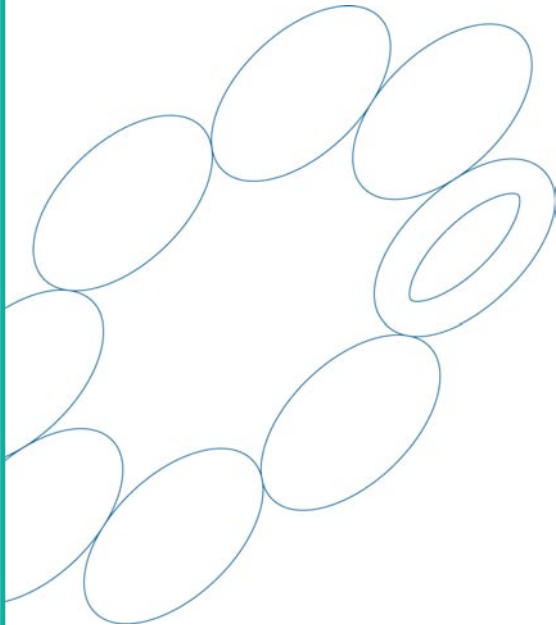


Balanced Scorecard implementation in SMEs: reflection on literature and practice

Presented at the Fourth SMESME International Conference
Aalborg University, Denmark
May 2001



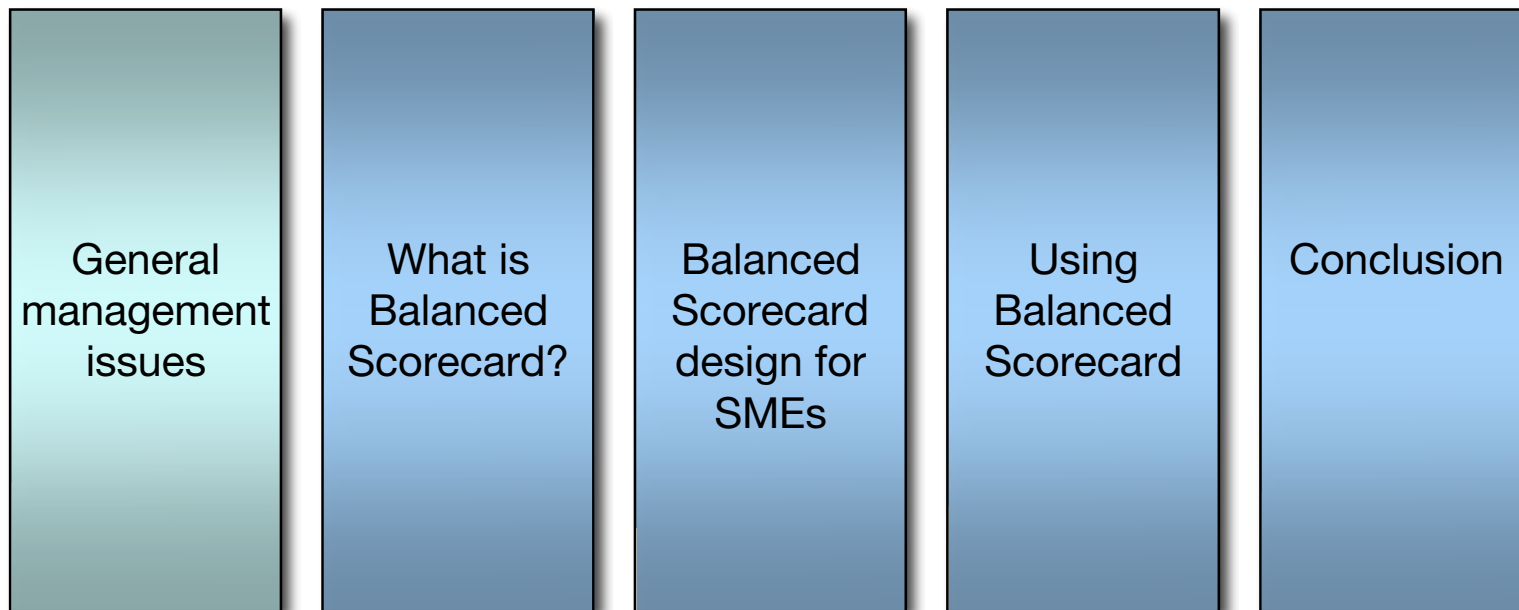
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Structure of presentation



General management issues

How to safeguard the benefits of the Simple Structure?

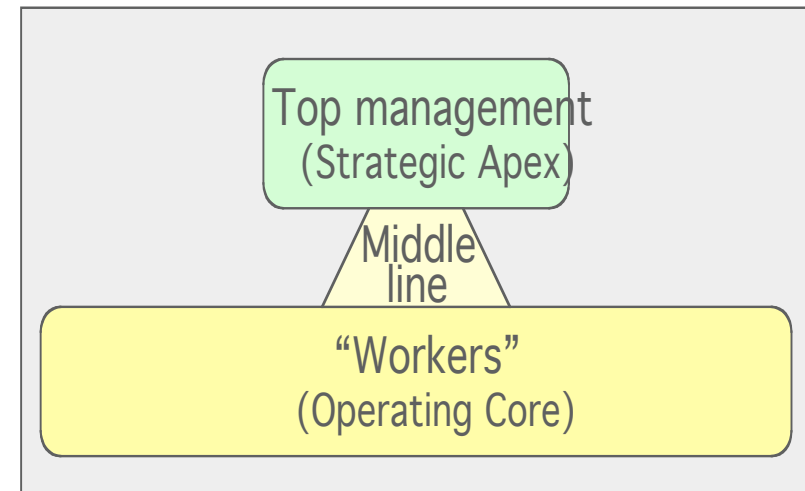
Flexible, responsive and low-cost structure often seen as a key competitive advantage for SMEs

