

# Why the Balanced Scorecard Fails in SMEs: A Case Study

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## Abstract

Though studies abound for large organizations where use of the Balance Scorecard is quite common, literature focused on the uses and limitations of the Balanced Scorecard in small and medium-sized enterprises (SMEs) is difficult to find. To help fill the gap, this study was conducted using one SME that failed in its attempt to implement the Balanced Scorecard with the goal of ascertaining the cause of the failure of the Balanced Scorecard. Data was collected for this study via interviews and researcher observations. Two in-depth interviews were conducted, one with the manager-owner and one with the employee who is directly responsible for the design and implementation of the Balanced Scorecard. The researcher also observed and facilitated the design and implementation of the Balanced Scorecard in the company over the same period. The results reveal that frequent change in strategy was a major factor leading to the failure of the Balanced Scorecard in SMEs.

**Keywords:** Balanced scorecard, SMEs, Performance measurement system

## 1. Introduction

The Balanced Scorecard developed by Kaplan and Norton in 1992 (Kaplan and Norton, 1992) is one of the most widely used management tools today. It is implemented in many large organisations, including Mobile, Cigna (Kaplan and Norton, 1996; 2001; 2004), ABB, Scandia and Halifax (Olve et al 1999). A recent study found that 44 percent of organisations in North America (Rigby, 2001) and 35 percent of large US firms (Marr et al 2004) use the Balanced Scorecard. Studies conducted by Silk (1998) and Malmi (2001) also find that use of the Balanced Scorecard is widespread. Though found to be popular in large organisations, literature reporting on the uses and limitations of the Balanced Scorecard in small and medium-sized enterprises (SMEs) is rare. Most SMEs are not aware of this technique and the usage rate is very low compared to large organisations (Tennant and Tanoren, 2005). At the same time, the Balanced Scorecard is believed to be as beneficial for SMEs as it is to large organisations (McAdam, 2000; Andersen et al 2001; Kaplan and Norton, 2001).

The Balanced Scorecard is not without limitations. Many studies investigate the limitations of the concept in general (see, e.g., Butler et al 1997; Dinesh and Palmer, 1998; Epstein and Manzoni, 1998; Schneiderman, 1999; Norreklit, 2000; Aidemark, 2001; Heinz, 2001; Kennerley and Neely, 2002; Olson and Slater, 2002). However, there are very few studies that reveal the limitations of its application in SMEs, which may due to the limited application of this method in small organisations compared to large ones. This study attempts to fill the gap by investigating the limitations of implementing the Balanced Scorecard in SMEs.

The paper begins with the introduction of the Balanced Scorecard followed by reviews of the literature studying the implementation of the Balanced Scorecard in both large organisations and SMEs. Then the research methodologies are described, followed by the background of the case study for this research. Findings are then reported, along with the research and practical implications of this study. The paper closes with the conclusions.

## 2. What is the Balanced Scorecard?

The Balanced Scorecard is an approach developed by Professor Dr. Robert S. Kaplan from Harvard Business School and Dr. David P. Norton in the early 1990s. It first appeared in the article 'The Balanced Scorecard—Measures That Drive Performance' in the *Harvard Business Review*, in 1992 (see Kaplan and Norton, 1992). The Balanced Scorecard approach addresses some of the weaknesses and vagueness of previous management approaches. It attempts to provide a clear prescription as to what organisations should measure. It also translates vision and strategy, defines the strategic linkages to integrating performance across an organisation, communicates objectives and measures to a business unit, and aligns strategic initiatives. When fully implemented, it aligns everyone within an organisation so that all employees understand how and what they can do to support the strategy. It can also be used as a basis for compensation and provides feedback to management as to whether the strategy is working. The Balanced Scorecard suggests that an organisation's performance can be viewed from four main perspectives: financial, customer, internal business process, and learning and growth. These four perspectives are linked to the organisation's strategy and create a holistic model of its strategy that allows all employees to see how they can contribute to the success of the organisation. Figure 1 shows Kaplan and Norton's Balanced Scorecard framework.