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Small Consulting Firm Growth: Application of the Balanced Scorecard

Hoa Hoang
Finance Project Coordinator, Kone Corporation, Finland

Abstract:
This research was written for the interests of Qnware – a Finnish boutique consultancy looking to scale up via the application of the Balanced Scorecard. The final deliverables consisted of an actual Balanced Scorecard customized to Qnware. The reviewed theories cover the Balanced Scorecard, with focus especially on those related to micro-sized and professional service firms. The final conceptual framework employed a collection of independent theories. Action research, a qualitative research method was used in order for the researcher to engage in more profound level with the Qnware. The research also supported the creation of a concrete outcome – the Balanced Scorecard, while adding unique value to the company's particular conditions. The research findings have helped enrich the understanding of previous literature regarding the Balanced Scorecard. This study could be valuable to readers looking for insights about the growth of small sized professional service firms, particularly consultancies. On the other hand, Qnware itself has obtained satisfying outcomes namely the accomplished scorecard.

Keywords: *Small firm growth, balanced scorecard, action research, professional service, consulting*

1. Introduction

According to the Federation of Finnish Enterprises (Yrittäjät, 2013), Finland has a total of 322 183 enterprises by 2012, of which 93.3% are those micro-sized with less than 10 employees. Despite such a large proportion, this category humbly contributes65 billion Euros, or 17%, to the sum of Finnish enterprises' total turnovers. Clearly, more attention should be paid to them. Within the scope of this study, Qnware, a Finnish firm of micro size, will stay under the spotlight. The research is thus dedicated to assist Qnware in answering its business problems, via the application of academic theories and concepts.

In 2011, Kati Tuppuri and Antti Rantanen, the former graduates from Helsinki School of Economics, founded Qnware. The business was started in their quest for something they both are passionate about and good at. "Inspired by Challenge, Passion for Solutions" has been the motto of firm since its birth. Indeed, Qnware still finds itself a fully entrepreneurial firm carrying great energy and spirit to date. Figure 1 gives a screening overview of the company's current business model.

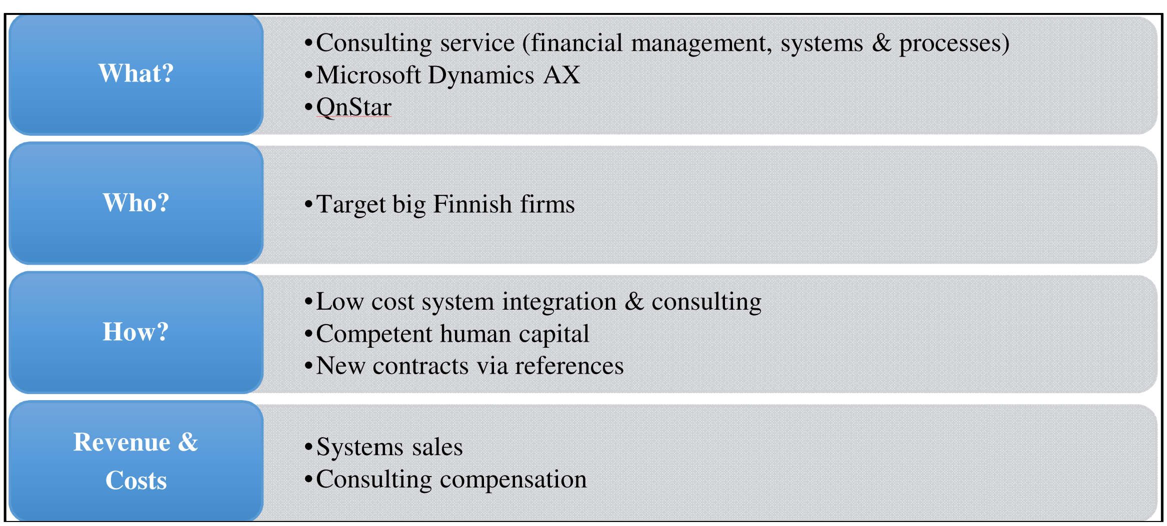

Figure 1: Qnware's Business Model

As can be seen, Qnware provides solution and consulting services in terms of financial management, business systems and processes. It is the expert in Enterprise Resource Planning, specializing in Microsoft Dynamics AX as a certified partner. The firm also offers its own flagship product, Qnstar, an intelligent travel and expense claim application. Qnware's clients so far are among the largest firms in Finland, including names such as Würth and Comptel. Its competence relies heavily on its human capital, Kati and Antti; and most of their projects are resulted from references by former customers. According to the owners, their business has been profitable over the last three years. Nonetheless, they gradually realize that more of their consideration should be directed to new challenges.

Growth is among the immediate issues to be looked at with regards to small firms; it encompasses many ways the company could make better of itself, whether it is capturing larger market share, gaining more sales and higher profitability, or maximizing shareholders values. Kirkwood (2009) revealed in his study of 26 small service firms, to which Qnware can be categorized, that within the first five years after founding the business, majority of owners realized the needs for growth in both sales and employees.

Discussing the importance of growth, Davila and Foster (2010) reviewed a various set of topics ranging from business model, human talent, financing, to business development. The authors pointed some of the prominent benefits that high growth could bring to a firm, such as stronger competitive position, better visibility of brand, higher morale and compensation for workforce, economies of scale, more efficient operations, superior negotiation power, and so on. These benefits are said to be interrelated and supportive to each other; so that a virtuous circle is triggered, leading the firm to its sustainable trajectory. Hence, the question now is to figure out how Qnware could start its own virtuous circle.

Answering to the question of where to start a firm's growth, Davila and Foster (2010) emphasized the need to structure the company, meaning to put process and systems into place designed for execution. This view is shared by Van de Ven et al. (1984), who claimed that a firm would move toward more task specialization and standardization of procedures as it matures. These authors backed their argument by empirical data showing the increasing degrees of specialization and standardization along the rising age of 14 startup firms under investigation. Greiner (1972) offered a more comprehensive model of organizations' evolution, proposing the five phases any firm would typically experience in its life span. A piece of this model has been found highly relevant to the case of Qnware. Table 1presents the extract in more detail.

	Phase 1: Creativity	**Phase 2: Direction**
Management Focus	Make & sell	Efficiency of operations
Organization Structure	Informal	Centralized & functional
Top Management Style	Entrepreneurial	Directive
Control System	Market results	Standards & cost centers
Management Reward	Ownership	Salary & merit increases

Table 1: Organization practices during evolution in the first phases

Adapted from Greiner's (1972) Evolution and Revolution as Organizations Grow

Qnware's owners are convinced that they are currently at exactly Phase 1 in this model, where their business revolves around selling consulting service; working informally in a small office; styles characterized largely by entrepreneurship; performance measured simply from customers' feedback; and ownership is their best reward. Thus, there is a need for Qnware to prepare itself for the transition to Phase 2. According to Greiner, Phase 2 is the period of sustained growth, which is fueled by functional organizational structure, efficient operations, directive leadership, and newly-adopted standardizations.

Basing on the above principles for immediate growth, Qnware made its choice regarding research direction. Balanced Scorecard (BSC) is the focus of this research, which is aimed to make a comprehensive link from the firm's goals and strategy to its operations. Introduced by Kaplan and Norton (1992), the BSC is a performance measuring tool that has been employed by numerous firms. Qnware's owners found the tool highly applicable to their own situations, as it is simple and relatively comprehensive for a micro-sized startup firm. In fact, such decision resembles the finding of Malmi (2001), who studied a pool of Finnish companies applying the BSC system, and came to conclude that the popularity of BSC is increasingly spread among Finnish firms. Though Malmi's work mainly addressed companies of much bigger sizes compared to Qnware, the economic benefits expected from this tool can still be tremendous to the company. The research objective of this study is accordingly: To adapt the Balanced Scorecard to Qnware's management system, and link it to the firm's bonus system.

