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The Fifth Pillar of the Balanced Scorecard: Sustainability

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Abstract

In today's business environment, sustainability is a trend which can allow companies to implicate social, economic and environmental pillars to the strategy and management of the company. Although the sustainability concept is not new, many organizations still do not know how to implement or measure its outputs. This study aims to look closer to sustainability issue as a fifth pillar of the balanced scorecard which combines financial and nonfinancial issues into a comprehensive performance management system. Balance scorecard was being adopted by companies all over the world to implement corporate strategy, thus it can be considered as a bridge to implement sustainability strategy and link corporate sustainability objectives with actions and performance outcomes.

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Keywords: Balanced scorecard; Sustainability; Strategic management; Sustainable balance scorecard

1. Introduction

Every business usually determines the profit or the form of profit as their main goal. This situation is the main reason that the management is traditionally focused on profitability, market share and etc. Therefore, many of them view the sustainability as only a companion to financial reporting. However, it is a well-known fact that in the new markets, decisions context changes fast and enterprise strategy management more challenging than it used to be.

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Information is not enough and new measures are needed for evaluating the impact of the strategies and actions that companies prefer. Modern entities are now facing an emerging business phenomenon which is described as sustainability performance management which addresses the social, environmental and economic aspects of corporate management. Several factors have motivated companies to investigate and improve environmental performance. Stakeholders and customers increasingly may require consideration of the environmental issues. Although the sustainability concept is not new, many organizations still do not know how to implement or measure its outputs. What is more, implementation of performance management systems is challenging due to the differences amongst the companies and users of performance management system.

During the last decades, the mounting global attention to sustainability has led to a worldwide debate on how a sustainable world could be realized. In this debate, companies are regarded as crucial actors in contributing to global sustainability goals. Not only do they play a core role in modern society, by offering employment and contributing to wealth creation but they are also responsible for numerous social and environmental problems. Lansituoto and Jarvenpaa (2010) pointed out in their study that environmental issues may become strategic because they have an influence on a company's image, profitability, competitiveness, markets and products which will affect its future economic survival. In recent years, many corporations have implemented environmental and social management systems in order to manage and control sustainability related issues. However, these management systems often fall short in companies' practice. The underlying reason of this situation is, in many cases these management systems are run on the operating level thus they are not linked to the strategic planning and management of the company.

Balanced scorecard has high potential to integrate environmental and social aspects into the general management system. It has to be noted that the balance scorecard is not a tool for the formulation of strategies, it serves to describe an existing strategy consistently in order to enhance, its successful execution (Leon-Soriano et al., 2010). It allows companies and organizations to clear their visions and strategies while translating them into action. According to Kaplan and Norton (1996), model provides feedback on the internal business processes and the external outcomes of those actions. Therefore, it can be used as a continuous improvement tool for finding the most strategic performance and results (Johansson and Larson, 2015). Using the balanced scorecard approach based on sustainable development parameters is a powerful and useful methodology to evaluate the sustainable performance of organization or company.

2. Literature Review of Balance Scorecard

Performance measurement/management systems are widely explored by managerial and accounting scholars (Ferreira and Otley, 2009). Set of activities to determine the aims and supports the implementation of planning, control, measurement, rewarding and learning mechanisms are defined as the performance measurement system (Agostino and Arnaboldi, 2012). Traditional performance evaluation systems have the common weakness which overemphasizes the financial parameters and other perspectives were neglected. In the new market context where information highly influences companies' success, no single performance indicator could fully capture the complexity of an organization's performance. With multiple and often conflicting demands from various stakeholders, a company's performance objectives are multidimensional.

In 1990s, Kaplan and Norton introduced a methodology to combine both financial and non-financial issues into a performance management system which is called Balance Scorecard (BSC). The BSC approach involves identifying key components of operations, setting goals for them and finding ways to measure progress towards their achievement (Leon-Soriano et al., 2010). The innovation of BSC is to evaluate an organization from for perspectives which are financial, customer, internal and learning perspective. In Figure 1 general framework of BSC which is determined by Kaplan and Norton (1996) is presented. BSC lets executives see whether they have improved in one are at the expense of another.

Financial perspective simply measures the revenue growth, investment return and cost reduction by gathering financial data and reviewing business performance based on financial performance. Financial analysis as the sole