

BALANCED SCORECARD AS AN INSTRUMENT FOR RESPONSIBLE MANAGEMENT

Michaela Stříteská

Institute of Economy and Management, Faculty of Economics and Administration,
University of Pardubice

Abstract: *Balanced Scorecard is reputable and widespread strategic management system that is, however, often criticised from the perspective of corporate social responsibility. Therefore the paper takes closer look at the different possibilities of integrating environmental and social aspects to corporate strategy. The main aim is to demonstrate how Balanced Scorecard could be adapted to become a more responsible framework.*

Keywords: *Balanced Scorecard, Corporate Social Responsibility, Performance Management, Strategy.*

1. Introduction

Enforcement of ethics and ethic thinking into company managements creates a need but also a space for searching new attitudes in management and application of innovative approaches and management tools. In recent years, we have been encountering management methods responding to the boom of economic and social relations within a company. Expressions, such as Triple bottom line, Corporate Governance, or Corporate Social Responsibility (CSR), highlight the shift of paradigm stating that business is just a way how to quickly achieve profit.

Today, we can find CSR issues on the web sites of more than 80 percent of the Fortune 500 companies. [BHATTACHARYA, SEN 2004] However, CSR manifestations do not say anything about real CSR activities. If we want to go beyond rhetoric of Corporate Social Responsibility to its practical application in all corporate activities, we must achieve the social and environmental aspects to be anchored in manager thinking and strategic management, which have the main impact on corporate decision-making process and conduct.

The most companies, however, are still facing a challenge how to implement Corporate Social Responsibility in their specific environment. Nevertheless it is necessary to continue in effective and systematic use of methods applied so far. Can they find the answer in an implementation of strategic management system based on Balanced Scorecard (BSC)? Can we consider BSC to be an applicable comprehensive framework for corporate responsible development?

Before any characteristics of BSC basic principles and procedures, let's consider the causes which have lead to its development and relatively wide distribution. It should be noted that ethic management requires respecting both quantitative as well as qualitative attributes of economic, social, technical and political aspects managed. Within the integrate imaging of corporate management effectiveness, both quantitative and qualitative values and attributes of corporate actions, that can achieve the program and company performance goals only if merged, should be connected in to a system. [DYTRT, STRITESKA 2009, p. 131]

It was the increasing critique of existing practice, using traditional corporate performance indicator systems based only on financial data, which became a first incentive for BSC creation. BSC was upgraded after some time to become a management performance system used for management and implementation of corporate strategy. This modification has resulted from

empiric findings that not all strategic intentions had been met. According to some authors, only 10% companies implement their strategies. [NIVEN 2003, p. 10] Based on this evaluation, new procedures, which remove barriers arising between strategy formulation and implementation, shall be introduced into strategic management.

Corporate Social Responsibility requires a holistic approach to strategic management and thinking. BSC philosophy allows both individuals and the company to make everyday decisions based on values and measures which are designed to support financial, social and community performance of a company.

2. The Balanced Scorecard Method

The balance scorecard model was introduced in the early 1990s as a part of a management system using non-financial as well as financial measures in managing a company and aligning these measures with the company's strategic objectives. The benefit of the model lies in establishing a framework in which the culture and direction of an organization can be translated into strategies that are actionable, specific and measurable. [ROHM 2004] The element presumption behind the BSC is simple – measurement motivates.

A Balanced Scorecard initiative begins with identifying strategic themes derived from the organization's mission and vision. Strategic themes are then developed by viewing the organization from four different perspectives: Customer, Financial, Internal Processes, and Learning and Growth. The BSC's perspectives could be briefly characterized as follows.

