

## HR BALANCED SCORECARD AND BUSINESS ETHICS

### HR BALANCE SCORECARD I POSLOVNA ETIKA

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#### **Abstract**

*The aim of the paper is the significance of business ethics in measuring HR performance. Ethical way of using balanced scorecard and the indicators that can be added contribute to ethical treatment of employees, better rating of the company, its corporate social responsibility and the overall welfare of the community as a whole in which the company operates. The emphasis of business ethics on balanced scorecard can give magnificent results and the ethical approach to this business model is presented in the paper.*

**Keywords:** HR scorecard, HR performance, Business Ethics, Ethical values

#### **Sažetak**

*Cilj ovoga rada je da istakne poslovnu etiku kod mjerenja HB performanse. Etički način upotrebe balance scorecarda i indikatora koji se mogu dodati, doprinosi etičkom tretmanu zaposlenih i boljem reitingu kompanije, njenoj društvenoj odgovornosti i ukupnoj dobrobiti zajednice kao cjeline u kojoj kompanije obavlja svoje poslovanje. Naglašavanje poslovne etike kod balance scorecarda može dati izoanredan rezultata a etički pilaz takvom poslovnom modelu se prikazuje u ovom radu.*

## 1. INTRODUCTION

The basic goal of this paper is to investigate the specific relations between HR performance measurement as represented by the BSC and the rising interest in achieving high performance in business ethics in companies today (Thompson&Mathys, 2008; Bogičević, 2015; Zaptcioglu et al, 2015).

The main hypothesis is that, starting from the axiom 'If you can't measure it, you can't manage it', it is of paramount importance to further develop the performance measurement of companies while simultaneously scrutinizing all the relevant business ethics features of these efforts. Research in the field of business ethics shows

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that there still lacks a consistent and coherent performance measurement system in this area. It is shown and argued that the considerations of the balanced scorecard (BSC) are strongly related to business ethics aspects and issues at the company level and it is relevant to analyze different aspects of the relationship (Zaptcioglu et al, 2015). It is emphasized that the framework of BSC shows some distinct advantages of an 'all-embracing performance management system' (Platts, et al, 2010; Bogičević, 2015; Thompson&Mathys, 2008) which provides a platform for introducing the business ethics related to HR and business performance goals as «this approach cascades measures throughout an organization to translate high level objectives into lower level activities» (Platts, et al, 2010, pp. 349). The aspects of business ethics HR and BSC, focused at HR performance measurement, are investigated focusing on the following issues: 1. business ethics aspects involved in the indicators within the BSC model, 2. the character of the BSC indicators and their alignment with business ethics principles and rules in the organization, 3. the analysis of the effects, from a business ethics point of view, of implementing BSC as performance measurement system within the management control system of a company, and 4. the relations between performance management considerations of BE (business ethics), CSR (corporate social responsibility) and SBD (sustainable business development). The focus of this paper is on HR performance measurement and management systems (Langevin&Mendoza, 2013; Werbel&Balkin, 2010).

It is postulated that the new approaches of CSR (Avram et al, 2014), strong commitment towards achieving sustainable business goals and performance (Rahdari et al, 2015; Speziale et al, 2014; Nappi & Rozenfeld, 2015) have strongly contributed to the the rise of all aspects of business ethics (BE) as an academic discipline and an area of business and management practice emphasizing the relevance of the social, environmental and economic dimensions of sustainable business development.

## 2. HR BALANCED SCORECARD IN THE HRM DOMAINS

Balanced scorecard (BSC) is a powerful tool to measure and calculate human resource (HR) needs, to predict their performance and to merit them. The need to quantify, measure and introduce more precision with support to HRM has been evolving in the past decades and it is pointed out that “since 1980s HR information system (HRIS) and HR metrics came into the HR landscape and have since occupied an important position in the toolbox, be it in leading HR, strategy implementation, organization design, organization development, performance and reward, employee engagement, employee relations, service delivery, or any other area of HR management (HRM), i.e. employee health, churn risk or burn-out disposition etc.” (Bogičević, 2015, p. 40)

It is noted that the BSC is a widespread measurement system adapted to the needs of performance management. This is mainly due to its most relevant feature

of a system flexible and open to different business and management performance areas at different levels of the organization.

