



THE SIGMA GUIDELINES- TOOLKIT

SUSTAINABILITY SCORECARD



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1. Introduction to the Balanced Scorecard

The Balanced Scorecard was introduced by Kaplan and Norton in 1992 and is a management tool that supports the measurement of four perspectives of organisational performance: **financial, customer, internal business processes, learning and growth**. It creates a system of linked objectives, measures, targets and initiatives that collectively describe the strategy of an organisation and how that strategy can be achieved. The Balanced Scorecard has been widely used within organisations across different sectors at all levels of strategy and operation. The SIGMA Project has adapted the traditional approach of the Balanced Scorecard in order to assist with planning and decision-making around sustainable development and sustainability.

Balanced scorecards have two main functions:

- to measure performance from a range of perspectives (whilst using a limited number of key performance indicators); and
- to guide the development, communication and implementation of strategy.

“Frustrated by the inadequacies of traditional performance measurement systems, some managers have abandoned financial measures like return on equity and earnings per share...But managers do not want to choose between financial and operational measures. Executives want a balanced presentation of measures that allow them to view the company from several perspectives simultaneously.”

[The Balanced Scorecard – Measures that Drive Performance, Kaplan and Norton, 1992, HBS]

The balanced scorecard therefore offers a concrete way to recognise the mix of elements that make up organisational performance. For many, this is the scorecard's main attraction.

However, balanced scorecards typically do not provide an overall 'score' for an organisation's performance, and in practice often do not explore the relationship between the different elements of performance - for example, how improved business processes affect financial returns.¹ The inability to provide an overall bottom line 'score' or at least to understand how decisions can be made where these involve potentially different impacts on different parts of the scorecard is a common frustration with the balanced scorecard.

The scorecard has been adapted by a number of businesses to address this problem. The companies have:

- prioritised the financial perspective of performance (within the context of their vision / mission) - there is one bottom line;
- created a strong 'driver' model to provide a clear link between financial performance and the other non-financial aspects of performance - although there is a single bottom line, a relationship is drawn between all the elements of performance that enables decisions to be made with an understanding of their impact on each other.

“Many companies adopted early balanced-scorecard concepts to improve their performance measurement systems. They achieved tangible but narrow results...More recently, we have seen companies expand their use of the balanced scorecard, employing it as the foundation of an integrated and iterative strategic management system.”

[Balanced Scorecard as a Strategic Management System, Kaplan and Norton, 1996]

This adapted scorecard model provides the basis for a strategic scorecard that can itself be moulded to address the issues of sustainability management.

A sustainability scorecard provides a way to support the implementation of the SIGMA Management Framework. It is not the only way of managing the implementation, but it does offer a series of benefits. It can provide:

- a coherent driver model that links key business activities (and measures of performance) to the overarching values and vision of the organisation;
- a simple generic framework that is applicable across sectors and organisation types;
- it is closely related to an existing management tool that is well understood by many within the business community

¹ Research carried out in 1997 (www.inphase.com/bbs.htm), claimed that “the Balanced Scorecard’s prescriptive approach to performance measurement requires performance measures defined in each of the three non-financial perspectives to be linked to each other through a cause-and-effect chain and to the financial measures, ensuring that the organisation’s ultimate goal: that of continuing to be successfully in existence, remains paramount.

2. The SIGMA Sustainability Scorecard

The SIGMA Sustainability Scorecard draws from the adapted balanced scorecard by using a driver model that links the different aspects of organisational performance. It therefore strengthens an organisation's understanding of its own operations and supports organisational decision-making. The SIGMA Sustainability Scorecard does however, make two key revisions to the adapted model. It adopts

- ∑ a sustainability perspective rather than a financial perspective; and
- ∑ a stakeholder perspective rather than a customer perspective to.

By using a driver model, the sustainability scorecard recognises the need to structure (and prioritise) the elements of performance within the scorecard. However, it rejects a single bottom line of financial performance, and in its place proposes a perspective of sustainable performance including social, environmental and economic aspects. These elements of performance are themselves supported ('driven') by stakeholders' perspectives on performance as well as by internal processes and the organisation's knowledge and skills.

