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# Updating the Balanced Scorecard for Triple Bottom Line Strategies

Robert S. Kaplan<sup>1</sup> and David McMillan<sup>2</sup>

## Abstract

Many companies are now attempting to achieve triple bottom line performance on financial, environmental and societal metrics. Successful strategies for such performance, however, generally require new relationships among multiple players in multiple sectors across a company's supply chain for products and talent. The Balanced Scorecard (BSC), originally developed to describe and implement a single organization's strategy, needs to be adapted to reflect such multi-stakeholder strategies for triple bottom line performance. The Financial perspective is replaced by "Outcomes" to encompass financial, environmental, and societal metrics; Customer becomes "Stakeholders" to reflect the interests of the multiple participants in the ecosystem; and Learning & Growth becomes "Enablers" to include the new capabilities for collaboration and alignment. The paper motivates and illustrates the new framework with examples from innovative agribusiness ecosystems.

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## Updating the Balanced Scorecard for Triple Bottom Line Strategies

Society increasingly expects businesses to help solve problems of environmental degradation, inequality, and poverty. Several business leaders, such as Paul Polman and Larry Fink, have embraced this challenge to make business a better partner with government and civil society. The Business Roundtable, the leading gathering for FORTUNE 500 CEOs in the United States, stated, in August 2019, “Each of our stakeholders is essential. We commit to deliver value to all of them, for the future success of our companies, our communities and our country.” The World Economic Forum 2020 meeting in Davos featured the theme “Stakeholder Capitalism: A Manifesto for a Cohesive and Sustainable World.” Dozens of leading multinational companies have joined OECD’s Business for Inclusive Growth (B4IG) coalition to ensure economic growth creates economic opportunity and equality for all stakeholders.

The heightened attention for companies to serve all stakeholders, not just their shareholders, apparently rejects Milton Friedman’s advocacy of shareholder primacy. Friedman acknowledged the existence of societal problems but argued that these were best solved by governments, not businesses. He stated that “the business of business is business,” and that companies best advance society’s interests by developing, producing, and selling products and services that meet customers’ expectations, create jobs, and make money for shareholders. “The one and only social responsibility of business is to use its resources to increase its profits, so long as it stays within the rules of the game – engage in open and free competition without deception or fraud.” Essentially, Friedman concluded, solving societal problems is not a role that business performs well, and attempting to do so would make it less effective in creating income and wealth through its private profit-maximizing activities.

Friedman's advocacy for shareholder primacy, however, originated more than 60 years ago, at a time when the primary imperative for business was to rebuild and expand the productive capacity of a world devastated by World War II. From 1945 to the present time, businesses created employment, economic growth, and higher income and wealth for billions of people around the world. Despite this vast increase in economic growth and incomes, however, many people blame business for degrading the environment and creating societal dislocations from its globalization, outsourcing, and automation practices. Citizens are additionally frustrated when business does not use its resources and technological capabilities to solve the problems it helped to create. Many citizens and governments now want business to take a broader view of its role in society, and to shift from a shareholder to a stakeholder perspective.

The challenge is whether business can continue in its Friedmanesque role to generate economic growth, rising employment, and higher per capita incomes, while expanding its vision to meet the rising demands for environmental and societal solutions. Rather than have business tune down its powerful growth engine, can it operate the engine better to meet the demands for a cleaner environment and to improve the socio-economic conditions of those yet to benefit from capitalism's operating model?

Business actually benefits when companies increase the incomes and improve the capabilities of people currently living in poverty. Low-income, marginalized people cannot afford many of the goods and services offered by business. As the income of impoverished people increases, their increased purchasing power expands the demand for business products and services. Unskilled people also limit business growth due to shortages of employees with entry-level or higher skills. The lack of qualified local suppliers for goods and services leads to less efficient and longer supply chains.

Business also benefits when it acts to meet society's expectations before punitive and harmful actions are imposed upon it. As an entity chartered by the state, a company's ability to operate depends on an implicit social contract with its community. Companies have lost billions of dollars of investment for not adequately managing and delivering on society's expectations. Newmont's \$4.8B Conga project in Peru could never be made operational because of violent protests, water pollution concerns, and land rights disputes.<sup>1</sup> Companies have also risked operational continuity by prioritizing short-term growth over environmental stewardship. Concern about catastrophic environmental damage from over-tourism led government to shut down hotels and airlines servicing Boracay, Philippines and Koh Phi Phi, Thailand. These examples indicate that a comprehensive, long-term strategy should clearly address stakeholder outcomes in addition to desired shareholder and customer results. These examples help to explain why business leaders have recently embraced the expansion of their vision and purpose beyond short-term profit maximization.

Academic research and education support this view. A recent study looked at the market performance of public companies broken into two categories: "High-Purpose Companies" and their "Competitors". Over an 18-year period, the High-Purpose Companies outperformed their peers by roughly 50%.<sup>2</sup> The Harvard Business School course, "Reimagining Capitalism: Business and Big Problems," is among the most selected courses by MBA students.

