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and Dr. Marlene Paula Castro Amorim
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Implementation of Balanced ScoreCard: Simplify strategic thinking development in Portuguese SMEs

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Abstract: The Portuguese business structure is essentially composed of small and medium-sized enterprises (SMEs), which, despite their size, generate employment and contribute to the increase of national income. In many of these companies, some of them having less than ten employees, management and operational functions are often carried out by the entrepreneur. In addition, the entrepreneur does not always have technical knowledge in management, nor do they have the available time (since they have various responsibilities within the company) to develop and implement a management strategy that allows the enterprise to remain in the market while adopting a more conscious, consistent and sustained orientation. Within the scope of the Operational Program for Competitiveness and Internationalization - Portugal 2020, the Balanced ScoreCard (BSC) strategic management instrument was developed and implemented in several companies and sectors of the Portuguese economy. This instrument was crucial in initiating a process of strategic thinking which, quite possibly, would not have happened in such a short time horizon. This research work analyses through an essentially qualitative research the way the BSC instrument was developed and implemented. Another objective is to understand the main advantages of its use and its main application constraints. The data was gathered through a semi-structured interview developed for the owners of four Portuguese SMEs in the northern region Portugal, targeted under the abovementioned programme framework. The results demonstrate the instrument was essential for the development of a structured strategic thinking, as well as for a better performance and, consequently, to the improvement of the competitiveness of the targeted companies. The results also show the instrument had to be adapted and simplified and its implementation has to involve all the employees of the enterprises.

Keywords: Balanced ScoreCard, SMEs, strategic thinking, performance, competitiveness, Portugal

1. Introduction

The Portuguese business structure is composed, from north to south of the country, mainly by micro and small and medium enterprises (SMEs) (Instituto Nacional de Estatística, 2018, Pordata, 2018). In fact, if we look at the Portuguese business structure, micro, small and medium-sized companies hold a majority compared to large companies. Notwithstanding their small size, and since their number is large, they contribute significantly to the Portuguese Gross Domestic Product (GDP) and to employment creation. Thus, according to data published in Pordata (2018), in the year 2016 there were 1,213,107 SMEs in Portugal, corresponding to 99.9% of the total number of companies in the country. In this group, 1,167,993 (96.2%) were micro-sized, 38,866 (3.2%) were of small size and 6,248 (0.5%) were of medium size, according to the data collected from INE (2018). Still, and according to the metadata information of Instituto Nacional de Estatística (2018), a company is considered micro if it has less than 10 employees and a total turnover and/or balance sheet which does not exceed 2 million euros; a company is considered small if it has between 10 and 49 employees and an annual turnover and/or total balance between 2 and 10 million euros; and a company is considered medium if it employs between 50 and 249 people and has an annual turnover between 10 and 50 million euros, or an annual balance between 10 and 43 million euros.

In Portuguese micro enterprises and in SMEs, when the entrepreneur has an average education level and the human resources department does not employ any personnel with qualification in management, the strategic planning of the company is not always considered from a medium to long-term perspective. However, in an increasingly competitive market, it is essential that companies make use of all their skills, both material and technological, as well as their human resources, which are essential to increasing their productivity and competitiveness. Effectively, without these competencies, organizations will not be able to interact in a more

competitive market and thus position themselves sustainably in order to achieve consistent growth and organizational excellence (Requeijo et al., 2018).

With the aim of stimulating smart, sustainable and inclusive growth, the Partnership Agreement between Portugal and the European Commission, called Portugal 2020 is being implemented through 16 Operational Programs to be developed between 2014 and 2020. Among these 16 Operational Programs, the ones that stand out Compete 2020 - Competitiveness and Internationalization Operational Program and the North Region Operational Program 2014-2020.

In order to achieve a more equitable distribution of funds, the Portuguese territory was divided into three distinct zones, taking into account the level of GDP per capita, accordingly: i) regions which are considered to be less developed, showing a GDP per capita of less than 75% of the EU average, which include the North, Centre, Alentejo and Autonomous Region of the Azores; (ii) regions in transition, which show a GDP per capita between 75% and 90% of the EU average, including the Algarve region; and (iii) more developed regions, which show a GDP per capita above 90% and include the Lisbon region and the Autonomous Region of Madeira. The companies targeted in this research are located in the northern part of the country and have been involved in the Compete 2020 Program. As part of the operationalization of this program, the Balanced ScoreCard strategic management tool was developed and implemented in a set of companies, while adapted to the reality of each company.