The SIGMA Sustainability Scorecard measures four perspectives on management performance. These are the:

Sustainability perspective

This perspective is characterised by the question:

'How do we understand success for this organisation in terms of sustainable development and the goal of sustainability? What measures of social, economic and environmental performance are relevant - in line with the organisation's values, vision and mission?'

Relevant issues could include: ecological sustainability, human rights and economic performance.

This perspective will be influenced by the organisation's interpretation of its contribution to sustainable development. An organisation can use the SIGMA Guiding Principles to define the parameters and goals for its own contribution.

External stakeholder perspective

This perspective is characterised by the question:

'How must the organisation engage with, and be accountable to, its stakeholders in order to achieve its contribution to sustainable development?'

Relevant issues could include: accountability and stakeholder satisfaction.

This perspective may cover some of the same issues as the sustainability perspective, for example where stakeholders see success in terms of a particular level of social performance. But it is differentiated in terms of separating the organisational perspective of success from other stakeholder perspectives of success.

Internal perspective

This perspective is characterised by the question:

'How must the organisation's management activities and processes operate in order to satisfy its stakeholders and achieve its contribution to sustainable development?'

Relevant issues could include: eco-efficiency, productivity and cost.

Knowledge and skills perspective

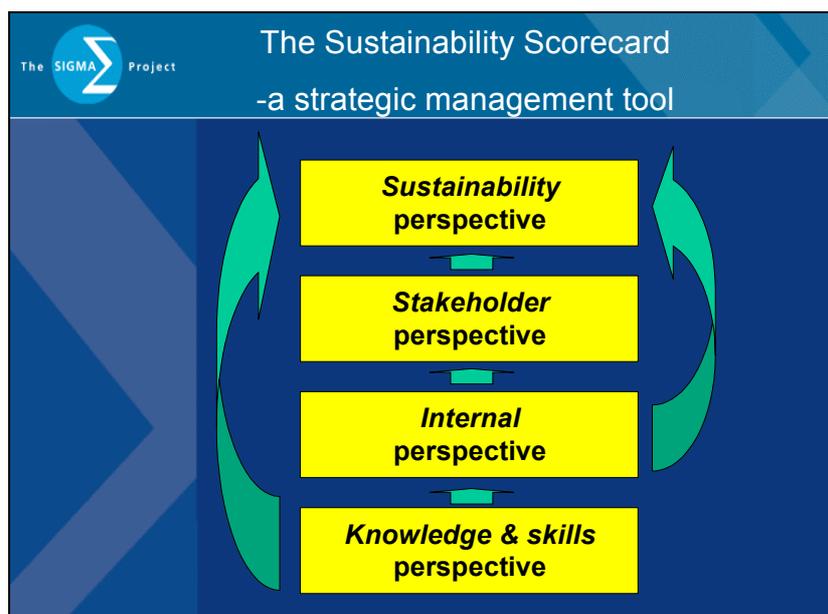
This perspective is characterised by the question:

'How must the organisation learn, innovate and improve in order to excel at its management activities and processes and achieve its contribution to sustainable development?'

Relevant issues could include: innovation, continuous learning, intellectual and human capital.

These elements are of course inter-related. Knowledge and skills can help improve internal processes. Improved internal processes can improve customer service and increase satisfaction for a wide range of stakeholders, and can directly improve the financial bottom-line. Stakeholder satisfaction can improve financial performance but will also relate strongly to the organisation's social and environmental impacts. And an improved financial bottom-line can affect the ability of the organisation to increase its impact on society beyond the direct impacts of its products and services, employment practices and other activities.

