

Towards Holistic Performance Scorecard: A New Strategic Imperative

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ABSTRACT

Corporate model is under transition. New concerns such as Corporate Social Responsibility and Good Corporate Governance have become part of the new corporate language. Triple bottom line concept based on the philosophy of 3 Ps, Profit, People and Planet is finding its acceptance in the corporate world and echoes of this new mantra can be heard in the Board rooms and corporate corridors. Essence of the new corporate model can also be expressed in terms of 4 Es viz. Efficiency, Equity, Ethics and Ecology. Traditional approach to performance scorecard was based on efficiency paradigm. Further it emphasized the financial performance. The concept of Balanced Scorecard expanded this concept beyond the financial performance. However, there is a need to expand this idea further on the basis of 4Es model by incorporating the social performance (social equity), ethical performance and environmental performance of the corporate as well as its contribution to improvement of spiritual environment of the society. This implies the need for Holistic Performance Scorecard (HPSc). In contemporary context this has become a strategic imperative as many social as well as spiritual movements are putting pressures on corporates to behave in socially responsible, sustainable and ethical manner.

Key words: ViSA (Vision, Strategy & Action plans), STEPS (Social, Technological, Economic, Political & Spiritual environment), SWAN (Strengths, Weaknesses, Achievements, Next step)

Performance scorecard is an important tool to measure performance of an organization. Earlier scorecards were largely focused on financial performance of the corporation. For example, Padma system followed by some Indian organizations was rooted in daily reporting of financial performance, particularly in terms of cash generation. Many monthly and quarterly reporting systems were also focused on financial performance as key determinant of organizational performance.

For any performance measurement system we need a foundational framework. The metaphor of ‘Business House’ conceptualized in terms of following five key functions represented by SMFPHR, can serve as a conceptual model:

1. S: Strategy
2. M: Marketing
3. F: Finance
4. P: Production
5. HR: Human Resources

Metaphorically roof of such a business house is constituted by Strategy, Marketing and Finance triangle. Its room represents the production function and its foundation is represented by Human Resources. Such a view of a business house provides us a conceptual basis for designing Business Success Performance Scorecard (BSPSc). Fig 1 represents this perspective to develop such a performance scorecard.

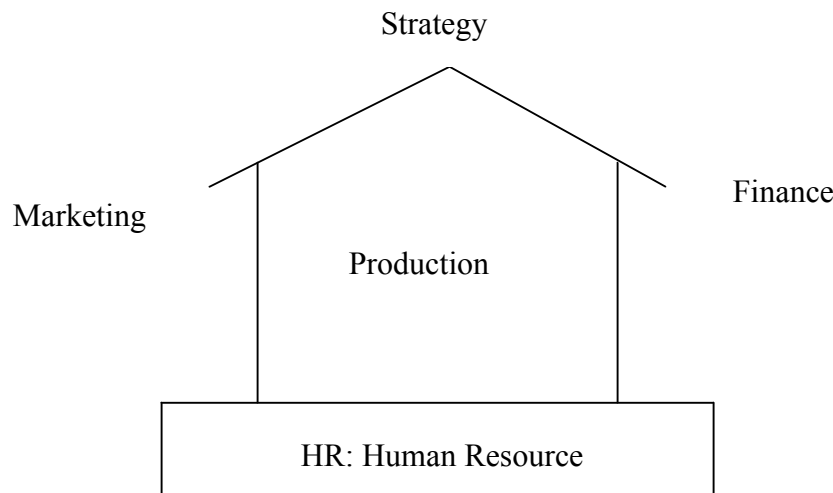


Fig 1: House of Business for Developing Performance Scorecard

When performance scorecard takes into consideration performance of the entire business house, we get a better assessment of the performance. The performance scorecard should also take into consideration SWAN analysis with respect to each function as well as the organization as a whole. The concept of SWAN analysis developed by this author (2007) has the following elements:

S: Strengths

W: Weaknesses

A: Achievements

N: Next step/Next initiative

When SWAN analysis is done for each function and for the organization as a whole, it creates a linkage with organization's ViSA (Vision, Strategy and Action plan). This is the essence of the scorecard based on business house metaphor suggested above.

