Using Balanced Scorecard for measuring excellence in SMEs

AMALIA VENERA TODORUȚ
Political and Administrative Science Department
"Constantin Brâncuși" University of Tg-Jiu
Targu-Jiu, str.Victoriei, bl.15, ap.8
Romania
amalia_venera@yahoo.com

MOISE BOJINCĂ
Juridical Science Department
"Constantin Brâncuși" University of Tg-Jiu
moisebojinc@ yahoo.com

VASSILIS TSELENTIS
Maritime Department
University of Piraeus, Greece
tselen@unipi.gr

Abstract
This paper analyses the application of the Balanced Scorecard (BSC) methodology in Romanian Small and Medium Enterprises (SMEs) and identifies advantages and disadvantages from the implementation of such a strategy-focused approach to meeting the ever changing business environment. At first the context of business excellence and the specific characteristics of SMEs are described arguing that although BSC was proven successful for large enterprises, under certain circumstances; its application can improve their performance in the medium and long term. The second part is an empirical case study of BSC applied in measuring excellence of Romanian SMEs, highlighting issues concerning the adequacy and applicability of BSC in implementing future developments of the SMEs leading to performance improvement.

Keywords: Excellence, SMEs, Balanced Scorecard performance, improvement

Jel clasification: L15, L16, L25, M10, M11, M16

1. Introduction

The present national and international business environment, in the context of the knowledge-based economy, is influenced by numerous factors such as: globalization, the increasing of competition and increased importance given to customer satisfaction.

The traditional approach of excellence in business, which included quality, time and costs is in this era of increased competition, further complicated by the addition of factors such as the ability to innovate, the ability to respond in a relatively short time and effectively to the market changes, social responsibility, ethics and impact on the environment. It has also proven without doubt that financial measures cannot be the only considerations when evaluating performance in companies. Performance evaluation models must also include non-financial measures and values that are to some extent intangible.

Excellence is regarded as being the successful combination of resources, the way of organization and the effectiveness of management. By its very essence, excellence involves a
combination as well as the inspired and effective use of existing or attracted resources of the company [1].

Excellence is an ideal towards which management at the highest level, aims for and whose main component is quality, to which aspects related to competitiveness, price, profit, customer satisfaction and expectations as well as culture are added. It is required that the organization should anticipate and adapt to the future changes. “The question is whether you can work excellent over time, not if you can work excellent in order to achieve your goals only once” [2]. It is well established that sustainable excellence is achieved when an individual organization makes well-thought-out efforts in a business world characterised by competition, rapid technological innovation, major restructuring of manufacturing processes and frequent changes at the level of economy, society and customers.

The European Foundation for Quality Management, (EFQM) Excellence Model has proposed to include the following fundamental concepts [3]:

- Results orientation;
- Customers focus;
- Leadership and continuity in objectives;
- Management by processes and facts;
- Staff development and involvement;
- Continuous training, innovation and improvement;
- Partnerships development;
- Social responsibility of the organization.

Thus the promotion of sustainable excellence in European organizations could be achieved by: acquiring and developing the basic concepts of excellence and promoting the models of excellence;

In this context, the authors maintain that only the provider of products or services, who succeeds to be present and active on the market as well as competitive can respond effectively to the market pressure.

2. Using Balanced Scorecard at the level of small and medium enterprises

Identifying strengths and weaknesses at a company level is not always a straight-forward issue. It depends on many factors and also on the size of the enterprise (see below). Measuring the current status of a company, by means of reporting and collating correcting available data is a necessity in order for top management to appreciate the current capacities of the company and plan for the future taking into account the current and future prospects. Many managers, question the validity of the data collected and the relationship to long-term objectives and goals. Thus the establishment of certain indicators has proven beneficial to organizations in assessing the current state, both internally and externally offering an overview of measurable attributes that can depict the status of procedures and management pertinent to individual sectors of the company, as well as the enterprise as a whole. In addition Key Performance Indicators (KPIs) offer information on the organization’s ability to respond to new developments in the products and services the company offers, as well as an overview of the company, resources relative to the key points which need intervention and improvement.

Balanced Scorecards have been used successfully at the level of small and medium enterprises, as Andersen et al. [4] have thoroughly investigated, and reportedly helped many such organizations to achieve excellence. Compared to large enterprises, SMEs seem to benefit more from using BSC, since due to their organisation with open communication and having an easier process of decision-making can minimise resistance to change, face fewer difficulties in applying the BSC approach and thus respond in a more flexible way to changes in the market demand. On the other hand, SMEs have weaknesses, such as:

Usually understaffed with limited management and technical employees

Depend on few major customers and, therefore are strongly influenced by demand fluctuation;

Limited liquidity; and poor access to financial funds through banks and other financial institutions

Limited negotiating strength when dealing with suppliers and creditors;

Due to the above, SMEs are rather reluctant to be involved in innovative projects, such as training of employees, introducing modern management systems and invest in information technology [5]. It has been highlighted by many researchers, that to improve their competitiveness, SMEs generally focus on short-term projects and initiatives often unable to make management decisions that will promote long-term aims and achieve better results due to the fact that these long term strategies and decisions involve a high risks that a SME cannot tackle. It follows therefore, that it is interesting to investigate, at the level of SMEs, the implementation of some strategies based on the analysis of the perspectives offered by the Balanced Scorecard.

