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Strategic Performance Management in Small and Medium-Sized Enterprises: A Balanced Scorecard Framework

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Abstract. Small and medium-sized enterprises (SMEs) often define strategic priorities in terms of growth, profitability, or customer retention, but these priorities can be difficult to translate into decisions about daily operations. This article examines how SMEs can use an adapted Balanced Scorecard to connect strategic objectives with performance indicators, managerial responsibilities, and corrective actions. The study uses a conceptual synthesis of selected literature and applies the resulting framework to a hypothetical manufacturing enterprise seeking to improve delivery reliability while protecting profitability. The example integrates financial, customer, internal process, and learning indicators. It demonstrates how managers can interpret a missed performance target by reviewing related indicators and investigating possible causes before allocating resources. The article proposes that a scorecard can support strategy implementation when each measure has an accountable owner, a defined method of calculation, and a clear role in management reviews. The framework provides a basis for empirical research on how SMEs use performance information to implement and revise their strategies.

Keywords: strategic management, balanced scorecard, performance measurement, strategy implementation, key performance indicators

I. Introduction

Small and medium-sized enterprises (SMEs) often express their strategies through broad priorities such as increasing sales, improving profitability, retaining customers, or strengthening operational efficiency. Translating these priorities into specific responsibilities and actions can be difficult. A manufacturing enterprise that aims to retain customers, for example, must determine which aspects of its service influence repeat purchasing. If customers frequently receive orders late, the problem may originate in production scheduling, material availability, or unrealistic delivery dates promised during order confirmation. Each explanation calls for a different response and involves different employees.

Financial reports provide an account of completed activity and help managers assess whether the enterprise is meeting its economic objectives. Operating indicators serve a complementary purpose by showing where performance is beginning to change. For example, a decline in production schedule adherence can alert managers to potential delivery problems before those problems appear in customer complaints or lost sales. Reviewing operational and financial indicators together also helps managers identify trade-offs. An enterprise may improve delivery performance by using overtime and expedited shipping, while the additional costs reduce the contribution earned on each order.

The Balanced Scorecard provides a framework for relating financial results to customer outcomes, internal business processes, and organizational capabilities. Kaplan and Norton (1992) introduced these perspectives to broaden the information managers use when assessing performance. In an SME, the approach can be applied to one strategic priority using a set of measures that the enterprise can collect and review consistently. This is

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particularly relevant when the same individuals are responsible for operating decisions, staff supervision, and performance reporting.

The research question is how can SMEs use an adapted Balanced Scorecard to translate strategic objectives into measurable actions and guide corrective decisions? The article develops a framework linking strategic priorities to performance indicators, managerial responsibilities, and review procedures. A hypothetical manufacturing case demonstrates how the framework can be used to investigate delivery problems while monitoring profitability.

II. Literature Review

Kaplan and Norton (1992) organize the Balanced Scorecard around four perspectives. The financial perspective examines outcomes such as revenue, profitability, and cost efficiency. The customer perspective focuses on aspects of performance that matter to customers, such as delivery reliability and service quality. The internal process perspective examines the activities that contribute to those outcomes. The innovation and learning perspective considers the capabilities an enterprise needs to maintain and improve its performance.

The perspectives become operationally useful when their indicators are linked to a particular strategic objective. For example, a firm seeking to improve delivery reliability might track whether production orders finish on schedule, whether employees can cover critical production tasks, and whether better delivery performance is achieved within acceptable cost limits. Each measure answers a different question about the same objective. Together, they allow managers to trace a result back to the processes and capabilities that may have influenced it.

The relationships among the measures can be treated as assumptions for managerial review. Cross-training may improve production flexibility if trained workers are available on the shifts where bottlenecks occur. Better production scheduling may improve delivery reliability if dispatch and transport capacity can accommodate the resulting order volumes. Even when the indicators move in the expected direction, managers can examine order records and operating conditions before attributing the improvement to a specific initiative.

Hudson et al. (2001) examine the suitability of strategic performance measurement processes for SMEs. Garengo et al. (2005) review the literature on performance measurement systems in SMEs and emphasize the importance of organizational context. This research supports adapting the scope and design of a scorecard to the enterprise's resources, management structure, and information systems.

For an SME, maintaining an indicator involves staff time, reliable records, and an agreed definition. Consider a firm that measures on-time delivery. If a sales employee updates the promised delivery date whenever an order is delayed, the reported delivery rate may improve even though customers continue to wait beyond the original commitment. Recording changes to delivery dates allows management to distinguish customer-requested amendments from delays caused by the enterprise. The indicator can then support a decision about whether to improve order confirmation, scheduling, or dispatch.

The frequency of measurement should also reflect how quickly management can act. A production supervisor may need to review incomplete jobs weekly, while the finance manager may review gross margin monthly. The scorecard can bring these measures together at a management review without requiring them to be calculated on the same schedule. This keeps the reporting effort proportionate to the decisions each measure supports.

III. Research Approach

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The article uses a conceptual synthesis of selected literature on the Balanced Scorecard and SME performance measurement. The synthesis examines three aspects of strategy implementation: how strategic priorities can be translated into operational objectives, how those objectives can be represented by indicators, and how managers can use the resulting information to investigate deviations and assign actions. The strategic objective serves as the unit of application. An enterprise may therefore develop different indicator sets for objectives such as improving delivery reliability, retaining customers, or reducing rework.

Four questions guide the design of the framework. What outcome does the enterprise want to achieve, and within what period? Which processes or capabilities could influence that outcome? What data would allow managers to observe progress? Who can investigate deviations and implement corrective action? These questions connect the design of the scorecard to the decisions managers make after reviewing it.

