

# Sustainability Balanced Scorecard and Business Ethics

## *Developing a Balanced Scorecard for Integrity Management*

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

The instrument of the Balanced Scorecard is being discussed as a possible appropriate conceptual framework for Corporate Social Responsibility (e.g. see Bieker et al., 2001; Figge et al., 2001; Orssatto et al., 2001). But is the traditional BSC-concept effective enough to contribute to corporate social responsibility? As empirical findings from recent research show, the predominance of the financial perspective of the BSC concept prevents companies from integrating sustainability-related issues in an equal way into this concept. Coming from an integrative ethical point of view, this paper illustrates the structural modifications needed to overcome the conceptual shortcomings of the BSC on the way to a pluralistic stakeholder management system.

The BSC aims to integrate intangible assets in the management system in a more efficient way. It has been developed in the early 1990s by R. Kaplan and D. Norton to help companies better manage such intangible assets such as "intellectual and organisational capital" as the value drivers for future success. Mostly traditional management tools focus primarily on financial results, which are inherently lagging indicators. However, for business to successfully manage its future performance, a system is needed based on leading indicators of business success. The BSC analyses the expected future contribution to financial performance of such intangible assets (e.g. a firm's knowledge base, its ability to enthruse customers, or excellent control of process quality).

Recent research at the Institute for Economy and the Environment at the University of St. Gallen (IWOe-HSG) have shown that the BSC is suitable to integrate qualitative, e.g. environmental and social, aspects into the core management system of companies (see Bieker, Dyllick, Gminder, Hockerts, 2001). However, the BSC, being a functionalist tool that aims at linking any activity of a company to its predominant financial objectives, is likely to fall short on the way to Corporate Social Responsibility. Besides, the BSC is a tool that allows top-management to implement strategies and measures in a rather thoughtless way, i.e. without encouraging internal and external stakeholders to engage in the debate. And its ability to operationalise the performance of a strategic business unit (SBU), department or single employee in the sense of a "big brother (that) is watching you" should be analysed carefully. Finally, the predominance of quantitative key performance indicators in companies' practice neglecting qualitative, long-term oriented strategic success-factors prevents them from focusing a more long-term-oriented sustainable business.

Coming from an integrative ethical approach facing a pluralistic value-based management of stakeholder demands in order to prove as a „good corporate citizen“ (see Ulrich, 2001), this paper will analyse how the concept of the Balanced Scorecard should be modified to better integrate corporate sustainability strategies into the core management systems.

## 1. Introduction

Ten years after the United Nation's Earth Summit in Rio de Janeiro various instruments for the management of corporate sustainability have been created (e.g. Environmental Management Systems (EMS) under ISO 14001 or EMAS, systems for the management of social aspects under SA 8000 or Occupational Health&Safety Standard OHSAS 18001). But nevertheless, there are obviously a lot of problems practitioners are confronted with when trying to implement such systems. These problems may originate in the company's normative, strategic or operational level.

In practice, systems for the management of corporate sustainability often indicate normative and strategic deficiencies as well as a lack of engagement on the management level concerning the improvement of the environmental and/or social performance. This may lead to the fact, that measures are taken in a rather unsystematic way. Furthermore, the environmental manager may face difficulties when trying to access employees of the central product or business (see Dyllick/Hamschmidt, 2000). But even companies, that follow extensive strategic concepts on an ecological and social basis are often suspected to act only on behalf of possible competitive advantages (for the automotive sector cf. Belz, 2001, p. 224).

The fact, that a corporate strategic approach to the environmental and sustainability problem does not guarantee an extensive and equal consideration of ecological, economic and social aspects seems to make it necessary to also include ethical-normative aspects in order to clarify the companies business principles and responsibilities (cf. Dyllick, 2001; Ulrich, 2001; Waxenberger, 2001).

From an operational point of view, problems of integrating qualitative aspects such as environmental and social responsibility into controlling systems seem to be especially relevant as they are naturally very difficult to quantify. Furthermore we get often the impression, that companies lack appropriate controlling systems which are able to implement and control ecological, social and economic targets within *one* tool. Partial systems like EMS frequently take into account only an isolated dimension of the sustainability paradigm and remain consequently, in corporate practice, isolated from the general management systems. As a result e.g. EMS will pay from an economic point of view within a short period of time but the contribution to the improvement of the company's environmental performance will be disappointing (cf. Dyllick/Hamschmidt, 2000).

Thus, companies often wish to be capable of integrating environmental and social aspects within one single management system. In view of the problems described before which companies are facing in the field of sustainability management, the BSC seems to be an appropriate tool for the management of corporate sustainability especially regarding its open and multidimensional conception (cf. Kaplan/Norton, 1997; Figge et al., 2001; Bieker et al., 2001).

However both in theory as in practice, the Sustainability Balanced Scorecard (SBSC) as such an integrated concept is often applied for the mere creation of *economic* value (e.g. cost efficiency, improvement of reputation or image) in a reductive way (cf. Figge et al. 2001).

Part 2 of the present paper gives a short overview of the current research in the field of BSC respectively SBSC and comes with models for the management of business integrity. In chapter 3 we would like to discuss structural modifications to the traditional BSC that appear necessary in an ethical point of view. In part 4 we discuss our findings critically. Chapter 5 ends with a short summary and a prospect for necessary further research.

## 2. Conceptual framework

Here, we would like to examine the instrument of the BSC respectively SBSC in order to develop these instruments further for the management of business integrity. At the beginning, the traditional BSC is presented (2.1) followed by the SBSC as an enlarged concept for the management of corporate sustainability (2.3). Finally, relevant aspects for a model of integrity management are discussed that include the notion of corporate sustainability (2.4).

### 2.1 The instrument of the Balanced Scorecard (BSC)

The BSC can be understood as a management system, which is structured according to the logic of the cybernetic management circle (plan-do-check-act).

Kaplan and Norton position the Balanced Scorecard as a tool for organisations to manage the demands of relevant stakeholders and to translate strategies into action ("from strategy to action")<sup>1</sup>. When conceiving the Balanced Scorecard (BSC), Kaplan and Norton, maintained that companies are lacking sophisticated tools for the management of *intangible assets* (e.g. customer satisfaction, processes quality, infrastructures, Know-how). Intangible assets, however, are vital in order to stay competitive. The frame of the Balanced Scorecard consists of four perspectives (see Figure 1). Each perspective consists of the relevant goals, indicators and measures to achieve them.

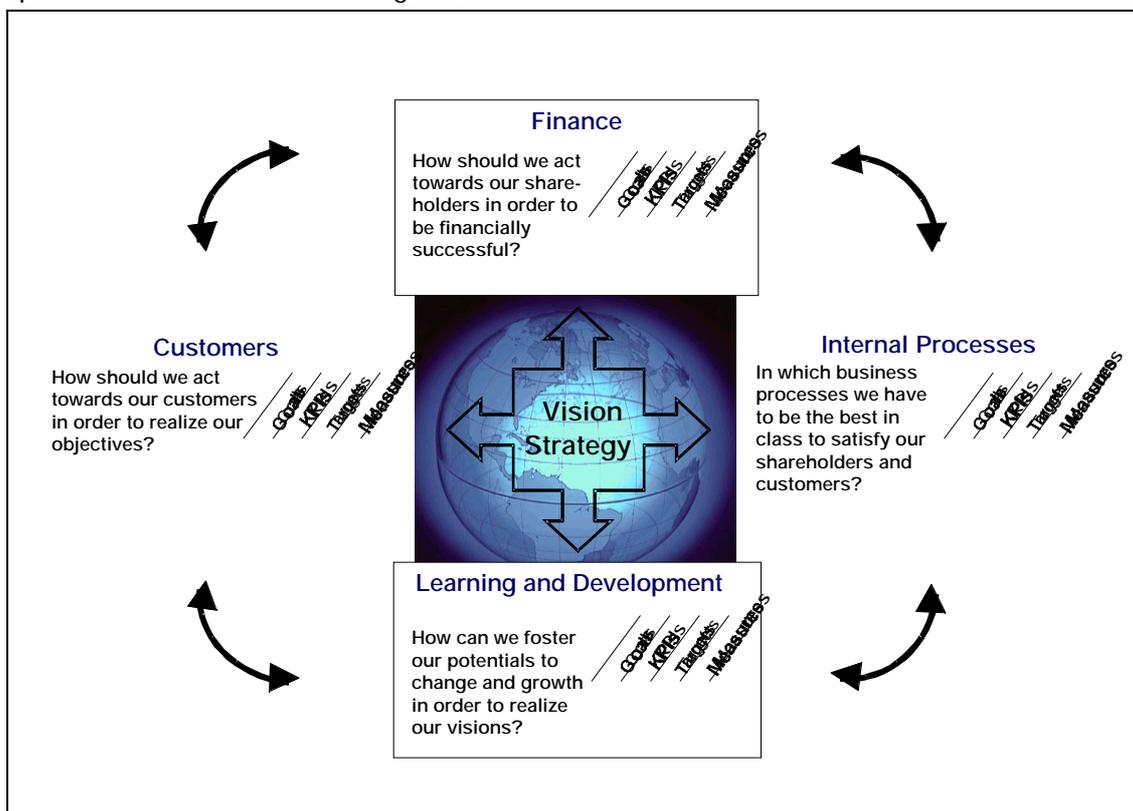


Figure 1: The methodology of the Balanced Scorecard (adapted from Kaplan/Norton, 1997, p. 9)

- In the predominant *financial perspective* corresponding objectives similar to traditional systems of management and accounting are of importance. One improvement of the concept lies in its focus on so-called *value drivers* for future profitability of the company.

<sup>1</sup> Possible stakeholders could be shareholders, customers, employees or further strategic relevant ones like suppliers or the society as a whole. One main characteristic of the concept lies in its openness for integrating further relevant perspectives, e.g. an environmental perspective Cf. Kaplan; Norton, 1997, pp. 33.

