

Using Balanced Scorecard to Measure and Align Corporate Social Responsibility for Competitive Advantage

Abd. Rahman Ahmad
Nor Aziati Abdul Hamid
Dr. Noor Haslina Yusoff
Rohaizan Ramlan

Faculty of Technology Management
Universiti Tun Hussein Onn Malaysia
86400 Batu Pahat, Johor
07-4538123/0197757999
arahman@kuithho.edu.my

ABSTRACT

Balanced Scorecard (BSC) translates an organization's mission and strategy into a comprehensive set of performance measures and provides the framework for strategic measurement and management. BSC is currently being used worldwide as a tool for implementing enterprise strategy. Meanwhile, Corporate Social Responsibility (CSR) can become a potent tool for the company to realize enhanced reputation and brand value, increased operational efficiency, improved sales and customer loyalty as well as the ability to attract and retain quality workforce. This researcher tried to demonstrate the relationship between BSC as a tool for managing and communicating CSR. For the purpose of that, the researcher used four (4) main perspectives in BSC which are financial perspective, internal business process perspective, learning and growth perspective and customer perspective. BSC can be used to align and measure CSR to create competitive advantage by helping organizations strategically manage the alignment of cause and effect relationships of external market forces and impacts with internal CSR drivers, values and behaviors. BSC provides many benefits to an organization such as it creates accountability for the goals and objectives in an organization, it connects strategy to performance, it provides a way of identifying whether or not progress is being made and gives the organization opportunity to adjust as necessary, it helps people in the organization understand cause-and-effect relationships of things they do.

BSC is known as a measurement tool in strategic management and it is widely accepted amongst many organizations. The instrument of BSC is being discussed as a possible appropriate conceptual framework for CSR (Bieker and Waxenberg, 2003). CSR is progressively becoming an important component of good business practice (Omar, 2006). In the previous research, BSC and CSR are examined through many ways and methods. According to Karamjit Singh (2006), CSR involves "a set of policies, practices and programs that are integrated into business operations, supply chains and in the decision-making process throughout the company". *Going by this concept, not all companies that profess to be socially responsible can do so* and it's time that Malaysia to makes the distinction between companies that are truly socially responsible and ethical and those that make CSR gestures for the purpose of mere imaging-building.

Securities Commission (SC) views CSR as a natural progression of its ongoing work on in relation to the development of a strong framework for good corporate governance, under which where companies should look beyond shareholder value alone by taking into account the wider interests of other stakeholders such as employees, creditors and the society at large. In addition, SC is keen to see more Malaysian companies incorporate CSR into its corporate governance agenda, not only to develop more good better corporate citizens in the Malaysian capital market, but also to increase the pool of enhance the recognition and profile of corporate domestic companies who can gain better recognition from the perspective of international and domestic institutional investors. Furthermore, the push towards better CSR is also important to the consistent with the overall national agenda particularly in achieving in relation to achieving Vision 2020, meeting the objectives of the National Integrity Plan and as a tool for generating greater economic and capital market growth (Securities Commission, 2006).

Research Background

How can stakeholder demands be integrated into core management systems of companies and managed in an effective and efficient way? How can be ensured that, coming from the paradigm of economic, ethics, legal, environmental and social matters are implemented and managed by companies in an equal ways?

The instrument of the BSC is being discussed as a possible appropriate conceptual framework for CSR (Bieker and Waxenberg, 2003). Recent researches at the Institute for Economy and the Environment at the University of St. Gallen have shown that the BSC is suitable to integrate qualitative, for example environmental and social, aspects into the core management system of the companies (Bieker and Waxenberg, 2003).

According to Crawford and Scaletta (2006), companies can use the combination of the BSC and CSR to help create a competitive advantage by letting decision makers know if the are truly entering into CSR *virtuous cycle* which is combines to improve organizational performance exponentially (Crawford and Scaletta, 2006). A company could begin to compete on cost leadership as a result of improved technology and effective and efficient processes, which leads to improved ecological protection, which results in better risk management and a lower cost of capital. Alternatively a company could differentiate itself from its competitors' values and performance as a result of its community building activities, which can improve corporate reputation, result in improved brand equity, creating customers satisfaction, which increases sales. (Crawford and Scaletta, 2006).

