



## Research article

## The Integrated Scorecard in support of corporate sustainability strategies



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## ABSTRACT

Organizations have increasingly recognized the importance and benefits of developing a sustainability strategy that incorporates environmental and social responsibilities. However, the simultaneous integration of the economic, environmental and social aspects remains a major concern for organizations. The Sustainability Balanced Scorecard (SBSC) represents one of the most promising strategic tools to help organizations face these challenges and support their sustainability strategy. However, past research has provided unclear, incomplete and even contradictory SBSC frameworks while offering little knowledge about how to integrate stakeholder management as well as environmental and social performance within the balanced scorecard to successfully support a corporate sustainability strategy. The aim of this study is to address these issues and limitations by proposing the Integrated Scorecard, a specific SBSC that integrates the three pillars of sustainability performance within four different perspectives, namely environmental, social and economic performance, stakeholder management, internal business processes, and skills and capabilities. This study provides a conceptual approach to the Integrated Scorecard and illustrates, through the use of two practical illustrations, the ability of this framework to support the corporate sustainability strategy by identifying the core sustainability objectives that organizations should achieve when creating value, facilitating the understanding of the contribution of environmental and social initiatives on economic performance, allowing the monitoring and measurement of the strategy's level of achievement, and creating synergy between sustainability performance management and reporting.

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## 1. Introduction

The importance of the issues surrounding sustainability for corporations has been addressed at length in the literature (e.g. Parker, 2011; Bocken et al., 2014; Martínez-Jurado and Moyano-Fuentes, 2014). In fact, a growing number of firms view environmental and social aspects as strategic ones (Dias-Sardinha and Reijnders, 2007). According to several recent surveys, organizations report that sustainability practices are essential or very important to their company's strategic mission (Barton, 2011; MIT Sloan Management Review and The Boston Consulting Group, 2011; Kiron et al., 2012). For these managers, addressing environmental and social issues represents a competitive advantage (Dechant et al., 1994; Hart, 1995; Porter and Van der Linde, 1995; MIT Sloan Management Review and The Boston Consulting

Group, 2011; KPMG, 2014) and a source of long-term value creation (Porter and Kramer, 2006, 2011; Barton, 2011). Therefore, a growing number of organizations have recognized the importance and benefits of formulating a strategy that incorporates environmental and social responsibilities (Epstein and Roy, 2001).

However, the strategic integration of the economic, environmental and social performance, along with the ongoing improvement of these three perspectives, remain a major concern for organizations (Figge et al., 2002; Epstein et al., 2015). Here, the difficulty is no longer whether or not to implement a sustainability strategy, but how (Epstein and Roy, 2001). The recurrent questions for many managers involve the improvement of environmental and social performance without compromising long-term profitability for the organization, and the methods by which to translate the sustainability strategy into actions that can be implemented across a complex organization (Epstein and Roy, 2001).

In order to face these challenges, some of the literature has addressed the importance of developing strategic tools that

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integrate environmental and social aspects with a firm's core business approach while linking performance measurements to the organization's strategic sustainability objectives (e.g. Lämsiluoto and Järvenpää, 2008; Searcy, 2012; Journeault et al., 2016). The Sustainability Balanced Scorecard (SBSC) has been identified as one of the most promising strategic tools to help organizations support their sustainability strategies (Schaltegger and Wagner, 2006). Building on the Kaplan and Norton balanced scorecard (Kaplan and Norton, 1992, 1993, 1996, 2000, 2001, 2004a,b), the SBSC integrates three pillars of sustainability into a single performance measurement system (Figge et al., 2002). Some of the research on the SBSC has argued that this management tool can support the successful implementation of corporate sustainability strategies by developing a hierarchical system of strategic objectives derived from the business strategy. Goals and indicators are then identified for each of these objectives, forming a multidimensional set of sustainability-oriented metrics that are interrelated through cause-and-effect relationships (Moller and Schaltegger, 2005). These self-reinforcing indicators jointly assist in translating corporate sustainability strategies into actions by measuring the results of these strategies (Epstein and Wisner, 2001). SBSC supporters have argued that this framework can help managers analyze what drives sustainability, what actions will improve it, and what consequences are likely to impact the company's environmental, social, and financial performance (Epstein and Roy, 2001). Moreover, this framework helps focus attention on the issues that surround sustainability, encourage behaviour that is consistent with sustainability strategies, support the development, management and evaluation of the firm's processes, while encouraging firms to communicate their sustainability vision, values and strategy throughout the organization and provide feedback and information for sustainability related decision-making (Malmi, 2001; Dias-Sardinha and Reijnders, 2007; Lämsiluoto and Järvenpää, 2008).