- *The financial perspective* - gives the answer to the question of what financial results the company must achieve to satisfy its shareholders. Financial performance measures play a double role. Firstly, they show whether the implementation of strategy leads to expected economic improvements. Secondly, they are the endpoint of cause and effect relationships flowing from other perspectives.
- *The customer perspective* – defines what value advantage the company must offer their customers to succeed in the market. This perspective enables to formulate a customer and market oriented strategy.
- *The internal process perspective* – identifies all key activities and critical processes for creating the value expected by the customers and for meeting the objectives of shareholders. Important difference is the inclusion of innovative processes.
- Finally, *the learning and growth perspective* – describes the infrastructure of company necessary for achievement of long-term success. Employee and organizational infrastructure represent the thread that connects the other perspectives of BSC. Success in the other three perspectives depends largely on the qualification and motivation of employee as well as on information systems.

In building a BSC, the strategic objectives are presented in the form of a strategy map. Strategy map enables organization to graphically link strategic objectives, and illustrating the cause-and-effect relationship between them. The set of quantitative and qualitative measures or indicators of success for each strategic objective are then identified.

BSC method distinguishes between lag and lead indicators. A lag measures are defined as one that reflects on outcome, or present-day bottom-line result. Lead measures are defined as those that drive future results or success. The lagging measures without leading measures do not communicate how the results are to be accomplished. The combination of lag and lead

measures allows a company to look ahead instead of only looking back. Determining the best measures that precisely assess whether or not the strategy is achieving is one of the more challenging aspects of the BSC process.

With the measures defined, setting targets for each of them follows. The targets should identify the present performance state and desired outcome. The difference between current level of performance and optimal or future performance is called performance gap. To close these gaps specific strategic initiatives are required. It is important to emphasize that the initiatives do not represent the focus of the BSC, but the tactical part of operational management. [DAWE 2007] When BSC is created, it is necessary to communicate the performance information with staff and middle management. Corporate BSC is also possible cascading for each level of organization and connected individual scorecards with remuneration policy.

Most critiques of BSC rely on the stakeholder theory of the firm. According to some authors the traditional model does not explicitly represent the concerns of key stakeholders. [KAPLAN, NORTON 2005, p. 40] The BSC must be used as a flexible framework. Therefore Woerd and Brink argue [2004, p.177] that all kinds of CSR elements are open for discussion.

3. Adapting a BSC model to the responsible framework

Traditional perspectives of BSC are recommended directly by the authors of the concept only as a certain template. Balanced Scorecard can be bound in this context with a responsible management and stakeholder approach, allowing the company first to identify important engaged groups and their requirements that can affect or be affected by the result, strategic decision, plan and process leading to this result. Efforts are made afterwards to meet and interface established requirements.

Several authors have pointed at possibilities to create well-established Balanced Scorecard into a scorecard that enables to integrate responsibility into the strategy. [see CRAWFORD, SCALETTA 2005] The view of company is necessary to complement with further dimensions, such as corporate culture, social and environmental aspects and long-term economic efficiency.

An area of culture should be focused on effort that is attended to building a flexible corporate culture, including indicators of employee commitment and responsible leadership. It is important to place emphasis on interconnection of personal, current and desired values, which are unique to each company. If this connection succeeds, at least in part, it will contribute to an increase of creativity, teamwork, corporate identity and last but not least also to economic success. Interesting inspiration can provide also the index of cultural entropy. Cultural entropy indicates the number of potentially limiting values in the different levels of contemporary culture. [see KLÍROVÁ, KAVALÍŘ 2008, p. 49] In other words, it represents the amount of energy consumed by the people in an organization that is not available for productive work. Cultural entropy arises when in organization there is lack of coherence, lack of focus, lack of clarity and lack of trust. The degree of cultural entropy is measured by looking at the proportion of votes for potentially limiting values in the current culture. [BARRETT 2006, p. 116]

Classification of social aspects must be based on identification of key stakeholders. Indicators could be focused on relations with the local community, expenses on social initiatives, charitable donations and workforce diversity (gender, race, age). Within the scope of environmental field should be identified any environmental harm arising from activities and production of company. This area may include indicators aimed at recycling of waste,

emissions, material and energy consumption, or direct impacts on nature and landscape. The example of such measures could be recycling revenues, number of green products, number of ISO certified suppliers or % employees trained in environmental issues. [see more PRAŠNIKAR 2006, p. 334]

Economic efficiency has to be achieved on the basis of ethical and responsible management. Transparency of partial economic effects gives a precondition for the long-term prosperity and stability of the organization.

