

The Applicability of the Balanced Scorecard in Small Wineries

Peter Demediuk
Graduate School of Business
Victoria University
PO. 14428. MCMC.
Vic. AUSTRALIA. 8001.
Pn. 61 3 9248 1083
Peter.demediuk@vu.edu.au

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ABSTRACT

The Balanced Scorecard (BSC) is advocated as an approach to performance management that improves the articulation of strategy, and facilitate the translation of critical success factors into action. However the BSC literature typically concerns larger private and public sector entities, and there is minimal reference to BSC applicability and use in small enterprises, and no reported studies concerning spectacular growth area of small wineries. Using interviews at Victorian wineries, this exploratory research examines the application-potential of the BSC in the management of small wineries. It would appear that given the context of small wineries and the limited resources that can be committed to formal planning and evaluation instruments, the application of the typical, technically sophisticated scorecard may not be feasible or cost effective.

Keywords: Balance Scorecard, performance management, small wineries.

INTRODUCTION

While the Balanced Scorecard (BSC) is strongly advocated in the performance management literature as a tool for improving strategic and operational planning and control, relatively little attention has been paid to its application in the context of small business, and none reported so far in relation to small wineries. This gap in the literature is both striking and problematic since the survival and performance of small businesses in the face of complex and increasingly competitive environments is compromised without well articulated strategic priorities and a clear understanding of required action.

This paper addresses the question of whether the application of the BSC in small wineries is a cost-effective way of ameliorate typical small business deficiencies in strategic and operational decision-making. The need of performance management techniques to support adequate planning and control has gained gravity due to the exponential growth in small wineries in Australia, the consequent increase in competition, major changes to the market place in which they must function, and warnings of impending business failures.

Firstly the paper briefly details the growth of small wineries and changes to the marketplace. Secondly the BSC as a performance management framework is discussed. Thirdly, the research questions and research method are described. Fourthly the research findings and conclusions are discussed, and issues for further research are outlined.

SMALL WINERY CONTEXT

The momentum and scale of winery development in Australia is phenomenal: "...a new wine producer every 61 hours over the past 3 years!!" (ABC, 2003). There are about 1,650 wine producers in Australia and the top 22 wine companies control 92% of domestic sales. This leaves the other 1600 or so producers fighting over just 8% of the market and the majority are very small family businesses and the immediate outlook is tough. Put simply, there are too many people competing for a tiny slice of the market place. The access to the marketplace for a small winery is constrained by (ABC, 2003; ACIL, 2002; Halliday, 1997): increased competition from other small labels; a lack of differentiation between competitors with regions; static consumption rates domestically; despite exports increasing 20%, the limited interest of overseas distributors and merchants in low volume producers; increasing competition from US, South American, and Eastern European producers; and the loss to the forces of Woolworths and Coles-Myer of independent wine merchants who traditionally took product from smaller producers.

The dire predicament facing the burgeoning small wine producers is emphasised by the CEO of the Victorian Wine Industry Association who has observed that many vineyards surrounding Melbourne are not viable, and in fact there are "Too many grapes...(and)...“It’s hard bloody work and not the pot of gold everyone thought it was...” (Erlich, 2001). The repercussions are highlighted by the alarming estimate that "Up to 40 per cent of Australia’s wineries are tipped to fail in the next few years as conditions change" (Todd, 2003).

As a result of the vagaries of nature and changes in competition, the very marketplace and consumer preferences, there are huge pressures on owners and managers of smaller wineries to improve efficiencies in growing, producing and marketing for short-term survival and longer term sustainability. In common with other small businesses, the owner/manager in smaller wineries is typically involved in every aspect of running the business. Such a hands-on approach has some redeeming features, but immersion in short-term problem-solving is also a threat to competitiveness and growth. Owners typically focus on solving immediate problems, and consequently their work and that of employees is not always focused in a balanced way on activities that contribute to essential longer-term goals.

Economic success & survival in the tough economic, market and regulatory environment facing small wineries is largely contingent on having effective strategic and operational control (ACIL, 2002). A key driver of effective strategic and operational control is the ability to recognise, measure and react to critical success factors (CSFs). The challenge for small wineries is to deploy a do-able performance management system that supports the articulation of a balanced set of factors that are critical to the success.