Figure 1 – The SIGMA Sustainability Scorecard - A strategic management tool



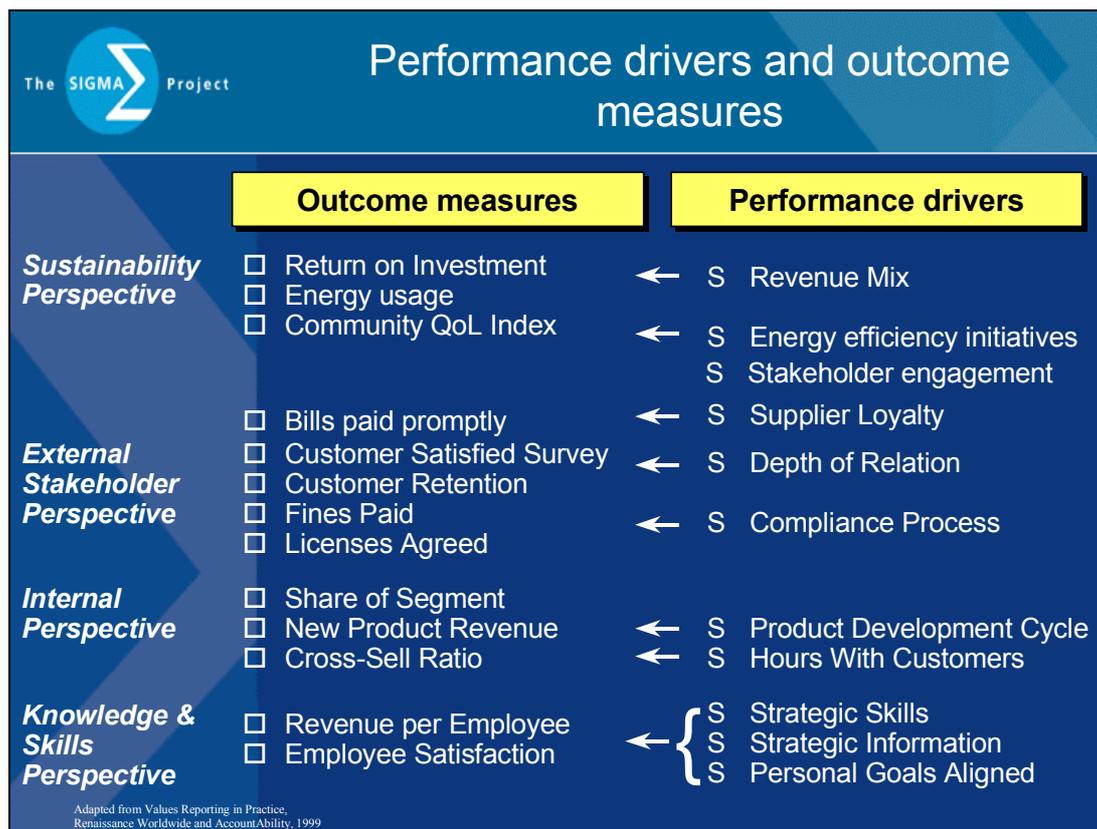
The SIGMA Sustainability Scorecard plays on these relationships by helping an organisation to build a driver model that describes what sustainable success would look like for the organisation. In doing so, it links the social, environmental and economic perspectives within one framework and helps the organisation understand its prioritisation and decision-making processes relating to these different aspects of sustainability.

As with the traditional balanced scorecard, the SIGMA Sustainability Scorecard ideally operates at a corporate level, but can also work within a function or business unit.

Each sustainability scorecard is unique to the organisation concerned (and will itself develop over time), but will contain a number of common components:

- Σ key **issues** identified for each of the four perspectives
- Σ **outcome indicators** for each of the key issues (see figure 2 for illustrative indicators)
- Σ **performance driver indicators** for each of the key issues (see figure 2 for illustrative indicators)
- Σ **targets** for each of the indicators
- Σ **operational initiatives** to achieve targeted improvement

Figure 2 – Performance drivers and outcome measures – an illustration



3. Using the SIGMA Sustainability Scorecard

To develop a sustainability scorecard is to create a driver model that links key areas of organisational performance with an organisation's vision (which can be developed using the SIGMA Principles), and that identifies critical performance indicators and targets. The organisation can use a mixture of document review, interviews and workshops to achieve this.