The University of Chicago economics department, the intellectual West Point for capitalism, famously coined the phrase "ain't no free lunch." However, this mindset is flawed; there are many free lunch opportunities if businesses will only look for them, searching for situations where they can satisfy shareholders' expectations for profitable growth and also collaborate with stakeholders to create positive social and environmental outcomes. Companies do not have to reduce their focus

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<sup>1</sup> <https://www.reuters.com/article/peru-mining-newmont/peru-supreme-court-rules-against-newmont-in-dispute-over-gold-mine-idUSL1N1I51GN>

<sup>2</sup> Robert G. Eccles, Ioannis Ioannou, and George Serafeim. "The Impact of Corporate Sustainability on Organizational Processes and Performance." *Management Science*, 60 (11): 2835 – 2857, 2014.  
[http://www.hbs.edu/faculty/Publication%20Files/SSRN-id1964011\\_6791edac-7daa-4603-a220-4a0c6c7a3f7a.pdf](http://www.hbs.edu/faculty/Publication%20Files/SSRN-id1964011_6791edac-7daa-4603-a220-4a0c6c7a3f7a.pdf)

on growth and profitability to comply with the Business Roundtable’s purpose statement or the Davos Conference plea for “stakeholder capitalism.” They can identify and invest in “win-win” shared value and inclusive growth projects and strategies that benefit both shareholders and communities.<sup>3</sup> These strategies do require that companies modify their strategic planning processes and strategy execution tools. The strategy map, Balanced Scorecard (BSC), and formal strategy execution processes were developed decades ago for a company’s profit-maximizing strategy. With the current imperative for socially-conscious strategies, the original architecture of the Balanced Scorecard needs to be updated to make it a more relevant tool for (a) the corporation pursuing a strategy that balances shareholder and stakeholder outcomes, and (b) the coalition of organizations pursuing an inclusive growth strategy. The update to be described in the remainder of this paper is based on several case studies and projects for companies with strong sustainability visions and strategies.<sup>4</sup>

### **What is the “balance” in a “Balanced Scorecard”?**

The original BSC article argued for a scorecard of measurements balanced between financial and non-financial metrics (see figure 1).<sup>5</sup> The non-financial metrics were grouped into “perspectives” named Customers, Internal Processes, and Learning & Growth.

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<sup>3</sup> Porter Michael E and Mark R. Kramer, “Creating Shared Value,” *Harvard Business Review* 89, nos. 1-2 (January–February 2011): 62–77; Kaplan, Robert S., George Serafeim, and Eduardo Tugendhat. “Inclusive Growth: Profitable Strategies for Tackling Poverty and Inequality.” *Harvard Business Review* 96, no. 1 (January–February 2018): 127–133.

<sup>4</sup> Carl Ulrich Gminder and Thomas Bieker. “Managing Corporate Social Responsibility by using the “Sustainability-Balanced Scorecard”.” International Conference of the Greening of Industry Network. 2002.

<sup>5</sup> Kaplan, Robert S., and David Norton. “The Balanced Scorecard: Measures that Drive Performance.” *Harvard Business Review* 70, no. 1 (January–February 1992): 71–79. (Reprint #92105.)



Figure 1 - Classic Balanced Scorecard perspectives for commercial entities

Objectives and measures in the four perspective structure could be linked to describe the cause-and-effect relationships in a profitable strategy. For example, a company with a vision to achieve the highest market share in its industry needs to achieve certain financial outcomes including increased revenue and a scalable cost structure. Revenue growth requires that a business attract its target customers with a compelling value proposition. To deliver that value proposition at the right cost, it must excel at a variety of internal processes, including innovation. Finally, to perform those internal processes exceptionally well, a high-performance workforce must be recruited, retained, trained, motivated, and be supported by appropriate technologies and an aligned corporate culture.

The original article was followed by a more comprehensive book that explained the four perspectives in more detail, along with a new management system for strategy implementation based on the balanced set of metrics.<sup>6</sup> The book also explained that the “balance” in the scorecard was more than its original intent of having financial and non-financial metrics co-exist on a management scorecard. The balance extended to the use of metrics for external stakeholders (Financial and Customer) and internal capabilities (Process and Learning & Growth), and also to the balance between short-term financial results and longer-term sustainable value creation. The

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<sup>6</sup> Kaplan, Robert S., and David P. Norton. *The Balanced Scorecard: Translating Strategy into Action*. Boston: Harvard Business School Press, 1996.

desire for both short and long-term profitability provided the motivation including the objectives of customers, employees, suppliers, and communities in a business scorecard.

### **Balanced set of corporate outcomes**

An important extension occurred when companies expanded the original BSC template for triple bottom line strategies intended to simultaneously create economic, environmental and social value.

Amanco, a Latin American producer and installer of plastic pipes for water treatment solutions, had a founding shareholder who believed deeply in triple bottom line performance. His mission for Amanco was to “profitably produce and sell complete, innovative, world-class solutions for the transportation and control of fluids, operating in a framework of ethics, eco-efficiency and social responsibility.” He believed that economic, environmental, and societal performance were not in conflict; that the company’s customers wanted products that protected the environment and improved the communities where they lived.

The top of Amanco’s strategy map (see Figure 2) displayed its commitment to triple bottom line performance:

