

BALANCED SCORECARD IN SMES: EFFECTS ON INNOVATION AND FINANCIAL PERFORMANCE

Dr. Purna Jain*

ABSTRACT

When a company assign priorities to its projects, products and services or wants to communicate its target or goal or wants to plan its routine activities, a balanced scorecard framework can be used which enables a company to measure as well as to monitor the success of its strategy used in its performance. In Indian economy micro, medium and small sector has emerged a very significant sector for all inclusive growth in term of employment generation, exports enhancement, inventions and innovations and balanced regional development. Historically it is said that BSC is useful for large sized industries but the benefits of adopting BSC in SMEs are same as in multinationals. By applying this strategy the owners of SMEs can monitor the performance and progress in real time basis and can take corrective actions at right time rather than waiting for the year-end financial results. This paper studies about the perspectives of Balance Score Card, SMEs in India and the effects of adoption of balanced score card in small and medium enterprises in India.

Keywords: *Balanced Score Card, Performance Measurement, Small and Medium Enterprises.*

Introduction

Every organization need a clear and concise framework for implementation of its objectives and collection of end results and this must be understandable to every level in the organization. The process that quantifies the efficiency and effectiveness of an action can be defined as performance measurement. This technique answers the following question:

What do we want to measure?

Why do we want to measure?

Balanced Score Card (BSC), Strategic Measurement and Reporting Technique (SMART), Performance Prism and Performance Measurement Questionnaire etc. are the new frameworks developed during the last two decades for measuring the performance of any organization. Out of these Balance Score Card is widely used framework.

Balanced Scorecard

When a company assign priorities to its projects, products and services or wants to communicate its target or goal or wants to plan its routine activities, a balanced scorecard framework can be used which enables a company to measure as well as to monitor the success of its strategy used in its performance. By pooling all type of information balanced scorecard enables companies to judge their shortcomings so that companies can come up with the plans to overcome with those shortcomings.

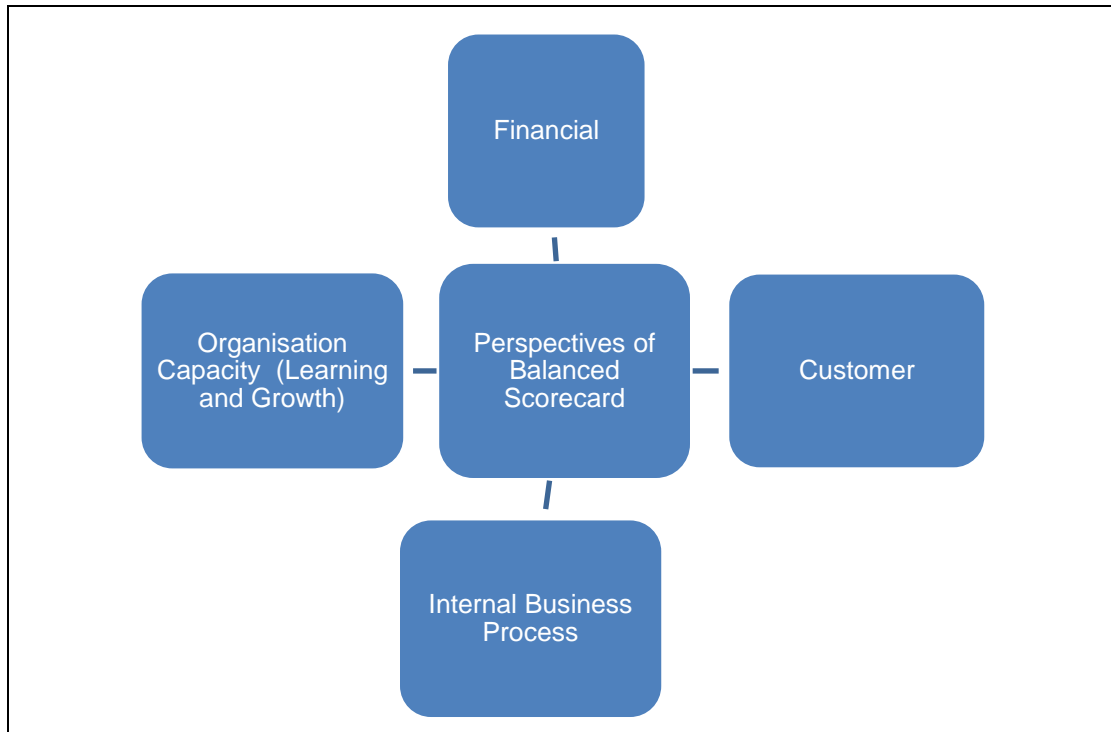
Developed by Robert Kaplan and David Norton in the early 1990s, in their book 'The Balanced Scorecard: Translating Strategy Into Action' this technique "creates future value through investment in customers, suppliers, employees, processes, technology, and innovation."

* Assistant Professor, Department of ABST, SPC Government College, Ajmer, Rajasthan, India.

The strategy used in designing the BSC makes a balance:

- Between external and internal measures,
- Between subjective and objective measures, similarly
- Between current results and future results.

Perspectives of Balanced Scorecard: Balanced Score card focuses on the following key areas:



Source: compiled from Kaplan, R. S., & Norton, D. P. (1992): "The Balanced Scorecard – Measure That Drive Performance".

- **Financial Perspective**

Shareholders, the providers of capital are the integral part of any organization. They continuously want improved profitability and new sources of revenue generation. Balanced scorecard's financial perspective decides the objectives, measures taken to achieve those objectives, targets achieved and further initiatives taken to enhance the profitability target for shareholders.

