

## **THE APPLICATION OF BALANCED SCORE CARD (BSC) IN THE PERFORMANCE MANAGEMENT OF ENTERPRISES**

**ZHANG JINGSHI**

Department of Management Science and Engineering, Nanjing University of Aeronautics and Astronautics,  
Nanjing, China

### **ABSTRACT**

With the globalization of the economy and advent of the information era, the market environment has become increasingly uncertain; due to which customers have now more personalized preferences. Enterprises around the world are facing more fierce domestic and international market competition. In order to improve their competitive ability and adaptability, many enterprises are exploring more effective ways to improve productivity and organizational performance. The adjustment of the organizational structure, layoffs, flattening, and decentralization have become a mainstream trend of contemporary change. Although these organizational measures reduce costs, they do not necessarily improve performance. As a powerful strategic performance management system, Balanced Score Card (BSC) can play an important role in improving individual and organizational performance. This paper introduces the evaluation indexes in BSC and emphasizes its importance and advantages in the performance management of enterprises.

**KEYWORDS:** Balanced Score Card, Strategy & Performance management

### **INTRODUCTION**

In the new era, enterprises are facing many challenges, such as the production cycle of products, market share and so on. If an enterprise wants to occupy a stable position in the fierce market competition, it should do a good job in performance management to pave the way for the strategic development. Performance management is a complete system. In this system, managers and employees communicate continuously to achieve pre-determined and clear performance goals, thus realizing the organization's vision and strategic goals. With the continuous changes in the market environment, many managers have realized that a new performance management method is necessary to achieve the long-term development plan and sustainable development goals. As a new management system, BSC carries out assessment and management work from different dimensions to ensure the rationality of organizational management decisions, providing new impetus for the long-term development of enterprises.

### **BALANCED SCORE CARD**

The BSC is a strategic management and performance evaluation tool that provides a comprehensive evaluation system. The company delivers its strategy and mission to its employees by measuring the four basic aspects. The four levels are as follows:

- Financial level,
- Customer level,

- Internal business processes level, and
- Learning and growth level.

The BSC was ranked the second on the list of “the 10 most influential management ideas in the last 80 years” by Harvard Business Review. In addition to the ERP and CRM, there are more enterprises using BSC[1].

### **Structure of BSC**

Through the use of intangible assets such as human capital, information capital and organizational capital (learning and growth), and innovation, strategic advantage and efficiency (internal business processes), which allows the company to bring specific value to the market (customer), thus realizing shareholder value (finance)[2].

### **Financial Index**

Financial performance indicators include:

- The revenue growth index.
- The cost reduction or productivity improvement index.
- The capital or investment strategy.

According to the specific requirements, enterprises can set more specific indicators, such as Economic Value Add, Return on Equity, Rate of income on investment, Selling Profits, Receivable Turnover, Rate of cost reduction etc[3]. The enterprise according to the different requirements in different development period makes the corresponding choice of financial performance indicators. For example, in the growth period, the enterprise with a large growth potential in the aspect of providing products and services can obtain income, its scale of investment becomes large, and the rate of investment return becomes low. Thus, the financial goal is mainly to increase the rate of income growth and target market, customer base and regional sales on continuous basis. So, during this period, enterprises should use the rate of sales growth, the rate of target market income growth, cost rate and so on to evaluate its financial performance.

### **Customer Index**

Modern management philosophy believes that customer satisfaction is the key to the success of the enterprise. To maintain long-term business performance, an enterprise must create products and services favored by customers, so its activities must be based on customer value.

Customer performance indicators include:

- Market share - In a given market, the proportion of products sold by the enterprise.
- Customer retention - The enterprise continues to maintain a proportion of its trading relationship with old customers. (It can be expressed either in absolute or relative numbers).
- The rate of customer acquisition - The rate in which enterprise acquires new customers in percentage terms. (It can be expressed either in absolute or relative Numbers).
- Customer satisfaction index - It reflects customer satisfaction with the value they derive from the enterprise. It can be estimated by correspondence, interview, etc.

- The rate of customer profit contribution - The level of profit an enterprise earns by providing products or services to its customers.

### **Internal Business Processes Index**

Internal business processes indicators mainly include:

- An indicator of an enterprise's ability to innovate - For example, the time spent in the development of new products, the proportion of new product sales, the proportion of new products launches even before competitors, the proportion of development costs to operating profits, the proportion of products designed for the first time that can fully meet customer requirements, and the number of design modifications needed before production, etc.
- An indicator of an enterprise's production and operation - Such as product production time and operating turnaround time, the cost of products and services, etc.
- An indicator of an enterprise's after-sales service - For example, the processing time of product failure, the success rate of after-sales service, customer payment time, etc.