Statement of the Problem

BSC is a management system. It is not only a measurement system that enables organizations to clarify their vision and strategy, but translate them into action. It provides feedback around both the Internal Business Processes and external outcomes in order to have continuous improvement on the strategic

performance and results. When it is fully deployed, BSC transforms strategic planning from an academic exercise into the nerve center of an enterprise.

Kaplan and Norton's BSC describes strategy and performance management from multiple perspectives. The classic BSC has four (4) perspectives as shown in Table 1.1.

Table 1: The Balanced Scorecard Key Question

KEY PERSPECTIVES		KEY QUESTION
i.	Learning and growth perspective	Can the firm continue to improve and create value for customers?
ii.	Internal business process perspective	In which capabilities must the firm excel?
iii.	Customer perspective	How do customers see the firm?
iv.	Financial perspective	How does the firm look to providers of financial resources?

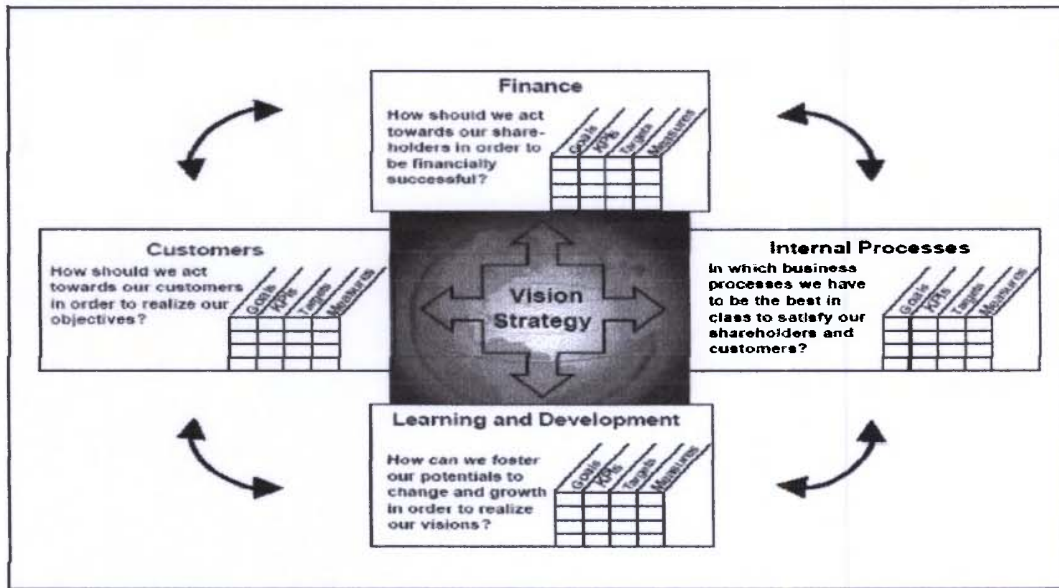


Figure 1: The Balanced Scorecard Perspectives

BSC can help organizations strategically manage the alignment of cause-and-effect relationships of external market forces and impacts with internal CSR drivers, values and behavior.

Data Analysis

This research is in social science field where the purpose of the research is to identify how Syarikat Air Terengganu Sdn Bhd (SATU) can effectively integrate CSR movement into the BSC to generate long term

benefits. In order to answer this statement of the problem for this research, quantitative method has been used to make this research is scientific, logic, general and peculiar. The unit of analysis for this research is individuals where data was collected from each individual staff member of SATU.

Balanced Scorecard and Corporate Social Responsibility

The finding on the benefits of BSC was shown in Table 2. The most important benefit from the use of the BSC at SATU is its role in achievement of the firm performance. Analysis of benefits of BSC at SATU was determined by mean and standard deviation value. According to Table 4.9, the highest mean value is 4.44 which are for the statement "To achieve the firm performance". Its standard deviation is 0.680. The value of mean indicates that respondent answer the scale between 4 and 5 which is important and extremely important for this answer. From the result, we can explain that, SATU used Balanced Scorecard as a tool to achieve the firm performance.