Most often it is reported that the BSC approach has been associated with multiple resources in Europe and to David Norton and Robert Kaplan in the United States (Kaplan&Norton, 1992; Kaplan&Norton, 1996; Kaplan&Norton, 2000) It has survived through this period and is experiencing wide use especially having in mind its potential of constant change and dynamic adaptation to the different business circumstances and conditions that was most relevant for its multiple forms and use in multiple organizations. The strengths of the BSC model is found also in its relevance to strategic and operational management level and it is often referred to as a BSC approach. This points out its relevance and that it widely surpasses its role as a basic tool and technique in performance measurement. In this way it still opens discussions, provokes interest of academicians and practitioners and is still developing in many different ways and aspects. Kenneth Thompson and Nicholas Mathys (Thompson&Matys, 2008), for example, develop the concept by introducing Aligned Balanced Scorecard as a new approach. It is most often perceived as a part of the management control systems, but is gaining the quality of a valuable management support system for improving the strategic and operational performance of the business leading to its continuous development. It is used worldwide "to translate strategic objectives into a set of actions and performance indicators. The BSC arranges the indicators in four perspectives: 1) financial; 2) customers; 3) internal processes; 4) innovation and learning." (Nappi et al., 2015, p. 8)

The financial perspective identifies performance objectives and measures that reflect the economic and financial equation and satisfying shareholders' interests. The customer perspective entails proposing value that will satisfy the needs of the customers on the market (and will be perceived as such by the customer). Internal business processes perspective is oriented at developing value architecture, the processes by which value is created, satisfying the needs of all stakeholders in the organization and in the environment. Innovation and learning is the perspective of developing capacities for constant innovation and change in the long term perspective of fulfilling complex goals.

All of these perspectives are associated to business ethics, but its emphasis is mostly recognized in the spheres of leading HR, performance and reward, employee relations, employee health.

The essential question is how is business ethics related to the balanced scorecard as performance measurement system as part of a broader performance management system. The basic relations to be considered are in the following: 1. the relations between the indicators and their capacity to measure, more or less directly, the degree of ethical behavior while measuring the essence, 2. the ethical aspect of the indicators, the degree to which the indicators abide to the laws and principles of business ethics, and 3. the ethical issues of the effects of the use of the performance measurement in management control systems, i.e. whether they may induce unethical behaviour.

In this paper we focus on the HR perspectives, and leading HR is an explicit, precise and at the same time delicate matter. Some of the performance indicators, quantitative and qualitative, have been developed, for example, for measuring the ways in which the employees are led, how big the power distance is, what kind of a leader is leading them, but also how this reflects to the HR department and are the employees treated in the appropriate manner according to the business ethics codes. Performance and reward systems should be based on ethical reasoning, ethical principles and ethical efforts and the system should be just, fair and non corrupted. The rewards should be given according to the results accomplished and years of loyal service to the company. New ideas should be stimulated and project initiators and generators ought to be rewarded. When regarding employee relations, they depend on HR specialists who should apply the basic ethical codes. They should make sure that employees are treated equally, in a respective manner, and with care about their health, so there shouldn't be burn-out disposition and other unwanted effects.