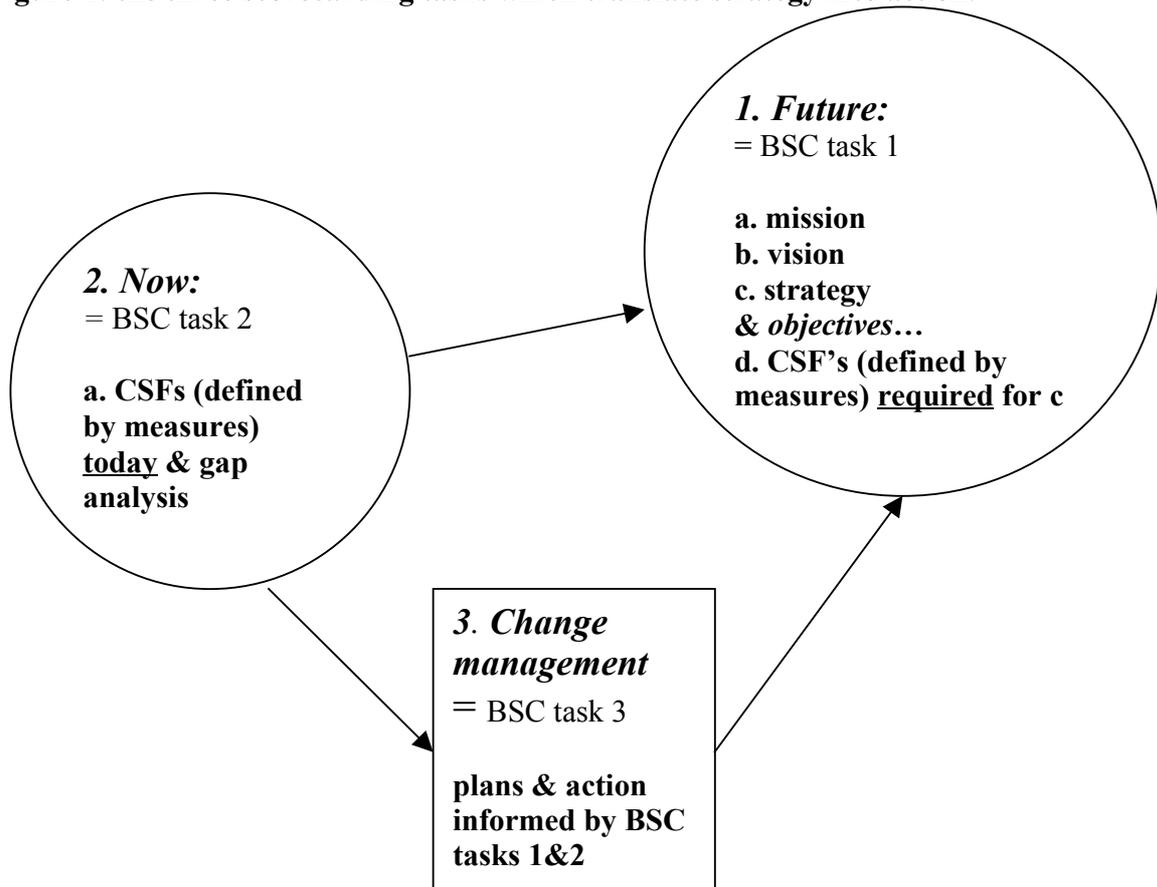
BALANCED SCORECARD AS A PERFORMANCE MANAGEMENT TOOL

Small wineries, like any businesses competing in dynamic and complex environments, must have a clear understanding of their objectives and the methods for efficiently and effectively attaining them (Olve et al, 2003). The BSC is widely advocated as a performance management tool for improving strategic and operational control, and hence results, by translating strategy into action. The BSC is predicated on the view that action must align with strategy, and that strategy must articulate a ‘balanced’ set of objectives across financial, business process, learning and growth, and customer dimensions (Kaplan and Norton, 2001). Performance measurement of the CSFs which mirror these objectives is required to guide and assess action, and demonstrate accountability and progress. So the BSC is argued to be a tool to clarify the direction in which a business needs to go, communicate that direction, align stakeholder’s work to those ends, and ultimately promote efficient competitive performance (Frigo and Krumwiede, 1999). The assumption is that every business must chart its own pathway to success, and a balanced scorecard can help identify the destination and guide the journey.