Responsibility, ethics and creativeness can be integrated into BSC in various ways. We however must always proceed from the overall company evaluation which should be a source of data for “sub management” needs. Defined liability dimensions can be introduced into general four perspectives through goals and measures focused on these areas or through renaming traditional perspectives so that they explicitly express the interests of key stakeholders.¹ If the company feels that creation of strategy with CSR elements coming out from relationship with some key stakeholder is reasonable to renamed one of the perspective.

Another option is to add dedicated perspective to the existing four. Woerd and Brink [2004, p. 177] suggest to complete the model with the Society & Planet perspective to become on equal footing with Profit.

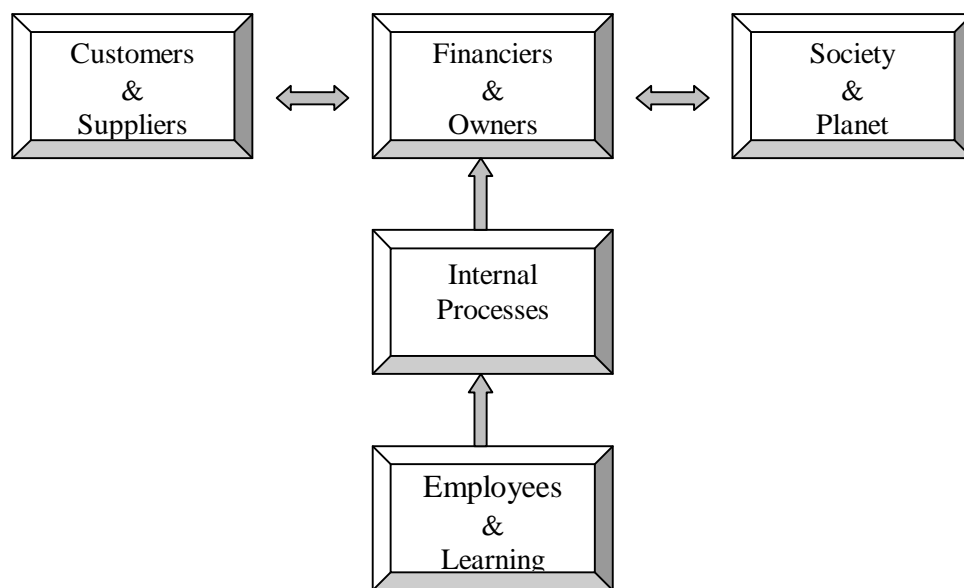


Figure 2: Responsive Business Scorecard
 Source: adapted from WOERD, BRINK 2004, p. 178

In this format the three pillars of CSR (People, Planet and Profit) are clearly defined. Interesting inspiration how to adapt the BSC could be also provided by Fidge [2002, p. 274] that introduced sustainable balanced scorecard with additional non-market perspective. According to him the process of formulating SBSC has to meet following requirements:

- the process of creating scorecard must lead to an integration of environmental and social management into business management,

¹ Such examples we can find in automotive industry where one of the perspectives is renamed as supplier.

- the developing of scorecard must meet the unique characteristics and requirement of the strategy and the environmental and social aspects of a company must not be generic,
- environmental and social aspects of a company must be incorporated according to their strategic relevance.

By this way all strategically relevant economic, environmental and social aspects could be integrated in the general management system. As already mentioned above, the next step is to define indicators, targets and initiatives in order to assess the progress in corporate performance. Afterwards BSC could be a powerful tool for managing, measuring and alignment of CSR elements in company.

4. Conclusion

Balanced Scorecard appears today as an innovation of management practice, which creates a precondition for comprehensive evaluation of corporate actions both in terms of quantity as well as quality. The adapted framework can help guide companies in not only defining and implementing their CSR initiatives, but also managing and communicating the effectiveness of these initiatives.