The scorecard can be constructed using a four-step model:

- 1 Identify and agree organisational values and vision/mission (see box - step 1)
- 2 Identify and agree key areas of performance at which the business must succeed in order to achieve its vision/mission in line with its values (see box - step 2)
- 3 Build and agree driver model that explains linkages between key areas of performance and the vision/mission (see box – steps 3 4)
- 4 Identify and agree indicators to measure success, identify current performance against indicators and develop targets (see box – step 4)

This process is illustrated on the following pages. In following this process, individual organisations will begin from different levels of engagement with the concepts of sustainable development and sustainability. Some will already be using principles similar to those contained within the SIGMA Guiding Principles in Section 4 of the SIGMA Guidelines. Some will also already be using the indicators contained within the Global Reporting Initiative, extracts of which are contained in the SIGMA Toolkit. Still others may be using the AA1000 stakeholder engagement tool, which is summarised in the SIGMA Toolkit. Some organisations will have undertaken a process to identify and refine the values that underpin the activities and management of the organisation. However a range of organisations may be starting from a relatively clean slate. In either case the 4 stage process should be completed.

The SIGMA Sustainability Scorecard allows an organisation to see where they are in terms of vision, values, strategy and performance. It may indicate that there is information and knowledge lacking at various levels of the organisation across the four elements of the SIGMA Sustainability Scorecard.

The organisation may then wish to revisit the organisational vision, values and strategy using the [SIGMA Guiding Principles](#), [the SIGMA Business Case](#) and the [GRI](#) to expand and refine vision and strategy. For instance, an organisation may find that although it has an environmental management system with a continuous improvement loop it is lacking a clear, long term goal with respect to the environmental bottom line, in line with the principles of The Natural Step. The organisation may wish to use the SIGMA Guiding Principles to build a vision of the organisation enhancing accountability and building capital across the triple bottom line.

Step 1: Identify and agree organisational values and vision/mission

- vision/mission.
- vision, but also include functional / departmental values
- 'options' where there appear to be alternative versions.
- level, through a structured interview process (see step 2 for an illustrative interview template)
- of performance. Following a process of stakeholder engagement and further development/refinement of the organisation's values, vision, mission and strategy the scorecard will become more robust over time and will become a 'live' decision-making tool.

This links to [LV2](#) of the SIGMA Management Framework

Step 2: Identify and agree key areas of performance

- Use a structured interview process with key members of each organisational function (see below for an illustrative interview template).
- If appropriate, distribute copies of the SIGMA Guiding Principles or the Business case (developed using the SIGMA Business Case tool) prior to interviews to clarify the concepts of sustainability and sustainable development.

This links to [P1](#) of the SIGMA Management Framework. You may also find it helpful to use the SIGMA Performance Review tool.

Step 2 An illustrative interview template:

A Values and Mission

1 How would you describe the organisation's values and mission?

B Sustainability perspective

1 If the organisation is successful, how would it contribute towards sustainability - what are its sustainability objectives?

- Social
- Economic
- Environmental

2 What indicators would you use to measure success?

- Social
- Economic
- Environmental
- Integrated (systemic and cross-cutting)

C Stakeholder perspective

1 If the organisation is successful, how will it be perceived by each stakeholder group in 2 years time?

- Employees
- Customers / Members
- Suppliers
- Communities
- Shareholders
- Government and civil society
- etc.

2 If the organisation is successful, how will it be perceived by each stakeholder group in 10 years time? Is there any difference to the 2-year view?

3 Which are the key elements of the stakeholder perceptions that will help the organisation achieve its sustainability objectives?

4 What indicators would you use to measure success?

D Internal perspective

1 Which internal processes and management activities are central to driving increased stakeholder satisfaction and to achieving the sustainability objectives of the organisation?