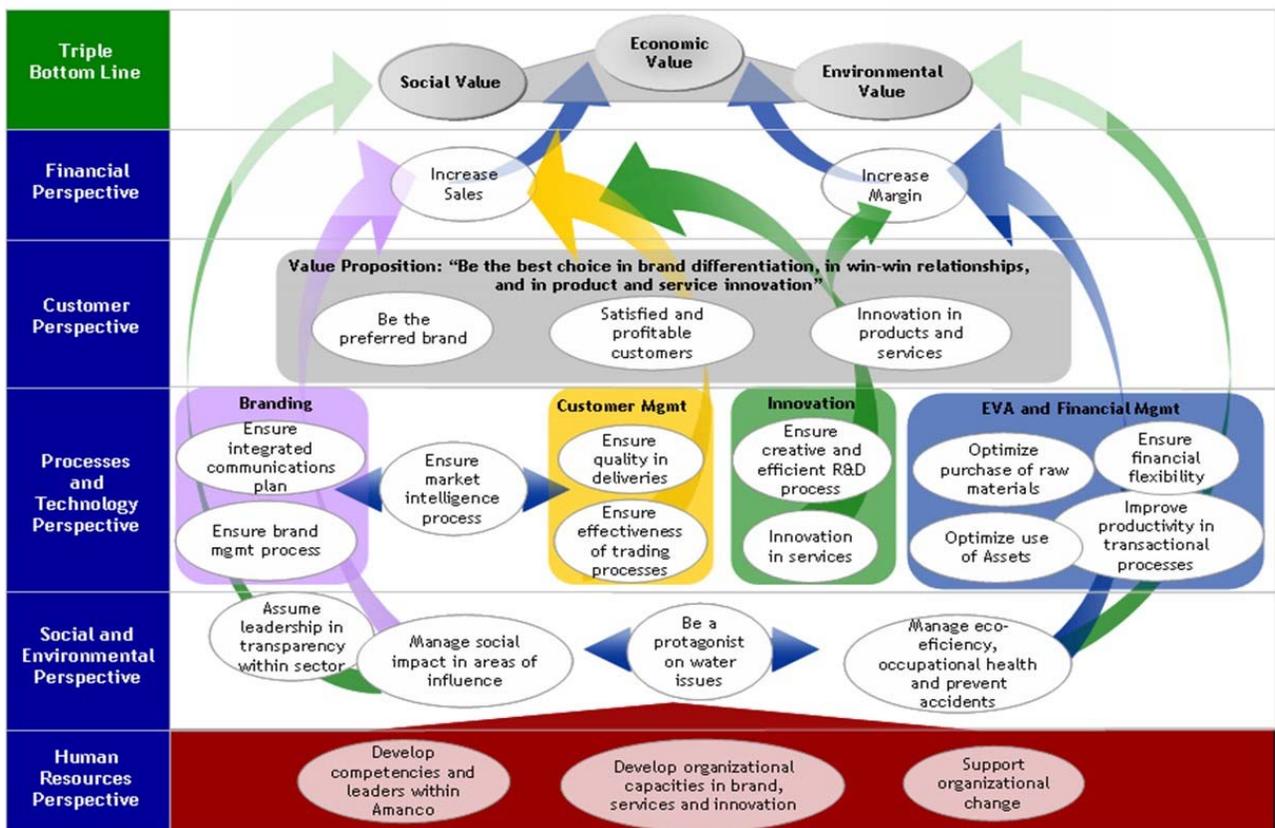


Figure 2: Amanco’s strategy map for triple bottom line performance

Source: HBS Case #107038.

The “Be the preferred brand” objective in the Customer perspective indicated the four Amanco brand attributes – integrity, innovation, solutions, and reliability – that would enable the company to be viewed as the number one pipe system supplier in Latin America. The Process and Technology Perspective emphasized developing environmentally friendly, innovative products that would be reliable and long-lasting. The product development process included a screening phase to evaluate the potential impacts on health and the environment of all new products, using a cradle-to-grave approach that included final disposal.

Amanco’s special emphasis on social responsibility and eco-efficiency led them to add a fifth perspective, “Social and Environmental”, to measure health and safety for employees, and environmental performance, based on eco-efficiency concepts that reduced the per-unit inputs and wastes from products and processes. Amanco’s eco-efficiency processes lowered production costs

and also attracted more customers through the environmental and social responsibility imbedded in its company branding. Its “Manage social impact...” objective would be achieved through community development projects throughout Latin America, particularly in areas materially related to its business, such as housing, water, and sanitation. In sum, the Amanco strategy map illustrates how sustainability objectives can be seamlessly integrated into a company’s strategy, providing a clear incentive and accountability for investments that improve environmental and societal outcomes.

Other commercial organizations also focus on a wider set of high-level outcomes related to the triple bottom line. Luxury ice cream maker Ben & Jerry’s (owned by Unilever) pursues strategic outcomes of economic profitability and the advancement of new models of economic justice, which can be observed in their response to the global conversation on systemic racism.<sup>7,8</sup> Patagonia produces outdoor gear and apparel and pursues outcomes for profitability as well as protection of the natural environment where their targeted customers enjoy recreation.

### **Core stakeholders expect corporations to improve their societal performance**

In recent years, the customers and employees of many companies expect them to help mitigate and solve important societal problems. Customers want to purchase products and services that align with their personal values. According to the New York University Center for Sustainable Business, virtually every category of product saw consumer preference shift towards more sustainable products. 50% of CPG sales growth between 2013 and 2018 went to the 17% of products that advertised based on sustainable attributes (e.g., Fair Trade).<sup>9</sup> The value proposition of a chocolate

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<sup>7</sup> <https://bcorporation.net/directory/ben-and-jerrys>

<sup>8</sup> <https://www.washingtonpost.com/news/voraciously/wp/2020/06/03/ben-jerrys-pointed-call-to-dismantle-white-supremacy-stands-out-among-tepid-corporate-america-statements/>

<sup>9</sup> Tensie Whelan, Director of New York University Center for Sustainable Business, interview with Fortune <https://fortune.com/2019/11/05/sustainability-marketing-consumer-spending/>

company must still include delicious taste and texture but also how the company's sourcing practices are improving the quality of life of the smallholder farmers that produced the raw material.

Employees, too, want to work for companies that make socially responsible business decisions.

Wayfair employees protested when the company began selling furniture to migrant detention centers. Amazon's employees objected to the company's firing of two employees who had advocated for greater safety precautions during the COVID-19 pandemic. Fulfilled workers are twice as likely to stay for five years at a company compared to those who just work for the paycheck.<sup>10</sup> Lower employee turnover translates to stronger institutional memory, retention of employees with capabilities aligned to the business strategy, and lower recruiting and onboarding costs.

