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# **A Standalone Sustainability Balanced Scorecard**

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# Abstract

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**Keywords:** BSC. SBSC. Sustainability.

**Background and problem:** Strong barriers to incorporating sustainability into the strategic plan exist according to CFO Research in 2008, and there is clear difficulty in valuating effects that sustainability has on the whole value. This makes it interesting and important to study these issues in this thesis.

**Purpose:** The purpose of this study is to examine and analyze how organizations could incorporate sustainability perspectives into the strategic plan by constructing standalone sustainability balanced scorecard, and get an understanding of what kind of critical aspects that should be taken into consideration while adopting a separate sustainability balanced scorecard.

**Method:** To achieve the purpose the authors have chosen to use a qualitative method and carried out interviews at Hilton Tokyo. The information obtained from the respondent is relevant in this study.

**Conclusions:** The adaptation of a separate sustainability management system to include sustainability has resulted in the growing realization by large companies such as Hilton. Sustainability is not only a human ethical responsibility, but it is also beneficial to the bottom line of the company who fully commits to it, which has been proved very well in this research. This analysis has demonstrated several ways in which social and environmental sustainability can be incorporated with the organizational strategic plan. The empirical evidence gathered from Hilton Tokyo helps to demonstrate that sustainability in a separate system works well to integrate with the Balanced Scorecard and has become an integral part of a company's identity. Lastly, several considerable critical aspects while adopting a separate sustainability balanced scorecard have been analyzed and demonstrated.

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# 1 Introduction

**A** general introduction to the Balanced Scorecard and sustainability perspectives is initially presented in this chapter, following with a background regarding the integration of sustainability into the Balanced Scorecard. The problem leading up to a research question will be discussed. Lastly, an insight into further thesis disposition is presented.

## 1.1 Background

Ever since it was developed by Robert Kaplan and David Norton in the early 1990s, the balanced scorecard business management system has taken the business world by storm (Figge, Hahn, Schaltegger & Wagner 2002; Hannabarger, Buchman & Economy 2007). More than half of the businesses in the United States, the United Kingdom, Northern Europe, and Japan utilize the balanced scorecard. About a quarter of businesses in Germany, Switzerland, and Austria use the balanced scorecard (Advanced Performance Institute 2015). It is expected to continue to be popular well into the future.

According to Bain & Company (2013), a "Balanced Scorecard defines what management means by 'performance' and measures whether management is achieving desired results". The balanced scorecard will set down on paper the business' vision and strategy, as well as objectives that support both. It allows for short-term and long-term goals. A balanced scorecard contains performance categories and meaningful metrics, and identifies what both are. It facilitates communication, and makes sure that everyone is on the same page. Using a balanced scorecard allows a business to identify areas that need improvement rather quickly, and to budget—and even reward—appropriately (Bain & Company 2013).

Since its inception, the balanced scorecard has been further modified—or rather fleshed out—to provide a dashboard or roadmap for strategic management and sustainability (Figge et al 2002, Kaplan & Norton 2007). In 2002, at the Greening of Industry Network Conference, Frank Figge, Tobias Hahn, Stefan Schaltegger, and Marcus Wagner presented a paper called "The Sustainability Balanced Scorecard." The authors call for social and environmental cognizance to be incorporated into the balanced scorecard, and suggest how the three pillars of sustainability (Social, Environmental, and Economic) might be used to modify the balanced scorecard. The authors contend that the balanced scorecard as written allows businesses to focus only on the financial aspect of the three pillars, and ignore its social and environmental responsibilities. Figge et al (2002) gave three ways of formulating a sustainability balanced scorecard as a new fifth leg, or "Non-Market Perspective" which is meant to incorporate social and environmental considerations not covered by the other four aspects (Figge et al 2002).

In fact, this "Non-Market Perspective" does not come from nowhere. Back in 1960's, people started to become more aware of the effect that pollution can have on the human health. Already in 1973 after an energy crisis hit the world there started to become an increased focus on conservation of energy. This increased awareness came due to the energy costs grew and concerns about the supply became more of an issue (Goldstein & Primlani 2012). In 1980's The United Nations introduced a concept for sustainable development that later lead to talks that would encourage business to take environmental initiatives to reduce impact, such as green buildings. Over the years the environmental issues would be incorporated even further (Goldstein & Primlani 2012).

Political awareness of the environmental issues grew as of 1987 with the World Commission on Environment and Development (WCED) publishing a report called the Brundtland report. The purpose of this report was to make the environment and development into a single issue. With this report a definition to the term sustainable development was made and has since stated to be the most commonly known definition. Sustainable development came to be defined as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (WCED1987). There has always been attention directed to economic sustainability due to its importance to a company’s survivability. Later, due to the Brundtland report, the environmental issues have received more attention. However the social aspect has so far been partly neglected (Van Rheede & Blomme 2012).

With the changes that sustainability has undergone over the last decade, from being mainly focused on the conceptual issues and its framework to being a bigger part of society, sustainable development has grown to be regarded by both governments and various industries. Leading companies more often use sustainability as a strategic setting for managing their operations (Jayawardena, Pollard, Chort, Choi & Kibicho 2013). The balanced scorecard is a tool to translate and reflect the company's strategy. This means that if sustainability aspects should play a roll in the company's strategy, then they also should be reflected in their management system, the balanced scorecard. However, the integration of sustainability into the balanced scorecard may meet obstacles in its implementation’s process. (Figge et al 2002).

## **1.2 Problem**

According to a survey conducted by CFO Research (2008), there are strong barriers to incorporating sustainability into the strategic plan and difficulties in measuring the effects that sustainability has on shareholder value. At the same time, the lack of standard decision-making frameworks that consider environmental factors makes it difficult to incorporate sustainability into the companies’ present management system. However, more than half of the surveyed finance executives believe their companies are “very likely” or “somewhat likely” to increase revenue, reduce operating costs, improve investor returns and shareholder value, and improve employee retention through sustainability (CFO Research 2008). Therefore, it is believed that a sustainability model of the balanced scorecard should be popular among corporations.

The absence of scientific empirical research on the topic of what the best means of measuring sustainability might makes it difficult for the stakeholders and managers to evaluate the positive effects of sustainability on the business on the whole. At the same time, the adoption of sustainability as a metric depends on the attitude of actual users on the proposed tool to measure sustainability. Therefore, the sustainable corporate strategy appears not to be priority in the corporate long-run strategic plan because of absence of a good method to successfully measure the positive effects that sustainability has on a business. While there is a great deal of literature, both empirical and theoretical, on the usefulness of sustainability in general, there is much more limited empirical literature on the topic of which kinds of sustainability strategy might be more useful for business owners. The few studies on the topic of usefulness of sustainability (Kim, Suh, & Hwang, 2003; Tsai, Chou, & Hsu, 2009; Grigoroudis, Orfanoudaki, & Zopounidis, 2012) appear to be case studies or are otherwise delimited to few actual business participants. As a result, neither scholars nor business practitioners are aware

of what kinds of preferences, if any, companies have when it comes to interpreting sustainability into the strategic plan in the business.

Sustainable corporate behavior is desirable and the choice of a specific instrument by which sustainability can and should be incorporated and measured is difficult. The essence of the problem is that, while businesses, regulators, and consumers have all come to value sustainability (Schnietz & Epstein, 2005; Dahlsrud, 2008; Salam, 2009; Carroll & Shabana, 2010; Cai, Jo, & Pan, 2011; Saeidi, Sofian, Saeidi, Saeidi, & Saaeidi, 2015), there is widespread disagreement on how sustainability can be measured (Govindan, Khodaverdi, & Jafarian, 2013; Rosano & Schianetz, 2014). There is also a widespread agreement in business theory that what cannot be appropriately measured cannot be controlled or improved, which ultimately leads to few businesses are willing to set sustainability as its priority in their long-run strategic plan (Hitt, Ireland, & Hoskisson, 2009; Griffin, 2011; Drucker, 2014).

The sustainability balanced scorecard is presented as a possible solution to dealing with these barriers to incorporating sustainability into the company's strategy. Butler, Henderson and Raiborn (2011) suggested that there were three basic possibilities:

1. Add a fifth perspective, a sustainability perspective, to the balanced scorecard, whose existing four perspectives are financial, customer, international business processes, and learning and growth.
2. Develop a standalone sustainability balanced scorecard
3. Integrate identified measures of sustainability throughout the existing four perspectives of the Balanced Scorecard

Butler et al. (2011) contrasted arguments on behalf of the second proposed approach. They mean that the second approach is to include sustainability measures in the balanced scorecard that lies in the design and implementation of a separate sustainability balanced scorecard. Butler et al. argued that a standalone sustainability balanced scorecard is appropriate for many companies, such as those that have no existing balanced scorecard but want to measure or integrate sustainability without the disruption and cost involved in adopting a full-scale balanced scorecard. Meanwhile, Butler et al stated that a separate sustainability balanced scorecard also can be used by companies that want to emphasize corporate sustainability as a key value or critical strategy without revising the original balanced scorecard format. Last but not the least, Butler et al emphasized that the implementation of sustainability balanced scorecard could be used to develop a sustainability strategy for companies. Since a lot of companies have difficulties on developing a sustainability strategy without proper ways to measure it, this can be a very interesting approach.

De Koning (2004) states that companies need validated measures that reflect the performance outcomes that drive the organization's long-term financial success. A standalone sustainability balanced scorecard will still need to be outcome focused, specifically outcomes that pertain to the business itself. Businesses do not tend to see social or environmental impact as an indicator of business success. For a standalone balanced scorecard to be successful, environmental and social issues will need to be reframed in such a way as their impacts on the business are clear.

There are, of course, factors that keep businesses from addressing social and environmental responsibilities that have nothing to do with the balanced scorecard. For one, there are a few, lingering holdouts that do not believe that businesses have a social responsibility (Time 2012). Also, some businesses do not know, or do not know how to utilize, the multitude of tax incentives awarded companies that make a concerted effort to "go green" (Brooks 2012). Most businesses are clamoring to get onboard with social and environmental measures—it generates rather impressive PR, after all. A standalone sustainability balanced scorecard to accommodate social and environmental responsibility may enable businesses to integrate positive measures in these arenas more quickly, more efficiently, and with greater impact.

Since there is not, to date, a working model for the sustainability balanced scorecard that can compete with the balanced scorecard, the endeavor then becomes to conceive and design a separate sustainability balanced scorecard that serves just for sustainable practices – and to incorporate the social and environmental pillars in a way – that maintains the effectiveness of the balanced scorecard and provide the possibilities for the need of measurements. Therefore, it has become unavoidable to find a way to integrate the sustainability into the strategic plan in the present management system. This research is motivated by the fact that there is a clear need for a working sustainable management system, a working system that could solve the integration problem presented by Butler et al and provide the possibility to measure sustainability as shareholders desire.

### **1.3 Purpose and Research Questions**

The research is carried out basing the following two questions.

- *How to incorporate sustainability perspectives into the strategic plan by constructing standalone sustainability balanced scorecard?*
- *What kind of critical aspects should be taken into consideration while adopting a separate sustainability balanced scorecard?*

Through answering these questions the research shall contribute the knowledge in the field of sustainability balanced scorecard creation and the incorporation into the present management by looking at how the sustainability balanced scorecard integrates with the company's overall strategy and the similarities and differences between the sustainability balanced scorecard and the original balanced scorecard.

## **1.4 The Further Disposition**

### *Chapter 2*

Chapter two presents theoretical references for the thesis. It provides a fundamental discussion of the Balanced Scorecard by Kaplan and Norton and how sustainability aspects can be integrated into a Balanced Scorecard.

### *Chapter 3*

This chapter describes the methodology in the thesis. The literature review is described and discussed and the formulation of the interview guide is presented. The collection of primary data is also described. Discussions about validity and reliability of the thesis show that the thesis is performed in a good manner. The last but not the least, the authors describe criticism towards the method used in the thesis.

### *Chapter 4*

In chapter four the collected primary data is compiled. The empirical data from respondent is presented here. The data shall be presented in groups under the headlines the Balanced Scorecard, Sustainability Measurement and the Social Efforts of Sustainability.

### *Chapter 5*

In this chapter the analysis of empirical data is introduced, which leads to the thesis objectives are fulfilled. The chapter is divided into the Balanced Scorecard, the Sustainability Measurement System, the Social Efforts and Summary. This would make it easier to follow the whole analysis.

### *Chapter 6*

The results are presented in this chapter, the conclusions are shortly summarized. In the end, the authors provide several suggestions for future research in the relevant field.

## 2 Theoretical Framework

**C**hapter two provides readers with relevant theories about the balanced scorecard and the perspectives of sustainability. Furthermore, the theoretical framework also serves as a foundation for authors to be able to answer the research question.

