Performance Management in Social Firms:
Definition, Motivations and Some Potential Tools

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Content

• Based on the literature on (Strategic) Performance Management and recent evolutions related to “relatively” new concepts such as Sustainability (Performance Management) (Schaltegger & Wagner, 2006) or Shared Value (Porter, 2011):

1. **What** is performance management?
   a. Definitions
   b. Performance management and social firms

2. **Why** to manage and measure performance in social firms?

3. **How** to manage and measure performance in social firms?
   A famous tool: The Balanced ScoreCard
1. **What** is performance management?
1a. Performance

- No-generally accepted definition in the literature: various definitions …
- Traditionally, performance was/is associated to financial results (EBIT, profitability, solvency, liquidity, etc.)
  → social firms feel less concerned about (financial) performance...
- BUT a broader definition is more and more used:
  Performance is about the “achievement of the organizational goals, whatever their nature and their variety” (Bourguignon, 1995, 2000)
  → social firms should also manage and measure their performance…
    “Do they reach their (social) goals?”
    “Why (not)?”
    “Which goals are not achieved?”
1a. Performance

- In addition,
- In parallel to the increasing popularity of concepts such as sustainable development or CSR due to:
  - Increasing awareness/interest for environmental and social worldwide challenges
  - Medias, IT
  - Financial and economic crisis
- Progressive evolution (Cramer, 2002; Reynaud, 2003):
  - From a traditional vision of business performance (Economic/financial vision in the short-term)
  - To more global vision, which includes environmental and social dimensions → GLOBAL or SUSTAINABILITY PERFORMANCE
1a. Global Performance

SUSTAINABLE/GLOBAL PERFORMANCE

ENVIRONMENTAL PERFORMANCE
- Less air pollution (CO2 emissions)
- Less water pollution
- Waste reduction
- Etc.

ECONOMIC PERFORMANCE
- Profitability
- Solvency
- Liquidity
- Self-financing (Cash flow)
- Etc.

SOCIAL PERFORMANCE
- Diversity (race, sex, religion, age)
- Staff well-being
- Local communities
- Etc.

(Reynaud, 2003)
1b. Performance Management

- **Definition:**
  Set of tools, systems and procedures in order to pilot, measure and evaluate the (social, environmental, social or sustainability) performance of an organization (Merchant and Van der Velde, 2007)

  → **TO PILOT** = to help to translate the strategy into clear objectives for each department, each worker in order to facilitate the achievement of these strategic objectives and feedback (via adequate tools)

  → **TO MEASURE/EVALUATE** = to check if the predetermined objectives have been reached and to draw the adequate conclusions (feedback) for the future: Why (not)? How to improve the performance? Etc.
1b. Performance Management

- As for the concept of performance, we note a progressive evolution:

- From **Traditional Economic Performance Management/Measurement**: Economic or financial (often quantitative) measures/indicators such as EBIT, profitability, solvency, liquidity or productivity

- To **CSR, Societal, or even Sustainability** (or Global), **Performance Management/Measurement**: Addition of environmental/social (qualitative) measures/indicators such as gas emissions, recycling or staff well-being

  ➔ Adaptation of existing tools or appearance of new ones…
FINANCIAL/ECONOMIC

ECONOMIC SOCIAL ENVIRONMENTAL

SUSTAINABILITY PERFORMANCE MANAGEMENT

Performance Management in Social Firms

Traditional Performance Management

FOCUS / ORIENTATION
2. **Why** do social firms need to manage and measure their performance?
Why?

• Some (famous) reasons:
  ➢ To check if the predetermined objectives have been achieved or not: Are we performing well? Is our work useful? Which (social) objectives have effectively been reached or not? Why?
  ➢ Clearer and more objective view/feedback of the firm and of its real contribution to the Society
  ➢ Ability to work harder on unachieved objectives (Why not? Which strategies could we implement to reach them?)
  ➢ Better internal decision making
  
  ➢ **Legitimate the activities/efforts** externally and internally
  ➢ The use of adequate performance management tools may lead to an **easier and quicker achievement of some objectives** (thanks to a better communication, a clear translation of the strategy to various departments, a more regular follow-up of the results, etc.)
3. **How** to manage and measure performance in social firms?
3. Performance Management Tools

- Lots of “traditional” tools: management accounting, budgets, scorecards, etc. (Merchant and Van der Stede, 2007)
- **BUT which tools are adequate for social firms?**
  - Open issue (?) in the literature and on the ground…
- **Nevertheless,** progressive adaptation of the traditional tools to sustainability performance management
- Of course, social firms ARE DIFFERENT from for-profit firms engaging in sustainability (mission, vision, organization, etc.) !
- **BUT,** as these tools generally include social (+ environmental and financial dimensions, also important in social firms), they could enrich the literature and practices regarding performance management in social firms (which indicators? How to pilot the performance? Etc.) AND INVERSELY…
Traditional Performance Management

Sustainability Performance Management

Performance Management in Social Firms

FOCUS / ORIENTATION

FINANCIAL/ECONOMIC

ECONOMIC
SOCIAL
ENVIRONMENTAL

SOCIAL
3. Performance Management Tools

• Pure Measurement Tools

Sets of indicators (not necessarily related to the strategy) to measure the social, environmental or financial performance

Examples of indicators: GRI, Triple Bottom Line Reporting

Remark: Difficult to find and construct social indicators (difficult to quantify, to materialize, to measure, to control objectively, etc.)

