



## Link Sustainability to Corporate Strategy Using the Balanced Scorecard

“People and their managers are working so hard to be sure things are done right, that they hardly have time to decide if they are doing the right things.” Stephen R. Covey

### **Abstract**

*Business must be the major driver of innovation and sustainability in our society if we are to avoid a “perfect storm” of resource scarcity, climate change, and pollution. The “triple bottom line” concept is a response to this need, and is meant to include social and environmental performance along with financial performance as a gauge of organizational success. However, its use is limited because it does not address the competitive strategy of the firm. A strategy-based balanced scorecard system aligned with principles of the Triple Bottom Line offers a way to accomplish social and environmental goals while integrating them fully with financial performance and competitive advantage.*



By Howard Rohm  
President and CEO  
Balanced Scorecard Institute  
&  
Dan Montgomery  
Senior Associate  
Balanced Scorecard Institute

### **The Imperative for Sustainability**

In a recent article<sup>1</sup>, the *Harvard Business Review* compared what it called the “Sustainability Imperative” to other game-changing business megatrends of the past generation, such as the rise of the quality movement, the personal computer, and the Internet. Such game-changing trends profoundly affect the competitiveness, and even the survival, of organizations.

Sustainability is an umbrella term for a set of structural changes that impact corporate strategy and performance, and are here to stay, including:

- Growing environmental pressures related to increasing population
- Resource scarcity and rising costs for energy and materials as billions of people aspire to join the middle class in places such as India, China, and Brazil
- Increasing consumer demand for safe and natural products
- Unprecedented levels of transparency arising from the Internet and social media
- Stronger demands for accountability and engagement among the “millennial” generation of workers, and stronger demands for improved governance by boards and other stakeholders

<sup>1</sup> “The Sustainability Imperative”, by David A. Lubin and Daniel C. Esty, *Harvard Business Review*, May 2010

Sustainability and corporate social responsibility (CSR) have become closely connected terms. Originally, sustainability referred to the long term environmental impacts of human activities, while corporate social responsibility had to do with social impacts. Increasingly, these two are used interchangeably.

For purposes of this paper we will use the term “sustainability” in this fuller meaning.

Bob Willard, in his groundbreaking book *The Next Sustainability Wave*<sup>2</sup>, identifies a continuum of “shades of green” when it comes to companies embracing sustainability.

Stage 1: Pre-compliance – the company is focused entirely on profits, cuts corners to reduce cost wherever possible and actively resists regulation and other pressures for sustainable behavior.

Stage 2: Compliance – the business manages its liabilities by obeying the law and applicable regulations, but sustainability is treated as a cost.

Stage 3: Beyond Compliance – moving from defense to offense, the company realizes it can pro-actively reduce cost and risk by minimizing waste, pollution, energy use and harmful social impacts.

Stage 4: Integrated Strategy – the firm re-brands itself as a company committed to sustainability, and integrates sustainability with key business strategies, capturing added value from breakthrough sustainability initiatives that benefit all stakeholders.

Stage 5: Purpose and Passion – the company is driven by a passionate commitment to improve the company, society, and the environment because it’s the right thing to do.

Companies that are seeking to move into Stage 3 and beyond must develop a more comprehensive way to measure performance that includes sustainability. The most popular formulation for this new view of performance is the *Triple Bottom Line*. Simply put, the Triple Bottom Line involves planning, managing, and reporting on business results in three areas:

- Economic: Sales, profits, ROI, jobs created, cash flow
- Environmental: Impacts on air, water, waste, biodiversity, energy use
- Social: Product responsibility, community impacts, labor practices, human rights

The *Global Reporting Initiative* (GRI) is perhaps the best-known and most widely adopted framework for Triple Bottom Line performance reporting. As of 2009, more than 1400 corporations in 60 countries were producing reports using this framework... GRI guidelines were developed in consultation with a large number of stakeholders, including non-governmental organizations (NGO’s).

