

The Application of Balanced Scorecard in Enterprises

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Abstract: According to the rapid development of science and technology, the management of enterprises is suffering from unprecedented challenges. There are endless methods and theories about enterprise performance management. Balanced Score Card (BSC) is a systematic and advanced tool of management, which was proposed by David Norton and Robert Kaplan in 1992. It has been widely generalized and applied in the world. On the basis of the advantages of traditional performance management, it pays more attention to the economy. And the evaluation of the realization degree of the goal is more comprehensive.

Introduction

In recent years, the social and economic environment is becoming more and more complex. The market competitiveness is growing, and the pressure of development of enterprises is also increasing. If you want to make enterprises in an invincible position in this competitive environment, the first thing to do is to follow the developing pace of the economic market and to innovate the enterprise management mode. Innovating performance management mode is one of the most important problems in the current environment for managers all over the world. The "rigid demand" of enterprises gives rise to a new performance management theory. The balanced score card is a new management theory and tool which is derived from the process of continuous innovation of performance management theory. The most outstanding advantage of balanced score card is the dynamic and comprehensive properties. As the strategic management system of an enterprise, balanced score card bases on the market competition and contribution of the enterprise. It could combine the implementation methods and results, and could dynamically evaluate and regulate the business activities of the enterprise. The balanced score card provides a new model for the strategic management for enterprises. Enterprises can pay more attention to the long-term development by using the Balanced Score Card for evaluation. This study provides guiding ideas for enterprises which have not yet established and are establishing BSC.

According to Kaplan and Norton, the organizations of enterprises in the future should not only focus on the short-term goals, but also on the long-term development. In addition to focusing on financial performance, they still need focus on non-financial organizational operation capabilities. The BSC is one of the most popular performance management tools, which categorizes the quantifiable objectives of an organization into four perspectives: finance, customer, learning and internal processes. [1]

After the continuous practice and further theoretical exploration for more than ten years, balanced score card gradually became popular and was selected as the most effective tool by Harvard Business Review in 1975.

Composition of Balanced Score Card

The Balanced Score Card is a performance measurement system or performance appraisal index system which was designed to realize the developing strategy of the enterprise. It has the following

four characteristics. [2]

Financial. Financial indicators play an important role in traditional performance appraisal methods and balanced score card. According to the Balanced Scorecard, the financial performance indicators of enterprises could change the different stages of enterprises. For enterprises in the growth stage, their abilities are hard to provide sufficient goods, high-quality services and persistent income, and have a larger investment scale and a lower Return on Investment (ROI). At this time, the financial performance indicators of the enterprise are income growth rate, market sales, etc., and the enterprise should evaluate its financial performance through these indicators.

Management could do nothing without real-time data which could reflect the actual situation of enterprise operation. So at the beginning of making development strategy, the first thing to be considered is the formulation of financial objectives. The financial objectives in the Balanced Scorecard have reversed the situation that traditional enterprises pay too much attention on financial indicators while other aspects have been neglected. Therefore, for emphasize, the financial indicators of the balanced score card are not isolated. Firstly, It should be related to the development strategy of the enterprise closely and reflect the strategic objectives and the degree of realization. Secondly, it should build a vertical causal chain with non-financial indicators to link up four indicators of the Balanced Score card.

Customer. During one certain extent, customers' satisfaction of the enterprise determines the position of the enterprise in the market. In order to provide satisfactory services and products, enterprise must base its production and operation activities on the customer value. The customer indicator under the balanced scorecard is to evaluate the operation of an enterprise from the perspective of customers, which includes Market share which is the proportion of products in a certain market, Customer retention, the proportion of long-term cooperative relationship between enterprises and customers. New customer acquisition: the proportion of new customers acquired. Customer satisfaction: customer satisfaction with the goods and services. Customer profit contribution which could be considered as the profit brought to the enterprise by customer's purchase.

Internal business process. The internal business process is to evaluate the operation from the perspective of the internal business. It is the key to improve the performance of an enterprise, and its indicators mainly include three aspects. [3]

Innovation ability is mainly reflected in establishment and development of new markets, new customers, new products and new services. For example, the time which is needed for enterprises to develop new products, the proportion of sales volume of new products within total sales volume, the proportion of expenses for developing new products to operating profit, and the proportion of new products meeting customer requirements of total products, etc.

