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# Balanced scorecard: A strategic tool for corporate social responsibility

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**Key words:** corporate social responsibility, balanced scorecard, strategy

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**S u m m a r y:** Globalization process has created awareness of the need for sustainability, as well as the role of stakeholders. Organization's stakeholders have ever increasing expectations for organizations to act in a responsible and sustainable way. Increasing number of organizations are adopting the mission statements that relate to sustainable development and Corporate Social Responsibility. As one of the results of globalization, International Organization for Standardization has been creating and developing ISO standards, which are to be a guideline in managing areas of the most importance for the organization. One of those standards is ISO 26000 norm, a guideline for Corporate Social Responsibility. The 26000 norm defines the meaning of the term Corporate Social Responsibility and clarifies its link to sustainable development. Although the benefits of its implementation are being emphasized, Corporate Social Responsibility concept is still for many organizations almost impossible to capture and implement. As a management tool made of measurement system, balanced scorecard translates mission into measurable objectives. Since Corporate Social Responsibility is part of ever increasing numbers of mission statements, the aim of this paper was to research the potential of balanced scorecard in comprising the meaning and measuring of the corporate social responsibility concept by analyzing research and professional papers.

## 1. Introduction

The management challenge of all kinds of companies is to run successful business and to respect ecological and social values at the same time. It is now believed

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that there is no economic development if it is not environmentally and socially sustainable. Care for the environment and the community becomes a powerful source of competitive advantages. Companies that are actively involved in solving ecological, social and ethical problems are considered to be social responsible companies. Many factors and global events led to the emergence of corporate social responsibility (CSR for short) as a new business strategy and modern and important tool for accomplishing change. CSR is becoming universally accepted concept in the framework of sustainable development because of the increasing importance and strength of the business sector as well as its role in the global social development. According to the ISO 26000 norm, *Guidance on Social Responsibility*, Corporate Social Responsibility (CSR), or simply social responsibility, encompasses a vast variety of areas that in one way or another refer to social and environmental implications as a result of the decision-making (processes) in the organization (1). Although there seems to be no final agreement on the meaning of a widely used term CSR, the ISO 26000 norm seems to provide a draft of its meaning, where it is being defined as ‘responsibility of an organization for the impacts of its decisions and activities on society and the environment, through transparent and ethical behaviour that contributes to sustainable development, including health and the welfare of society; takes into account the expectations of stakeholders; is in compliance with applicable law and consistent with international norms of behaviour; and is integrated throughout the organization and practiced in its relationships’ (2). The most commonly used CSR activities are activities which deal with problems of the local community, employment policies and environment protection. Implementation of CSR definitely has a positive impact on business activities and long term sustainability of a company, so it is important that the management recognizes and understands the ultimate benefits of such engagement.

## 2. Sustainable development and corporate social responsibility (CRS)

Often-quoted definition of sustainable development is the one given by the Brundtland Commission, defining sustainable development as a ‘development which meets the needs of the present without compromising the ability of future generations to meet their own needs’ (3). Sustainable development has three interdependent dimensions: economic, social, environmental. The sustainability concept is to embed these three dimensions finding a fine balance between seemingly contradictory conceptions—stability and continual development. This concept of sustainability is to provide stability for the future generations to come and their needs, while the continual development is to generate better conditions of life for the generations already living and those yet to come. The three dimensions of sustainability concept are grouping the existing challenges in the world into three subject matters, which when cascaded to lower levels are to find the way to solving the problems and difficulties the world

today faces, such as hunger, poverty, inequality, underdevelopment, devastation of environment, and alike.

One of the aspects of sustainable development is corporate social responsibility (CSR), falling under the social dimension of the sustainable development. In 2001 The European Commission defined CRS in the following way: ‘a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis’ (4). According to the ISO 26000 norm, the essential characteristics of social responsibility is ‘the willingness of an organization to incorporate social and environmental considerations in its decision-making’ (2) as well as being accountable for the impacts the decisions made and activities carried out have on the society and the environment.