- **Customer Perspective**

This perspective enables company to judge itself from customer viewpoint as this perspective monitors value addition to customer and their level of satisfaction which ultimately affects the profitability.

- **Internal Business Processes Perspective**

This perspective of balance score card helps the organization in formulation of effective marketing strategies or in introducing innovations in internal business processes. This also helps in evaluating company's product or services, develop new product, reducing the timing of operating cycle, provide rapid response to understand customer segment, helps in product line change or cross sell or shift to another appropriate channel and suggests whether the product or services are as per the desired standard or not.

- **Learning and Growth Perspective**

This perspective evaluates the ability of the organization to change and improve for value creation and sustainability. The personnel working in the organization are required to improve their skill sets, apply new knowledge, align personal goals and increase productivity.

Goals, measures, targets and initiatives are decided for each of the above mentioned perspectives.

Table 1: Balanced Score Card-Strong and Weak Points

| | |
|----------------------|---|
| Strong Points | <ul style="list-style-type: none"> • Clarity of vision and strategy adopted • Consistent monitoring of strategy • Concentration on strategic, in the competition environment critical business objectives • Cross-disciplinary and hierarchy traversing communication process • Integration of performance measures for operational objectives at an appropriate level • Cause/effect relationships as instrument for management |
| Weak Points | <ul style="list-style-type: none"> • Lack of long-term commitment and leadership for management • Too many/few metrics – development of unattainable metrics • Lack of employee awareness or a failure to communicate information to all employees • Constructed as a controlling tool rather than an improvement tool • No relationships' quantification • Inappropriate to benchmarking • Does not express the interests of all stakeholders |

Source: Striteska & Spickova, 2012 "Review and Comparison of Performance Measurement Systems"

Micro, Small and Medium Enterprises in India

In most of the countries MSME are classified on the basis of working force but in India MSME sector is classified on the basis of investment in plant and machinery and equipment and on the basis of their annual turnover. Revised classification of this sector is applicable from 1 July 2020. If annual turnover of any manufacture or service providers is not more than Rs. 5 Crores and its investment in P&M and Equipment is not more than Rs. 1 Crores it comes in Micro Enterprise category. An enterprise falls in small enterprise category If its annual turnover not more than Rs. 50 Crores and its investment in P&M and Equipment is not more than Rs. 10 Crores. Medium enterprise is that enterprise in which the annual turnover is not more than Rs. 250 Crores and its investment in P&M and Equipment is not more than Rs. 50 Crores.

Table 2: Classification of Micro, Small and Medium Enterprises in India

| Enterprises | Micro | Small | Medium |
|-----------------------------------|--|---|---|
| Manufacturer or Service providers | <ul style="list-style-type: none"> • Annual turnover- Not more than Rs. 5 Crores • Investment in Equipment's or in plant and machinery- Not more than Rs. 1 Crores | <ul style="list-style-type: none"> • Annual turnover- Not more than Rs. 50 Crores • Investment in Equipment's or in plant and machinery- Not more than Rs. 10 Crore | <ul style="list-style-type: none"> • Annual turnover- Not more than Rs. 250 Crores • Investment in Equipment's or in plant and machinery- Not more than Rs. 50 Crores |

Source: msme.gov.in

In Indian economy micro, medium and small sector has emerged a very significant sector for all inclusive growth in term of employment generation, exports enhancement, inventions and innovations and balanced regional development. Contribution of this sector can be summed up as follows (Annual Report, Ministry of MSME 2018-19 & 2019-20):

- 45% of total production comes from this sector
- 40 % of the total exports are done by this sector
- 7.09% of GDP comes from Manufacturing segment of MSME
- 29% of total GDP
- Provides job opportunity to around 11.3 crore people.

Balanced Score Card in SMEs

In this competitive era SMEs also need to innovate, improve productivity and need strategy for sustainable development. The benefits of adopting BSC in SMEs are same as in multinationals. Some of them are as follows:

- In small business key decision and necessary actions can be taken promptly as management of ten people is easy rather than on thousands, so targets, objectives and actions to be taken framed in BSC can be implemented easily.

- By applying this strategy, the owners of SMEs can monitor the performance and progress in real time basis and can take corrective actions at right time rather than waiting for the year-end financial results.
- By making strategy map SMEs can outline cause effect relationship between its various objectives which improves strategic planning of Companies.
- In BSC approach all plans are framed on one page which helps SMEs to communicate its strategies easily both internally and externally.
- Financial performance in SMEs can be increased if the firms concentrate on increasing revenue, doing operational improvements and reducing transportation cost.
- Improvements using customers' perspectives can be done if SMEs continuously take feedback from customers, measures customers' retention and their satisfaction. Target market area can also be increased to enhance customer base.
- Internal process perspective suggests SMEs to concentrate on stores management, attending fairs and exhibitions for knowledge of market demand, adoption of new technology etc.
- In BSC learning and growth framework more attention is paid on operations and human resources. Motivation and training improve the productivity of SMEs.

Conclusion

In this competitive era SMEs also need to innovate, improve productivity and need strategy for sustainable development. The benefits of adopting BSC in SMEs are same as in multinationals. In short it can be concluded that implementation of Balanced Score Card methodology in both large and small companies is beneficial. In small business key decision and necessary actions can be taken promptly as management of ten people is easy rather than on thousands, so targets, objectives and actions to be taken framed in BSC can be implemented easily. But for some extent due to the formalities needs and complex framework small companies are not using this framework in general.

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