Performance evaluation of production and operation: operation is the process of paying for products and services to customers. Balanced score card combines financial cost, time and quality. The indexes include quality of products and services, service cost of products, repetition, and production cycle of products, etc. [4]

Enterprise after-sales service: follow-up service after the product sold to the customer, mainly including the timeliness of service, service attitude, the probability of one-time success of service, etc.

Learning and growth. Evaluate the operation status from the perspective of enterprise learning and growth. The operation of an enterprise cannot separate from the information department, employees and regulations. Therefore, it mainly includes the following three types:

Employee competency: including employee satisfaction, work efficiency, training times, etc.

Enterprise information capability: including the proportion and coverage of information actually obtained and expected to be obtained, time required for the system to provide information, etc.

Incentive and cooperation: including cooperation between employees and departments, suggestions provided by employees, and employee acceptance and so on[5].

Implementation of Balanced Scorecard

How to implement the balanced scorecard? We need several steps:

- (1) Formulate its mission, vision and strategy in advance to point out the direction for the development of the enterprise. These strategic objectives should be trained, publicized and implemented. As shown in the figure 1, all employees should know and get general recognition.
- (2) Decompose their strategic objectives to form long-term, medium-term and short-term objectives. According to the short-term and medium-term strategic objectives, combining the development status would be significant. Annual strategic objectives also must be formulated every year.
- (3) In order to achieve the annual strategic objectives, we shall formulate the annual business plan, including marketing, production, equipment investment and renovation, quality improvement, procurement, inventory control. At the same time, department should make a department breakdown plan. All plans should meet the requirements of the strategic objectives.
- (4) Comprehensive budget management makes business plans and the decomposition plans quantified and monetized. To maximize the economic benefits, resources should be reasonably allocated according to the management and control focus.
- (5) Combined with the annual strategic objectives Enterprises can set objectives from four dimensions, finance, customer, internal operation, employee learning and growth. The setting of performance objectives must conform to the principle "SMART" which can be the focus of the current management, the core work, or the weak link of the current enterprise and the key problem need to be solved. Different performance objectives in different industries and different stages of development design.
- (6) According to the maturity of management, we can gradually implement and improve performance management. We can set objectives for company level, department level and post level objectives in turn. Position level objectives should be able to promote department level objectives, and department level objectives should be able to promote the achievement of company level objectives. In order to ensure the seriousness of performance management, it is necessary to prepare performance appraisal documents of the company / department / post, and clarify the appraisal rules and target values [6].

Some Dos and Don'ts

First of all, it cannot be divorced from corporate culture. According to incomplete statistics, enterprises spend more than 85% of their energy on management, and ignore the cultivation of corporate culture. Enterprises should not only use punishment to manage performance work, but also integrate corporate culture which can strengthen good behaviors of employees, strengthen encouragements, reduce the post weight, and improve the assessment of learning and growth.

What is more? The awareness for the whole staff should be raised because the BSC is a new thing for the employees. To make them understand the role of the BSC in the development of the enterprise, we should strengthen the propaganda, communicate and interact with them in time, make them participate in it actively so as to promote the effective management of the BSC.

In addition, the analysis of the relationship between input and output need also be considered. Although enterprises are profit-making organizations, we can not only pay attention to the short-term earnings, ignore the process of establishing a system, especially the establishment of Balanced Scorecard which is complex and takes a long time. We should face it correctly. We can focus on the overall situation and think about it in the long run and work hard.

By the way, it is Dynamic management. The setting of index system is not constant. With the change of time, the number and weight of indexes are also changing. Even if it is the same index, in different time, its weight is also different. We should adjust it steadily according to the actual situation.

Last, create a good incentive model. At the same time of improving corporate culture, we should make a effective incentive mode, so as to use "soft" constraints to motivate employees to work hard.

For example, according to different levels of employees, equity incentive and employee welfare are used to restrict the implementation of balanced scorecard.

