

STRATEGY COMPETENCES AND PERFORMANCE MEASUREMENT IN THE HUNGARIAN SMES SECTOR

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ABSTRACT. Small and medium-sized enterprises (SME) are potentially the most dynamic sector of the economy. SME represent 99% of all companies in the EU. They are the biggest sector of the EU economy, with 23 million enterprises employing around 75 million people. These small organizations are responsible for the creation of one in every two new jobs. SME produce considerably more than half the EU's GDP. Their growth is key for the overall economic well-being. The European countries have several programs and measures in place to promote SME growth. But how do they think about their potential and their future?

This paper focuses on factors affecting the growth and performance of small and medium enterprises (SMEs). The aim was to identify strategic factors differentiating young and long-lived growth SMEs and find out the coherency with performance. A comparison of the two fields shows an interesting picture in the Hungarian SMEs sector. The results suggest that the organization structure and the applied leadership methods exercise an influence on SME growth strategies. The results increase our understanding of the factors affecting SME growth and performance in two different contexts.

This paper draws on survey and interview material, from research with entrepreneurs in small and medium-sized enterprises (SMEs) to examine the process of entrepreneurship and entrepreneurial competences in SMEs. Underlining two main business fields: cost management and performance management. This paper reviews the contribution of cost accounting and strategy thinking, which, it is argued, have been developed for large firms rather than SMEs. More appropriate theories are examined from fields that accepted the impact of uncertainty and dynamics in decision-making, such as performance prism to learning and development. Case study evidence is presented on the nature of entrepreneurial behaviour in growth SMEs and compared with theories in the literature.

Keywords: Entrepreneurship; firm performance; firm strategy; small and medium enterprises

JEL Classification: L25, L26, M21

Introduction

During the adjustment process to the flexible business environment the members of the SMEs sector face many difficult tasks. Enterprises must monitor their business by aligning performance measures with the critical success factors they have identified. Again, the process view allows them to establish metrics for

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measuring and monitoring the important elements of performance. Sometimes it will be almost impossible, if the stakeholders do not defined, or there is no vision and a strategic concept. In the interviews I try to make it clear, that the versatility of the entrepreneur or the financial rates play bigger role at the success of these firms. They need to create a new management information system, in which the cost information must support the strategy. Whether the company's strategic focus is quality, close-to-the-customer, time-based competition, or something else, the leaders need good information to back their decisions. Lacking good information, they cannot reach the strategic goals. Acquiring good cost information is the fundamental power that Total Cost Management provides.

Recent research has shown that clear links between an organisation's approach to strategic planning and its business performance exist in small as well as in large organisations (Ernst & Young 2000, Davig et al. 2004).

Improved strategic management processes may also facilitate the development of the more complex management structures that are needed as small firms grow (Miller 1959, Atkins & Lowe 1997).

A popular tool used to support strategic management activity in large firms is the Balanced Scorecard. To date, reported activity to deploy management systems that are based around use of Balanced Scorecards has focused on large, multi-national, multi-divisional firms (e.g. Mobil, Cigna, AT&T, Motorola).

This paper discusses, from a practitioner point of view, the potential merits and feasibility of deploying vision and strategy thinking methods and Performance Prism as a performance management system in SMEs as well as the way in which use and value may differ between its application between large and small enterprises.

Neither comprehensive literature nor empirical research exists on the topic of Balanced Scorecard or Performance Prism in SMEs. Therefore, the arguments presented in this paper are based on a combination of general literature research on Performance prism, SMEs, strategic management and corporate planning combined with the authors' broad practical experience of facilitating performance measurement systems and implementation projects in large and some smaller organisations.

The first part of the study treats of the basic relations of the model of the research, such as: the growing strategy of the enterprises, the relationship of the management and the owners, the hesitancy of the decision-making and defining the competences. The most significant model of the research is the performance-prism model, so it is introduced more explicit.

In the end, besides the introduction of the most important results of the research, I attach importance to conceive a few suggestions for SMEs leaders on the score of practical aspects and applying the knowledge from the personal interviews.

