Win for you, win for me

Assessing a corporation's performance may become easier with the introduction of a less complex sustainable balanced scorecard with a single indicator outcome, writes *Graham Hubbard*.

Imagine having to choose which organisation you think is doing well from the following scenarios:

Scenario 1
The organisation is achieving a very high shareholder return, but employees are badly treated and the organisation is unpopular in the community as it is perceived to sail close to the wind on legal and environmental issues.

Scenario 2
The organisation wins the 'best employer to work for' award but is losing money and has no positive profile in the general community as it is seen to be run for the benefit of employees.

Scenario 3
The organisation wins community and environmental best practice awards but does so because it takes advantage of the goodwill of its employees and is losing money.

Difficult? Depending on your personal value system or your position in the organisation (CEO, frontline employee, legal officer), you may well be able to make a choice. But wouldn't it be good if an organisation could do well in all areas, not just one? While these scenarios demonstrate a trade-off between competing groups of stakeholders, it may be possible to develop a win/win scenario.

An organisation's performance needs to be measured in order to assess and develop strategy. Case studies of 'good' organisations – such as GE, Wal-Mart, BP, Toyota or Haier – dominate the field and many copy their practices. An organisation which is performing well generally does not change its corporate or business strategy, but an organisation not performing well may consider such a change.

Organisation performance measurement systems have changed over the years to incorporate measurements of environmental, social and sustainability performance. They are likely to change again in the future. These complex future changes might be incorporated into a practical Sustainable Balanced Scorecard (SBSC) method, with a single indicator outcome. Adapting the BSC to get an SBSC seems a feasible option for most organisations. This approach would aggregate measures within each area and then across areas, offering ways to simplify the outcome and making it comprehensible – similar to the way we measure national progress or wellbeing.

PERFORMANCE MEASURING SYSTEMS

From shareholder value to the balanced scorecard

During the 1980s, the shareholder value theory dominated organisational performance measurement systems. However, the 1990s saw a broader stakeholder theory gain traction (shareholders represent one group of stakeholders, but employees, customers and suppliers are other groups whose wellbeing is affected by how the organisation performs). The BSC system was developed. This system balances financial, customer/market, short-term efficiency and long-term learning and development perspectives and is primarily limited to economic measures of value and internal creation of economic value by the company (employee, supplier and community concerns are not part of the original BSC model, see table over page).

The Triple Bottom Line

At the same time that the BSC was developed, a groundswell of concern developed for the impact of organisations on the natural environment and communities. The Triple Bottom Line (TBL) concept was developed and required an organisation to measure its social performance (in relation to the communities in which it and its suppliers work) and its environmental performance – its impact on use of resources and by-products emitted from its processes.

Measuring environmental performance

Government regulations, lobby groups and community concerns (riots at every global World Trade Organisation meeting since Seattle in 1999) have forced organisations to assess their impact on the environment. Environmental Management Systems (EMS) helped organisations develop environmental policies, set objectives and targets for reducing environmental impacts, but didn't measure the actual performance level of the system. Despite these limitations, Hewlett-Packard found that 80 per cent of organisations used EMS as criteria for purchasing decisions.

The development of EMS within organisations is evolutionary. The initial driver is the need for legal compliance, followed by a focus on pollution control, then from pollution control to pollution prevention and eco-efficiency while leading-edge organisations move to ecological design with an eventual move to emphasise sustainability.

Measuring social performance

Again, the pressure for measuring social performance has been triggered first by increasing legal responsibilities, then by moral responsibilities. Organisations have always had social responsibilities for their employees, yet recent practices of outsourcing and the use of cheap, underage, overworked labour in developing countries has forced many international companies to move beyond legal responsibilities, beyond national boundaries and beyond the boundaries of their own organisation to take responsibility for supplier practices as well. No specific social measurement systems have developed as yet, although influential business journals such as *Fortune* publish lists of ratings of the *Best Company to Work For*. The World Economic Forum has found growing acceptance of corporate social responsibility at top business

The Balanced Scorecard

Financial performance

Measure	Performance
Sales growth	39%
Return on sales	6.8%
Return on assets	5.1%
Return on equity	15.5%
Gearing	73%
Overall	

Internal process performance

Measure	Performance
Labour turnover	3.8%
Average unit production time	4 days
Working capital/sale	10%
Capacity utilisation	73%
Overall	

Learning & Development performance

Measure	Performance
New product development	1
New market entry	2
R&D/sales	2.5%
Training/sales	5.5%
Investment/total assests	10%
Overall	

Customer/market performance

Measure	Performance
Market share	3.2%
Number of new customers	12,350
Returns	1.5%
Defects	2.8%
Order cycle time	7 days
Overall	

Added to get a single rating

Rating (1–5)
3
4
2
5
2
3.2

Rating (1–5)
4
2
4
3
3.4

Rating (1–5)
1
5
3
5
3
3.4

Rating (1–5)
5
5
4
4
3
4.2

Further examples

Social performance

Measure	Performance	Rating (1–5)
Employee satisfaction	4.1%	4
Customer satisfaction	4.4%	5
Supplier satisfaction	3.8%	4
Community satisfaction	3.0%	3
Community contrib/sales	1%	2
Overall		**3.6**

Environmental performance

Measure	Performance	Rating (1–5)
Key material usage/ production unit	12 kgs	3
Energy usage/ production unit	2 kwh	1
Water usage/ production unit	2.5 litres	3
Emissions, effluent and waste/production unit and/or of total used	3 tonnes	1
Industry specific factor (lost time injuries/ 000 hours	1.0	4
Overall		**2.4**

Organisational sustainable performance index

Measure	Rating 2005	Rating 2004
Financial	3.2	3.0
Internal process	3.4	3.2
Customer/market	4.2	3.8
Learning & development	3.4	3.4
Environmental	2.4	2.0
Social	3.6	3.8
Overall sustainable performance index	**3.4**	**3.2**

levels, suggesting that once this area finds an agreed framework, it will develop along the lines of EMS.

