Balanced Scorecard for SMEs

In my article “A sparrow may be small, but its body has every organ it needs”, I illustrated the STAR enterprise model. One of the elements is “RESULTS”. For results; each company must know what results it wants by identifying and conducting measurement. Peter F Drucker said “What gets measure gets managed.”

Balanced Scorecard was widely promoted and adopted by many companies in the late 90s but faded into oblivion since then.

**What is Balanced Scorecard?**

Balanced Scorecard was developed in 1990 by Norton & Kaplan from a study project involving many famous corporations. It is a performance measurement framework.

The following statement is how Philips group described balanced scorecard. Our associate, Alan Wagstaffe, provided training to some of their companies in Hong Kong.

**Philips** BEST programme indicated that the balanced scorecard is “Translates strategy into action by identifying, aligning & prioritising agreed key goals & targets”

There are four measures (Financial, Customers, Business processes and Learning & Growth).
It is link to financial measures and the principle of “Cause and Effect” relationship.
Why Balanced Scorecard faded into oblivion?
The problem is not balanced scorecard but how companies applied it. Here are some problems highlighted by practitioners in large corporations:

i. Complicated and time consuming in developing all the measures: There were too many measures identified and alignment of each one of them took up a great deal of time to develop.

ii. Too many measures to be measured and reported: It resulted in a tedious process of collecting data to compile the monthly report of all the measures.

iii. Lengthy monthly reports: Since there were too many reports published and distributed on a monthly basis that some measures were often overlooked (management were not paying attention to them).

iv. Lack of review and improvement actions: At the beginning, there were great interest in the results but as times go by, the follow up started to fade. The system expects concerned parties to review and take immediate actions but where these results were not reviewed and actions taken, the system start to break down and it just becomes another records generating tasks.
**Keep it simple and focus on vital few:**
The “Balanced Scorecard” concept was for companies to “Focus on a selection of critical measures (saves time & resource)” and minimized information overload.
In our experience with assisting companies to apply balanced scorecard, it was better to start off with some measures that are critical and easy to implement in order to enable concerned departments to apply balanced scorecard effectively.

Can balanced scorecard be applied by SMEs?
The answer is yes. Here are some useful tips:

Step 1: **Know where your company wants to be:** The Company must know its direction and goals, where it is (current status of the company) and prepare a strategy (how and what changes are needed) to get from where you are to where you want to be.

Step 2: **Identify its Critical Success Factors and prepare process mapping:** Focus on the company strength by identifying its critical success factors and use process mapping to complete the alignment (cause and effect).

Step 3: **Define measures** for each critical success factor and process mapping. It is important to focus on the vital few (prioritise them) and align (cause and effect) these measures (financial, customer, process and learning & growth).

Step 4: **Set targets for each measure:** Use SMART (Specific, Measurable, Achievable, Relevant and Time-bound).

Step 5: **Plan each measure:** At the planning stage, it is important to work out what needs to be measured (what measure, how to measure it (what data are collected, where data are collected from, who is responsible for collecting these data) and how often data are collected.

Step 6: **Calculate the results:** For each measure, indicate how the result is calculated (indicate the formula).

Step 7: **Trial implementation:** It is advisable to conduct a trial implementation
of each measure to validate that step 5 and step 6 are practical as well as indicating what improving is needed.

Step 8: **Analyse each measure**: It is advisable to have experienced or trained person(s) to conduct the analysis of each measure. It is important to verify that the data process is accurate.

Step 9: **Reporting (short and precise)**: The balanced scorecard report should be presented to management (a top level report). The report should include introduction summary of results (indicate what issue and for whose attention), results reported (graphics with supporting evidence for further reading), conclusions with implication on the business and recommendations.

Step 10: **Review and improvement**: There are two approaches for this. The first approach is for each management recipient of the report to write a review statement of the balanced scorecard report that concerned them. The second approach is to review the balanced scorecard report in monthly management meeting where this is on the agenda. It is important that actions are assigned and follow up to ensure effective implementation.

Once the SME has mastered how to apply balanced scorecard, the number of measures can be increased to cover a wider prospect. It is important that the SME can manage these measures.

We would like SME or those who have experienced with SME to share your experience and comment with us. If you do not wish us to publish your comment, let us know.

Article is written by Leslie Lee dated June 2014