While the lowest mean is 3.92 is the statement "to allocate the resource". The standard deviation is 0.807. The mean value indicates that respondents answer the scale between 3 and 4 which is moderately important and important. The result explained that SATU is least used the BSC to allocate the resources.

Table 2: Benefits of Balanced Scorecard

Benefits of Balanced Scorecard	Frequency (%)					Mean	Standard Deviation
	TU	U	MI	I	EI		
To achieve the firm performance	-	-	4 10.3	14 35.9	21 53.8	4.44	0.680
To improve firm financial performance	-	-	4 10.3	19 48.7	16 41.0	4.31	0.655
To better understand the determination of firm successful accomplishment.	-	-	3 7.7	21 53.8	15 38.5	4.31	0.614
To explain to the staff strategy that achieved by firm	-	-	6 15.4	18 46.2	15 38.5	4.23	0.706
To align the staff performance and strategy objective.	-	-	6 15.4	20 51.3	13 33.3	4.18	0.683
To allocate the resource	-	1 2.6	11 28.2	17 43.6	10 25.6	3.92	0.807

Indicator:

n= 39

- 1 = TU = Totally Unimportant
- 2 = U = Unimportant
- 3 = MI = Moderately Important
- 4 = I = Important
- 5 = EI = Extremely Important

Corporate Social Responsibility

Table 3 shows that, 66.7 percent of the respondent's familiar about CSR, while 33.3 percent of the respondents didn't know about CSR. The finding showed that the level of knowledge about CSR is widely known.

Table 3: Respondents that know about Corporate Social Responsibility Term

	Frequency	Percentage
Yes	26	66.7
No	13	33.3
Total	39	100

Meanwhile Table 4 shows the result of the item that include in CSR. Treating all employees fairly get the highest with 28 answer.

Table 4: Item Include in Corporate Social Responsibility

Item	Frequency
Treating all employees fairly	28
Donating funds to nonprofit organizations	20
Conserving resource, materials and minimizing waste	18
Making a Profit	17
Paying high dividends to stockholders	8

The result in Table 5 shows the synonym term with CSR. Majority respondents choose Social Responsibility with 27 answers. It is mean that the respondents synonym Social Responsibility with CSR.

Table 5: Synonym Apply With Corporate Social Responsibility

Synonym Term of CSR	Frequency
Social Responsibility	27
Corporate Contribution	22
Ethics	18
Legal Compliance	11
Economic Development	11
Others	1

The respondents at SATU defined CSR using the term Social Responsibility as indicated by the highest frequency.

Table 6: The Term to Defined Corporate Social Responsibility

Term	Frequency
Social Responsibility	28
Corporate Contribution	21
Ethics	17
Legal Compliance	11
Economic Development	8
Others	1

Analysis of CSR at SATU was determined by mean and standard deviation value. Table 6 shows the highest mean value is 4.36 which are for the statement “It is important for my organization to be ethical”. Its standard deviation is 0.628. The value of mean indicates that respondent answer the scale between 4 and 5 which is agrees and strongly agrees for this answer. From the result, we can see that SATU is ethical in the context of CSR.

While the lowest mean is 3.38 is the statement “My organization contributes to charitable foundations”. The standard deviation is 0.935. The mean value indicates that respondents answer the scale between 3 and 4 which is not sure and agree. The result explained that SATU is least contributes to charitable foundation. For the overall mean values showed that the central tendency is high.