Despite its growing adoption, the Triple Bottom Line approach has serious limitations, including:

- Lack of focus on the firm’s distinctive competitive strategy
- A potential lack of connection to the “real” business of the firm, as seen by financially-oriented executives and board members
- Treatment of social and environmental impacts as an “add-on”, rather than a key part of business strategy
- Focus on generic activities and outcomes, with no guidance on “how to get there from here”

<sup>2</sup> Bob Willard, *The Next Sustainability Wave: Building Boardroom Buy-in*, New Society Publishers, 2005

What's missing is a link that lets a business make the connection between sustainability and business success.

As Michael Porter has put it: "If corporations were to analyze their prospects for social responsibility using the same frameworks that guide their business choices, they would discover that CSR can be much more than a cost, a constraint, a charitable deed – it can be a source of opportunity, innovation and competitive advantage."<sup>3</sup>

If you would like to align and integrate your sustainability or CSR strategy with your overall business strategy, and measure and communicate with clarity how well you are executing that strategy, then a *strategy-based balanced scorecard* system may be what you need.

## About the Balanced Scorecard

A strategy-based balanced scorecard system involves the collaborative development of a firm's "Story of the Strategy", that identifies the connection between organizational capacity, efficient business processes, customer value, stakeholder satisfaction, sustainability performance, and market and financial outcomes. The balanced scorecard has proven to be one of the more enduring business management ideas of the last 20 years, and has been adopted by more than half of Fortune 500 companies, and many government and nonprofit organizations as well.

The balanced scorecard uses four strategic perspectives, shown in Figure 1, below – complementary but distinct lenses for looking at organizational strategy and performance:

- Owners, investors and analysts view the organization as a financial system that provides return on investment.
- Customers and stakeholders see the business' products and services as a way to satisfy needs and desires at an appropriate price.
- Internal management and staff work on business processes to efficiently turn resources into outputs that can be sold to satisfy customer needs.
- Organizational capacity is the foundation of the others – the physical infrastructure, culture, tools and technology, knowledge and skills, and information systems required to plan, design, and deliver products and services to customers and stakeholders.

---

<sup>3</sup> "Strategy and Society – The Link Between Competitive Advantage and Social Responsibility", by Michael E. Porter and Mark R. Kramer, *Harvard Business Review*, December 2006.



**Figure 1: The Four Balanced Scorecard Perspectives**

Most “sustainability metrics” are, in fact, internal process measures, and in some cases support branding exercises in the customer & stakeholder perspective. These include greenhouse gas emissions, water usage, waste generated, and electricity used. While important, these are only part of the picture.

## The Connection between Strategy and Performance Measures

The *Balanced Scorecard Institute* has developed a *Strategic Management Maturity Model™* that describes the evolution of performance management and measurement. At one extreme, *measurement-based* balanced scorecards are simple dashboards of performance measures grouped into categories that are of interest primarily to an organization’s managers and executives. Measurement-based scorecards almost always report on operational performance measures, and offer little strategic insight into the way an organization creates value for its customers and other stakeholders. Most sustainability metrics, including GRI reports, fall into this category.

At the other extreme, a *strategic performance scorecard system* is an organization-wide integrated strategic planning, management, and measurement system. These strategy-based scorecard systems align the work people do with corporate vision and strategy, and communicate strategic intent throughout the organization, and externally to interested stakeholders.

In strategy-based balanced scorecard systems, performance measures are the result of thinking about business strategy and what the organization is trying to accomplish first, to measure progress toward goals. In strategy-based systems, the first question to answer is the strategic question: “*Are we doing the right things?*” The operations, process, and tactical questions come later: “*Are we doing things right?*”

Figure 2, below, shows the logic of how a strategy-based balanced scorecard is developed, starting at the high-altitude of mission and vision and linking strategy, step-by-step, to operations on the ground.



