Problems and Solutions of Balanced Scorecard in Small and Medium Sized Enterprises

Hongyang Ye

Zhejiang University of Finance & Economics Dongfang College, Haining 314400, China. E-mail: 375321174@qq.com

Abstract: The balanced scorecard is a new dynamic performance management system which is different from the traditional performance evaluation system. It effectively transforms the enterprise’s strategy into four operational dimensions: finance, customer, internal business process, learning and growth. This paper introduces the balanced scorecard and discusses the problems existing in the application of the balanced scorecard in small and medium-sized enterprises. It summarizes the solutions accordingly.

Keywords: Balanced Scorecard; SMEs; Finance; Learning and Growth

1. Introduction of balanced scorecard

The balanced scorecard (BSC) is a new performance management system which transforms the company’s strategy into operational target value and measurement index from four aspects of finance, customer, internal business process, learning and growth. These four angles influence and restrict each other, and they are in a causal chain. It will eventually be reflected in the financial statements[1].

2. Problems existing in the application of balanced scorecard in China’s small and medium sized enterprises

2.1 There are some problems in the understanding of balanced scorecard in small and medium sized enterprises

With the gradual enlargement of the pace of opening to the outside world, many small and medium-sized enterprises in China have begun to adopt the balanced scorecard. However, some enterprises simply imitate the balanced scorecard model and end in failure. These phenomena exposed the problems of imperfect internal control, and weak scientific management knowledge, conservative and backward understanding of performance management, and low management level of enterprises[2].

2.2 Financial problems

As the core of balanced scorecard, the financial aspect is the result of the implementation of the other three aspects. However, small and medium-sized enterprises have been lack of corresponding high-quality financial management personnel and unable to establish an effective financial index system. Without an effective financial index system, enterprises cannot fully understand, analyze and evaluate their own profitability, solvency, etc. Financial indicators, and...
enterprises in different periods should have different emphasis on financial aspects.

2.3 Customer problems

In the current increasingly fierce competition, the concept of customer-centered is particularly important. Without effective customer evaluation index system, such as market share, secondary purchase rate, customer satisfaction, delivery cycle, service quality and after-sales cost, etc., enterprises cannot timely improve the quality of products and services according to external evaluation business plan and strategy of the whole company.

2.4 Problems in internal business process

Internal process is the key link to improve the operation of enterprises. Some enterprises do not establish the relationship between the target and the internal business process in the production and operation, which leads to the reduction of production efficiency. Some enterprises set the target too high at this level, resulting in the failure to complete the task.

2.5 Problems in learning and growth

Learning and growth are the basic level of balanced scorecard. At the same time, enterprises are required to pay long-term attention to the indicators of employee satisfaction, employee retention rate, employee training and skills, and the driving factors of these indicators. Small and medium-sized enterprises often cannot evaluate the ability of employees at all levels, and learning and growth is the most easily overlooked and despised part.

3. Countermeasures to solve the problem of using balanced scorecard in small and medium-sized enterprises

3.1 Better understanding of the balanced scorecard for small and medium-sized enterprises

The balanced scorecard system is different from the traditional performance management. It is a modern, dynamic, scientific and reasonable performance management system. The management should strengthen the understanding of performance management, and managers should maintain a balanced idea. They should not only care about the financial data, but also take into account the four aspects of finance, customers, internal business process, learning and growth, and they need to establish a balanced scorecard system in line with the enterprise itself. At the same time, we should also realize that it is a long-term process to use the balanced scorecard to carry out performance management. The implementation of balanced scorecard requires not only a clear understanding of the top management and long-term capital investment support, but also the understanding, recognition and positive support of the upper and lower employees of the enterprise. It is suggested that enterprises should set up a balanced scorecard committee to consult and absorb opinions and suggestions from all aspects and levels. After repeated improvement, the balanced scorecard can better serve the strategic objectives of enterprises.