The research in HR scorecard application in organizations had shown advantages and B. Bogićević points out these advantages as " (1) growing evidence to support the link between business performance and HRM practices; (2) increased competitive pressure due to rapidly changing technology and increasingly global markets; (3) drive for cost- effectiveness; (4) pressure to increase earnings per share; (5) general trend towards benchmarking; (6) drive to bring HRM at the table as a business partner together with marketing, accounting and finance." (Bogićević, 2015, pp. 41)

### **3. INTRODUCING BUSINESS ETHICS (BE) PERSPECTIVE IN THE BSC**

Balanced Scorecard approach is focused on performance measurement, reflecting business strategy and ethics. Ethical reasons for developing and implementing balanced scorecard are that BSC is an instrument that can measure employees' positive traits and it can provide a key to lead, reward and motivate the employees on the scientific basis, with a logical measurement base. Since employees are influenced by the characteristics of their own organization, implementation of ethics in organisational infrastructure and strategic management is crucial. (Celikdemir et al., 2015, pp. 532)

Examples are numerous. Cost effectiveness can sometimes be unethical, especially when it comes to downsizing, reengineering and reorganizing the company. New technologies bring substantial changes to the organization with implications throughout its business operations. In HR sphere, the challenges and open dilemmas are multiple having in mind some of the radical changes that might be necessary in situations of reducing the number of employees, replacing current employees with new ones with adequate qualifications, training current staff for new jobs. Also, new technologies could be damaging to the environment, should be tested against all potential threats during their complete life cycle and in relation to all the

stakeholders involved in the process of their development, exploitation, use of the products in their complete lifecycle until the end of life considerations. This requires strategic changes in developing learning, responsible ethical organizations.

The deep changes happening in the organization are shown by the examples presented by some authors which may include the following: "change in employee mindset, customer complaints, diversity of race and gender by job category, employee job involvement survey scores, extent to which information is communicated effectively to employees, extent of organizational learning, extent of cross functional teamwork, employee satisfaction, the ration of HR employment in total employment, perception of consistent and equitable treatment of all employees, percentage of employees making suggestions, extent to which the average employee may describe the strategic intent of a company, etc." (Bogićević, 2015, p. 42)

Performance measurement is viewed in an ethical perspective by emphasizing that "Any measurement system should provide a framework of indication that helps management in executing its responsibilities" (Bogićević, 2015, p. 43) Balanced scorecard has many indicators that can include measurement of ethics in organizations and that is the dimension which usually lacks or has not been explicitly represented.

Those indicators that might be added are also representing the goodwill of an enterprise, through those economic indicators that emphasise the necessity of measuring the ethical value of the company. Economic indicators that measure the other values of an enterprise can contribute to the measurement of ethical value that is intangible and is measured through goodwill, reputation, cost of trademark and brand name, cost of licence, years of existence, percentage of corporate social responsibility, environmental responsibility and sustainability etc. "The continuous changes of economic society led to the necessity of expanding the definitions and approaches of CSR (corporate social responsibility." (Avram, et al., 2014, p. 1142) "There is a widespread confusion in practice as to which indicators to choose from the vast universe of sustainability indicators that not only transparently reflect performance but also represent the most widely used sustainability guidelines." (Hosseini et al., 2015, p. 757) It is difficult to measure and explain the significance of ethics in the overall business cycles and goals and ethical values are reflected through organizational culture and climate that exists in the enterprise. It is reflected in the contribution to the community and to society as a whole, because the ideas, mission, vision and goals that comprise the ethical goals of the organization are melted in the business world, ideas, commercials, slogans, brand name, quality and characteristics of the products (goods and services) and the whole organisational structure. They are reflected onto the employees for a start, then on the competition, and then onto all the other stakeholders, especially if an organization is going or doing global business.