The businesses that apply the CSR seem to have advantages such as satisfied employees and customers, positive public relationships, cost reductions, and perhaps of the utmost interest to any organization, these seem to have more business opportunities and achieving long-term results as well as steady business activities. Along with market forces, there are other motives for business entities for integrating the CSR into their vision, mission, strategy and daily activities. These motives are of a competitive nature and some of them are as follows (5): economic considerations, ethical considerations, innovation and learning, employee motivation, risk management and reduction, access to capital or increased shareholder value, reputation and brand, market share, strengthened supplier relationships, cost savings.

Although the benefits of integrating CSR into the vision, mission, strategy and daily activities seem to have many long-term benefits, there are still obstacles the business entities are facing when integrating and implementing this new business and management concept. These obstacles refer to the following (6):

- the existing management system focused exclusively on the financial performance;
- social responsibility is directed to employees and their contribution to the financial performance;
- social responsibility is delegated to Human Resources departments which work more operationally on the administration of employees than strategically on the development of their human resources;
- social facts are ‘soft’ and are in consequence not as easy to handle and to measure as financial ‘hard’ facts;
- successful environment concepts such as eco-efficiency cannot be an appropriate template for the notion of CSR;
- sustainability requires also to look beyond the company borders including supply-chains or the society as a whole;
- introducing management systems for social aspects as an addition to quality, environmental and health and safety systems does not seem to be an appropriate solution to the problem.

Considering its vastness, these obstacles are natural results when trying to incorporate and implement the concept of CSR. The concept of CSR cannot be delegated to only one department of the organization (such as Human Resources) or to only one level of management (such as middle management). Because of its complexity, CSR should and must pervade through all management levels and organization's departments. This means that the concept of CSR must be integrated into the mission, vision, strategy, objectives and daily plans, budgets and activities of the organization involved. Willard identified stages or 'shades of green' the organizations experience when embracing the sustainability concept (7):

- stage 1: pre-compliance;
- stage 2: compliance;
- stage 3: beyond compliance;
- stage 4: integrated strategy;
- stage 5: purpose and passion.

Pre-compliance is a stage when the organization embracing the sustainability concept is entirely focused on profits, reducing costs wherever possible, actively resisting sustainability regulations. Compliance stage is marked by managing liabilities by obeying sustainability regulatory framework, yet the concept is treated as a cost. In the beyond compliance stage it becomes clear that the organization's cost reduce through the sustainable-based actions, such as minimizing waste, pollution, energy use and alike. In the integrated strategy stage, the organization becomes committed to the sustainability concept, integrating sustainability into the key business strategies. In the purpose and passion stage is present a commitment to improve the company, society and the environment 'because it's the right thing to do' (7), meaning these are the values on which the whole business is being build upon.

The key stage is stage 3, beyond compliance, where organization 'must develop a more comprehensive way to measure performance that includes sustainability' (7). Considering the measurement system it is formed of and as 'one of the more enduring business management ideas of the last 20 years' (7), the BSC could facilitate the sustainability performance measurement through the new concept of Sustainability Balanced Scorecard (SBSC). The reason for that is that the conventional BSC is already structured in a way that provides space for integrating sustainability measurements, such as employee culture score, number of new partnerships, kWh used per monetary unit of sale, waste reduction (7).

### **3. Balanced scorecard (BSC) as a tool for internal measurement and evaluation of CRS**

Balanced Scorecard (BSC) is a management tool that translates organization's mission, vision and strategy into daily plans and activities. BSC is a framework that

integrates measures derived from strategy (8) of the organization; it is ‘a carefully selected set of measures derived from an organization’s strategy’ (9). Being comprised of key performance indicators (KPI), BSC is a strategic management system, measurement system and communication tool. The term *balanced* in the balanced scorecard indicates ‘the balance provided between short- and long-term objectives, between financial and non-financial measures, between lagging and leading indicators, and between external and internal performance perspectives’ (8, p. 18).

