The Balanced Scorecard in Large Firms and SMEs: A Critique of the Nature, Value and Application

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Abstract

During the last two decades, the use of the BSC has been widely spread in all sectors such as manufacturing and services; small and large firms; public and private sector. The idea of this paper is to investigate the contribution made by the Balanced Scorecard in both large firms and SMEs. This paper critiques the Balanced Scorecard from different points of view such as generations of the BSC, performance measures used, benefits of using BSC, scope of BSC, the design of BSC and strategy deployment. Finally, these different points of view were analyzed in order to reflect the implementation and application of BSC in large firms and SMEs.

Keywords: Balanced Scorecard (BSC), Performance measurement, Large firms, SMEs

1. Introduction

A performance measurement system based exclusively on financial reporting measures focuses on past performance and takes a short- term view of strategy. Top management needs more than traditional financial measures to run their businesses well (McCunn, 1998). Organizations need to manage the future rather than just knowing about the past. This needs to better understand the long-term objectives that may achieve future success. Therefore, the BSC was originally proposed to overcome the limitations of managing with only financial measures. The BSC was introduced by Kaplan and Norton in 1992 in order to give attention to corporate focus on performance measurement improvement. Four different key perspectives were identified as being vital and present the framework of BSC.

The BSC has evolved over the time. It has evolved through three generations. This evolution reflects the theoretical and practical development of the BSC. The researcher classifies the implementation of BSC into three groups: BSC as a performance measurement system; BSC as a strategic management system; and, BSC as a control system. These three groups have been studied empirically, experimentally, and as case studies. Finally, these different types of studies reflect different ways of implementing and using the BSC where the researcher is trying to reflect the implementation and application of BSC in large firms and SMEs.

The objective of this paper is to analyze and critique the nature, value and applications of BSC in both large firms and SMEs. Four parts will be discussed. The first is related to BSC in large firms and deals with effectiveness, applications and benefits of using BSC. The second discusses characteristics, causes of SMEs failure, implementation and critical examination of using BSC in SMEs. The third part is compared the BSC in both SMEs and large firms. The summary and conclusions will be the last part in the critiques of large firms and SMEs.

2. BSC in large Firms: Effectiveness, Application and Benefits

The integration between BSC and characteristics of large firms will be discussed first. Then, the applications of BSC in large firms will follow. Finally, the researcher suggests some benefits of implementing BSC in large firms.

2.1 Integration between BSC and Characteristics of Large Firms

One of the main characteristics of large firms is the nature of their organizational structures and the differences in management processes. As an organization grows, changes of organizational structure occur driven by the increasing problems of communication, co-ordination and control. The task specialisations and levels of organizational hierarchy that, are required to support the scale of the organization make all forms of change more difficult in large organizations (Atkins and Lowe, 1997; Simon, 1976). Some of the differences between large firms and SMEs are in managerial styles, decision making, ownership, and formal and bureaucratic administration. Furthermore, as an enterprise grows the complexity of the internal operational environment increases (Atkins and Lowe, 1997; Campbell and Alexander, 1997).

Kaplan and Norton (2002) stated that there are five key principles common to all successful balanced scorecard companies: translate the strategy to operational terms; align the organization to the strategy; make the strategy everyone's everyday job; make strategy a continual process; mobilize change through executive leadership.

These key principles to successful use of BSC can help large firms to overcome the difficulties articulated in their characteristics. For example, aligning the organization to the strategy can help to overcome the formal and bureaucratic administration in large firms. Executives in strategy-focused organizations replace formal reporting structures with strategic themes and priorities that enable a consistent message and consistent set of priorities to be used across diverse and dispersed organizational units (Kaplan and Norton, 2002). Another example, if the organization makes the strategy everyone's everyday job through the use of BSC, then the challenges and difficulties of communication and co-ordination in large firms can be minimized.

Finally, the Balanced Scorecard appears to have been a global success, and has attracted extensive interest in many large companies. A study of most important Swedish firms found that 27% of those included had already implemented the BSC and 61% expect to have the BSC within two years (Kald and Nilsson, 2000). Taking into consideration that the BSC was only introduced in 1992, this is an extremely fast and successful spread of a management accounting innovation (Ax and Bjornenak, 2005).

2.2 Application of BSC in Large Firms

The BSC has been adopted successfully in all types of organizations, including both manufacturing and service (Thomas, Gable, & Dickinson, 1999; Chow, Haddad, & Williamson, 1997; Hoque and James, 2000), public and private sectors (Papalexandris, Loannou, & Prastacos, 2004; Carmona and Gronlund, 2003), growing and mature organizations (Nielsen and Sorensen, 2004; Malina and Selto, 2001), and profit and non-profit organizations (Sohn, You, Lee, & Lee, 2003; Malmi, 2001; Irwin, 2002).