A hypothetical manufacturing case is used to demonstrate the framework. The analysis first links a delivery objective to measures across the four perspectives. It then examines how management might interpret a combination of improving and stagnant indicators. The baselines, targets, and interim results are illustrative. They provide a basis for discussing the application of the framework, whose effectiveness requires empirical assessment.

IV. Results

1. A Balanced Scorecard Framework For Smes

The framework begins with a strategic priority expressed as a measurable outcome. An objective such as improve customer service may lead different teams to focus on response times, product quality, or delivery reliability. Specifying increase on-time delivery within six months while maintaining gross margin gives the enterprise a common basis for choosing indicators and reviewing progress.

The second stage identifies the processes and capabilities expected to influence the objective. Managers can work backward from the customer outcome to determine where delays occur and what the enterprise can control. If late deliveries are associated with production interruptions, the relevant drivers may include material availability, equipment reliability, or staffing flexibility. Selecting indicators around the most plausible drivers gives the scorecard a defined scope and creates a basis for revising it when new evidence becomes available.

Table 1. A Balanced Scorecard Framework for SMEs

Stage	Management activity	Expected output
1. Define the strategic priority	Specify the desired outcome, time horizon, and any financial or operational condition that must be met.	A measurable strategic objective
2. Identify the expected drivers	Identify the processes and employee capabilities that could contribute to the objective.	A set of assumptions to examine during implementation
3. Select indicators and assign responsibility	Set a definition, baseline, target, data source, reporting frequency, and owner for each indicator.	A scorecard that can be maintained and interpreted consistently

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Stage	Management activity	Expected output
4. Review results and agree on actions	Investigate material deviations, assign corrective actions, and set a date to review their effects.	A record of decisions, responsibilities, and follow-up results

The review process links measurement to action. A missed target gives management a reason to check the quality of the data and investigate plausible causes. If schedule adherence falls, the production manager can review delayed jobs by cause and estimate how much of the shortfall is attributable to material shortages, equipment downtime, or staffing constraints. Management can then select an action, assign responsibility, and specify what evidence would indicate that the intervention is working.

The scorecard can also be revised as the enterprise learns more about its operations. If a driver proves relevant only to certain product lines, the firm may track it at that level. If a measure regularly enters the review without informing a decision, management can reconsider its definition or its connection to the strategic objective.

2. Application To A Manufacturing Sme

Consider a manufacturing SME that receives recurring orders from wholesale customers. Some orders are delivered after the dates originally promised, creating complaints and requiring additional communication between sales and production. Management establishes a six-month objective to increase on-time delivery from 82% to 94% while maintaining a gross margin of at least 22%. It selects four indicators to track the customer outcome, the production process, staffing flexibility, and the financial condition attached to the objective.

Table 2. Application to a Manufacturing SME

Perspective	Indicator	Baseline	Six-month target	Responsible manager
Financial	Gross profit as a percentage of net sales	22%	At least 22%	Finance manager
Customer	Percentage of orders due in the period delivered by the original promised date	82%	At least 94%	Sales manager
Internal processes	Percentage of production orders due in the period completed by the scheduled date	76%	At least 90%	Production manager
Learning and growth	Percentage of operators qualified to perform at least two critical tasks	40%	At least 70%	Operations manager

The initial assumption is that cross-training will give supervisors more flexibility to reassign operators when staffing shortages occur. Greater flexibility is expected to improve schedule adherence and, in turn, reduce late deliveries. The firm tracks gross margin because frequent overtime, subcontracting, or expedited freight could make improved delivery performance costly to sustain.

Suppose that by the end of month three, cross-training coverage increases from 40% to 62%, while production schedule adherence advances from 76% to 78%. The difference between the two movements gives management a specific issue to investigate. Supervisors

can examine whether cross-trained staff were deployed where shortages occurred and whether the delayed jobs had the required materials available when production was scheduled to begin. If the most common cause is missing components, purchasing and production staff can introduce a joint material-availability check before releasing affected jobs. Management can then monitor delays attributable to missing components as well as overall schedule adherence.

The review also considers financial and customer outcomes together. If on-time delivery approaches its target while gross margin falls below 22%, the finance manager can examine changes in production costs, subcontracting, sales prices, and product mix. The results can help determine whether the margin decline is associated with the measures used to accelerate delivery or with other changes in the business. If expedited freight contributed to the decline, for example, managers can compare its recurring cost with the cost of improving production and dispatch planning.

V. Conclusion

An adapted Balanced Scorecard can help SMEs translate a strategic priority into operating measures and use those measures to guide corrective decisions. The framework proposed in this article links a measurable objective to expected drivers, assigns responsibility for each indicator, and uses management reviews to investigate deviations and track actions. Its practical contribution is to make the assumptions behind a strategy visible enough for managers to examine and revise.

The manufacturing example shows how the same review can identify a problem in implementation and reveal a trade-off between objectives. Increased training coverage can coexist with limited progress in production scheduling if delayed jobs are primarily affected by material shortages. Improved delivery reliability can also coincide with lower profitability if the enterprise relies heavily on costly interventions. Tracking these outcomes together helps managers identify which changes address the underlying problem and whether those changes can be sustained.

The framework is conceptual, and the case uses hypothetical data. Future research could follow SMEs during implementation and examine changes in the time between detecting a problem and assigning an action, the proportion of corrective actions completed, and progress toward strategic targets. Comparisons across sectors and firm sizes could help determine which approaches to indicator selection and review are broadly applicable and which depend on the enterprise’s operating context.

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