2. Literature Review

According to Gumbus and Lussier (2006), the birth of the BSC dated back to 1990 when Kaplan and Norton first brought in the BSC via a study of 12 companies. The result was then reported in their Harvard Business Review article published in 1992, where Kaplan and Norton (1992) proposed the new management tool to measure a firm's performance against its strategy. Over more than 20 years of existence, the BSC has attracted a great deal of research attention. In his review of the current state of studies on the BSC, Hoque (2013) reported 114 articles published in prominent accounting journals, and 67 articles published in leading business and management journals. Certainly, the availability of theories and concepts in this field is vast.

In this Chapter, relevant literature regarding the BSC will be reviewed in order to answer four questions which are of Qnware's interests: What is the BSC; how it can be applied to small firms; what are the measures used in consulting firms; and how to link the BSC to the rewarding system.

2.1. Concepts and Relevance to SMEs

- "Think of the Balanced Scorecard as the dials and indicators in an airplane cockpit. For the complex task of navigating and flying an airplane, pilots need detailed information about many aspects of the flight. They need information on fuel, air speed, altitude, bearing, destination, and other indicators that summarize the current and predicted environment. Reliance on one instrument can be fatal."

Kaplan & Norton (1992)
This was the very first illustrative example Kaplan and Norton gave to introduce the BSC. They argued that the traditional sole financial ratios are insufficient when examining a business, while "forgetting the financial measures" is surely not an option (Kaplan & Norton, 1992).In fact, the word "balanced" within the BSC's name implies the acknowledgement of the importance of both financial and non-financial perspectives. As a result, the BSC was created. Kaplan and Norton (1992) defined the BSC as "a set of measures that gives top managers a fast but comprehensive view of the business". Figure 2 presents their most complete visualization of the BSC to date.

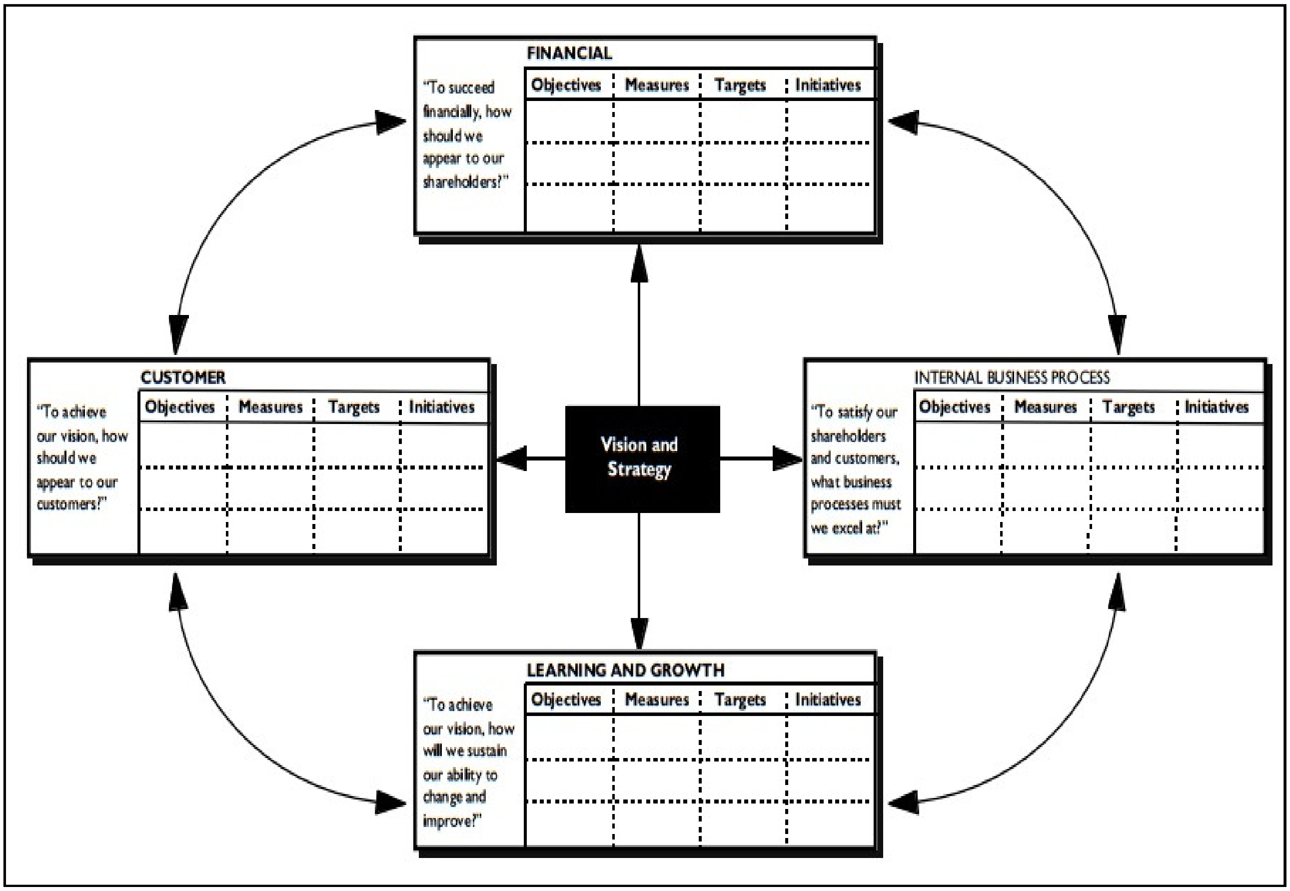

Figure 2: The Balanced Scorecard's perspectives (Kaplan & Norton, 1996)

As can be seen in Figure 2, the BSC consists of four components revolving the firm's vision and strategy: Customer Perspective, Financial Perspectives, Internal Business Perspectives, and Learning and Growth Perspective. These components give answers to four questions which Kaplan and Norton believe to be the basics of any business:

1. How should we appear to our customers?
2. How should we appear to our shareholders?
3. What business processes must we excel at?
4. How will we sustain our ability to change and improve?

Within each of these components, the BSC covers four dimensions: objectives, measures, targets and initiatives. To give an easy example for better understanding of these dimensions, consider a hypothetical Restaurant A, whose competitive strategy lies in superior customer service. A part of the BSC's Customer Perspective of Restaurant A can be constructed the Table below.

Objectives	Measures	Targets	Initiatives
Pleasant customer experience	Post-service rating feedback (five-star scale)	4.7/5 rating	• Monthly training sessions for waiters & waitresses • Feedback forms delivered to customers
	Customers' waiting time after ordering	Less than 10 minutes	• Standardized related processes

Table 2: Customer Perspective in the BSC of hypothetical Restaurant A

Two important points should be noted in the above example. First, the measures are tailored to the objectives directly linked to them. Second, there should be a balance of lagging and leading measures in the BSC. According to Niven (2002, p.115), lagging measures indicate the result of actions previously taken, while leading measures themselves drive the actions. In the case of Restaurant A, "Post-service rating feedback" – a lagging measure –only tells the owners whether they have been good or bad at servicing their customers; while "Customers' waiting time after ordering" – a leading measure – drives the owners' actions to better serve customers, which in this case is to make them wait for a shorter time. Niven believed that the BSC should combine both leading and lagging measure because while the former brings in real action the later guides these actions and validates their impacts. Such harmonized presentation of the BSC provides management with the big strategic picture without losing sights on activities down to detailed levels.