The widespread implementation of BSC in all these types of organizations supported the evolution of BSC. The BSC continues to evolve and mature, illustrating the concept's flexibility (Bible, Kerr, & Zanini, 2006) and the development of the generations of BSC. The inception of BSC was as a performance measurement tool and evolved over time to be a strategic management system and then evolved to be a control system (Speckbacher, Bischof, & Pfeiffer, 2003; Simon, 2000).

The relationship between BSC and performance has been investigated. While the study of Hoque and James (2000) examined the relationship between BSC usage and firm performance, others investigated the relationship between BSC use and financial performance (Ittner, Larcker, & Randall, 2003; Davis and Albright, 2004). These studies established the relationship between BSC, and financial and non-financial performance.

BSC was intended to support the management of strategic implementation, where the development of BSC is the central element of a strategic management system. Therefore, researchers realized that BSC is more than a stand-alone performance measurement tool. It is a complete framework for implementing and executing strategy (c.f. Papalexandris et al, 2004; Malmi, 2001). Furthermore, BSC forced management to concentrate on drivers of future performance and not just on past performance. Consequently, a link and integration between strategy and performance has been achieved through the BSC (Oslon and Slater, 2002; Nielsen and Sorensen, 2004). Over time BSC has developed as a control system to help management teams articulate, communicate and monitor the implementation of strategy (c.f. Malina and Selto, 2001; Nielsen and Sorensen, 2004).

2.3 Benefits of Applying BSC

Success stories of organizations that have implemented BSC seem to promise high benefits for BSC users. Several surveys indicate that the BSC concept is widely used in large organizations in the United States and throughout Europe. For example, Williams (2001) estimates that more than 40% of all Fortune 500 US organizations use BSCs. Another study estimates that 60% of the Fortune 1000 organizations in the USA have had knowledge with BSC (Silk, 1998). Rigby (2001) stated that BSC has a utilization rate of 44%. Some benefits of implementing the BSC are suggested as below.

- A key advantage of the balanced scorecard is that it puts strategy, structure, and vision at the centre of management's focus. Furthermore, BSC was constructed to tell the story of an organization strategy and to guide its implementation.
- Balanced scorecard emphasizes an integrated combination of financial and non-financial performance measures. It keeps management focused on the entire business process and helps ensure that actual current operating performance is in line with long-term strategy and customer values. Moreover, Chow, Haddad, & Williamson (1997) argue that BSC retains traditional financial measures and these financial measures are viewed in the larger context of a company's competitive strategies for creating future value through investment in customers, suppliers, employees, processes, technology, and innovation.
- The cause-and-effect linkages of the BSC confine the difficulty and interrelationships of a strategy, facilitating explicit tradeoffs among quality, cost, and access.

It is argued whether these benefits of applying BSC in large firms can be achieved in SMEs or not. In other words, do SMEs benefit from implementing BSC or do the difference of characteristics between large firms and SMEs make the implementation of BSC difficult? The researcher suggests that discussion of characteristics of SMEs, causes of SMEs failure, implementation and critical examination of BSC in SMEs are essential to answer this question.

3. The BSC in SMEs: Nature, Implementation and Critical Examination

There is no doubt that small business to medium — sized enterprises (SMEs) have distinguishing features. These features make small business enterprises different than large one. The category of SMEs is made up of enterprise filling at least the next conditions: fewer than 250 employees, annual turnover not exceeding 50 million euros and or annual balance sheet total (total assets) not exceeding 43 million euros (The Commission of the European Communities, 2003). In this section, the nature and characteristics of SMEs and causes of small enterprise failure will be discussed and then the application and critical examination of using the BSC will follow.