- The *customer perspective* aims at the identification of relevant customers and market segments that contribute to the financial goals. In terms of a market-based management of the company, this dimension makes it possible to get the internal processes, services and products into line with the necessities of current and future markets.
- Within the dimension of *internal processes*, firms should identify and structure efficiently the internal value-driving processes that are vital regarding the goals of customers and shareholders (e.g. innovation, production and after-sales; see Kaplan/Norton, 1997, p. 89).
- Human resources being a strategic factor of success, Kaplan and Norton suggest a perspective for *learning and development* that tries to depict all staff- and organisational-related aspects that are vital to the organisational reengineering processes (cf. Weber/Schäffer, 2000, pp. 201).

The instrument is “balanced”, i.e. it tries to establish an *equilibrium* in various respects:

- Short- and long-term related goals should be considered equally
- The instrument should cover *internal* aspects (such as processes and organisational development) as well as *external* ones (i.e. customers and shareholders).
- A balance of quantitative, i.e. financial hard facts, and qualitative non-financial soft facts is recommended.
- Finally, it provides ‘enablers’ that focus on the achievement of strategic goals in the future (*leading indicators*) as well as results (*lagging indicators*) to depict the effectiveness and efficiency of measures in the past. Strategies being a set of hypotheses of *causes and effects*, the relevant goals and the related indicators should be linked to each other revealing systematically this architecture of relationships of cause and effect. By doing so, not only are causal relationships relevant within one perspective but also between them. Objectives of learning and development, for instance, serve as “enablers” for the achievement of goals of the other “higher” perspectives (e.g. customers, finance).

The following Figure 2 gives an overview of a possible chain of causes and effects and visualises the hierarchic structure of the model. The figure is of course idealistic, but it exemplifies the interconnectedness of the perspectives of the BSC.

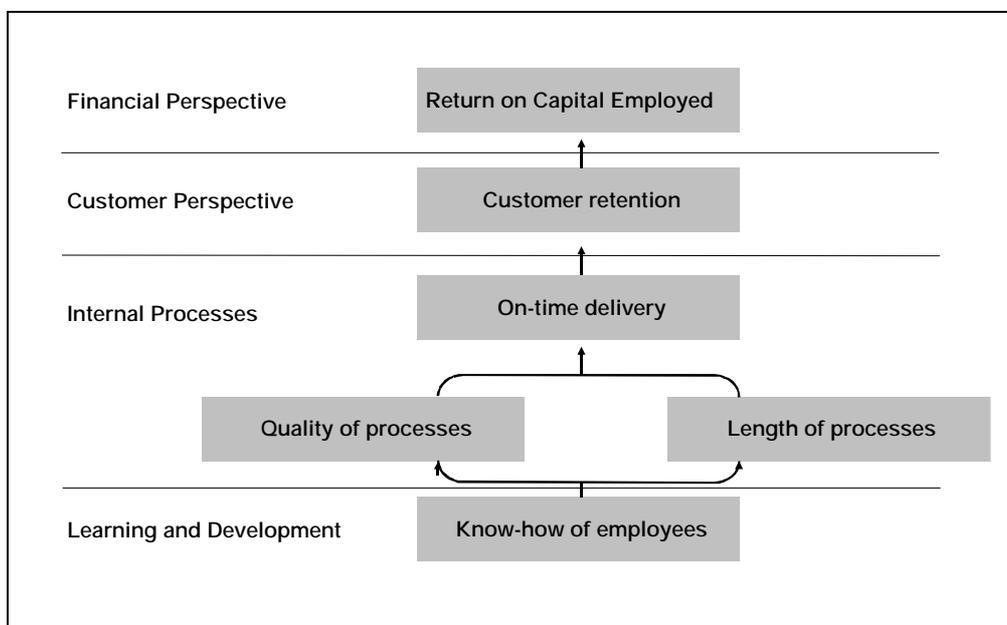


Figure 2: Possible causal relationships within the concept of the Balanced Scorecard

A BSC makes it possible to realise learning effects by continuous comparisons of the targets and the results achieved. Such analyses could have a direct effect on the operational level of the company and show possible measures for the adjustment of the operational efficiency (single-loop-learning). On the strategic level, they allow a critical review of the underlying strategic assumptions regarding the

achievement of corporate goals and, hence, learning effects on the strategic level (double-loop-learning).

In summary, the BSC is a tool that has been created for the purpose of linking strategic goals in its four dimensions to the financial bottom line. Hence, it aims at the improvement of companies processes and the economic performance. The BSC coming up with both financial and non-financial aspects is an openly structured management instrument that provides a high potential concerning the management of corporate sustainability.

## **2.2 Challenges when setting up a SBSC**

There are a lot of challenges that one could encounter when setting-up a SBSC. These could arise from the traditional concept itself as well as the normative and strategic level of organisations.

The BSC has been conceived for an increased consideration of stakeholder demands. This is reflected by the explicit consideration of customers and shareholders in an own perspective and by the implicit consideration of the requirements of the employees in a learning and development perspective. However, from an ethical point of view this concept bears reductive and instrumentalistic elements, since other groups concerned by the business activities as for example residents are not taken into account at all – although their demands could easily prove legitimate in an ethical context. Kaplan and Norton, p. 31, also propose the integration of further stakeholders into their classical concept. However, the authors – bringing forward an example from the chemical branch – claim that there has to be a strategic relevance if a perspective for the management of ecological sustainability is to be added.

Hence, the original concept of the BSC proves to be *economistic*, since the consideration of stakeholders' interests is only carried out if potential corporate strategic goals are realised. This aspect is also revealed by the predominant financial perspective of the model. As a result of this "architecture", all activities of the *underlying* perspectives as training and development of employees, aspects of environmental and social management are judged according to their impact on the corporations profitability. In addition, these ubiquitous profitability evaluations are interpreted on a medium or short-term basis (i.e. investments have to pay-off within 3 to 5 years) so that many of the sustainability-related aspects of the above-mentioned SBSC (planning tool) will remain unconsidered.

On the strategic level, the BSC does not provide any recommendations as far as the definition of appropriate strategies is concerned. With reference to a management system for corporate sustainability this leads to the fact that an adequate strategic framework (involvement, mission/vision, principles, personal commitment etc.) has to be established in the sense of a viable ethical approach beforehand. In the first line a BSC as well as a SBSC is appropriate to put strategies into practice and not primarily to formulate strategies. However, it offers the opportunity of strategic learning ("double loop learning") which enables the companies to review their strategies within the competitive field regarding their success of achieving the defined goals (see Kaplan/Norton, 1997, p. 241). "Double-loop-learning" means that besides the operational control and management review processes in the sense of "single-loop-learning" also strategic learning processes are set up (see Argyris/Schön, 1978). Nevertheless, it has to be conceded, that the instrument can be applied primarily on an operational level and for questions of "single-loop-learning". Another important question would be if decision-makers in corporate practice are willing to question their strategic assumptions and to reveal possible strategic deficiencies of the past (cf. Weber/Schäffer, 2001).

Originally the BSC has been conceived as an operational instrument for the performance management and measurement. Therefore, a BSC offers possibilities to measure the efficiency of SBUs, departments and employees more precisely. Hence, the management of a company may gain a better insight into the contributions of each employee concerning the achievement of the goals of the SBU. This may, in consequence, enhance the pressure on the employees to do well. In an ethical context, an unfair control should be avoided by the protection of these data. In this respect, a bank manager emphasised the fact that he deliberately does not collect delicate data or indicators that could encourage him to judge his employees according to their bare economic performance. Such an approach, this manager stated, would ignore their integrity of personality. In brief, an unreserved adherence to ethical codes of conduct combined with means of intra-organisational communication could solve this problem.

Furthermore the BSC is often reproached of being a functionalist instrument by which strategies can be applied „recklessly“ to an operational level (e.g. see Weber/Schäffer, 2000, p. 19). Hence, one of the positive aspects of the BSC, i.e. the application of strategies, is at the same time judged as an inherent negative aspect. Since the BSC helps putting strategic measures into practice companies, on the one hand, are running the risk of becoming rather narrow-minded towards strategic alternatives. On the other hand strategies, targets and measures can be put through “top down”. In practice this possibly goes in line with an uncritical adoption of “decreed” measures. Here a control of the premises can help in order to review the underlying assumptions on which the strategy is based. A BSC can also be very useful for the process of finding an appropriate strategy (see Weber/Schäffer, 2001).

An important demand on the employee level is that they will be continuously motivated through the instrument to use their resources to maximum in order to reach even the most ambitious goals. In line with the above-mentioned improved transparency and increased possibilities to control the work of the single employee, the instrument is, from an ethical point of view, rather problematic. One result of a SBSC-workshop with company representatives revealed that commitment and corporate culture are indispensable in order to ensure that the BSC is only used to visualise potentials for improvement. However, the idea of putting pressure on employees in order to maximise their productivity to an unrealistic extent has been vehemently refused in order to protect the weaker employees.

Based on Kaplan and Norton as well as statements and documents of companies using the BSC, the number of objectives within the BSC needs to be restricted in order to focus on the most important strategic objectives. The saying “20 is plenty” of a BSC consultant reveals this: Therefore, environmental and social managers must be aware of the fact that in this “Standard”-BSC only a restricted number of their goals can be considered. Nevertheless, to depict comprehensively potentials for improving the environmental respectively social performance of companies, it is advisable to make use of the SBSC as a planning tool as has been described above.

Finally, one conceptual advantage of the instrument regarding the integration of qualitative aspects into the core management of firms may become ineffective in practice since not rarely do we observe a predominance of financial „hard facts“. Ecological and social aspects being naturally relatively hard to quantify, it is very difficult to integrate them into the general management and controlling systems of companies (see Orssatto et al., 2001, p. 265 ; Kaptein/Wempe, 2001).

In the following these inherent short-comings of the BSC will be analysed systematically. At the same time possible solutions will be revealed especially in view of a Integrity Scorecard (ISC).

### **2.3 The Sustainability Balanced Scorecard (SBSC)**

Much research work has been carried out in the field of sustainability management by means of a BSC (cf. Orssatto et al., 2001; Figge et al., 2001; Bieker et al., 2001). But these concepts have primarily been developed for the conceptual framework of the so-called “Business Case” in which social and/or ecological issues are used for the mere creation of economic value. We would like to outline the main aspects of a SBSC in order to clarify the methodology when setting up a Balanced Scorecard. Recent activities of research developed a Sustainability Balanced Scorecard (SBSC) as a *planning tool* (cf. Bieker/Dyllick/Gminder/Hockerts, 2001, pp. 29). A SBSC in this sense helps to detect important strategic environmental and/or social objectives of the company, a single SBU or department and to illustrate causal relationships between such qualitative “soft facts” and the financial performance.