Table 6: Corporate Social Responsibility

Item	Frequency (%)					Mean	Standard Deviation
	SD	D	NS	A	SA		
1. Corporate Social Responsibility is important for all types of business	-	2 5.1	7 17.9	14 35.9	16 41.0	4.13	0.894
2. It is important for my organization to be ethical	-	-	3 7.7	19 48.7	17 43.6	4.36	0.628
3. My organization contributes to economic development.	-	-	7 17.9	20 51.3	12 30.8	4.13	0.695
4. My organization is concerned with front office employee safety	-	2 5.1	11 28.2	22 56.4	4 10.3	3.72	0.724
5. My organization contributes to charitable foundations	1 2.6	5 12.8	15 38.5	14 35.9	4 10.3	3.38	0.935
6. My organization is encourage the work team	-	2 5.1	8 20.5	19 48.7	10 25.6	3.95	0.826
7. My organization is contribute to the employee development	-	4 10.3	9 23.1	22 56.4	4 10.3	3.67	0.806

Item	Frequency (%)					Mean	Standard Deviation
	SD	D	NS	A	SA		
8. My organization contributes to health programs	-	3 7.7	11 28.2	22 56.4	3 7.7	3.64	0.743
9. My organization is contributed to the society program.	-	2 5.1	16 41.0	17 43.6	4 10.3	3.59	0.751

Indicator:

n= 39

1 = SD = Strongly Disagree

2 = D = Disagree

3 = NS = Not Sure

4 = A = Agree

5 = SA = Strongly Agree

The researcher has identified the relationship between the BSC and CSR. From the Table 7, it seems that there is a significant correlation between BSC and CSR. Correlation Coefficient (r) 0.564 noted that the relationship between BSC and CSR is large referring to Reynolds (2005), and moderate referring to Chua (2006). Then, the value of Correlation Coefficient (r) = 0.564 can be categorized into strong correlation. Table 4.18 shows the result of the correlation between BSC and CSR.

Table 7: Result of Correlation between the BSC and CSR

Corporate Social Responsibility				
Variables	Correlation Coefficient (r)	r ²	Significant value	Significant or Not
Balanced Scorecard	0.564	0.318	0.000	Significant

Test of Hypotheses

H₁₀ : There is no relationship between the Financial Perspective and Corporate Social Responsibility.

H_{1A} : There is a relationship between the Financial Perspective and Corporate Social Responsibility

Referring to Table 8, there is a significant correlation between financial perspective and CSR. The value of correlation is 0.548. The value of variance (r²) = 0.301 noted that 30.1 per cent of CSR is caused of financial perspective and it is weak significant. The result of the hypothesis shows the correlation of financial perspective and CSR. Following of that, the result was obtained by do not accept H₁₀ as indicated by the F-Value 15.913 at significant level 0.00.

Table 8: Analysis of Linear Regression of Financial Perspectives and CSR

Corporate Social Responsibility					
Variables	Correlation Coefficient (r)	r ²	Significant value	F	Significant or Not
Financial Perspectives	0.548	0.301	0.000	15.913	Significant

H2o : There is no relationship between the Learning and Growth perspective and Corporate Social Responsibility.

H2A : There is a relationship between the Learning and Growth perspective between and Corporate Social Responsibility

Table 9 shows the relationship between learning and growth perspective and CSR. The value of correlation is 0.606. The value of variance (r^2) = 0.367 noted that 36.7 per cent of Corporate Social Responsibility is caused of learning and growth perspective and it is weak significant. Following of that, the result obtained is do not accept H2o as indicated by the F-Value 21.447 at significant level 0.00.

Table 9: Analysis of Linear Regression of Learning and Growth Perspectives and CSR

Corporate Social Responsibility					
Variables	Correlation Coefficient (r)	r ²	Significant value	F	Significant or Not
Learning and Growth Perspectives	0.606	0.367	0.000	21.447	Significant

H3o : There is no relationship between the Internal Business Process perspective and Corporate Social Responsibility.

H3A : There is a relationship between the Internal Business Process perspective between and Corporate Social Responsibility

Table 10 shows there is a significant correlation between internal business process perspective and CSR. The value of correlation is 0.444. The value of variance (r^2) = 0.197 noted that 19.7 per cent of CSR is caused of internal business process perspective and it is weak significant. Following of that, the result obtained is do not accept H3o as indicated by the F-Value 9.077 at significant level 0.00.

Table 10: Analysis of Linear Regression of Internal Business Process Perspectives and CSR

Corporate Social Responsibility					
Variables	Correlation Coefficient (r)	r ²	Significant value	F	Significant or Not
Internal Business Process Perspectives	0.444	0.197	0.000	9.077	Significant

H4o : There is no relationship between the Customer Perspective and Corporate Social Responsibility.

