

BALANCED SCORECARD – SUSTAINABLE DEVELOPMENT TOOL

Tantri Yanuar Rahmat Syah

Magister Management, Faculty of Economics and Business, Esa Unggul University

Abstract

The sustainable management of a business requires the consideration of all the business components, both the economic activity and the aspects related to its impact on the environment and its social implications. The Balanced Scorecard (BSC) is a management tool supporting the successful implementation of corporative strategies. This helps connecting operational and non-financial activities that have a significant impact on the economic success of a business. BSC is therefore a promising starting point to include in a company's management system both the social and environmental aspects. This paper deals with the traditional BSC and the current BSC development trends, which consider sustainability.

Keywords: balanced scorecard, sustainable development, performance

1. INTRODUCTION

According to Harvard Business Review, the Balanced Scorecard (BSC) is one of the most important management concepts of this century. In addition to the measuring of current performance in financial terms, the novelty brought about by this method consists of the evaluation of a company's efforts focused on future performance. The term "scorecard" involves the measuring of performance that can be quantified, while "balanced" illustrates the fact that the system has to have equilibrium, as it has to consider the following: medium and long-term objectives, financial and non-financial measures, a set of specific indices, as well as internal and external performance, etc [8]. The classical entity performance measuring methods refer to a short period of time and they rely mainly on a post-factum analysis. For this reason, the outcome of such analysis is not useful on the long run, as a comprehensive analysis is necessary, which focuses on future income forecasts, on the evaluation of the current state of the business as well as on future trends, in general.

The Balanced Scorecard is a strategic management system able to handle the entity's activities depending on its vision and strategies. The reason for BSC implementation was the avoidance of the deficiencies occurring within the traditional management systems, which rely primarily on financial values. This concept was first presented in 1992 by the professors Robert Kaplan and David Norton and it supports the need to use a performance measuring system based both on financial and non-financial indices [3]. According to the authors, the Balanced Scorecard preserves the traditional financial indices, which provide information on past events, but which are inadequate when it comes to guiding companies towards value creation by investing in the relations with their customers, suppliers, employees, as well as in technology and innovation. Thus, Kaplan and Norton state that, *according to the*

studies carried out, it has been found that a specific type of evaluation is often preferred to another. Therefore, a balanced presentation is necessary of both the financial and operational evaluation. The study consisted of performance evaluation and developed a “global performance indicator”, that is a set of evaluations allowing the management to have the complete picture of the company they run [9].

BSC has both quantitative and qualitative objectives. The main advantage of this tool is that it includes strategic long-term objectives and short-term actions. Most company management and control systems are designed around financial indices and objectives and they place a small emphasis on long-term strategic objectives, which leads to discrepancies between strategy drafting and strategy implementation. Unlike traditional performance measuring systems, which rely mostly on financial indices, the Balanced Scorecard first identifies the company vision and strategy, which it transposes in performance indicators. Depending on the developed methodology and starting from the entity strategy, strategic objectives for each single component are identified, and the extent of objective achievement is measured using the chosen indicators [2]. Both monetary and non-monetary indicators are defined in order to ensure the reliability of the information on the achievements in the vital entity business sectors, which indicators refer to, for instance, to customer satisfaction, in-house process functionality or innovations.

The Balanced Scorecard concept supports strategic planning and implementation by coordinating all the entity activities around common goals and by creating a strategy evaluation and improvement tool. BSC concept implementation is an ongoing process, which starts at the central level of strategic units and is implemented all the way to the operational level. Since the BSC concept implementation actually consists of introducing a new strategic management system and not an indicator project, the active top management involvement is essential.

2. THE “CLASSIC” BALANCED SCORECARD

The preset goal of BSC implementation is turning the company mission or strategy into objectives as concrete as possible for the company’s current business, so that the contribution of each person involved becomes as clear and transparent as possible. Balanced Scorecard implementation is aimed at [8]:

- getting the support of the strategic management;
- achieving the consensus as concerns terminology and notations;
- establishing the assessment criteria for the most important objectives;
- implementing the management processes;
- periodically assessing the performance;
- evaluating the performance improvement opportunities.

When assessing the company performance, the managers using BSC no longer rely on short-term financial indices alone. Actually, the BSC allows the use of 4 processes, which contribute to the correlation between long-term objectives and short-term actions (strategy and vision definition, communication and relations, business planning, innovation and learning).