Several past studies have recognized the interest and benefits of the SBSC in supporting corporate sustainability strategies (e.g. Johnson, 1998; Figge et al., 2002; Lämsiluoto and Järvenpää, 2008; Hansen and Schaltegger, 2016). While a number of SBSC frameworks have been proposed in the literature (e.g. Epstein and Wisner, 2001; Figge et al., 2002; Sidiropoulos et al., 2004; Van der Woerd and Van den Brink, 2004; Moller and Schaltegger, 2005; Dias-Sardinha and Reijnders, 2007; see Hansen and Schaltegger (2016) for a complete review), a lack of consensus remains on how to integrate environmental and social performance. Furthermore, some of these frameworks present contradictions. For example, certain frameworks have suggested introducing an additional perspective within the balanced scorecard while others have argued that the SBSC should only include the four traditional perspectives proposed in the Kaplan and Norton model (i.e. the financial, customer, internal business process, and learning and growth perspectives). Also, most of these frameworks remain unclear, fragmented or incomplete. For example, little attention has been devoted to explaining how stakeholder management, which represents one of the fundamental elements of sustainability performance, should be integrated into the SBSC. Thus, little insight has been provided to clarify how and why a firm might integrate the various stakeholders within the SBSC framework. More importantly, most of these frameworks ignore the notion of environmental and social performance, both of which represent an important issue for organizations, by restricting comprehension regarding the interaction between environmental, social and economic performance and by hindering the economic opportunities associated with environmental and social performance. These issues may present important obstacles when designing and implementing a reliable and effective SBSC.

The aim of this study is to address these issues and limitations

by developing a more complete and comprehensive SBSC that can support corporate sustainability strategies. More specifically, it will propose the Integrated Scorecard, a specific SBSC that integrates three pillars of sustainability performance within four different perspectives, namely environmental, social and economic performance, stakeholder management, internal business processes, and skills and capabilities. This study will also present the operationalization and practical usage of the Integrated Scorecard by examining how the framework applied in two different organizations.

The sections below will be organized as follows. First, the method used to develop and illustrate the Integrated Scorecard will be presented. Then, a short review of the literature surrounding the SBSC will be presented, followed by conceptual definitions and practical illustrations of the Integrated Scorecard. Finally, additional considerations will be discussed, along with the theoretical contributions, practical implications, and limitations of this study.

## 2. Method

The conceptual development and practical illustration of the Integrated Scorecard has been realized following these steps. First, the study's researcher conducted a complete literature review that primarily covered sustainability management, operation, marketing, and strategic literature. This review provided important insights regarding the best practices and issues associated with SBSC. These insights are summarized and discussed below (see the SBSC literature review, Section 3). Building on this review, a first draft of the Integrated Scorecard conceptual framework was developed. This draft was then presented to five academics and five practical experts who provided a number of comments and contributed to the evolution and improvement of the Integrated Scorecard framework.

Following this, the framework was tested through practical experimentation in over thirty different companies that vary in terms of industry, size, and level of strategic sustainability deployment and type. The period of experimentation lasted over two years, between 2014 and 2016. It helped us assess the framework, provide modifications and test new versions. This process allowed us to improve the framework and confirm its validity and relevance in the field. Section 4 presents the Integrated Scorecard conceptual framework that emerged from this process and provides a practical illustration for the two different organizations that were tested during the experimentation process.

## 3. SBSC literature review

The SBSC literature has provided some insight into the strengths, reasons and benefits of integrating environmental and social aspects within the SBSC (e.g. Lämsiluoto and Järvenpää, 2008), the ability of the SBSC framework to support governmental sustainability policies (e.g. Beiman, 2008; Sharma and Dragomirescu, 2009) and evaluate corporate sustainability performance (e.g. Dias-Sardinha and Reijnders, 2005; Hubbard, 2009), along with its interrelation with sustainability accounting and reporting (e.g. Schaltegger and Wagner, 2006; Laurinkevičiūtė et al., 2008). This area of research has also focused on more basic and fundamental questions that address the way in which the environmental and social aspects might be integrated within Kaplan and Norton's balanced scorecard to form a SBSC (e.g. Figge et al., 2002; Van der Woerd and Van den Brink, 2004; Moller and Schaltegger, 2005; Hansen and Schaltegger, 2016). Three main SBSC designs are proposed in this literature: (i) the creation of a derived environmental and social scorecard, (ii) the integration of environmental and social aspects within the four conventional balanced scorecard perspectives, and (iii) the introduction of an additional perspective.

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