The BSC concept is made of four perspectives: financial, customer, internal business process and learning and growth (8), forming a balance scorecard framework. Each of these perspectives is made of objectives, measures, targets and initiatives to set, that track the vision, mission and strategy.

The lead question in the learning and growth perspective is ‘To achieve our vision, how will we sustain our ability to change and improve?’ This perspective is focused on learning and growth of the organization’s employees. There are three principal categories in this perspective (8):

- employee capabilities;
- information systems capabilities;
- motivation, empowerment, and alignment.

Elements to measure in this perspective are: involvement with decisions, recognition for doing a good job, access to sufficient information to do the job well, active encouragement to be creative and use initiative, support level from staff functions, overall satisfaction with company, employee retention, revenue per employee, value-added per employee (8). The measures in this perspective are enablers of the other three perspectives, making it the foundation on which the entire BSC concept is built (9).

The lead question in the internal process perspective is ‘To satisfy our shareholders and customers, what business processes must we excel at?’ The focus of this perspective are processes identified as critical to excel in for achieving the objectives of shareholders and customers. Measures in this perspective could be as follows: waste reduction, number of new partnerships, percentage of unused machine capacity, average production time in days, number of complaints (when improving the quality) (7).

The lead question in the customer perspective is ‘To achieve our vision, how should we appear to our customers?’ This perspective is focused on identifying relevant customer and market segments that contribute to the financial goals. Measures in this perspective are as follows: market share, customer retention, customer acquisition, customer satisfaction, customer profitability, customer loyalty (8).

The lead question in the financial perspective is ‘To succeed financially, how should we appear to our shareholders?’ The focus of this perspective is financial objectives, which makes it similar to the traditional management and accounting systems. The principal categories in this perspective are (8):

- revenue growth and mix;
- cost reduction/ productivity improvement;
- asset utilization/ investment strategy.

Some of the measures in this perspective are profitability, revenue growth, economic value added (EVA), sales, operating costs, EBITDA (7; 9). All objectives and measures in the above mentioned BSC perspectives should be linked to achieving one or more objectives identified in the financial perspective.

Since the CSR concept is rather new, for many organizations its application might seem unprofitable. The application of the CSR concept might require approval of the CFOs and/ or CEOs, which, when its cause-effect relationship is not clearly outlined, may not be approved. Epstein and Winsor (10) list the benefits of successful implementation of the social (and environmental) strategy and values. These would include the following: increased employee satisfaction, lower operational and administrative costs, improved productivity, enhanced image and reputation, increased market opportunities through niche markets, better shareholders relationships (10). Taking into account the scope of the ISO 26000 norm as a result of new and indispensable sustainability trends in the business world, organizations are to embrace, integrate and implement principles of sustainability, which includes CSR principles into their missions, visions and strategies all down to the daily activities. BSC has the ability for integrating the three dimensions of sustainability concept into mainstream business activities (11). Nikolau and Tsalis (12, p. 12) define BSC as a proper tool for designing and achieving the objectives of corporate sustainability. As a management tool for successfully implementing corporate strategies (11), BSC would the organization's sustainability strategy and incorporated social (and environmental) performance measures communicate more clearly to the stakeholders, with CSR as a part of that strategy (10). An example of integrating and implementing CSR-based strategies into the organization is shown in Table 1.

Table 1

An example of how to integrate CSR into the balanced scorecard's four perspectives

BSC perspective	10 market forces (objective)	GRI measure: How success or failure is measured using the triple bottom line (a common framework for sustainability reporting)	Target: The level of performance or rate of improvement required
<b>Financial</b>	'Green' consumers	Energy consumption footprint (annualized lifetime energy requirements) of major products	Annual reduction in energy footprint for new products
<b>Financial</b>	Energy crunch	Direct energy use segmented by source	100% renewable energy
<b>Financial</b>	Financial	Increase/ decrease in retained earnings at end period	Percentage
<b>Internal</b>	Pollution and health	Standard injury, lost day and absentee rates and number of work-related fatalities	0 lost-time injuries & fatalities, or long-term illnesses