The pandemic has highlighted the importance of suppliers as a key stakeholder. General Motors (GM) was able to tap its supplier network, including Twin Cities Die Casting, to source 700 new parts in a matter of weeks, enabling it to convert idle assembly lines over to ventilator production.<sup>11</sup> Companies making serious commitments to carbon neutrality need their suppliers to participate in cutting emissions through their own focus on environmental issues, investments in technologies and process changes. Increasing consumer demand for traceability has called into question commoditized relationships with suppliers with more companies seeing a benefit to longer term supply agreements that include transparency and traceability.

### **Corporations can create greater impact by aligning with key stakeholders**

While an individual company, such as Amanco, can improve economic, social, and environmental outcomes through its strategy, much greater value can be unlocked when a company's strategy is integrated with the strategies, innovation, and resources of related entities. An unfortunate side-effect of the recent dialogue about "stakeholder capitalism" is that anyone can self-declare as an

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<sup>10</sup> Imperative. 2019 Workforce Purpose Index

<sup>11</sup> <https://www.npr.org/2020/04/02/825800514/planet-money-the-parable-of-the-piston>

interested stakeholder. For our purposes, we define a stakeholder as any individual or entity with interest and agency relative to the activities of the company. Those passively observing corporate behavior, or even actively advocating for change, cannot be stakeholders from the sidelines.

Multiple stakeholders within a network of organizations can align around a shared set of desired outcomes to create and execute an inclusive growth strategy that produces economic, social, and environmental benefits for system participants and society. The stakeholders extend well beyond the corporation to include distributors, suppliers, local cooperatives, community-based organizations, public funding entities, impact investors and the community residents, themselves, who become productive product and service suppliers and sources of talent for global supply chains. Inclusive growth strategies typically require new multi-organization and multi-sector structures, such as joint ventures, public private partnerships (PPP), coalitions, trade groups, and special purpose vehicles.

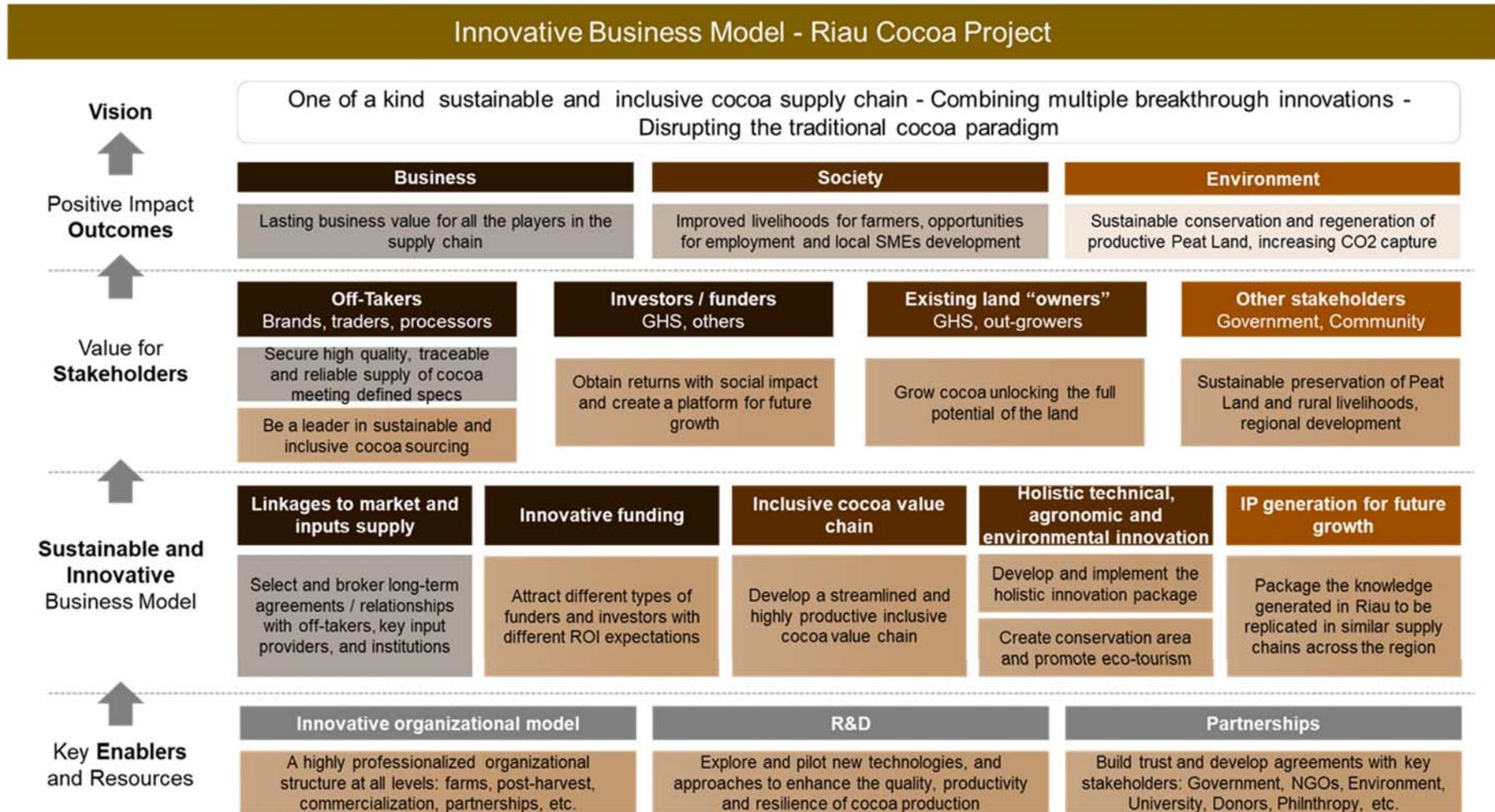
For example, Palladium assembled a coalition to fund and execute the world's first health-related development impact bond, which financed a project to reduce maternal and infant mortality in Rajasthan, India. It also developed a coalition strategy to sustainably commercialize a water basin in Australia while preserving Aboriginal heritage.