**Figure 2: Strategic Thinking and Planning Using the Balanced Scorecard**

## Strategic Themes

Sustainability becomes strategic when it is integrated into the fabric of the organizational planning and management process. The two most visible places where sustainability should be highlighted are the organization's high-level strategic themes and the strategic objectives that are the strategic building blocks ("strategy DNA") of this strategy.

A strategic theme is a major "pillar" of the strategy that directly supports achievement of the vision and mission of the organization. A good theme is not just a particular objective, but a linked set of objectives that touches on all four of the scorecard perspectives. These linked objectives tell the story of the strategy, and form the basis for communicating the strategy story to everyone in a consistent manner.

Organizations typically have several common strategic themes or focus areas, such as: *Operational Excellence*, *Product Innovation*, or *Strategic Partnering*. *Sustainability* could be a theme as well. As a theme, *Sustainability* can be described through each of the four perspectives of the balanced scorecard, for example:

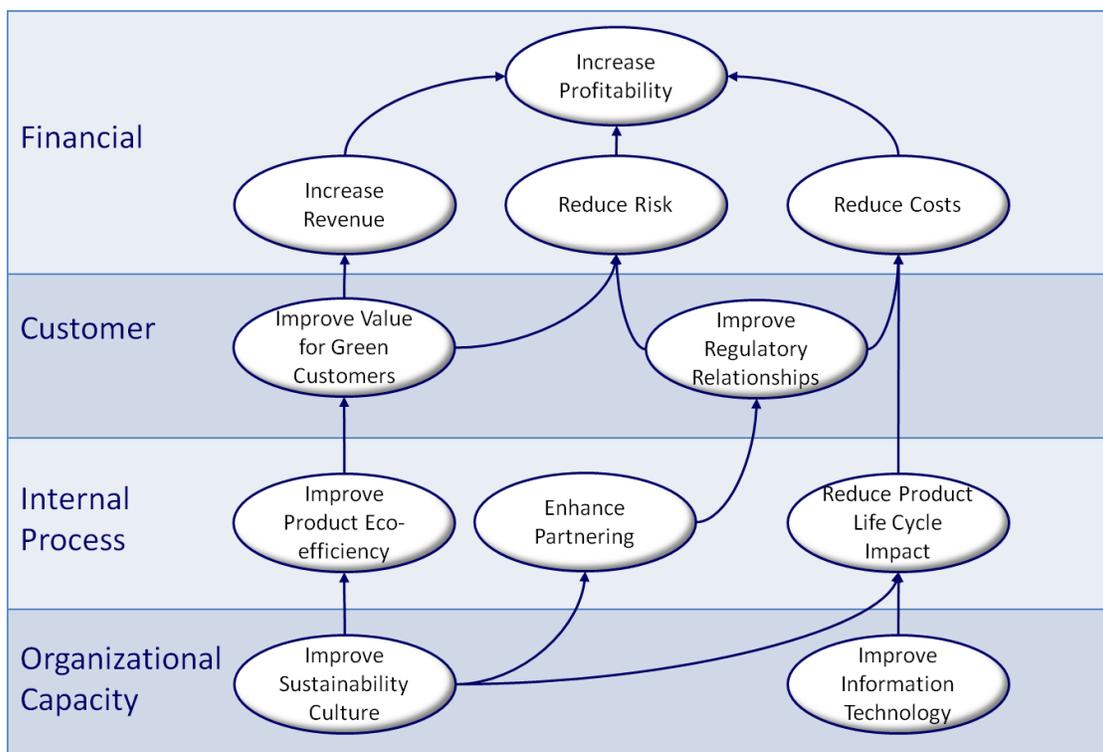
- From a financial standpoint, sustainability means staying in business, and creating an acceptable return for investors.
- From a customer and stakeholder standpoint, sustainability means satisfying and providing value for the growing number of safety and sustainability-conscious consumers.
- From a process standpoint, sustainability means managing materials, energy, and waste in the most eco-efficient way possible.
- From an organizational capacity standpoint, sustainability means creating a culture that values sustainability, reflected in the choices that employees make every day.