<b>Internal</b>	Climate change	Total greenhouse gas emissions	Annualized reduction
<b>Internal</b>	Governments and regulators	Incidents and fines for non-compliance with all laws and regulations	0 incidents or fines
<b>People and knowledge</b>	Civil society/ NGOs	Policies, guidelines and procedures to address needs of indigenous people	Number of indigenous employees
<b>People and knowledge</b>	Activist shareholders	Business units currently operating or planning operations in or around protected or sensitive areas	Number of employees trained in environmental management practices
<b>Customer</b>	Erosion of trust/ transparency	Policy to exclude all child labour	No child labour
<b>Customer</b>	Globalization backlash	Supplier performance related to environmental commitments	Use of 100% organic cotton or coffee

Source: Adapted from (5).

In the Table shown, the objectives, measures and targets are set in accordance with the concept of sustainability (13). The objectives in this example in the customer perspective are globalization backlash and transparency, where the measures are to focus on the supplier performance and their environmental commitments, and to exclude all possible child labour. The target of this perspective is no child labour included in any process of the product (or serviced) delivered and 100% usage of organic materials needed for the production. In the learning and growth (people and knowledge) perspective the objectives chosen are activist shareholders and civil society, where business units in or around are protected or sensitive areas are being measured, as well as the policies and procedures that address the needs of indigenous people. The target for this perspective is to have a certain number of indigenous employees and a number of people that are trained in environment management practices. In the internal processes (internal) perspective the objectives are the compliance to the regulations and government and to reduce the impact on the climate change.

These objectives are measured by the incidents and fines for not complying with the laws and regulations, and by the number of standard injuries, lost days and absentee rates, as well as greenhouse gas emissions. The targets for this perspective are 0 injuries and fatalities, long-term illnesses, and annualized reduction of greenhouse gas emissions. The objectives for the financial perspective are to reduce the energy usage and to create green consumers, which will be measured by direct energy use segmented by source and by energy consumption footprint of major product. The target of this perspective is annual reduction in energy and achieving 100% renewable energy.

## 4. Sustainability balanced scorecard

Sustainability balanced scorecard is a scorecard focused on solving social and environmental problems (14). As seen from the example above, the conventional four BSC perspectives do not cover all stakeholders' expectations precisely, yet the upgraded generations of BSC do not contain measurement system that would include the broad definition of sustainability. Using the BSC as a communication tool for sustainability strategy (CSR included) causes the organizations to have an individual approach to the definition of sustainability. This individual approach has caused various approaches (BSC perspectives and performance indicators) of the application of sustainable measures into the conventional BSC. According to Gminder and Bieker, depending on way the sustainability indicators are included, there are three possible approaches to the SBSC (16):

- 'Stand-alone SBSC plus Integration later' approach;
- 'Integrated SBSC' approach;
- 'SIGMA Sustainability Scorecard'.

'Stand-alone SBSC plus Integration later' approach suggests that organizations resort only to environmental and social actions on the condition that they could contribute to the financial performance. This makes SBSC a learning tool, a planning tool and a reporting tool. SBSC is a learning tool because it makes easier to capture and express the goals and objectives of the organization, a planning tool because it makes easier to determine the most important strategic environmental and social objectives of the organization and a reporting tool because it recognizes and defines external reporting indicators of sustainability.

'Integrated SBSC' approach is a traditional BSC including and balancing social and environmental aspects, which when linked by cause-effect-relationship, do not have to end up in the financial perspective. In this approach it is possible to apply partial integration, additional integration, complete integration and total integration. Each of these represent a different phase of integrating SBSC.

'SIGMA Sustainability Scorecard' approach suggests that additional BSC perspective is not needed. Instead, the financial and customer perspectives are revised to include 'ecological sustainability, human rights and economic performance' (6) and stakeholders respectively.

An example of SBSC based on strategy of an organization is shown in Figure 1.