Kaplan and Norton (1996) took another view and developed the concept of Balanced Scorecard. They suggested that vision and strategy of an organization should be linked with the following four perspectives:

1. Customer Perspective
2. Financial Perspective
3. Internal Business Perspective
4. Learning & Growth Perspective

They elaborate on these perspectives in terms of following key ideas:

Customer perspective: To achieve our vision, how should we appear to customers?

Financial perspective: To succeed financially, how should we appear to our shareholders?

Internal business process: To satisfy shareholders and customers, what business processes must we excel at?

Learning and growth perspective: To achieve our vision, how will we sustain our ability to change and improve?

They argue that scorecard should focus on a balanced view of the organization in terms of the above indicated four perspectives and these four perspectives should be linked to vision and strategy. They also suggest that each perspective should be analyzed in terms of Objectives, Measures, Targets and Initiatives. This would ensure that the strategy is translated into operational terms. Fig 2 presents their model of Balanced Scorecard

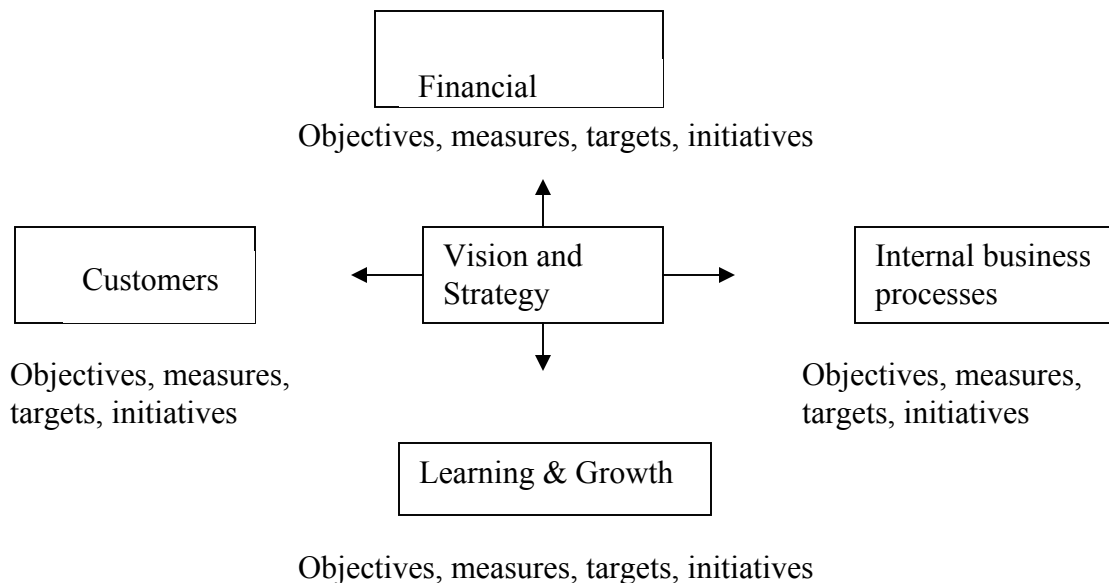


Fig 2: Kaplan and Norton's (1996) Conceptual Framework for Balanced Scorecard

(Source: The Balanced Scorecard, Robert S Kaplan, David P Norton, Harvard Business School Press, Boston, Mass., 1996, p.9)

Balanced Scorecard represented a breakthrough, because earlier scorecards were largely restricted to financial performance and were not directly linked to strategy of the organization.

It may be observed that four perspectives suggested by Kaplan and Norton broadly correspond to SMFPHR framework of organizations presented in the form of 'Business House'. Customer perspective is captured in performance scorecard of the marketing function. Financial perspective is captured through finance function. Internal business process to a large extent is captured by performance scorecard of the production and operations function in an organization. Learning and growth perspective is captured through performance scorecard of the Human Resource Development function. Thus, there is a broad correspondence between the two frameworks. Managers of the 'Business House' are also interested in knowing how the house looks to customers, shareholders as well as other stakeholders. In their framework, Kaplan & Norton focus largely on customers and shareholders. Figure 1.1 presented on p.9 of their book, nowhere mentions the expression 'stakeholders'. In their diagram focus is on customers and shareholders. When we use the metaphor of 'Business House' we get a better conceptual foundation as now the focus is on how the house looks not only to customers and shareholders but also to other stakeholders as well as society at large. Is this house creating pollution? Is it environmentally sound? Such questions are not answered by Kaplan and Norton's

Balanced Scorecard. Hence, in a true sense it is not properly balanced. In addition their framework does not include concerns such as Corporate Social Responsibility, ethical performance of the corporation. Thus, there is a need to develop a new approach to scorecards wherein these dimensions are also taken into consideration while assessing the performance of the corporate. It implies a holistic view of performance and thereby we need to develop Holistic Performance Scorecard (HPSc). Thus, Business Success Performance Scorecard (BSPSc) as well as Balanced Scorecard should be expanded to measure performance on holistic basis.