Simple Structures characterised by:

- Workforce often being directly managed by entrepreneur or owner-manager
- Few or no other managers
- Management through direct instruction and supervision

Strategic focus and communication ought to be easy in the Simple Structure

- Yet lack of management attention to strategic issues is seen as typical route cause to SME failure or poor performance



Source: H. Mintzberg, 1981

General management issues

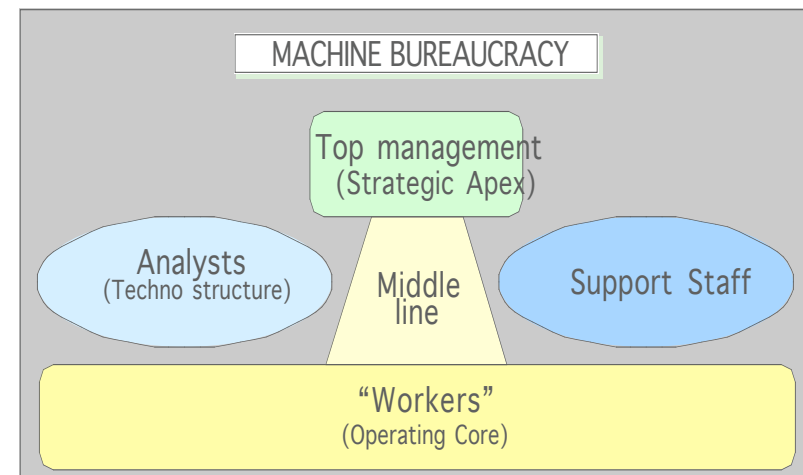
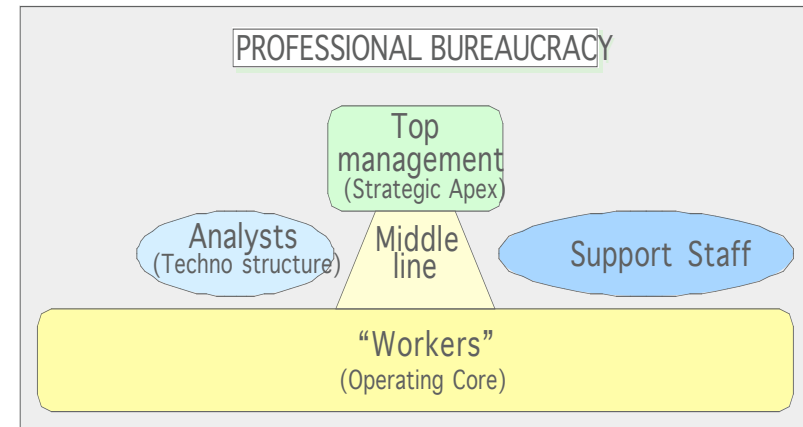
The challenge of organisational growth – Bureaucracy

When the Simple Structure organisation grows the following changes can be observed:

- Support and techno structure needed to handle standardisation and co-ordination
- Growing middle management to support communication and control

The potential disadvantage of this growth is likely to be:

- Reduced flexibility and responsiveness while costs are increasing
- Increased risk of failure during periods of organisational transition



Source: H. Mintzberg, 1981

General management issues – the key challenge

How to successfully identify, pursue and achieve strategic goals?

Clear sense of direction:

- Where is the organisation headed?

Profound understanding of the business model:

- Is the organisation doing all the things it needs to be doing?

Ability to focus and prioritise:

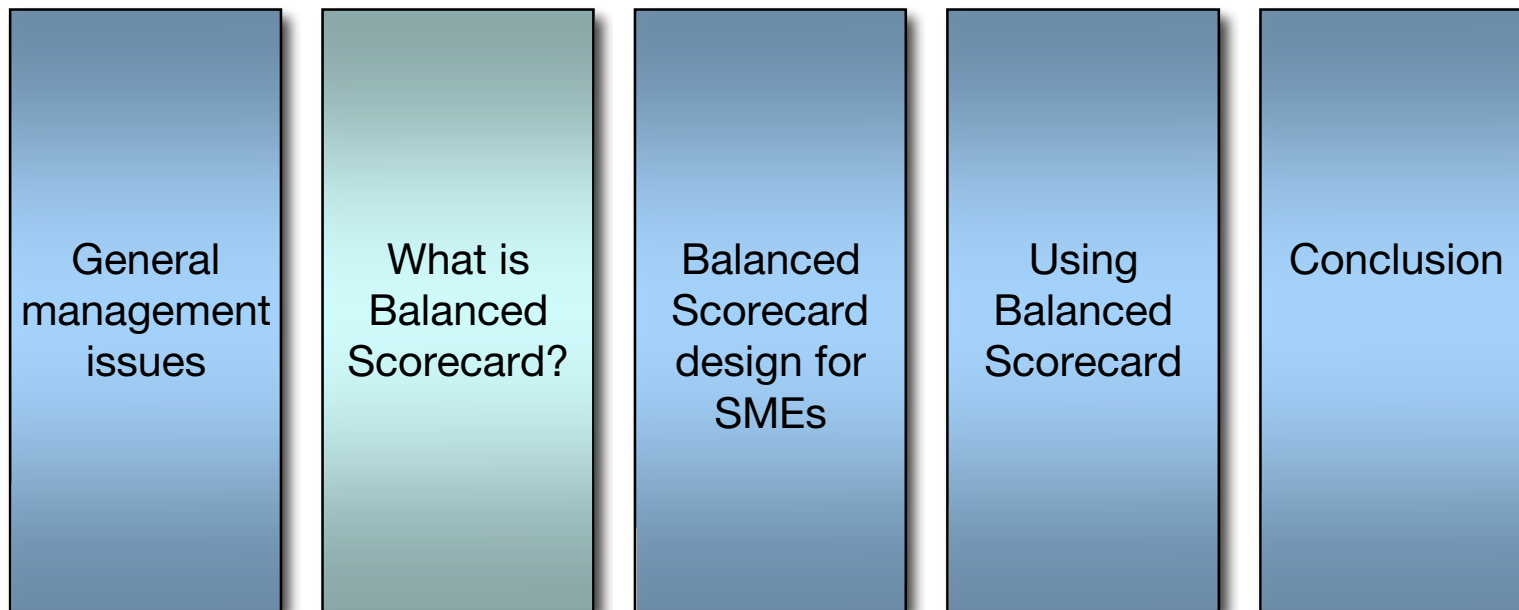
- Striking the balance between long-term development and short-term operational pressures