1 The nature of small business

The small and medium-sized enterprises (SMEs) have special characteristics from several approaches. Basically these kinds of organizations are not well-structured, in most cases the skill and the management tasks are not separated clearly. Most of

the SMEs couldn't be price-leaders that mean the cost management can be the only way of growing competitiveness. Moreover, the value-processes of the production, flexibility to the markets, and driving and control mechanism are also different from the bigger companies' practice.

Much work has been done to identify ways in which management practice in small and medium-sized enterprises (SMEs) differ from larger ones. Two linked areas of comparison have been differences in organisational structure, and differences in management processes. SMEs (particularly small ones) have been characterised as being typically "simple structures" or "simple systems" in which the leader (often the entrepreneur or owner-manager) directs the work of a small number of operators with the help of few or no other managers. At around 100 staff, this type of approach begins to become inefficient, and by the time the enterprise has about 500 employees some sort of hierarchical structure has been introduced – most commonly introducing a layer of managers each tasked with management of a functional area of activity. As the organisation grows, further structure changes occur driven by the increasing problems of communication and co-ordination. It has been observed that the points of transition between organisational forms present or represent particularly risky periods for the enterprise, during which enterprise failure is not uncommon (Mintzberg 1981). Coordination in small organisations mainly happens through direct instruction and supervision, minimising the need for formal management (i.e. planning and control) processes. Many see this as a key strength of the smaller enterprise, since by avoiding extensive standardisation and coordination, and the associated need for support staff and line-management; small firms maintain their flexibility, responsiveness and low cost structure (Miller 1959, Mintzberg 1981)

The main question is how to safeguard the benefits of the Simple Structure. Flexible, responsive and low-cost structure often seen as a key competitive advantage for SMEs.

Simple Structures characterised by:

- Workforce often being directly managed by entrepreneur or owner-manager
- Few or no other managers
- Management through direct instruction and supervision

Strategic focus and communication ought to be easy in the Simple Structure

- Yet lack of management attention to strategic issues is seen as typical route cause to SME failure or poor performance

In Porter's classification the big firms used to follow-up the cost leadership strategy because of economic of scales. In case of small companies we can meet with differentiation and focus strategy more often. "From the middle of '80s something must be changed." According to a survey, made by Datamonitor the cost-cutting is the most important for the SMEs all over the Europe [Bodnár, 2004].

This multi-country research included 19 country from Europe and middle east. The result shows, that the most of the answerers signed the cost-cutting to achieve better competitiveness (53%), and far behind tie for the second place: unify the informatics environment (34%) and improving the internal cooperation (34%). The fourth was the increasing the managers information attendance (24%), and the rest of priorities can be found the improvement of external cooperation (18%), increasing the sales and market share (17%), and follow up the industrial standards and law (13%).

After the serious recession is so hard to be recover themselves the SMEs. Many of them can only survive this period with tighten the purse-strings on the field of basic activities, informatics and number of employees. Some of them confess they save money the detriment of quality and customer services. Summarized the SME sector try to take advantage of cost-cutting activities rather than follow a differential strategy.

2 Concept of Performance measurement and strategy thinking

First of all let see the key points of our model:

Alignment of strategies, processes and capabilities: Strategies, processes and capabilities need to be linked to each other in order to understand how they fit together towards satisfying stakeholders and organisation's wants and needs. It is critical to ensure that they are aligned and integrated with one another if the organisation is to be best positioned to deliver real value to all of its stakeholders

Measures: Key message is that we need to question constantly what is measured. Keep asking these questions: Do we need it? Why do we need it? We need to evaluate constantly whether or not the measures we have are the right ones for the organisation. And if not we need to find a way to get rid of them so that we do not waste time and effort capturing data that no one is using. In short, we need to practice 'metricide' (i.e. do not let any measure persist beyond its natural and useful life!).