Mission for this SBSC is 'building and servicing products that make our customers lives easier and reduce harm to the environment' (7). Vision for this SBSC is 'to lead our industry in sustainable innovation and customer value' (7). In this SBSC the sustainability measures are installed through all four perspectives/ layers of the conventional BSC framework. The strategy map is first linked to the objectives, which are linked to measures and targets, and then the initiatives are suggested. In this SBSC example, the sustainability measures are implemented through existing four



BSC perspectives in a way that sustainability objectives and measures were recognized and built in, such as waste reduction, customer values index, employee cultural score, kWh used per monetary unit of sale, and alike. This example suggests how the CSR could be integrated into this management tool of measurement (Table 1).

In the case of the CSR implementation (Table 1), the sustainability principles referring to CSR were included in the already existing four BSC perspectives. According to Gminder and Bieker's approaches (6), this example would be an 'Integrated SBSC' approach to the sustainability balanced scorecard. Although the CSR and sustainable development still seem vague and unprofitable to most organizations, because of the benefits derived from their integration and application and legal framework in which they exist and operate, the organizations ought to capture the idea of application of the same. Being defined as a communication tool (conventional BSC) with the addition of focusing on and measuring social and environmental dimensions, the SBSC provides a way for recognizing and measuring, and thus tracking the implementation of the sustainability- and CSR-based strategies. Because of its cause-effect linkage and measurement system, the SBSC is a tool that can clearly internally and externally communicate the degree to which the sustainability concept (CSR included) is being implemented.

