INCORPORATING THE DIMENSIONS OF ENTERPRISE SUSTAINABLE DEVELOPMENT IN THE BALANCED SCORECARD MODEL

Bojan Krstić, PhD*
Vladimir Ivanović*

Abstract: This paper stresses the importance of expanding the perspective of enterprise development in the direction of sustainable development, which requires that corporate strategy must have as its indispensable part the strategy of sustainable development. Management of an enterprise needs management tools, which will enable successful implementation and translation of sustainable development strategy into the operational objectives and actions. In this regard, this paper considers the possibility of incorporating the dimensions of sustainable development of the company in the original Balanced Scorecard model, and its extension towards Sustainability Balanced Scorecard.

Keywords: sustainable development, strategy, Balanced Scorecard, Sustainability Balanced Scorecard.

Introduction

The essence of sustainable development of enterprises is in the economical and rational usage of resources. In addition, the point is in development that will meet specific needs in the current period without disrupting the future generation ability to meet needs. Sustainable development involves improving the quality of life in accordance with the capacity of ecosystem. Enterprises need to adopt practices that will include care of the environment and introduce processes that minimize the use of natural resources and energy, processes to reduce waste and prevent pollution, to produce environmentally friendly products with minimal negative impact on humans and the environment. Special responsibility in this area have companies whose business is base of the use of natural resources, or is depended on the quality of the environment. For management of an enterprise, it is very important to follow-up non-economic dimensions that have reflected through the performances of social responsibility and sustainable development. One of the key reasons why one should monitor these performances is to set corporate social

* Faculty of Economics, University of Niš, Serbia; e-mail: bojkr@eunet.rs
* MSc student at the Faculty of Economics, University of Niš, Serbia
UDC 502.131.1:005.5
This paper was realized within research project number 149052, financed by Ministry of Science and Technological Development of the Republic of Serbia.
responsible policies clearer and link those policies with the strategy of the enterprise. The influence of adequate companies' behavior and actions in the segments of ecology, ethics, social responsibility, health care, and occupational safety on a long-term business success is obvious. Monitoring of these aspects of performances is particularly relevant for larger enterprise and multinational companies. Such companies have a special interest in it because that information can be extremely useful for the management, owners and other external stakeholders. Effects of increasing profitability and competitiveness in enterprises are achieved by improving the social responsibility and sustainable development performances. It is, therefore, in the focus of this paper the improvement of existing Balanced Scorecard model in direction of sustainable development performance management, and its expansion towards Sustainability Balanced Scorecard.

1. Balanced Scorecard as a performance management model

Balanced Scorecard originally designed as a control system for business performance measurement and measurement of the effects of implemented strategies of enterprises and their organizational units. Over time, the authors [1, 4, 13 and 14] have developed the concept in the direction of the strategic management system that supports the implementation the strategies and translating those strategies into the actions at different levels of complex organizations.

Balanced Scorecard as a management tool can motivate and initiate significant improvements of business performances in key areas of business activity. It allows managers to introduce four management processes [2, p. 26], which separately and in mutual combination contribute to linking long-term strategic goals with short-term, current actions.

The first process is translating the vision and strategy. It helps managers to achieve the consensus of the opinions about vision and strategy in an enterprise. In order to employees can understand the vision of management, it is very important to translate vision and strategy into the operational relations and terms. Vision and strategy must be expressed through an integrated set of objectives and performance indicators, which will qualitatively and quantitatively describe long-term objectives and factors of the business success of enterprise.

The second process is communication and networking objectives and corporate strategy with the objectives and strategies business units (departments), as well as with goals of individuals. This process is implemented through system of internal informing (communication), which will help to all the employees and managers within the organization with strategic goals. In order to employees and managers on the lower levers fully understand strategic goals, it is necessary to decompose the goals and performance indicators into operational goals and operations (so called performance indicators of narrower organizational units and performance indicators of activities within them).

The third process is business planning. It helps integrating units business and financial plans. Balanced Scorecard can be very usefull in defining goals, establishing priorities and resource allocation decision making.

The fourth process is informational feedback and organizational learning. It helps the enterprise as a system to realize the process of learning. Balanced Scorecard directs the attention of management on performance management, starting from the employees and managers learning, who can provide initiative to improve internal business processes and the consumers requirements in the target markets that should be fulfilled.
Incorporating the Dimensions of Enterprise Sustainable Development in the Balanced Scorecard Model

Balanced Scorecard pointed out as a basic idea that in "new economy" dominant intellectual resources cannot be adequately monitored just by set of financial performance indicators. The innovation which Balanced Scorecard introduces is insisting that performance measurement system should include financial and non-financial measures through perspectives of performance measurement and management – financial, customer, internal processes, and learning and growth.