It may be indicated that Michael Porter and Mark Kramer (2006) have expanded the traditional view of strategy by suggesting interdependency between business and society and thereby between society and strategy. However, Gustavsson (2007) suggests that there is a need to go beyond the 'extended strategy' concept of Porter and Kramer and move towards 'transcendent strategy' wherein strategy formulation and implementation takes a 'consciousness' view of the organization thereby he points to the need for establishing a link between spirituality and strategy. These expanded views about strategy take us in the direction of Holistic Performance Scorecard.

For development of holistic performance scorecard, we also need to look at the evolution of a new corporate model as well as its new conceptual foundations. The discussion below provides an overview of the evolutionary journey of the new corporate model.

Four Stages Model of Corporate Evolution

Sharma (2005, 2007) identifies four stages of evolutionary journey of the corporates. These are as follows:

Stage I: Shareholders' wealth maximization –The primary objective of the corporate was to maximize wealth of the shareholders. Competition, efficiency and profit provided the basic foundation for this model.

Stage II: Multiple stakeholders – There are many stakeholders and there should be a proper balance between the interests of various stakeholders. For example corporates can maximize the wealth of the shareholders by polluting the rivers. Social movements have now put pressures on corporates to prevent such situations.

Stage III: Citizenship model- In this stage of their evolution, corporates have been conceptualized as corporate citizens. Hence, expectations on ethics and environmental concerns have gained importance. Corporates are expected to follow, 'principles of ethical business' and not merely, 'principles of business'.

Stage IV: Corporates as 'social institutions'- In this conceptualization, corporates are viewed as social institutions with dominant influence on society. Hence, need for a symbiotic relationship between society and the corporates. As social institutions

corporates should achieve synergy between efficiency, social equity, ethics and environmental concerns.

While stage I model was largely an efficiency model. In stage II model social equity concerns were incorporated to some extent and in stage III model, ethics were also considered important for conduct of business. Now in their stage IV evolution as social institutions, corporates are expected to achieve appropriate balance between efficiency, social equity and ethics and also be concerned with transcendental values of environment, women's equity, psycho-spiritual advancement etc. This is a new age model wherein corporates are viewed as social institutions and not merely business entities i.e. in addition to bottom line concerns they have a social purpose.

Fig. 3 presents the above discussed evolutionary perspective of the corporate model.

