

Application of Balanced Scorecard in Chinese Company

—Taking DEVOTION LTD for Example

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Abstract: In this dissertation, the concept of BSC is introduced; the use of balanced scorecard in DEVOTION LTD is explored; A mixed methodology and a questionnaire are adopted; and finally, a conclusion and some suggestions are put forward.

1. Introduction

As one of the most popular tool, the balanced scorecard has been widely used in western countries. The balanced scorecard is considered by many researchers that can drive the company performance. According to a survey conducted by Brain & Company in 2007, 66% out of a sample of 1221 companies were using balanced scorecard, and 88% of the companies claim that balanced scorecard is very helpful in terms of design and implement of the employee payment. In recent years, enterprises' structure and the way to deliver good performance has changed notably in china. However, there is little research on china's adoption of balanced scorecard tool.

2. About balanced scorecard

2.1 The concept of balanced scorecard

BSC is a powerful tool of strategic performance management, it was used for performance control. It's cose idea is that taking finance as the core, so as to realize the combination of performance evaluation and financial objective.

BSC divides the evaluation of corporate performance into four parts: financial aspect, customer, management process, learning and growth, the four parts structure is shown in Figure 1.

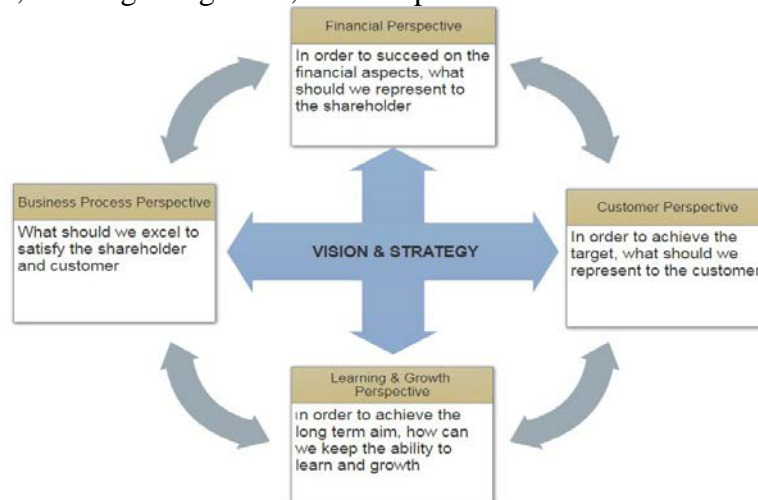


Figure 1. Four aspects of BSC

Financial perspective includes indicators such as the mean profit growth rate, return on sales, ROI, liquidity ratios, ROE, EPS, and EVA.

Business process perspective includes flow improvement and innovation, aftersales service flow

improvement and innovation, staff turnover ratio, production efficiency, and product quality improvement.

Customer perspective includes customer satisfaction, number of customer complaints, customer retention, delivery time, market growth rate, and market share.

Learning and growth perspective includes the measurement target related to the creation of long-term growth and improvement of an organization through manpower, system and organization programs, such as employee development, strengthening of information system competency, strengthening of authority/responsibility and incentives, strengthening of objective achievement competency, and employee satisfaction.

2.2 Two functions of balanced scorecard

Two functions must be mentioned, the first is that BSC can be used to well solve the historical nature problem as the financial measure is about the past performance, while non-financial measures drives the future performance. The second function is conducting the company strategy through setting target, the concrete plan, budget etc. Besides the prediction function, BSC can also be adopted as a control system, to get the consensus about strategy, align departmental and personal goals, as well as link strategic objectives to the long term targets.

3. A case study of using BSC

3.1 A brief introduction of using BSC in DEVOTION LTD

DEVOTION LTD is an energy based company stated in 1993 in Guangzhou, China. Its core business includes energy, equipment and service. Although DEVOTION is based in China, its technique, equipment and company culture are largely influenced by the western company.

The BSC for DEVOTION 2018 is shown in table 1.

Table.1. The BSC for DEVOTION of 2018

Corporate goal	Measures	Target	Reporting frequency
Financial Perspective			
Increase profitability Increase shareholder value Survival	Profit growth Return on sales return period Liquidity ratios	5% for the year 30% per annum 25% (3-5 years) 1:1	Quarterly Half yearly Yearly Quarterly
Customer Perspective			
Increase customer satisfaction Reliability	Customer rating Number of complaints On-time deliveries	Top 5 ranking 1% of goods delivered 97% each month	Half yearly Monthly Monthly
Internal Business Perspective			
Satisfied employees Production efficiency Production quality	Staff turnover ratio Energy exchange efficiency % of defective units	5% per year 70 % overall 0.2% per month	Yearly Quarterly Monthly
Innovation and Learning			
Introduce new products Employee development Product improvement (new clean energy)	% of sales from new products Training hours per employee Spending on R&D	20% of sales from new products 32 hours training per employee per year 15% of after-tax profits per year	Yearly Yearly

3.2 Implementation of BSC

3.2.1 Financial aspect

The aim for DEVOTION is to maximum the shareholder value. For the short term aim, DEVOTION proposes that ‘DEVOTION development’ plan to shorten the development cycle and lower the research cost and other attached cost. In the long term aspects, DEVOTION is focusing on the sustainable development. DEVOTION proposes the concept ‘customer centric’ which emphasize the demand of the client and customer loyalty.