By focusing attention on the CSFs required to achieve strategic objectives, and feeds back into a reappraisal of these objectives and actions taken in pursuit of them (Figure 1), the idea of the BSC is to describe the critical ingredients of business success, and the ambition is to build and communicate provide a more comprehensive, meaningful, and longer-term picture/story of the business that attracts input, debate and commitment from a growing number of stakeholders who can share their knowledge and insights (Olve et al, 2001).

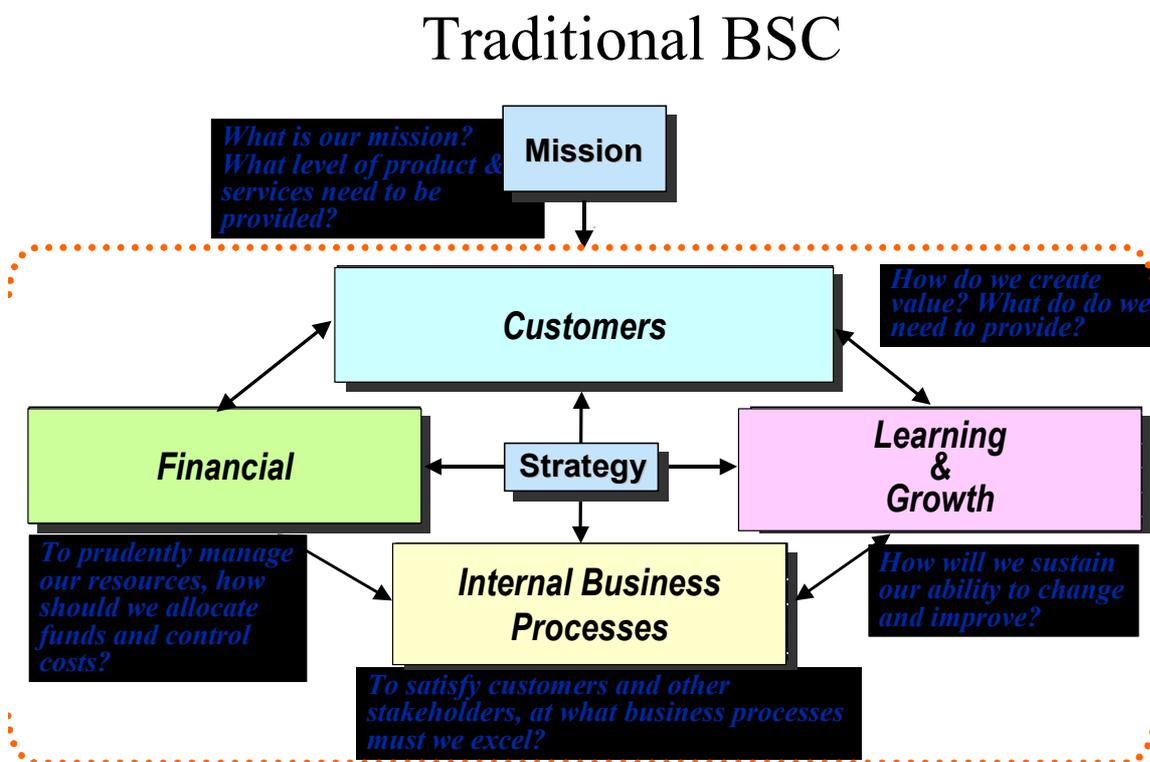
We have developed Figure 1 to describe the tasks required to translate strategy into action. In task 1, CSFs (and their surrogate target measurements) required for a sustainable future are derived from the mission and vision. Following the articulation and prioritisation of CSF performance gaps in task 2, task 3 requires revision in type or level of desired CSFs, or formulation of action to achieve them. In doing so, the BSC provides a clear line of sight to how staff can impact on inter-related organizational objectives that extend beyond the immediacy of the short-run crisis management or a fixation with the 'bottom-line'.

Figure 1: the three scorecarding tasks which translate strategy into action.



The traditional 4-perspective BSC model (Figure 2) describes the CSFs that articulate (short and long-term) financial success, and also incorporate CSFs in the perspectives that moderate financial success - processes, customers, and learning & growth. The BSC provides an opportunity to explore the chain of cause and effect between the various the CSFs and the perspectives they represent. For example, could improved environmental competencies of employees lead to an innovation in producing organic wine (as part of CSFs in the learning & growth perspective) that improves market share (as part of CSFs in the customer perspective), and culminate in increase in sales which out-weights training and associated expenses (as part of CSFs in the financial perspective).