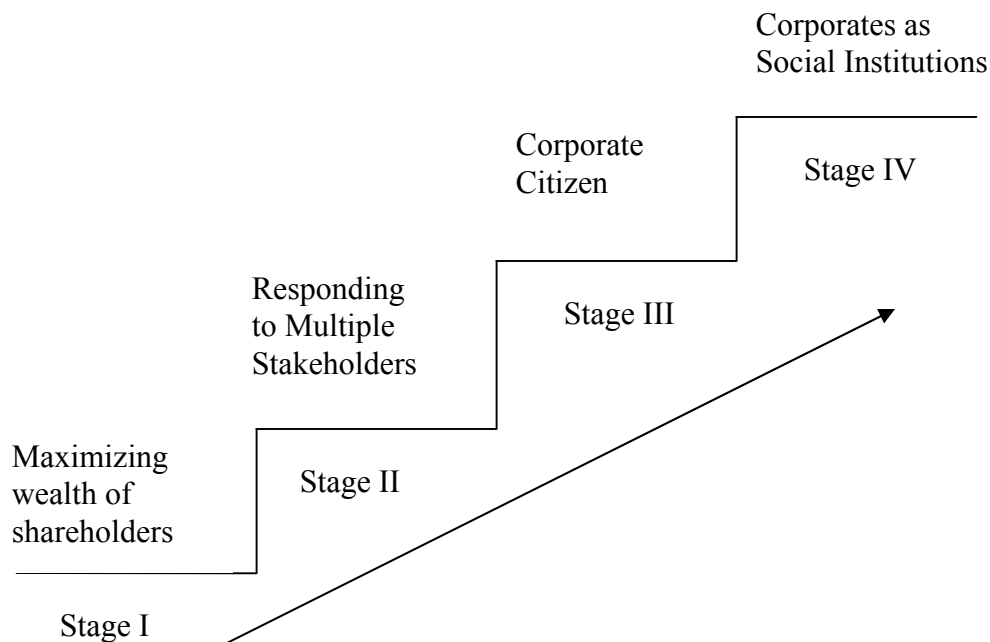


Fig 3: Four Stages Model of Corporate Evolution

Conceptual Foundations of New Corporate Model: 4 Es Framework

Evolution of the new corporate model is also linked to new paradigms of development thinking. Evolution of development thinking from economic development to new paradigms of sustainable development and integrative holistic development has

influenced the corporate world. Sharma (1996) suggested 4 Es model of holistic development and management emphasizing the need for achieving a proper balance between following four Es:

1. Efficiency
2. Equity
3. Ethics
4. Ecology

Fig 4 presents this framework as a synergy model of development because in this model 4 Es are in dynamic interaction and they are in proper harmony thereby synergy is created in society.

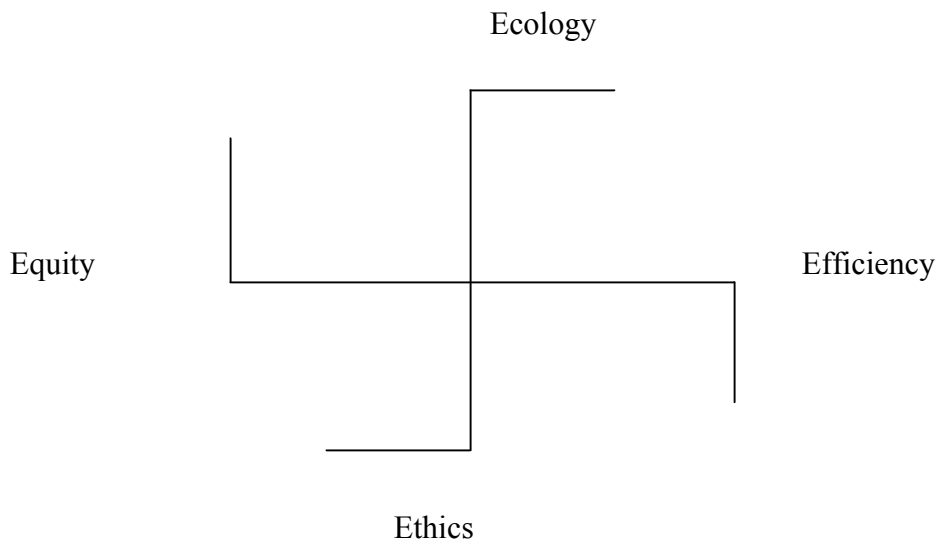


Fig 4: 4 Es Framework for New Corporate Model

Source: Management in New Age: Western Windows Eastern Doors, Subhash Sharma, 1996, p. 92

When applied in corporate context, this model leads us to the concept of Holistic Corporate Management (HCM), wherein foundations of corporate management are based on four pillars of efficiency, social equity, ethics and ecology. Efficiency implies bottom-line concerns. Social equity dimension is reflected to some extent by Corporate social responsibility (CSR) and neighborhood concerns. Ethics dimension is reflected in good governance and the 'Character Competence of the Corporation' (Sharma, 2002). Ecology is reflected in terms of concern for environment and implementation of the concept of

sustainable development in corporate context through ‘environmental management systems’. Thus, in Holistic Corporate Management (HCM) all four dimensions of 4 E model find an integration.

It may be indicated that 4E model has an equivalence in 3 Ps model of Profit, People and Planet. This model, also known as triple bottom line model, suggests that corporates in addition to Profit, should also focus on CSR and environmental concerns captured through the imaginative phrases, People and Planet. In fact, corporate social responsibility, environmental concerns and good governance have become new strategic imperatives as well as “new mantras” for the corporate world. We can hear their echoes in the Board rooms and corporate corridors.