The key performance indicator is very clear in this company. The target ROI is 25%. By using a calculation tool, DEVOTION will calculate the potential return on investment in order to make the decision. Once the project has been decided and agreed by the expert, it usually requires a return period of 3-5 years.

Besides the company overall target, the managers salary is attached to the company goal, the total salary is depends on the two parts including fix and variable salary. according to the 2018 figure for DEVOTION, when the income is below 50 million RMB, the fixed salary is between 200k to 300k RMB. When the assets value or income is between 50 million to 80 million, the fixed salary is between 300k RMB to 400k RMB. When the assets value or income is over 80 million RMB, the fixed salary is between 400k RMB to 500k RMB.

3.2.2 Customer aspects

DEVOTION encourages link the customer value to the performance apprising which consequently allow it become a nature outcome. The customer’s satisfaction is from the product and service. Thus, DEVOTION builds up a ‘DEVOTION’ club to enhance the relationship between customer and the company. This club has become pivotal for DEVOTION in case of the detrimental of the reputation and create a better brand image.

According to its corporate culture report, the business of DEVOTION has to create long term benefit for the whole society and stakeholders, the way that people use the energy is in a smart way such as internet energy, which is smart, safe, clean and economic. It states that the future economy model is in an ecological way, which is multi-benefit, multi-development. DEVOTION is trying to achieve economy target and environment target at the same time.

3.2.3 Learning and innovation aspect

On the leaning aspect, DEVOTION focus on ‘core competency’, its management system, professional manager and company culture constitute to its fourth aspect. Through years of accumulation, the management system has become the pivotal element of DEVOTION’s core competence which plays a key role for the health of the company.

DEVOTION spends a lot of time on innovation every year especially on the technology part including employ talent engineers and scientific investment. DEVOTION also pay attention to the employee training.

3.2.4 Internal process aspect

In terms of the key process of the positioning, DEVOTION suggest that ‘take big give up small’. After analyzing the value chain, DEVOTION suggests to use five months to implement, two months to prepare. Through learning and innovation, DEVOTION gradually improve its internal process.

The director of the technology department tell us that energy industry is relying on the technology. As he said: “the success of the industry depends on the energy exchange rate, overall, the exchange rate in china is around 50%, while the exchange rate for DEVOTION is around 65% which is above the average industry level. 1556447 25 However, some developed country can achieve an over 80% exchange rate. The aim of DEVOTION is to keep improve the efficiency of using energy.”

Besides, we found that DEVOTION is socially responsible, especially on the environment aspect and safety aspect.