3.1 Nature and Characteristics of SMEs

Much work has been done to identify ways in which management practices differ among small and medium and large enterprises. McKiernan and Morris (1994) point out the following qualitative characteristics of SMEs:

- An owner plays a central role with a diversity of duties and close uniqueness with workforce, and a mixture of ownership, flexibility, control, and nobility.
- Scarce resources and fear of unknown foreign business practices are the main reasons for SMEs to run in domestic markets

According to Lyles, Baird, Orris, & Kuratko (1993) SMEs show little separation between an enterprise's strategic thinking and decision-making and an enterprise's formal planning system. Furthermore, there is a link between organizational structure and management process in SMEs. An SME is characterised as a simple structure. This structure can be explained in which the owner-manager directs the work of small number of operators with the help of few or no other manager(s). Beaver and Jennings (2005) stated that the small firm management process cannot be separated from the personality and experiences of the key role player. Beaver (2003, p.63) stated that:

> *"Management in small firms cannot be separated from the motivations and actions of the key actors. They are fundamental component in understanding the fashioning of the relationships between ownership and decision-making, managerial styles, organizational structures and cultures, and patterns of business development."*

Brouthers, Andriessen, & Nicolaes (1998) confirmed that decision making processes in SMEs take place naturally and that for analysing strategic alternatives quantitative methods are rarely used. With increasing size, firms act "more rationally" with respect to development and decision-making.

Enterprises in their start-up phase often underestimate risks or even ignore them completely (Smith, 1998). Frese, Van Gelderen, & Ombach (2000) stated that start-up SMEs usually face a high degree of uncertainty and the necessity to make quick decisions. Finally, Henschel (2006) found that the business planning of SMEs often needs substantial improvement and a comprehensive business planning system is the prerequisite for a sound risk management.

3.2 Causes of SMEs Failure

The number of small and medium-sized firms (SMEs) in the UK has increased by 50 per cent in the last 25 years and these are now responsible for more than half of all the jobs and contribute to about 35 per cent of gross domestic product (Beaver and Prince, 2004). Despite the contribution of small firms in all sectors, statistics in the Canadian economy showed that SMEs fail at a staggering rate. Sixty-eight per cent of those with less than five employees and forty-eight per cent of those with between five and ninety-nine employees fail within five years of start-up (Monk, 2000). Moreover, the USA small business administration stated that some 25% fail within two years and 63% fail within six years (SBA, 1998).

These are hard statistics to digest, knowing that the SME employs millions in many sectors and contributes significantly to the economy. This issue has motivated researchers to explore the reasons behind the failure of these enterprises. One of these is poor management where the owner-manager directs all the operations of the business. Furthermore, a lack of knowledge and skills and the owners' inability to plan and control are some of the reasons for failure (Monk, 2000; Beaver, 2003; Banfield, Jennings, & Beaver, 1996). Scarcity of resources and a lack of funds to outsource the skills of management are significant factors in business failure.

It is argued that there are likely to be several factors, both endogenous and exogenous. The former are internal factors that relate to lack of awareness of management processes and tools, lack of funds (financial deficiency) and the expectations and capabilities of the owner-manager. The exogenous or external factors include rapidly changing external market positions, the conditions of the external environment such as complexity, uncertainty or unpredictability of competitors, the state of the recession and demand forecasting in the economy.

Finally, the four perspectives of BSC can help to overcome these factors of failure by addressing the internal factors and connecting them to internal business processes and learning and growth perspectives. The external factors could be addressed and aligned with customer and financial perspectives and then transferred into measures which connect them to the operational process.

3.3 The Ability of SMEs for Implementing BSC

Monk (2000) recommended implementing BSC to overcome and reduce the number of failures in the SME sector, by paying attention to leading indicators such as customer satisfaction and quality. A business can anticipate issues before they hit the financial statements as lagging indicators. Additionally, other reasons for implementing BSC are that SMEs want to stay in the marketplace, or develop the growth potential to become large-sized global trading firms. The BSC is used for continuous improvement, which is important to the growth of an SME (Gumbus and Lussier, 2006).

Despite the lack of comprehensive literature focused on BSC implementation in SMEs, there are some useful studies that have applied BSC in manufacturing firms in the SME sector. Reviewing the BSC in literature about SMEs shows that some researchers support the idea of implementing the BSC in SMEs (Monk, 2000). Others have already implemented BSC in small business (Fernandes, Raja, & Whalley, 2006; Andersen, 2001; Gumbus and Lussier, 2006). On the other hand, some researchers who have assessed the implementation of BSC in SMEs claim that this model is not suitable for SMEs (McAdam, 2000; Hvolby and Thorstenson, 2000). All these studies will be explained in more details to differentiate between these points of view.

Andersen (2001) believes that BSC and its associated management process can prove equally beneficial to SMEs as to large organizations. He stated that:

> *"BSC can prove an effective tool for SMEs in meeting the challenge posed by the need to introduce more efficient strategic planning processes while retaining the competitive advantage of having relatively simple structure (Andersen, 2001, p.8)."*

It is argued that the BSC may contribute to the aim of SMEs so that strategy revision and strategy translation become a natural and permanent process. The BSC has been used to help employees to understand strategic plans and objectives. The BSC is considered as a vital tool in enabling SMEs to develop longer term plans (Henschel, 2006), and managers must support the implementation of the BSC to create future value and not just short term goals (McAdam, 2000).

