Implementing strategically aligned performance measurement in small firms

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Abstract

This paper investigates the potential for improving the implementation of strategically aligned performance measurement (PM) in smaller firms. It identifies structural and cultural characteristics that typify smaller firms and examines the PM literature to investigate implementation difficulties and whether they can be overcome through an alternative development process. An empirical study examines the implementation of strategically aligned PM in two small firms, using a process designed to overcome the difficulties that arise in this environment. The paper concludes that the current focus on achieving balanced PM systems is less critical in small firms and the key aim should be instead to stimulate strategically aligned improvement.

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1. Introduction

The concept of strategically aligned performance measurement (PM) was developed from the many criticisms levelled at traditional, financially focused PM systems in the 1980s and 90s (e.g. Kaplan, 1983; Eccles, 1991; Ghalayini and Noble, 1996). This led to the development of a number of processes and frameworks which aim to link financial and operational measures to stakeholder requirements and align these with the overall strategy of the business (Kaplan and Norton, 1992; Lynch and Cross, 1991; Neely et al., 1996; Ghalayini et al., 1997). The purpose of this was to enable businesses to reduce their reliance on purely financial measures and drive performance towards the achievement of their strategic objectives. However, the majority of these approaches were designed and tested in, and for, large companies. Research has demonstrated that there can be considerable difficulties in implementing these methods effectively and that difficulties are particularly prevalent in smaller firms (McAdam, 2000).

Using examples from the literature, this paper explores the structural and cultural characteristics of small and medium sized enterprises (SMEs). It then tests a development approach which was designed specifically for use in SMEs, through an empirical study. The aim of the study is to establish whether it is possible to use this approach to
develop strategically aligned PMs in SMEs, through
the ability to work within the cultural and structural
constraints of this sector.

2. SME characteristics

It is well documented that SMEs exhibit different
characteristics from larger organisations. These
differences are commonly perceived as being a
consequence of the structural and cultural environ-
ment that these firms operate in. To explore the
cultural and structural characteristics of SMEs
adequately, an analysis of the literature was under-
taken, examining SMEs from three perspectives:
Organisational Environment, Competitive Environ-
ment and Management Practices.

3. Organisational environment

The most widely acknowledged factors that
distinguish SMEs from larger companies relate to
the organisational environment in which they
operate, which is largely defined through the
underlying organisational culture. Schein (1985)
defines culture as “a pattern of basic assumptions—
invented, discovered, or developed by a given group as
it learns to cope with its problems of external
adaptation and internal integration”. According to
Cameron and Quinn (1999), there are four basic
types of organisational culture:

- hierarchies, which focus on formalising proce-
dures and ensuring a coherent and well-coordi-
nated business structure;
- market culture, where the major concern is with
results and remaining competitive;
- clan culture, which emphasises the need for
teamwork and high staff morale; and
- adhocracies, which are flexible, dynamic and
willing to take risks to succeed.

The literature reveals that SMEs are most closely
aligned with the adhocracy model, as they are
considered to have flat structures with few manage-
ment layers, be flexible and adaptable to changing
market needs and have a high potential for
innovation (Ghobadian and Gallear, 1997; McA-
dam, 2000; Yusof and Aspinwall, 2000b; Wiklund
and Wiklund, 1999; DTI, 1994; Jennings and
Beaver, 1997; Burns, 1996; Guneseckaran et al.,
2000). However, the ability to operate effectively
within a culture of adhocracy may be restricted by
the fact that SMEs are also seen as suffering from
“resource poverty” (Welsh and White, 1981), both in
terms of human resources and financial stability and
security (Abdul-Nour et al., 1998; Pelham, 1999;
Wong, 2005).

There is little evidence of hierarchical culture
within the SME environment, as it is commonly
noted that SMEs are loosely structured, with
informal operating practices and a lack of bureau-
cracy (Jennings and Beaver, 1997; Hyvarinen, 1990).
However, there are certain characteristics which
 correlate closely with aspects of clan culture,
including the fact that there can be a high degree
of personal authority among staff and management
who are visible and involved in the operations of the
company (Storey and Sykes, 1996; Jennings and
Beaver, 1997). Unfortunately, there are also recog-
nised skills shortages amongst staff, along with a
deficit in management expertise (McAdam, 2000;
Curran, 1987; Huang and Brown, 1999) and with
highly personalised, authoritarian management
styles common (Storey and Sykes, 1996; McAdam
et al., 2004).

4. Competitive environment

SMEs are considered to be flexible and adaptable
to market changes (Ghobadian and Gallear, 1997;
Yusof and Aspinwall, 2000b). This responsiveness is
generally viewed as a positive characteristic and
suggests that there is some correlation of SMEs to
the market culture model. However, the root
cause of this attribute is that SMEs often have
only a limited overview of the markets in which
they operate, leading to a lack of control over their
competitive position (Wiklund and Wiklund,
1999; Huang and Brown, 1999; Pelham, 1999).
They are unable to drive the market, but instead,
must react and adapt to market changes over which
they have no influence (Burns, 1996; Storey and
and Whitney (1999), this suggests poor organisa-
tional configuration, which is detrimental to sus-
tained competitive advantage. Configuration is
defined as “making choices about what a company
will do and how it will do it, and...ensuring that the
things a company does reinforce each other”. They
argue that the lack of a focused competitive strategy
is one of the key causes of poor organisational
configuration.

However, the problem of organisational config-
uration is not just restricted to understanding
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