Agility: flexibility driven by learning:

- Incorporating new knowledge in the strategic and operational planning processes



Structure of presentation



What is Balanced Scorecard?

'Big-company' response to increased complexity and change

Origins

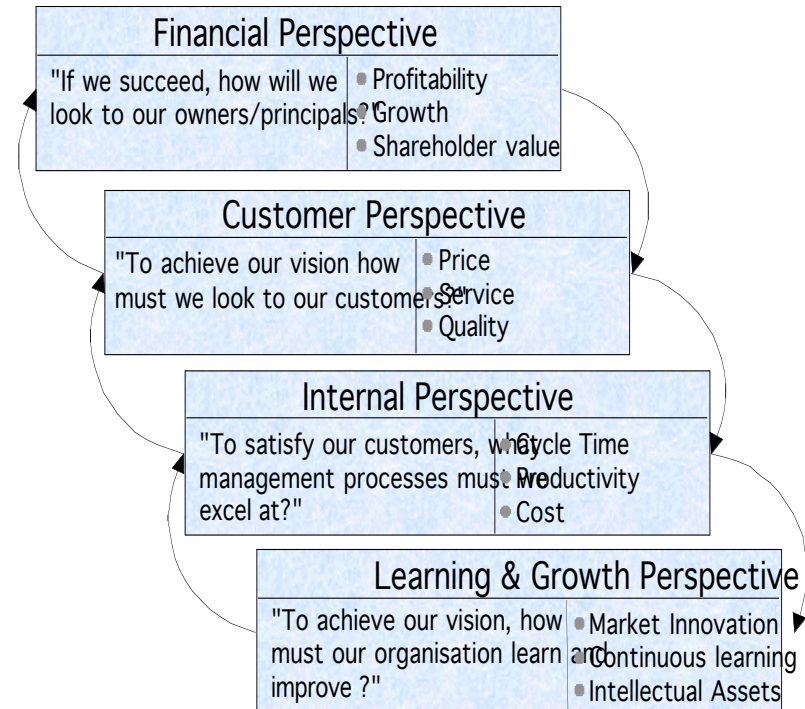
- Multi-company research from 1990's undertaken by R. Kaplan & D. Norton aimed at developing alternatives to purely financially based performance management tools (e.g. budgets)
- Early Scorecard experimentation at Analog Devices Inc. documented from 1987

Purpose

- Originally a performance measurement tool
- Now a strategic communication and performance measurement framework

Underlying philosophy includes:

- The importance of clear communication of goals and priorities
- The benefits of learning & team-working

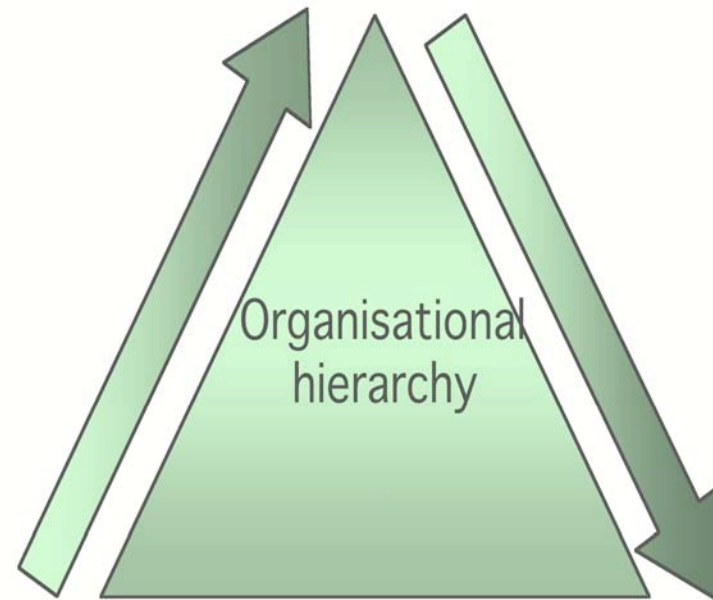


What is Balanced Scorecard?