Table 1: Aristotle's moral virtues

<i>Context</i>	<i>The vice of deficiency</i>	<i>Virtue (mean)</i>	<i>The vice of excess</i>
Danger or a significant personal challenge	Cowardice	courage	Rashness
Physical pleasures	Indifference (being unable to recognize the joy that physical pleasures can offer)	Self control (knowing when and where to enjoy oneself)	Greed
Wealth	Meanness	Liberality (discriminating generosity)	Profigacy
Money	Miserliness	Magnificence (knowing when to spend, how much and on what)	Spendthrift
View of self	Meekness	Magnanimity (being able to feel and display personal pride when it is deserved, but without vanity)	Vanity
Personal recognition	False modesty	Indifference (good deeds are done for their own sake and not for personal recognition)	Careerist
Minor irritants	Defeatism	Patience	Irascibility
Personal demeanour	Obsequious (fawning and grovelling)	Amiable	Quarrelsome
Sincerity in expression	Self-deprecating	Truthfulness	Boastfulness
Sociability	Boorishness	Wittiness	Buffoonery

(Source: Fisher et al, 2013, p. 133)

The money aspect of ethics is practically unexplainable, but, as we can see in the table above, many non-material appreciations can be given to reward the ethical behavior in the organisations such as diplomas, awards and other forms of money and other material rewards that can also be given for a special reason. Aristotle's moral virtues are the virtues that are non dimensional- timeless and spaceless and are intangible and that's the reason why their measurement is reflected by every measurement in balanced scorecard and some of the dimensions that are appraised in the balanced scorecard can have ethical issues involved as an effort to give them a material dimension. "Aristotle also considered modesty (used by Aristotle to mean "respect", or "sense of shame") as a possible virtue, but he dismissed it, other than as a virtue in the younger man. In the latter case, Aristotle saw it as a curb on youthful indiscretion, but he considered that the virtuous mature man should not require modesty for he should not commit acts of which he could be ashamed." (Fisher et al, 2013, p. 133)

In the next Table 2. some of the traditional indicators already developed and used in organizations are selected according to their association to BE, and also a list of new indicators is provided presenting the ones specifically developed for measuring performance according to the BE perspective.

The following Table 2. shows a list of indicators associated with BE, and represented by the traditional ones that need to be adapted and further adapted and a list of new proposed indicators associated to business ethics .

Table 2. Traditional and new PM indicators associated with BE.

<i>Performance Measurement Indicators involving business ethics perspective</i>	
1.Traditional indicators (selected from Bogičević, 2015, p. 44-46)	2. New BE indicators (adapted from Fisher et al., 2013)
Diversity hire ratio - The percentage of employees externally hired who self-identified as coming from a diversity group	Utility rate - measure of happiness or satisfaction received from an act -mostly goods and services- is known as utility... "The other economic approach to the problem of measuring utility is to use money as a proxy measure." (Fisher et al., 2013, p. 123)
Female hire ratio - The percentage of externally hired employees who are female.	Percentage of employees who keep their jobs - The number of employees who have kept their jobs/ Total number of employees.
Succession planning rate - The percentage of executive level positions for which there is a succession candidate.	Percentage of employees made redundant - The number of employees who have lost their jobs/ Total number of employees.
Average length of service - The average length of employee service based on headcount.	Percentage of families of those made redundant - The number of people who depended on the employees who have lost their jobs.
Average retirement age - The average retirement age of employees who have retired.	Extended Cost-benefit ratio - extended to the costs and benefits social, environmental and other dimensions.
Retirement rate - The total number of retirements as a percentage of headcount.	Extended Discount rate - In cost- benefit analysis it is necessary therefore to choose a rate at which future revenue/ income will be discounted. (Fisher et al., 2013, pp 119)
Training investment factor- Training cost per employee	Extended Net present value - The streams of benefits and costs in future years are discounted, using the chosen discount rate, so that all costs and benefits are presented in terms of their present value. (Fisher et al., 2013, pp. 118, 119)
Training staff ratio - The number of full time equivalent employee for each full-time equivalent employee working and training development.	