The study of Fernandes et al. (2006) has brought an insight to implementing BSC in SMEs. Their results proved that the implementation of BSC in an SME (Biddle Air System enterprise) enhanced its ability to respond rapidly to the ever-changing refrigeration and air-conditioning market within which it operates. Additionally, they stated that it has shown by practice, the applicability of Kaplan and Norton's four view perspective to a SME manufacturer. Although, Kaplan and Norton (1996) suggest the applicability of their framework (BSC) to SMEs, they do not specifically give a methodology for such an implementation. Henschel (2006) argues that the BSC, in connecting with business planning, could become an instrument for risk identification and risk evaluation that is suitable for SMEs.

On the other hand, Hvolby and Thorstenson (2000) claim the likelihood of significant difficulties in implementing the BSC in SMEs, as resources are typically scarce. They advocate the adoption of Quick Response Manufacturing (QRM) as an alternative to the BSC. They suggest that the advantage of this approach is that it is much simpler than BSC, focusing on lead time reduction as the only indicator of performance. The researcher argues that the study of Hvolby and Thorstenson (2000) is vague and does not take into consideration Cost-Benefit-Analysis when recommending adopting an approach other than BSC.

An important implication is that there is no one BSC that fits all, and BSCs should be used and implemented to stimulate thinking about relative measures in the critical success factors of any business in the SME sector.

Finally, the implication of the previous discussion is that it is too early to judge the implementation of BSC as a strategic management tool in the SME sector. Furthermore, it should be noted that there are real benefits to SMEs from applying BSC, and there is an obvious need for further empirical research.

3.4 Critical Examination of Using BSC

Despite the small amount of literature focused on BSC implementation in SMEs, it is beneficial to explore some issues which could help to enrich the literature of SMEs by implementing BSC. These issues are:

- Implementation Barriers: Difficulties have been encountered implementing the BSC in SMEs. The lack of human resources rather than financial ones is one of the major barriers for implementing BSC in SMEs (Fernandes et al, 2006). Also, there is a lack of systematic training and development of employees so that they can adequately contribute to the business improvement process (McAdam, 2000). Furthermore, several factors can affect the implementation process. These include social issues such as attitude and behaviour of employees, and lack of trust and openness. Conditions and general employees' satisfaction can be barriers for implementation (Fernandes et al, 2006; McAdam, 2000; Hvolby and Thorstenson, 2000; Ulf, Matti, Andreas, & Roland, 2006). Moreover, an owner-manager is very sensitive about business information and sharing strategic planning with employees (Beaver, 2002).
- Cost-Benefit-Analysis: There is a benefit from using and developing the BSC. This benefit differs among studies that implemented BSC in SMEs. Fernandes et al (2006) claim that benefits accrue slowly but costs accrue quickly in BSC implementation while Gumbus and Lussier (2006) found that entrepreneurs can benefit from developing and using BSC. Finally, because of limited resources, Cost-Benefit-Analysis should be emphasized from the perspective of design and use of BSC in SMEs.
- The design process: BSC design in SMEs follows a similar process to those required in large firms. The design process includes phases of vision statement, target setting, strategic objectives, measures, strategic initiatives which normally form the basis for subsequent implementation of BSC (Fernandes et al, 2006; Gumbus and Lussier, 2006; Andersen, 2001). The key difference between large firms and SMEs is the duration of the process; it is a quick process in SMEs as there are fewer employees and generally less complex organizational structures (Andersen, 2001). Furthermore, the way in which these phases are managed and applied is different in SMEs while all use the same designing process for BSC.
- Generations of BSC: Although BSCs have only been implemented in the SME sector for a few years, SMEs have implemented and applied the first and second generations of BSC. It should be noted that SMEs have implemented BSC as a performance measurement and as a strategic management tool (Garengo, Biazzo, & Bititci, 2005; Fernandes et al., 2006; Gumbus and Lussier, 2006; Henscel, 2006). Consequently, this highlights the quick implementation of BSC generations in the SME sector.
- Performance measurement: The issue of balance between financial and non-financial measures is mainly vital when taking into account SMEs. These enterprises are characterized by focusing on operational and financial aspects. SMEs only measure the performance of single aspects such as the diverse elements of the lead time, quality and accuracy (Hvolby and Thorstenson, 2000). Operational aspects are very essential for SMEs. It is significant to raise the strategic managerial approach to align decision-making process to strategic objectives. Accordingly, a balanced performance measurement system (PMS) can be a significant approach (Paolo, Flavio, & Luca, 2010; Tenhunen, Rantanen, & Ukko, 2001). Consequently, McAdam (2000) stated that performance measurement systems used By SMEs should concentrate and emphasizes on breadth, not depth.