### **A new BSC template for multi-stakeholder triple bottom line strategies**

In multi-stakeholder collaborations, each actor plays a different but distinctive role. An anchor organization serves as the off-taker for sustainably-produced products, the catalyst organizes and sustains the multi-sector ecosystem, the impact investor provides funding, aggregators and distributors connect low-income producers to the off-taking corporation, and input suppliers offer raw materials, equipment, and technology. To articulate and align the strategy for such a complex ecosystem of multiple actors across multiple sectors, the BSC strategy map objectives must be expanded beyond those needed for a single, profit-focused company.

Consider the inclusive growth opportunity identified by an Indonesian plantation operator to enter the cocoa market. PT Guntunhasrat Makmur (GHS), a sister company of the Sambu Group, the world's largest integrated coconut processor, wanted its new Riau Cocoa Business project to simultaneously deliver large social, commercial and environmental outcomes. It would improve the livelihoods of thousands of small holder farmers by having them grow large quantities of high-quality fermented cocoa, using intensive agroforestry methods, on 12,000 hectares of peat soil. By combining production within its own plantation with that produced by an out-grower network of smallholder coconut farmers, the project could reach the necessary scale of cocoa production for a sustainable ecosystem. The strategy would leverage existing relationships but also require new off-takers for the cocoa production, government support for the peatland preservation approach, and capital investment from impact investors. GHS created a strategy map (see Figure 3) to portray how stakeholders across the cocoa ecosystem would work collaboratively to realize this opportunity.

Figure 3: Riau Cocoa Business Ecosystem Strategy Map



Source: PT Guntunghasrat Makmur

Based on similar work with other companies following triple bottom line strategies, we recognized the need to adapt the Balanced Scorecard, as shown in Figure 4, to accommodate the interactions among the multiple stakeholders in inclusive growth ecosystems. We introduce new names for three of the four original Balanced Scorecard perspectives: Financial becomes Outcomes, to reflect the triple bottom line of financial, environmental, and societal performance; Customers becomes Stakeholders to reflect the interests of the multiple participants in the ecosystem; Processes remains the same; and Learning & Growth becomes Enablers.

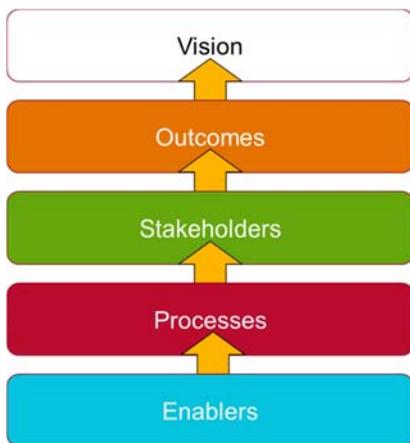
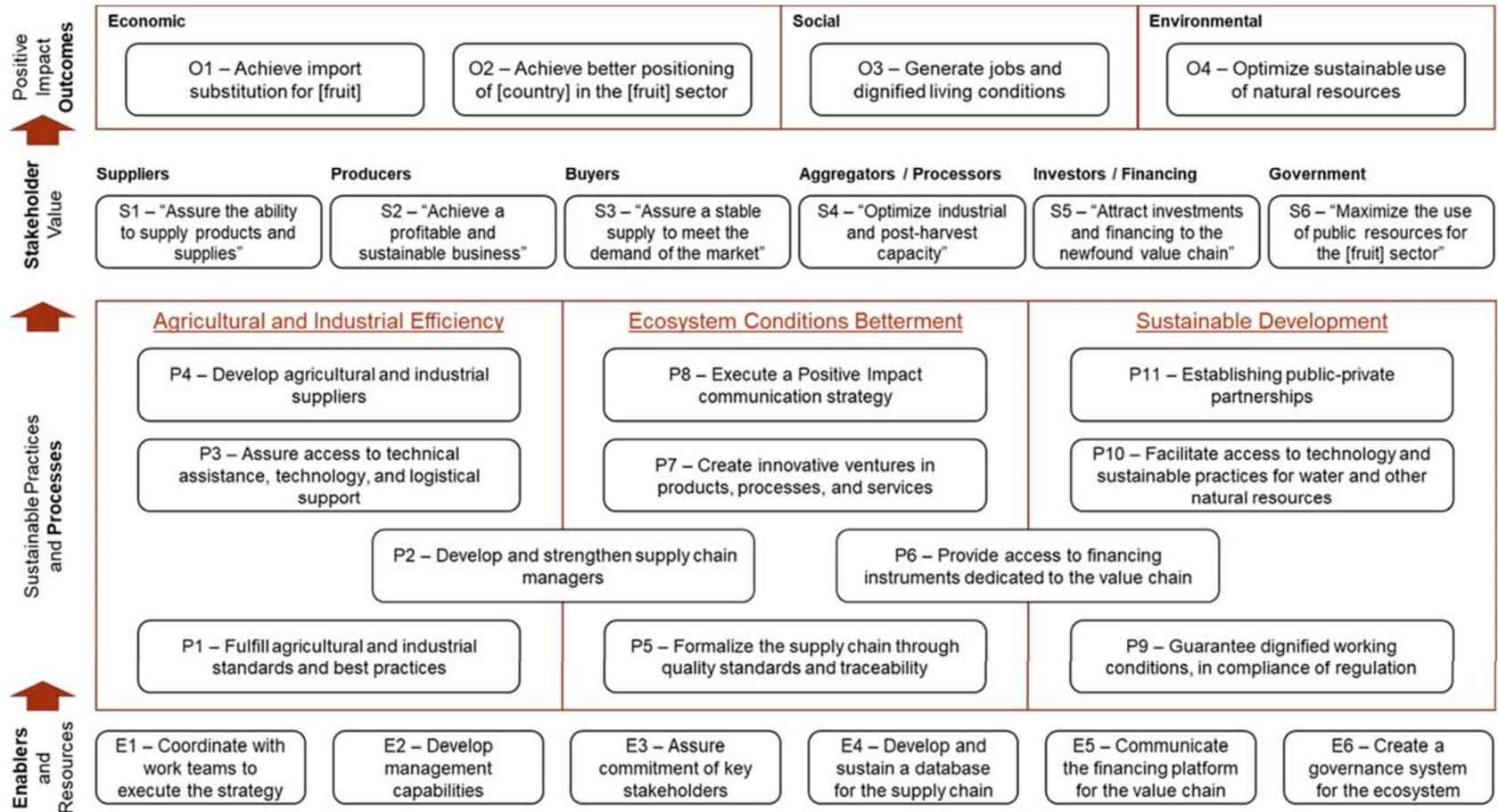