### 2.1 The Balanced Scorecard

The balanced scorecard is a system that business worldwide use to study the structure, practices, and bottom lines of their company's processes, and is used to supplemented traditional financial measures with criteria that measured performance from three additional perspectives—those of customers, internal business processes, and learning and growth (Kaplan & Norton 2007). According to *The Institute Way: Simplify Strategic Planning and Management with the Balanced Scorecard*, is an internal strategic management tool that is “used to set priorities, focus energy and resources, strengthen operations, ensure that employees and other stakeholders are working toward common goals, establish agreement around intended outcomes/results, and assess and adjust the organization's direction in response to a changing environment. It is a disciplined effort that produces fundamental decisions and actions that shape and guide what an organization is, who it serves, what it does, and why it does it, with a focus on the future. Effective strategic planning articulates not only where an organization is going and the actions needed to make progress, but also how it will know if it is successful” (Wilsey, Rohm, Perry & Montgomery 2013).

The balanced scorecard was developed by Robert Kaplan and David Norton (1996a) in the early 1990s. It is noted to be a strategy management tool not a measurement, where assessment, improvement, and reporting are linked together to form a strategic plan; the key to this plan is turning strategy into action. The balanced scorecard is useful for finding financial measures, but cannot predict future values of the company made through investments in customers, suppliers, employees, technologies, processes and the like. The balanced scorecard allows companies and organizations to clarify their visions and strategies, while translating them into action. It also provides feedback on the internal business processes and the external outcomes of those actions and is therefore able to be used as a continuous improvement tool for finding the most strategic performances and results (Kaplan & Norton 1996a).

#### 2.1.1 The Four Aspects

As the name suggests, the balanced scorecard thrives on *balance*, meaning a company should try to attend to each of the four legs equally (Hannabarger et al 2007), and be attending to the company by gathering metrics pertinent to each of these four perspectives (Balanced Scorecard Institute 2015). According to Kaplan and Norton, the development of metrics (which define a company's actions and behaviors that influence production), collection of data through systematic and well-developed research methods, and an analysis of each of these perspectives is the purpose behind the scorecard.

## Translating Vision and Strategy: Four Perspectives

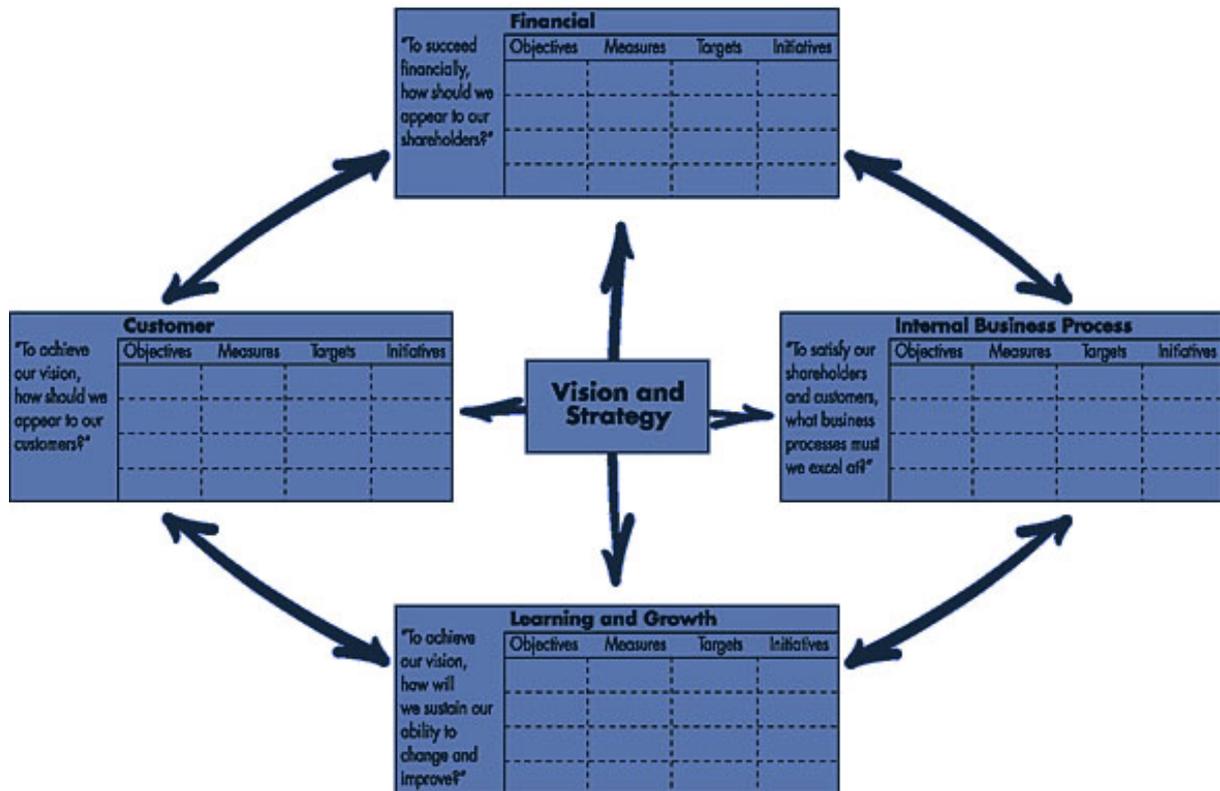


Figure 1: The Balanced Scorecards Four Perspectives (Kaplan & Norton 2007 s.76).

**Financial/Stewardship**—"The Financial Perspective." This is perhaps the oldest method of assessing business performance, by gathering financial data and reviewing business performance based on financial performance alone. In the past, businesses used only this perspective to assess itself and its future. This was useful when the world was less service-oriented, and before the extreme speed of Internet revolution. However, Norton and Kaplan noted that a change was needed, as using the Financial Perspective as the sole business performance measurement had lost its utility; it could only tell a company about its past, and was no guarantee of future success. Because the world changed, business management and measurement needed to change as well (Hannabarger et al 2007, Balanced Scorecard Institute 2015). The financial perspective, in essence, measures the effectiveness of all the other perspectives. It indicates whether the previous strategies have been used to lead to economic success, and seeks to define the financial performance of strategies meant to achieve revenue growth and cost reduction, such as energy efficiency and conservation.

**Internal Business Process**—"The Business Process Perspective." The business processes perspective seeks to study aspects such as the efficiency, speed, quality, delivery, and development of the services, products, and internal support systems. This leg of the balanced scorecard deals with qualitative metrics with regards to how a business is running. The purpose of monitoring this leg is to make sure that the product or service being sold to customers is meeting customer expectations, as well as to make sure that the product or service is in keeping with the company's mission. It should be noted that it is difficult for outside consultants to develop metrics for this leg of the Balanced Scorecard, as those intimately involved with the process are the best at deciding what metrics need to be tracked (Balanced Scorecard Institute 2015).

**Organizational Capacity**—"The Learning and Growth Perspective." This leg of the Balanced Scorecard deals with employee training, corporate culture, and self-improvement. Its purpose is to measure how well an organization is educating its employees and fostering a healthy corporate culture, as well as recognize and maintain a competitive edge within the business' market (Hannabarger et al 2007, Balanced Scorecard Institute 2015). According to Kaplan and Norton (2007), the learning and growth perspective generally supports the idea that the people working within the company are its main and most valuable assets, and that the design of study for this perspective should measure aspects of employee improvement, growth, and satisfaction. It includes the initial and continuous training, corporate culture, knowledge and care for the organizational development of the company, efficiency and speed in knowledge transfer inside the company, and a strong, open line of communication among all employees.

**Customer/Stakeholder**—"The Customer Perspective." Last, but certainly not least, is the balanced scorecard leg that deals with customer satisfaction. Metrics gathered in this area include customer demographics, as well as how different products or services are being disseminated to different customer groups (Hannabarger et al 2007, Balanced Scorecard Institute 2015). The customer perspective focuses on customer satisfaction in that it uses a huge amount of rigorously culled data to understand the customer; however, despite the amount of data found, it is truly difficult to understand the true feelings and sentiments of said customers as these customers may not always be truthful, surveys may be biased, and most consumers will focus on negative aspects over positive ones.

### 2.1.2 BSC According to De Koning

According to De Koning (2004) a most successful balanced scorecards must retain four qualities: Focus, Validity, Connectivity, and Integration.

**Focus**—"Scorecards that include too many metrics fail to provide managers with any real focus" (De Koning 2004). A balanced scorecard with too many measures would end up including every element the managers could manage and not distinguishing what's essential for success and what's included just because it's easy to measure. Throughout a clear focus, the workers would know what is important for the company. While many things are important for the managers, only a few are really essential for the core of the business, and that makes the difference between a company that survives and one that thrives (De Koning 2004).

**Validity**—"Companies need validated measures that reflect the performance *outcomes* that drive the organization's long-term financial success" (De Koning 2004). The balanced scorecard that lack validity does not validate desired business in a reliable way. The problem that comes with lack of validity in a balanced scorecard usually arises when the companies try to evaluate the intangibles and create task-oriented employee objectives. By using conventional metrics the companies often attempt to measure the intangible areas and end up measuring the wrong things. The metrics in the balanced scorecards are usually based on employees success in their work, which would result in the lack of flexibility and the employee would put more efforts on the other trivial things instead of important things.

**Connectivity**—"A company must clearly communicate its strategy to all of its stores, plants, or facilities and connections between different management must be strongly linked." (De

Koning 2004). With that, de Koning (2004) means that a company needs to successfully communicate its strategy through the company. Failure on communication would lead to the team workers (the productivity and service capacity decider) might not follow the corporate goals. Many companies, however, lose their focus on outcomes that they are behind of and instead of focusing on creating activities for the workers to follow. To successfully create connectivity there is a need to hold people accountable for their outcomes; the activities are only steps towards these outcomes. To achieve this goal it's suggested that the outcomes should be aligned with the overall corporate strategy as well as using metrics that can measure these outcomes successfully. In order to measure the real outcomes as locally as possible, flexibility and individualization would set employee free in the work and result in achieving the measurable results in a way that works best for them and the company (De Koning 2004).

**Integration**—"To implement the balanced scorecard effectively, companies must integrate it into their performance management and development practices, there is also a necessity that there are clear connections and communication channels between area management " (De Koning 2004). Meaning, for an effective implementation of the balanced scorecard there is a need to integrate it into companies' performance management and development practices. It's important that the scorecard has accountability and the evaluation is related to the scorecard. A proper integration is vital for a balanced scorecard's success. It is important to connect the balanced scorecard with the resource allocation in the company. In return, this makes it easier for the company to identify irrelevant activities and allocate the necessary resources. Once the key activities are identified its performance outcomes must be linked to rewards, recognition and prestige to encourage more effective resource usage. Educating employees about the required outcomes for their roles is also of high importance. Employees must know how they are supposed to reach the individual goal. To achieve successful integration, the management must be committed to align the people and the processes with the corporate goals, as well as removing any barriers that might exist (De Koning 2004).

## 2.2 Sustainability Strategy and Social Responsibility

### 2.2.1 Sustainability Strategy

There is evidence that companies look at sustainability now as a way to not only start their company, but to continue to fund it, by appealing to consumers, investors, and resource suppliers (Provost 2015). However, unless company's start with their employees, focusing on employee knowledge, concern, and values, there is little chance of changing the corporate culture towards one that seeks solely to build the bottom line instead of seeking to incorporate sustainability as a way of life and business that benefits all. More and more companies, therefore, are conducting human resource meetings that focus specifically on what sustainability is and what it means (Ehnert, Harry & Zink 2013).

In this decade, the focus seems to be on green companies and how they are expanding and interpreting sustainability into the very core of their business model. A green company is defined as one that acts, or claims to act, in a way that minimizes damage to the environment. There are several companies, from tech firms to shoe makers, who are now devoted to making sustainability, and being green, a part of their business model from day one, and to incorporate sustainability in ways that are healthier for the environment, for the people working for and with them, and for the consumers who purchase products and provide free marketing through word-of-mouth recommendations. A lot of these firms and start-ups come from the collegiate and university levels, and younger generations of children are now

## Theoretical Framework

opening businesses that stand for more than just sustainability; they are seen as completely green, as in they are protectors of and for the environment and people in general (Weintraub 2013).

Sustainability has also become a socially acceptable and relevant sign to customers and markets that the company that has accepted and enforced such a concept is more culturally relevant, and that they recruit and retain more consumers than companies who do not (Ebner & Baumgartner 2006). There is also the concept of reducing the carbon footprint, and many companies that have incorporating sustainability into their business scorecards have seen cost savings in the efficient and optimal uses of resources such as electricity, water, and other raw materials. And these companies have also embraced the reduction of waste and the recycling of used materials as a way to listen to stakeholders, customers, and investors (KPMG 2005). Opportunities to create or preserve the most value vary greatly among industries: costs may be reduced through better management of energy and water in some companies (such as Esterhuysen's study of the fishing industry 2008), while a retail company "could reduce its resource intensity and costs by revamping its supply chain, since the biggest environmental impact within that sector can often be traced to raw materials, such as the agricultural products used in food or apparel. An energy company may have more opportunities than companies in other industries to create value through new products—for example, by commercializing investments in smart grids.