Prahalad and Hamel (1992) suggested the concept of Core Competence. This concept originated from the efficiency model of the corporates. However for Holistic Corporate Management (HCM), we need to include 4Es framework.. Hence, corporates as social institutions should focus on the following:

1. Core competence and similar other strategic management tools in consonance with efficiency and competitive advantage paradigms.
2. Corporate Social responsibility (CSR) to meet social expectations of social equity paradigm.
3. Concern for environmental issues
4. Character competence of the corporation in consonance with ethics and good governance requirements.

These four ideas constitute a new conceptual foundation for designing Holistic Performance Scorecard.

From PEST to STEPS: Spirituality and Strategy Link?

Philosophical foundations of the new corporate model can also be traced to some well known Indian concepts viz. Gandhi’s Trusteeship model, concept of loksangraha (welfare of the society/stakeholders) and the concept of shubh-labh. Gandhi’s trusteeship model is finding its expression in multiple stakeholders concept of the corporates. Concept of loksangraha is finding its expression in the idea of Corporate Social Responsibility (CSR) and the concept of shubh-labh is finding its expression in ethical concerns as well as ‘moral sentiments’ of business as advocated by Adam Smith. In fact, shubh-labh concept takes us beyond Adam Smith’s ‘moral sentiments’ as it also suggests need for a spiritual touch to business activities. In this perspective, business activities become sacro-economic in nature and organization is viewed as sacro-economic entity rather than merely an economic entity or business entity. Conventional literature on strategy is based on competitive advantage framework and ignores the ‘moral

sentiments'. Even, Kaplan and Norton's Balanced Scorecard does not care for Adam Smith's 'moral sentiments'. Above stated three ideas viz. Trusteeship, loksangraha and shubh-labh provide us a new conceptual foundation for the new corporate model wherein corporates are considered social institutions and not merely profit making machines at the cost of environment and social disruption. This framework can be referred to as 'House of Shubhlabh' and is sacro-economic in its strategic architecture.

New conceptual foundations suggested in our discussions require a shift from PEST analysis to STEPS analysis to incorporate the nature of spiritual environment in which organizations are functioning. STEPS model suggested by this author (2001) in the context of a nation's development vision has following dimensions:

S: Social

T: Technological

E: Economic

P: Political

S: Spiritual

When applied in the context of environmental analysis and to the field of strategic management, it suggests a link between spirituality and strategy. It may be indicated that PEST is not a very positive metaphor. In contrast, STEPS is a positive metaphor. It may also be indicated that link between spirituality and strategy has not been explored. As indicated earlier, recent work by Gustavsson (2007) provides a broad indication for a need to explore this linkage. In general an indirect linkage has been highlighted by many through the need for ethical concerns in the activities of the corporates. It may be observed that traditionally strategy literature was rooted in the competitive advantage framework and maximization of shareholders wealth. However we do come across business people who refuse to add certain types of business activities to their portfolio because of environmental, social and spiritual concerns. For example, many vegetarian business persons refuse to enter non-vegetarian businesses even though it may add to their competitive advantage. The recent concept of Socially Responsible Investments (SRI) is also an indicator in this direction.

Implications for Performance Scorecard: From Balanced Scorecard to Holistic Performance Scorecard

It was earlier indicated that Balanced Scorecard represented a breakthrough in performance measurement as it expanded the earlier concept of performance measurement from its narrow focus on financial performance. However, our discussion indicates that balanced scorecard has its own limitations as its view is limited to

organization as an economic entity/ business entity. Issues such as ethical performance, environmental performance, social responsibility and spiritual concerns are not included in its domain. There is a need to base performance measurement system in the concept of corporate as social institution. While business entity concept led us to Balanced Scorecard, social institution concept leads us to Holistic Performance Scorecard. Using the framework of Business House presented earlier and incorporating the 4 E s framework as well as STEPS framework, we arrive at a new conceptual foundation for holistic performance scorecard. This conceptual foundation is presented in Fig 5. Using this framework we can develop specific metric for its various elements on the basis of SWAN analysis for each performance area. In fact SWAN analysis can be combined with OMTAI (Objectives, Measures, Targets, Achievements, Initiatives) for each performance area including CSR and Good governance. It may be indicated that a comparison of Targets and Achievements identifies the performance gap and initiatives indicate how this gap will be bridged. Thus, TAI (Targets, Achievements, Initiatives) when combined with Objectives and Measures (OM), we get a comprehensive view of the performance.