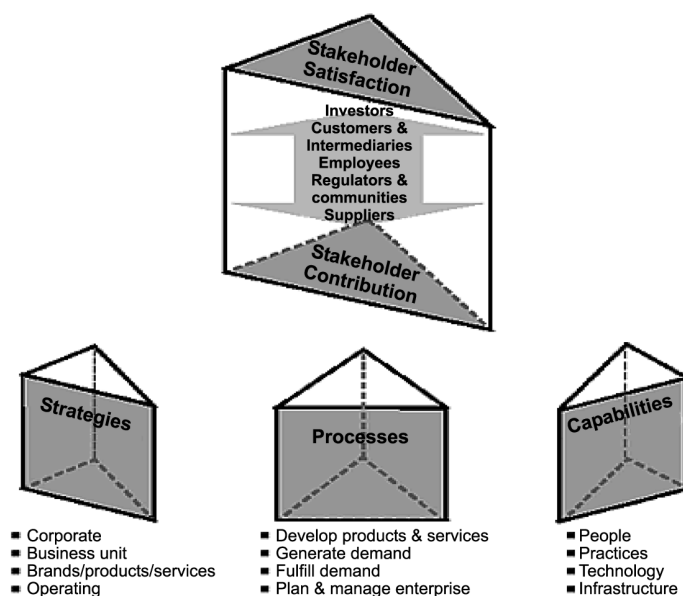
In this research a "quasi" Performance Prism model was tested: strategy, the process and cost management tools, and the main point of stakeholders contributions and satisfactions. Of course, there are many of indicators could not be interpreted in this sector, but the main principles and some of the basic indexes can.

What is performance prism? There are five interrelated perspectives in the Performance Prism framework. [Neely, 2002]

– First perspective: Stakeholder Satisfaction:

Organisations exist to deliver 'value' to their key stakeholders. Stakeholders will include, for instance, investors, customers, employees, suppliers, regulators, pressure groups et al.

1st Figure: The Performance Prism



Source: Adams *et al.* (2001)

‘Value’ will be defined by and be different for different stakeholder groups e.g. customers typically will want rapid and reliable delivery of high quality products and services that offer good value for money whereas employees will want such things as competitive compensation packages, training and development, and promotion prospects whilst shareholders will be more concerned with return on their investment and the profitable growth prospects of the organisation relative to its competitors.

In effect, organisations and their stakeholders have to recognise that their relationships are reciprocal

– Second perspective: Stakeholder Contribution

It must also be remembered that for every stakeholder there is a *quid pro quo*: what the organisation wants and needs from stakeholders as well as what the stakeholder wants and needs from the organisation.

There is a dynamic and subtle tension between the two sets of wants and needs. For example, whilst customers require ease of availability, speed of delivery, competitive price and quality, the organisation would like them to be loyal and profitable. Similarly employees would like to have jobs that give them purpose, good compensation, promotion prospects and training whilst employers are looking for loyalty, flexibility, productivity, and creativity.

– Third perspective: Strategies

Having first decided what respective stakeholders' wants and needs are, executives must then decide whether and to what extent they will prioritise their satisfaction in the strategies which the organisation develops to deliver the requisite stakeholder 'value' (whilst also ensuring that its own requirements are satisfied too). Delivery of long term stakeholder value can be viewed as the 'destination' whilst strategy can be viewed as the chosen route to achieve that destination.

– Fourth perspective: Processes

The chosen strategy must be underpinned by processes aligned and designed to facilitate its successful achievement. Processes are what make the organisation work (or not, as the case may be). They are essentially cross-functional and represent the blueprints for what work is done where and when, and how it will be executed. Many organisations consider their highest level business processes in four separate categories: development of products and services, generation of demand for them, fulfilment of demand for them and overall planning and management of the enterprise with each category underpinned by a variety of sub-processes.

– Fifth perspective: Capabilities

Processes cannot function on their own. They need people with certain skills, some policies and procedures about the way things are done, some physical infrastructure for it to happen and some technology to enable or enhance it. These are capabilities which can be defined as the combination of an organisation's practices, technology and infrastructure that collectively represents that organisation's ability to create value for its stakeholders through its process operations.

The message of the Performance Prism is that in order to survive and prosper in an increasingly complex and connected world, executives have to:

- Understand both what their various stakeholders want and need from the organisation and also what the organisation needs from them.
- Link and align their strategies, processes and capabilities to satisfying those diverse sets of wants and needs so that they can deliver value to their stakeholders.