Strategy and vision definition is the process helping managers to reach a consensus as regards the development strategy. Despite the strategic management's good intentions, most of the times, statements such as "the best in the x category" or "the number one supplier" are not easily transposed in operational terms able to provide action directions at local level [1]. In order for people to act according to the strategy statements, the latter should be expressed in an integrated set of objectives and measures, agreed on by all the managers, describing the long-term success factors.

Communication and relations definition allows managers to communicate the strategy both upstream and downstream and to connect it to individual and department objectives. Traditionally speaking, departments are evaluated according to their financial performance, while the financial motivations are related to short-term financial objectives. The BSC gives the managers the certainty that all the hierarchy levels understand the long-term strategy and that both individual and department objectives are aligned to the former.

Business planning enables entities to integrate their financial and operational plans. Almost all companies implement change programs, each having its own project managers and consultants, being all in competition for the executive managers' time, energy and resources, which often leads to disappointments related to the outcome of those programs [4]. But when managers use ambitious objectives for the BSC as a means to allot resources and set priorities, they are able to understand and coordinate those initiatives meant to achieve the preset long-term strategies.

Innovation and learning is the fourth BSC process and offers a strategic learning possibility. The existence of feedback and the evaluation of processes impacting the entity, its departments or individual employees, ensures the achievement of the preset financial objectives.

The performance indicators set by the BSC help setting the objectives and measuring the results, with a view to objective achievement [5]. The indicators that the Balanced Scorecard model relies on may be divided in the first stage into early indicators and late indicators. Early indicators are used at the beginning, in the incipient stage of a process, and they are set according to specific forecasts. They measure the activities that need to establish with great accuracy the profit or cash flow of the entity after 5 years. Early indicators show to what extent the customer's desires and expectations have been studied and, also, how familiar the customer is with the means of production of the desired product or service, before signing the contract. This is the way to establish the direction to follow in order to provide services that meet the customer's needs, which enables the company to consolidate its position on the market. Late indicators are calculated at the end of a process and they indicate, in a retrospective approach, the way in which the activity was conducted (for instance, the turnover, the profit, the employees' satisfaction, etc.) [8].

The BSC indicators are generally delineated depending on the manager's priorities, into four categories corresponding to four dimensions of the classical model [4]:

- **the financial perspective** generally approaches aspects regarding profitability, turnover, value added, new products, new customers, etc. The profitability strategy considers the costs structure designed to reduce expenses and ensure a more efficient assets use;

- **the customer perspective** includes indicators that should answer at least two questions: “who are the target customers?” and “what is the value that the entity offers to its customers?”. Entities generally choose one of the following three directions: operational excellence (small prices and high quality), product leader (providing the best product) or customer familiarity (interest in a long-term cooperation instead of short-term relations) [1]. This perspective actually tackles the connection between internal processes and customer relations, the main goal being customer satisfaction, and it is aimed at determining indicators like the number of goods returned by the customers, the market share held, etc;
- **the internal processes perspective** identifies the critical activities and considers the indicators assigned to the company’s key processes, which need to be subjected to continuous surveillance and improvement in order to add value to the services to the customers, such as the delivery service, development, reporting, innovation and development of new products designed to penetrate new markets or to attract new customers, product quality, production duration, faulty goods percentage, etc. [5];
- **the innovation and learning perspective** comprises indicators on the employees’ degree of satisfaction, availability, information dissemination extent, etc. [7]

Within each of these categories (financial performance, in-house processes, customer relations and innovation), the entity must accurately define the following components (Fig. 1):

- *objectives*, more precisely the strategies that have to be fulfilled at the strategic level;
- *measures*, the actual progress assessment for a particular objective;
- *targets*, the value estimates for each action;
- *initiatives*, the actions that will be taken to facilitate the fulfillment of the proposed goals.