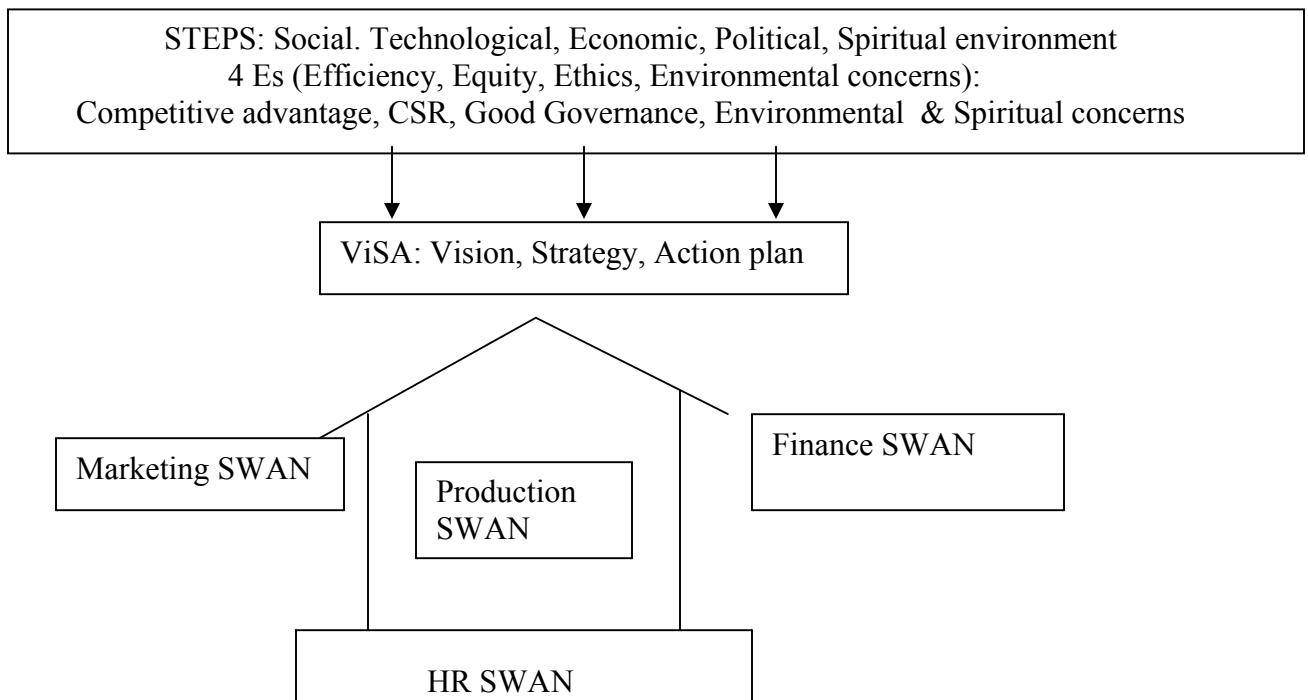


Fig 5: From Business Entity to Social Institution: Foundational Framework for Holistic Performance Scorecard

This framework presented above suggests that ‘strategic vistas’ of an organization should give due considerations to efficiency / competitive advantage, social equity/ social responsibility, ethics/ good governance and spiritual environment. Earlier performance scorecards were largely based on efficiency paradigm / competitive advantage paradigm of treating corporate as merely a business entity. This philosophy is also reflected in Balanced Scorecard developed by Kaplan and Norton. Our discussion indicates that this paradigm is undergoing a change and corporates are emerging as social institutions as a result of pressure from environment and many other social and spiritual movements. Therefore, need for Holistic Performance Scorecard to reflect the contribution of the corporate world towards environmental concerns, social concerns, good governance and betterment of spiritual environment. This implies that time has come to move beyond the Balance Scorecard (BSc) to Holistic Performance Scorecard (HPSc) to achieve a better symbiosis between corporate world, society and individuals.

Are there any organization following the ideas presented above? Balanced Scorecard has been in use in the corporate world and corporate world also recognizes the importance of CSR and good governance. Many corporates include a brief write up on their CSR activities and initiatives for Good governance in their balance sheet. This implies they are moving in the direction of Holistic Performance Scorecard (HPSc). In future more corporates may adopt this approach as a result of pressures from social movements, environmental movements and spiritual movements.

Note: This paper is based on earlier writings of the author and extends the concepts presented therein.

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