### **Learning and Growth Index**

Learning and growth measures the ability of an organization to achieve sustainable development - Learning and growth indicators mainly include:

- An indicator of employee competence - For example, employee satisfaction, the rate of employee retention, employee's work efficiency, staff training times, the level of staff knowledge, etc.
- An indicator of an enterprise's informational capabilities - For example, the rate of information coverage, information system response time, the level of public knowledge, etc.
- An indicator of an enterprise's motivation, empowerment and collaboration - For example, the number of suggestions made by employees, the number of suggestions adopted, the degree of collaboration between individuals and departments, etc.

Although the above four parts have specific evaluation objects and indicators, they are closely related to each other. All the indicators together constitute a complete evaluation system.

### **The Difference between the BSC and the Traditional Method**

The main difference between the BSC and the traditional method is:

- The purpose of the assessment is different

Traditional performance appraisal is mainly to complete the personnel work, to support the superior, pay attention to the form and the summary of the experience, do not pay attention to the future improvement. The BSC focus on content, put forward improvement ideas and methods, and pay attention to improve employee satisfaction[4].

- The method of assessment is different

Traditional performance appraisal is a subjective description and a single assessment. The leader grasps the

assessment process, and the employees do not understand the assessment results. There is no timely communication and feedback. The BSC is not only a subjective description, but also a two-way communication. Employees participate in the whole evaluation process, so that can give timely feedback, which is conducive to improving their work enthusiasm.

- The result of assessment is different

Traditional performance appraisal do not pay attention to employees' thoughts and requirements. Employees just accept the tasks assigned by the organization and the assessment results unconditionally. After the assessment, employees gain nothing, and even affect their enthusiasm to a certain extent. However, the organization has no substantial improvement. The BSC assesses employees' attitudes and requirements, obtains their opinions and suggestions on the organization, and jointly sets future work and improvement goals. In this way, communication and understanding are enhanced, confidence and satisfaction of employees are enhanced, cohesion of the organization is enhanced, and efficiency of the organization is improved.

## **THE CHARACTERISTICS AND ADVANTAGES OF THE BSC BASED ON STRATEGY**

### **The Characteristics of the BSC Based on Strategy**

It centers on the corporate strategy and vision, while reflecting the balance relationship:

- Balance of financial and non-financial indicators

In the BSC, it includes not only financial indicators, such as operation revenues, profit rate and so on, but also non-financial indicators, such as customer satisfaction index, the rate of customer retention rate, employee satisfaction index and so on[5].

- Balance of long term and short-term indicators

In the BSC, it includes long-term indicators, such as customer satisfaction index, the rate of employee turnover, frequency of staff training, staff training costs and so on. It also includes short-term indicators, such as cost, profit, short-term profit, etc.

- Balance of external and internal group indicators

In the BSC, it includes external group indicators, such as the index of shareholders, and customers, etc. It also includes internal group indicators, such as the index of internal business processes and employee learning and growth, etc.

- Balance of objective and subjective judgment indicators

In the BSC, it includes not only objective indicators, such as the index of financial level and internal process level. It also includes subjective indicators, such as the index of the customer level and the learning and growth level[6].

- Balance of leading and trailing indicators

In the BSC, it includes leading indicators, such as the rate of on-time delivery. It also includes trailing indicators, such as the index of customer satisfaction and so on.

### **The Superiority of the BSC Based on Strategy**

The BSC is not only a management tool, but also a management idea, that is:

- Only quantitative indicators can be assessed
- The achievement of an organization's vision is measured by multiple indicators

Since the BSC is proposed, its comprehensive assessment of enterprises and the concept of paying attention to the long-term development of enterprises have been fully valued in the academic and business.

The BSC management method has the following advantages:

- Overcome the short-term behavior of financial valuation methods.
- Align actions across the organization to serve strategic objectives.
- Effectively translate organizational strategy into performance indicators and actions at all levels of the organization.
- Facilitate communication and understanding of organizational goals and strategies by employees at all levels.
- It is conducive to the learning and growth of the organization and employees' core competence.
- It is conducive to the long-term development of the organization.
- Improve the overall management level of the organization.

## **THE APPLICATION OF BSC IN THE PERFORMANCE MANAGEMENT OF ENTERPRISES**

The BSC in Performance Management of enterprise is composed of four dimensions: finance, customer, internal process, learning and innovation. Based on establishing the enterprise's vision and strategic theme, the internal relationship between strategic theme and organizational activities is constructed. Then it can be transformed into operational measurement indicators, which are implemented into the daily work and performance goals of every employee.

### **The Implementation Process of the BSC in the Performance Management of Enterprises**

- Develop the enterprise vision and enterprise strategy

The BSC has certain requirements for the long-term goals and strategic planning of enterprises. Under the condition of ensuring the realization of the strategic goals, the enterprise gives full play to the advantages of various resources in the internal and external environment, and correctly plans its business scope, growth direction and competition counter measures. Through rational analysis of internal advantages and disadvantages, enterprises can fully mobilize various resources to improve their core competitiveness, so as to gain competitive advantages and formulate enterprise vision goals and enterprise strategies suitable for their own development.