• Accounting Tools

- Green, social or sustainability accounting
- Green, social or sustainability budgets
- Green, social or sustainability management accounting

• Strategic Performance Management Tools

Complete tools which link strategy, actions and performance management

Most famous one = the Balanced ScoreCard!: appropriate and easy-to-understand
3a. The Balanced ScoreCard

Definition (Kaplan and Norton, 1992):

- **Multidimensional** strategic (performance) management tool that is used extensively in business and industry, government, and nonprofit organizations worldwide

- To align business activities to the **mission**, **vision** and **strategy** of the organization

- To improve internal and external communications

- To monitor organization performance against strategic goals – *Are the strategic goals reached?*
3a. The Balanced ScoreCard

• Translation of business strategy into clear objectives and clear related performance indicators

• Balance between
  LT – ST
  Internal – External
  Quantitative – Qualitative / Monetary – Non-monetary indicators
  Strategic – Operational information

• Combination of financial and non-financial indicators organized into 4 dimensions
  Learning and Development (LT)
  Finance (ST)
  Customers (External)
  Internal Processes (Internal)
3a. The Balanced ScoreCard

**Finance**
How should we act towards our shareholders in order to be financially successful?

**Customers**
How should we act towards our customers in order to realize our objectives?

**Internal Processes**
In which business processes we have to be the best in class to satisfy our shareholders and customers?

**Learning and Development**
How can we foster our potentials to change and growth in order to realize our visions?
3a. The Balanced ScoreCard

- Finance
- Customers
- Internal Processes
- Learning and Development
3a. The Balanced ScoreCard

- An appropriate tool for sustainability performance management and performance management in social firms (Kaplan et Norton, 2001; Bieker, 2002; Figge et al., 2002)
  - Strong link between **mission/strategy** and performance management
  - Open, adaptable tool (**Customization** of each BSC)
  - Underlying logic consistent with the logic of Sustainability and of Social Firms
    - Financial but also **non-financial (more qualitative) indicators**
    - Link between ST (financial performance) and LT (**Sustainable Development and Society**)

→ Some researchers dedicated their work to the study, analysis and development of Sustainability BSC
Proposition 1: Hockerts (2001), Kaplan and Norton (2001) propose to keep the four traditional axes because they consider that societal dimensions can be integrated within them.

**Sustainability Balanced ScoreCard**

<table>
<thead>
<tr>
<th>GOAL</th>
<th>Insertion of long-term unemployed people</th>
</tr>
</thead>
<tbody>
<tr>
<td>INDICATOR</td>
<td>To engaged <strong>XX</strong> long-term unemployed people each year</td>
</tr>
<tr>
<td>- Mean</td>
<td></td>
</tr>
<tr>
<td>- Output</td>
<td>To measure the percentage of them who find a « durable » job after...</td>
</tr>
</tbody>
</table>

**GOAL** | Improve security
**INDICATOR** | More regular control of the material
- **Mean**
- **Output** | Decrease in the number of accidents
3b. The Sustainability Balanced ScoreCard

- **Proposition 2**: Bieker (2002), Schaltegger and Wagner (2006) propose to add a fifth dimension, to give the same importance to all dimensions and to suppress the dominance of the financial dimension.
3c. BSC and social firms

- Useful tools to translate social mission and strategic goals into action/measures
- It includes non-financial and qualitative measures (! in social firms)
- Some interesting propositions have been made in the literature on sustainability performance management to adapt it to other imperatives such as environment or society

Remarks:
- Further adaptation are needed !! Example: important to modify the priorities of the axes (not to be oriented towards « finance »)
- Financial dimension should not be suppressed! Important to limit external dependance to financial means and to ensure the financial « viability » of social firms
Challenges and future research

• Challenges
  • Development of “meaningful” and “easy-to-use” social indicators !!
  • Lots of small organizations in the Social Economy \rightarrow Difficult to implement such a tool \rightarrow !! To simply and to develop more elementary tools based on the logic presented…

• Future research ideas
  • In-depth research on performance management tools for social firms \rightarrow Are the existing tools adequate (after adaptations – which other adaptation are needed?) or do we have to create new ones?
  • Intensive research on social indicators adapted to the “third” sector
Thank you for your attention
References

• Bieker, T. (2002), “Managing corporate sustainability with the Balanced Scorecard: Developing a Balanced Scorecard for Integrity Management”, *Oikos PhD Summer Academy*


• Bourguignon, A. (2000), Performance et Contrôle de Gestion in Encyclopédie de Comptabilité, Contrôle de Gestion et Audit (Economica), 931-941.