Despite the fact that the adoption of the BSC has not been popular among SMEs (Machado, 2013; Giannopoulos et al., 2013), its values to small businesses have been solidly suggested among academic literature. Birch (1998) emphasized that the BSC enables small firms to control costs; to ensure employees' understanding and commitment to targeted performance; and to lead the team by a new recognition and reward system. Gumbus and Lussier (2006) added further ideas, stating that the BSC helps organizations to promote growth through focus on long-term outcome; to track individual and collective performance for improvements; to provide focus by taking into account only the most important aspects of the business; to align the firm as key aspects are linked and support each other; to clarify the contributions of daily activities to the ultimate goal; and to expose employee's plain accountability. For all this, the BSC is expected to be of great assistance to this segment, particularly Qnware in this case.

2.2. Application of the Balanced Scorecard

Several years after the introduction of the Balanced Scorecard by Kaplan and Norton in 1992, McCunn (1998) cited a report by KPMG, showing that more than 70 percent of BSC implementations fail. It was clearly uneasy for firms to simple live the BSC. Nonetheless, by 2004, success stories had been apparently overwhelming (Chan, 2004). Expectably, success factors of BSC implementation also came to be revealed.

Following his study of 184 organizations adopting the BSC, Chan (2004) listed a number of enablers for successful implementation of this tool:

- top managers' commitment and leadership buy-in;
- middle managers' and employees' participation and buy-in;
- a culture of performance excellence;
- training and education;
- keeping it relatively simple, easy to use and understand;
- clarity of vision, strategy and outcome;
- link of BSC to incentive; and
- resources to implement system.

In addition, Williams (2004) provided a list of six characteristics that the most effective BSC have in common: 1) Focused in its function as a diagnostic tool 2) Balanced between leading and lagging indicators, internal and external aspects, financial and operating metrics 3) Stay under clear scope 4) Adapt to the audience 5) Match the needed technology for timeliness in reporting and analysis 6) And they progress solidly through the implementation process. Points similar to those made by Chan (2004) and Williams (2004) were also found in the work of Atkinson (2006), who went further to conclude that despite the many benefits that the successful adoption of the BSC would bring, one should not expect the BSC to make strategic implementation happen by magic; it is still the organization's job to chase the ultimate goal. In other words, the BSC could act as a useful mean to a desired end.

When it comes to the use of BSC in small firms, Johanson et al. (2006) addressed the dilemma of the "one-size-fits-all" idea, claiming that the early literature of the BSC – including Kaplan's and Norton's work, mainly cover large firms. This implied a chance that the BSC as it was originally designed might not well fit small firms' practices. In fact, this implication was validated by Rompho (2011) who found that failure of BSC in SMEs is largely due to the very nature of this category: rapid changes in strategy, that leads to continuous revisions of the BSC over a short period, which in turn causes uncertainties and frustrations among both managers-owners and employees for too much waste of time and effort. Nevertheless, Tennant and Tanoren (2005) made a reassurance of the BSC's usability among SMEs, proposing modification as the key to success. This position, which is shared by Andersen (2001) and Hudson et al. (2001), is a valuable guideline for the framework of BSC adoption for small firms.

In one of their early papers about the BSC, Kaplan and Norton (1993) introduced a framework to build a firm's BSC. This framework is later developed profoundly by Paul Niven (2002), an experienced BSC implementation consultant who, according to Kaplan and Norton, is "one of the few who can talk and write knowledgeably about how to make the scorecard happen in an organization". Accordingly, the BSC adoption framework given by Nivenis examined in this session. Figure 3 gives an overview of his framework.

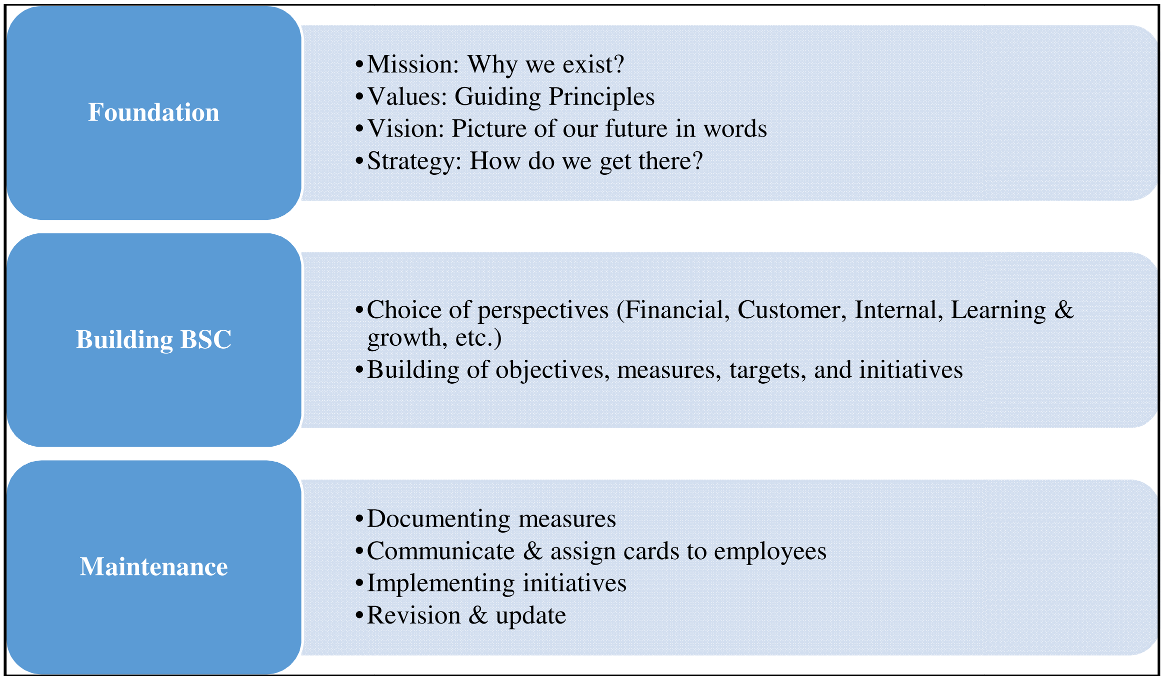

Figure 3: Balanced Scorecard Adoption Framework (Niven, 2002, pp.71 – 198)

Niven's BSC implementation process consists of three phases. First, the firm should ensure it has well-defined mission, values, vision and strategy. These elements will act as the foundation for the actual building of the scorecard. In the second phase, the BSC is composed by perspectives not limited to the initial list given by Kaplan and Norton (1992) which include for major components: Financial, Customer, Internal, Learning & growth. The firm can replace existing or add new relevant perspectives to the list according to its own circumstances. After this step, objectives, measures, targets and initiatives are respectively constructed. Since the scorecards revolve around the firm's vision and strategy, the listed objectives from each perspective should connect together via cause-and-effect linkages to reflect a clear narrative of the firm's strategy. Measures are to support the execution of this strategy, and should balance between leading and lagging indicators. Targets are set in short, mid, and long terms up to the firm's vision. And finally, initiatives are focused to the most important executive steps of strategy to reach vision. The last phase is about the maintenance of the BSC, where the firm documents its measures, communicating the BSC project and assign responsibilities to employees, implementing the initiative activities, and keeping track of the whole implementation process by regular update and revisions.

This framework offers an unambiguous guidance for BSC adoption process; nonetheless, "each organization is unique and so follow its own path for building a balanced scorecard" (Kaplan & Norton, 1993). Consequently, the framework will be applied loosely to fit Qnware's unique situations. Chapter 4 will present in more detailed how empirical implementation works based on Niven's suggestions.

2.3. Key Measures for a Consulting Business

As discussed in the previous Section, the construction of a firm's BSC depends heavily on its own situations. Hence, it is crucial to review elements which are keys to the business itself. Since Qnware has a distinctive nature of a professional service firm, this Section will be dedicated to discussion of some most applicable measures that companies in this field should use. According to Maister (2007, 32), the following formula reflects the manner in which the profitability of a professional service firm should be looked at. Within the formula, there are four elements which will be more specifically discussed in the following texts.