Based on the strategic core aspects outlined by Kaplan/Norton, possible goals, sustainability indicators (as “lagging” or “leading indicators”) as well as measures for the different perspectives are presented. The original four perspectives of the BSC are enlarged by a separate society perspective, which shows the demands of the non-economic stakeholders of a company (e.g. residents, state, public authorities, NGOs).

However, with a BSC respectively SBSC, one may not renounce the definition of sound sustainability strategies: If a company wants to establish a SBSC for the purpose of corporate sustainability, the setting-up of corporate environmental, social and business strategies must be done beforehand.

Within the conceptional framework of the “business case”, the different goals of the learning, development, process, customer or society perspective should help to support the achievement of the financial targets. Moreover, the SBSC is supposed to be a planning tool and not a management

instrument. This suggestion is based on the empirical findings that corporate strategies frequently ignore issues of corporate sustainability and that the latter are therefore hardly integrated in general management systems. Not seldom does it happen that environmental and social management are realised by separate systems (cf. Dyllick/Hamschmidt 2000, Dyllick/Baumast 2001).

It is therefore sensible, to use the SBSC as a planning instrument. This could enhance transparency of potentials for value-added emerging from social and/or ecological aspects and prepare the implementation process of the strategy. It offers a reference frame which makes it possible to understand how causalities between the single economical, ecological and social target dimensions may arise. In addition to this, the environmental or sustainability department of a company can gain experience with the instrument SBSC itself. Therefore the setting-up of a SBSC may be already a very valuable training process.

However, a SBSC, which is not integrated into the general management system or the original BSC lacks some important aspects vital for the realisation of sustainability strategies. It would in fact only be a further "stand-alone-tool" of the environmental or sustainability department with an uncertain impact on business processes. In order to reach the Management of the Strategic Business Units (SBUs), which actually make decisions on strategic or operational levels, the SBSC has to be integrated into the traditional Balanced Scorecard (Bieker et al. 2001: pp. 47-52).

Different *variants* of the integration of a SBSC into a BSC emerge because of the degree of integration on the one hand and the number of perspectives on the other (e.g. the addition of an explicit *society perspective* to the traditional BSC). Regarding the degree of integration it has to be distinguished whether sustainability goals and indicators are partially (i.e. into one of the four BSC-perspectives) or completely integrated (i.e. into all four perspectives). The *partial* approach often constitutes a first step towards integration of sustainability aspects into a BSC and may arise attention of environmental respectively social aspects within the company. However, there is no denying the fact that a complete integration of sustainability aspects would have a higher signalling effect.

As far as a fifth perspective is concerned, one has to differentiate between two different impetus. At first, the question arises whether all sustainability goals and indicators are collected inside the *society perspective* and remain separated from the other perspectives. Secondly, in addition to the society perspective that considers external groups like NGOs, politics or residents, sustainability-related aspects are integrated in the relevant perspectives of the traditional BSC. As far as the goal of corporate sustainability is concerned, the combination of entire integration and enlargement by the society perspective would be the most extensive solution. In practice, a separate SBSC as a planning instrument would be, of course, superfluous as all relevant environmental and social aspects have already been included in the general BSC. Figure 3 gives an overview over the different possibilities of integration of the SBSC into the general BSC.

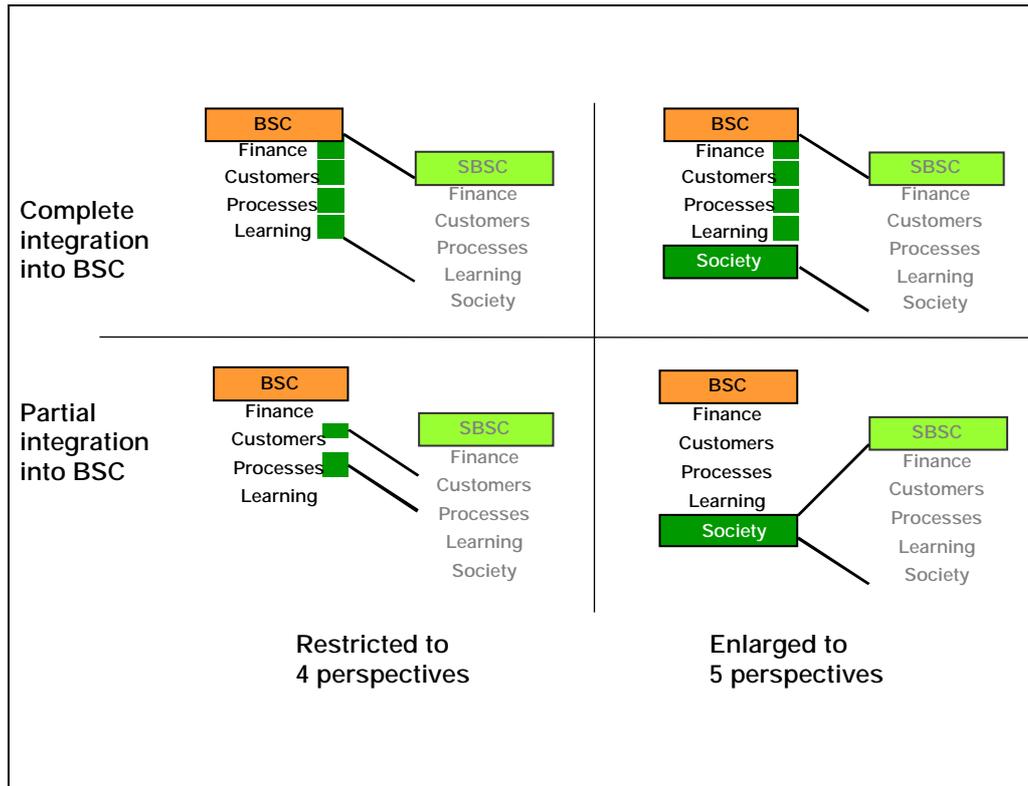


Figure 3: Possibilities of integration of the SBSC into the BSC

In practice, further aspects may show relevance regarding an integration of the BSC such as the aggregation of several indicators to an index respectively proxy indicator or the integration on different organisational levels. In this respect, one possibility is to integrate the BSCs according to a case to case-basis into the most relevant business areas. A systematic integration into the BSCs of all SBUs would be the most extensive approach and could help the implementation of the notion of corporate sustainability. Another possibility consists of conceiving a BSC for environmental, social respectively sustainability departments. A substantial advantage emerges from the fact that these so called Shared-Services Units could emphasise their valuable contributions to the achievements of the corporate goals, make first experiences with the instrument and convince also internal departments like the general controlling and the other SBUs of the potential benefits arising from a SBSC.

#### 2.4 Management of corporate integrity

The above-described SBSC can be viewed as a broadening of the BSC as a functional tool for business management as it looks beyond the economic sphere and integrates further environmental and social aspects. But how should the rather *political* framework of sustainable development as „development that meets the needs of the present without compromising the ability of future generations to meet their own needs“ (World Commission 1987) be transferred to a rather micro-economic level of a firm? Actually, in practice, we are confronted with a lot of complexities when trying to implement the breadth and depth of the concept: What is the role of business when striving towards sustainable development, what is the motivation for preserving the natural sphere and in how far can the qualitative benefits of sustainable development be measured by existing instruments (Payne/Raiborn, 2001)? From an ethical point of view, the answer to the last question seems at least to be clear: Regardless the amount of money necessary to realise sustainable development, the benefits of biodiversity, unspoiled ecosystems, breathable air etc. *does* exceed that cost.

Business ethics comes up with standard guidelines that help defining responsibilities of corporations, considering legitimate stakeholder rights and mediating potential conflicts (see Kaptein/Wempe, 2001). In this respect, ethics may provide an appropriate fundament for the management of corporate sustainability and for the integration of the three dimensions of this concept. This opinion can also be found in corporate practice. CEOs often argue that the reasons for the implementing issues of

sustainability are legal compliance and, more importantly, expression of a moral commitment (see Feltmate 1997, Payne/Raiborn, 2001).

To clarify what we understand by ethics we would shortly like to give an overview over the current research in the field of business with a focus on the management of corporate integrity. *Integrity management* can be defined as an approach to classify and implement of efforts of the companies to shape their businesses according to moral values. The term *management* stresses the fact that this does not only imply subjectivist or selective moral affections or likes, but a setting-up of firm structures, measures and processes that is based on clarified ethical principles. We hypothesise that an ongoing analysis of the own principles and values and their verification regarding their generalisation are indispensable. This idea is revealed by the expression of corporate goals (i.e. "What do we want to do or achieve?") as well as the expression of corporate principles (e.g. "Where are our limits? What will we, following our principles, not do?"). Together with the internal rules that are notorious according to ISO 14001 or SA8000, we assume a system for the management of business integrity that has been presented by Ulrich (cf. Ulrich, 1999) and further developed towards an integrity management system (see Waxenberger, 2001).

#### 2.4.1 *Integrative corporate ethics*

Within the integrative corporate ethics approach (cf. Ulrich, 1998; Ulrich 2001, pp. 416) all economic actors have to *legitimate* their economic behaviour and into which the market system has to be embedded (cf. Ulrich, 1998 and Ulrich, 2001 for the following explanations). These reflections can be seen as a prerequisite for *life-conducive* market economies as they tackle issues of the „good life“ (Aristotelian dimension of ethics) as well as issues of legitimacy (Kantian dimension of ethics).

Are economic interests in this respect immoral? Of course, we do not think that economic interests do not count *morally*. But, in fact, they only are to be considered as *claims* which must be proved and justified. Mere interests can't deliver themselves possible *criteria* for an ethical justification. All actors in society can bring forward legitimate demands (i.e. moral rights). To implement ethical principles on both a corporate and society level, a certain measure of self-restriction with regard to private advantage must always be demanded from everybody. That is, for instance, why the so-called "profit principle" is certainly not a possible legitimate purpose of a business company, because it may be opposed to society's self-interests. Such a "profit principle" can rather be revealed as a mere expression of economism.