From Management Control to Strategic Control tool

Since its introduction two distinct applications have emerged:

- Strategic Balanced Scorecards;
 - Focus on what the organisation is trying to achieve
 - Work out what needs to happen to achieve it
 - Monitor whether it is achieved
- Operational Scorecards;
 - Identify the most important processes to be monitored
 - Define which aspects of the process to monitor
 - Agree on what is considered best practice

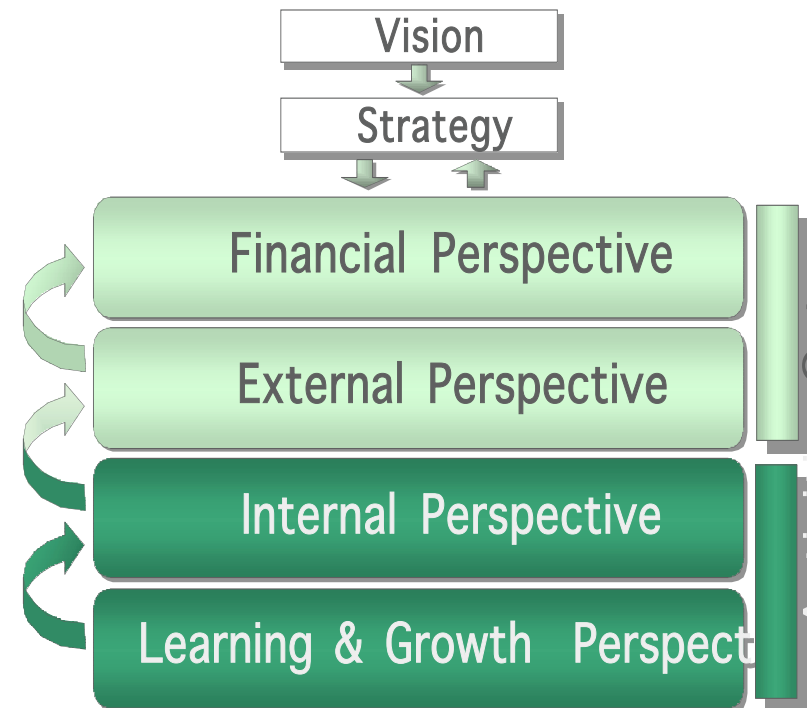


What is Balanced Scorecard?

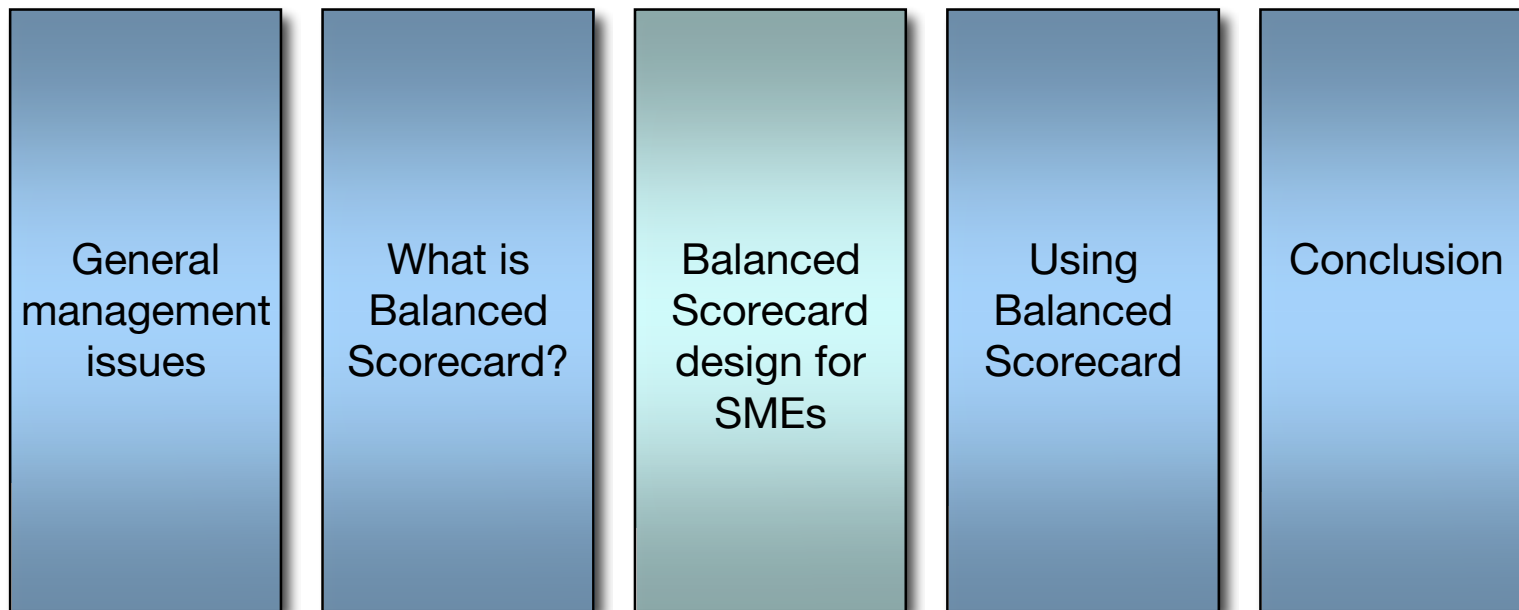
All organisations need to do what needs to get done...

This development of Balanced Scorecard for strategic control and the management processes underlying it, has made the Scorecard an increasingly useful tool for organisations of all kinds and sizes.