Figure 4 – Balanced Scorecard architecture for multi-stakeholder triple bottom line strategies

The Outcomes perspective continues to include financial performance, reflecting shareholders’ interests, but now also reflects enhanced environment and societal performance that improves the quality of life for local residents such as higher household incomes and cohesion, employment, improved health, better education, and reduced inequality and inequity.

The reframing of the Customer perspective as the Stakeholder perspective signals that the company’s value proposition must include not only its own customers, but also the interests of other stakeholders. For example, the fruit import substitution strategy of a global beverage company identified agricultural input and service providers, farmers, fruit aggregators and processors, buyers (including itself), financial institutions, and the government as key stakeholders (see Figure 5 for an anonymized version of the beverage company’s proposed strategy map for the ecosystem).

Figure 5: Coalition Fruit Import Substitution Strategy Map



Source: Palladium

Consider also the community relations strategy of Agrosuper, the largest white meat (e.g., chicken, pork, fish) producer in Chile. In 2012, the company opened the largest pig farm in the world in Freirina, a rural town that Agrosuper had recognized as needing economic development investments. It invested \$200M USD, including \$54M USD in environmental management technologies, and had plans to invest another \$600M USD to scale the facility. But some of the environmental technologies failed during plant start-up and local residents complained about the foul odors from the processing plant. The complaints, which were not quickly resolved, soon escalated to protests that cut off access to the plant, requiring a government emergency action to evacuate the pigs before they starved, and a permanent shutdown of the facility. Agrosuper had correctly anticipated the community's expectation for odor-free operation but had failed to manage the effectiveness of its environmental technologies as a strategic operating process supporting that expectation, leading to the failure of its well-intended strategy.

The renaming of the Learning & Growth perspective to Enabler could appear to be a superficial change. We have found, however, that inclusive growth strategies require change and coordination across all the stakeholders in the new ecosystem, most of whom have no experience with integrating their business models with other entities. All members in the ecosystem must agree on the raising and distribution of external funding, a governance structure for the ecosystem, approach for communicating extensively and candidly among all members, and their shared accountability for strategy execution and ecosystem outcomes. These priorities will be reflected in new objectives in the Enablers perspective that represent the drivers for the coalition to be successful and sustainable. For example, Washington State organized an innovative multi-sector ecosystem to enhance salmon population recovery.<sup>12</sup> As shown in Figure 6, it replaced the Learning & Growth perspective with an Enabler one to capture Balanced Scorecard objectives for efficient use of pooled resources,

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<sup>12</sup> Kaplan RS and Norton DP. *Alignment: Using the Balanced Scorecard to Create Corporate Synergies*. Chapter 4. Boston: HBS Press, 2006.

integration of science and strategy, and timely access of stakeholders to information and technical assistance.

In a more recent example, Fundo Vale, the corporate foundation of the Brazilian mining giant Vale S.A., has committed to reforest thousands of hectares of the Amazon. To create greater impact with available funds, it developed a strategy map for the creation of an agroforestry impact investing facility. This facility will incubate projects that protect and/or reforest the Brazilian Amazon in a commercially-viable and sustainable manner. The strategy map includes objectives for strategic alignment and governance among the facility's multiple stakeholders (see Figure 7).