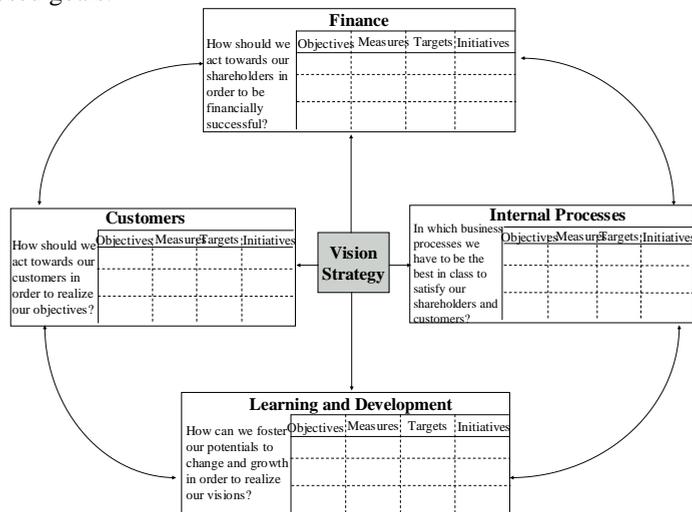


Fig. 1. The methodology of the Balanced Scorecard

Source: CMA Canada, *Application et mise en oeuvre du tableau de bord équilibré*, Collection gestion stratégique, 1999, www.cma-canada.org, p.5

Among the main advantages of the Balanced Scorecard concept implementation and use, we distinguish the minimization of the amount of information used by the reduction of the number of indicators employed, the management focusing mainly on the critical indicators related to the entity's current and future performance, the simultaneous obtaining of information on the different competitiveness levels, the priority orientation towards customer relations, the reduction of the time of reaction to the external environment changes, the improvement of the product and service quality, a better teamwork spirit, the reduction of the time needed for launching new products, the easy implementation of an efficient manager and employee motivation and performance assessment system, etc.

3. ECO BALANCED SCORECARD

Over the last few decades, an increasing number of specialists have been analyzing the idea of using the Balanced Scorecard model as the basis for a sustainable management [6]. The question that arises therefore is how sustainability may be measured using the Balanced Scorecard. The starting point of a good environmental management is to acknowledge the costs generated by the damages caused to the environment and their consideration during the decision-making process. The "Triple Bottom Line" approach should be therefore chosen, as it includes the three sustainable development pillars: economic, social and environment performance (Fig. 2).



Fig. 2. Sustainable development "pyramid"

Several management systems have been developed for the three components of the "Triple Bottom Line" approach:

- the *financial management* systems have been obviously used for centuries (although it has been recently proven that they may be further improved);
- the *environment management* systems were developed in the early 1990s with the implementation of the ISO 14000 (Environmental Management Systems) worldwide and of the European Eco-Management and Audit Scheme – EMAS, in Europe;
- the late 1990s witnessed the development of a set of *social accountability management systems* - SA 8000 (Social Accountability 8000), AA 1000, etc.

Also, in addition to the three systems abovementioned that focus each on a particular aspect, certain reporting systems combining several aspects (Corporate Social Responsibility – CSR, Global Reporting Initiative – GRI, developing sustainable development indicators: economic, social and environmental indicators) have also been acquiring a growing popularity.

In addition to these preoccupations related to individual management, specialists have tried to develop a system able to incorporate them as a whole and to ensure better management. Given the impact and usefulness of the classical BSC, numerous debates have been organized in the last few years meant to extend it to include also sustainable development issues. According to the supporters of this idea, the four traditional perspectives should only be a general framework, a structure applicable and adaptable to the ever-changing needs and not a strait jacket limiting them.

There are several opposite opinions as concerns this approach, and several studies have been carried out lately on this issue. For instance, Zingales & Hockerts conducted a study on the inclusion of the environmental and social indicators in the Balanced Scorecard, in companies operating in the telecommunication, oil and gas / energy business, or in the pharmaceutical field [12]. Crawford & Scaletta analyzed how the measures proposed by GRI could be included in the four traditional BSC perspectives [5]. Möller & Schaltegger suggested that the eco-efficiency analysis requires a tight relation between the traditional BSC indicators and those regarding the evaluation of the product shelf life and the sustainable development [10].

Two main approaches have been singled out during the debates on the identification of the best possible ways to include the sustainable development aspects in the BSC. The first requires that each of the four traditional perspectives should be developed to include both the environmental and social aspects. Fig. 3 shows this approach, and the environmental issues are often presented at the confluence between traditional perspectives.