Figure 2: A traditional 4-perspective BSC model



BSC & Small Enterprises

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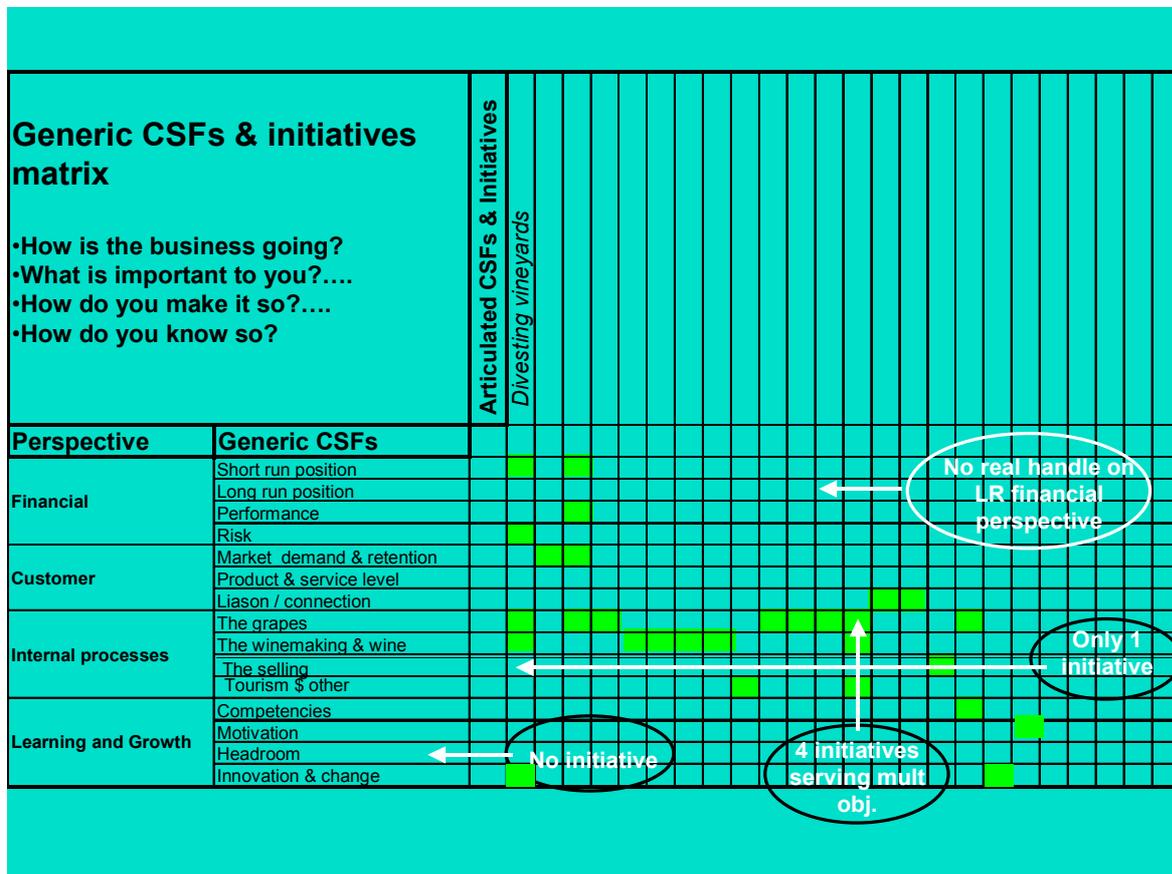
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This research addresses the neglected issue of whether the application of the typical, technically sophisticated scorecard described in the public and private sector accounting literature is feasible and cost-effective for small wineries. The objectives of the research are twofold: to contribute to knowledge by illuminating CSF's and their performance measurement in small wineries; and to provide practical assistance to wineries by examining the applicability of the BSC in their performance management.

Semi-structured depth interviews of one to two hours were undertaken at nine small Victorian wineries in 2002 and 2003. Interviews were taped and transcribed, and the data were analysed using a matrix method (Miles and Huberman, 1994) appropriate for qualitative data collection and analysis (Figure 3). The sample size mitigates against the generalizability of the findings, but generates some key themes for further exploration of wider patterns and experiences concerning performance measurement. Relatively simple yet open questions were asked: how is the business going?; what is important to you?; how do you make it so?; how do you know so? The idea is to understand the critical success factors currently addressed by the wineries, examine how robustly praxis represents the 'balanced' approach to translating strategy that is valourised by the BSC literature, and consider the form and application of a contextually sensitive BSC model. Transcripts and interview notes were deconstructed on one matrix sheet for each winery

Figure 3: Analysis Matrix



Findings and conclusion

None of the wineries had instituted a formal balanced scorecard at the time of interviews. One, the second highest volume producer which is owned by a consortium of successful property developers, had plans to do so in the next twelve months. The largest volume producer, owned by stockbroking interests, was considering the concept.