Sustainability became a keyword in the business market and is broadly defined as meeting the needs of the present generation without compromising the ability of future generations to meet their own needs. A sustainable business, or green business, is an enterprise that has minimal negative impact on the global or local environment, community, society, or economy. Often, sustainable businesses have progressive environmental and human rights policies. In general, business is described as green if it matches the following four criteria: it incorporates principles of sustainability into each of its business decisions; it supplies environmentally friendly products or services that replaces demand for non-green products and/or services; it is greener than traditional competition; and it has made an enduring commitment to environmental principles in its business operations (Cooney 2009).

Willard (2005) has identified the need for sustainability in corporate governance as a way to address the "several strengthening market forces that pose an increasing risk for businesses;" these are categorized by demanding stakeholders, mega issues relating to business sustainability, which in turn supports the business case for corporate sustainability. Some of the advantages seen or perceived to be forthcoming from using the sustainability balanced scorecard and incorporating the three pillars of sustainability into the current Balanced Scorecard business model could be seen in areas such as the building of a corporation's reputation, enhancement of brand image, the approval or earning of a "social license" to operate, and the improvement of or establishment of relationships with investors, agencies, banks, and a foreseen reduced or well-managed business risk (Willard 2005). Also, it has been noted that sustainability procedures not only blend well with public, stakeholder, and investors views, but that it also can be shown to produce employee moral satisfaction and increases in productivity, as well as attracting and maintaining talented employees, and increasing the overall corporate value by Hammer & Associates (Pleon 2005).

### 2.2.2 Social Responsibility

While talking about sustainability so the corporate social responsibility (CSR) must be mentioned. CSR became popular in the 1960s and has remained a term used indiscriminately by many to cover legal and moral responsibility. The World Business Council for Sustainable Development in its publication *Making Good Business Sense* by Lord Holme and Richard Watts (2000) used the following definition.

*Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large*

Traditionally CSR has been defined much more in terms of a philanthropic model. Companies make profits, unhindered except by fulfilling their duty to pay taxes. Then they donate a certain share of the profits to charitable causes. It is seen as tainting the act for the company to receive any benefit from the giving. However, according to European Commission (2014) the European model is much more focused on operating the core business in a socially responsible way, complemented by investment in communities for solid business case reasons.

### 2.3 The Sustainability Balanced Scorecard

The sustainability balanced scorecard is another internal management tool used to formulate and implement sustainability goals from a company's strategic plan. Bieker and Waxenberger (2002) saw it as system that could be used to integrate stakeholder demands into the core management systems of companies and manage those demands in an effective and efficient way. Traditionally, the balanced scorecard excludes these social and environmental issues. With sustainability as part of the overall business scorecard, the focus shifts to three main pillars of productivity (triple bottom line); environmental, economic, and social benefits. When these factors are made part of the balanced scorecard it has great potential to translate corporate sustainability strategies into action and to integrate sustainability into the core management systems of the organization. Bennett and James (Schattegger et al 2006) defined sustainability performance measurement and management practices as the "measurement and management of the interaction between business, society and the environment."

The balanced scorecard started as an internal management tool to address the way company's view, collect data on, and deal with their organizational patterns. It ended up being a way to protect and delineate data on the economic details of a company, instead of focusing on the more specific and pivotal topic of corporate governance (Balanced Scorecard Institute 2015). With the development and inclusion of sustainability in general, businesses and corporations are now shifting their views towards the scorecard. It is now seen as a tool that can help to recruit and maintain top-notch employees, attract and interest investors and stakeholders, and as a way to reach out to the local and global communities as good corporate citizens (Willard 2005). Butler et al mean that it also may help increase a company's options as far as suppliers and resource providers, and overall has shown to have a notable impact on a company's economic growth through waste reduction, employee and customer retention, and marketing abilities. According to Weintraub (2013) the Sustainability movement will continue to grow into the current trends and business models of the world, as the global community looks for a way to improve not only their employer's profits, but also the health of the planet, and the future of those workers who are just entering or will be joining the workforce in the coming years.

Companies are expanding their balanced scorecards and internal management systems to include sustainability as a feasible option not just for saving money and making an economic difference, but also as way to plan, fund, and grow their businesses. There are instances of companies that have started on just a sustainability platform and taken off from that point (Nidumolu, Prahalad & Rangaswami 2009). However, capturing sustainability's full value potential is complicated, because a company must first determine its baseline performance on sustainability issues and then decide on a portfolio of initiatives to create value in those areas. While many companies understand the impact of their own operations on issues from carbon emissions to human rights, they often have little or no understanding of the impact of the entire value chain (Bonini & Görner 2011).

Although there is a growing number of companies worldwide that are integrating the SBSC into their internal management strategies, the question of whether they are doing so to pad the bottom line, to attract and keep customers and employees, or because they truly care about the economic and environmental impact they have on the world remains to be seen. Often it starts as a way to appeal to stakeholders and increase the profits of the company, but ends up being part of the corporate governance system and becomes integrated into the balanced scorecard; thus it is becoming one of the major role players in corporate responsibility. The Environmental Protection Agency within the United States has now developed a guiding Sustainability Primer to help companies address the three pillars of sustainability (or triple bottom line principles), while offering areas of interest for companies to consider, providing tools and policies to help them incorporate a Sustainability Index, and educate employees on the aspects of sustainability and what it means for their companies (United States Environmental Protection Agency 2014). The fundamental basis for weighting the criteria used to in a SBSC is based on both the triple bottom line principles and related benefits of sustainability. For example, a company may choose to use a point value or "weight" system in its criterion for evaluating the relative impact of a particular sustainability concept. The points associated with said criteria are added together to give a total score; that score can then be used internally for purposes such as tracking progress toward more sustainable infrastructure, tracking integration of sustainability best practices into projects, and stakeholder and community outreach (Ferguson 2009).

### **2.3.1 SBSC according to Butler et al**

After the four interrelated perspectives of the financial, the customer, internal business processes, along with learning and growth, some companies may elect to add a fifth perspective to the BSC. By publicly valuing environmental sustainability as the fifth perspective, companies may be able to expand beyond their expected economic and fiscal focal points. While the fathers of the BSC, Robert S. Kaplan and David P. Norton, see the fifth perspective as a viable addition to their scorecard, detractors envision potential difficulties in companies implementing "greener" strategies (Butler et al 2011). Given the relative infancy of the environmental movement in corporate culture, it may prove difficult to effectively link sustainability changes to economic prosperity, leaving the fifth perspective as more of an ideal than a practical tool of implementation. Indeed, while the fifth perspective may lend favor to those companies that seek it, ancillary benefits to the environmental movement will be delayed.

According to Butler et al (2011) three options can be adopted to benefit from this "fifth perspective" sustainability. Companies may best employ the first option of BSC sustainability with a previously ignominious reputation for environmental sensitivity. For companies

committed to making strides towards sustainability, albeit in a more deliberate and partial manner, the second option of creating sustainability balanced scorecard (SBSC) may prove ideal. While the full-scale BSC demands a particular level of overhaul and financial burden, the SBSC provides a more palatable entrance into corporate sustainability without drowning in the changes that occur. If the program receives acclaim both from employees and customers, while improving the company's economic and environmental position, the SBSC could eventually lead to a full-fledged BSC implementation. This could be a likely scenario, given the SBSC's particular focus on the main four perspectives: sustainability, stakeholders, processes and learning. While the environmental perspective will undoubtedly be the newest addition to the company's outlook, the SBSC will continue to drive home the importance of economic growth, business ethics, and a more fully defined understanding of its role in society as a whole. That being said, potential problems not dissimilar to the first option could fail to illustrate direct ties of environmental sustainability to corporate economic growth. While this is an issue that must be addressed, the success of the SBSC is contingent on each firm's ability to successfully incorporate it into the work culture. Butler et al. suggested that a standalone Sustainability Balanced Score would lack integration with the other Balanced Scorecard perspectives and business strategy, and that sustainability might not be distinct enough to constitute a perspective on its own. If so, then integration would indeed be viable. However, this conclusion was based on Butler et al.'s own recommendations. There does not appear to be any empirical research on the topic of what stakeholders (most importantly, business leaders and managers) themselves believe about (a) the necessity of measuring sustainability and (b) what the best means of measuring sustainability might be.

The third and final option of integrating sustainability measures throughout the four perspectives, offers companies a direct avenue to observe the tangible effects of a more environmentally sustainable company ethic. Firms that already hold such values in high regard will find adapting to further sustainability practices relatively straightforward. These same companies have likely already experienced the potential for simultaneously increasing economic growth and environmental sustainability. Once these measures are further honed and specified, allowing for a holistic understanding of the relationship between the financial and sustainability, their gains will exponentially grow. While any form of sustainability implementation remains expensive at the outset, a deepened reliance on such practices in corporate culture will ensure that sustainability is not forsaken in anemic economic times. To this end, it would be more beneficial for companies to adopt total sustainable practices, rather than partial, so as to train the infrastructure to rely increasingly on its long-term promises. Butler et al. argued that the third option, that of integrated identified measures of sustainability throughout the existing four perspectives of the Balanced Scorecard, was the most feasible method.

### **2.4 Evaluation and Measurements**

Knowing that companies are using the SBSC to address not only the economic, but also social and environmental impacts of their business models, we need to explore how these effects are being measured and evaluated with the existing companies that are using sustainability models. Current research shows that many companies still see the sustainability scorecard as a way to protect their client interests as well as ensuring continued stakeholder success (Bieker & Waxenberger 2002). However, since the issue of sustainability was brought forth as an environmental and social issue, and not a financial one, at its inception, what companies are truly focusing on and using the SBSC for are worth for more investigation. Most notably, they are using the SBSC to increase their public perception, investor relations, and of course, their

## Theoretical Framework

bottom-line. It has become, for some corporations, a way of life instead of a trend in business management (Esterhuysen 2000). Currently, many business in the US and abroad are basing their sustainability measures on nine principles that match with Corporate Responsibility. The nine principles are: ethics, governance, transparency, business relationships, financial return, community involvement / economic development, value of products and services, employment practices, and protection of the environment (Epstein & Roy 2003).

According to EarthShift (2015) Sustainability Return on Investment (S-ROI) integrates the ability to measure the social, economic and environmental returns on sustainability initiatives. The methodology is designed to examine a decision-making process from the viewpoint of multiple expert stakeholders, while maximizing return for as many of them as possible. The methodology allows for the enumeration of uncertain events with their concurrent costs and benefits. The decision-maker obtains a financial picture of the future of a decision that includes best case, worst case, and most probable ranges of return on investment. This methodology deals with both internal costs (those borne by the company) and external costs (those borne by society), allowing decision-makers to use both aspects as appropriate.

The output gives key decision makers across functions the actionable information they need to justify various forms of investment in socially and environmentally responsible activity, while avoiding “burden shifting,” where one harmful impact is simply traded for another. In contrast, the traditional return on investment (ROI) is a very popular metric because of its versatility and simplicity. That is, if an investment does not have a positive ROI, or if there are other opportunities with a higher ROI, then the investment should not be taken. Several different metrics are called by that name, but the best known is the metric presented here as ROI. ROI has become popular in the last few decades as a general-purpose metric for evaluating capital acquisitions, projects, programs, initiatives, as well as traditional financial investments in stock shares or the use of venture capital. The metric is frequently used for such purposes.

The return on investment formula:

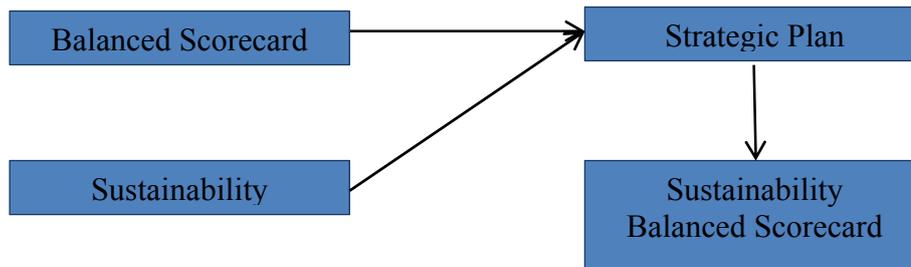
$$ROI = \frac{(Gain\ from\ Investment - Cost\ from\ Investment)}{Cost\ of\ Investment}$$

### 2.5 Synthesis

In order to explore how to successfully create the sustainability balanced scorecard and incorporate into the present management system the main theories of the balanced scorecard by Kaplan and Norton and De Koning, the sustainability balanced scorecard by Butler and effects measurements from different experts are adopted.