It helps them successfully identify, pursue and achieve strategic goals



Structure of presentation



Balanced Scorecard design for SMEs

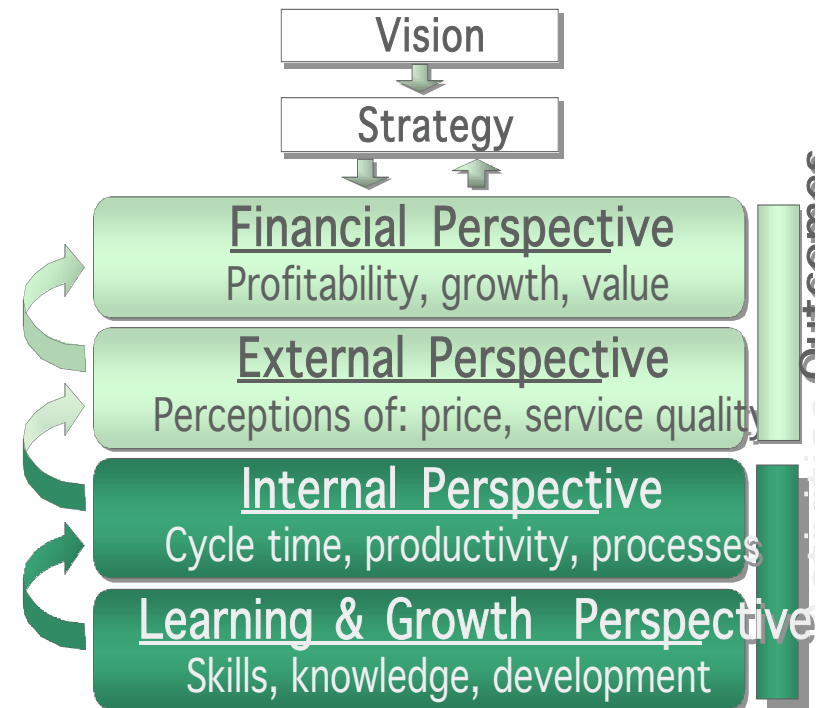
Articulation of where to go and how to get there

Similar process steps to design in large organisations

- Less complexity and fewer people generally speeds up the process in SMEs

Best practice design of Strategic Control Scorecards:

- Is a team effort involving future users – this approach secures understanding and ownership of the Scorecard while securing that the logic of the Scorecard builds on the operational insights of its users
- Is based on a jointly held strategic vision - a clearly articulated and detailed description of success at some specified time in the future – the Destination Statement
- Identifies key strategic activities and outcomes - “What do we have to do in order to realise our vision for the future and what results do we expect to see from our actions?”



Balanced Scorecard design for SMEs

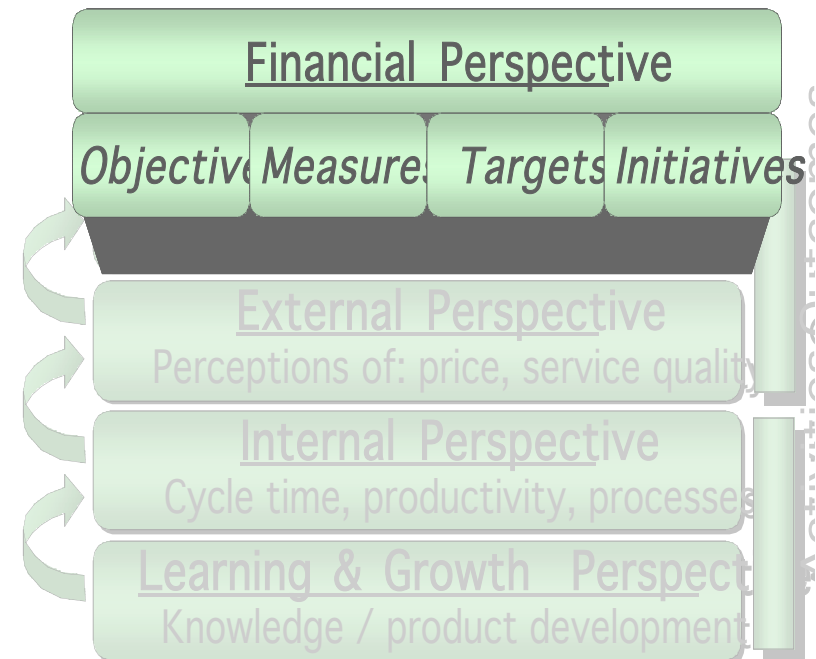
Development of relevant measures and targets

Development of measures follows clarification and agreement of strategic objectives, because measures track progress in achieving those objectives against agreed targets

- They are the warning lights signalling whether the agreed activities are being undertaken and whether they produce the expected outcomes
- Targets are derived from the Destination Statement
- In SMEs, measures and targets often function more as mental and verbal checks rather than informing rigorous and formal procedures

Extraordinary activities and projects (initiatives) furthering achievement of objectives need to be identified and prioritised

- This may be new or ongoing projects, but they are prioritised based on their importance in relation to the achievement of strategic objectives



