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Development of an Comprehensive Budget Management and Performance Evaluation System

-- A Case Study of Company A

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Abstract: The rapid advancement of socio-economic conditions and technology offers enterprises opportunities to enhance their capabilities. As they expand operations, improving management precision becomes essential. Budgeting, a crucial accounting tool for implementing corporate strategy, quantifies action plans and translates strategic planning into specific quantitative measures. Budget management involves forecasting, planning, evaluating, and providing feedback on future business activities and financial outcomes, guiding operational optimization and driving the achievement of strategic goals. Comprehensive implementation of budget management is highly significant for enterprises. This paper explores the characteristics and implementation details of comprehensive budget management, assesses the achievements and shortcomings of Company A in its practice, and analyzes its budget performance evaluation methods, particularly the deficiencies in indicator design. Using the balanced scorecard theory and methods, this study designs a budget performance evaluation indicator system tailored to Company A's context. This system, based on the company's strategy and objectives, employs budget performance evaluation as a means to achieve overall strategic goals through business improvement and employee motivation.

Keywords: Comprehensive Budget Management; Performance Evaluation; Balanced Scorecard.

1. Introduction

Driven by global economic forces and national policies, comprehensive budget management has become pivotal for enterprises to enhance operational efficiency and achieve sustainable development. In China's automotive industry, technological innovation and refined management are crucial for gaining market competitiveness.

National policies strongly support manufacturing and technological innovation, providing favorable conditions for the automotive industry's transformation. These policies encourage enterprises to engage in independent innovation, improve technological standards, and optimize resource allocation, thus enhancing market competitiveness. By aligning closely with national policy directives and industry trends, automotive companies are committed to improving their comprehensive budget management systems and performance evaluation mechanisms. This dedication not only improves operational efficiency but also serves as a vital pathway to sustainable development.

2. Current Status of Company A's Budget Management and Evaluation

(1) Comprehensive Budget Management System

Company A Automotive Group, a large centrally administered enterprise, ranks second in the automotive industry according to the national enterprise technology center's rankings. With over 10,000 authorized patents, the company aims to be a leading technology enterprise providing high-quality automotive products and services.

The comprehensive budget management organizational system of the company consists of three main entities: the budget decision-making body, the daily management body, and the execution body. The management process includes four key stages: budget planning and decomposition, execution and control, analysis and adjustment, and evaluation and assessment. The company integrates medium and long-term budget plans into a unified development plan. Each fourth quarter, the company organizes preliminary budget allocations to ensure smooth operations for the following year's production, business activities, and investment projects.

The budgeting process follows a "top-down and bottom-up" approach, ensuring clear management expectations and requirements for various departments and employees. Comprehensive budget management is a continuous process involving clear task definitions, problem identification, coordinated efforts, and continuous improvement. The principles for budget preparation include strategic guidance, assessment constraints, balanced coordination of short- and long-term considerations, value orientation, risk control, unified management, and categorized control.

Comprehensive budget management is a multifaceted financial planning process based on forecasts of key factors such as market analysis, resource control, and R&D plans. The core content includes the budget management of key financial indicators and reports[1]. The annual operating revenue budget, based on market research and forecasts, guides the company's operational activities during the budget cycle. Cost and expense budgeting is crucial for controlling expenditures as they directly impact economic benefits. By controlling costs, the company can plan target profits and costs, decomposing these targets into relevant departments to constrain behaviors and budget costs.

For capital expenditure budget management, the company aims to improve investment return efficiency within its financial capacity. It scientifically evaluates the effectiveness of current year resource investments and coordinates capital and expense inputs for the next year, adhering to the principle of "living within one's means."

(2) Current Status of the Company's Budget Performance Evaluation

Comprehensive budget management, as an automated tool, requires strengthened leadership, clear responsibilities, and effective implementation measures [2]. The comprehensive budget management committee, comprising senior leaders and heads of key departments like Finance, Business Planning, and Human Resources, oversees budget management systems, annual business objectives, budget preparation strategies, and supervises budget execution. Each profit center establishes a budget responsibility system from the project level to the department and then to the section level, ensuring designated personnel at each level manage budgets.

The Finance Department oversees budget execution, organizes monthly analyses, communicates issues with relevant departments, and proposes improvement measures. Budget execution results are incorporated into performance evaluations for each department.

Comprehensive budget management emphasizes departmental coordination and cooperation to ensure the company's strategic goals and key financial indicators are progressively decomposed and implemented. This approach fosters a community of responsibility, stimulating managers' and employees' creativity and enthusiasm.

Budget management focuses on operating revenue and cost control, reflecting requirements for controlling procurement and technical costs and analyzing product price fluctuations to enhance market competitiveness[3]. Both business and non-business budgets emphasize rational goal setting and cost control to improve profit margins and total profits.

The company has also established a budget analysis system, with the Finance Department collecting and analyzing budget data and preparing regular operational analysis reports. Each department must analyze budget execution in detail, identify deviation causes, and propose improvement measures. Assessment and evaluation mechanisms motivate departments to align operational activities with budget objectives.