The Dupont formula for industrial companies:

$$\frac{\text{Profits}}{\text{Equity}} = \frac{\text{Profits}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Assets}} \times \frac{\text{Assets}}{\text{Equity}}$$

$$= \text{Margin} \times \text{Productivity} \times \text{Leverage}$$

The formula for professional firms:

$$\frac{\text{Profits}}{\text{Partner}} = \frac{\text{Profits}}{\text{Fees}} \times \frac{\text{Fees}}{\text{Staff}} \times \frac{\text{Staff}}{\text{Partners}}$$

Figure 4: Profitability formulas (Maister 2007, 32)

A consultancy is organized under the theme of professional partnership. Though this theme is becoming less popular, O'Mahoney (2010, 217) believed that it is still the most important model to discuss due to its centrality to the industry's strategies. In such organization, partners share ownership, responsibilities and contributions to the profitability of the company. As a result, Profit per Partner in consultancy is equal to Return on Equity in normal industries, and key to understanding the health of a typical firm. It is also the first element of the above formula.

The next two elements of the formula are indications of Margin and Productivity of consultancies. "Fees" in this case is equivalent to "Sales" in industrial companies. While the second element seems straight-forwards as crucial to any business, the third element evaluates the yield of the very most essential profit-generating assets in consulting business: partners. The last but not least element is the Leverage Ratio, which is also put forth by Graubner (2006, 102) as among the most notable metrics about consultancy. It is the ratio of partners to consultants that depicts the span of control along the hierarchy of consultants.

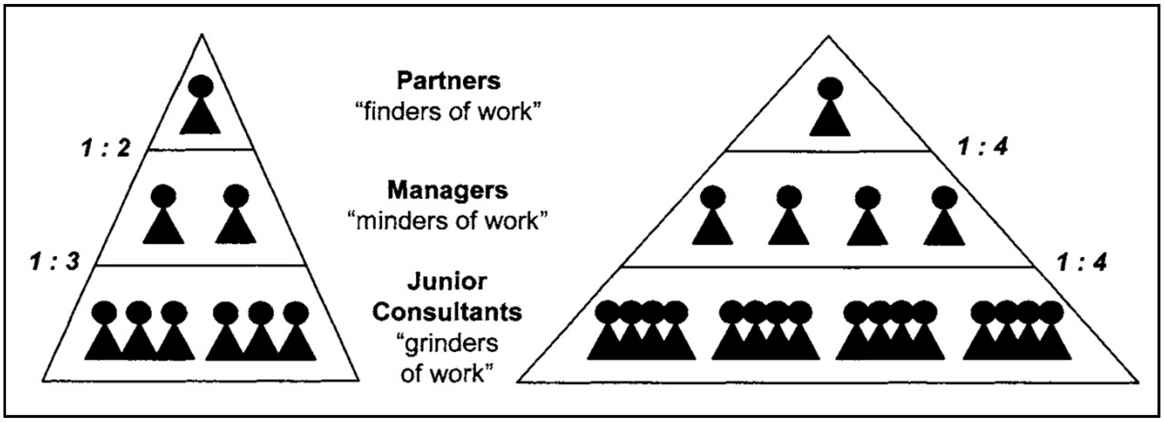

Figure 5: Hierarchical levels and leverage ratios in management consulting firms (Richter et al. 2006, 102)

According to O'Mahoney (2010), the Leverage Ratio has impact on not only the firm's finances but also its type of work, the organization of its projects, and the firm's people policies. For example, the left-side firm with lower Leverage on the above Figure is expected to have more experienced consultants, working on more value-added projects at limited numbers, paid more handsomely, and having more open career promotion together with skills development opportunities.

All in all, the four elements of Figure 4's formula –Profit per Partner, Margin, Productivity and Leverage –will contribute to the Balanced Scorecard of a typical consulting firm as the for central measures.

2.4. Linking to the Reward System

According to Ittner et al. (1997), majority of BSC adopters used it to support compensation decisions; Qnware shares that very same purpose. Snapka and Copikova (2011) claimed that the use of BSC for compensation programs offer great transparency as it translates strategic objectives throughout the levels of organizations. Indeed, Niven (2006, 242), referring to the linkage between the BSC and compensation, also emphasized the need of employees to learn of their contributions within the firm's achievements, and the norm that employees' dedication to the BSC system is mostly activated when it is linked to their paychecks. Hence, it is important to examine how the BSC can help defining the reward system.

Perspective	Measure	Target	Weight	Actual	Payout
Financial	Return on equity	15%	35%	17%	3,5%
Customer	Market share	75%	10%	70%	0%
	Customer satisfaction	70%	18%	73%	1,80%
Internal processes	On-time-delivery	85%	10%	83%	0%
	Manufacturing efficiency	80%	10%	80%	1%
Learning and growth	Employee turnover	5%	8%	3%	0,8
	Employee satisfaction	70%	12%	75%	1,20%
Total payout					**8,3%**

Table 3: Sample BSC-based rewards (Snapka & Copikova 2011)

Table 3 above provides the reward theme of a hypothetical firm, which bases its compensation on the BSC. The idea is straight-forwards. There are measures across four perspectives that are set with targets at the beginning, and provided with actual results at the end of the year. Weights on these measures with regards to employees' bonuses are then defined. Results are compared against targets, taking into account the measures' weights; consequently, bonuses are determined.

This compensation method provides a clear view to employees how their performances impact the overall big picture. However, it is not without defects, as Niven (2006, 248-249) pointed out two main issues. First, there needs to be certain thresholds, which must be achieved before the determination of any bonuses. When the targets in financial perspectives – the highest targets – are not met and bonuses are still paid out for accomplishments of lower perspectives, it would disregard the BSC's essence, which ensures financial success via strong performance in those lower perspectives. Second, it is important to note that different roles within the organization are best able to contribute to different perspectives and measures. For example, in the above hypothetical company, someone working in customer service would have much more influence on "customer satisfaction" rather than "manufacturing efficiency". As a result, when linking the BSC performance to compensation, specific functions, scope and responsibilities of each role are necessarily taken into account.

In addition, Ittner et al. (2003) argued that the degree of subjectivity involved in weighting BSC measures seems problematic. It allows decision makers to overweight financial performance while ignoring other measures; or to shift weights between measures so that favorable bonuses are not awarded. Such subjectivity practices leave doubts on how the BSC would support compensation in an equal and fair way. In fact, in Ittner et al.'s study, the BSC was eliminated in retail banks for its long-lasting uncertainty. As a result, adopters of BSC who would like to link it to compensation needs to avoid the pitfall by keeping reward-determining criteria consistent, and ensure strong communication among employees to justify the choices of measures and weights.

To sum up, despite its advantage of being transparent, the BSC poses certain challenges when applied to bonus system. Nonetheless, the company can still succeed as long as it pays proper attention to foundational dimensions, which includes knowing the purposes of this linkage, designing a fair and equal system, and communicating thoroughly to employees, as Niven (2006, 243-246) suggested.

2.5. Conceptual Framework

Basing on the previously reviewed literature, a conceptual framework serving to conduct the research is formulated in a systematic manner. The framework will also be rooted from Qnware's key objectives for this study. The firm's very objective is to follow a process to apply the Balanced Scorecard to its management system.