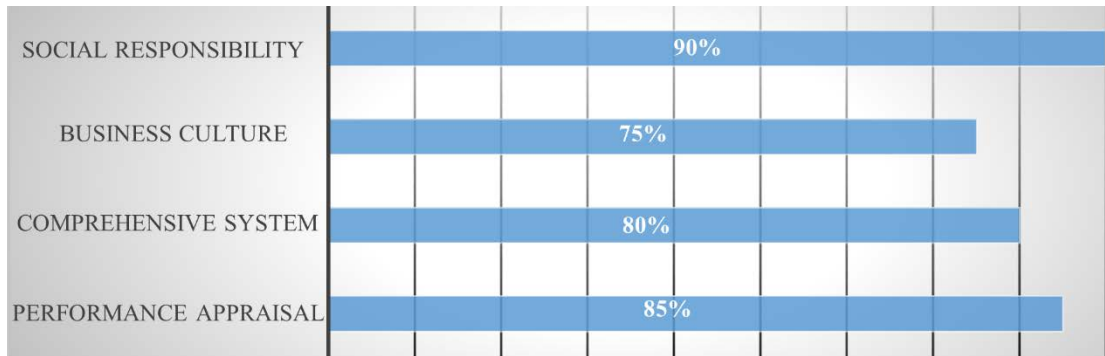


Figure 2. The drivers of the performance

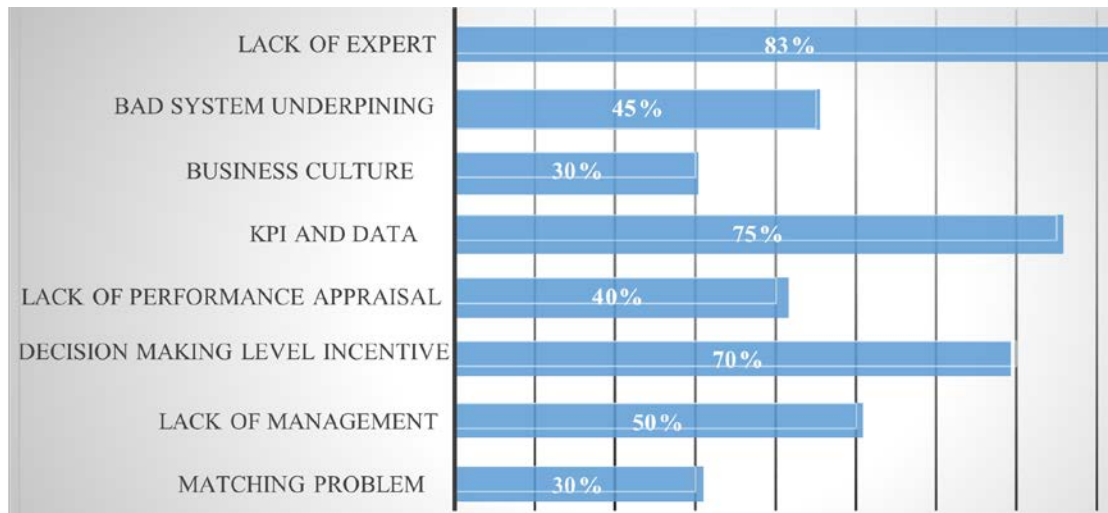


Figure 3. The barriers to improving performance

3.3 Impact on company performance

The survey also test the influence on the several crucial factors within the organization. The strategy budget is widely believed that influenced by the balanced scorecard. Over 70% of employees think it is extremely influential.

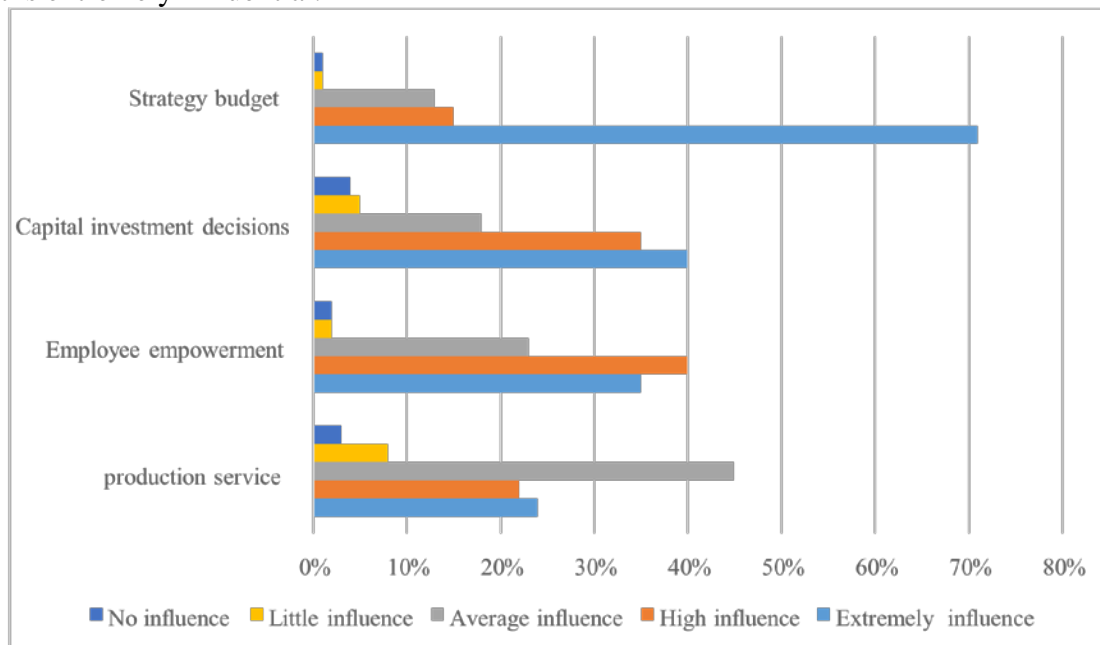


Figure 4. Factors that Influenced by BSC

The employee empowerment and capital investment is considered to be highly influenced by BSC

according to the survey, most of the employees choose between high influential and extremely influential. While most of employee think production service is averagely influenced by the BSC.

From the data, it can be seen that the main function of BSC for DEVOTION is still for the performance appraising 0% 10% 20% 30% 40% 50% 60% 70% 80% production service employee empowerment Capital investment decisions Strategy budget No influence Little influence Average influence High influence extremely influence 1556447 30 purpose. Most of the stuff believe that BSC is a tool that is used for performance control instead of managing the performance.

Despite there is a high failure rate, the adopting of the balanced scorecard is very successful for DEVOTION.

4. Conclusions

The case company shows a good penitential regarding using BSC. The study concludes that BSC can be used in Chinese company, however, it should be noted that company need to have a good underpinning to implement BSC. It is also very important that when using BSC in China, the most effective way is linking the employee's performance to the company long term aim. Furthermore, it is expected that china can develop BSC in a more Chinese style instead of trying to strictly copy the western form.

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