The financial perspective of measurement points out shareholder value and financial performances which are used to evaluate contribution of a strategy in increasing shareholder value and enterprise profitability. Customer perspective emphasis the need of measuring customer satisfaction, intensity and other performances which result from relationships of an enterprise with their customers. Internal processes perspective is related to internal business processes for monitoring and measurement of process efficiency (procurement, production, distribution and other business processes). Learning and growth perspective, or employees and managers perspective should indicate the need of human resources quality and innovation measurement, as well as performances of human resource usage.

Balanced Scorecard as a performance measurement system primarily assists in monitoring and control of strategy implementation by translating the strategy into goals and indicators, that will serve to control these goals. Besides, Balanced Scorecard should help in formulating and redefining strategies (Figure 1). Therefore, Balanced Scorecard as a measurement system should be linked with the strategy. This connection arises from the process of development and revision of the Balanced Scorecard, in which the vision and mission are translated into a set of objectives. Based on these objectives key success factors can be identified, which then need to be translated into a set of key performance indicators of strategy success. After that, out of those key success factors and indicators we can derive initiatives, actions and programs for successful strategy implementation. Essentially, these elements present activities of management process. [3, pp. 108-113].

Figure 1. Balanced Scorecard conceptualization

Source: [4, p. 139]
From wider defined objectives, managers will derive performance indicators for each measurement perspective. After that, managers define the target value for each (indicator) performance. Targeted level of performance indicators defines the aspired level of performance, as well as aspired improvement of the performance comparing with the real level of performance in the previous period.

Balanced Scorecard as a measurement system helps company to overcome two basic problems: first, problem of effective business performance measurement, and second, successful strategy implementation. Balanced Scorecard is relatively comprehensive system for measuring different aspects of enterprise’s resources usage performances [5, p. 186].

2. Integrating the enterprise sustainable development concept into the Balanced Scorecard

The European Union recognized the importance of sustainable development in Lisbon in the 2000 document - the Lisbon Agenda. In this document strategic objectives of sustainable development are defined, which are to be realized until 2010: “to make the EU the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion” [6, p. 1]. Strategy of sustainable development of the EU is based on the principle that economic, social and environmental effects of the policies must be evaluated simultaneously and comprehensively, that is to be taken into account in managerial decisions making.

The modern business environment is characterized by constant changes, uncertainty. In those conditions, the economic entities traditionally devote attention to basic economic factors and determinants of business activities. Many successful companies have identified huge importance of the non-economic business determinants and their impact on competitive success. Corporate social responsibility becomes imperative of the modern business environment. Corporate social responsibility emphasizes more effective environmental and social performance management. However, there are still many companies, which do not pay enough attention to environmental and social components of business activity, although they have influence over economic transactions and market position. In order to emphasize social responsibility and sustainable development dimension (environmental and social aspects), managers need new and innovated existing management tools. During the last decade, these instruments, concepts and tools are innovated and efforts of their integration into the management system of the company were being made. Considering that in addition to economic, both environmental and social components are the pillars of sustainable development, “the decisive role of companies in achieving sustainability has been stressed and discussed both on the strategic as well as on the instrumental level” [7, p. 270]. Because of so important role of companies in achieving sustainable development, Bicker et al. introduce the concept of sustainable development strategy of a company and define it as follows: “A strategy for corporate sustainability must meet the needs of a firm’s stakeholders without compromising its ability to also meet the needs of future stakeholders” [8, p. 2].

Taking into the account previous mentioned facts, different authors [9, p. 1] suggest the promotion of the concept of Balanced Scorecard with perspective which reflects sustainable development – environmental and social. The concept of Sustainability Balanced Scorecard is complement to environmental management systems used by many companies before its appearance (EMS, ISO 14000, EMAS and SA 8000). However, these
Incorporating the Dimensions of Enterprise Sustainable Development in the Balanced Scorecard Model

Systems were usually implemented in companies for a short period because of following two reasons [10, p. 1]. They are applied at the operational level and they are not associated with strategic planning and management, and are implemented separately from traditional management-control systems, which are used by middle and top management in the process of managing and controlling business activities. This two issues intrigued theorist to seek the possibility for improving the Balanced Scorecard (designed by Kaplan and Norton) towards the Sustainability Balanced Scorecard, which will, besides existing financial and non-financial dimensions of business performances, include the environmental and social aspects. Sustainability Balanced Scorecard provides a broader managerial perspective and incorporates missing perspectives of business activities in modern companies. As an instrument of performance management, it has been improved by adding a new qualitative aspects of business activities, which are necessary for effective and efficient decision making on the top management level (strategic domain), as well as on the lower management (operational level). The introduction of these perspectives is important for all managerial levels and linking strategic and operational management perspective.