Therefore, the objective of this research is to identify and understand the benefits from the participation of a group of companies in the operational program Compete 2020 - Competitiveness and Internationalization Operational Program and the North Region Operational Program 2014-2020, during which it was developed and operationalized the Balanced ScoreCard strategic management tool.

Consequently, and to pursuit on the proposed objective, in section two a theoretical introduction to the Balanced Scorecard methodology and its use as a tool for strategic management in micro and SMEs is made according to the relevant existing literature; in the section three the procedures for the development and implementation of BSC in the group of companies involved are explained and in the section four the main conclusions of this intervention and the advantages and gains for the participating companies are described.

2. Balanced ScoreCard as a strategic management instrument

The economic and financial situation is the result of certain decisions that encompass other areas of the company, such as customers, internal processes, and innovation and learning, namely all those involved in the operational process. Hence, it is extremely important to define non-financial indicators that allow the measurement of organizational performance, and to complement the economic vision that only some entrepreneurs adopt in companies (Brandão et al., 2008, Ravi et al., 2005, Davis and Albright, 2004, Norreklit, 2000).

The consideration of non-financial indicators defined alongside with financial indicators allows organizations to align their mission, vision, values, objectives and behaviors, as well as to develop a continuity of improvement of processes, which translates into enhanced products or services and, consequently, in better results and quantifiable successes and failures (Rompho, 2011). This process should be continuous, and organizations should, at the end of each cycle, diagnose, coordinate, monitor and evaluate the results obtained for each defined indicator in order to measure organizational performance. Thus, performance measurement and evaluation provide the necessary feedback, the indispensable understanding, and the motivation required to initiate strategic thinking, structural change, and organizational learning processes.

It is this organizational learning (Brandão et al., 2008), the organization's ability to learn, to change and to adapt itself to new market demands, which makes it assume a more dynamic perspective and which will allow the necessary and essential adaptation to happen in a competitive and sustained way, in a market that is increasingly competitive.

The fundamental issue of the analysis lies in strategic thinking (Valdez et al., 2017), structural change and organizational learning (Brandão et al., 2008), the definition and determination of performance measures

being an essential process for all stakeholders involved to understand, adapt and undertake necessary efforts for the company to achieve the main goal, which is generation of profit.

The success of contemporary organizations depends more and more on the quality of the products and services they offer. However, most of the time this is not in itself a sufficient condition for a company to remain in the market. Considering the reality of the micro and small Portuguese companies, one of the big players in the entire business process is the entrepreneur, often a one-man show and the only person in the company who happens to hold several business functions, ranging from operability to strategy; in many of these cases, strategic thinking, a key factor in the medium and long-term permanence of the company in the market, is being relegated to the background. This characteristic was likewise mentioned by Andersen et al. (2001) and Valdez et al. (2017).

The development and implementation of this tool of strategic management, BSC, enables companies involved, and more specifically the entrepreneur, to stop worrying about the strategy and planning of their business. Moreover, this methodology was developed by Kaplan and Norton in 1992 and was widely used in and by several organizations (from micro to large size), since its main objective was to capture the tool's complexity in a holistic way (Prieto et al., 2006, Rosemann and Wiese, 1999, Andersen et al., 2001, Rompho, 2011, Johanson et al., 2006, Rodrigues, 2018).

Some of the advantages of using this instrument as a strategic management system is that it allows: a reflection and definition of a set of performance indicators and their link to the company strategy (Bhagwat and Sharma, 2007); understanding the relation of operational control to mission, vision and strategy (Fernandes et al., 2006); the correct definition and clarification of cause and effect relationships; attention of entrepreneurs to stay on the most critical aspects associated with their business; and, finally, the fact that its implementation fosters a holistic, broad and integrated vision of organizational performance (Kaplan and Norton, 1995, Rosemann and Wiese, 1999, Johanson et al., 2006, Prieto et al., 2006). In fact, this process allows to understand the important relationship between the different goals and objectives of all the diverse stakeholders in the company, such as managers, customers and employees (Akkermans and Van Oorschot, 2018).