2 What indicators would you use to measure success?

E Knowledge and skills perspective

1 Which areas of knowledge and skill will be essential to achieve excellence in internal processes and management activities and to achieve the sustainability objectives of the organisation?

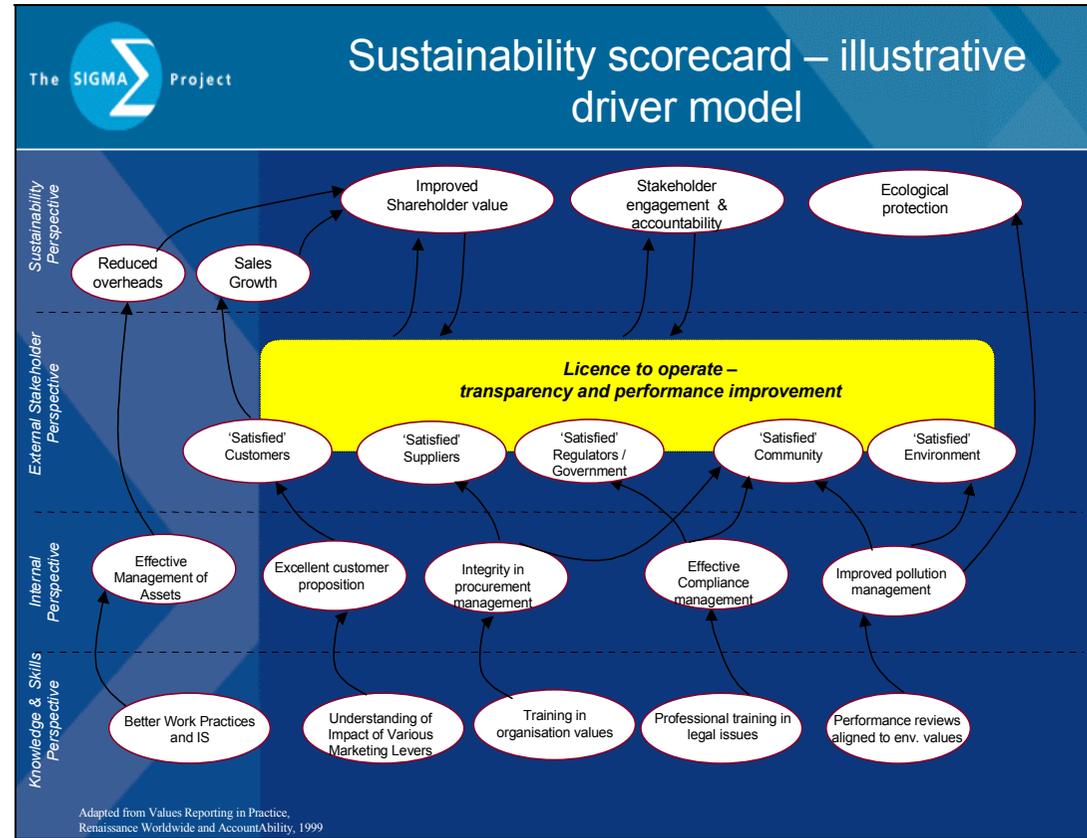
2 What indicators would you use to measure success?

Step 3 Build and agree driver model

- Collate desk research and interview material.
- If responses are highly consistent, draw up draft driver model and indicators (see figure 3 for an illustrative driver model). If responses are not consistent, identify critical areas of disagreement and possible alternative solutions
- Develop driver model and identify key indicators through one or more senior-level workshops that include the interviewees
- Build consensus around key areas of disagreement highlighted by the interviews and desk material
- Prioritise key drivers - what are the critical pathways to success (for which targets, and ways of achieving these will be essential)

This links to [P3](#) and [P4](#) of the SIGMA Management Framework

Figure 3 – Illustrative driver model



Step 4 Identify current performance, develop targets and initiatives

- Collect information (where available) on historic performance on key performance indicators
- Develop targets for future performance on each indicator. Targets may be revised in the implementation of the scorecard (Stage 2 - ongoing) as the
 - resource and operational implications of achieving targets become evident;
 - priorities of stakeholders change over time;
 - external environment changes;
 - values, vision, mission and strategy of the organisation change over time.
- Identify processes to collect data where it is unavailable
- Gain formal agreement and commitment to the driver model, the performance indicators and the targets.
- Develop initiatives to address the strategic objectives (see figures 4 and 5 for illustrative strategy, indicators, targets and initiatives).