3. Elements and determinants of Sustainability Balanced Scorecard

Conceptually, the problem of sustainable development management in the context of Balanced Scorecard implementation, is concentrated on identifying the key determinants and sustainable development success factors that must be managed by measuring, monitoring, controlling, and improving those determinants and factors. Management should define and incorporate, apart from economic (profit making) objectives of stakeholders, non-economic objective of the local community (society) into the integral system of enterprise objectives. This means that any company can contribute to sustainable development of the planet, but also to its own economic (profit oriented or capital oriented growth), and to be in position to achieve economic and socially acceptable sustainable development for welfare of its own stakeholders (stockholders, customers, business partners and other social community constituents). Sustainable development means economic (financial perspective), but also respects the request that are coming from the domain social responsible business – environmental and social perspectives.

In that sense, it is desirable for business performances to be improved “in all three dimensions of sustainability – economic, environmental and social – simultaneously” [7, p. 272]. The idea of using Balanced Scorecard in order to include social responsibility and management of sustainability development comes from the authors of this concept – Kaplan and Norton, on the very beginnings of Balanced Scorecard development. However, Balanced Scorecard model development since 1992 up to today was not enough and explicitly discussed (by its authors, theorists and practitioners) in the direction of an instrument for managing social responsibility and sustainable development in the company.

The idea of higher emphasizing social responsibility and sustainable development through the Balanced Scorecard is relatively new and is present in the articles of many authors [7, 8, 9, 10, 11, 12]. Essentially, that has led to the development of a new concept called Sustainability Balanced Scorecard. This concept would provide a broader, more complete coverage of all relevant dimension of the business by integrating three previous mentioned components of sustainable development. New-suggested concept gets a new content in the area of management and control dimension or perspectives, and thus the new architecture compared to the classic Balanced Scorecard, suggested by Kaplan and Norton.
back in 1992, [1]. Nicoll et al. [9, p. 5] present the Sustainability Balanced Scorecard model through the next couple of phases: 1. scanning the current state and company performances, 2. formulation of the vision, mission and fundamental values of a company, 3. defining the strategic goals of company and their structuring through four initial Balanced Scorecard perspectives (financial, customer, internal processes, and learning and growth), 4. integrating of these perspectives into the economic direction of sustainable development and amendment with the environmental and social perspective, 5. identification of performance measurement system for all three directions of sustainable development – economic, environmental, and social.

When asked what Sustainability Balanced Scorecard (SBSC) compared with original Balanced Scorecard is, Bicker answered: “The SBSC may help to detect important strategic environmental and/or social objectives of the company, a single strategic business unit or department and to illustrate causal relationships between qualitative “soft facts” and the financial performance” [10, p. 3]. The so-called soft-factors mean non-financial determinants of business activity (which are incorporated in customer perspective, internal process perspective, and learning and growth perspective). The soft factors would include the key success factors related to social responsible business, as well as sustainable development of the enterprise. The intrinsic value of the Balanced Scorecard is reflected in intention to integrate management of environment and social responsibility of the company into the comprehensive strategic management process.

In presenting the model of Sustainability Balanced Scorecard, the following will be considered: a. different approaches in integrating aspects of social responsibility and sustainable development, and b. elements of Sustainability Balanced Scorecard design process.

a) Figge et al. [7, p. 273] suggest three possible approaches for dimension of sustainable development incorporation (especially, environmental and social component) into the concept of Balanced Scorecard, so that it has character of Sustainability Balanced Scorecard:

1. Integration of environmental and social aspects in Balanced Scorecard with four initial perspectives which model suggests, so that key success factors (performance drivers) and performance indicators can be added using top-down approach for carrying out environmental and social aspects;
2. The introduction of additional, fifth perspective of Balanced Scorecard, which might be called environmental and social perspective, or perspective of social responsibility and sustainable development;
3. The so-called deductive approach derives specific addition out of existing Balanced Scorecard which emphasizes environmental and social dimension i.e. scorecard of environmental performances and/or scorecard of social responsibility performances. It is very important to point out assumption of this approach that derived environmental and social scorecards cannot be developed in parallel with the conventional scorecard. The bottom line is that derived environmental/social scorecard is an extension of two previous mentioned approaches.

b) Operationally the simplest approach is to introduce additional, fifth perspective into the Balanced Scorecard. The point of SBSC conceptualization is the same as of the classical Balanced Scorecard. Process of designing the SBSC means
Incorporating the Dimensions of Enterprise Sustainable Development in the Balanced Scorecard Model

strategic resource analysis (capabilities) of the enterprise and external business environment based on which vision, mission, and fundamental values defining should arise. Based on previous mentioned vision can be differentiated according to the stakeholder point of view: 1. owners, 2. customers, 3. internal processes (operational – procurement, customer relationship management, process of innovation), 4. learning and growth (knowledge and skills improving, increasing creativity and innovativeness), and 5. local community. SBSC emphasizes the local community as a stakeholder group, relations with actors in the local community i.e. the social responsibility and sustainable development.