*Integrative corporate ethics* aims at clarifying and safeguarding all necessities on the normative level regarding a corporate value-creation that are beneficial to life itself. This has to be done on two levels of corporate morality:

On the first level of corporate responsibility we find issues of business integrity. This can be implemented by defining a *life-conducive corporate mission* and related business principles that aim at earning money with products or services providing a real value for the well-being of the consumers and do not entail negative external effects for other people or the community as a whole. Frequently we find emphatic and personally convinced patriarchal entrepreneurs that strive to contributing to the common well-being (e.g. the founder of the Swiss retailing chain Migros - Gottlieb Duttweiler). In this context questions of effectiveness appear. Products or services that are ecologically or socially more effective with less impact on the environment respectively society, are consequently very valuable to society (e.g. innovative powering technologies in the automotive field or the distribution of medicine in developing countries at cost level).

Moreover, there is a second level of responsibility. By institutionalising a *republican co-responsibility* of the company regarding the life-conduciveness of the politico-economic framework in which a free enterprise is legitimated to do business. Political co-responsibility implies that a company as a *good corporate citizen*, critically questions the given framework and is strongly aware of its responsibilities to initiate and give support to vital reforms of the politico-economic order (cf. Ulrich, 2001, pp. 434). Examples could be ethically sound industry standards or a fair political frame of market competition (e.g. collaboration in the World Business Council for Sustainable Development; Enquête Commission of the German Parliament; the *Responsible Care*-programme in the chemical sector). In this republican conception of the political process, the economic sphere itself, apart from the general public of free and mature citizens, is an ultimate locus of morality. The dichotomy of the integrative corporate ethics is illustrated by the following Figure 4.

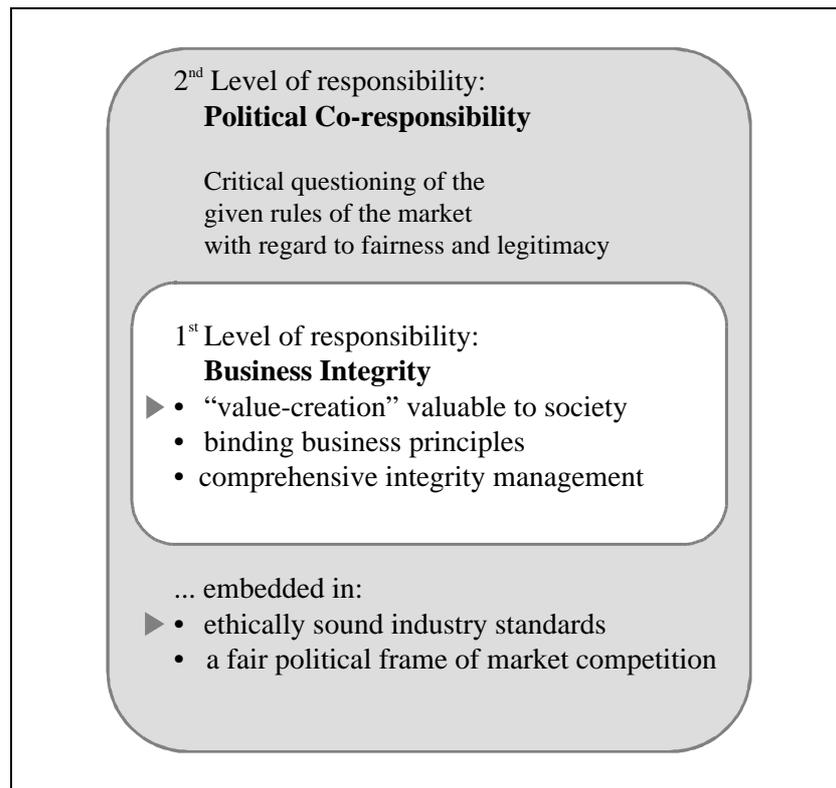


Figure 4: Dichotomy of the integrative corporate ethics (cf. Ulrich, 2001, p. 461)

#### 2.4.2 *The management of integrity*

But how can these ethical aspects be tackled and implemented in companies' practice? To do so, we would like to present a model for integrity management (cf. Waxenberger, 2001) that has been developed on the basis of Ulrich (1999) und Dyllick/Hamschmidt (2000).

As can be seen in figure 5, the eleven elements (eight "*corner stones*" and three *fostering factors* are discussed as follows. *Corner stones* are:

1. The first point – engagement – should express the importance of the "good will". The management of a company must be willing to engage with ethical business with all its consequences. The very first and important decision to subordinate every action under the premise of legitimacy is necessary to make the crucial difference between ethical and mere strategic action. This decision can be quite a "private" one of the general manager or the senior management. But it must be communicated throughout the whole company in order to avoid unintegrated actions. "The result will be only a personal achievement of one or a few employees. Even if such a solo action were to result in exactly the same measures as a process in which all employees were involved, it still involves a different outcome. ... it is short-sighted to assume that simply implementing a number of measures will result in an increase of the ethical content of the organisation." (Kaptein, 1998, p. 147)

2. The *teleological* dimension of ethics demands the alignment of a company's actions to a goal (according to Greek telos = target, goal). Therefore goal setting is an important step during the building of an IMS (whereas the revision of the goals is a continuous process thereafter). The goals of a company find their expression in two factors: the definition of success and the company's mission. Success is usually defined in terms of money, i.e. profit. If a company establishes a more elaborated form of the measurement of success it has resources to reach other goals. The satisfaction of employees for instance could be one element of an overall corporate success – but as an end in itself, not as a means for more profit (as happy employees are supposed to be more efficient). A good relationship to the neighbours of a firm could be included in an integrated success model as well as a

non-polluted environment. The problems of how to measure the elements of success separately can be solved with instruments like the BSC.

3. Business principles are the normative guidelines of a company. They are not norms themselves but standards for the creation of norms in concrete situations. The obligation to principles corresponds to the *deontological* dimension of ethics. Legal requirements can also be seen as principles to comply with, but a legal compliance programme would not be enough to be considered as "ethical". The difference between legal compliance and business principles is the degree of the obligation. Whilst legal compliance is compulsory ethical business principles are voluntary and thus meet the requirements of autonomy, which is the basis of every acting that wants to be called ethical.<sup>2</sup> Examples for such high principles are the human rights or Kant's categorical imperative. We guess that all the basic principles for businesses are already somewhere codified – not always in the legal system. Anyway, the scope of national laws is possibly dwindling with globalisation. (Garcia-Marzá, 2000, pp. 129ff.) In so far it, might be more valuable for a company to comply (autonomously) with an international recognised standard. One could suggest standards that are well established like the UN Declaration of Human Rights, ILO-Conventions, but also standards of private initiatives like Caux Round Table Principles for Business or SA 8000.<sup>3</sup>

4. At this stage within the IMS model, it is the first time that the public is addressed. The reason for the special meaning of the public in this context is its role in ethics. It is the last instance of the moral reasoning according to the Kantian dictum of public reasoning. (see Kant, 1990) For cognitivist ethics neither the human conscience nor a subjective certitude is sufficient to substantiate a claim (Böhler 1984, p. 350). Therefore the public is the ideal locus of moral (see Ulrich, 2001, p. 93) where beyond egoistic motives an impartial judgement can be made.

The concrete role of the public (in the ethical interpretation) for a company is on the one hand the partner, on the other hand the referee. As a partner the public is the quasi-recipient of the company's promise for a ethical way of business. With the engagement, the mission and the principles the company states that it is willing to subordinate every of its actions under ethical reasoning. This statement is given as a promise to the public. As a referee on the other hand it is the public's task to safeguard the promise. It is important that the public is not (only) seen in its potential for opposition. Many approaches of stakeholder dialogue only have a strategic orientation in order to minimise the harmful impact of the public on the company (e.g. with boycotts).

5. The operational part of the IMS consists of four elements (5 to 8). The first contains training measures. Training again has three aspects within an IMS, which can be applied in different phases of the process of an IIMS implementation. a) The first task of training is to build support for ethical awareness not only of the management but also of the employees. b) The second aspect is to help all members of an organisation to be able to master difficult ethical situations. With special dilemma training (see Karssing, 2000, pp. 85ff, 97ff.) employees should learn how to deal with dilemmas and how to decide in an legitimate way. c) A more technical aspect is the training of how to handle an IMS and all the connected systems like an environmental or quality management system, or how to conduct an audit or to write a report.

6. The next step are ethical measures for stakeholders. These measures should allow a behaviour towards all stakeholders based on legitimacy. This might be a task too difficult and too big for a company – in particular concerning the (theoretically) unlimited number of stakeholders. Solutions for these problems can be found in a twofold way: On the one hand it is legitimate (in the beginning) to limit one's attention to only a handful of key stakeholders. "Many organisations, even small ones, will have many stakeholders, and certainly far too many to be able to consult directly. It is therefore critical to identify key stakeholders rather than all of them." (Pearce et al., 1996, p. III/1) The ethical problem of this step is the legitimacy based selection of these key stakeholders. It would not be allowed to choose them solely considering strategic factors, i.e. to choose only those stakeholders who have the most influence and power on the company. The selection process should instead focus on the needs of both the affected and the company.<sup>4</sup>

The other solution is the use of existing management systems for certain stakeholders with an ethical background. I am thinking here of for instance Social Accountability SA 8000 and occupational health

<sup>2</sup> See for instance the research from L. Kohlberg who postulates the post-conventional level as highest level of moral development – and post-conventional is nothing else than autonomy. Kohlberg, 1981; Colby/Kohlberg (et al.), 1987.

<sup>3</sup> For the Caux principles see e.g. Petrick/Quinn: Management Ethics (1997), 332ff.; for SA8000 see CEPAA: SA8000 (1997).