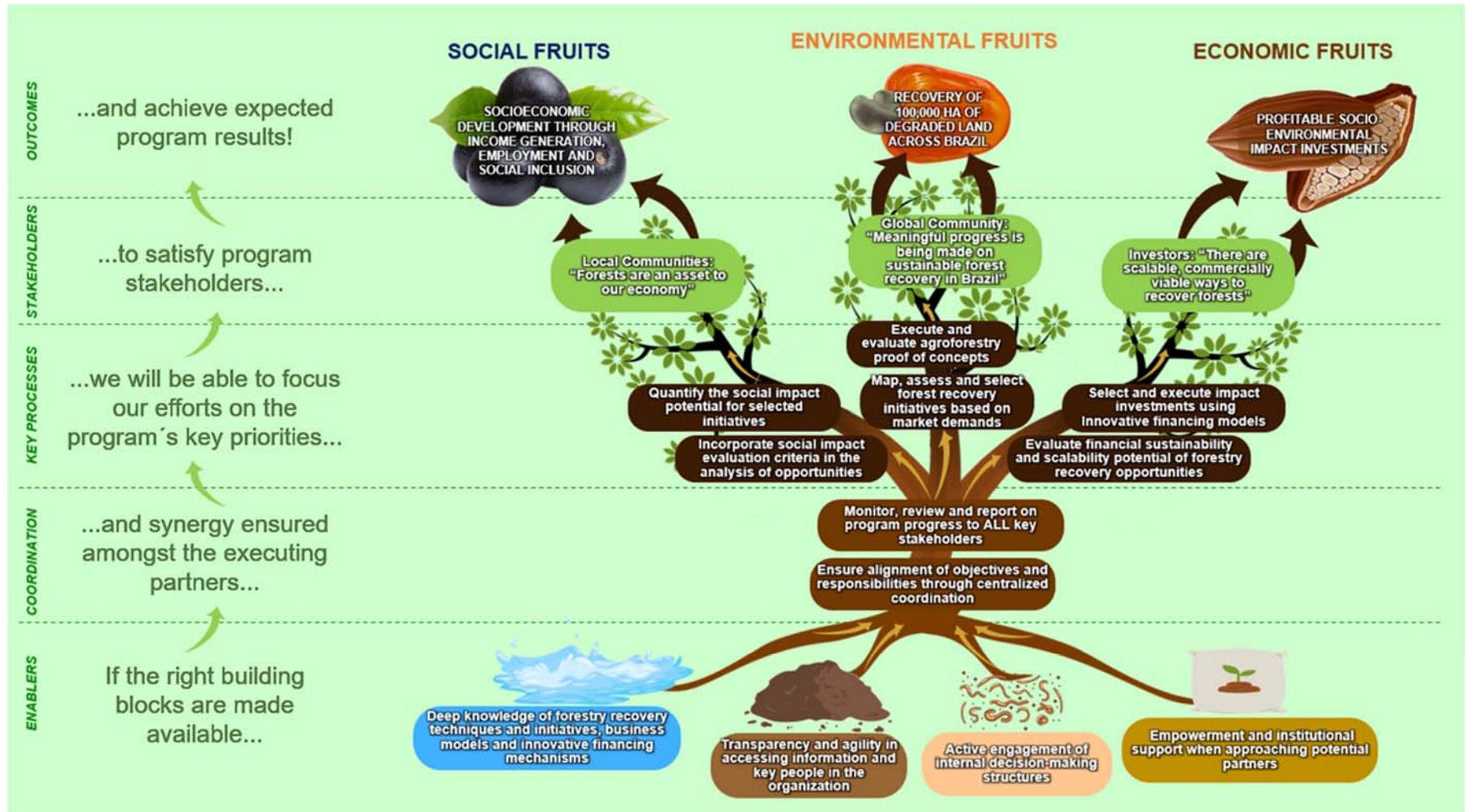
Many of the traditional Learning & Growth perspective priorities around skills development, enabling technology and information tools, and culture remain relevant for the ecosystem. Therefore, some multi-stakeholder strategy maps have split the Enabler perspective into a traditional Learning & Growth perspective and one for Collaboration, as done by a pharmaceutical joint venture between Solvay and Quintiles. Its Collaboration perspective included the alliance's objectives for transparency, resource management, leveraging capabilities of the venture partners and contractor management.

Figure 6: Washington State's Salmon Recovery Objectives

<b>A Co-Created Salmon Recovery Scorecard</b>	
<b>Mission:</b>	Restore salmon, steelhead, and trout populations to healthy and harvestable levels and improve habitats on which fish rely.
<b>Outcomes:</b>	<b>To protect an important element of Washington's quality of life</b> <ul style="list-style-type: none"><li>• Productive and diverse wild salmon populations</li><li>• Meet the requirements of the Endangered Species Act/Clean Water Act</li></ul>
<b>Stakeholders:</b>	<b>We are engaged with citizens and our salmon recovery partners</b> <ul style="list-style-type: none"><li>• We will reach out to citizens</li><li>• Salmon recovery roles are defined and partnerships strengthened</li></ul>
<b>Processes:</b>	<b>Our habitat, harvest, hatchery, and hydropower activities will benefit wild salmon</b> <ul style="list-style-type: none"><li>• Freshwater and estuarine habitats are healthy and accessible</li><li>• Rivers and streams have flows to support salmon</li><li>• Water is clean and cool enough for salmon</li><li>• Harvest management actions protect wild salmon</li><li>• Enhance compliance with resource protection laws</li></ul>
<b>Enablers:</b>	<b>Our building blocks for success include:</b> <ul style="list-style-type: none"><li>• Achieve cost-effective recovery and efficient use of government resources</li><li>• Use best available science and integrate monitoring and research with planning and implementation</li><li>• Citizens, salmon recovery partners and state employees have timely access to the information, technical assistance, and funding they need to be successful</li></ul>

Source: Kaplan-Norton, *Alignment* (HBS Press, 2006).

Figure 7: Strategy Map for Fundo Vale's Agroforestry Impact Investing Facility



Source: Palladium

## **Stakeholder perspective pitfalls**

We have observed companies make three primary mistakes when defining their relationships with stakeholders. First, they treat stakeholders as individual entities and not as interconnected actors in the ecosystem's inclusive growth strategy. While the company, in the short run, satisfies the current expectations of existing stakeholders, it fails to engage with them to create transformational, system-level change. It maintains a short-term, transactional relationship with stakeholders but does not build an enduring and trusted relationship with them.