Career path ratio - The number of employees moving upward in the organization as a percentage of all employee movement.	
Promotion rate - The number of employees promoted as a percentage of headcount.	
Union percentage - The number of employees belonging to a union as a percentage of headcount	

#### 4. NEW MODEL OF BUSINESS SCORECARD INTEGRATING BE, CSR AND SUSTAINABILITY PERSPECTIVES

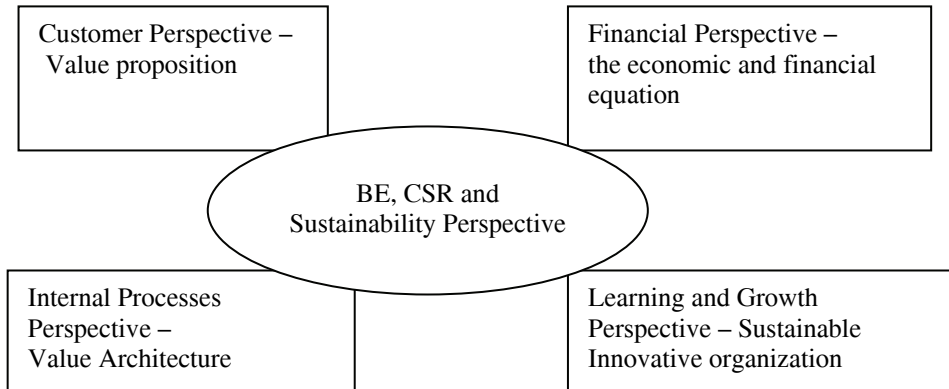
The complex nature of further developing the BSC concept in alignment with the BE, CSR, and sustainability perspectives shows different research paths and issues among which are:

- Development of measures to compare the sustainable performance of different companies based on social, economic and environmental goals;
- Developing BSC and CSR for small and medium enterprises (SMEs) and firms with a different ownership structure;
- Comparative case studies in diverse institutional contexts. (Speziale et al., 2014, p. 637)
- BE indicators in all the traditional perspectives of BSC.

All of these research paths are associated with business ethics, the communication of ethically desirable behavior, the employee treatment in ethical way, the employee involvement in strategic and ethical questions that are before the company, emphasis on ethics in teamwork, employers and employees both behaving ethically through organizational learning, experience in dealing with problems in ethical way, efforts that the employers make in upgrading business ethics throughout employee satisfaction. Employee mindset is difficult to change, but ethical behavior should be implemented and codes of ethics should be communicated so that the mindset of employees is set on the right and ethical coordinates including appropriate guidance of workers with more experience in dealing with problems in an ethical way. Figure 1. Presents a new conceptual model of the Balanced Scorecard.



Figure 1. New BSC model - Introducing new dimensions of BE, CSR, SBD in the BSC (adapted from Avram et al, 2014, pp.1145)



## 5. CONCLUSION

In this paper effort is made in further developing and contributing to the BSC by adding new dimensions and perspectives related to BE.

There are certain problems when applying the Balanced Scorecard. These problems are:

1. Lack of centrality of processes
2. Lack of understanding of the alignment between items within the scorecard
3. The need to measure the right stuff
4. The need to understand how organisation strategies influence Balanced Scorecard elements" (Thompson, 2008, p. 381)

The BSC is lacking the centrality of processes because it is realized at the operational level in the organizations and it lacks strategic consultancy and ethical moment. The items within the scorecard cannot be connected to each other, so the results are not unified and consistent because they change over time and are not connected within the balanced scorecard. The right stuff such as ethical approach to organisational behavior is necessary and requires to be added as essential right stuff that is begun to be measured. Strategic moment, such as corporate social responsibility and other ethical issues that influence strategy are important to extend and be added to the balanced scorecard. There are many ways to improve and magnify the balanced scorecard, so that a bigger importance is given on its results, and one of the ways to make it better for applying and understanding and for using its results is to add an ethical view to balanced scorecard. One of the solutions would be to introduce management control systems - MCS. According to Langevin (Langevin et al, 2013, p. 209), MCS fairness reduces unethical behaviours and MCS could increase managers' perception that they are treated fairly.

## 6. LITERATURE

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