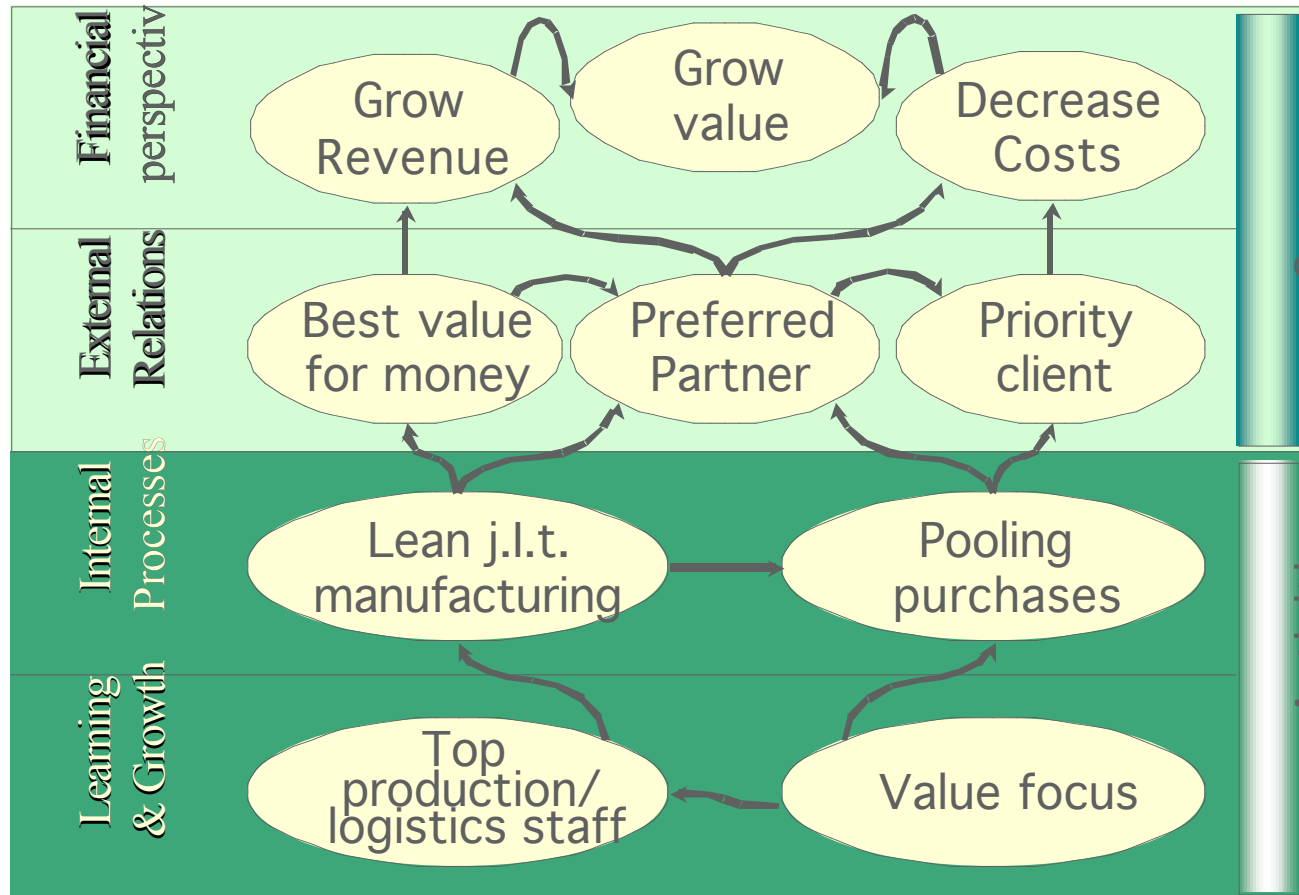
Balanced Scorecard design for SMEs

Strategic Vision – Example showing headings and sub-headings

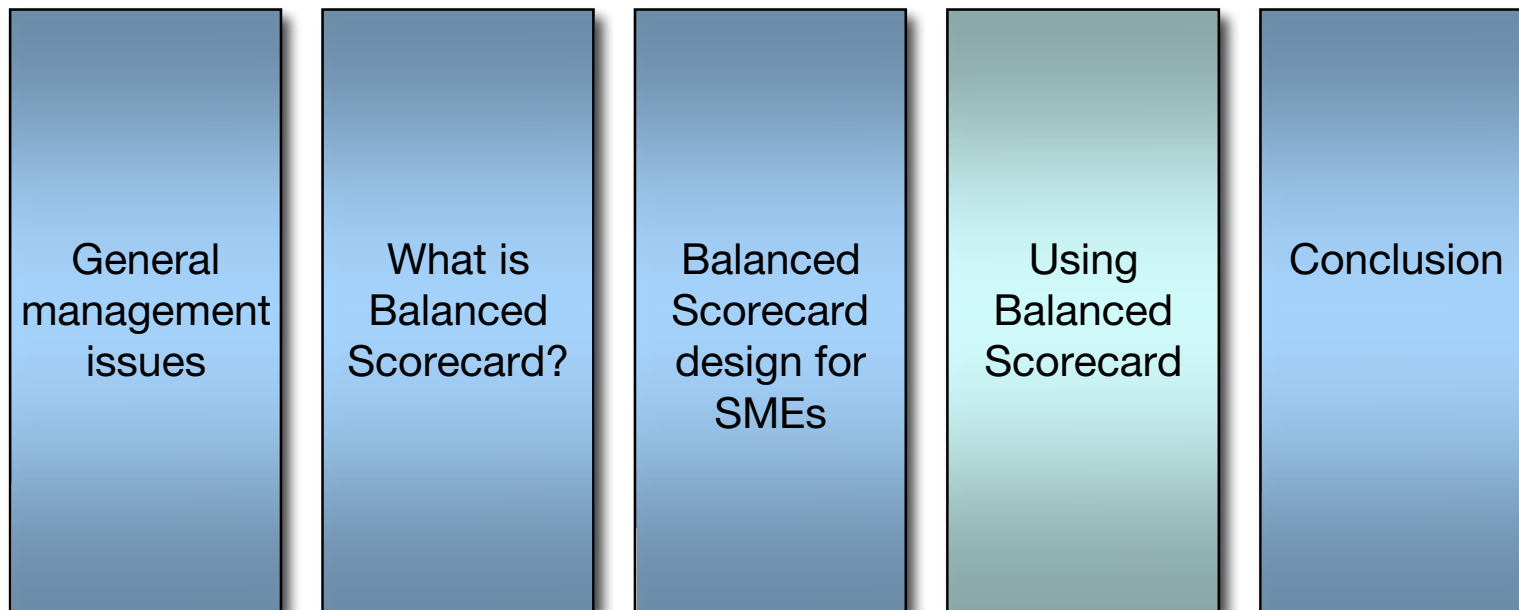
Financial & Market Characteristics <ul style="list-style-type: none">• Revenues• Gross margin• Costs• Financial strength• Competitive position	External Characteristics <ul style="list-style-type: none">• Perception of company<ul style="list-style-type: none">• Market• Customers• Other stakeholders
Organisation and Culture Characteristics <ul style="list-style-type: none">• Organisation• People• Values	Activities & Processes <ul style="list-style-type: none">• Operational processes• Asset utilisation• Management processes