This links to [P5](#) of the SIGMA Management Framework.

Figure 4 – strategy, indicators, targets and initiatives

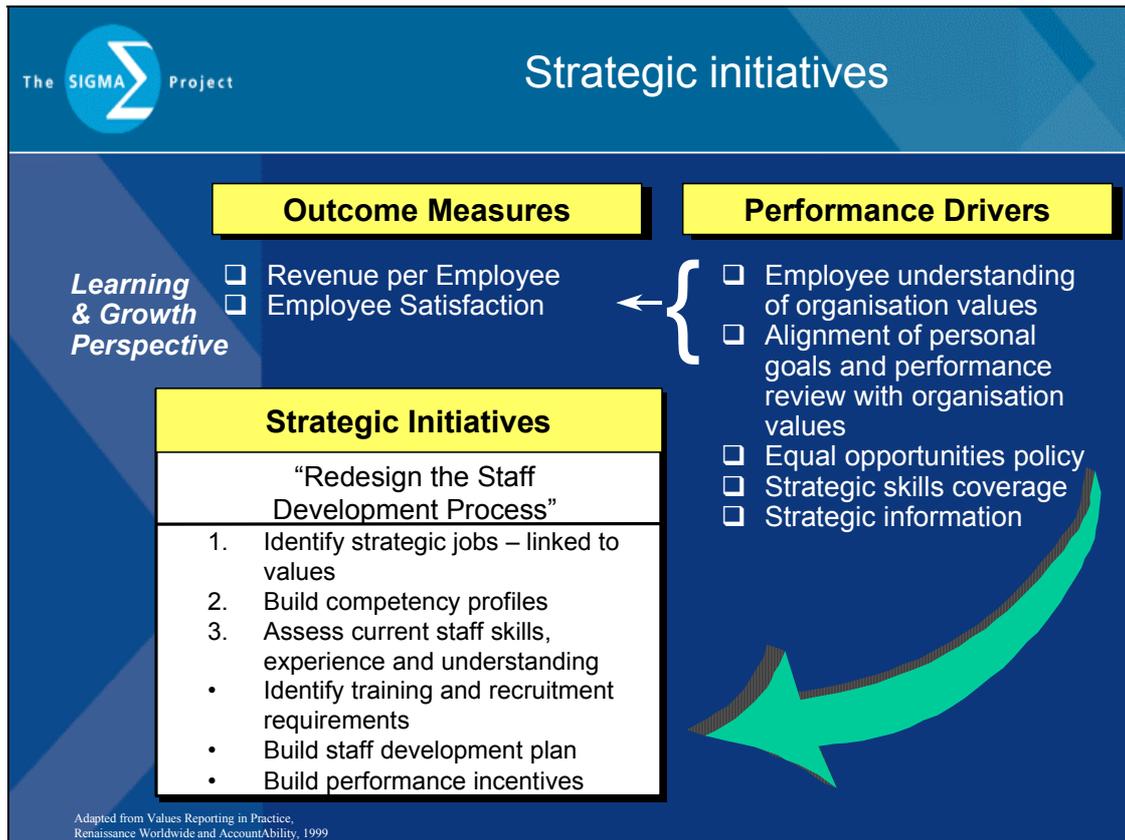
	Strategic Objectives	Driver Measures	Outcome Measures	Targets			Initiatives
				1995	1997	2000	
Sustainability	<ul style="list-style-type: none"> • Profitable growth • Ecological protection • Stakeholder accountability 	<ul style="list-style-type: none"> □ Sales per store □ Energy efficiency programmes 	<ul style="list-style-type: none"> □ Operating income growth □ Energy usage 	10%	14%	17%	
Stakeholder	• Customer 'satisfaction'	□ Customer loyalty	<ul style="list-style-type: none"> □ Avg. annual purchases growth □ Brand equity index 	68	75	85	<ul style="list-style-type: none"> • Improved communication with our customers via inserts, postcards, etc. • Redesign customer comment cards
	• Supplier 'satisfaction'	□ Supplier loyalty	□ % bills paid promptly	TBD	TBD	TBD	
	• Environment 'satisfaction'	□ Consensus on prioritised issues	□ Total water usage	TBD	TBD	TBD	
	• Government / regulators	□ Social accounting process & report	<ul style="list-style-type: none"> □ Fines paid □ % License applications agreed 	TBD	TBD	TBD	
	• Community 'satisfaction'		□ % women in senior mgt positions	TBD	TBD	TBD	
Internal	• Fashion Excellence		<ul style="list-style-type: none"> □ MMU (vs. benchmark) by category/sub brand □ Key items first to market 	3	5	10	<ul style="list-style-type: none"> • Freelance, designer relationships • Rapid manufacturing expertise in US • Develop 5 year sourcing plan with specific focus on bottoms • Develop reporting to determine out of stock % • Never out program for denim and casual bottoms • Constant review of inventory levels for targeted key items
	• Sourcing & Distribution	□ # potential suppliers identified	<ul style="list-style-type: none"> □ Quality related "out of stock" □ Key item in stock 	1.4%	1.0%	0.5%	
			□ # targeted suppliers included in five-year plan	90%	94%	97%	
				TBD	TBD	TBD	
	• Shopping Experience	□ Customer feedback	□ Average \$ sale	TBD	TBD	TBD	<ul style="list-style-type: none"> • Redesign comment process • Continuous sampling
Knowledge & Skills	• Strategic Awareness		□ Strategic Awareness Index by level	30%	60%	80%	• Associate survey
	• Goal Alignment	□ Personal Goal alignment		5%	70%	100%	• Compensation review
	• Staff Competencies		□ Internal promotion rate (vs.plan)	35%	50%	85%	
	• Information Technology	□ Strategic information availability	□ Strategic Skills coverage index	TBD	TBD	TBD	• RSI methodology implemented
		□ Knowledge network usage				<ul style="list-style-type: none"> • Allocation system • HR database 	