'Success Mapping' is posited as a useful technique that helps to facilitate the alignment of strategies, processes and capabilities with the delivery of stakeholder satisfaction and contribution. The objective of a success map is to identify the critical links between the prioritised stakeholder's and the organisation's wants and needs with the strategies, processes and capabilities that must be in place in order to satisfy them. A 'Failure Mode Map' can be used which can check whether all the critical aspects of performance measurement have been properly addressed – in effect a reverse approach to success mapping by identifying particular scenarios that describe the opposite of success i.e. failure.

2.1 The research theme

Present research focuses on measuring and estimating performance which combines accounting and management science. Defining the corporate performance is a very complex task and used in several sciences in many ways. It is important to emphasize that I was studying only organisational performance, but disregarded individual performance.

In the course of empirical exploration the existence of different cause and effect contextures were analyzed in relation to contingency factors, like strategy management and cost control, that define performance and its determinants. Moreover the other question is if there are manager methods used in big enterprises which can be adapted to smaller ones.

The research proposed a trial goal: on the one part it resumes the relevant literature in connection with measuring and estimating efficiency and performance so as the international writers and even the history of the Hungarian researches. On the other part it tests the developed performance-measuring model empirically. In the course of the empirical research I used both qualitative and quantitative methods. Thirdly, along resuming the results I phrased recommendations for SMEs managers that can facilitate a more efficient operating, reaching the performance-goals easier and building up a performance-management. (Cooper, 1993, Davidsson 1991)

Questions of the research

The fundamental questions of the research were motivated by the recognition of the connection and the interaction between the strategy, the cost-management and the performance.

1. Which are the general characteristics of the process of the SMEs' strategy-creation? Which are the critical success factors? How the competences of their enterprises are esteemed by the managers? And how can they translate these competences into the strategic goals?
2. How are the cost-accounting systems built up? How the elements of the cost-management change owing to the expected and the attained results? Do the external or the internal context elements have remarkable former effect on these systems?
3. How are the decisions of the management influenced by the performance and the attained results? How are the internal business practices influenced by the process of estimating performance and planning? How does the attained performance bear upon the strategy of the firm?

Important assumption that the determined strategic goals, the cost-management goals and the expected performances are well-definable, measurable and appraisable exactly. In turn it is very important, that the connection between the performances and the strategy is bilateral and not a merely cause or effect.

This present paper attends to the estimation of the competences, the definition of the performance and the connection between them.

Methodology of the research

As I feel interest towards enterprise-economy and working as an economic-consultant it was essential that the research would contain practical elements besides the theoretical contextures and models. However it is stateable that in science philosophical regard the research is objectivist and reckons among normative researches, it was plain that the dissertation cannot be only descriptive but it has to contain and analyse desirable solutions. First the literature has given answers to the questions. On the one hand the aim was to turn out how the theories approach to the theme of the research, on the other hand to ascertain if there were former researches and if yes what kind of results they had conducted. Along with exploring the literature I also used my experience as a business consultant to frame the theoretical general-model and make up the hypotheses can be accounted for. The next period was the investigation and the induction of the data. I also tried to answer the questions of the research as an outsider, describing and explaining that in practice what, how and why things happen. To achieve the goal I used three methods: first I did a survey method with 600 pieces of samples, then I used single- and multivariate mathematical and statistical analysis on the received answers. According to the results the next step was the estimation of the hypotheses. Accessorily to the survey method I made personal interviews with SMEs' managers to disclose the non-numerical data's. This interview made an opportunity to a deeper reconsidering of some hypotheses. On the third period I re-weighted the results, by my acquired knowledge as a consultant, to give better and useable proposals and to get further research projects.

As a starting-point I take such an approach of the strategy management which partly or fully can be adapted to SMEs. Besides the foreign literatures several Hungarian writings about performance measuring and estimating established this research. Within the frame of this article I am not in the position to introduce all the remarkable authors and their theories, but the following authors' works affected the research: Robert N. Anthony, Robert S. Kaplan, Robert Simons, Davit T. Otley and Andy Neely and last but not least the Hungarian colleagues: Anna Francsovcics, Viktória Bodnár, Ágnes Wimmer and László Lázár. These authors' thoughts formed the basic model which helped discovering the practice of the SMEs' strategy, cost management and performance measuring or rather studying such methods which are used as a routine at larger companies.