The theoretical framework concludes four components: the balanced scorecard, sustainability strategy and social responsibility, the sustainability balanced scorecard and evaluation and measurements. By analyzing how the sustainability balanced scorecard integrates with the company's overall strategy using the before mentioned theories it is possible to get a better picture of how a standalone sustainability balanced scorecard could be shaped and successfully be incorporated into the present management.

## Theoretical Framework



*Figure 2: How to Create the Sustainability Balanced Scorecard.*

The theoretical framework provides the needed theories to fulfill the purpose of research questions and contributes knowledge towards the relatively unexplored area of the sustainability balanced scorecard.

### 3 Methodology

***M**ethodology used for carrying out this research will be presented in this chapter. How the theoretical and empirical data will be collected is described. A discussion about the validity and reliability will also be discussed, following by a discussion about criticism of the described research methodology.*

#### 3.1 Research Method

According to Bryman and Bell (2011), the qualitative research aims to create a deep understanding of ideas and attitudes. The process of collecting and analyzing data predominantly focused on linguistics, rather than quantification. This study aims to gain a deeper understanding of how to create a measurable sustainability system that is derived from the Balanced Scorecard, how to evaluate the effect of those efforts on sustainability, and how to validate and confirm the effectiveness of the metrics system. Because the understanding of companies' management system is central to this research, we will strive from a basis on a hermeneutics perspective and make use of qualitative interviews to obtain the necessary empirical data.

Patel and Davidsson (2011) state that case studies give an overall perspective of an organization's process, which provides more accurate information. This method of case study is a useful option in business management, as it requires a deep comprehensive understanding of information in a realistic setting. A qualitative interview provides opportunities to ask follow-up questions and go into depth, which facilitates a dialogue around the issue in a comprehensive way (Bryman & Bell 2011). The focus in this case study is how the interviewed respondent interprets the reality. In other words, it illustrates how the managerial level in the company perceives and interprets the corporational management using the Balanced Scorecard. Since this study is descriptive in nature therefore the qualitative method is chosen which provides thorough and detailed information, and furthermore, the identification and analysis as to how company's management maintain the well being of the hotel business. Since there is currently no access to the related information within in this field, an on-site case study is an appropriate method to meet the objectives of this research.

The following part is a modified model of Backman's (1998) research wheel, which was applied in the thesis' research process.

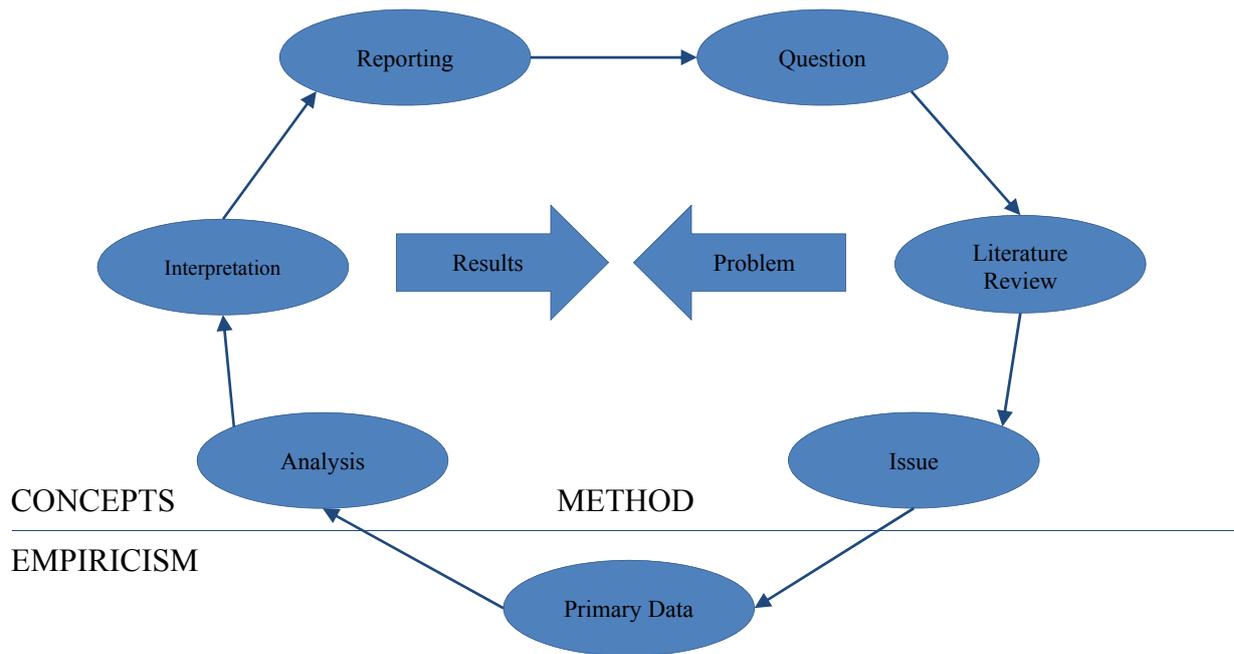


Figure 3. Traditional Research Process. Modified version of Backman's (1998, p.25) research circle.

This bachelor thesis has been conducted in 6 months corresponding a semester. A well-prepared and iterative research process has been very helpful for gathering and analyzing the information as well as writing the thesis. Moreover, examination of the related theoretical framework has been carefully done at the same time. The studies of modern reports and articles provide authors information about the current state of knowledge.

### 3.2 Literature Review

Walliman (2005) claims that the amount of theories collected correlates with the amount of information that is at the researcher's disposal in the analysis. Therefore, the authors strive to gather the maximum possible amount of relevant information. The literature research does not only allow researchers to learn the academic background of the subject, but also provides a framework for data collection and analysis (Saunders, Lewis & Thornhill 2012). The theoretical framework of this research is based on studies of knowledge of the field in the form of books, e-books, and scientific articles in the relevant field. In the early stage of research, textbooks have been used to find relative information and knowledge of business management. The authors also studied scientific articles through the database Business Source Premier and Academic Search Elite. The purpose with this overall literature review is to study the research gap within the field. Finally, the authors also studied previously written research papers with similar problem areas to ensure that our problems are not predisposed, as well as further inspiration from relevant knowledge.

### 3.3 Company Choice

When it comes to choice of company the first decision that has to be made is which industry to target in this research. The tourism industry is one of the fastest growing economic sectors in the world. It has grown into a size that makes it surpass that of the oil exports, food production or even automobiles. It's currently one of the major industries in the international commerce and is in many developing countries the biggest income source (UNTWO 2015).

With the growing tourism industry and the possible impact on the environment that comes with it, there has been an increased concern of environmental impact from this industry. Cost savings, customer awareness and increased environmental consciousness have become more valid reasons for hotels to put more efforts on reducing the impact their practices has on the environment and society (Sloan, Legrand & Chen 2013). Over the last decades hoteliers and investors have to take more into consideration about the impact the hotel development and operations have on the environment and society, which has made sustainability a bigger part of the hotel industry (Goldstein & Primlani 2012). One can see goals like building brand image and branding power are often used to improve the corporate image while simultaneously reducing costs and increasing revenue.

The Balanced Scorecard is used widely in the field of hotel and tourism management due to the ability for managers to “translate strategies into tangible goals and measurements” (Chen, Hsu & Tzeng 2011). Standardized tools can help businesses like hotels, which display intense regional and localized strategies, to compare performance across borders (Phillips & Louvieris 2005). Unfortunately, there is a dearth of high quality empirical evidence concerning the use of the Balanced Scorecard for smaller hotels and resorts (Phillips & Louvieris 2005). Because of this, it is obviously better to examine a large organization that has the resources and abilities to implement and measure sustainability policies in a meaningful way.

The authors have chosen to study a Hilton Hotel within the tourism industry since they have a high focus on sustainability and have used the Balanced Scorecard as a managing system since 1997. The first sentence that comes from Hilton Worldwide when explaining sustainability is that “Sustainability is simply good business” (Hilton Worldwide 2012). They find it important at Hilton Worldwide to lead the industry with products and programs that deliver great guest experiences and protect the world that we all live in. Hilton Worldwide touches hundreds of communities and millions of people every day with their 4200 hotels all over the world (Hilton Worldwide 2015).

Some managers that utilize the balanced scorecard feel that additional categories may assist with measuring and improving operations (McPhail, Herington and Guilding 2008). According to Chen, Hsu and Tzeng (2011) “[t]raditional evaluation metrics are most often based only on financial performance and are thus limited in their assessment of overall performance.”. In many ways, sustainability may be tied to innovation, as new technologies such as solar electricity generation and solar water heating, as well as water recapturing or grey water reuse enable hotels to maximize sustainability and achieve cost savings as well. A case study of an environmentally friendly hotel clarifies that innovation is a key area for funding (Phillips & Louvieris 2005). Hilton demonstrates this quality by expending resources on recycling while achieving fiscal savings.

Considering the importance of sustainability to marketing, environment, and fiscal operations, Hilton is a perfect candidate for the research using a redesigned standalone Balanced Scorecard oriented towards sustainability.

### **3.4 Interview Guide**

Jacobsen (2002) states that an interview can be a more or less open character and thus be more or less structured. A fully closed interview is with prepared questions with set answers in a given order in advance, and a completely open interview is to hold conversations with neither an interview guide nor fixed questions’ order. Jacobsen (2002) argues that a qualitative interview should not be either fully closed or fully open. An intermediate option is

to create an interview guide where the theme and order of the questions are established, called a semi-structured form. The interviewers do not need to follow the questions' sequence, but the questions should be taken up in the order that comes naturally during interview. A semi-structured form of interview is selected in this research, whereby an interview guide is used. The orders of questions have not been followed strictly, but the authors have gotten all the answers to the interview guide and all the subjects are dealt with as the authors wished.

The interview guide includes questions that attempt to find out the perspectives of the management on the separate sustainability balanced scorecard and as well as its thoughts, emotions, and ideas on both the current sustainability of the hotel, and the visionary strategy to grow as a company. The questions in the interview guide are all designed as open questions. The authors have determined that open questions are used in the interview guide because of the authors' ignorance of the hotel's internal management. The first interview guide includes 25 questions of a qualitative nature and the second interview guide includes 5 questions with a few follow-up questions about Hilton's sustainability operating system, which was designed just for the second interview.

One of disadvantages of interview method is that complications may arise if the interview questions are not well structured. This can misguide the respondent's answers, and further cause inaccurate conclusions of the research (Bryman & Bell 2011). To prevent this problem, a well-conceived interview guide is used in the interview process. The interview was recorded and both authors made the transcriptions. The authors used a comprehensive qualitative approach throughout the interview process, adhering to ethical guidelines. In analyzing the resulting data, an extensive and thorough combination of approaches is believed to cultivate a strong conclusion.

### **3.5 Data Collection**

The collection of data is the foundation of research and will be centered on obtaining the necessary data to get a wide and clear understanding of the scorecard used for sustainability management. According to Upagade and Shende (2010) the interview process is the most efficient method of comprehending the views of respondents due to the opportunity of an expressive emphasis on the core principles of the operation. In evaluating the chosen subject of how the management system maintains sustainability, the observation required is both the researcher's experience of environment at play, and the understanding of management's experience via the interview process. In conducting interviews in this research, the observations of the management system will be centered on this concept of the balanced scorecard and sustainability. Thusly, the interviews will entail understanding the standalone sustainability balanced scorecard being used in Hilton, how efficient the business is as a collaborative and organized operation, how satisfied the customers of the hotel are with their experience, and how the adaptation or expansion of the sustainability balanced scorecard is occurring productively over time.

When it comes to interview as a method of research, Doss and Popkin (2011) stress the aspects of confidentiality and respect; where confidentiality is the upheld promise that the individuals participating in the research are not subject to any display of their behavior or dialogue unless they consent. This is important for the authors in ensuring the ability to use the data gathered in conclusions, and further creates an environment in which the participants are willing to be more vulnerable and honest. The second ethical aspect stressed by Doss and Popkin (2011) is the respect of the participants. In order to obtain authentic and unbiased information, the participant must feel safe to do so. This entails the understanding of what is

culturally acceptable to the participant involved prior to the testing, and accommodating it while displaying appreciation. Further, the motive for the study and questions used in an interview process must be based in sincere curiosity. Therefore, this is a wise method to eliminate the potential for unreliable and invalid conclusions in our research; therefore, the ethical perspectives are taken into the account in the research process.

The authors conducted two interviews at Hilton Tokyo with Nathan Cook, director of operations. After the first interview was conducted with Nathan Cook, the authors felt that more and deeper information was needed to get a better understanding of the sustainability balanced scorecard at Hilton. Therefore, a follow-up interview was conducted with Nathan Cook. During this second interview, the interviewing author was able to get a visual look of the management scorecard while receiving an explanation on how the scorecard works. The authors believe that this visual and in-depth explanation of the sustainability balanced scorecard has given a deeper understanding than any other possible interview that could have provided. As the focus of the thesis is to find out how the standalone sustainability management system works at the hotel there is no need to do more interviews as these two interviews combined with the data available at Hilton Worldwide's website provide all the necessary information the authors need. Thusly, the most important part of the empirical data, how the sustainability balanced scorecard works, is all covered in the collected data.