Figure 2. Sustainability Balanced Scorecard conceptualization

This means that instead of four existing perspectives now we have five new performance perspectives (Figure 2). The fifth, added perspectives could be called social responsibility or sustainable development perspective. It is possible, for instance, according to relevance for a single company that develops its own Balanced Scorecard, to add two new dimensions. The idea is to emphasize the extremely important strategic aspects of activities of some companies through partial dimension (for example, environmental perspective or perspective of environmental performances, or social perspective i.e. social responsibility perspective). Enterprise will, according to its characteristics, branch of business, design Balanced Scorecard, which may include more than five management and control dimensions or perspectives.

Based on the differentiation of vision according to key stakeholders and process (whether there are five or more of them) conceptualization process of Balanced Scorecard will be continued by identifying key factors of success for each dimension/perspective. After that, there is a basis for identifying the list of key performance indicators for each of
those five perspectives. Identified performance measures will serve to monitor the success in realizing the goals defined according to business activity perspectives. By comparing the set of target performance levels specified by the indicators for each perspective with the level of performance achieved, strategic control process is realizing i.e. control process in realization of strategic objectives defined by Balanced Scorecard.

The process of SBSC designing refers to so-called corporate scorecard. In companies with complex organizational structure (organizational structuring by strategic business units), companies with unique business (undiversified business), and from the previous design SBSC, one can derive SBSC for every SBU within the complex company organizational structure.

In companies with complex, decentralized organizational structure with diversified program of production (diversified businesses), which are concentrated in several SBU, process of SBSC design starts from SBSC located on SBU level. Those scorecards can be used to develop scorecards for narrower organizational parts within each SBU.

The peculiarity of the concept of SBSC implies that through the scorecards designing, there is an emphasize on defining so-called strategies of sustainable development of the company, as well as on the other strategies by vital factors of business activities (financial strategies, customer relationship strategies, strategies of internal processes efficiency increasing, strategies of staff development and increasing the innovativeness). Based on determined sustainable development strategy (as sub-strategy of the company) objectives in the domain of sustainable development realization are defined. The point of Balanced Scorecard as management tool is selection and definition of performance indicators, which will enable monitoring of success in sustainable development of enterprise.

Success in applying the SBSC is conditioned by adequate selection of sustainable development performance indicators, which will find its place in the fifth, new added dimension of performance measurement. This set of performance indicators of social responsibility and sustainable development will represent the complement of Balanced scorecard system of performance measures i.e. indicators that cover for classical perspectives in the original Kaplan and Norton’s concept of Balanced Scorecard.

Conclusion

SBSC concept provides an opportunity for companies to translate their vision and strategies of sustainable development into operational objectives and actions. Improvement of classical Balanced Scorecard with environmental and social components represents a step forward in the area of corporate social responsibility. Expansion of the concept requires spreading existing perspective of the Balanced Scorecard or adding the new perspective to the existing concept of four perspectives. Existing perspectives cover financial and non-financial determinants of company’s success – economic aspect of sustainable development. The fifth perspective – social responsibility and sustainable development – is focused on the requirements and interests of the community as a specific stakeholder of the company. This perspective should cover environmental and social aspect of sustainable development, i.e. to emphasize increasing of corporate social responsibility. Theoretical determination of methodological framework of SBSC (perspectives, approaches, indicators) does not seem so complex, but model implementation is not simple.
Incorporating the Dimensions of Enterprise Sustainable Development in the Balanced Scorecard Model

Implementation of the SBSC model is demanding for corporate management, because it opens the possibility for theoretical, as well as practical challenges for future business, which will incorporate all the relevant determinants of sustainable development.

References

INKORPORIRANJE DIMENZIJA ODRŽIVOG RAZVOJA U MODEL BALANSNE KARTE PERFORMANSI PREDUZEĆA

Rezime: U radu se ističe značaj proširenja razvojne perspektive preduzeća u pravcu održivog razvoja, koji zahtева da strategija preduzećа ima kao svoj nezaobilазni segment strategiju održивог развоја. Менаџменту су потребни управљачки алата који ће омогућити успешно implementaciju и превођенje strategije održivог развоја preduzećа u оперативне циљеве и акције. U tom pravcu, razmatra се могућност inkorporiranja dimenzija održivog razvoja preduzećа u изворни model Balansne karte i njегovo проširenje ka Balansnoj karti performansi održivog развоја.

Кључне rečи: održivi razvoj, strategija, Balansna karta performansi, Balansna karta performansi održivog razvoja.