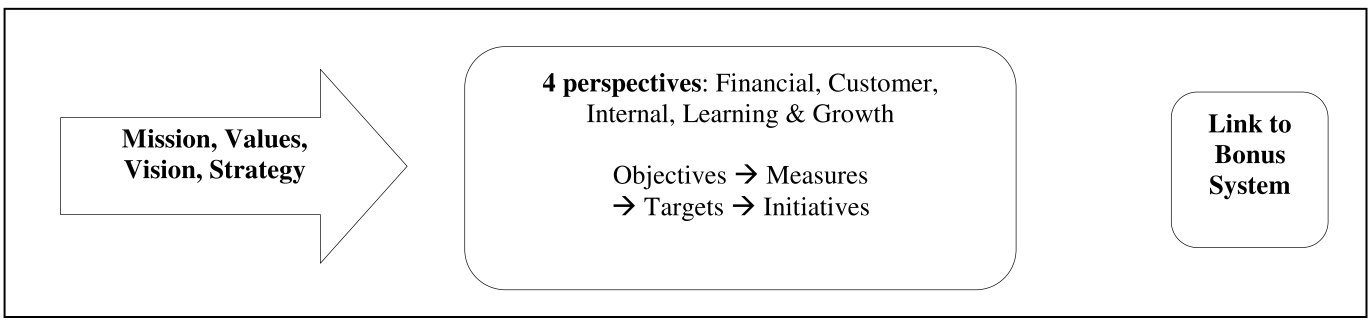

Figure 6: Process of Balanced Scorecard application

Following this framework, Qnware's mission, values, vision and strategy will first be determined in order to establish its BSC including four perspectives proposed in Norton and Kaplan's original articles. Each of the perspective will be composed of strategic objectives, measures, targets and corresponding initiatives. In the end, the whole BSC will be linked to Qnware's Bonus system.

3. Methodology

3.1. Research Context

To recap the objectives of this study, the ultimate expected outcomes help answer the questions of applying the Balanced Scorecard to Qnware's management system. There are two important points to remark in this regard.

First, this research is unlike usual social-science research, which is aimed to enrich existing theories. Instead, it is dedicated to solve significant real-life issues facing the Case Company. Consequently, it should add value to Qnware's unique circumstances besides contributing to the knowledge in the field. Here, the deductive approach is employed, since the testing of existing theories fuels this research process (Saunders, Lewis, & Thornhill 2009, 124). Second, there is a strong need for the researcher to work in close engagement with the company. This is, on the one hand, due to the value-adding objective. On the other hand, as discussed in the previous Chapter of Literature Review, the yielded BSC requires high degree of customization according to the firm's exclusive internal conditions and external situations: "each organization is unique and so follow its own path for building a balanced scorecard" (Kaplan & Norton, 1993). As a result, both the researcher and the company itself are obliged to enter a learning process in order to together meet the right solutions.

Zuber-Skerritt and Perry (2002) recommended action research as the answers to the above research needs. These authors argued that for professional practice and organizational learning, action research is a more appropriate method than traditional research. The reason is that traditional research has been proven to be of little value to real-life managerial problem-solving as it reduces the system to one or only a few parts with the rest assumed constant, while action research does recognize and involve social systems that the researcher must actively take part in to support critical exploration of complex and dynamic issues. More details about this approach will be discussed in the next section.

3.2. Action Research

This section will seek for the definition of action research, its origins, main characteristics and descriptions. First, in order to well define what action research is, one needs to look at the field from different angles. The reason is that there has not been one universal definition widely accepted (Altrichter et al. 2002); over the last 50 years, action research has been described and defined in various ways by different people (Earl-Slater 2002).

Brydon-Miller et al. (2003), as knowledgeable authors in the field of action research, suggested the definition by Reason and Bradbury (2001, p.1) as a decent explanation:

- "(Action Research) seeks to bring together action and reflection, theory and practice, in participation with others, in the pursuit of practical solutions to issues of pressing concern to people, and more generally the flourishing of individual persons and their communities."

On the other hand, Coughlan and Coghlan (2002), reviewing a dozen of literature on action research, defined it by the collected characteristics which are: research in action, rather than research about action; participative; concurrent with action; a sequence of events and an approach to problem solving. In further details, these characteristics mean that action research uses a scientific approach to study and construct resolution to social issues, together with those directly experiencing these issues – who are the study's participants instead of objects of the study like in traditional research – in order to both solve the real-life problem and contribute to scientific knowledge and theory. This definition again confirms the relevance of action research to this study.

Earl-Slater (2002) framed the definition of action research in a highly broad sense, saying that action research is a family of methodologies which jointly pursues action (change) and research (understanding) at the same time. Altrichter et al. (2002) seemed to also hold favorable view towards this way of defining by stating that a broad approach would be better than one fixed definition. These authors further proposed the following definitional model into which they believed any action research would fall.

If yours is a situation in which
- people reflect on and improve (or develop) their *own* work and their *own* situations
- by tightly inter-linking their reflection and action; and
- also making their experience public not only to other participants but also to other persons interested in and concerned about the work and the situation, i.e. their (public) theories and practices of the work and the situation;

and if yours is a situation in which there is increasingly
- data-gathering by participants themselves (or with the help of others) in relation to their own questions;
- participation (in problem-posing and in answering questions) in decision-making;
- power-sharing and the relative suspension of hierarchical ways of working towards industrial democracy;
- collaboration among members of the group as a "critical community";
- self-reflection, self-evaluation and self-management by autonomous and responsible persons and groups;
- learning progressively (and publicly) by doing and by making mistakes in a "self-reflective spiral" of planning, acting, observing, reflecting, replanning, etc.;
- reflection which supports the idea of the "(self-)reflective practitioner";

then
yours is a situation in which *action research* is occurring

Figure 7: Working definition of action research (Altrichter et al. 2002)

This working definition by Altrichter et al. is in line with those previously reviewed, by clarifying a strong need for engagement between research participants aimed at making change or improvements.

One essentially notable feature of action research, as pointed out by Susman and Evered (1978), is that it is contrasted with positivist science. The reason is that while positivist science seeks for universal knowledge via theory building and testing under context-free neutral perception, action research is particular and situational. Action research's data are contextually embedded an interpreted as the researcher is immersed in the research setting. Such feature of action research will fundamentally determine the research design and methodology presented in the next Section.

When it comes to the actual process of action research, absorbed from the work of Altrichter et al. (2002), Earl-Slater (2002), Zuber-Skerritt and Perry (2002), and Coughlan and Coghlan (2002), there is a strong presence of fieldwork where the "action" part of action research really takes place. This fieldwork was described as "core" of the research project that takes the form of spiral of cycles, each generally consisting of four major phases:1) planning 2) acting 3) observing 4) and reflecting. Figure below visualizes this process.

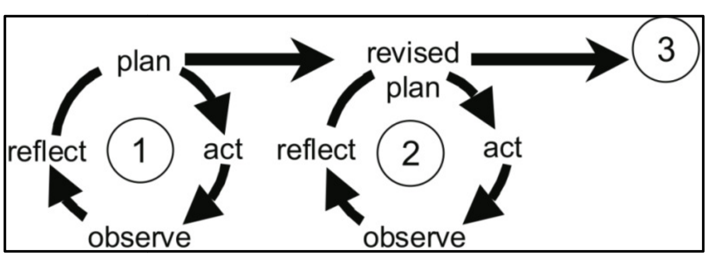

Figure 8: Core Action Research (Zuber-Skerritt& Perry 2002)

In the most complete case of action research, the researcher is required to make diagnostic data collection then plan for his intervention–field "action" which is then followed by observing and reflecting processes. Nonetheless, Susman and Evered (1978) claimed that action research projects might differ in the numbers of phases carried out in collaboration between action researcher and the client system. For example, the researcher can be involved only in collecting data for diagnosis, or action planning, taking action, or evaluating. Chein et al. (1948) argued that no matter how many phases an action research project contains, it is still of the nature and validity of a scientific action research, provided the right settings. Going further than this view, Zuber-Skerritt and Perry (2002) stated that an action research project done as a Master thesis needs to progress through one full cycle covering the four phases. The next Section will go into further details about the methodological choices of this particular study.

