management processes used by an organisation therefore need to change as a consequence of applying Balanced Scorecard. Balanced Scorecard, by its

nature, promotes goal and task delegation, by encouraging managers to focus on critical strategic outcomes in preference to functional or tactical factors. Relinquishing detailed operational management control frees up management resources, which can more valuably be applied to manage further developments of the organisation. Looking externally, the ability to communicate a well articulated and logically constructed plan supported by an efficient approach for monitoring its implementation is also a strong point for any organisation trying to mount or sustain the support of bankers, partners or other external relations. For small and new organisations using the Balanced Scorecard approach to demonstrate that they have things under control and know what they are doing have proven an efficient compensation for the lack of an otherwise impressive track record.

For More Information

Other 2GC FAQs relating to the Balanced Scorecard describe factors that should be considered when developing and using a Balanced Scorecard (e.g. FAQ - How do create a Balanced Scorecard). The Resources section of the 2GC web site contains recommendations for books and articles on the subject and links to useful web sites.

For information on 2GC's services including our consultancy and training programmes, visit our services section of the web site or email Services@2gc.co.uk

About 2GC

2GC is a research led consultancy expert in addressing the strategic and performance management issues faced by organisations in today's era of rapid change and intense competition. Central to much of 2GC's work is the application of 3rd Generation Balanced Scorecard, an approach to strategic implementation, strategy management and performance measurement.