<sup>4</sup> For the three steps to evaluate key stakeholders see Waxenberger: Bewertung der Unternehmensintegrität (1999), 14ff.

and safety system like the British Standards (BS) 8800 or the British Occupational Health and Safety Assessment Series OHSAS 18001 for employees, the European Environmental Management and Auditing Scheme EMAS or ISO 14001 for the environment or ISO 9000:2000 for the needs of customers. There are of course many areas where no standards exist (e.g. ethical behaviour towards the community or the society). In these areas the company must try to establish ways to communicate, understand and respect the stakeholders and their legitimate claims. "Managers should listen to and openly communicate with stakeholders about their respective concerns and contributions, and about the risks that they assume because of their involvement with the corporations." (Clarkson Centre, 1999, p. 5) This 'ethos of listening' also is one of the core elements of an ethical auditing. That is the reason why such audits are seen as a "listening exercise". (McIntosh et al., 1998, p. 241)

7. Organisational ethical measures do not aim at certain stakeholders but at the organisation as a whole. Therefore they represent the "glue" between the stakeholder measures and "embed" (see ISEA, 1999, p. 34f.) them into organisational context. These measures must not be understood as an implementation of "fixed values" but as a precondition to find those values. (see Ulrich et al., 1999, p. 135). They are more or less a compilation of instruments, processes and structures that should help to improve the "ethical performance" of a company. They can accordingly be divided into three groups:

a) Instruments cover things as a code of ethics or a code of conduct<sup>5</sup> – both for companies and whole industries –, an "ethics checklist" (Kaptein, 1998, p. 174) or sanctions.

b) Structural measures are for instance the implementation of an ethics office or an ethics officer, an ombudsman, an ethics commission etc.<sup>6</sup>

c) Communicational processes may be the most important elements of a consistent integrity programme that is based on discursive ethics. Ethical relevant communication can be internal or external. External can mean communication with persons or groups outside of the company as *sender* or as *receiver*. *Internal* communication processes are more difficult to implement than one would imagine. Internal newspapers, letters, e-mails or company meetings might not be enough to prevent top down communication. One problem is the organisational hierarchy, which might inhibit an open dialogue.

8. Ethical auditing has two different meanings. The term is not used here in the notion of The Body Shop or Ben & Jerry's. These two pioneer companies in the field of ethical auditing see the ethical audit as a means of getting in contact with stakeholders, experiencing their needs and improving their own ethical performance according to these needs. In other words, ethical auditing is the main thing, which is followed by the activities towards stakeholders. Here, auditing is only a means of controlling and, even more important, of feedback. The reporting, which follows the auditing process, enables feedback from outside the company. Reporting is here understood not only as a reporting on the audit but on the whole effort of the company to implement an integrity system. In this sense the integrity report may contain all the elements mentioned above – beginning with the fundamental engagement up to the auditing. The report therefore contains the duty of being accountable. Such reports for all stakeholders and the general public should be published in several media. This openness increases the stakeholders' trust in the behaviour of the company and shows the seriousness of its endeavour in ethical respects.

In addition to these eight core elements of the integrity management model, there are three *fostering factors*, which facilitate the realisation of corporate integrity. These three factors consist of stimuli in the political and economic frame, training and the corporate culture.

1) Stimuli from outside can have three forms. a) First there can be constraints within the political and legal system. If a government is keen on having an ethical economy it should have a clear-cut legislation that rewards ethical and punishes unethical behaviour. This legislation, however, can be influenced in a positive way by companies or associations. The acceptance of this "republican co-responsibility" (Ulrich, 1998, p. 14) of the economic actors for the political framework expresses their (good) will for an ethical economy.

b) The consumers and their demand for goods or services with an ethical background enable the survival of a company, which offers such goods or services. On the one hand such a demand can be increased by marketing, on the other hand this demand is the expression of the ethical awareness of a society, which is much harder to influence.

<sup>5</sup> See Kaptein: Ethics Management (1998), 170f.; Hoffman: A Blueprint for corporate ethical development (1999), 54ff.; Ulrich et al.: „Ethikmaßnahmen“ (1999), 139ff.

<sup>6</sup> See Kaptein: Ethics Management (1998), 164f.; Ulrich et al.: „Ethikmaßnahmen“ (1999), 143ff.; Hoffman: A Blueprint for corporate ethical development (1999), 56f.; Wieland: Formen der Institutionalisierung von Moral (1993); Wittmann: Ethik-Kodex und Ethik-Kommission (1995).

c) A third field of stimuli from outside for a company are rules or codes of the whole industry. A good example is the Responsible Care programme of the chemical industry world wide. It contains environmental and safety regulations that are stricter than the legislation in many countries requires.

2) The corporate culture has positive effects on ethical decision making – and ethical decision making needs an ethical corporate culture: “Adding values to an organisation implies a culture change. Mere policies and procedures alone will not bring about change.” (Driscoll/Hoffman, 2000, p. 7) However, the culture is not easily influenced by management. In addition it is not clear if an ethical aware culture is a precondition for a successful IMS or an effect of it. It can be said that an ethics *fostering* culture is a precondition for an IMS whereas an ethical *aware* culture is an effect of it.

3) An external auditing combined with an certification can be very motivating for the whole company as Bentz (2001) showed. The certificate must be visible, the audit report should be published widely. The effect on the public with the opportunity of reputation gains might be a strong motivator for the management.

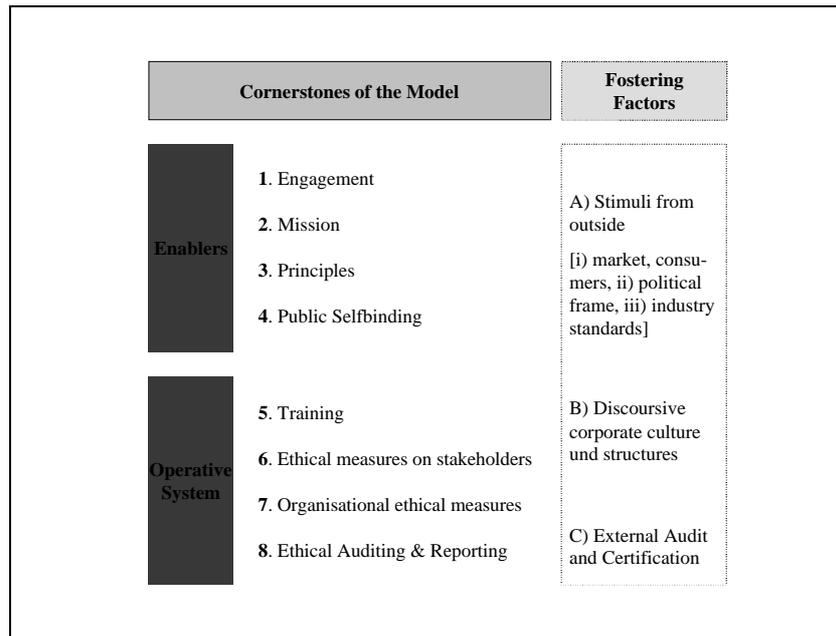


Figure 5: Management of Business Integrity

For an ethically sound combination of both integrity management and the tool of the BSC, we suggest the term *Integrity Scorecard* (ISC). The aspect of legitimacy that has to be integrated into the traditional BSC must not be veiled by the purely economically-oriented perspectives. This is reflected by the broadening of the BSC by a society perspective. By society we do not allude to its reputational function but as a locus of moral rights that shall not be exploited for mere economic goals, i.e. for the sake of profit maximisation. In this respect, the moral right of human beings to an intact environment bears a different quality than the corporate striving for eco- or socio sufficiency that frequently is undertaken for mere financial motives. In consequence, an ISC comprises the consideration of absolutely given moral rights with an unlimited validity, i.e. these rights are also to be observed in cases where they may conflict with financial interests of the company. This fact is considered through the integration of the stakeholder model in the ISC. Summarising these aspects, the broadening of the BSC to an ISC can be interpreted as an instrument of corporate ethics that encompasses a progress in the operationalisation of ethics in business.

### 3. Towards an Integrity Management

### 3.1 *The Integrity Scorecard (ISC)*

A BSC and hence, also an ISC, is primarily an instrument by which corporate strategies can be controlled and put into practice. The BSC bears high potential with regard to the application of business ethics on an operational level. Within the concept of the ISC, the *society* perspective is of major importance especially when thinking of the integration of stakeholders' demands as well as the *learning* perspective (e.g. training of employees).

The definition of a sensible corporate business strategy in accordance with the corporate vision or mission, has to be done beforehand. There is a certain body of empirical evidence that sustainability-related strategies are not sufficiently defined and internally communicated. This leads frequently to the fact that EMS pay-off economically but under-perform as far as the improvement of environmental performance is concerned (see Dyllick/Hamschmidt, 2000).

Previous models for a Sustainability Balanced Scorecard have been developed for the "business case", i.e. for the achievement of strategic business goals such as the improvement of turnover figures, fostering of market position or profitability targets. However, considering the narrow aim of corporate sustainability (creation of value at all dimensions of corporate sustainability and issues of political co-responsibility), these concepts show substantial deficiencies. Neither is a BSC (respectively a SBSC) able to lead the business in accordance with ethical principles and moral standards unless the management is willing to do so. At best, one can try to show possible contributions to the achievement of economic goals which can be positively influenced by the management of social and/or ecological aspects. However, the way of argumentation is again an economic one and is, in consequence, to be neglected within this paper .

Moreover, a BSC respectively SBSC will not and cannot, of course, make companies implement the principle of public discourses. But the instrument can, in fact, very well provide for the integration of further stakeholders, as has already been worked out by Kaplan and Norton. However, it is essential that these actions do not primarily occur for the purpose of strategic business goals but arise from the good will to consider legitimate demands of all relevant stakeholders.

At this point, the stakeholder model delivers valuable aspects as regards the consideration of legitimate demands of all relevant stakeholder groups that may be concerned by corporate activities. The following figure visualises potential (main) stakeholders of a company emerging from the economic, environmental or social sphere (see Elkington 1997). These three groups have to be considered in an equal way. We would like to emphasise that this circle of stakeholders remains open for the integration of further groups. In this respect, we suggest the above-discussed management of business integrity (IMS) as a possible tool for the recognition, acceptance and management of the stakeholders' demands. Furthermore it becomes clear that the systematic actions of company and its IMS have an impact on the natural and social environment. Because of their outstanding relevance the internal enablers are highlighted with grey colour.