Balanced Scorecard can be defined as a management system based on performances, which offer the enterprises the possibility to follow their strategies based on measurements and tracking [5].
Norton and Kaplan [6] introduced this concept in 1996, and identified four different essential dimensions that are unique for each organization, being: financial, client, internal processes and the growth and improvement dimensions. As the above researchers point out, the traditional systems of measuring business performance, focused mainly on the financial results, and managers based their decisions on these financial indicators. The Balanced Scorecard (BSC) approach, however, proposes a holistic approach taking into account the above mentioned four dimensions, since, neglecting one of these 4 aspects can lead to erroneous management decisions and business failure. Bergen & Benco, [5] have described a similar set of four perspectives for a company seeking excellence and are expressed as follows:

Growth and improvement perspective, i.e. can the company continue to improve and create value for the customers?
The perspective of internal business processes, that is what company functionalities and processes can excel the enterprise?
Customer perspective i.e. how do customers see the enterprise?
The financial perspective, i.e. what the views of the shareholders are?

According to Rampersad [7], the four dimensions are expressed in a slightly different way and cover financial success, market leadership, customer loyalty, capital development, business processes control and societal consequences.

Other researchers [8], argue that a company may decide to focus its efforts equally in the implementation of these four perspectives or can in fact, focus more strongly on one or multiple perspectives, depending on a detailed study highlighting and identifying the company’s needs.

Researchers have also stipulated that it seems easier to implement Balanced Scorecard principles to a small a company due to its size. The fact that these companies usually have a small number of employees makes it easier to transmit a message, usually of change, to their employees. It thus seems a viable endeavour to research whether a SME finds it beneficial to implement such a management system of performance, as small firms often tend to focus on short term financial success in order to survive in a competitive market.

3. Case study on measuring the excellence of SMEs using the Balanced Scorecard tool

This case study presents the results from a questionnaire given to enterprises in the glass making field within the area of Gorj County in South West Romania. The main hypothesis was to assess the views and practices in relation to performance, strategy and goals, management options and evaluation and review. The second hypothesis was to estimate whether the BSC approach could be applied to these firms leading to new development strategies and SME improved competitiveness.

The questionnaire was presented to the top manager and financial executive of the firm, in a structured personal meeting which took place at the enterprise offices. A personal meeting with top management was selected as the most efficient way to proceed with the questionnaire, since it was deemed important to include an introductory section to the questionnaire where a brief introduction to the concept and main structure of the BSC approach was presented. The questionnaire had the following questions:

- General data on the company
- BSC prior knowledge by the company and/or the CEO
- How does the company assess customer satisfaction
- How does the company assess internal processes
- How does the company formulate and apply growth and improvement
- How does the company assess its financial situation
- How does the company formulate its strategy
- How is strategy formulation associated to performance evaluation practices in the company
- Having explained the basic presumptions of BSC, how does top management view the benefits of BSC and the feasibility of implementation

Throughout the personal meetings with senior executive officers of the enterprises, it became obvious that clarification of issues relevant to BSC had to be done in order to obtain the correct response to the questions asked. Thus the following issues became part of the structured interview:

- Setting objectives targets;
- Defining and calculating indicators;
- Measuring the current state of the company;
- Measuring deviations from established targets;
- Setting some degrees of importance for each objective from BSC and the calculation of a performance percentage for each and every perspective;
- Setting some degrees of importance for each perspective from BSC and the calculation of
an overall performance percentage in the enterprise;

- Setting future initiatives and actions for increasing the company’s commercial viability.

In the conditions of increased competition, the company’s management team considered it necessary to apply modern management tools to assess the current state of the company, to control and improve the performance levels and establish the future improvements correlated with the company strategies. Therefore, the objectives were established, targets and indicators corresponding to the four perspectives were defined: financial, customers, internal processes, growth and improvement.

The objectives and indicators have been established so as to be closely related to the two strategic directions of the market approach. Both the objectives and targets and indicators are designed to cover a wider spectrum within the enterprise, but it is also possible to define objectives, indicators and targets specific of some specific areas within the enterprise.

The general data on the companies revealed that all interviewed companies (6) in Gorj County were small enterprises with < 49 employees and with small turnovers of between 1.500.000 and 6.000.000 euro. In fact 3 were micro enterprises with less than 1.500.000 euro turnover and 3 small with less than 6.000.000 euro turnover. Out of the 6 companies, 4 were 20 and 2 only 4 years old. The results from the questionnaire analysis are presented in Table nr.1.

