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Performance Measurement with the Balanced Scorecard

A Practical Approach to Implementation
within SMEs

 Springer

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Foreword for Balanced Scorecards for SMEs

I am pleased to welcome this important new book. *Balanced Scorecard for SMEs* provides an excellent summary of the leading performance management concepts, with a particular emphasis on how to apply these concepts to the SME sector. The great strength of the Italian economy is its network of SMEs that provide world class goods. Today's competitive environment, however, is extremely challenging due to

1. Intense global competition, particularly from enterprises located in low-cost emerging economies,
2. The slow global growth after the 2007/08 financial crisis, and
3. The debt crisis being experienced by countries along the southern boundary of the Eurozone.

Succeeding in this challenging world will require that the leaders of SMEs deploy the most innovative and proven management tools. Among these is the Balanced Scorecard, currently used by more than 70% of companies worldwide, and regularly ranked among the top-ten management tools used worldwide according to the annual survey conducted by Bain & Company, a leading strategy consulting company. Many SMEs, however, feel that the Balanced Scorecard is only for large and global corporations. This is an incorrect view. SMEs, like all other enterprises, need a management tool to communicate strategy to all employees and to align their day-to-day work to strategic objectives. Without a tool, such as the BSC, more than 90% of employees – even in small enterprises with fewer than 300 employees – are unaware of the strategy. If employees don't know what the strategy is, then they can't help their company to implement the strategy. This is the key reason why more than 70% of companies report that their strategies fail to achieve their targeted goals. Using the BSC, the odds reverse with 75% of companies using the BSC as their central strategy execution system reporting that they are outperform their competition, usually by a significant amount.

For these reasons, I believe that this new book can have a large impact on the performance of SMEs, especially in today's challenging business and

economic environment. I encourage the management teams of these enterprises to purchase and read the book, and then organize a project to translate their strategy into a strategy map and scorecard. In that way, they can join the growing population of companies around the world that are using the scorecard to achieve breakthroughs in performance.

Boston, MA

Robert S. Kaplan

Preface

Do we really know the critical phenomena that are linked to how enterprises function and the dynamics of their relationships with customers, suppliers and competitors? Are their decision-making processes founded upon a set of performance measurements that were accurately designed and systematically elaborated?

The above questions are the focus of this book: enterprises need a system to measure their critical performances so they can be effectively governed; metaphorically speaking, enterprises need a “management dashboard” to serve as a navigation support. A dashboard to show – with as few distortions as possible – the pattern of the key variables that characterise the specific formula that enterprises use to face their competitive and social environment.

However, a “management dashboard” is not a mere collection of data and indicators. With the widespread use of information technologies, enterprises find themselves dealing with an abundance of information; they possess many indicators, but the important information is hidden, drowned in muddled reports or disseminated throughout spreadsheets whose existence is known only to a few people. The main issue at stake is not to adopt the latest version of the most powerful IT tool of Business Intelligence available, so to be able to elaborate evermore sophisticated statistics in a fraction of a second. The issue is to conceptually design a system that will measure business performance. A design that follows an accurate and patient selection of the company’s indicators and is based upon the identification of the phenomena which are critical to an enterprise’s success and/or its survival (“measuring only what is important”); a thorough and an integrated overview of the enterprise and how it works (“measuring performance from 360°”): not only financial performances, but also those that pertain to the critical factors of success in its relationships with customers; those that pertain to the critical factors of internal processes’ functioning; and those that pertain to human resources. The term “Balanced Scorecard” – after the most renowned and used dashboard model at the international level – implies these two major concepts: the strategic importance of the measurements (*scorecards*: used for taking note of

the facts that matter in sports competitions); the integrated view of a company's performance, that is the "balance" (*balanced*).

The first part of the book, featuring four chapters, is dedicated to the exploration and in-depth study of the concepts and tools that are necessary for setting up a management dashboard, based upon the Balanced Scorecard model. The first chapter analyses the key question concerning the identification of critical phenomena and illustrates the logic behind the design of a system of indicators that is strategically aligned and balanced. In the second chapter, the "circular" approach to the implementation of the BSC model is presented; this approach reverses the traditional top-down logic, but is actually in line with the organisational and cultural peculiarities of small and medium-sized enterprises. The goal of the third chapter is to examine the characteristics of the processes that lead to a company's strategy and to highlight the role of the BSC model in such processes. Finally, the fourth chapter deals with the comparative analysis of the most renowned models used to measure performance, so we can appreciate – in a broader perspective – the conceptual and practical importance of Balanced Scorecards.

The second part of the book describes the experience of three SMEs as they implemented a management dashboard based upon the Balanced Scorecard. The enterprises are: Valbona, Home Cucine and Uniflair. Three companies of different size (from about 50 to 300 employees), which are dedicated to greatly heterogeneous businesses (canned products, modular kitchens, precision conditioning and raised-access floor panels), but are all extremely willing to improve and innovate their administration and management. A willingness that goes back to the basic ability to do some serious soul searching and to the desire of experimenting new solutions. These qualities are rather critical as we approach a reality where the level of innovation may become one of the few winning features on the globe's competitive arena.

This work owes much to a lot of people. We wish to acknowledge Professor Giovanni Bernardi's contribution with his enlightening discussions and precious advice, which helped us throughout our research. We also wish to express our gratitude to Professor Umit Bititci (University of Strathclyde, Glasgow, UK) for sharing his extensive experience with us, thus enriching our observations with worthy suggestions.

We would like to thank the managers, the entrepreneurs and the professionals whom we have worked during the last 10 years; they are too many to mention without taking the chance of leaving someone out. However we would like to mention the companies that have worked with us: Antonio Carraro, Blowtherm, Carel, Galvene, Gruppo Giplanet, Home Cucine, Insula, Luxardo, Piaggio & C., P3, Scilm, Crefin, Falegnameria Gastaldello, Fila, Munari, Rea Robotics, Sirmax, Uniflair, ZMI Industries, Zp Trasporti, Berto's, Modi Nuovi, Griggio, Sauro, and AB Analitica.

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