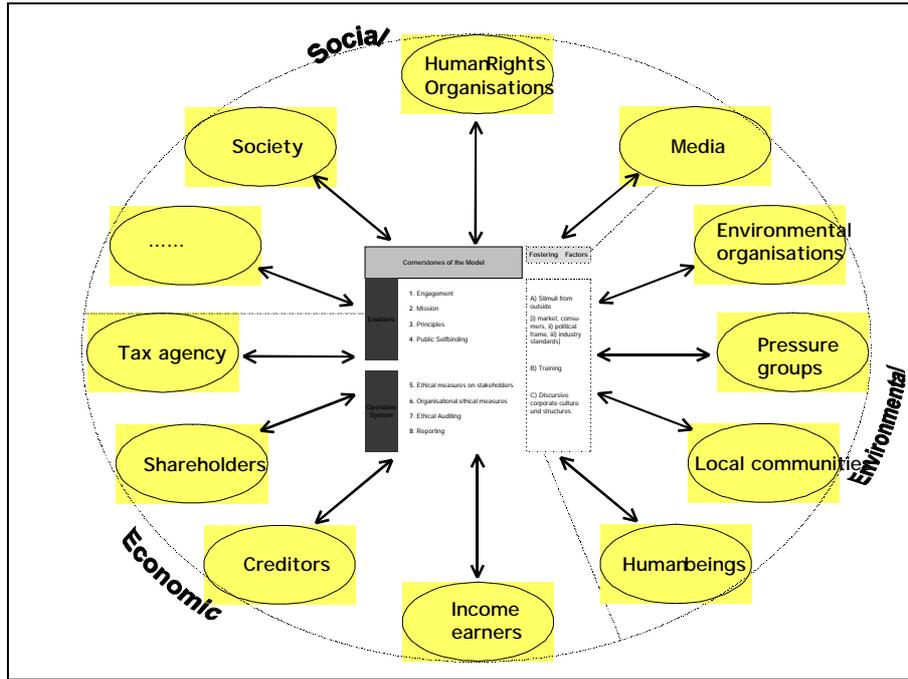


Figure 6: Modell for an comprehensive management of stakeholder demands

Processes for the definition of corporate strategies („plan“) as well as the implementation of strategy-related measures („do“) in order to achieve the corporate goals are central elements of the management circle. As has been already outlined above, the BSC aims at defining goals derived from strategies and at translating these goals to other corporate levels and processes. Consequently, a Balanced Scorecard is rather an instrument applied on the operational level of organisations and can only deduce what has been defined on their normative and strategic level (“From strategy to action“). The role of the SBSC within the context of management of corporate sustainability is visualised by the following Figure 7.

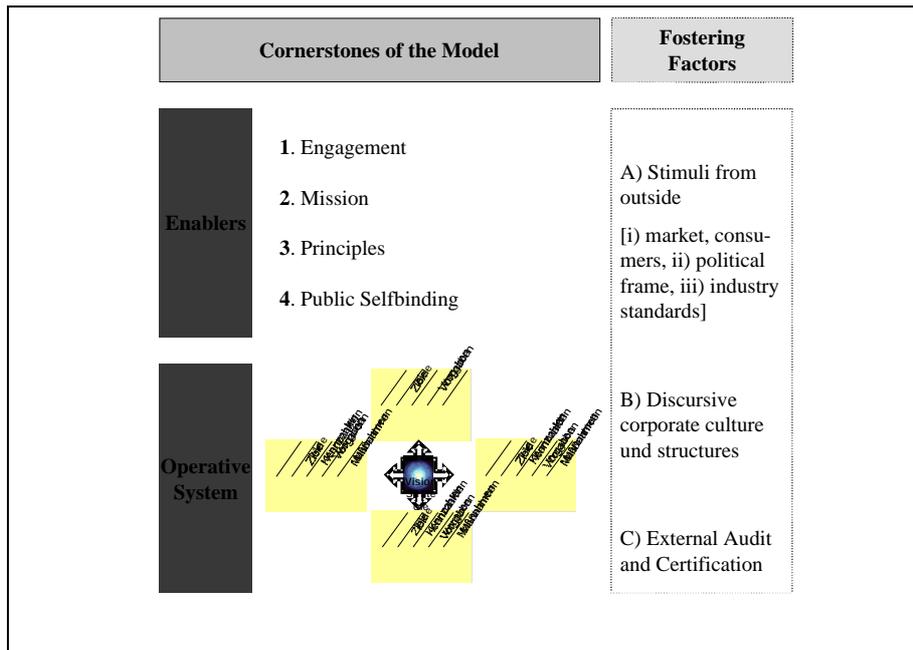


Figure 7: The ISC within the context of integrity management

As figure 6 shows a SBSC as a planning tool makes it possible to analyse relevant ecological and social aspects already before putting them into practice. However, from an ethical point of view it is indispensable to discuss these aspects. Within a discourse-oriented infrastructure it is advisable, coming up from an ethical point of view, to put the planning tool to internal discussion before implementing it. A development of the instrument together with directly affected employees can be reasonable so that they adhere to the principles and goals of the company or the SBUs. It is also very important to analyse critically, whether *all* relevant groups of stakeholders have been considered sufficiently and if there are structures that assure the recognition of further stakeholders and their demands in future. This refers, coming up from an ethical approach, not only to those social and ecological aspects, that may contribute to the realisation of business strategic aims (market share, turnover, reputation, etc.). Coming up from a pluralistic interpretation of value, it is rather advisable to have a good will of the organisation and its members to contribute to the creation of values on the social, economic and ecological level.

A very important group of stakeholders from an ethical point of view are the employees, which are also considered with an own perspective in the original concept of the BSC. However, this own perspective is primary due to the idea of using human resources for competitive reasons with the utmost productivity. As it is now possible to make the contributions of each employee more transparent, a corporate self-binding to ethical business principles is highly recommended. Regarding this Kaplan and Norton are thinking of extensive and continuous communication and training programmes (e.g. booklets, circulars, intranet, etc.). Furthermore they consider company-wide programmes for the definition of common goals in connection with incentive systems to be essential, especially in larger organisations with a more complex organisation structure. These systems should help to win employees from different hierarchic levels for a common corporate vision or strategy.

Kaplan and Norton recommend to link financial incentives to extent of achieved corporate targets. This could contribute to the employee's motivation and help to win them for the corporate aims which is, from a corporate ethical view point, justifiable. Ethically speaking, there is nothing about motivating employees by granting bonus schemes (cf. Herzberg, 1973). By doing so, the employees could be sensitised for their ethical responsibility and consider the corporate principles in their operational actions. However, not only pecuniary means can serve as a reward in this case. An employee for example that tries very hard to reach on the one hand the business strategic goals but always under consideration of corporate ethical ideals can be appointed by the management a good example. This could have a signalling effect to the other staff to also commit themselves to ethical goals. With reference to the learning and development perspective internal trainings could provide for the development of abilities, skills and know-how concerning ethical aspects. At this stage these ethical aspects especially aim at the continuous improvement of the corporate culture regarding integrity and responsibility.

### **3.2 How to proceed when setting up an Integrity Scorecard (ISC)**

Before proceeding to the definition of an ISC the above-illustrated "enablers" (i.e. engagement, mission, principles, public self-limitation) should be considered. On the basis of the corporate visions and strategies, the strategic aims are to be derived and set up in a structure of cause and effect. These aims have to be integrated into the corresponding perspectives of the SBSC and operationalised. Finally the SBSC (as a planning tool) has to be integrated into the general management system of the company. The following figure visualises the process of establishing a SBSC.

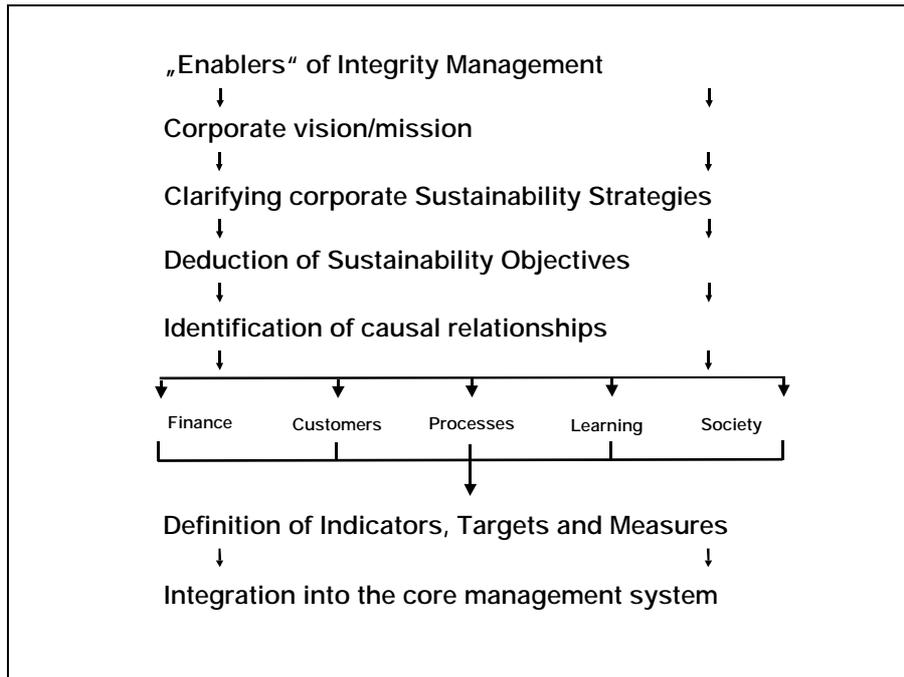


Figure 8: Steps towards a Sustainability Balanced Scorecard

In the following, the structure of a SBSC is explained from an ethical point of view. On the one hand, selected aims, possible corresponding leading and lagging indicators for each perspective are put forward on a rather general level in order to meet the criterion of general validity. On the other hand, the reader is provided with instructions on a rather concrete level which enable him to give useful recommendations to companies when applying an ISC in corporate practice.