- Transform the organization's business strategy into measurable indicators

In order to more intuitively reflect the implementation of enterprise performance management, the BSC connects the enterprise strategy with a set of measurement and evaluation indicators through the strategy implementation mechanism, and gradually fills the gap between the strategic planning and the actual implementation of the enterprise strategy. In order to better implement the enterprise strategy, the enterprise strategy is gradually

transformed into four aspects of measurement indicators, which include financial, customer, internal learning process, and learning and innovation.

- Combine corporate strategy with individual short-term goals

The goals and measures in the BSC are interrelated. This association includes not only causation, but also the combination of measurement of results and measurement of processes leading to results, which ultimately reflects organizational strategy. After the performance appraisal indicators are selected, specific targets corresponding to each indicator should be determined to coordinate specific targets among different departments and individuals. Enterprises should reasonably avoid conflicts between strategic objectives, business objectives and individual performance appraisal objectives. Break down and refine corporate strategy when necessary, linking corporate strategy with departmental strategy and individual performance.

- The implementation of the strategy and dynamic adjustment, improve the assessment system

When the enterprise performance appraisal indicators and strategic objectives are determined, the systematic performance appraisal content system will gradually evolve. During the specific implementation of the strategy, pay attention to the supervision and control, timely find the planning errors in the actual implementation of the strategy, and adjust the target system at any time. Dredge the information feedback channel, improve the information feedback mechanism, and make reasonable adjustment plans according to the changes of internal and external environment of the enterprise. Establish a set of complete assessment system, give full play to the BSC measurement role, enhance the competitiveness of enterprises.

- According to the implementation of the BSC to make evaluation

According to the specific performance of each department and each employee within the enterprise, formulate corresponding reward and punishment measures. Provide necessary training programs for employees to improve the innovation ability of enterprises through continuous learning and accumulation.

### **The Implementation Conditions of the BSC in the Performance Management of Enterprises**

The successful implementation of BSC in enterprise Performance Management not only depends on the management level of the enterprise, but also has a close relationship with the quality of employees and the level of enterprise informatization. In order to make the BSC play a full role in enterprise performance management, the enterprise management level should be process-oriented, standardized and rigorous, so as to ensure that all levels of enterprise strategy can be effectively implemented and finally achieve the expected goals of the enterprise. The implementation of BSC in the enterprise requires the enterprise to provide an automated method flow. Analyze and sort out all the data included in the BSC solution to promote the internal operating environment of the enterprise to make a timely and accurate reflection of the external environment, so as to make the internal information feedback of the enterprise more reliable and fast. At the same time, in the application of BSC in enterprise performance management, enterprise strategy should be decomposed reasonably according to specific situations. And constantly improve the quality of employees, to ensure that the Enterprise Performance Management achieves good results.

### **CONCLUSION AND SUGGESTIONS**

As a new strategic management model, BSC is very effective in business practice, but we must be aware that BSC is not

omnipotent. In different time and different space, the requirement for BSC differs. In the process of enterprise performance management, the following matters should be paid attention to:

- Adhering to specific issues specific analysis

The BSC is a template which contains a wealth of information. Different enterprises have different strategic objectives and measurement indicators. Any enterprise in performance management to apply the BSC, must be based on their own specific circumstances, adhere to specific analysis of specific problems, absolutely cannot copy the so-called success model.

- Adhere to timely and fast communication

Balanced Scorecard as a sub level of three-dimensional structure, regardless of its design or implementation of the application of the BSC, all require internal coordination and adequate communication. By reducing the friction and energy consumption to achieve the best coordination and balance. As a hierarchical structure, the BSC requires full coordination and communication within the enterprise during its design and implementation

- Adhere to the full participation model

The BSC is a comprehensive application tool that relates to all aspects of enterprise operation practice and involves various subsystems and different individuals in the enterprise. The application of BSC not only involves the future development and overall interest planning of enterprises, but also relates to the vital interests of every department and individual of enterprises. Therefore, BSC should insist on the participation of all employees in enterprise performance management.

In short, BSC provides an efficient method for enterprise performance management, which breaks through the limitations of the traditional financial index as the only measurement tool. It achieves the balance of financial indicators and non-financial indicators, the balance of long-term goals and short-term goals, the balance of external and internal enterprises, and the balance of management performance and business performance. In the future enterprise performance management, the rational application of BSC is conducive to the long-term development of the enterprise and can effectively overcome some short-term behavior. It is also conducive to gain the recognition of enterprise departments and employees, ultimately improving the competitiveness of enterprises, and realizing the strategic goal of maximizing enterprise value.

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