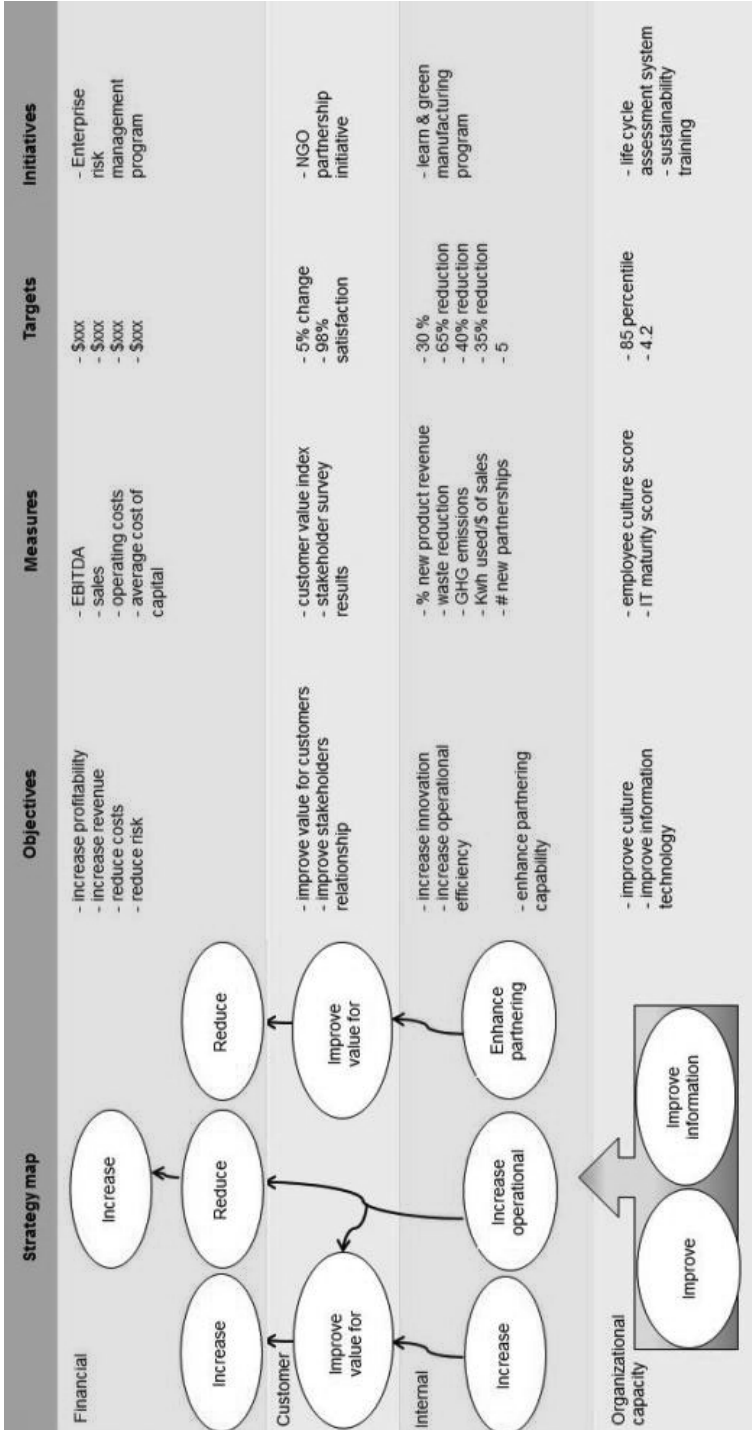


Figure 1. A complete strategy-based balanced scorecard

Source: Adapted from (7).

## 5. Conclusions

A well-organized SBSC can help organizations in implementing the sustainability concept and implementing it efficiently, including the CSR. The SBSC is a tool through which organizations can recognize and establish balanced relations between long-term environmental and social goals, and its short-term financial benefits. It can be assumed that the already recognized third BSC generation might evolve to a new, the fourth (S)BSC generation which would track the sustainability performance of the organization, thus encompassing environmental and social aspect of the organization's performance, of which CSR would be a part. Due to the SBSC concept being relatively new, there are researches and discussions in process as to what an SBSC should look like and what it should measure, because of which no common or agreed conclusion has been reached on this topic. Still, due to the measurement systems the conventional BSC is made of, it can be assumed that the concept of the SBSC will be the subject of further research and scientific discussions.

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## Zrównoważona karta wyników – strategiczne narzędzie społecznej odpowiedzialności przedsiębiorstwa

**Streszczenie:** Proces globalizacji uświadomił potrzebę zrównoważonego rozwoju, a także rolę interesariuszy. Interesariusze organizacji wciąż mają wzrastające oczekiwania, że organizacje będą działały w sposób odpowiedzialny i zrównoważony. Rosnąca liczba organizacji wyznacza sobie misje, które odnoszą się do zrównoważonego rozwoju oraz do społecznej odpowiedzialności przedsiębiorstwa (ang. *corporate social responsibility* – CSR). Jako jeden z rezultatów globalizacji Międzynarodowa Organizacja Normalizacyjna tworzy i rozwija normy ISO, mające stanowić wytyczne w najważniejszych dla organizacji obszarach zarządzania. Jedną z tych norm jest norma ISO 26000, wytyczna dla społecznej odpowiedzialności przedsiębiorstw. Norma 26000 określa znaczenie terminu „społeczna odpowiedzialność przedsiębiorstwa” i objaśnia jej związek ze zrównoważonym rozwojem. Chociaż podkreśla się korzyści wynikające z wdrożenia normy, koncepcja społecznej odpowiedzialności przedsiębiorstw wciąż jeszcze jest dla wielu organizacji niemal niemożliwa do pojęcia i zastosowania. Jako narzędzie zarządzania opierające się na systemie pomiarowym zrównoważona karta wyników przekłada założenia misji na osiągalne cele. Ponieważ społeczna odpowiedzialność przedsiębiorstwa jest częścią wciąż rosnącej liczby wyznaczanych misji, celem niniejszej pracy było zbadanie potencjału zrównoważonej karty wyników w definiowaniu znaczenia oraz w pomiarze założeń odpowiedzialności społecznej poprzez analizę badań i literatury przedmiotu.

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**Słowa kluczowe:** społeczna odpowiedzialność przedsiębiorstwa, zrównoważona karta wyników, CSR

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