## Strategic Objectives

Strategic Objectives are the building blocks of strategic themes, and help make strategy actionable for employees. Objectives are expressed as continuous improvement activities that are unique to each perspective and are lower in “strategic altitude” than themes. Strategic objectives are linked together to form a strategy map, and the strategy map shows visually how objectives work together in an integrated, cause and effect fashion to achieve the strategic results associated with each strategic theme.

When building an integrated strategy-based scorecard system, we build a “Strategy Map” for each theme. A strategy map shows the cause and effect links among strategic objectives, across the four perspectives, in a visual map that tells the “Story of the Strategy”.

Figure 3 is a typical strategy map for a “Sustainability” theme.



**Figure 3: A Generic Sustainability Theme Map**

Here is the story the strategy map tells:

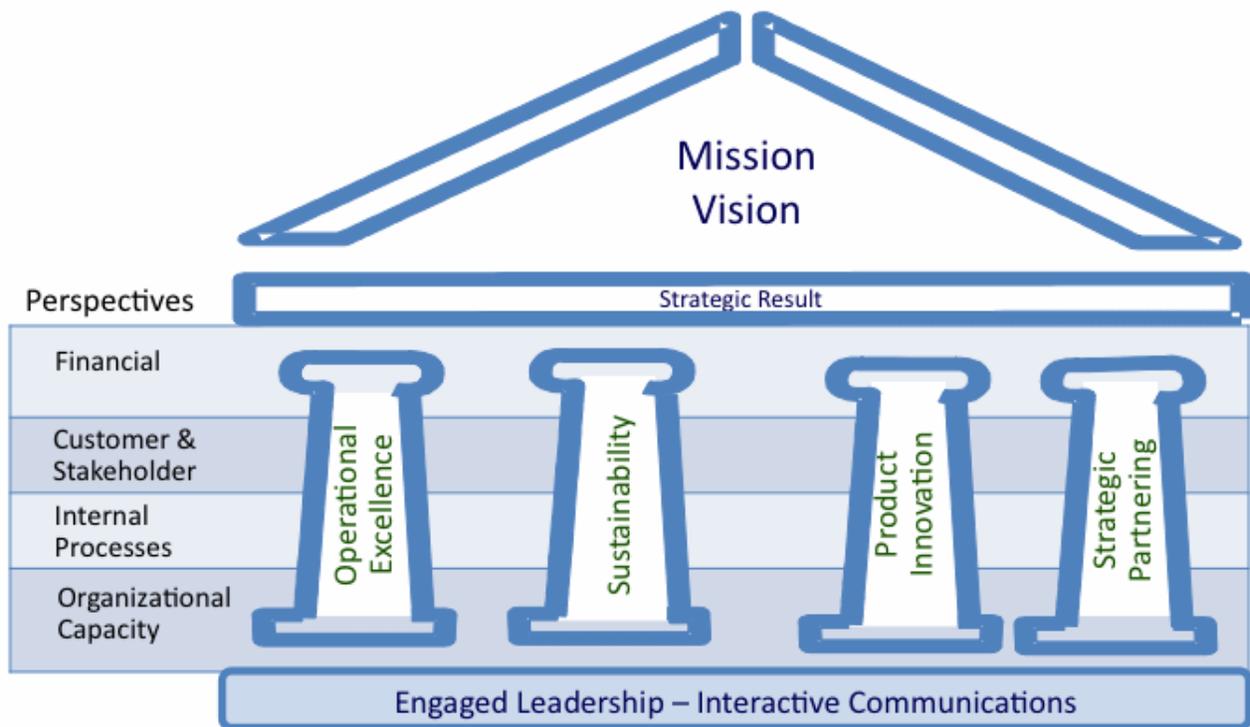
“By creating a strong focus on sustainability in our corporate culture, we will align our people to develop more eco-efficient products, partner with regulators more effectively, and reduce the life cycle impact of our operations. In addition, we build new information technology capabilities that help us track life cycle impacts more effectively.