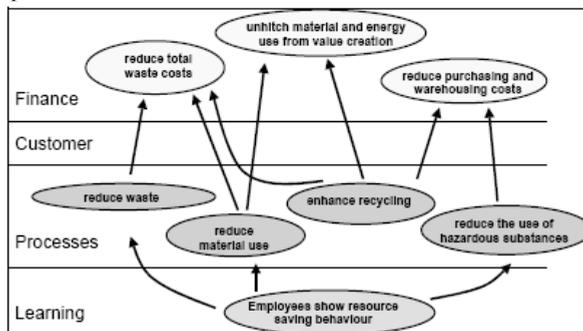


Fig. 3 Inclusion of the environment-related issues into the BSC

Source: Capron, M., Quairel, F., *Evaluer les stratégies de développement durable des entreprises: l'utopie mobilisatrice de la performance globale*, Journée développement durable - AIMS - IAE d'Aix en Provence, 11/05/2005, <http://www.strategie-aims.com/dd04/comdd/quairel-capron05%20.pdf>, p.12

The second approach proposes the extension of the BSC framework to include, in addition to the four traditional approaches, two new ones, that is the social and environmental ones (Fig. 4). Due to this inclusion, the environmental and social

factors will be considered to ground the decisions made, which may impede upon the current activity and business continuity [5]. This is actually imposed by the principles of sustainable development, which entities should consider in their decision-making processes.

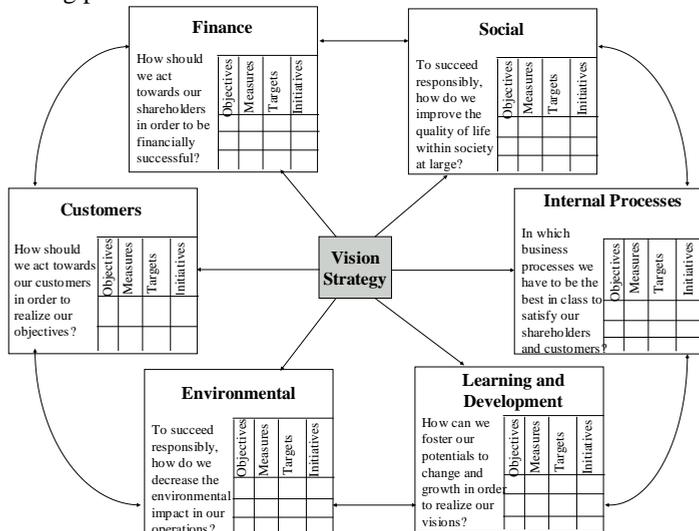


Fig. 4. The BSC framework including the social and environmental perspectives
 Source: Reingruber, M., *The (Un) Balanced Scorecard*, http://www.plexsci.com/site/pdf/the_unbalanced_scorecard.pdf, p.3

This approach proposes the setting of the strategic objectives from each of the six perspectives, which will be then communicated at the operational level, thus ensuring the horizontal inclusion. The communication on each of the six perspectives provides complete focus and development, which means that the lack of objectives for each perspective would be noticed immediately. This approach actually facilitates objective development at all organizational levels, by establishing various responsibilities, so that every manager or employee may be able to understand the way in which the environment and social aspects influence company performance, achieving thus good business coordination. The degree of strategy concretization will increase depending on objectives, units of measurement, and actions carried out. The BSC actually prevents one from placing a disproportionate emphasis on the financial perspective alone, which strongly influences the whole system of indicators employed.

It seems that the BSC development including the six perspectives is preferred. Considering that any economic activity has strong economic, social and environmental influences, and given the fact that these effects are long-term, involving the whole shelf life of the products, an increasing number of companies choose to invest to reduce the negative effects and they try to combine to the best of their abilities. Thus, the large companies have published such information in their annual reports, in the last few years, although they do not always include explicit information on the BSC. In its annual report for 2009, Novo Nordisk presents the

BSC indicators, both financial and especially non-financial indicators, since many environment-related aspects cannot be easily assessed [13].

Due to the fact that the Balanced Scorecard supports strategic planning and implementation by coordinating the activities of all the company components around common objectives and by creating a strategy assessment and improvement tool, it has been gaining an increasing number of fans.

4. CONCLUSIONS

The Balanced Scorecard is a powerful sustainable corporate management tool, since it enables decision makers to discuss strategies from the very stage of their development. Although this strategic management concept has been built on a well-balanced system of financial and non-financial indicators, it is especially useful for the managers' in-house information needs. The relevance of the information provided by the Balanced Scorecard requires the use of this concept as a standard communication with the exterior tool in the process of reporting the information to the investors on the capital market, since the latter are no longer interested in the financial performance alone, and the decisions they make also depend on factors such as management quality, new product launching, strategy quality and strategy implementation degree, etc. Also, in addition to the financial viewpoint, one should also consider the impact of the business of a company on the environment. The BSC model has proven, these last few years, an extremely valuable tool in strategy operationalization, as it develops well-balanced and transparent communication relations. This is one of the most important tools used by companies to improve its performance.

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