H4A : There is a relationship between the Customer Perspective between and Corporate Social Responsibility

Table 11 shows the relationship between customer perspective and CSR. The value of correlation is 0.388. The value of variance (r²) = 0.151 explained that 15.1 per cent of CSR is caused of customer perspective. The result of the first hypothesis shows that customer perspective is correlate to CSR. Following of that, the result obtained is do not accept H4o as indicated by the F-Value 6.572 at significant level 0.00.

Table 11: Analysis of Linear Regression of Customer Perspectives and CSR

Corporate Social Responsibility					
Variables	Correlation Coefficient (r)	r ²	Significant value	F	Significant or Not
Customer Perspectives	0.388	0.151	0.000	6.572	Significant

H5o : There is no relationship between the Balanced Scorecard and Corporate Social Responsibility

H5A : There is a relationship between the Balanced Scorecard and Corporate Social Responsibility

Hypothesis 5 was tested using a multiple regression analysis. Table 11 shows the relationship between Independent variable which is BSC and Dependent variable CSR. The value of correlation is 0.671. The value of variance (r²) = 0.450 noted that 45 per cent of CSR is caused of BSC and it is weak significant. The result of the first hypothesis shows that BSC is correlate to CSR. Following of that, the result obtained is do not accept H5o as indicated by the F-Value 6.959 at significant level 0.00.

Table 11: Analysis of Multiple Regressions on BSC and CSR Responsibility

Corporate Social Responsibility					
Variables	Correlation Coefficient (r)	Variance (r ²)	Significant value	F	Significant or Not
Balanced Scorecard	0.671	0.450	0.000	6.959	Significant

Conclusion and Recommendation

As mentioned earlier in the previous chapters, there are four perspectives in BSC to align with CSR which are financial, learning and growth, internal business process and customer perspectives. The research findings show that the best method to align BSC and CSR is learning and growth perspective. Learning and growth perspectives is focuses on employees that concerns with safety working condition, employee's training and development, team work, work environment control and safety programmed.

The finding is evident that employee is an important part of the organization. By engaging in CSR matters, using BSC, SATU can help address employees' productivity by providing learning and growth opportunities and making them feel proud through good corporate citizenship initiatives. Ray (2006) stated that people want to feel as though their jobs are special or that the firms they work are special. The statement elaborated that work environment is essential key to the motivated and high-productivity workforce.

Talent management remains a key focus, where emphasis is placed on building talent to ensure that employees with suitable and specific skills are retained and developed. BSC learning and growth perspectives include employee development programme and control and safety programs. Through employee development programme, SATU can enhance the motivation and skills of their employees by send their employees for the training, organizing workshop to improve their skills and knowledge and invite motivator to their place. Development programme should strategically link to business needs, with comprehensive *and* concise manpower strategies. Continuous training, retraining, skills upgrading and development of the workforce are important processes to provide employers with a competitive market and knowledge-based economy. Through control and safety programme, the number of incidents at the workplace can be reducing. The employees also can learn how to prevent from hazard at the workplace. By organizing the programmes, SATU will perform well in an increasingly competitive environment.

By integrating environmental aspects into business, SATU can be able to achieve positive results in the key environmental performance indicator including reduction of water and strategy and reduction of emissions of ozone depleting substances. Environmental programme can become one of integral part to the company to stay compete. Society programme that organize by SATU can help the community to improve their lives by drink clean water. Through the program, SATU will widely know and it is important for competitive advantage.

SATU should also give commitment to customers goes beyond its services to bring additional benefits to society as whole. Through the heavily investment in CSR programme, which is concerns with employees, society and environments, we believe that SATU can maintain its operation and for long term sustainable development and stay competitive

References

- Abdul Rashid, M.Z. and Ibrahim, S. (2002). "Executive and Management Attitudes Towards Corporate Social Responsibility in Malaysia." *Corporate Governance*. 2 (4). 10-16.
- Andersen, H., Cobbold, I. and Lawrie, G. (2001). "Balanced Scorecard Implementation in SMEs: Reflection in Literature and Practice." *SMESME Conference*. Denmark: 2GC Conference Paper.
- Anwar, Z. (2006). "Making a Difference Through CSR-SC's Perspective." *Corporate Social Responsibility: Doing Business with a conscience- Compilation of articles on CSR issues in Malaysia prepared by ACCA in collaboration with the Edge*. 4-77.