Beyond the performance management the research touches upon the everyday practice of the cost management with the above mentioned aim if there is a possibility for the SMEs to use these methods also at a smaller enterprise. However I cannot treat this subject fully in this paper, but knowing the results I can assert more established statements about the connection between the strategy and the performance.

3 Competences and vision in growing SMEs (results)

Man and Chan [2002] separated six entrepreneur competences, in which they observed typical attitudes.

- Opportunity competencies: the ability to react quickly to new business opportunities. The small firms can reorganized themselves easily or make a new organization.
- Relationship competencies: it means the interaction of people or groups founded on cooperation, communication and trustfulness. The intensity of communication is possible not only in the internal channels but to the external stakeholders (supplier, customers) as well. The face to face relationships are one of the biggest advantageous of small organizations.
- Conceptual competencies: based on innovation capabilities. Now we think about knowledge elements like decisions making systems, information technology, risk taking behaviour. The SMEs can overtake the bigger competitors because of faster adaptation, flexible company management and more efficient internal communication.
- Organisational competencies: The small companies basically not artificially chop, and their legal entities also support the flexible management. Often the manager, and the owner is the same person, they have no impression from shareholders.
- Strategic competencies: SMEs are not infected with classic and bureaucratic methods of strategy making. They focus on market gaps, knowledge potential and innovation opportunities. If they be able to use leverage they become strong middle size enterprise
- Commitment competencies: let the SMEs to bring their capabilities to perfection and learn new. The written strategy can not be the only way of success, sometimes must leave the started path because of lack of resources, the unachievable aims or the change of environment.

When we asked the Hungarian SMEs about these competencies we got the following result in Likert-scales: (1 means that is not important – 5 means I totally agree, it is very important competence) (table 1.)

The specified competences did not show significant differences in point of the micro- and small and the middle enterprises. The average deviation was smaller than 0.5 in any case.

The relationship competence stands first on the list, and the external communication was emphasised from this group. According to the interviewed managers the key to success is the marketing communication, namely the way they speak to costumers. Furthermore sharing the price-information and describing well the extra services can gain more satisfied costumers.

1st table: Competencies at Hungarian SMEs

Competence	Average	Deviation	Coefficient of variation	Modus
Relationship	4,71	0,701	14,90%	5
Conceptual	4,19	0,926	22,11%	5
Commitment	4,09	0,942	23,05%	5
Strategy	3,86	1,067	27,63%	5
Organization	3,31	1,327	40,09%	3
Opportunity	2,78	1,093	39,37%	3

Source: Own research and calculation

The internal communication is another important factor, but not the satisfaction of the employees, but the payment level and the incitation for qualitative work was emphasized by the managers. Motivation is not easy, and the payment is just one side of it, but in many cases serious leadership techniques are needed.

It can be mentioned that the first 4 competences mostly gave a rate 5, that is to say that the managers agree the importance of these competences, however the conceptual competence's high estate is remarkable. Not because we would dispute the importance of the aptitude for innovation, but other results of the research show widely contradictory conclusions. We could not find the propensity for growth, the motivation for investment and the receptivity towards novelties among the results of the research.

We can see in the first table that the opportunity competence is not typical, the most enterprises are disinclined to do changes or reorganization in favour of exploit new business possibilities. This attitude can be explained by a risk averse behaviour but it is out of accord with the frequently mentioned adaptability and great risk-taker behaviour.

The organizational competence is deemed less important by the managers. Starting an enterprise and subsisting the status quo were eternal topics in the course of the interviews. The most of the asked managers felt that he was highly innovative and he had made many changes in the organization, but after precising it it turned out that most changes had not had considerable affect on the business processes. Although the managers realized the above mentioned they were not confident in defining exactly the steps and discovering documenting and analysing the business processes.