“By producing more eco-efficient products, we will provide value for the increasing number of “green” customers in our market, which will lead to increased sales. Our capability for partnering will enable us to communicate more pro-actively with the regulatory community, allowing us to be an active player rather than responding reactively to government directives. This will reduce business risk. Also, more

ecologically safe products will reduce potential product liability risk. Reduced risk will have a positive impact on our cost of capital.

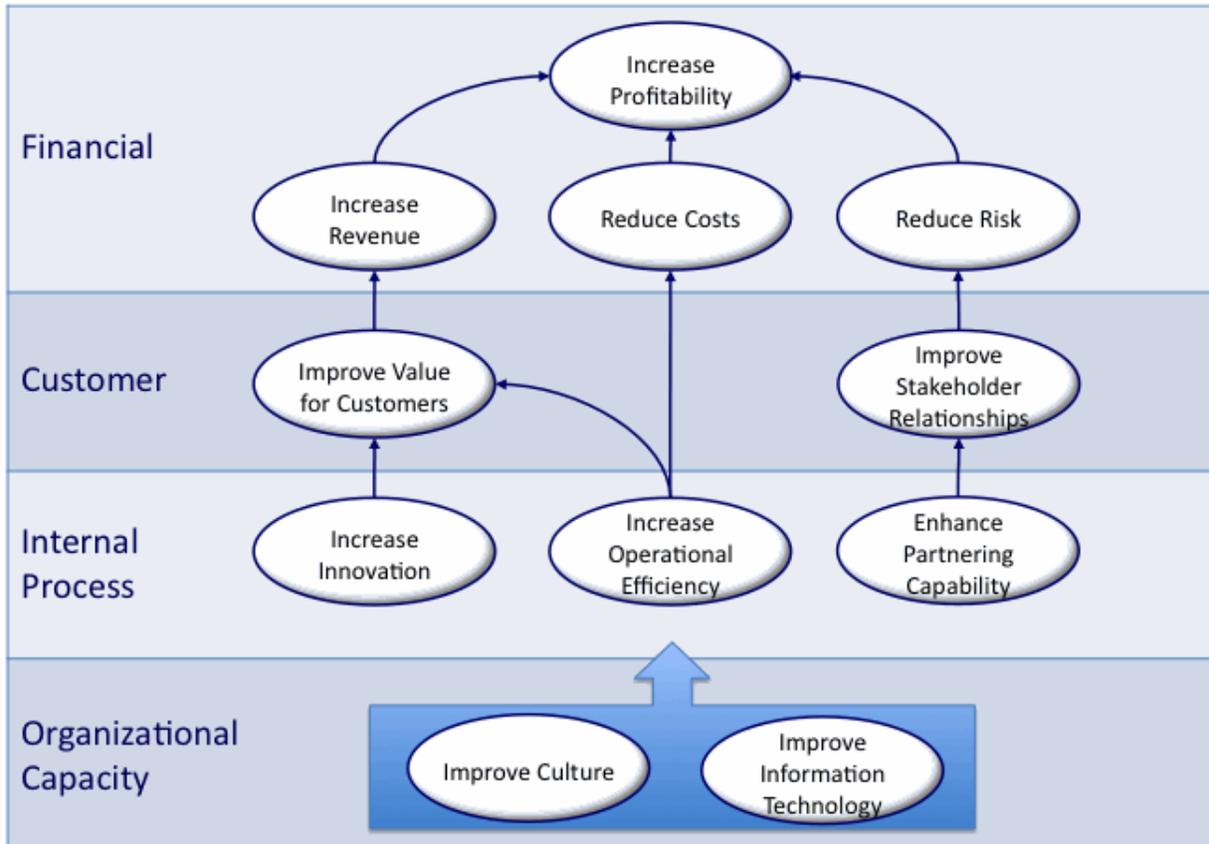
“Reduced life cycle impacts will lead to direct cost savings on fuel, water, electricity and waste disposal. Taken together, increased revenues, reduced risks, and reduced costs will increase our profitability.”