According to Bryman and Bell (2011) that the research source of a case study requires a balance between methodology and concrete data. The information received regarding the management system is deemed accurate and precise. Furthermore, while the opinions regarding how well the system works need to be critically considered for the various certifications received by the system proves that it is keeping up to a high standard (Sustainable Brands 2013; Hilton Worldwide 2014). Nathan Cook is an excellent all-rounder Hotelier with a successful record of achievement in New Zealand, the United Kingdom, and Japan working for a global hotel chain since the year of 2000, which makes his experience a very valuable resource. The authors believe there is no better respondent than Nathan Cook in regards to this subject in Hilton Tokyo.

These interviews were recorded, which enabled both authors to take part in the interviews, ensuring that the conversational information was not misunderstood, which is crucial in the accuracy of further analysis. The interview process provides the opportunity to discover and understand the way the respondent experiences the operations of hotel, at the same time, it allows him to share a general view of the sustainability balanced scorecard. Conveniently, one of the authors is a resident of Japan, allowing the author to personally interview the respondent. Appointments were booked in advance and the interviews were conducted without interruptions of other colleagues. The respondent appeared calm and talked freely during interviews. Only one author participated in the interviews since he is the only one living in Tokyo while the other lives in Sweden. However, since both interviews were recorded the second author was able to listen to them afterwards. The author asked the respondent to develop and clarify their answers if anything was unclear. Both authors have conducted transcriptions of interviews jointly.

Besides the carried interviews, the authors have also studied the website of Hilton Worldwide in order to understand respondent better and get comprehensive and thorough information for Hilton in general. This makes it possible for the authors to fill out and verify that what the respondent states in the interviews correspond to the reality of Hilton Worldwide. Attentions have been paid on the general characteristics of programs and systems of Hilton Worldwide,

and how different hotels in various areas handle things. However, this does not exclude the other points that could be addressed and analyzed if the authors believe that they are valuable for the analysis and conclusions.

### **3.6 Analysis Method**

The most efficient approach to analyzing our data is the qualitative research method. According to Ratcliffe (2009), there are fifteen different qualitative methods. In our research, we will use the hermeneutical analysis as a base together with parts of other the other fifteen methods. As the interview is recorded it makes it enable the analysis of the entire conversation, rather than solely highlighted points. This will also further provide an accurate understanding of the meaning in the respondent's responses, reflecting voice inflections.

Initially the analysis will interpret interviews by placing the content into the context of the situation at hand. Therefore, when analyzing the obtained data, the authors will view it through the lens of the Hilton's environment, including the interpersonal dynamics and the resources available for service. In this approach, the goal is to interpret the meaning of the interview's content within the context, and not solely the language used. Social and cultural patterns within Tokyo will also be considered in the larger context of interviews. Analysis will also be done understanding the individual's experience of the world around him. Precisely, the goal of interviewing the management at Hilton is to make it possible to formulate conclusions around a combination of the insider's perspective and the information from Hilton Worldwide. This combination with the visuals of the sustainability balanced scorecard makes it possible to make an in depth analysis with a variety of data resources.

### **3.7 Research Quality**

Reliability and validity are often viewed as separate ideas. In fact, they are actually related with one other. According to Phelan and Wren (2005), reliability is the degree to which an assessment tool produces stable and consistent results, and validity refers to both the discernment of which testing methods to use, and the efficiency of the testing measures. Patel and Davidsson (2011) claim that there are two basic rules between reliability and validity. The first is that high reliability does not guarantee high validity. This statement emphasizes the importance of considering the context of phenomena. Second, high validity requires high reliability. This means that one cannot conclude that test results are accurate unless both the method of testing and the subjects being tested are proven to be highly relevant and sufficient resources.

The authors believe that the validity of this study is accordingly high. The interview guide was considered and designed with great care in this study. The questions avoid unnecessarily difficult words and complex formulas and negations that may affect interviewer's understanding. The authors have also discussed the questions with outside individuals to eliminate the potential of bias and confusion. Further, the other sources of information used consist of books, Internet, essays, and scientific papers, which create overall validity due to the consistent information found being from non-collaborative perspectives and prior research. These scholarly sources predominantly consist of properly substantiated facts. Internet sources vary in terms of factual information. The quality and accuracy of information from webpages are less reliable, but the amount of information is substantial allowing an accessible method of cross-referencing to deduce the accurate information. However, there is a risk that information gathered might be erased. In most cases the authors have chosen to use minimal electronic sources because the information found on the Internet is not as stable and relevant as the literature. Since a large part of the authors' study is based on the method of

- Methodology -

interview, which typically means that reliability is questionable due to it being virtually impossible to conduct two interviews with exactly the same conditions.

Generalization means that the results of a given survey are also applicable in other situations other than the investigated one (Merriam 1994). The authors of the thesis set a normative study of practices and perceived the company's practices. As the authors researched the system of one specific company, they have no intentions to generalize the research results on other situations; however, it is possible to perceive a certain pattern in the same branch. Even though the interviews conducted were carried out with only one respondent, the authors believe that the information provided is very valuable and accurate, since the respondent's position in Hilton Tokyo and experience from other Hilton hotels assure that he has a vast and precise understanding about Hilton's management system. Since the focus of the research is on the sustainability operating system, the one perspective source would do no harm on the objectivity and credibility of research.

## 4 Empirical Data

***T**his chapter presents the information that obtained from the interview. The authors divide the information into four groups: The Balanced Scorecard, Sustainability Efforts, LightStay and the Social Efforts of Sustainability.*

### 4.1 The Balanced Scorecard

Hilton Tokyo uses the Balanced Scorecard as its management system on a commercial level. The Balanced Scorecard functions as a strategic map of sort for the hotel business at large, and is used by Hotel Hilton as a means to describe strategy, align metrics, and generally formalize its objectives. To do this, it must include four key elements. These elements include the Financial perspective, the profit that the hotel makes, the Internal perspective, their ability to drive, the room occupancy, the Customer perspective, how satisfied the customers are, and finally, Learning and Growth perspective, team member's satisfaction. At the same time, the hotel uses a standalone sustainability balanced scorecard LightStay and programs like Clean Air to embrace the sustainability aspects in its management system.

The standalone sustainability balanced scorecard LightStay works like the commercial Balanced Scorecard, just liked the commercial scorecard metrics are displayed to the user as well as the average over all of Hilton Worldwide. The scorecards show how each hotel compares to each other within the franchise as well as they compare to the average performance within Hilton Worldwide. Each area of the hotels effort is showed in color, giving the management a clear picture how their specific hotel measures up to the brand as whole.

The sustainability balanced scorecard LightStay provides the executive level with data on the commercial results of the hotel's sustainability efforts, to assist in assessment and further planning. In contrast, the LightStay reports are shared readily with the entire hotel team, though not with the public. In order to provide a better graphic picture of scorecards in Hilton the management instruments are illustrated here.

- Empirical Data -

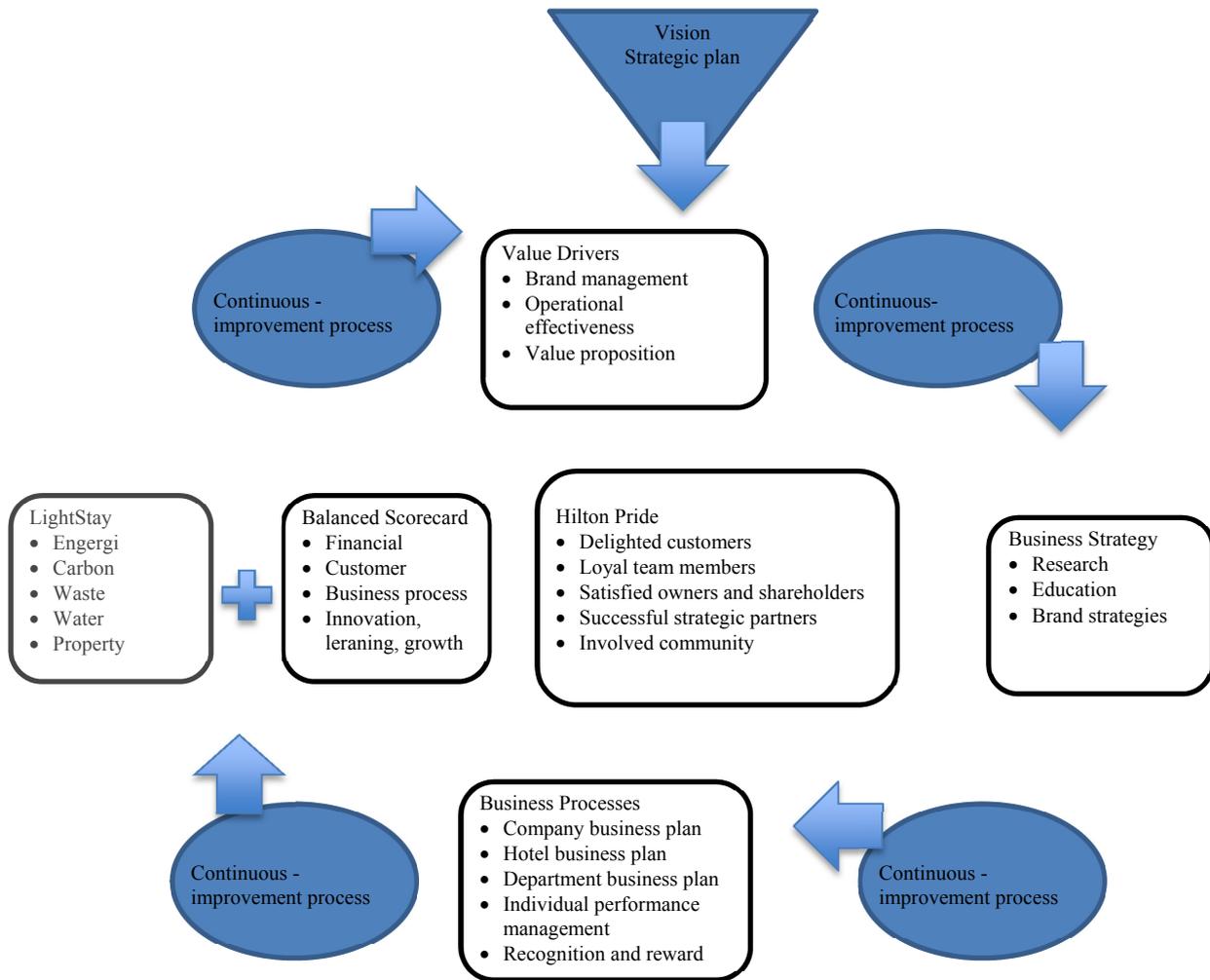


Figure 4: Modified Figure of Hilton's Management Instruments to illustrate sustainability incorporation (Patrick LaPointe 2005. s.46).

#### 4.2 The Sustainability Balanced Scorecard: LightStay

Sustainability is an important part of Hilton's core business, it's a driving part of their brand and image and is managed together with the hotels' business balanced scorecard and LightStay is used to measure the operational performance. The hotel is taking a holistic and comprehensive approach to sustainability in everything from the products provided and the services performed throughout the hotel to deliver great guest experiences, and to make sure that they conserve energy and water where they can.

Most of the sustainability focus to date has been on developing tools to support hotel in managing its sustainability performance. Hilton Tokyo, like the rest of the hotels under Hilton Worldwide, is using LightStay, the proprietary measurement platform, by engaging all departments and including metrics relevant to performance across various functions of hotel. The scorecard system is driven out of engineering primarily, and it requires the hotel to submit its monthly waste, monthly amount of electricity, and monthly use of oil or gas. The hotel then measures that versus occupancy. The hotel has individual goals for sustainability and measurements and evaluations are made with information from LightStay.

The sustainability balanced scorecard is developed to incorporate sustainability practices and analyze environmental impact. LightStay measures four aspects; they are energy and water usage as well as waste and carbon output. The LightStay analyzes performance across operational practices, such as housekeeping, paper product usage, food waste, chemical storage, air quality and transportation. In addition to its function as a standalone sustainability balanced scorecard, LightStay provides a “meeting impact calculator” feature that calculates the environmental impact of any meeting or conference held at any of their properties. The calculator is a valuable sales tool that helps drive business among meeting planners and corporate travel managers.

LightStay has been described as a separate sustainability balanced scorecard. It works out of an, for the user, easy manageable dashboard that displays and rates various areas of hotels efforts to provide service in a more environmentally friendly manner. Separate scores for energy consumption, water usage, waste disposal, and carbon footprints are being kept track off. Just as with the commercial balanced scorecard these scores comes with visuals to easier keep track of the efforts of one’s hotel. This picture following explains how LightStay works.