3.3. Research Design, Data and Methods

Following the proposal by Zuber-Skerritt and Perry (2002), this study will consist of four phases composing an action research cycle: plan, act, observe, and reflect. Since the study employs the conceptual frameworks formulated in the previous Chapter to seek answers to the research questions, the actions taken within this research cycle will revolve around those frameworks. The Table below will describe steps conducted along the fieldwork to reach the desired outcomes.

Phase	Goal	Data method
Planning	Find out about Qnware's overall strategy& business	A, B
Actions	Develop Qnware's own BSC	C, D
	Develop methods to link the BSC to Bonus system	C, D
Observing	Observe improvement & learning of Qnware & researcher	E
Evaluation	Reflect on key outcomes & learning	C

Table 4: Steps taken in each phase of fieldwork
Notes. A: Interviews; B: Website & documents reviews; C: Group discussions and workshops; D: Documents exchanges; E: Observation

Though as Coughlan and Coghlan (2002) mentioned, action research can include all types of data collection method whether they are qualitative or quantitative, this study will employ exclusively qualitative data since there is a great need for in-depth understanding and analysis of real and insightful contexts, which qualitative data can offer (Conger 1998). It can be easily seen from Table 4 that the data collection methods used range from individual observations, documents review and exchange to interviews, workshop and group discussions. Mainly, the researcher worked closely with the Case Company in collecting data for the planning phase. Besides, the researcher will also conduct three interviews with consulting companies in Finland that successfully have been through the similar situations as Qnware is in. The motive of these interviews is to extract key lessons from those who precede the Case Company for it to learn and apply to its own circumstances. This is similar to the position of a person who wants to build his new house, and look for advices from existing house owners. For that purpose, the interviews will be held semi-structured so that complex issues and opinions can be unearthed (Longhurst 2003). The action phase, when the actual outcomes of this study are yielded, will be done in close collaboration between the researcher and the owners of Qnware. Here the researcher act as an external consultant, taking the "Socratic role" – participating while reflecting on his own – as in Zuber-Skerritt's and Perry's (2002) process consultancy theory. The researcher observes the whole planning and action process until his final session of grasping up key learning with the company takes place.

Scientific Philosophy	Realism
Research Approach	Deductive
Research Method	Action Research
Research Choice	Qualitative
Data Collection	Interviews, workshops, group discussions, observation, documents exchange

Table 5: This study's research methodology

The above Table summarizes choices made in terms of design and methods for this study. The next Section will discuss the study's trustworthiness according to these choices.

4. Findings

Qnware's interest on this study is the establishment of the Balanced Scorecard. This Chapter will give a comprehensive picture of this whole process. Following texts are aimed at describing the focal intervention made by the researcher in collaboration with Qnware's owners – the construction of the BSC.

Realizing the need to establish the BSC, Qnware's owners and the researcher engaged in the first step of clarifying background information and data that facilitate the construction of the management tool; the firm's mission, values, vision and strategy are examined. Figure below gives a summary of Qnware on these aspects.

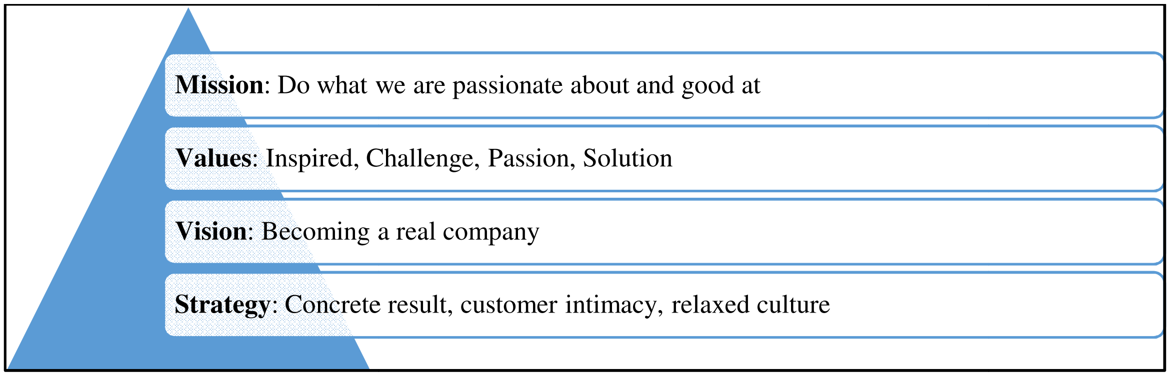

Figure 9: Qnware's Mission, Values, Vision and Strategy

Qnware sets its universal mission as the pursue for what the company is good at and passionate about. This mission statement has profound impact on the firm values, vision and strategy. On the other hand, the owners believe that their way of doing business is guided by the four major values: being inspired, taking up challenge, having passion, and thriving for solution. Such values define the firm's activities and in turn, specify the actual contents of the BSC. The company owner's vision of their business is to become a "real" company. In their own words, they would like a company that functions rightly, keeping its size moderate while succeeding and securing its market niche. In order to achieve this vision, the firm focuses its differentiating strategy on three pillars. The first is to offer concrete results to the customers. According to the owners' belief, consulting service should bring real impact; thus, the firm should thrive to deliver exactly what it promises. Nonetheless, such deliverables, in turn, need to be tailored to the customer's specific conditions rather than being standardized. This way, higher added values are guaranteed, and Qnware could maintain its competitive and beneficial relationships with customers. For that to happen, Qnware needs profound insights and competences to respond to its clients' needs. As a result, the second pillar, customer intimacy, comes into play to serve this goal. The last but not least strategic pillar is Qnware's down-to-earth and relaxed culture. This is said to not only fuel the firm's competences – because entrepreneurial spirit and culture have been facilitating Qnware's learning so far – but also strengthen its customer relationship. The owners recognize the typical "overly formal" consulting practices where consultants act as wise professionals coming to solve the problems and get away shortly after. For Qnware, their selling point is about being sincere partners that engage deeply into customers' process to gain a long-term trusting relationship with a minimum degree of non-value-added politics involved.

Until this stage, Qnware's vision, values, mission and strategy were well understood to set the necessary foundation for the construction of its Balanced Scorecard. In the next step, the researcher and Qnware owners worked on applying the BSC to the company via accomplishments of three major activities visualized in the Figure below.