4. Conclusions

This study indicates that Balanced Scorecard is unknown to the majority of companies interviewed in this study. Although the sample is small compared to the Romanian national glass manufacturing industry, which is comprised of 544 companies of various sizes, it is the authors’ strong conviction that these findings represent the sector nationally. The interviewed companies define their strategy in an informal way, in agreement with other studies [9] that indicate that enterprises with no prior knowledge of BSC do not formulate strategy and goals in a structured and clear and transparent way. This study highlighted an interesting variation to this general trend, in that the CEO who had prior knowledge of the BSC approach, was reluctant to implement it in his company mainly due to a perceived conflict between the need to communicate the strategic goals to all the members of the company and the necessity for secrecy and confidentiality in business management and industrial procedures. The results confirm that companies implementing, or are in the process of, quality assurance and certification are ready to formulate strategy in a structured and transparent way.

Although the majority of companies were not aware of the BSC approach, this study highlighted the fact that all CEOs were in agreement with the use of PIs, both financial and no-financial, for management decisions. Detailed discussions with the managers participating in this study, however, revealed that they were not fully convinced as to the articulation between strategy formation and the use of performance evaluation indicators, probably because they seemed uninformed as to the means of attaining this link. The above indicate that these CEOs are seriously concerned about quality and increased competitiveness and access many and varied sources of information. This is also in accordance with the results of this study concerning assessing internal processes and quality certification. Although these firms have not acquired, quality assurance certification, such as ISO 9001:2000 or similar, all CEOs are actively seeking these certifications. The reasons given for this delay were inevitably the obvious and well documented lack of staff and finance needed by these certification schemes. All CEOs proposed ways in order to assist SMEs in attaining such quality assurance certifications, which included governmental and EU financing programmes. Finally the benefits of implementing BSC or, for that matter, any other quality assurance scheme, are most obvious to all managers interviewed, but argue that limited staff and resources hinder this approach

1. Bibliography

2. Lane, S., F., 2006, Current issues in Public Administration, Epigraph Publishing House, Bucharest

Table nr.1: Collated results from the analysis of questionnaires to glass producing companies in Gorj County Romania

<table>
<thead>
<tr>
<th>Question</th>
<th>Response (6 firms)</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>BSC prior knowledge by the company and/or the CEO</td>
<td>5 out of 6 had no prior knowledge of BSC (83%)</td>
<td>In 1 company the CEO was familiar with BSC, but was not in favour of implementing it (see Conclusions)</td>
</tr>
<tr>
<td>How does the company assess customer satisfaction?</td>
<td>There is no standard procedure to evaluate customer satisfaction.</td>
<td>Customer satisfaction is evaluated indirectly through sales to clients</td>
</tr>
<tr>
<td>How does the company assess internal processes? Is there quality certification?</td>
<td>5 out of 6 companies do not have worked out procedure for assessing management &amp; industrial processes.</td>
<td>Managers, however, realize the necessity and value of internal management and industrial assessment, but have limited resources (human and technical) to implement</td>
</tr>
<tr>
<td>How does the company formulate and apply growth and improvement</td>
<td>As stated previously the companies operate on a short-term basis due to the fact that they informally define strategic goals</td>
<td>Most managers agree with the value of integrating their employees into the company’s strategic plans and employing bonuses and compensations based on their performance. There is no link between performance evaluation and payments as yet in place in all interviewed companies</td>
</tr>
<tr>
<td>How does the company assess its financial situation</td>
<td>Since none of the companies are in the stock exchange, the financial assessment is set by Romanian fiscal laws</td>
<td></td>
</tr>
<tr>
<td>How does the company formulate its strategy</td>
<td>The majority (5/6) do not formalise their strategy in a structured and clear way</td>
<td>The informal development of short-term (1-3 year) goals is preferred. The CEO that indicated prior knowledge of BSC, highlighted a conflict between transparency and industrial secrecy</td>
</tr>
<tr>
<td>How is strategy formulation associated to performance</td>
<td>All (6/6) managers agree with the use of (PIs) performance indicators,</td>
<td>It is interesting to note that although the majority of companies were not aware of the BSC approach, they</td>
</tr>
<tr>
<td>How does top management view the benefits of BSC and the feasibility of implementation</td>
<td>All managers see the benefits arising from BSC, but argue that limited staff and resources hinder this approach</td>
<td>fully agree with the use of PIs for decision making. The study, however, points out that those managers were not fully convinced as to the articulation between strategy and performance evaluation and were uninformed as to the means of attaining this link.</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>evaluation practices in the company</td>
<td>financial and non-financial, to support management decisions.</td>
<td></td>
</tr>
</tbody>
</table>