Small and medium-sized enterprises should scientifically set the weight of performance indicators: each enterprise should adjust the weight according to its own industry. The weight of financial indicators and non-financial indicators should be representative in line with the growth track and strategic objectives of enterprises. The total weight of the balanced scorecard system is 100. According to the strategic and business objectives of the enterprise, the weight of the four elements, namely, finance, customer, internal business process, learning and growth is determined according to the importance of each index. The higher the importance degree is, the greater the weight is. Generally speaking, the weight of financial indicators is the largest. In the follow-up operation period, the enterprise should pay attention to the updating of the index revision and use the flexible and changeable characteristics of the balanced scorecard to reflect the strategy and performance evaluation focus of the enterprise in different periods.

3.2 Establishment and application of a scientific financial system

Financial dimension needs to be measured separately, and it is also the starting point and goal of the other three
dimensions. DuPont analysis is a classic method to evaluate the performance of enterprises from the financial perspective, so this dimension suggests that DuPont analysis method should be used to analyze and find the suitable financial indicators for enterprises. At the same time, the relationship between several major financial ratios is used to comprehensively analyze the financial status and operating results of an enterprise in terms of operating capacity, solvency and profitability.

Most of the small and medium-sized enterprises are enterprises in growth, and they need to make a large amount of investment at this stage. Therefore, the measurement of financial indicators should focus on the sales growth rate, so as to reflect the business situation. For mature enterprises, we should pay more attention to profitability, such as net profit rate of sales and total assets, return on investment, etc., to reflect the profitability and return rate of shareholders. For the enterprises in the sustainable development stage, they should pay more attention to cash flow, such as the rate of return on total assets, which comprehensively reflects the sales results and asset operation of the enterprise. In order to improve the cash flow, it is necessary to increase the sales revenue and reduce the use of working capital.

Rational use of tax planning. At present, in our country, even many local governments have many preferential tax policies and tax relief policies for small and medium-sized enterprises, such as raising the threshold to enter the general VAT payers and lowering the range standard of the taxable income rate of enterprises. The financial personnel of enterprises can use tax planning to reasonably avoid tax and increase profits. It can reduce audit without tax evasion and calculate the risk.

3.3 Learning and growth

Learning and growth is the basic level of balanced scorecard, and the most critical factors are talents and information system. This requires enterprises to improve employee satisfaction, increase staff training investment and costs of research and development. At the same time, they should introduce excellent and high-quality talents and cultivate innovation consciousness. It is also required to improve the overall innovation level of enterprises, the efficiency of resource allocation, research and develop core technology, core competitiveness, the construction of internal control system, and the control of internal control elements[7].

Among them, the imperfection of information system is a common fault and pain point of Chinese enterprises. The low degree of informatization and imperfect information management leads to the untimeliness and distortion of information collection in enterprises, which requires enterprises to improve the level of informatization, the cooperation of employees and strengthen internal communication while building internal control[8].

Different from the traditional concept, under the balanced scorecard system, in order to achieve sustainable growth and development in the future, the requirements for employees are not only to complete the work tasks, but also to respect and attach importance to the suggestions and ideas of employees in various aspects (including production and operation process, finance, customer satisfaction, customer complaint rate, employee training, employee satisfaction, etc.). Enterprises also need to increase R & D expenses, which are not only preferential for tax deduction, but also play a decisive role in the future development of enterprises. It masters core technology and increases market share[9,10].

4. Epilogue

Balanced scorecard is a performance appraisal method, a strategic management tool and a dynamic system, which combines the four dimensions of finance, customer, internal business process, learning and growth, and it can change with the change of enterprise strategy.

Enterprises should find the shortcomings of the current performance evaluation system and adjust the performance indicators (and the weight of performance indicators) of the balanced scorecard when examining themselves. They should also strengthen the information exchange and communication between various departments, so as to measure and evaluate the enterprise strategy from four dimensions and establish a balanced scorecard system in line with the enterprise itself.
References

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