3. Issues with Performance Evaluation Indicators

(1) Overemphasis on Result-oriented Indicators

The excessive reliance on quantitative financial indicators leads to overly definitive evaluation conclusions. An effective evaluation system should guide employees on specific tasks and how to perform them. Such process-oriented guidance can standardize behavior and ensure budget work quality. The current evaluation method fails to encompass work processes and cause analysis, restricting budget level improvement and strategic advancement.

(2) Lack of Systematic and Consistent Indicators

Financial indicators, based on the accounting year cycle, address only current year metrics. These indicators are set by department leaders according to annual work plans and goals, requiring budget personnel to focus solely on assigned tasks. This approach does not adequately tap into employees' potential, affecting their sense of achievement and autonomy over time, and diminishing collective recognition. Although objective, these indicators fail to reflect long-term goals, leading to a short-term focus among employees.

(3) Exclusion of Employee Capability Development Indicators

As the company's work is ultimately executed by its employees, performance evaluations should include assessments of employees' professional skills and learning capabilities. The current evaluation system does not support professional growth or internal system improvements, limiting the potential of budget management.

Given these issues, the existing budget performance evaluation system does not fully reflect the role of budget management in company operations. It also does not support employee skill enhancement or strategic goal achievement.

4. Introducing the Balanced Scorecard

(1) Formation of an Internal Environment

The effectiveness of implementing a balanced scorecard is significantly influenced by management's emphasis and employee competency. Senior company leaders recognize the importance of comprehensive budget management, and this awareness is spreading across departments. Reforming the evaluation mechanism is becoming imperative. The high educational qualifications, professional skills, learning abilities, and information processing capabilities of employees provide favorable conditions for balanced scorecard implementation. Implementing budget performance evaluation based on the balanced scorecard can enhance internal management and serve as a reference for the group and the industry.

(2) Alignment with Balanced Scorecard Strategic Concepts

The balanced scorecard's core goals align with budget performance evaluation. Introducing the balanced scorecard overcomes the limitations of traditional methods, helping avoid short-term behaviors and ensuring consistency between the company's overall strategy and departmental goals. The balanced scorecard translates departmental objectives into specific, actionable indicators, aligning every employee's work with the company's strategy, meeting both leadership and departmental needs, and assisting in strategic goal achievement.

(3) Comprehensiveness, Balance, and Accuracy of the Balanced Scorecard

The balanced scorecard's comprehensiveness, balance, and accuracy meet performance evaluation needs across departments[4]. As a systematic approach, the balanced scorecard balances indicators across dimensions and designs specific indicators according to strategic significance, achieving comprehensive, systematic, and accurate budget performance evaluation.

5. Building the Key Indicator System

Mission: The company is dedicated to using automotive innovation to enhance the quality of life. Cars are not just means of transportation; they are seen as a third space beyond home and work, with immense innovative potential. The company aims to provide a pleasurable and convenient driving experience through technological innovation, supporting customers, investors, partners, and employees in achieving their dreams.

Brand Values: Quality, Wisdom, and Harmony. Quality forms the foundation of the brand, encompassing the overall quality of the enterprise, employees, and products. Harmony represents the spirit of the brand, dedicated to creating a warm and harmonious environment, bringing joy to customers, society, and employees. Wisdom drives the brand, continuously enhancing intelligent technology capabilities and enriching emotional experiences.

Vision: By 2035, the company aims to become a world-class enterprise, achieving the development goals of "three leaderships and one pioneering initiative." As a technology enterprise providing high-quality automotive products and services, the company plans to promote both passenger and commercial vehicle development through the establishment of three major business groups, enhancing development quality and depth. Additionally, the company will build a technology sector industry cluster to strengthen the incubation of technological innovation outcomes and create a neutral innovation platform supporting the development of the automotive industry. Furthermore, the company will establish a service ecosystem business group, developing scalable service businesses, creating a service ecosystem brand, and promoting the transformation towards a product-plus-service model.

Strategy: During the "14th Five-Year Plan" period, the company will follow the development themes of "independence, reform, synergy, and innovation," striving to build a competitive and sustainable independent development system. The company will deepen reforms to enhance competitiveness and vitality in the modern competitive environment; promote synergy to strengthen collaborative development efforts; and vigorously drive innovation, especially in technology, management, and talent. The company is committed to implementing the "14th Five-Year Plan" and the three-year action plan for state-owned enterprise reform, establishing an effective linkage mechanism between business planning, financial budgeting, and performance management.

The balanced scorecard approach will be introduced to decompose the strategy, breaking down the company strategy to the level of each business unit and functional department. Each department, based on strategic requirements, will develop strategic measures, subdivide them into strategic objectives, and formulate action plans and capacity-building initiatives to support the achievement of strategic indicators.