Building a strategy-based scorecard planning and management system, and more importantly, a high-performance organization, is like building a custom house. Figure 4, below, shows how the strategic themes – the organization’s *Pillars of Excellence* – support the strategic results that lead to accomplishment of the Mission and Vision.



**Figure 4: Strategic Themes are the Pillars that Support the Mission & Vision**

Once all the theme maps are developed, they are combined to create an overall strategy map for the organization. All of the themes, including sustainability, are merged into a powerful, mutually reinforcing business strategy, shown in Figure 5, below.



**Figure 5: The Corporate Strategy Map**

Here, the sustainability theme is woven into the bigger vision of organizational success, which also includes the other themes. The larger Story of the Strategy might be:

“We will work to improve our culture, encouraging greater focus on sustainable products, along with more open participation and employee engagement. This is necessary in order to increase our innovation, to create products that satisfy emerging customer needs, to minimize harm to the planet and benefit the communities in which we operate. Developing this culture will also help us find ways to increase efficiencies throughout our operations. This will be supported by better information systems. Taken together, increased innovation and operational efficiency will enable us to produce a better product at less cost, improving value for our customers. This will both reduce our costs, and increase our revenues.

“Part of our culture is about recognizing the need to partner with all of our stakeholders, including regulators, suppliers, representatives of the communities we operate in, non-governmental organizations, and others. This will lead to better stakeholder relationships, making it easier to proactively avoid problems that may affect our license to operate. This will reduce our business risk, positively impacting our cost of capital.

“Increased profitability will result from increased revenue, reduced risk, and reduced costs.”

## Developing Measures

In a strategy-based balanced scorecard system, measures are a means, not an end. Think of performance measurement as a process, not an event. Meaningful, strategically important measures can only be developed once strategic objectives have been developed and linked together on the strategy map.

Figure 6, below, shows how performance measures, targets, and initiatives are developed in service of these objectives.

**Mission:** Building and servicing products that make our customers lives easier and reduce harm to the environment

**Vision:** To lead our industry in sustainable innovation and customer value

Strategy Map	Objectives	Measures	Targets	Initiatives
	<ul style="list-style-type: none"> <li>• Increase Profitability</li> <li>• Increase Revenue</li> <li>• Reduce Costs</li> <li>• Reduce Risk</li> </ul>	<ul style="list-style-type: none"> <li>• EBITDA</li> <li>• Sales</li> <li>• Operating Costs</li> <li>• Ave. Cost of Capital</li> </ul>	<ul style="list-style-type: none"> <li>• \$xxx</li> <li>• \$xxx</li> <li>• \$xxxx</li> <li>• x%</li> </ul>	<ul style="list-style-type: none"> <li>• Enterprise Risk Management Program</li> </ul>
	<ul style="list-style-type: none"> <li>• Improve Value for Customers</li> <li>• Improve Stakeholder Relationships</li> </ul>	<ul style="list-style-type: none"> <li>• Customer Value Index</li> <li>• Stakeholder Survey Results</li> </ul>	<ul style="list-style-type: none"> <li>• 5% change</li> <li>• 98% Satisfaction</li> </ul>	<ul style="list-style-type: none"> <li>• NGO Partnership Initiative</li> </ul>
	<ul style="list-style-type: none"> <li>• Increase Innovation</li> <li>• Increase Operational Efficiency</li> <li>• Enhance Partnering Capability</li> </ul>	<ul style="list-style-type: none"> <li>• % New Product Revenue</li> <li>• Waste reduction</li> <li>• GHG emissions</li> <li>• Kwh used/\$ of sales</li> <li>• # New Partnerships</li> </ul>	<ul style="list-style-type: none"> <li>• 30%</li> <li>• 65% reduction</li> <li>• 40% reduction</li> <li>• 35% reduction</li> <li>• 5</li> </ul>	<ul style="list-style-type: none"> <li>• Lean &amp; Green Manufacturing Program</li> </ul>
	<ul style="list-style-type: none"> <li>• Improve Culture</li> <li>• Improve Information Technology</li> </ul>	<ul style="list-style-type: none"> <li>• Employee culture score</li> <li>• IT Maturity Score</li> </ul>	<ul style="list-style-type: none"> <li>• 85<sup>th</sup> percentile</li> <li>• 4.2</li> </ul>	<ul style="list-style-type: none"> <li>• Life Cycle Assessment System</li> <li>• Sustainability Training</li> </ul>