4. BSC in Large Firms vs. SMEs: Nature, Value and Application

This part discusses the potential merits of implementing the BSC in SMEs as well as the nature, value and application of BSC in large firms. The comparison between both of them should take into consideration the characteristics of each one. The lack of skills, tacit knowledge, lack of financial and human resources and unfamiliarity with strategic management techniques and processes are usually considered obstacles for implementing BSC in SMEs. Large firms do not have these barriers for applications of BSC. Furthermore, the three main issues and aspects that differentiate between SMEs and large firms are summarized innovation, uncertainty and evolution (Boumediene, Delroy, & Densil, 2013; Storey, 1994; Garengo et al., 2005). Therefore, the application of BSC can differ in use and value between large firms and SMEs.

The BSC was originally proposed as an approach to measure the performance that combined traditional financial with non-financial measures drawn from four perspectives. Over time, BSC has developed to be a strategic management system and then to use as a control tool. It is a truism, that large firms have adopted and applied all BSC generations. In the SME sector, the implementation of BSC has increased and does not apply all generations as in large firms.

It is argued that organizational structure and management processes are different in SMEs than in large firms. These differences can be seen in the application of BSC in the visibility of organization strategy and performance measurement. McAdam (2000) stated that in large organizations the application of the BSC should improve visibility of organizational strategy down through all levels of employees while SMEs do not highly rate the visibility benefit of BSC.

Performance measurement in large firms combines financial and non-financial measures, and short and long term objectives, while SMEs concentrate on financial and short term objectives. Moreover, selected measures to inform management about an organization's progress differ from large firms to SMEs. This difference is in the number of measures used and the focus of performance measurement. BSCs in large firms need about 18-23 measures (Kaplan and Norton, 1996) and about 5-15 measures in SMEs (Tenhunen et al, 2001). Large firms need to use PMs that focus on depth while SMEs should focus on breadth (Garengo et al, 2005; McAdam, 2000).

The design process of BSC is similar in SMEs and large firms. However, the key difference is in the duration of the process which is quicker in SMEs than in large firms (Andersen, 2001). The process of BSC design consists of phases which include an organization's vision, strategic objectives, performance measures and strategic initiatives. The details of these phases can differ between large firms and SMEs. Moreover, there is a good alignment between strategy and performance measures in large firms. SMEs are characterised by poor alignment between strategy and performance measures (Hudson, Bennett, Smart, & Bourne, 1999; Garengo et al, 2005).

5. Conclusions

This paper critiqued the BSC from different perspectives. The contribution of this paper is to analyze and criticize the BSC that reflects its theoretical and intellectual development. The conclusion of this paper discusses the potential merits of implementing the BSC in SMEs as well as the nature, value and application of BSC in large firms as representing in the following table.

The comparison	Large Firms	SMEs
1. Applying the Generations of BSC	Apply all generations of BSC which are: 1. BSC as a performance measurement 2. BSC as a strategic management system 3. BSC as a control system	Apply just the first and second generations of BSC
2. Performance Measures Used	• Need in-depth system that goes down to the level of the single operational department • No. of measures range from 18-23 • Include an elaborate process for identifying and describing measures selected to inform management about an organization's progress.	• Do not need in-depth system but should focus in breadth • No. of measures range from 5-15 • The utility of formal measure definition is lower than in large firms.
3. Strategy Deployment	Easier to align performance measures and strategic objectives	Difficult to align performance measures and strategic objectives
4. BSC Design	• The process in BSC design is similar to SMEs • Time duration is longer than in SMEs.	• The process in BSC design is similar to large firms • Time duration is less than in large firms.
5. Benefits of Using BSC	The potential benefit comes from the control role of BSC in communication, co-ordination, feedback and feed-forward.	The benefit differs from large firms. SMEs focus on description of strategic vision and associated strategic objectives.

6. Cost-Benefit-Analysis	They have the ability to meet this cost	They do not have the ability to meet higher costs particularly in small enterprises.
7. Scope of BSC	Combines financial and non-financial measures; short and long term plans	Tries to develop long term plans and use non-financial measures

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