Sustainability and organisational performance

Although the TBL includes social and environmental measures, the even wider global concept of 'sustainable development' or 'sustainability' has emerged. Perceptions of unsustainable mining, developing, agriculture, housing and consumption practices are leading many in the world to see the need for massive change in individual and organisation behaviour. Sustainability extends the set of factors that would need to be measured, since it is concerned not only with current performance but also with the impacts of current performance on stakeholders' needs in the future. The TBL could be an appropriate approach to measure organisational sustainability performance, but so far it has not received practical acceptance, due to the major changes it requires in reporting organisation performance.

A NEW DEFINITION OF 'VALUE'

Organisation strategy is about value creation or added value which has traditionally been measured in economic terms (in dollars of profit). However, new measures of non-dollar society growth and improvement are being proposed and tested to accommodate the concept of sustainability. At the corporate level, it is argued that value is a blend of financial value and social value with the blend varying from organisation to organisation (a venture capitalist might seek purely financial returns, while a not-for-profit might seek purely social value, but both are in the blended value-creating business). Thus, it is quite possible for different perspectives on sustainability to lead to conflicting assessments of performance for an organisation.

For example, the significant use of cheap material resources, which are in limited supply and cannot be easily replaced or renewed, may be economically beneficial for the organisation, but may not be environmentally sustainable. In terms of social perspectives, the use of cheap outsourced labour, which may not provide living wages for a community or which may involve health risks to those people, may be economically beneficial to the organisation but detrimental to that community and society in the long term.

Introducing sustainability concepts to the TBL measurement system implies that the organisation must consider its impact not only on the current society but also its impact on future generations, so that whatever practices are being pursued can be continued into the future.

DEVELOPING A SUSTAINABLE BALANCED SCORECARD

Sustainability and TBL measures are not simply fashions that will pass. Recent sustainability initiatives include: Nike's response to community pressures to reform the labour management practices of its international suppliers; the development of the Dow Jones Sustainability Global World Index for investors seeking socially responsible investment opportunities; compulsory sustainability reporting on the Paris and Johannesburg stock exchanges; UK fund managers requiring sustainability reports from the top 200 listed organisations in the UK and The Economist Intelligence Unit's finding (2004) that almost 75 per cent of large international organisations were under pressure to come up with non-financial measures, describing those that existed currently as mediocre or poor.

There is increasing recognition in the community about the parlous state of the global environment and it is widely believed that organisational practices must change. While governments may have to legislate for changes in these practices (just as they have done with social practices around employees and customers), organisations are likely to be the main institutions responsible for carrying out any necessary changes in practices.

So how should an organisation measure its sustainable performance in future? Two measurement systems, the SustainAbility framework and the Global Reporting Initiative (GRI), a UN affiliate, have achieved more support than others, while the

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Environment Sustainability Index is a third system developed by the World Economic Forum. After analysing these methods, however, it is clear that a consistent approach is lacking at this point and a broad range of issues still need to be addressed.

Perhaps the most attractive conceptual approach is to consider whether social and environmental issues could be included in the BSC itself to develop an SBSC – effectively integrating the TBL into the current BSC framework. The BSC should be expanded to six perspectives, including environmental and social, to develop the SBSC. This is effectively a TBL but within the existing framework that organisations are currently using, making it much easier to implement.

Many suggestions have been made about what should be included in the environmental and social measures. The GRI approach contains 28 areas for measurement and SustainAbility contains nine. Yet, consistent with the 80/20 Pareto principle, the biggest strategic impact will be made by focusing on a small number of key indicators. For instance, energy use, water use, emissions and recycled materials are areas in which everyone agrees organisations need to focus on, not just for current performance but for the effects on future generations. In addition, each organisation, being in a specific industry facing specific issues, will develop its own set of areas. As well as reporting the specific result, as with financial reporting, a trend should be reported and ideally a benchmark, so that the actual outcome can be compared to an industry standard, best practice or target. This enables an analyst or reader to form some conclusion about the level and direction of the performance, a problem with current reporting. The table (previous page) shows a hypothetical example of such a SBSC.

A SIMPLER METHOD WITH A SINGLE MEASURE

Current reporting attempts and models are complex. However, the value of this SBSC to an inexpert public would be magnified greatly if it were possible to simplify the information reported and to develop consistent measures and frameworks. The approach of developing a single indicator is intuitively attractive in terms of measuring performance. This could be done by standardising performance on each different measure into a 1–10 scale and adding the scores. These 'actual' scores could be compared with last year/last period and/or with a target, providing indications of how well the organisation is performing overall.

It could be argued that the simplification process will lose valuable information and lead to glib assessments of performance, which may even be counterproductive. The development of the BSC itself has been so well received because it demonstrates that organisations are complex and complex measures are therefore needed. However, experience in using the BSC itself indicates that practising managers are reluctant to 'add' even these disparate measures and struggle to come to an overall conclusion. Yet this is essential when judging the overall performance of the organisation's strategy!

While critics of the SBSC and the weighting to get to a single indicator may claim that key indicators are not reported and not linked together, the trade-off with the SBCS is its simplicity and its likely acceptance and understanding by most senior managers and analysts. The alternative – extremely complex and individual reporting – will not actually be usable, however desirable and theoretically superior it may seem.

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