The *customer perspective* appears to be relatively un-addressed. Whilst all interviewees speak of the importance of customers, performance measurement is largely a haphazard and random mix of occasional forays into the show circuit, cellar door customer contact, phone or email feedback from customers, and comments by distributors. For six wineries, the comments from tasters at cellar door are the only regular indicator of product and service level. Current sales-mix analysis, together with comments from trade magazines, distributors and fellow winemakers forms a very informal approach to the market demand for their regional product. The utility of much general trade information is often discounted by comments such as "...overall market trend for pinot is one thing, but ours are Macedon ranges pinots, they will stand separate from the others...". While three wineries have comprehensive initiatives to assess and action CSFs in the customer perspective, the others had a disturbing dislocation which was often justified by views like "...if you make good wine, you will sell it...".

Learning and growth is the most poorly addressed perspective. Whilst some wineries seem truly comfortable with their human capital, and their level of innovation, others seem so stuck on addressing current problems such as how to move costly stockpiles or vine management, that such issues are barely considered. Clearly many know what they did know, but have not questioned what they do not know, or how to fill knowledge gaps. Festivals are often cited as innovations, but the pervasiveness in different regions suggests that the mere existence of a festival is not, in itself, innovative. Many wineries have experimented with innovation but attempts described, in the main, can be characterized as unsophisticated gambles. Four wineries have tried to improve trade in the past through liked food and accommodation initiatives, and three of these projects had failed. The two wineries having a more focused approach have skills audits which relied of TAFE course certification of staff, active meetings and review, and sophisticated approaches to marketing and 'theme-ing' their contributions to local food and wine festivals. One winery actually has addressed innovation, and decided that its innovation is not be innovative: "...we will let other lead with varieties and styles...we are good, we are conservative, we know where our market is...".

Initiatives concerning the *financial perspective* are strong in some aspects. Industry wine-tax and regulation requirements has caused each winery to have sound records of sales, cash flow, and profitability. In the main, wineries have a good handle on their short-term financial performance and position. The content of this information is giving two wineries desperate reasons for concern about their immediate capacity to survive. However, by basing their longer-term views of prospects on faith rather than sophisticated projections (eg: "...no we are not making any money, but we will one day..."), all but the two more substantial wineries have poor means with which to assess real risk or long-term viability. Few have done any projections which seemed to be based on things other than precedent of wishfull thinking, and only two have done realistic sensitivity analysis on projections.

If taking a short-term view, the *internal process perspective* is reasonably addressed by most wineries as details of grapes as the raw materials and the winemaking and bottling processes are well examined and understood. However the lack of emphasis on the innovation perspective challenges the currency of present internal processes. Issues about outsourcing grape growing, the winemaking or even bottling, or changing from a wine-maker to soley a grape-grower are critical to the efficacy of the internal perspective and heavily bound up with a concentrated focus on innovation.