	Energy Score	Carbon Score	Waste Score	Water Score	Property Score
<b>Current</b>	65	55	57	52	34
<b>Goal</b>	60	61	55	56	62
<b>Average</b>	55	45	44	52	53

Figure 5: Illustration of LightStay Dashboard

LightStay also provides the opportunity to track the performance of other hotels within the franchise allowing the management of each hotel know how they are performing compared to their colleagues in other hotels. Mr. Cook explains it as an internal initiative to drive competition. This competition drives the hotel to do better as it puts it in a ranking against others.

Rank	Property	Current	Goal	Average
1	Hotel A	72	120%	131%
2	Hotel B	65	108%	118%
3	Hotel C	51	85%	93%

Figure 6: Illustration of LightStay Dashboard Ranking.

#### 4.2.1 Engery Score

Hilton Worlwide has since 2013 begun to adopt ISO 50001 certification for energy management. To achieve this certification, the Hotel has completed a major upgrade to LightStay, allowing to forecast future energy consumption levels, receive alerts when a variation from expected levels is perceived, and ensure all energy exceptions and deviances from the baselines are reported, in addition to receiving alerts when variation from expected energy level uses are exceeded. This allows the hotel to calculate ROI for a number of different energy projects.

Energy is essential to operations in Hilton Tokyo, from mechanical systems that controls air-conditioning to the lighting systems throughout the building to room appliances that directly enhance guest experiences. Electricity cost on average has been increased by 10-15% every year in Japan, which has been a very hard challenge for hotel operators. This since the Hotels can't increase their rates on 10-15% every year, so they have to absorb a lot of the energy costs in that relation. Electricity and utility costs are a challenge, but LightStay tracks the trends. Hilton Worldwide requires their hotels to use LightStay to measure, track and report their energy usage and to implement improvement projects to ensure that the energy efficiency is continuously improvement. Hilton Tokyo towards targeted periodical goals for example the energy cost, which all is being tracked within LighStay. The tracked data and performance in LightStay is then shared with the engineers to make them more conscious about turnings things on and off.

Various projects are executed in efforts to reduce cost, and LightStay comes in as a handy tool to effectively track these projects. Completing these projects will also help increase the score. The sustainability balanced scorecard can then be used to also keep track of the results of the effort of these projects. It also helps the team to communicate and coordinate their efforts, and be updated on a regular basis.

An example for such project is to make sure all rooms to use LED lights. While Hilton Tokyo renovated a dozen floors and there is many left, and it is something that can't be done all at once due to the cost. According to Mr. Cook the hotel is working with engineering every month to buy a few and slowly start converting the rooms. Because of the huge cost of doing it all at once the hotel is slowly doing that in an initiative to reduce the cost. Another effort that has been made to reduce cost is putting in window films in one of the restaurants have been performed to reduce the amount of heat impact. This effort should save the hotel two degrees in air-conditioning. While the initial cost applies, the long-term savings makes it worth it. Both these efforts also directly affecting the LightStay score.

Other effort that has been done is to reduce machinery usage when there is no team members or customers around. Examples of these is putting in sensors that would automatically turn off kitchen and corridor lights, and making sure the ovens were turned on as late in the morning as possible to conserve energy. The air-conditioning hours has also been adjusted to make sure nothing is put to waste. Tracking these kinds of projects through LightStay provides motivation in the form of concrete targets, against which progress can be measured as needed.

The following picture shows the energy information being gathered through LightStay. Due to the advantages of LightStay, the energy reduction calculation could be made in different ways.

Energy Reduction	Estimated Utility Cost Reduction	Total KBTU per Occupied Room	KBTU per square foot
13.6%	\$388M	↓26%	↓9%

*Figure 7: Illustration of Energy Reduction in Hilton Worldwide 2009-2013.*

#### 4.2.2 Carbon Score

Hilton Tokyo utilizes the LightStay system in order to monitor and calculate carbon emissions by all meetings and events, allowing for the purchasing of carbon credits. These credits can then be used to reduce greenhouse gas emissions via numerous means, such as funding

sustainable energy projects. The ultimate purpose is to give both individuals and organizations the opportunity to support environmentally conscious projects in the immediate area with no additional costs as a result. This program is supported by Hilton Worldwide's corporate responsibility strategy, known as Travel with Purpose, in order to provide shared value to its communities and businesses.

Hilton Worldwide has worked into an initiative that is known as the Hotel Carbon Measurement Initiative (HCMI) in order to more directly contribute to reducing the hotel industry footprint as a whole. In particular, the program utilizes the LightStay Meeting Calculator to track and measure the carbon generated by events. Once the carbon output is calculated using the LightStay Meeting Calculator, carbon credits is purchased to offset the environmental impact of the meetings. This can be done at little to no cost to the guests themselves.

As part of Hilton Worldwide's sustainability efforts the LightStay Meeting Calculator is publicly available on Connect meeting planning site in order to provide greater transparency to customers. This allows any meeting planner to calculate the carbon emissions resulting from their meetings at the hotel. Through these planning the hotel makes this directly available to group business customers and third-party meeting planners, allowing them to calculate the carbon emissions resulting from their meetings at the hotels themselves. How it works is simple: when a company holds an event or meeting in hotel the carbon emissions based on the energy, food and event space you use will be measured. The hotel purchases equivalent carbon credits from Hilton Worldwide partner Climate Friendly, which is then used to fund climate-friendly projects in the region.

The following picture shows the Carbon output information being gathered through LightStay. Due to the advantages of LightStay, the Carbon reduction calculation could be made in different ways.

Carbon Reduction	CO <sub>2</sub> Tons of Total Output	CO <sub>2</sub> Pounds per Occupied Room	CO <sub>2</sub> Pounds per Square Foot
20.2%	↑5%	↓7%	↓14%

*Figure 8: Illustration of Carbon Reduction in Hilton Worldwide 2009-2013.*

#### 4.2.3 Water Score

Hilton hotels are committed to reducing water use across the global footprint and support initiatives at individual properties that may one day inform companywide processes. Hilton adheres to strict measures to reduce water usage. For example, LightStay allows for various ways to monitor the usage of water usage, as well as the relative success of the different measures taken. The hotel has its individual goal for water reduction to drive awareness and engagement, and in the process foster even stronger results. Hilton is also partner with key suppliers to identify products and services that can support the hotel in accomplishing their water reduction goals. Hilton Worldwide has developed multiple partnerships to provide training and equipment to better manage and reduce water usage at hotel. An efficient shower for example can result in up to 30% water savings without impacting the guest experience, and a sustainable laundry may reduce water use by up to 45%. Hilton Tokyo also insists on using sustainable products that can reduce the amount of water used in cleaning processes by up to 30%. Another example is the hotel's laundry; the sustainable laundry could result in reduced water by up to 45% and by reduced energy by up to 43%. All of these sustainable efforts contribute to the water score in a positive way in LightStay.

- Empirical Data -

The following picture shows the water usage information being gathered through LightStay. Due to the advantages of LightStay, the water reduction calculation could be made in different ways.

Water Use Reduction	Gallons per Square Foot	Gallons per Occupied Room
13.1%	↓16%	↓10%

Figure 9: Illustration of Water Reduction in Hilton Worldwide 2009-2013.

#### 4.2.4 Waste Score

An integral part of our approach includes moving to an annual goal set by the hotels themselves to push engagement and even better results. Hotels moved away from goals targeting reduction of total output and instead are focusing on total diversion from landfill. This approach will help promote recycling and donations more effectively throughout our hotel operations.

LightStay provides functionality to connect hotels with organizations that accept donations such as soap, linens or soft goods, or leftover items from conferences. According to Hilton Worldwide the relationships with Global Soap Project, Clean the World, Good 360 and others hotels allows to connect with organizations to repurpose waste, which they may track in LightStay. Mr. Cook mentions the Global Soap Project as an example. Housekeeping in the hotel collect all the leftover soap and send it off to Singapore every month. In total the hotel send about 30-40kg every month, which gets recycled and then is sent off to “need markets” where people might need it most. This particular project gives an example of how environmental and social efforts done by Hilton can cross their border and intertwine. A combination of initiatives and partnerships with organizations around the world enabled the hotel to exceed its waste reduction goals. Hilton Worldwide adopts a Repurpose program that allows the hotels to learn from its best practices and track its results. According to Hilton Worldwide the Global Soap Project has capacity to produce over 4 million bars of soap a year and distributes them in 31 countries.

Hilton worldwide has a partnership with The Global Food Banking Network. By collaborating with the organization, Hilton will be able to collect surplus food from conferences and daily food and beverage operations that would otherwise be thrown away. The organization will connect Hilton hotels with local food banks and local community agencies so food can be delivered to school feeding programs, food pantries, soup kitchens, and other community programs. This program is very important and has a big impact on the local communities.

The following picture shows the waste usage information being gathered through LightStay. Due to the advantages of LightStay, the waste reduction calculation could be made in different ways.

Waste Reduction	Waste Intensity Pounds per Square Foot	Waste Intensity Pounds per Occupied Room
26.8%	↓2%	↓5%

Figure 10: Illustration of Waste Reduction in Hilton Worldwide 2009-2013.

#### 4.2.5 Property Score

Because the property score is recently introduced in the sustainability balanced scorecard, there is no historic information that could be displayed in this research. Property score's calculation is different from the other four scores, it is basically calculated with the different contributions that the hotel has made through different programs over the time. In terms of contributions to the community, Hilton occupies this sphere as well. Hilton donates money to the charities to for example buy books to educate children. Hilton also gets a lot of requests for one-night accommodations or dinner for two, from a lot of different charities. The hotel has given a lot of charities complimentary vouchers, which then are used in raffles in for example charity gala dinners.

Locally, Hilton Tokyo has done a lot of support groups for Tohoku following the tsunami 2011. Recently a donation of five thousand dollars for a new children's playground in Tohoku was made. Mr. Cook stated that Hilton Tokyo, in general, is perfect when it comes to these kinds of social activities. Collection efforts for Nepal in regards to the recent earthquake are also made, and he points towards the importance of the effort more than the actual sum that is collected. Hilton Worldwide has a special social responsibility system that requires the hotel to records all the efforts, time and money donations. According to Mr. Cook this system exist to challenge the staff and to make sure that the hotel doing enough, or even more. The hotel records all the hours it donates to the charity. Mr. Cook explains the efforts with some examples. It is about going to the orphanage and spending time with them. Sometimes the hotel sends out busses and brings the kids to hotel and offer interesting activities. Mr. Cook emphasized that these efforts cannot be measured in the terms of money, but it is a worthy and beautiful thing to dedicate time to. The contribution that the Hilton makes to the environment, as well as the community surrounding it, can be considered more valuable simply because of the moral benefits to helping others in need.

Mr. Cook believes that Hilton hotels all over the globe are amazing at getting involved in the community. However, Hilton Tokyo is not as interactive with the local community as other Hilton hotels in smaller cities. That is because there are too many hotels in Tokyo to really give one specific hotel as much presence. About the purpose of the social responsibility Mr. Cook explained it like this:

*“There is two elements in social responsibility. There is to look at us and get a big public relation piece out of it, which, is not a genuine approach. And you know the kids playground is not all over our website, we don't use it as a marketing tool. Only the kids and the local parents know, and that's enough. They are the ones that are affected the most; we don't need to make it a big marketing piece. One day these people might come to our hotel, and they might come and stay, but that's not the point. The point is to give them some kind of happiness. I think that was social responsibility is, but we can do more”*

## 5 Analysis

*This chapter presents the analysis of collected empirical data. The thesis' objectives are met here through discussions. The discussions focus on two problems: How Hilton Tokyo integrates its sustainability aspects in the management system and how the measurements are examined.*

Hilton uses what can be defined as standalone sustainability balanced scorecard. This sustainability scorecard is shared with the rest of the franchised hotels using an electronic dashboard tool. This sustainability scorecard as a whole does not drive far off from the original balanced scorecard and uses the framework of what could be called the "default scorecard". By using this balanced scorecards framework as a base to create a standalone sustainability scorecard combined with a heavy strategic focus on sustainability Hilton has displayed that incorporating sustainability has become a defining core driver.

De Koning (2004) claims that for a successful scorecard, four important qualities are needed: Focus, Validity, Connectivity, and Integration. All of these elements are necessary as an attempt to further integrate sustainability initiatives with the company's strategic plan.

### 5.1 Focused Metrics and Strategy

The first key element, *focus*, as De Koning (2004) describes, is the importance of not using too many metrics. According to Wilsey et al (2013) a successful scorecard should be an internal strategic management tool that is used to set priorities and focus. Focus is an important element of scorecard because it ensures that there will not be an overuse of metrics. This is because an array of metrics will overwhelm managers, leading to an unorganized and indirect scorecard plan.