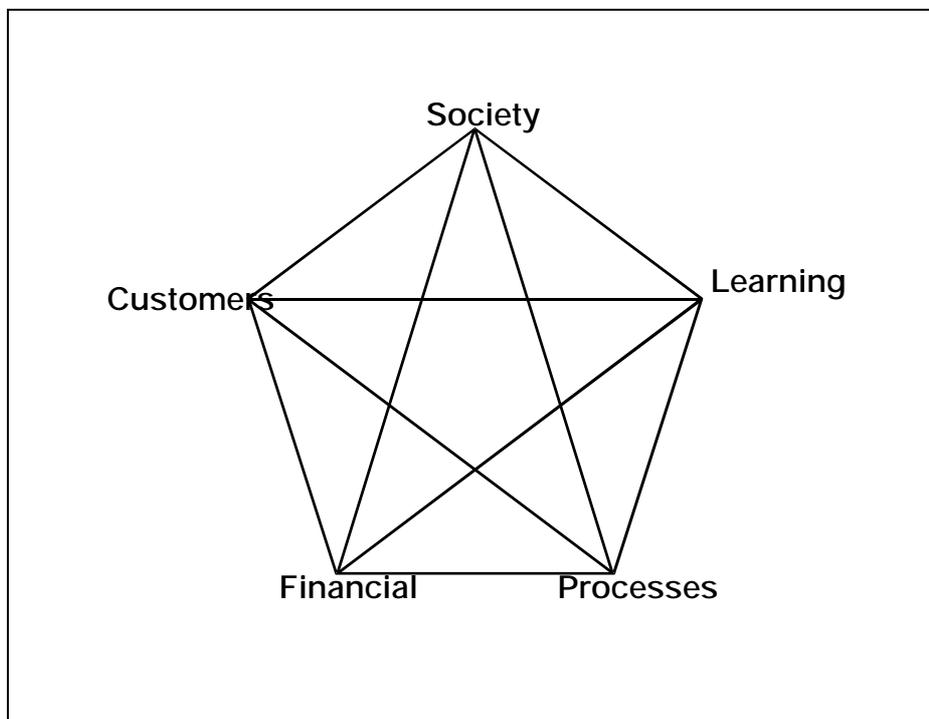


Figure 9: The architecture of the Integrity Scorecard

While the BSC is a well-known and widely-spread concept, there are still no consistent systems for an integrity management. The integration of ethical issues into the concept of the BSC may represent an

opportunity for the institutionalisation of corporate business ethics in the shape of corporate sustainability. Hence, the cyclic representation of the ISC reveals the equilibrium of the five elements. Neither is sustainability a result that one could afford because of mere strategically successful and profitable administration of business, nor is it an “enabler” for enhancing the corporate image or loyalty of employees and, in the end of the day, profits. It should rather be considered as an integrative element of the principles of doing business. The linkages between the elements reflect this idea and also emphasise the fact that every single component influences the other ones. Each of these five elements will be discussed in detail. The aspects within the perspectives are, of course, idealistic and not representative for any possible corporation. However, by doing so, we hope to exemplify how ethical matters can be transmitted to the operative level of companies.

The *financial perspective* ensures, that on the basis of the above-mentioned first stage of corporate responsibility (business ethics) according to Ulrich, an adequate, i.e. justifiable profit is achieved. However, in this respect, one must point out the fact that economic concerns of the shareholders (e.g. market position, turnover, cost targets) are definitely not prior to the interests of further groups of stakeholders of the company. The requirements of the stakeholders are to be considered extensively and in cases, where this may not be possible, adequate compromises should be granted (Goals are indicated by “•”; leading indicators by „ √ ” and lagging indicators by „ √ ”).

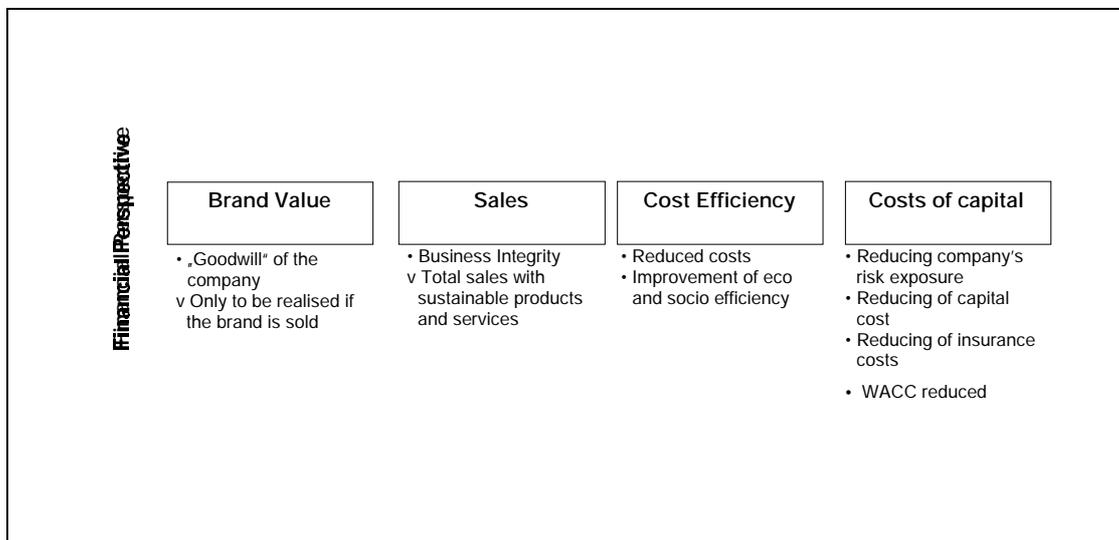


Figure 10: Example for the financial perspective within the ISC (cf. Bieker/Dyllick/Gminder/Hockerts, 2001, p. 41)

A company that is economically successful is in an especially good position to proceed to the above-mentioned 2<sup>nd</sup> stage of responsibility. The companies also have a political co-responsibility (e.g. political framework of market competition, ethically sound industry standards) which will be discussed within the society perspective. In this context, we would like to stress, once again, that economic goals as an increase of corporate value, the improvement of internal processes or decrease in capital costs are competing with and even conflicting with further legitimate (e.g. ecological or social) requirements of stakeholders.

Another question deals with issues of “eco” and/or “socio efficiency”: By means of the *learning and development* perspective, the employees could be provided with the consciousness and feeling for the relevance of ethical aspects. They should learn how to handle possible ethical dilemma situations by using adequate forms of behaviour. The expenditure for ethical trainings and internal forum discussions may serve as leading indicators. Internal forum discussions can provide the employees of the organisation with the opportunity to reflect critically social or ecological concerns (e.g. with reference to their own work as well as to the corporate mission as a whole). On the one hand, this puts emphasis on the fact that the management is willing to put ethical codes into practice. On the other hand, such a discursive infrastructure is a sufficient prerequisite in order to make ethics an integral part of day-to-day-business of the organisation. Finally, it is necessary within the framework of the development of the organisation to apply ethically consistent management systems (structures,

instruments as well as means and ways of communication), that may provide incentives for the purpose of the integration of ethical-oriented behaviour (e.g. introduction of an IMS or EMS). (Goals again are indicated by “•”; leading indicators by „ ” and lagging indicators by „ ”).

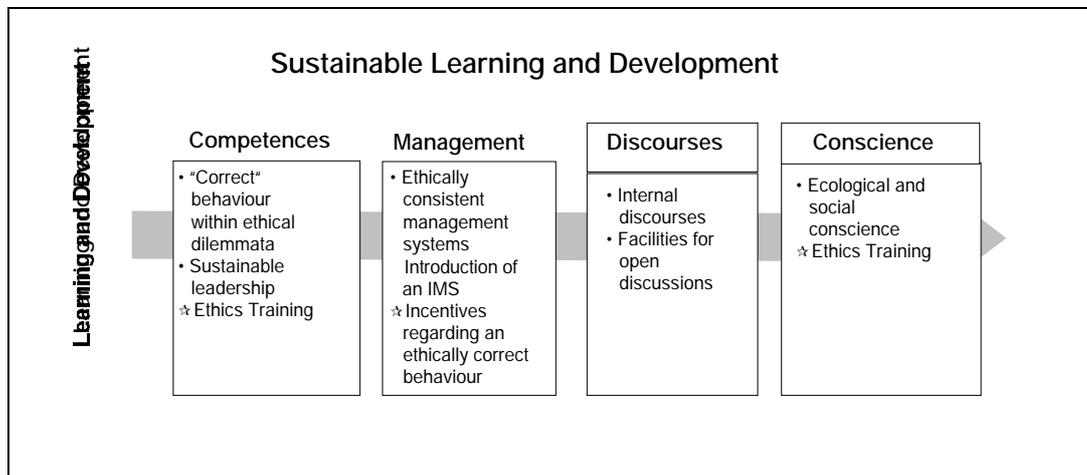


Figure 11: Example for the learning perspective

Within the internal *process perspective* of the ISC, ecological and social aims of the innovation, production and service processes can be visualised. The development of sustainable products and services, technologies or production processes may be examined within this perspective. However, it has to be emphasised that a mere improvement of efficiency (e.g. ecological and/or social efficiency) of the internal production process is not sufficient in the framework of sustainability demands: efficiency figures put ecological or social aspects in relation to economic value-added and primarily intend to improve competition or at least reduce costs. Hence, from an ethical point of view they appear rather reductive and strategy-oriented.

Extensive aspects that do not only aim at the relative improvement of efficiency are generally in a position to contribute to the reduction of environmental pollution and social problems on a global level. The company itself being politically co-responsible may contribute to the effective solution of social or ecological problems. Appropriate measures can be the development of alternative mobility concepts which solve problems in the fields of private transport in the automotive industry, consumer trainings that aim at the achievement of a sustainable consumption within the consumer branch or providing developing and emerging countries with urgently required products (e.g. food and medicine) at cost prices.