**Figure 6: A Complete Strategy-Based Balanced Scorecard**

Each strategic objective is supported by one or more measures. As you can see, the company is tracking life cycle impacts, has set targets for reducing them, and has identified initiatives to achieve that reduction. This set of measures can still support conventional sustainability reporting requirements and initiatives, but is now linked explicitly to the broader competitive and financial strategy of the firm.

## The Balanced Scorecard Institute’s Framework: *Nine Steps to Success*<sup>™</sup>

We use a nine-step framework to build an organization’s balanced scorecard system. Over the past fifteen years, we have helped over 100 organizations in 30 countries build scorecard systems based on this framework. We have trained several thousand people from 55 different countries in the approach. The steps and their sequence are shown in the Figure 7, below.



Figure 7: Balanced Scorecard Institute *Nine Steps to Success™* Framework

## Summary

The decision to undertake development of a balanced scorecard is a decision to undertake a journey, not work on a project. While there are discrete start and stop points along the way, one should not miss the point that the real value of an integrated strategy-based scorecard system comes from the continuous self-inquiry and in-depth analysis that is at the heart of all successful strategic planning and performance management systems. Start your balanced scorecard with the idea that you are in it for the long term, and that changing behavior and transforming the organization to a higher level of performance is at least as important as measuring performance.

A balanced scorecard system provides a basis for executing good strategy well, and managing change successfully. Building a balanced scorecard performance system using the framework described here will cause people to think more strategically about their organization and their work. The balanced scorecard journey changes hearts and minds.

©2011 Balanced Scorecard Institute, a Strategy Management Group company. All rights reserved. Do not copy without permission.

\*\*\*\*\*  
 Howard Rohm is President and CEO of the Balanced Scorecard Institute and the Strategy Management Group. He is an international trainer, educator, consultant, author, and facilitator, with over 40 years of business, government, and non-profit experience in strategic planning, balanced scorecard, performance measurement, and information technology. He held senior positions with several companies, including Booz, Allen & Hamilton, Highland Technologies, and Vitro Laboratories, and at several Federal agencies, including several years as the Executive Director of the Advanced Nuclear Reactor Research and Development Program at the U.S. Department of Energy. Howard was one of the authors of the first National energy plan, in 1976, and worked on several White House nuclear non-proliferation studies in the 1970's and 1980's. Howard developed the Institute's *Nine Steps to Success™* balanced scorecard framework. He can be reached via email at: [hhr@balancedscorecard.org](mailto:hhr@balancedscorecard.org).

Dan Montgomery is a Balanced Scorecard Institute Senior Associate with a 30 year background as a management consultant, trainer and executive coach. He is a veteran of major consulting firms including Accenture and Ernst & Young. He has worked with clients in a variety of industries, including technology, energy and telecommunication utilities, natural products, financial services, government, construction and health care. Dan has been certified in the use of the Global Reporting Initiative (GRI) Sustainability Reporting Framework. He can be reached at [dm@balancedscorecard.org](mailto:dm@balancedscorecard.org).

The Balanced Scorecard Institute is the number one site on the Internet for information regarding balanced scorecard and performance management issues, concepts, and techniques. The Institute provides training, consulting, software, and facilitation support to organizations all over the world. You can reach the Institute at: [info@balancedscorecard.org](mailto:info@balancedscorecard.org), on the Internet at: [www.balancedscorecard.org](http://www.balancedscorecard.org) or by calling us at (919) 460-8180.