#### 5.1.1 A Focus on Performance

The most common purpose of a business is to make money, and while this is true, it does not mean that business owners do not care about social and environmental issues (Provost 2015). Logically, however, few business owners are going to put more emphasis on these factors than on the initial goal of business, making money. So in order for a sustainability scorecard to have any real possibility of successful dissemination in the business world, the scorecard must not detract from the business strategy's primary focus. Financial perspective, one of the most important aspects in the original balanced scorecard, plays an important part in the construct of the sustainability scorecard as many of other aspects within the sustainability scorecard directly or indirectly affecting financial outcome. In a standalone sustainability-focused scorecard it displays that the financial perspective is not neglected, but it is rather enhanced.

In the Hilton's sustainability scorecard, the financial perspective's counterpart is shown through the performance measurement metrics rather than traditional monetary metrics. The sustainability scorecard has identified the goals of reducing water, energy and waste as three of its four sustainability metrics. By comparing used resources towards room occupancy Hilton is able to see relative progress over time. This makes it possible to construct and use metrics that focus on more effective usage of resources. The disciplined efforts on these metrics guarantee the fundamental decisions and actions in the company and guide the whole organization with a focus on performance towards the future. As Wilsey et al (2013) states that these well-planned effective metrics articulates not only the company's direction and progress but also know how it could be successful. Effective usage of these metrics have led

to a reduction of used resources which has been acknowledged to positively affect the financial outcome; therefore, improvements on these metrics can be seen as a strategy to continue increasing the bottom line and continue incorporating environmental and social aspects and objectives into the core management plans of Hilton.

### **5.1.2 The Importance of Social Responsibility**

The profitable sustainability practices in the business world would encourage the company to make more efforts on sustainability (Provost 2015). The growing awareness within the Hilton organization is that business practices that follow the triple bottom line call for entities to consider social, ecological and economic concerns to achieve corporate social responsibility. In turn, the foundation of business enterprise, corporate social responsibility has become a priority in the sustainability scorecard. Holme and Watts (2000) mentioned that corporate social responsibility can involve incurring short-term costs that do not provide an immediate financial benefit to companies, they instead “promote positive social and environmental change” while sustainability creates and maintains the conditions under which human beings and nature can exist in productive harmony. This also includes permitting the fulfilling the social, economic and other requirements of present and future generations.

Carbon output is the fourth metric in the scorecard, which fully confirms the corporate social responsibility. The carbon credit used towards the carbon output is a cost that comes up for the business and thus reduced carbon outputs reduce cost. It means that carbon output metric is not meant to calculate the reduced costs that these efforts give, but rather to show how effective the efforts have been on reducing the carbon output. The carbon output credits consumption in Hilton worldwide shows the corporate focus on social responsibility in a significant way. Sustainability is, however, not all about profit in a direct way; it is a commitment and contribution that companies can do for the communities and the whole society. Companies often have little or no understanding of the impact of the entire value chain on carbon output (Bonini & Görner 2011). The carbon output metrics in the scorecard have definitely shown that the company has determined its baseline performance on sustainability issues and then decided on a portfolio of initiatives to create value in those areas.

Considering all the facts, Holme et al (2000) states that involving corporate social responsibility with a sustainable development framework means adopting business strategies and activities that meet the needs of the enterprise and its stakeholders. It also confirms the potentiality of companies protecting, sustaining and enhancing the human and natural resources that will be needed in the near future. It displayed that adopting sustainability metrics is an essential part of corporate community and economic development. Sustainability metrics use resources effectively to produce long-term business value by incorporating corporate social responsibility within a marketing mix. Sustainability metrics return to the roots of marketing by discovering and understanding people’s needs, and developing a plan accordingly, all while generating prosperity and restoring the environment.

### **5.1.3 The Critical Aspects of Focus**

The effectiveness of the sustainability scorecard comes from the clear focus on what to be measured in the metrics. De Koning (2004) means that without a clear focus the company will end up measuring things that eventually lead to metrics that actually display what are not desired. In Hilton a heavy focus on what needs to be measured has been made and the metrics end up being easy to understand and follow up. Furthermore, without a proper focus on both environmental and social sustainability there is a risk of losing connection on the real goal of the sustainability balanced scorecard. Hilton’s focus on the performance improvements in the

scorecard instead of monetary results has become a success, which avoids the separate sustainability balanced scored functioning as a shell of the financial perspective in the balanced scorecard. All of the easy to understand metrics on the right focus are necessary as an attempt to further integrate sustainability initiatives with the strategic plan.

## **5.2 Integration of Sustainability**

According to De Koning (2004) integration is vital to effectively implement management, performance and development into the company. Likewise, using responsibilities innovatively with incentives will assist with integrating the proper policies into the sustainability scorecard. Motivational incentives are the key to integrating a default scorecard tactic because it improves the company's communal and environmental exertions.

While Butler et al (2011) argued that a detached sustainability balanced scorecard often lacks integration with the business and other core pillars of the balanced scorecard. It is illustrated that this does not have to be the case. The research displays that the sustainability scorecard does not necessarily exclude metrics for measuring the social and environmental aspects of sustainability; furthermore, the standalone sustainability scorecard integrate well within the whole business as which can be seen by its usage in the various hotels. The sustainability management system assists in the assessment and further planning of the hotels management requirements in general. The reports from the scorecard share responsibilities with the entire hotel team without involving the public of the shared responsibilities in general.

As to how Hilton incorporates the sustainability perspectives to the sustainability balanced scorecard in practice, the research illustrates full integration between the pillars in the sustainability scorecard and that of the balanced scorecard.

### **5.2.1 Integration of Resource Metrics and Internal Improvement**

Firstly, a direct link is that the financial perspective being measured up both in the balanced scorecard and the sustainability scorecard. Though the sustainability scorecard displays no direct link to the financial perspective in the balanced scorecard, the various resource-related metrics being adopted directly affect resource usages that will result in reduced costs and increased profit. All of these improvements in the sustainability balanced scorecard directly affect the financial perspective in the balanced scorecard. This integration between the two scorecards help the sustainability practices to be easier achieved in the end. The sustainability balanced scorecard also serves a few purposes of the internal processes perspective in the balanced scorecard. Though this perspective does not exist in the sustainability scorecard as a main aspect, all of its metrics in sustainability balanced scorecard take consideration of the goals of the internal processes perspective. The processes perspective seeks to study aspects such as the efficiency, speed, quality, delivery, and development of the services, products, and internal support systems (Balanced Scorecard Institution 2015). It is revealed that that the efforts on socially environmental projects and improvements on metrics in the sustainability balanced scorecard are functioning similar to the internal process perspective.

### **5.2.2 Learning and Growing with the Customer**

Integration towards the learning and growth perspective can be found from two sides. A workplace that is sustainably responsible creates a sense of pride that increases the moral of the team members and makes them happier to be working at their workplace. This goes in hand with a research made by Pleon (2005) that showed that a focus on sustainability produced employee moral satisfaction that increased productivity, as well as attracting and maintain more talented people. On the other hand there is a need to make team members aware of the efforts being made and teach them how they can put their efforts effectively

while creating a culture that not only incorporates the perspectives of the sustainability scorecard but also that of the balanced scorecard. There is also a connection to the customer perspective in the sustainability scorecard, as the carbon output aspect and the option for customers to actively take part in the programs will have a positive effect on the customer perspective. This makes customers feel involved and as a result, creates satisfied customers. A further integration with the customer perspective and its managing system can be seen taking place in the property score metrics. Kaplan and Norton (2007) state that the customer perspective focuses on customer satisfaction by using a lot of data to understand the customer in the balanced scorecard, just as seen here with the property score in the sustainability scorecard, it has made it easier to understand the true feelings and sentiments of surveyed customers.

### **5.2.3 Critical Aspects of Integration**

The research reveals that the sustainability balanced scorecard's integration with the present management system is very important in the implementation process. Regarding the degree of integration it has to be distinguished whether sustainability goals and indicators are partially or completely integrated. The partial approach usually constitutes a first step towards integration of sustainability aspects into the balanced scorecard and may arise attention of environmental respectively social aspects within the business. It is clear that the full integration is desirable in the practice. However, there is no denying the fact that a complete integration of sustainability aspects would have a higher signaling effect. As Figge et al (2002) said, without proper incorporation with the present management system the standalone scorecard would create a gap between two parallel management systems. In order to translate strategy into action and thus to link strategy with the operational level of management activities, the integration is absolutely the most important aspect to be addressed.

## **5.3 Connections between Strategy and Implementation**

The third vital quality of a successful scorecard is the need for the company to clearly communicate its strategy to all of its stores, plants, or facilities. There is also a necessity that there are clear connections and communication channels between different management departments (De Koning 2004).

### **5.3.1 Turning Goals into Practice**

Devising an offshoot from the balance scorecard, the sustainability balanced scorecard concept is the one that used to assess the perceived importance of relationships between corporate social responsibility and business performances to support the goals of hotels (Figge et al 2002). An effective sustainability balanced scorecard translates corporate goals to all levels and locations. Ideally, workers know how their piece of the puzzle supports the greater organizational goals. In order to incorporate environmental and social aspects into the scorecard in a meaningful way, it will be vitally important that the model show how these aspects support the greater corporate goals.

Hilton's case indicates that adopting a separate sustainability balanced scorecard is a positive business move. While strategic planning exercises always have room for improvement and new insight, considerable resources especially in the form of company personnel are spent in Hilton to develop and roll out strategies designed to give the company a competitive edge. While the balanced scorecard in Hilton cannot be shared with people outside the executive rank and the sustainability scorecard can be shared with the team members of the whole hotel, it makes it possible for the team members to see the impacts of their efforts. Because Hiltons personnel could easily get use of the sustainability balanced scorecard, it saves resources for the company to execute the strategic planning, just as De Koning (2004) deems that is

important for a successful scorecard, which cause a more effective connection towards the strategy and makes everyone become more aware of their efforts. A higher transparency in the sustainability scorecard also makes it possible for team members to feel like they are a part of the system and that they have a part in not only making the Hilton hotel more sustainable, but are actively contributing to the company's goals.

The sustainability scorecard has become the primary tool for connecting team members with the company's sustainability efforts. This is achieved by allowing the different departments actively taking part in the various efforts by submitting data to the sustainability scorecard. Each team member is further connected to the goal and strategy of the sustainability efforts as it makes them aware of the impact that even the smallest efforts may have. This practice assists creating a corporational culture that naturally makes the team members take sustainable efforts in the daily activities.

### **5.3.2 Critical Aspects of Connectivity**

The most critical aspect of successfully communicating sustainability scorecard comes down to having defined and clear outcomes for each metric, followed up with activities that work towards achieving those outcomes (De Koning 2004). At Hilton this is accomplished by having clear and consistent metrics that are easy to understand and follow-up. Furthermore, by having simple tasks, including putting in the related data into the system, makes each of team members fully aware of their part towards the strategy goal. This leads to a separate sustainability scorecard which functions as an operational instrument for performance management and measurement of which provides the opportunities for the company to clearly communicate its strategy.

## **5.4 Validation of the Measurements**

The last quality for a successful scorecard is the need for validated measures that will reflect the performance outcomes that drives the organization's long-term financial success (De Koning 2004). It means that a modified sustainability balanced scorecard will still need to be outcome focused, specifically outcomes that pertain to the business itself. The sustainability balanced scorecard is used to check the performance of sustainability and social efforts. It illustrates that businesses do not tend to see social or environmental impact as an indicator of business success. For a modified scorecard to be successful, environmental and social issues will need to be reframed in such a way that the impact on the business is very clear.

### **5.4.1 What Gets Measured Gets Managed**

As Figge et al (2002) claims that environmental and social responsibility into a company's management system is to maintain the validity and reliability in the internal performance. It is incorporated from their high quality customer service, amenities, management, and operation strategies. By building a new corollary of what gets valued gets delivered, Hilton has created the axiom of 'what gets measured gets managed', as the cornerstone of its mission. Using the sustainability scoreboard has allowed the Hilton value chain to connect the company's vision and strategic plan with recognizable value drivers that designate direct strategy and tactical processes. The sustainability balanced scorecard is the critical link in Hilton's value chain, as it translates corporate strategic direction into measurable goals. This allows them to link long-term strategic objectives to short-term tactics. Furthermore, the scorecard works as a tool for observing the performance of both financial and non-financial tactics that will create further sustainability and value within the company. In order to properly measure performance, the Hilton sustainability balanced scorecard drills down through management to the front-line team members at individual properties. Everyone, from hotel managers and department heads to corporate staff, has the opportunity to follow the sustainability scorecard. This allows them

to identify a variety of performance measures that support the company's overall objectives. The result is alignment: people at every level of the organization know what is expected of them and how they are performing.

As De Koning (2004) claims that a successful scorecard needs to validate measurements that will reflect the performance outcomes that will drive the organization's long-term financial success. The sustainability scorecard adopted at Hilton Worldwide uses a metric that goes from 0 to 100. By adopting these straightforward metrics this measurement system provides the user a clear idea of the progress over time. While some projects at Hilton would not bring clear profit in the short-term, however, improvements on the metrics in the long run gives an option for following up the whole process which eventually leads to long-term profit.