The innovation process within the framework of the SBSC has already been basically described (cf. Bieker/Dyllick/Gminder/Hockerts, 2001) and can be used for the identification of present and future customer demands (market research and segmentation) and for the development of corresponding products and/or services. With reference to the innovation process a SBSC should contain goals, indicators, targets and measures which implement the idea of product ecology and the “Design for the Environment” (cf. Tischner et al., 2000; Hellenbrandt/Rubik, 1994; Oosterhuis, 1998; BMU/UBA, 2001: pp. 269-280). Completed by social aspects, this term describes activities that refer to the development, production and distribution of sustainable products (see Charter/Tischner, 2001). But also ecological issues on the production level that aim at efficient and reliable delivery of existing products and services to existing customers can be analysed within this perspective. Completed by social aspects this term describes activities by which goods and services are to be produced in a sustainable way.

The above-mentioned second level of corporate co-responsibility according to Ulrich aims at the establishment of ethically justifiable standards within the system of the market economy. In this context, the process perspective can be extended by a company-external component. This becomes clear especially in the case of companies from the “dirty” chemical industry, that developed in the past to so-called “Life Science”-companies by selling off business fields with high emissions (e.g. DuPont). Effectively speaking, this corporate policy did not lead to an environmental relief. Activities for the improvement of the environmental or social impacts at other stages of the value chain (e.g. suppliers or distributors). Selected lagging indicators could be the life-time or maintenance of the products or the

ration of the products that could be recycled. Possible measures could be the certification according to ISO 14.001 or SA 8.000 as well as the training of suppliers or distributors. (Goals are indicated by "•"; leading indicators by „ “ and lagging indicators by „ “).

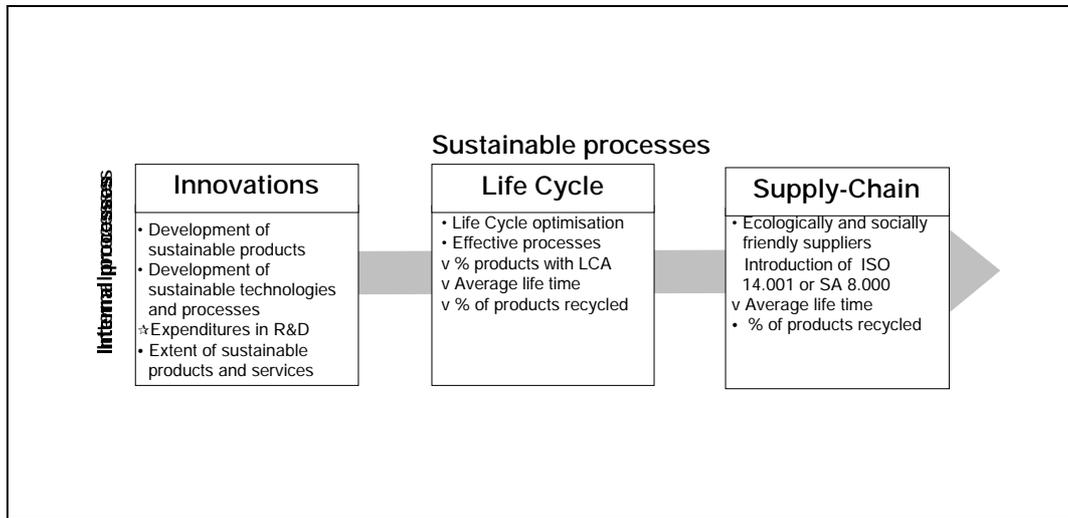


Figure 12: Example for the process perspective (adaptation of Bieker/Dylllick/Gminder/Hockerts, 2001, p. 33)

The *customer perspective* within an ISC could include objectives of the development of sustainable markets and communication policy. As far as the market development is concerned, potential groups of customers and users could be informed about the advantages of the socially and/or ecologically friendly products and services. Means of communication might be especially useful to propagate widely environmental and social issues for the sake of their own values. According to Pohl (2001, pp. 22) a renewal of the marketing ethos becomes necessary, which remembers its anthropocentric roots of the social market economy offering goods that rather meet the needs and requirements of the human beings and thus create public welfare at a higher degree. The human being as "homo sapiens consumens", should not be manipulated for the mere achievement of sales targets of the companies following a rather behaviourist approach.

Last but not least, the *society perspective* refers to goals of political co-responsibility, public self-binding and contributions of the companies to public welfare. Leading indicators could be expenditures or hours dedicated at the setting-up of an IMS, codes of conduct or dedicated at the collaboration in political bodies or associations. Possible lagging indicators could be represented by the extent of existing business principles, stakeholder rights observed or – economically speaking – by "opportunity costs" that may originate from refusing ethically problematic business practices. (Goals are indicated by "•"; leading indicators by „ “ and lagging indicators by „ “)

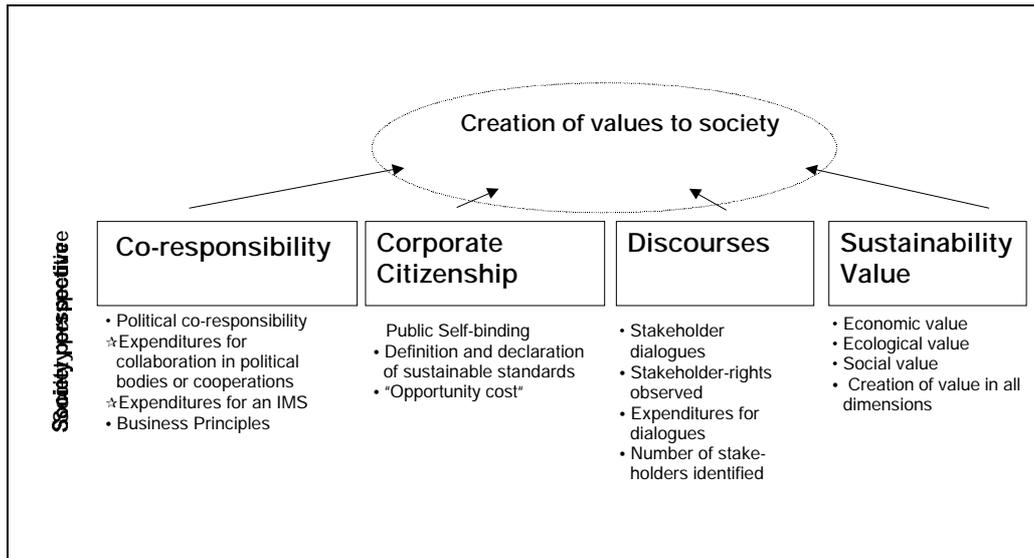


Figure 13: Example for the society perspective

## 4. Evaluation

The developed cyclic model of an Integrity Scorecard makes sure that stakeholder demands are considered substantially and integrated into the relevant perspectives of the classical BSC. Market-oriented demands may be allocated to the customer or financial perspectives whereas internal ones fit to the process or learning perspectives. Additionally, we suggest an explicit society perspective for the consideration of non-economic absolute stakeholder demands including employees (as persons and not mere production factors), residents and the society as a whole. How the integration of the stakeholder model and the traditional BSC to the ISC could be executed has to be investigated within future research. Companies that already make use of the BSC and also appreciate an enlargement of this instrument for ecological and social issues will be ideal partners for empirical cooperations and surveys.

An external certification of the ISC would be both desirable and possible. As has been pointed out in the discussion of the IMS-model, such a certification would have a remarkable effect in two different ways: On the one hand, an *external* effect could lie in the improvement of the organisation's reputation. On the other hand, there may occur a motivating effect on the staff at the *internal* company level (see Waxenberger, 2001, pp. 227). Of course, before proceeding to such a certification that has to be preceded by an external auditing process, there are several conditions that have to be met. Apart from minor i.e. rather technical aspects of the organisation (e.g. the hold over such a certification process, the accreditation of auditors), the definition of the object respectively contents that will be certified or audited are of major importance.

In brief, the link between the use of the ISC and the achieved effects has to be audited externally. It is not sufficient to implement such an instrument inside the company without being "live" inside the organisation and achieving the pre-defined goals in the end of the day. Moreover, it would be not enough, if in day-to-day business morally desirable goals are achieved without being able to trace such effects back to the ISC. Whereas the first prerequisite (verification of the existence of an ISC) appears too formalistic, a mere orientation towards the results is not favourable for philosophical reasons.<sup>7</sup> In consequence, a combination of both, i.e. the right use of the instrument and the results obtained have to be object to a certification and auditing process. Problems of quantifying or interpreting that might evolve are eventually slightly higher than within an auditing process of an EMS. Nevertheless, this fact must not represent a reason for not carrying out such efforts that may lead to a reasonable basis for a certification process.

<sup>7</sup> Criticism of the mere teleological ethics position that have reached the peak within the work of Kant reveals the importance of the „right“ attitude of the author of an action. The moment of good will as a first cornerstone of the model and hence the ISC reflects this deontological moment.

## 5. Concluding remarks

The instrument of the Balanced Scorecard is discussed as a possible appropriate conceptual framework for Corporate Social Responsibility and corporate sustainable development (e.g. see Bieker et al., 2001; Figge et al., 2001; Orssatto et al., 2001). Recent research at the Institute for Economy and the Environment at the University of St. Gallen (IWOe-HSG) has shown that the BSC is suitable to integrate qualitative, e.g. environmental and social, aspects into the core management system of companies (see Bieker, Dyllick, Gminder, Hockerts, 2001). But in corporate practice, the traditional BSC-concept seems rather functionalist and reductive and therefore not effective enough to contribute to corporate social responsibility respectively sustainable development. As empirical findings from this research show, the predominance of the financial perspective of the BSC might prevent companies from integrating sustainability-related issues in an equal way.

Taking into account these problems, we developed in this paper an Integrity Scorecard for the integration of stakeholder demands into the core management systems of companies. With such an instrument, the roll-out of ethical issues to the operative level of companies could be possible. From an integrative ethical approach that might ensure a pluralistic value-based management of stakeholder demands in the meaning of a „good corporate citizen“ we have introduced vital elements („enablers“) to the rather operative instrument of the BSC in order to overcome the deficiencies on the normative and strategic levels of companies. Moreover, we would suggest a rather cyclically-structured ISC-model to make sure that all perspectives consider stakeholder demands in a balanced way.

Nevertheless, we are aware of the fact, that the suggested operative goals, measures and indicators within the different perspectives need to be clarified and verified within further empirical research in order to develop results that are susceptible to generalisation.

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