But it depends on an approach of users who in the context of application of this method should not withdraw their experience achieved from the previous use of today already obsolete methods. We are aware of the generally known experience that management method is not a goal but a tool to achieve company goodwill. Necessary is to stress that BSC is a open concept, which each company allows to choose way of environmental and social aspects integration based on their unique and specific conditions.

It is frequently argued that CSR needs to move from being a peripheral activity to become incorporated in all core business functions. [PADERSEN, NEERGAARD 2008, p. 10] The approaches featured in this paper can help companies to develop management framework that integrated CSR in corporate strategy. Looking at the limitations of the paper, the conclusions are mainly based on theoretical findings. In order to implement such a responsible strategic framework in practice, it is necessary to carry out more research works and pilot studies.

References:

- [1] BARRETT, R. (2006), *Building a values-driven organization: a whole system approach to cultural transformation*. Oxford: Elsevier. 280 p. ISBN 978-0-7506-7974-9
- [2] BHATTACHARYA, C.B, SEN, S. (2004), *Doing Better at doing good: when, why, and how consumers respond to corporate social initiatives*. California Management Review. Vol. 47 No. 1, pp. 9-24. ISSN: 0008-1256
- [3] DAWE, T. (2007), *Performance management and measurement in small communities: taking the first step towards implementing a balanced scorecard approach*. Government Finance Review. February; 23, pp. 54-60. ISSN: 0883-7856
- [4] DYTRT, Z., STRITESKA, M. (2009), *Efektivní inovace: odpovědnost v managementu*. Brno: Computer Press. ISBN 978-80-251-2771-1
- [5] CRAWFORD, D., SCALETTA, T. (2005), *The Balanced Scorecard and Corporate social Responsibility: Aligning values for Profit*. CMA Management, Oct. 79, 6. pp. 20-27. ISSN: 1490-4225

- [6] FIGGE, F., HAHN, T. (2002), *The sustainability Balanced Scorecard – linking sustainability management to business strategy*. Business strategy and the Environment 11. Published online in Wiley InterScience. [cit. 3. května 2009]. Dostupné z WWW: <www.interscience.wiley.com>
- [7] KAPLAN, R., NORTON, D. (2005), *Balanced Scorecard: strategický systém měření výkonnosti podniku*. 4. vyd. Praha: Management Press. 267 s. ISBN 80-7261-124-0
- [8] KLÍROVÁ, J., KAVALÍŘ, P. (2008), *Kulturální entropie – ukazatel rizikovosti firemní kultury*. Finanční management. No. 04. [cit. 2. září 2009]. Dostupné z WWW: <<http://www.governance.cz/project/article.php?id=268>>
- [9] NIVEN, P. (2003), *Balanced Scorecard Step-by-Step for Government and Nonprofit Agencies*. 1. Ed. New Persey: Wiley. 320 s. ISBN 0471423289
- [10] PADERSEN, E.R., NEERGAARD P. (2008), *From periphery to center: how CSR is integrated in mainstream performance management frameworks*. Measuring Business Excellence. Vol. 12, NO. 1. ISSN 1368-3047
- [11] PRAŠNIKAR, J. (2006), *Competitiveness, social responsibility and Economic Growth*. NY: Nova Science Publishers. 368 p. ISBN 1-59454-811-0
- [12] ROHM, H. (2004), „A Balancing Act“. Perform 2, 2: 1-8. [cit. 16. října 2009]. Dostupné z WWW: <<http://www.balancedscorecard.org/Portals/0/PDF/perform.pdf>>
- [13] WOERD, F., BRINK, T. (2004), *Feasibility of Responsive Business Scorecard – a pilot study*. Journal of Business Ethics 55. Kluwer Academ Pub.. pp. 173-186. ISSN: 0167-4544

Contact address:

Ing. Michaela Strítěská, Ph.D.
 University of Pardubice
 Faculty of Economics and Administration
 Institute of Economy and Management
 Studentská 84, 532 10 Pardubice
 Email: michaela.striteska@upce.cz
 Phone: 466 036 558