Adapted from Values Reporting in Practice, Renaissance Worldwide and AccountAbility 1999

Once the organisational sustainability scorecard has been developed, it can be used to measure performance and to guide ongoing activity.

The organisation must communicate the scorecard across the organisation and identify an action plan that will deliver against the identified targets. The organisation should also be ready to develop its scorecard driver model as it engages with stakeholders and identifies new and critical elements of performance. It will also review its targets periodically.

Figure 5 – strategic initiatives



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About the SIGMA Project

The SIGMA Project - *Sustainability Integrated Guidelines for Management* was launched in 1999 with the support of the UK Department of Trade and Industry (DTI) and is led by:

- British Standards Institution - the leading standards organisation
- Forum for the Future - a leading sustainability charity and think-tank
- AccountAbility - the international professional body for accountability.

The SIGMA project has developed the SIGMA Guidelines and a series of tools to provide clear, practical advice to organisations to enable them to make a meaningful contribution to sustainable development.

The SIGMA Guidelines consist of:

- a set of **Guiding Principles** that help organisations to understand sustainability and their contribution to it.
- a **Management Framework** that integrates sustainability issues into core processes and mainstream decision-making. It is structured into phases and sub-phases.

The SIGMA **Toolkit**, consists of targeted tools and approaches to help with specific management challenges, and case studies explaining how organisations have used the SIGMA Guidelines and Toolkit to tackle real issues.

More information including the full SIGMA Guidelines and the accompanying SIGMA Toolkit are available at: www.projectsigma.com.