According to our performance model building up the processes precisely is a very important task. By the right of the performance prism's logic it should be joined to the strategy and to the competences by the following way:

- Define the strategy, the way the enterprise should go on
- Define and form the required processes which can help to reach the goal and achieve the strategy
- Acquire those capabilities which operate our processes

Therefore we need a vision for an accurate performance management system, that directs the enterprise on the right way, and evolved business processes according to our vision. Thirdly we can define those capabilities which needed to manage the processes effectively. One part of these are commanded, and we have to purchase the other part of them. If we see deficiency of capabilities, it is important to emphasize the learning and training at the organization. Moreover we rethink our investments.

We asked the SMEs' managers how they would take in order the performance-factors mentioned before, we got the following result (2nd table).

2nd table: The key perspectives need to be define

	vision or strategy			processes			capabilities		
	Micro and small size	Medium size	SMEs total	Micro and small size	Medium size	SMEs total	Micro and small size	Medium size	SMEs total
Rank 1st	46,9%	57,1%	47,6%	18,8%	14,3%	19,0%	34,4%	28,6%	33,3%
Rank 2nd	31,3%	28,6%	31,0%	43,8%	14,3%	40,5%	25,0%	57,1%	28,6%
Rank 3rd	21,9%	14,3%	21,4%	37,5%	71,4%	40,5%	40,6%	14,3%	38,1%
Total	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

The strategy got the primary rank, after all it was signed at first place independently of the enterprise. The medium sized enterprises typically signed it at the 1st and 2nd place that refers to a conscious vision. The logical place and accentuated role of the processes are not traceable such an easy way.

One sees that the enterprises signed the 2nd and 3rd place equally for defining the processes. Surprisingly we can find determined logic mainly in the thinking of the smaller enterprises, while the medium sized ones ranked this mostly to the last place.

The SMEs will be able in difficult situation if they have no strategy or vision, and they also could be made wastage if they do not take care of their processes. The bad business processes and old-style solution with many of redundant functions will lead a capital deficiency. The third part is capability, which is important to improving continuously especially the knowledge elements. If we see the international experiences only few of SMEs manage the Human Resources consciously. The question of learning, trainings and developing the abilities of employees is strategy questions. But in the practise of Hungarian SMEs this field has dropped into the daily routine. It can be a wasting point too.

The well-built performance management system can help to manage the main strategic functions and it give the SMEs rope to be on the right track.

4 Conclusion

Finally we can lay down, the enterprises must monitor their business by aligning performance measures with the critical success factors they have identified. Again, the process view allows them to establish metrics for measuring and monitoring the important elements of performance.

Despite the lack of comprehensive literature focused on Balanced Scorecard and Performance Prism or any other 2nd or 3rd generation performance measurement frameworks implementation in SMEs, I believe performance prism (as the main target) and its associated management processes can prove equally beneficial to SMEs as to large organisations.

However, the potential benefits are likely to differ between the two. In large / complex organisations much of the utility of Performance Prism comes from the communications elements: the two-way provision of concise and relevant summary information about 'what is going on' in the organisation.

In smaller firms, a greater proportion of the value of Balanced Scorecard comes from two other elements: the description of strategic destination and associated strategic objectives and priorities in a way that builds consensus; and impetus given to the development and application of more effective strategic management processes. In case of Performance Prism the SMEs can gain lots of advantages from the flexibility of perspectives, and the iteration between strategy and business process.

More and more, companies need to get visibility about their clients, consumers, partners, competitors, and collaborate with them to create joint competitive advantage. This new business context requires companies to build new collaborative management and operational models. To achieve this purpose, enterprises need to be able to measure, broadcast and monitor better performance, both internally and externally (with their partners in the Collaborative Network (CN) and in the networks to which they belong), and Virtual Organisations (VO) need to manage their performance in a global way (like a single enterprise) and benchmark with other VOs.

Companies have traditionally measured their performance in terms of Finance, Customers, Internal Business Processes and Learning and Growth (Kaplan, 1996), but the new business scenario reveals the need to create new performance management views, that can take into account new business paradigms such as Innovation and Agility (Beamon, 2003), Environmental Care and Green Operations (WBCSD, 2004), Ethics and Corporate Social Responsibility (GRI, 2002), subjects that can be considered as new business assets (Neely, 2001).

As we see, the required management tools are available. Now the pilot-project experience also can be analysed and evaluated. The consultancy is ready to help the SME sector, if they prepare to receive these methods.

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