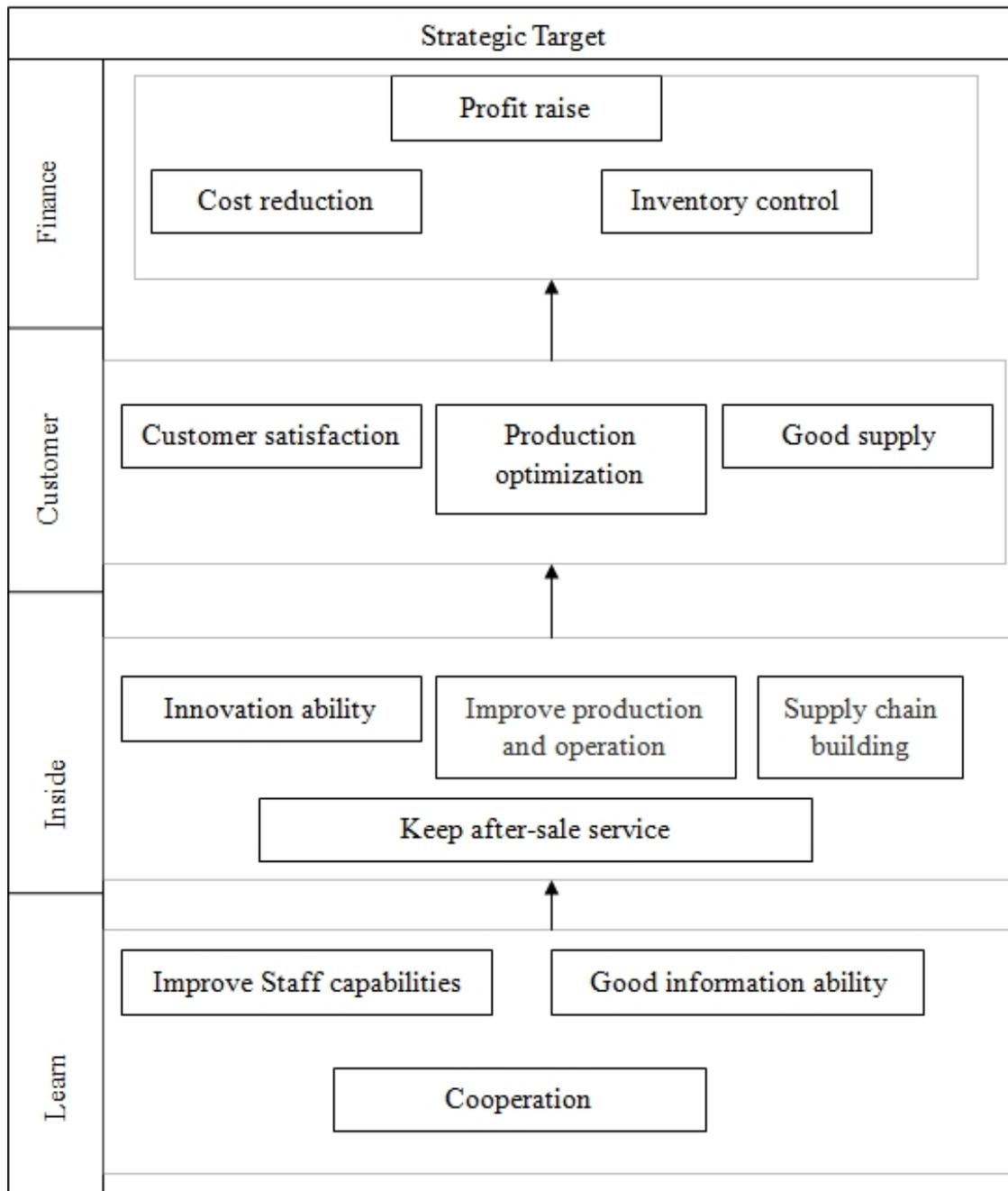


Figure 1. Strategic Target

Concluding Remarks

The main value of BSC is to focus the organization's time and energy on the most important areas which need to be improved. It can help managers pay more attention to the key indicators which are most important to achieve the company's strategic objectives. Revealing the strategy is properly formulated effectively and correctly implemented or not. Making strategic objectives clearly and ensuring strong execution could be twice as effective. Now, in the performance evaluation and incentive mechanism of enterprises in China, profit-based evaluation is easy to cause the short-term management behavior of managers. In addition, the capital market is also very irregular, so that the equity, options and long-term profitability can not be effectively implemented.

Especially the situation that most enterprises are non-listed, how can investors evaluate objectively? It has become a difficult point. From this point of view, it is significant to implement the balanced score card in enterprises.

All in all, the Balanced Scorecard plays an important role in enterprise performance management. It has an important impact on the long-term development of enterprises. Therefore, in the performance management, we must pay attention to its application. It is not only to update the concept, train everyone concerned, treat the relationship between the cost and the benefit correctly, but also to standardize the management, improve the level of overall management. Improve the level of performance management and achieve the strategic objectives and promote the sustainable development of the enterprise finally.

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