Balanced Scorecard design for SMEs

Strategic Linkage Model Example



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Using the Balanced Scorecard

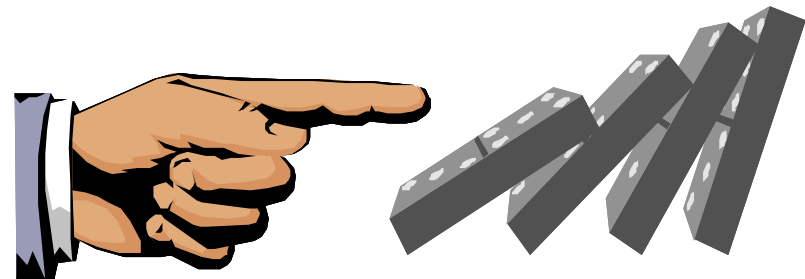
Achieving goals requires activity!

Designing and rolling out a any kind of Balanced Scorecard makes little sense if it is not used to trigger behavioural change

- Nothing will be achieved if everybody continue doing what they have always done

For maximum effect, the Balanced Scorecard can be used to form the centre of an organisation's strategic management system

- Scorecards then help secure strategic alignment of goals, initiatives, people, processes and systems throughout an organisation



Using the Balanced Scorecard

Sense of direction combined with focus and prioritisation

Management attention needs to remain focused on execution of what is always top priority activities and results

- The degree of formality needed to monitor and evaluate measures and targets, amend the Destination Statement, and strategy as well as monitor and re-prioritise implementation of strategic initiatives depends on culture and organisational complexity
- No expensive administrative procedures are required if discussion and mental checks work

Coordinating SME activity through clearly understood strategic direction frees up valuable management time from detailed management control allowing for increased focus on organisational development

Successful organisational alignment towards achievement of an overall vision requires budgets, operational plans and tools to reflect the priorities of the Balanced Scorecard



Using the Balanced Scorecard

Understanding the business model

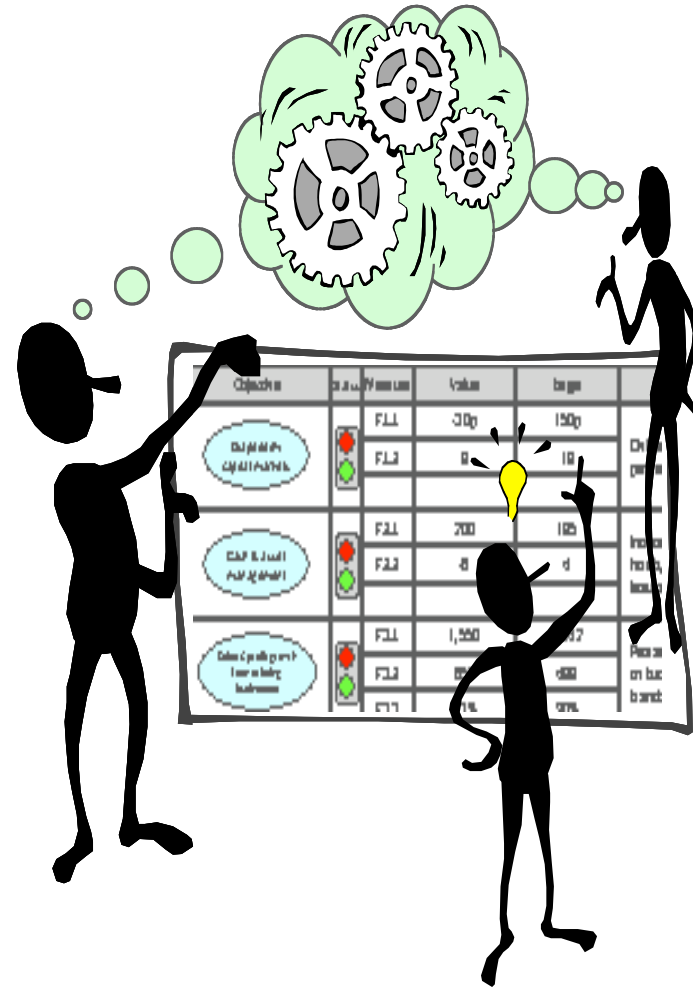
Not only established SMEs can benefit from using the holistic planning framework of the Balanced Scorecard

The approach can be applied successfully to planning of new ventures as it;

- Furthers clear articulation of goals and how to achieve them
- Helps identify risks and weaknesses in the plan

Communication of a clearly articulated and logically constructed plan supported by an efficient approach for monitoring its implementation supports backing by external stakeholders

- Recent Ernst & Young research shows that 35 % of investor decisions are influenced by non-financial issues