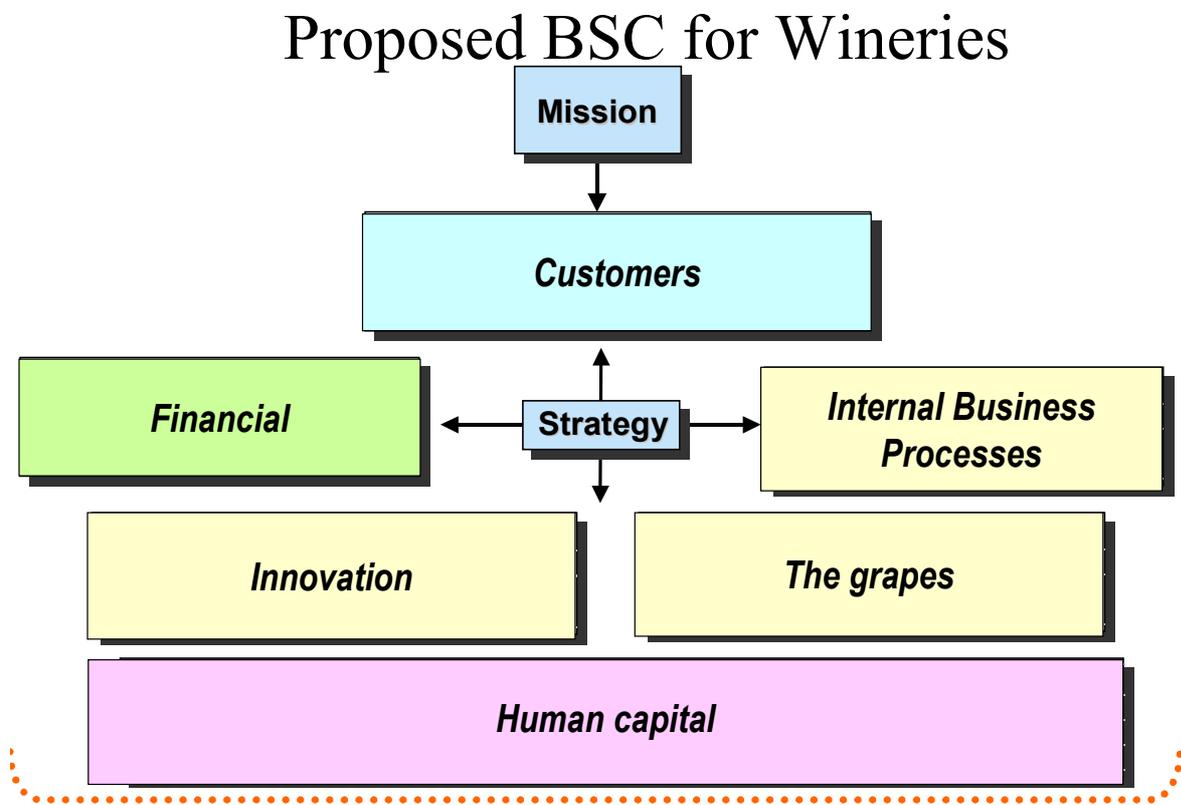
Overall, only three wineries have a focus on critical success factors backed by concrete initiatives that gives a reasonable indication of whether the business has the type of 'balance' as postulated by the BSC literature.

It would appear that given the context of small wineries and the limited resources that can be committed to formal planning and evaluation instruments, the application of the typical, technically sophisticated scorecard may not be feasible or cost effective. Formal collection and measurement of data on particular CSFs may be untenable for cost, administrative, or competency reasons. For most small wineries, the emphasis should be on the process of 'score-carding' rather than on 'the score', as it is the very process of developing a scorecard that provides the real potential benefit, rather than the resultant reporting artefact. Here, the act of score-carding acts as a 'dialogue tool', a catalyst for the exploration and generation of new ideas and practices concerning a wide range of inter-connected strategic and operational issues. Score-carding can be a cue for thinking about, talking about, and communicating a balanced set of priorities in objectives and associated action. If nothing else, score-carding would at least force the asking of strategic and related operational questions which our research has shown are, either intentionally or unintentionally, are not being well-addressed by our sample of small wineries. In the more substantial small winery businesses, especially where owners have external monetary or expertise resources available, the appropriate application of the BSC may be as a more sophisticated evaluation instrument, an 'answer tool' as well as a 'dialogue tool'.

The process of score-carding, or a BSC artefact is not a remedy for the problems facing small wineries, but they provide an improved framework for strategic alignment of objectives and action by giving a rational basis for prioritizing resource allocations and action. This is important in a context where working harder often substitutes for working on the things that really matter for sustainability. The process of score-carding, or a BSC artifact, fills the void that exists in most of management systems we studied - the lack of a systematic process to implement and obtain feedback about the organization's strategy and the prioritization of action. Our hope for the small winery industry is to at least see the introduction of relatively unsophisticated examples of score-carding or scorecards, where the focus is all about learning rather than measurement perfection.

Figure 4 is our initial attempt to conceptualise a BSC structure for further discussion.

Figure 4: A proposed BSC model for small wineries



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Given the concentration of all interviewees on the importance of the grapes (be they self-grown or sourced), we believe *the grapes* should be considered as a separate perspective to *internal business processes* in the traditional BSC. In addition, to split *learning and growth perspective* into two separate perspectives, *innovation* and *human capital*, would provide a six perspective BSC model which makes a more contextually relevant point of departure for the small winery industry.

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