Also, according to Andersen et al. (2001), Valdez et al. (2017) and Fernandes et al. (2006), the BSC implementation both in micro, SMEs and large companies allows to determine the direction the company should follow, a deep acquaintance of the organization, the ability to focus and to prioritize and the agility to change whenever necessary.

Likewise, the BSC seems to be extremely important not only in defining indicators for the four different perspectives already mentioned, but also in the identification of skill gaps at an organizational level, given their complete nature, in accordance with Brandão et al. (2008), Prieto et al. (2006) and Rosemann and Wiese (1999).

3. The implementation processes

The development and implementation of a BSC is a time-consuming process and must follow appropriate procedures. Kaplan and Norton (1995) consider the following steps for their development: preparation, interviews with senior management, executive workshop (first round), interviews (second round), executive workshop (second and third rounds), implementation, and subsequently, periodic reviews. Since in the cases mentioned the process occurred in micro enterprises, companies in which the entrepreneur and manager were one and the same person, the process tended to be simplified (Andersen et al., 2001), having elapsed as described below.

Therefore, the BSC's development and implementation process advanced as follows: an initial meeting was held with the entrepreneur, manager or selected team to follow up the project, during which the entire procedure was explained and the implementation schedule was defined. After that, a timetable was issued, which was signed by all those involved in the process, and a weekly schedule for follow-up and progress meetings was also defined. This procedure occurred according to the aforementioned (Kaplan and Norton, 1995).

The following week a diagnosis of the company was elaborated, which was the starting point for all the work developed. In order to elaborate and to prepare this diagnosis, it was necessary to research, collect and gather all the information related to the company's strategy, which was later used as input in the first phase of BSC development: i) internal to the company: financial plan (if existent), marketing (if existent), balance sheets and income statements for the last 3 years, Simplified Business Information [Informação Empresarial Simplificada] for the last 3 years, quality improvement programs (if existent), customer analysis (sales evolution, margins, payment deadlines, economic and financial situation , etc.) and interviews with senior management; ii) external to the company: competitive analysis, trend analysis, technological evolution analysis, market share evolution, comparison with Banco de Portugal data and sector data (INE and Pordata); and iii) analysis of data of the largest competitors—their characteristics, positioning and analysis by market. After the diagnosis of the company was completed, a working session was held with the remaining employees of each of the companies, with the purpose of integrating them throughout the process, since it held great importance in the development of this instrument and, consequently, in the strategy of the company (Andersen et al., 2001).

Actually, one of the reasons that is pointed out for the failure to implement this instrument in SMEs is lack of involvement of the organization's employees (Rompho, 2011).

The following session had the objective of defining the strategic themes and should validate the following assumptions: there should be no more than 5 strategic themes; strategic themes are realistic and achievable by the organization; themes support and are related to strategic objectives; themes have a positive influence on the organization; themes give direction and impact to what is important; each theme is different; themes have a strategic scope, that is, they are valid for the duration of the context in which they are defined; the themes are consistent with the mission and the vision; the themes have an impact on the financial objectives of the organization.

The subsequent work sessions were aimed at building the mission and operational vision of the business strategy and, later on, at the development of the dashboard, which contains: i) the four distinct perspectives of BSC (Rompho, 2011, Davis and Albright, 2004, Johanson et al., 2006): financial, customers, internal processes, and innovation and learning; ii) the indicators, with their source and metric, for each of the perspectives; iii) the strategic objectives and the respective goals, defined annually and for a time horizon of 3 years; iv) the programs or activities to be developed, for each indicator and/or group of indicators; and finally, v) budgeting. The development of the dashboard took an average of 7 work sessions, of 4 hours each, in each of the companies under contract.

The following table shows some of the indicators defined by the companies, for each of the perspectives, for the construction of the strategic objectives.