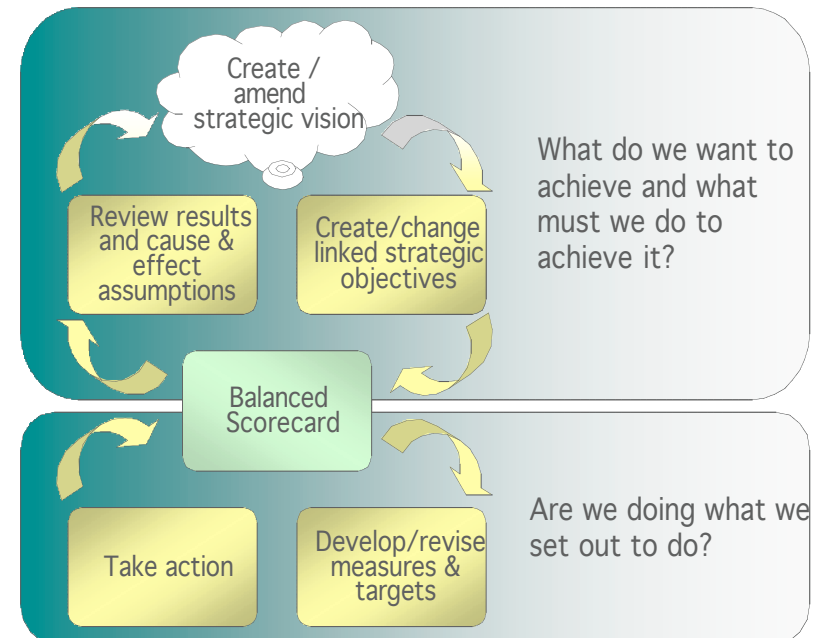


Using the Balanced Scorecard

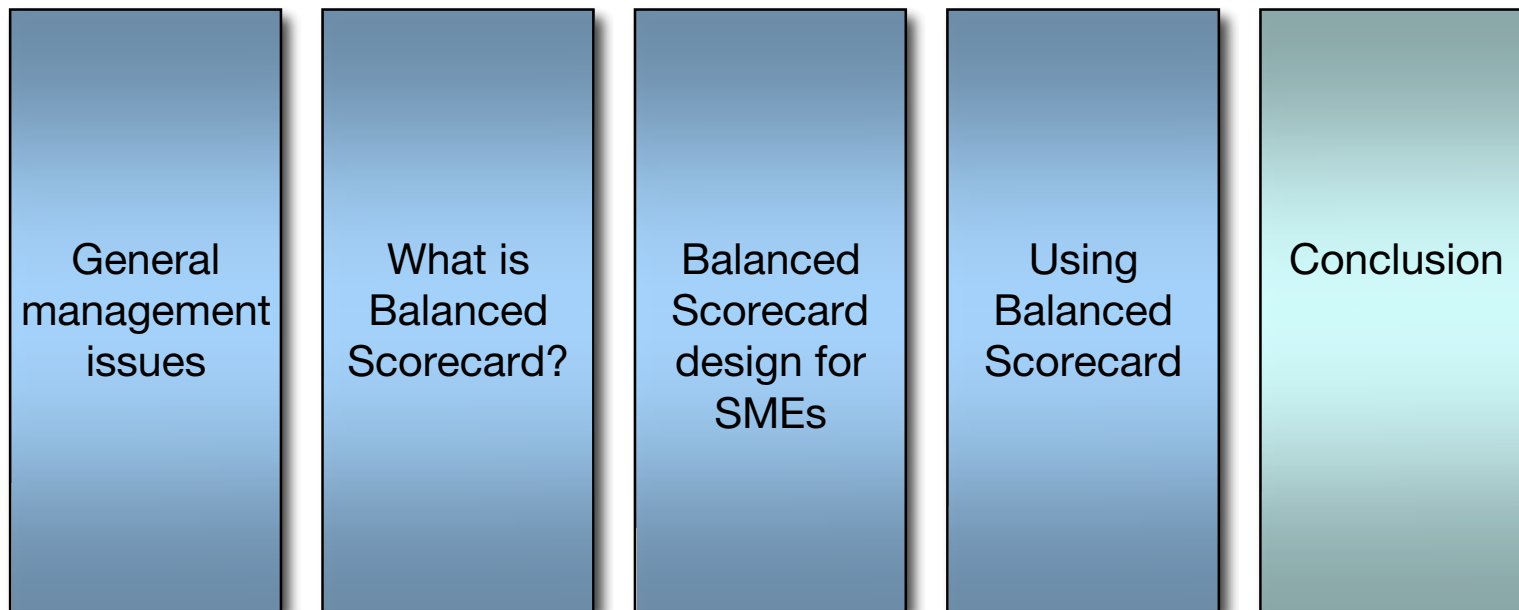
Increasing flexibility and learning

The Balanced Scorecard process combines a double control and learning “loop”

- It helps control achievement of long-term goals, the vision, as well as controlling the undertaking of activities deemed most important for succeeding
- In addition, effective Scorecard measures enable an inclusive approach to structured learning about management teams’ theories about which activities produce which results (cause-and-effect relationships) – a discussion based on facts rather than hearsay
- Combined with observations about changes in the external environment this experience informs the ongoing evaluation of what needs to change – “our behaviour or our goals?”



Structure of presentation



Conclusion

Balanced Scorecards help management teams achieve their goals

Balanced Scorecards used at the centre of the strategic management process effectively address the key challenge of most organisations – the need to identify, pursue and achieve strategic goals

They support

- A clear sense of direction
- A profound understanding of the business model
- An ability to focus and prioritise
- Organisational agility



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