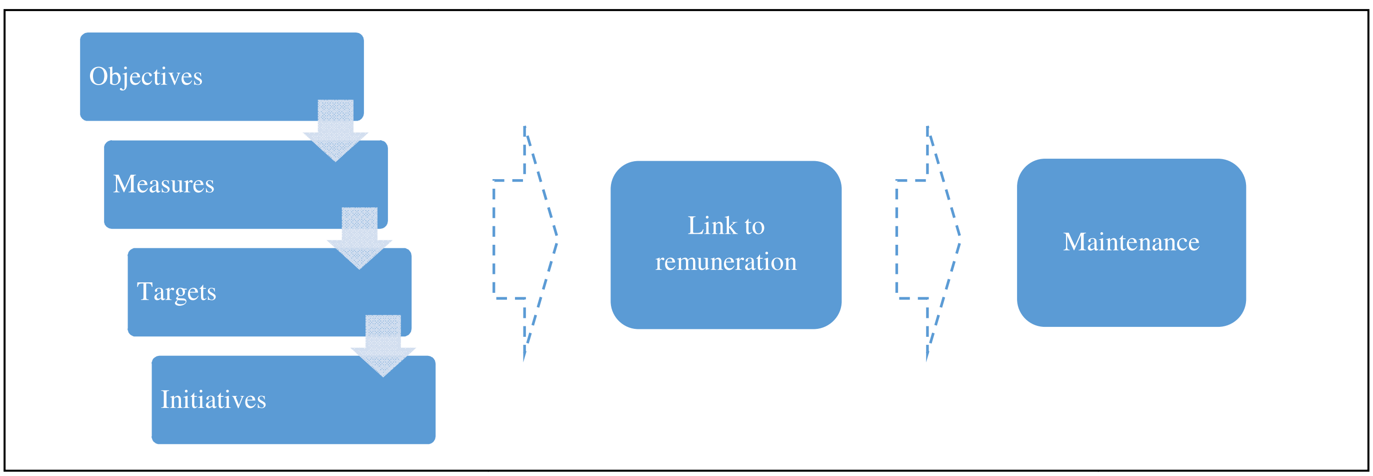

Figure 10: Three major steps in applying the BSC to Qnware

As can be seen in this Figure, the first step involves the construction of the BSC itself, while the two later enrich this application process. Presented in Chapter 2, a typical BSC consists of the above four dimensions, covering four perspectives which are Financial, Customer, Internal, and learning. The first task was to define the objectives for these four perspectives. Such objectives play a key role in visualizing the company's strategy map. Given that Qnware's strategy is composed of three pillars – Customer intimacy, concrete results and relaxed culture – these pillars will be depicted via Qnware's strategy map in the following Figure.

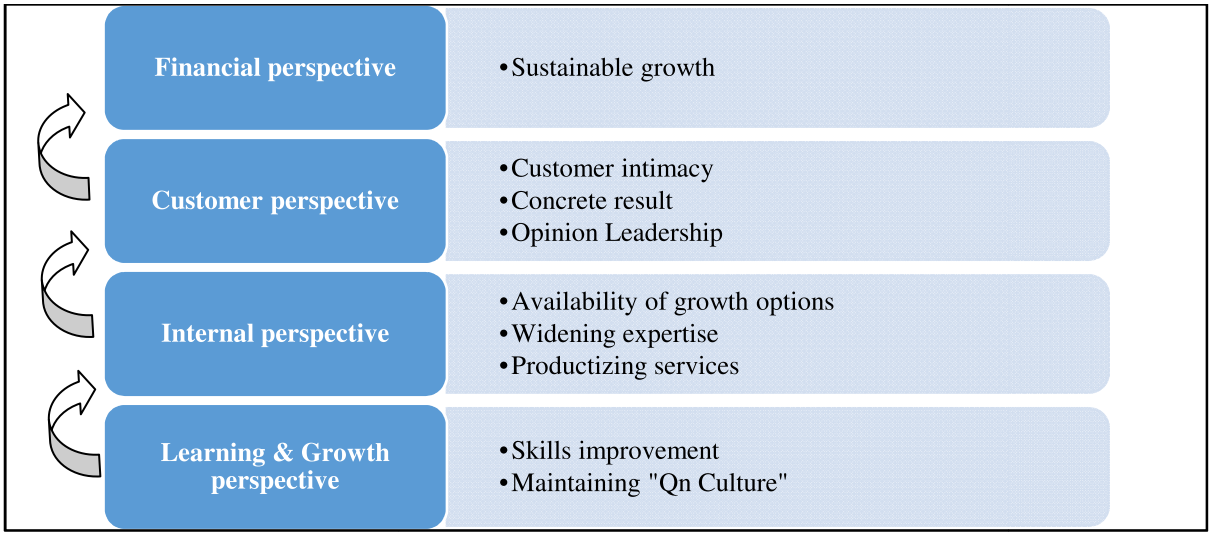

Figure 11: Qnware's Strategy Map

In this map, the objectives created under four BSC perspectives collectively construct Qnware's strategy in a supporting sequence. The arrows on the left indicate this sequence. Qnware primarily looks for a bottom line of sustainable financial growth. In order to achieve that, its customers need to be well served. Thus, in terms of customer perspective, Qnware needs to understand its customers insightfully so that it could find applicable and concrete results; besides, it tries to make certain of its consultants' opinion leadership over clients to ensure that the results are rightly delivered as Qnware intends. With regards to internal perspective, the objectives are what Qnware would like to excel on its own.In a start-up position, the owners believe that Qnware's first and foremost survival objective is to explore new opportunities. That is why the three objectives within this perspective direct the company to look for more and more growth options, widening their expertise, while keeping productizing their existing products so that they could be most conveniently offered to the customers. In other words, the two things Qnware would like to thrive for in this regard is first to survive, then continuously improve itself to satisfy the needs of its clients. The last perspective, learning and growth, points to Qnware's determination for skill improvements and entrepreneurial culture maintenance. Such objectives are believed to be at the core of Qnware's business.

Following the establishment of Qnware's strategic objectives, corresponding measures are developed to bring its strategy down to concrete activities. The next Table gives the list of these measures.

Measures	Strategic objectives	Notes
Sales	Sustainable growth	Total revenue
Profit Margin	Sustainable growth	EBIT
Productivity	Sustainable growth	Fees/No. Staff
No. of contacts	Sustainable growth	Contacts made/month
Deal closed	Sustainable growth	% deals closed/contacts
Retention rate	Customer intimacy	% customers retained
Reference rate	Customer intimacy	% customers recommending
No. of reference	Customer intimacy	No. of references received
Blog articles	Customer intimacy	Published articles on blog
White papers	Customer intimacy	Published white papers
Qnware Consulting Practice (QCP) Index	Customer intimacy Concrete result Opinion leadership	Rating of employees based on the QCP
Benefits to customers	Concrete result	*Method to quantify results to be developed
Sales of new offerings	Availability of gr. options	Sales in EUR of new products
No. of offering	Availability of gr. options Widening expertise	Total no. of Qn's offerings
Productizing rate	Productizing services	% productized/total offerings
Microsoft Certificate	Skill improvement	Same as Qn's existing use
No. of Challenge sessions	Skill improvement Maintaining "Qn Culture"	Sessions held monthly for learning & skill consolidation
Employees well-being	Maintaining "Qn Culture"	Real-time Motivation index

Table 6: Measures for Qnware's Balanced Scorecard

Within Qnware's BSC, all the measures come with descriptions regarding their units, measuring frequency and targets. This set of measures indicates a strong focus on Customer and Financial perspectives, as Qnware is thriving to differentiate itself while surviving as a young firm. The measures also hold a good mix between leading and lagging measures. For instance, within the "Sustainable growth" objective, there are not only lagging measures acting as bottom-line results such as Sales and Profit margin, but also leading measures initiating actions such as Number of contacts and Deal closed, which are meant for higher prioritization on sales activities. The similar mix could be found in "Customer intimacy" objective where the lagging results show whether customers are happy with Qnware's deliverables and hence willing to retain as well as recommend the company; while the leading measures ensure actions taken beforehand by Qnware. It is notable that there are key measures which play a significant role handling various strategic objectives at once. One example is the Qnware Consulting Practice index, which is the rating of professional consulting performance guideline for Qnware's consultants to follow as to differentiate themselves from others. This measure promotes the consultants' endeavor to absorb customer insights and deliver results in the right manner. Due to its nature of being specific down to all consultants' professional activities, Qnware's owners will be required to invest time to construct a well-founded index system that decently works as a guideline for their consultants without the pressure of micro-managing. The owners will also take charge of measuring employees' performances.

Another remark among the measures is Qnware's effort to quantify its offerings' benefits to the customers. "Offering concrete results" is an important strategic pillar; and finding a method to determine whether the delivered result has been concrete as expected is a challenge for Qnware. That is why the "Benefits to customer" measure is here to stay. Though the development of measuring methods will be saved for later actions, among the most prioritized initiatives, there are two major factors that Qnware realized necessarily taken into account. First, regarding how to measure the success of a consulting intervention, the firm is considering a combination of assessments on various aspects namely: customers' satisfaction and reaction within different time frames; the extent of learning of new skills, processes, procedures, and tasks customers have been able to absorb; the degree of success of the actual application and implementation of the consulting intervention; the actual business impact including hard and soft data; the monetary return on the costs of the project to which Return on Investment ratio could be applied; and other intangible measures of outcomes. The second major factor to consider is how to extract such data by integrating the measures into the actual consulting process. When attaining data, it is important for Qnware to separate the consulting project's influence from other factors that may also affect outputs. Besides, centralizing all the measures to a common monetary or quantifiable unit is a significant challenge for the company.