Comprehensive budget key indicators are divided into four dimensions: "value creation, customer service, internal operations, and corporate growth," corresponding to the financial, customer, internal process, and learning and growth dimensions, respectively. These four dimensions are interrelated, progressively supporting the achievement of strategic objectives. The company's strategic objectives revolve around "independence, reform, synergy, and innovation," with core tasks focusing on resource integration, optimized allocation, enhanced management, and improved operational efficiency and profitability.

Personnel and internal processes are the foundation for achieving these goals. The professional quality, innovative spirit, and satisfaction of employees, as well as the internal business processes, are crucial to the company's operations. Each dimension is further subdivided to ensure the attainment of overall strategic objectives. Value creation is the ultimate criterion for company performance, while customer service is fundamental to achieving value. Efficient internal processes are key to providing high-quality service and customer satisfaction, and learning and growth are the foundation for internal processes and the overall company strategy.

The strategic decomposition process is reflected in two aspects: the balanced scorecard emphasizes the balance between financial and non-financial goals, long-term and short-term goals, external and internal perspectives, results and processes, and management and operational performance. This helps the organization achieve long-term coordinated development. Additionally, through strategic maps, balanced scorecards, and action plan tables, the causal relationships between strategic themes and business objectives, as well as the logical connections between business processes and talent development, are clearly displayed.

Table 1. Optimized Budget Performance Evaluation Index System

Dimensions	Strategic Objectives	Secondary Indicators
Value Creation	Increase in sales revenue, enhancement of corporate profitability	1. Income budget completion rate 2. Expenditure budget completion rate 3. Cost expenditure rate 4. Asset-liability ratio 5. Accounts receivable turnover rate
Customer Service	Increase in market share, improvement of customer satisfaction	1. Increase in key customer numbers 2. Customer satisfaction 3. Market share
Internal Operations	Smooth internal operations and management, standardization of management system	1. Comprehensive budget preparation efficiency rate 2. Management system establishment and implementation cost 3. Safety production evaluation
Learning and Growth	Improvement of employee quality, enhancement of corporate R&D capabilities	1. Employee training completion rate 2. Training budget ratio 3. Corporate culture construction 4. Core employee turnover rate 5. R&D expenditure to total expenditure ratio

The company's budget performance evaluation system comprises two components: the achievement of budget targets and the progress in completing budgetary and key work items. Incorporating the frequency of budget completion into the evaluation system enables managers to monitor the entire budget execution process and ensures the smooth achievement of goals.

In constructing and optimizing this evaluation system, multiple factors need to be considered to set the weights of the indicators. These indicators must align with the company's overall strategic objectives, considering the internal and external environment as well as historical performance [5].

Additionally, feedback from departments and employees should be sought, as they are directly involved in budget execution and possess a deep understanding of the business. Incorporating employee feedback during the weight-setting process can enhance the practical feasibility and operability of the evaluation system.

Table 2. Weights of Secondary Indicators in the Balanced Scorecard

Dimensions	Secondary Indicators	Weights	Action Measures
Value Creation (25%)	1. Income budget completion rate 2. Expenditure budget completion rate 3. Cost expenditure rate 4. Asset-liability ratio 5. Accounts receivable turnover rate	5% 5% 5% 5% 5%	
Customer Service (25%)	1. Increase in key customer numbers 2. Customer satisfaction 3. Market share	10% 10% 5%	Detailed market research, customer relationships, Satisfaction surveys, follow-ups Market analysis
Internal Operations (20%)	1. Comprehensive budget preparation efficiency rate 2. Management system establishment and implementation cost 3. Safety production evaluation	5% 5% 10%	Refinement of systems Management system optimization projects Safety production systems, quality management system
Learning and Growth (30%)	1. Employee training completion rate 2. Training budget ratio 3. Corporate culture construction 4. Core employee turnover rate 5. R&D expenditure to total expenditure ratio	5% 5% 5% 5% 10%	Incentive policies Reasonable scheduling, phased training Spiritual construction, cohesion enhancement Human resources R&D innovation

6. Conclusion

While the balanced scorecard overcomes the limitations of traditional performance evaluation methods and offers multidimensional assessment advantages, it faces several challenges in practical implementation. Notable issues include the complexity of setting indicators, the difficulty of the implementation process, high evaluation costs, and the challenge of detailed target decomposition. Furthermore, the balanced scorecard has a long implementation cycle, making it difficult to see significant organizational impacts in the short term, as its effects are long-term.

The true value of performance evaluation lies in identifying problems through the evaluation process and addressing them promptly and effectively. This promotes the standardization of departmental work, enhances business capabilities, and improves management levels. Implementing the balanced scorecard is a systematic project requiring extensive cooperation from experts and various departments, as well as technical input and financial support. While it may impose certain financial and human resource pressures on the company in the short term, the introduction of the balanced scorecard will significantly contribute to resource optimization, operational efficiency enhancement, and risk prevention at the company level in the long run. Thus, it will make an important contribution to the company's sustainable development.

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