Second, the company neglects to actively engage with stakeholders to co-create strategy map objectives and BSC metrics. This omission causes the stakeholder value proposition to be incomplete or even wrong. More importantly, it misses the opportunity to engage with external stakeholders in a constructive dialogue that can build trust, understanding, and commitment among the entities with no prior experience of collaborating and cooperating with each other. When working with an agriculture technology company to understand how their product improves feed efficiency, Palladium led a dialogue among a collection of stakeholders both within and external to the beef industry (e.g., retailers, feed manufacturers, environmental groups). The participants had not previously engaged each other in conversations like this and it increased their awareness of and appreciation for each other's perspectives.

Third, an organization may focus on the processes to meet the strategically relevant needs of stakeholders but not measure the outcomes of whether stakeholders' expectations have been achieved. This gap was a fatal flaw in Agrosuper's well-intended strategy for economic development in Freirina; it understood mitigating odor was important but measured how much they spent to address the problem and not whether the local community was satisfied with the solution.

In addition to co-creating objectives and measures with stakeholders or partners, companies can explicitly recognize stakeholder expectations by writing the objectives in the first-person. Stating stakeholder and customer objectives with quotes provides a clear expression of what each key

stakeholder desires from the relationship. For example, a coffee shop chain's objective to Pay smallholder farmers fairly can be replaced with "Pay me a fair price for my crop".

Similarly, stakeholder metrics should measure the impact of the company's value proposition on the stakeholder; e.g., replace a metric such as \$ per ton paid to farmers with % of smallholder farmers strongly agreeing with, "I receive a fair price for my dried cocoa beans." In this example, if farmers do not actually believe they are being paid a fair price, they are less likely to participate in the behavior and process changes required of them for the strategy to succeed.

### **Evolve the strategic planning process**

The change in perspectives in the Balanced Scorecard architecture is explicitly intended to motivate companies to expand their strategic planning to include the environmental and social impacts of the company's strategy. A few principles help to guide this expanded viewpoint.

1. Commit to stakeholder-conscious and inclusive growth strategies

Most companies already have sustainability departments to conduct sustainability programs and initiatives. These may satisfy external constituents but, ultimately, will be far less effective than a business strategy that simultaneously generates attractive financial returns, improves the environment, and delivers sustainable benefits to communities and their residents. Organizations that embrace triple bottom line goals will outperform those that manage their social responsibility and environmental programs with a corporate staff function separated from operating business units.

2. Be strategic in deciding on addressable environmental and societal issues

While a company can address whatever environmental and social issues it deems most important, it gains specific benefits only for those that it has a comparative advantage in addressing. A virtual learning solutions company, for example, can improve equitable access to education but would not have a comparative advantage in helping to reduce Amazon basin deforestation. Similarly, a South American mining company can help protect the Amazon

rainforest but spending money to reduce childhood obesity would not likely increase its financial performance. Strategies to improve the environment and a community's social conditions are most sustainable when they align with the company's specific capabilities and profit-seeking business model.

### 3. Understand the ecosystem surrounding your business model

A ecosystem connects multiple players in a complex and synergistic chain of value creation. An intelligently designed ecosystem should produce outcomes well beyond what can be achieved when each member operates independently. Without a designed ecosystem, a company may manage well the transactions and relationships with its immediate suppliers and customers. But this limited strategy misses potential connections to a broader set of stakeholders in its supply and distribution chain. For example, a global food company will know the aggregators it purchases from, but not the aggregators' suppliers, including the cooperatives and smallholder farmers who are the original producers of the product. Without understanding the full set of actors, relationships, and transactions in their entire supply chain ecosystem, the company fails to see the transformational opportunities to increase the production efficiency and quality of goods it purchases while also improving the socio-economic status and quality of life of the subsistence farmers producing those goods. Inclusive growth strategies should start by mapping existing and new players across multiple production and distribution stages.

### 4. Engage your stakeholders

Co-creating products and services with customers generates innovation, alignment, and loyalty. Co-creating strategies with customers, suppliers, and other stakeholders can produce transformational outcomes in a company's ecosystem. AB InBev's Nile Brewery used its position as a key product off-taker to transform the maize farming ecosystem in Uganda. The new strategy enabled Nile Brewery to access high-quality and lower cost inputs, a local aggregator to increase its scope and revenues by orders of magnitude, and local smallholder farmers to realize income gains of more than 100%. Hospital systems that conduct strategic

conversations with community advisory boards and local nonprofits can learn how to influence the social determinants of health that cause high health inequities among low-income residents. The member-owned electric utilities in the Touchstone Energy Cooperatives invite community representatives to events to learn how their local electricity provider can better serve local needs and improve economic and social opportunities for community residents.

#### 5. Pursue Inclusive Growth

Inclusive growth strategies can be challenging to identify. Companies can start by identifying where they can increase the supply of products, services, or employees to mitigate shortages. Examples include upgrading the skills of currently un- and under-employed individuals to meet the demands of growing sectors, shortening value chains to enable transparency and the growth of local suppliers, improving agroforestry models to meet the rising demand for wood as a construction and manufacturing input, re-settling refugees in countries with declining fertility rates and labor shortages, investing in infrastructure that connects people and markets, and supplying healthcare and nutrition to increase the supply of healthy employees.

### **Conclusion**

Three decades after the creation of the Balanced Scorecard, its intuitive structure continues to be the dominant framework for a company's strategy execution and management-by-objectives systems. By evolving the Balanced Scorecard and Strategy Map's perspectives to reflect today's expanded role for business in society, these powerful tools will continue to serve organizations and their strategy execution practices for decades to come.