Table 1: Indicators defined by companies

| Financial perspective | Customer perspective |
|--|--|
| Annual turnover | Overall customer satisfaction |
| Liquidity | Percentage of customers who would recommend the company |
| Gross margin | Percentage of customers viewing the company as a partner |
| Solvency | Return rate of major customers |
| EBITDA - Earnings before interests, taxes, depreciations and amortisations | Service award rate |
| Operating result | Number of new customers based on annual turnover |
| Net income | Increase in the number of new subscribers / year |
| Financial autonomy | Advertising turnover volume increase |
| Return on equity | Frequency of publication |
| Return on assets | Number of new customers |
| Results by business area | Number of visiting customers |
| Profitability by business area | |
| Internal processes perspective | Innovation and perspective |
| Number of orders to suppliers | Number of hours of training per year |
| Value of orders to suppliers | Employee satisfaction |
| Number of trips made for purchase | Employee stress |
| Inventory rotation | Evaluation rate of training effectiveness |
| Days of stock | |

| Internal processes perspective | Innovation and perspective |
|--|----------------------------|
| Implementation of Safety and Hygiene at Work Internal communication Timely conclusion/delivery of technical pedagogical dossiers National Authority for Civil Protection accreditation Definition of process phases Definition of the procedure in each phase Implementation of defined procedures Definition of the monitoring and control system System implementation Preparation of basic report (with indicators) to present to the bank | |

Source: Self elaboration based on information collected from the companies

All the processes were completed by August 2017, and the results were evaluated in March 2018, while the goals of the indicators were updated whenever it was necessary. In an interview with the businessmen, it was concluded that the implementation of this strategic management tool allowed each of the companies involved to define a set of activities that reinforced their presence in a more systematized and sustained manner in a competitive market, while allowing them to rethink their activity, in view of the endogenous and exogenous component of the organization itself. These perspectives were aligned with several researchers like Andersen et al. (2001) and Ravi et al. (2005).

Thus, the companies, after implementing the defined activities, rethought the internal processes inherent to the development of their activity, improved their results, increased the number of clients—in short, improved and reinforced their position in the market in which they operate or have strengthened their performance as well as their competitiveness.

Among other things, the BSC supports organizations to define, implement, maintain and improve proactive strategies to identify and solve internal problems, including financial, customer, and internal processes, as well as learning and development (Ravi et al., 2005, Johanson et al., 2006).

4. Discussion

This paper highlights the importance of the need for adequate strategic management in SMEs, as well as the scarcity of resources, usually human resources, of micro and small enterprises, which convey in the lack of adequate management procedures that would allow these companies not only to stay in the market sustainably but also to develop a growth strategy that would allow them to grow and thrive in competitive markets. In fact, authors like Singh et al. (2018) consider the performance evaluation crucial to competitiveness and to companies' sustainability.

Accordingly, through the participation of micro, small and medium companies in funded programmes, this gap is minimised, and entrepreneurs have access to knowledge transfer, provided by the consultants who intervene in the company, initiating a strategic framework and management thinking process, which otherwise would hardly happen, at least in the short term.

5. Conclusions

In general terms, the following results were achieved within the group of intervention companies: generation of higher value for entrepreneurs, increase in financial and investment capacity, growth in turnover, increase in customer numbers and customer loyalty, achievement of new customers and/or new markets, increase of market share, increase in profitability, increase of productivity, innovations in the production process (internal process), anticipation of the needs of target markets, increase of the number of training hours for human resources, and increased employee satisfaction.

The implementation of the project made it possible for companies to adopt practices that allow them to better adapt to the current competitive requirements, with the definition of new indicators, new goals and new activities that will allow them to consolidate their positions in the market. This idea was also shared by (Requeijo et al., 2018, Valdez et al., 2017, Bhagwat and Sharma, 2007, Rodrigues, 2018).

The improvement of the internal processes is also expected to be reflected in the increase in the number of clients, in a higher percentage of budgets awarded and, consequently, in an increase in the rate of growth of turnover, as well as in the increase of the number of clients. On the other hand, the planned training actions should enable human resources to achieve better satisfaction and motivation and, certainly, better performance and higher productivity.

Therefore, it is concluded that the development and implementation of the Balanced ScoreCard strategic management tool is a great asset for a more systematized and sustained development commitment, which will have repercussions in the future and will bring improvements not only in the short but medium time horizon, since the development of skills resulting from this cooperation has ensured a greater performance of companies and demonstrated that a growing increase in the respective organizational processes is possible, with clear advantages in terms of their performance in the market.

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