- Bieker, T. and Waxenbeger, B. (2003). "Sustainability Balanced Scorecard and Business Ethics- Developing a Balanced Scorecard for Integrity Management." Goteborg: Sweden. 10th *International Conference of the Greening of Industry Network*.
- Bieker, T. and Gminder, C.U. (2001). 'Towards A Sustainability Balanced Scorecard.' Oikos PhD Summer Academy 2001. Switzerland: University of St. Gallen.
- Bower, J.A. (2000). "Statistics for food Science-VI : Correlation and Regression (Part A)." *Nutrition & Food Science*. **30** (6). 295-300.
- Crawford, D. and Scaletta, T. (2006). "The Balanced Scorecard and Corporate Social Responsibility. Aligning Values For Profit." (Online) <http://www.managementmag.com> (23 February 2006).
- Figge, F., Hahn, T., Schaltegger, S., and Wagner, M. (2002). "The Sustainability Balanced Scorecard- Theory and Application of Tool for Value-Based Sustainability Management." Luneberg, Germany: Center for Sustainability Management, University of Lueneberg.
- Forza, C. (2002). "Survey Research in Operation Management: a Process-based perspective." *International Journal of Operation & Production Management*. **22** (2). 152-194.
- Hian and Eifrcd (2004). "The Relationship Between Ethics and Employee Satisfaction and Commitment." *Industrial and Commercial Training*.
- Jones, P., Comfort, D. and Hillier, D. (2005). "Corporate Social Responsibility and the UK Top Ten Retailers." *International Journal of Retail and Distribution Management*. **33** (12). 882-892.
- Kaplan, R.S. and NageJ, M.E. (2004). "Improving Corporate Governance with the Balanced Scorecard." *Directors Monthly*. Washington: National Association of Corporate.
- Kaplan, R.S. and Norton, D P. (1992). "Measures That Drive Performance." *Harvard Business Review*. 71-79.
- Karamjit, Singh (2006). "Telling Your Story." *Corporate Social Responsibility: Doing Business with a conscience- Compilation of articles on CSR issues in Malaysia prepared by ACCA in collaboration with the Edge*. 20-21.
- Nagel, M. (2005). "Leveraging the Balanced Scorecard for Social Responsibility and Reporting." *Balanced Scorecard Collaborative*.
- Niven, P R. (2002). "Balanced Scorecard Step-By-Step. Maximizing Performance and Maintaining Results." New York: John Wiley & Sons, Inc.
- Omar, Merican (2006). "Positioning Malaysia through CSR in the Global Markets." *Corporate Social Responsibility: Doing Business with a conscience- Compilation of articles on CSR issues in Malaysia prepared by ACCA in collaboration with the Edge*. 8-11.
- Orme, G. and Ashton, C. (2003). "Ethics- A Foundation Competency." *Industrial and Commercial Training*. **35** (5). 184-190.

- Passcard, D. and Kleiner, B.H. (2000). "Competitive Advantage in Global Industries." *Management Research News*. **23 (7)**.
- Ray, J.R.J. (2006). "Investigating Relationship Between Corporate Social Responsibilities Orientation and Employer Attractiveness." The George Washington University.
- Reynolds, P.A. (2005). "The Relationship Between Culture of an Organization and Overall Performance Results." Doctor of Education in Innovation and Leadership. Wilmington College.
- Securities Commission (2006). "Corporate Social Responsibility." (online), <http://www.sc.com.my>. (15 November 2006).
- Sekaran, U. (2003). "Research Methods For Business: A Skill Building Approach." 4th ed. Singapore. John Wiley & Sons (Asia) Pte. Ltd.