For the remaining measures, Qnware has been implementing and linking with its existing data system to keep track with changes against prior-determined targets. These targets are subject to the company's own strategic purposes for given situations, thus are made absent from this report.

The last action taken in constructing the BSC is creating themes of initiatives which not only help assist a successful application process but also help executing Qnware's strategy. The researcher worked with the owners to develop a list of possible initiatives applicable to Qnware:

- Constructing Qnware Consulting Practice (QCP) Index
- Constructing a system of quantifying concrete benefits to customers; embedding this system to the consulting process
- Recording sales activities
- Recording motivation Index
- Recording working time
- Constructing a system of monthly Challenge Sessions

Nonetheless, it should be noted that each initiative theme requires significant planning for actual implementation. Therefore, the owners believed that establishment and adaptation of these initiatives should be later integrated along with the process of BSC implementation, so that Qnware would be able to commit sufficient resources to the most urgent matters.

The next major step in the intervention phase is linking the remuneration system to the BSC. As mentioned in Section 2.1.4, the BSC could play a helpful role in making the compensation theme transparent while appealing employees' dedication to the BSC program. Qnware owners pick up the measures they believed are most relevant to the firm's short-term strategy, and created the following Table as a linkage between their consultant's bonus model and performance indicators in the BSC.

Measures	Notes	Weights
Sales	Linear definition of the multiplier from 250000 to 300000	30,00 %
Profit Margin	Has to be over 25%. If below 25% bonuses are not paid. EBIT is calculated including the possible bonus.	10,00 %
Blog articles	Linear multiplier up to 3 per employee	10,00 %
White papers	Linear multiplier up to 1 per employee	10,00 %
Sales of new offerings	Linear definition up to 10%. Only sales as a new product are taken into account.	10,00 %
Microsoft Certificate	On/Off basis.	20,00 %
Challenge sessions	Linear multiplier up to 3 sessions	10,00 %

Table 7: Qnware Consultant Bonus Model

There are three points that should be noted from this Table. First, the measures composition of Qnware's compensation is well balanced. Each perspective holds a roughly equal number of measures. Besides, Qnware's choice to pick mostly leading measures, except for the first two bottom-line financial measures, indicates a strong emphasis on desired actions to be taken by its human resource. The fact that only a compact number of measures linked to bonuses is also agreeable, since the longer list might lose people's focus on the most essential drivers of the firm's current strategic direction.

Second, Qnware made a clear threshold for its rewards pay-out. This is again a solid way to communicate what the firm prioritizes the most to its employees. In this case, Qnware would only grant any bonuses to employees once the Profit Margin measure – EBIT – reaches the fixed target of 25%. This is the floor threshold which determines when bonuses system is activated. Another threshold – the ceiling threshold applying to the case when performances far exceed expectations and total reward is set higher accordingly – was not yet implemented.

Third, as can be seen in the above Table, Qnware put a heavy weight on the Sales measure, which means a strong on the current path of sales-driven strategy. As the owners believed, their very urgent job at this stage is to seek for more projects and higher revenue to scale up the business. Nonetheless, allocations of weights not only reflect the firm's strategy but also indicate the role that a specific set of bonus-linked measures is associated to. In other words, the software developer at Qnware would have a different set of reward measures from that for consultants above.

After constructing the foundational elements for the BSC and linking it to the reward system, the last but not least task that Qnware needed to conduct was to ensure decent implementation for the BSC project i.e. maintenance. The first action taken was documenting the BSC and its measures. Qnware centralize the BSC construction results into spreadsheets, where measures' information and data, together with reward themes could be conveniently found. The company further communicates thoroughly its strategy map with the BSC embedded to its people so that every individual could have clear view of the company's direction, and their part within it. As mentioned, the initiatives are under development to accomplish unfinished measures such as QCP Index and Benefits to Customers. On the other hand, all components of the BSC are constantly revised and updated as an ongoing process.

5. Discussions

Before the application of the BSC, Qnware was in need for an intuitive and easy-to-understand way to internally communicate its goals and strategy. They would like a robust and proven management framework to concretize the roles of each individual within the big strategic picture. The choice to adopt the BSC as the answer was chiefly based on the owners' earlier experiences.

The establishment of Qnware's BSC and the conceptual framework for this process in particularrelied largely on Kaplan's and Norton's (1996) foundational concepts and Niven's (2002) inclusive guidance. The fact that project has been acknowledged successful by Qnware validated these theories. Besides, the construction process took into account key success factors proposed by Chan (2004) and Williams (2004). The researcher and the owners integrated in their work these authors' emphases on management's commitment, BSC simplicity, and the balanced between different dimensions within the BSC. In addition, Maister's (2007) recommended ratios for consulting business were partly utilized in Qnware's final list of the BSC measures. Regarding the BSC linkage to bonus system, the current model under implementation at the company was accomplished in the style well similar to Snapka's and Copikova's (2011) model. Qnware model also complies with rules and suggestions given by Niven (2006) and Ittner et al. (2003) that cover measure composition, thresholds, weights, manifestation of strategy, and avoidance of subjectivity. The BSC application process at Qnware is still ongoing, which is necessary so that the scorecards could be flexibly modified as a result of SME's typically rapid changes in strategy and environment. Tennant and Tanoren (2005) together with Andersen (2001) and Hudson et al. (2001) previously confirmed the validity of this practice.

Despite the fact that there needs to be further time to observe the impacts that the BSC application has on Qnware's management system, the firm has been able to embrace instant gains from the intervention. In fact, these benefits resemble a large part of ideas made by Birch (1998) and Gumbus and Lussier (2006) on how the BSC could benefit SMEs. Qnware found itself enabled to effectively communicate its goals and strategy; employees now have a clear vision of how their own work contribute to the company's growth; that is partly thanks to their access to the new transparent and "on-demand" bonus system as a result of the BSC; Qnware's owners, most importantly, now possess a concrete and powerful management tool which well assists them to manage and scale up their business.

In summary, findings about the BSC adoption at Qnware provide an empirical case for the application of related literature being reviewed. The key evidences have been shown via the smooth establishment of the tool, as well as initial benefits brought to Qnware as a consequence of the project's success.

6. Limitations and Future Research

This study is qualitative and thus, bears within itself typical limitations of qualitative research such as subjectivity and limited extension to wider populations. Nonetheless, such limitations are unavoidable trade-offs for the sensitivity, flexibility, meanings, richness and exclusiveness that this type of research could offer.

The very first limitation lies in its time constraint. As mentioned earlier, the BSC establishment is still ongoing, and some of its key initiatives are under development. Despite the view that the application process of the BSC should be left ongoing for flexibility and adaption to changes, it still poses a risk that the evaluation of the process success and its impact to Qnware has not been absolutely accurate.

The second limitation concerns the sample size. The BSC establishment involved only the researcher and Qnware owners. This might have resulted in the rather boxed views shared between insiders of the business. For better objectivity, third person's perspective could have been employed by capturing the experience of similar professional service firms that have adapted the management tool.

Give the position of this study, the researcher would suggest several directions for further research. It would be interesting to find out how the application of the Balanced Scorecard to other small sized consultancy differs from that of Qnware. It is also beneficial to learn how Qnware's BSC changes as well as its overall impact on the firm's management system, after the firm has reached a substantially bigger size.

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