Through the sustainability balanced scorecard, Hilton is able to calculate and analyze the company's aggregate sustainability performance across more than 200 indicators. As Bennet and James (2006) state that the measurement and management of the interaction between business, society and the environment is the sustainability performance. It is crucial to understand precisely how businesses utilizing management system like the sustainability balanced scorecard to repurpose it to measure the success of their sustainability initiatives. Traditionally, they need to develop a clear and precise analytical metrics to measure performance. Such metrics usually include financial data such as revenue, profit margins, and cost of sold goods. However, in order to measure the performance of sustainability, a new measurement system would have to look beyond these measures to include other perspectives. That's why there is not a clear financial outcome as one of its pillars in the sustainability balanced scorecard. Through the new measurable metrics the financial outcome could be calculated for most of the pillars anyway and this is the success of the standalone sustainability balanced scorecard.

#### **5.4.2 Sustainability Return on Investment**

One method to validate and compare various investments is to use the return on investment, ROI. As the name suggests, ROI is a way to measure returns on investment, monetarily. Though sustainability efforts do not usually show direct monetarily returns, the usage of the sustainability metrics would do. EarthShift (2015) explains that Sustainability Return on Investment can integrate the ability to measure the social, economic and environmental returns on sustainability initiatives, and it has become a methodology that is designed to examine the decision-making process, giving the decision-maker here a financial picture of the decisions they are to make and their probable range of return on investment. However, some aspects of social responsibility in the scorecard are very difficult to measure while using traditional accounting and financial measurements.

Though the monetarily return on sustainability efforts is hard to predict or calculate because of time aspect, measurement on the metrics in the sustainability scorecard enables the promotion of the ROI ideas to be used non-financially and would provide possibilities to examine business in a different way, rather than trying to calculate the potential profit monetarily in the long run. By using the metrics provided by the sustainability balanced scorecard, it provides the business a way to calculate and predicate the return on investment. Rather than using the expected monetary returns, it the sustainability scorecard has made it possible to calculate a SROI by using the expected metric returns on investment. Combining ROI with the metrics from the sustainability scorecard in this way enables the company to compare different investment options without having to estimate the monetary returns. This is an approach that becomes appealing in a world where an increased focus on the effects the company has on the social and environmental fields, and is made possible through the usage

of metrics of the sustainability balanced scorecard.

#### **5.4.3 Critical Aspects of Validation**

Kaplan (2010) states that for business to emphasize and improve management of their intangible assets, it was necessary to integrate and quantify the measurements of intangible assets into their management systems. However, the value of an intangible asset depends critically on the type of organization, the accompanying strategy and other complementary assets. It is important to consider situations in which the intangible asset is deployed, as intangible assets are not part of a linear, additive model, which is readily quantified.

In Hilton's case, it demonstrates that the proper metrics or aspects for corporate sustainability, the setting-up of corporate environmental, social and business strategies should be done beforehand. The different goals of all the perspectives should help to support the achievement of the financial targets even though the focus is just on the sustainability aspects. By making the well-designed metrics in the sustainability balanced scorecard the performance measurement is effectively validated. Another important critical aspect to be found is that the sustainability scorecard should be treated as a planning tool and enhances transparency of potentials for value-added emerging from social and environmental aspects and prepare the implementation process of the strategy. It offers a reference frame which makes it possible to understand how causalities between the single economical and sustainable dimensions.

## 6 Conclusions

*The authors answer the research questions here by drawing conclusions from the analysis. It is not possible to generalize the findings to other companies other than the studied case, but it is possible to perceive a certain pattern in the same branch.*

In order to have a clear structure, the authors have divided the findings from research into two groups according to the research questions.

- How to incorporate sustainability perspectives into the strategic plan by constructing standalone sustainability balanced scorecard?
- What kind of critical aspects should be taken into consideration while adopting a separate sustainability balanced scorecard?

### **6.1 Incorporation of the Sustainability Perspectives into the Strategic Plan using a Separate Sustainability Scorecard**

The sustainability balanced scorecard at Hilton is not driving far off from the original balanced scorecard produced by Kaplan and Norton. The similarities with its ancestor have made the research meaningful and it is believed that it helps to successfully incorporate the sustainability perspectives into the strategy plan. In the following text five important points that have strong effects towards the successful incorporation are presented.

#### **6.1.1 Performance Measurement Metrics**

By keeping focus on a more specific type of metric on the sustainability balanced scorecard, the company is measuring what is most important to the business and leaving all of the other fluff aside. The managers could look at specific metrics and not to be overwhelmed by adding in numbers that do not matter to the work and what they are trying to improve. Though financial perspective is not superficial focus area of the scorecard, it is interesting to find that the research has displayed that the enhancement on financial perspective in the sustainability balanced scorecard could be achieved through the focus on performance measurement metrics rather than traditional monetary metrics. They take into account the goals of reducing resources and try to take specific metrics in order to see where the company is in terms of reaching these goals. By reducing the use of these resources, therefore a win-win situation in terms of profitability and environmental sustainability arises.

#### **6.1.2 Strategy on Social Commitment**

The research also surprisingly revealed that the organizational strategy on the composition of sustainability metrics should be the focus on the long-term business value by incorporating corporate social responsibility in the sustainability balanced scorecard. While trying to improve environmental sustainability, once these initial costs are incurred, down the line companies will eventually begin to see the financial rewards of having their company become environmentally sustainable. By becoming more sustainable, the company is showing society and the communities that it operates in, how committed it is to trying to make these communities and the world a better place to live in. With this type of commitment, business will receive positive energy from their customers and the community as a whole, which in turn will come full circle to helping their bottom line.

### **6.1.3 Utilizing the Balanced Scorecard's Framework**

In terms of effective integration of the sustainability balanced scorecard and its implementation, this is needed in order to effectively implement management, performance and development into the company. To the contrary to what Butler et al suggested, the research shows that the detached sustainability balanced scorecard could reach the full integration with the balanced scorecard in our case and this strategy has been achieved through adopting the functionally equivalent pillars as in the balanced scorecard. However this result could be an exception and possibly be limited to just the hospitality branch due to the type of effects hotels have on the environment and how those can be dealt with. The research concludes that motivation and positive incentives are vital to integration of the scorecard because this improves the amount of participation by the internal staff. By utilizing customer metrics on the sustainability scorecard, it makes it easier for the company to see how well the integration of the sustainability measures have been and then compare the old metrics to the new ones and see what needs to be changed and what is currently working.

### **6.1.4 Transparent Scorecard**

While the sustainability balanced scorecard could be shared with the whole workforce, it is interesting to find that high transparency could make the team members get more involved in the sustainable efforts. The research has also illustrated the importance of strategy communication with the internal and external workforce in the sustainability balanced scorecard. This makes the workers be aware of the strategic plan in place and so that they know how vital their participation is for positively improving the business in the future. By translating corporate goals to all levels and locations, workers could contribute more accurately to the overall organizational strategy that leads to a success element in the sustainability balanced scorecard.

### **6.1.5 Measurable Outcomes**

By keeping the scorecards measurements easy to understand, this leaves out any room for error or confusion by those filling it out as well as those people involved in analyzing the data and using it for strategic purposes. The following reflections are obtained from Hilton's case. By using a number of indicators, keeping the scorecard easy to understand is important for the success of the sustainability balanced scorecard and how they will be used in strategic planning going forward. The sustainability balanced scorecard can be an integral part of management and be used as a resource tool to help grow the company. The short-term costs for implementing the sustainability would be covered up by the future positive social and environmental change. Measurements on the metrics in the sustainability scorecard further enable the usage of the ROI where it otherwise would not be usable and provides possibilities to examine business with other methods. Instead of using the return on investment financially, the metrics from the scorecard makes it possible to compare various investments by calculating a value that provides the return in gained metric points. As this measurement method is useful and effective for the sustainability in the research, the authors believe that this method could make the decision-making more effective in managing sustainability.

## **6.2 Considerable Critical Aspects while adopting a Separate Sustainability Balanced Scorecard**

As the research displayed, there are several vital aspects that should be attended well while adopting a standalone sustainability scorecard. Firstly, It is of great importance that the scorecard has its priorities. Through adopting a few well-selected aspects in the scorecard the whole company is informed of methods of more effective usage of resources. The few effective aspects including focused metrics articulate not only the company's direction and progress but also guide the whole company on the sustainability strategy on the contrary. By

implementing a strong focus in the scorecard the company avoids overusing the measurements and an unorganized scorecard. Secondly, as the sustainability balanced scorecard assists in the assessment and further planning of the hotels management requirements in general, the full integration with the parallel management system balanced scorecard has become a necessity to grant the success of the separate sustainability balanced scorecard. The research reveals that a successful separate sustainability balanced scorecard could be accomplished through implementing specific business necessities that correlate with synchronous balanced scorecard.

Another important aspect is that the sustainability balanced scorecard should be designed to enhance transparency for the whole value chain from social and environmental aspects and help implementation process of strategy. The high transparent sustainability balanced scorecard could offer a reference frame that assists the workforce to understand how causalities between the single sustainable practice and economical outcome.

Last but not the least, as all the metrics in the sustainability balanced scorecard offers possibilities to translate sustainability strategies into action, the separate sustainability balanced scorecard functions as an operational instrument for performance management and measurement and it provides the opportunities for the company to clearly communicate its strategy. At the same time, the setting-up of corporate environmental and social strategies must be finished beforehand. In this research all the aspects and metrics and measurements in the scorecard are beforehand decided, which grants the scorecard to be carried out successfully. And the planned-up scorecard could further improve the efficiency of the whole value chain in an obvious way.

### **6.3 Suggestions for further research**

Since this study's implementation is based on a normative study, there are many interesting aspects to explore in the field for others. Several relevant research questions could be interesting for the further studies:

- To what extent do business owners / managers agree with the claim that sustainability ought to be measured by their companies?
- How to define the business concept of sustainability and how companies are working concretely with these issues?
- How to control and monitor sustainability efforts in companies that do not use the balanced scorecard?
- How many companies that are using the balanced scorecard have integrated sustainability aspects in them?
- What arguments for companies not integrating sustainability aspects in a balanced scorecard?
- To which extent the small businesses integrate sustainability aspects in a balanced scorecard?

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## 8 Attachments

### 8.1 Interview Questions

1. Which perspectives do your Balanced Scorecard Comprise? Can I have a look at your Balanced Scorecard?
2. What is your general impression of adopting the Balanced Scorecard to measure performance?
3. What does Hilton do to ensure that the service provided is as environmentally friendly as possible?
4. How does Hilton measure the effects of these environmentally friendly services in the Balanced Scorecard?
5. Do you know any of the reasons behind implanting these practices or programs (to the Balanced Scorecard)?
6. What are the biggest concerns that arise when trying to work towards these goals?
7. Going back to the perspectives of the Balanced Scorecard, where can the effects of Hilton's environmental efforts be found?
8. Have you noticed any difference on how this is being handled between the different hotels you've worked at?
9. *Which do you think have worked best, and why?*
10. Are you currently working with Lightstay?
11. How are the ... measured?
  - Carbon output
  - Waste output
  - Energy use
  - Water use
12. What are the goals with Lightstay, and what do you do to reach them?
13. Are these values being used in the Balanced Scorecard?
14. Does Hilton measure "social responsibility" efforts in the Balanced Scorecard?
15. In which perspective is it measured?
16. Any examples that you can share that would describe this?

17. Are you aware of any/the financial benefits of working towards these environmental goals?
18. *How about the social goals?*
19. Does Hilton provide any special programs or courses for its team members to ensure that the social and environmental goals are put into practice?
20. If you were to define the word “sustainability”, what would it be?
21. What was the driving force behind working towards a more “sustainable” Hilton?
22. What positive effects have you experienced from integrating these “sustainability” aspects into your work? Any negative effects?
23. How do you feel the work towards environmental and social issues is affecting the team members’ moral?
24. Are you satisfied in how your environmental and social efforts are currently being measured in the Balanced Scorecard?
25. Any plans to further develop the way these efforts are being measured that you’re aware of?

## 8.2 Follow-up Interview Questions

1. What are the similarities between the business Balanced Scorecard and Lightstay?
2. How does the data you get from Lightstay affect your everyday practice?  
*(Example: how is the data used?)*  
*Any similarities to how the data from the business Balanced Scorecard effect your everyday practice?*
3. So if I understood this right, the data provided to you in Lightstay is initially recorded by say the sales team members and then used in your work to take appropriate actions?
4. In more details, how are you being evaluated on the results performed by Lightstay?  
*Are there any similarities to how you're evaluated on the business Balanced Scorecard?*
5. Are there any links with the savings that you gain from using Lightstay and the business Balanced Scorecard?  
*Or, perhaps is it just limited to reduced costs resulting in higher profits in the Balanced Scorecard?*