The Stakeholder Scorecard

“Keeping Score” regarding Accountability

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Organizations, even those that are profit-oriented, are usefully viewed as a web of relationships between and among various stakeholder groups. Indeed, an organization may be defined as a "nexus of contracts." These "contracts" or relationships are marked by contributions from the various stakeholders in return for inducements provided by the organization. Over the long haul, the sustained success of an organization is a function of the extent to which the needs and requirements of its various stakeholders are integrated and balanced, without sacrificing any one to the other. There is, in this arrangement, mutual influence and accountability.

Introduction

My central point in this paper is that many organizations would be well served by making use of scorecards reflecting the mutual accountability that exists between an organization and its stakeholders. Such scorecards are known as "Stakeholder Scorecards." My current view of what such a scorecard might look like for the typical business organization is shown below.

Stakeholder Scorecard

Suppliers	
Contributions	***Inducements***
Goods	Income
Services	Relationship
Assistance	Ongoing business

Customers	
Contributions	***Inducements***
Income	Goods
Repeat Business	Services
Needs & Wants	Value

Stewards	
Contributions	***Inducements***
Leadership	Compensation
Governance	Career
Management	Power
Strategy	Legacy

Employees	
Contributions	***Inducements***
Time	Compensation
Effort	Benefits
Ideas	Relationships
Results	Career

Investors/Lenders	
Contributions	***Inducements***
Capital	Return/Dividends
Operating Funds	Interest

Community	
Contributions	***Inducements***
Tax Breaks	Employment
Labor Market	

Figure 1 - An Illustrative Stakeholder Scorecard

A Confession

I must confess to failing in a ground-breaking effort to develop an Accountability or Stakeholder Scorecard when I was head of Strategic Planning and Management Services at Educational Testing Service (ETS) in the late 1990s. I had the CEO's blessing to develop such a scorecard but I was soon directed to relinquish direct leadership and command of the effort and my successor quickly engaged a consulting firm that produced a rather conventional balanced scorecard. Nevertheless, I did not lose my belief in the value of a Stakeholder or Accountability Scorecard and I also learned a great deal which I will share in this paper.

Executive Interest in Organizational Performance

The popularity of an approach to performance measurement known as the balanced scorecard suggests a continuing interest in measuring and improving organizational performance. This interest is coupled with a concern that financial performance should not receive undue emphasis. Hence, as its name implies, the balanced scorecard is a device for balancing concern about the financial performance of an organization with concern for other aspects of performance (e.g., customer satisfaction, employee learning and growth, and internal processes).

The "Stakeholder Scorecard" is a stakeholder-based approach to assessing organizational performance. It focuses on assessing how well the organization is integrating and responding to the needs and requirements of its stakeholders. It seeks a balance, too, but not between financial and other measures of performance; it seeks to balance the relationships between the organization and its key stakeholder groups.

Organizations and Performance

Organizations are usefully viewed in many ways: as devices for meeting individual and societal needs; as collections of processes; as assemblages of people; as structures of authority; and as legal entities, capable of owning property and engaging in ongoing commerce, to name a few. It is also the case that organizations differ from one another. Those that are closely held differ in significant ways from those where ownership is diffused among thousands of shareholders. Both these differ markedly from nonprofit and government organizations, where, generally speaking, profits and owner or shareholder wealth are of no concern.

Many organizations, even those that are profit-oriented, are usefully viewed as a web of relationships between and among various stakeholder groups, as a "nexus of contracts" (Atkinson, Waterhouse and Wells, 1997). These "contracts" or relationships are marked by contributions from the various stakeholders in return for inducements provided by the organization. Stakeholders remain stakeholders only so long as the inducements received from the organization make it worthwhile to provide the contributions sought.

It is worth noting that what is a contribution and an inducement varies with one's perspective. Take the simple example of an employee who exchanges labor in return for pay and benefits. From the organization's perspective, the labor is a contribution and the pay and benefits constitute the inducement. However, from the employee's perspective, the labor provided can be viewed as an inducement given the organization in return for the contribution of pay and benefits. It is this relative nature of contributions and inducements that makes the exchange reciprocal and makes accountability mutual.

The long-term success of any organization is a function of the extent to which the needs and requirements of its various stakeholders can be integrated and balanced, without permanently or completely sacrificing any one to the other. This arrangement is not unilaterally defined; indeed, as noted above, it is marked by mutual influence and accountability. Thus, the ultimate balancing act in any organization is the one whereby the needs and requirements of the organization's stakeholders are reconciled and integrated.

It is the main thesis of this paper that many organizations are well served by making use of scorecards that reflect the mutual accountability and influence between the organization and its key stakeholders. It should be noted, however, that what is being presented here is essentially "a good idea," not a report on a widespread practice. Not much is known or has been written about stakeholder-based approaches to measuring organizational performance. A noteworthy exception is an effort at the Bank of Montreal to develop a stakeholder-based approach to measuring organizational performance (Atkinson, Waterhouse and Wells, 1997). Another was an effort in the late 1990s to develop a Stakeholder Scorecard at Educational Testing Service where the author was then employed as head of Strategic Planning & Management Services.

Balancing and Integrating Stakeholder Needs and Requirements

Stakeholders may be thought of as groups of individuals or organizations significantly affected by what goes on at an organization, with a stake in having it go well, and for whom the organization wants things to go well in return. In other words, the relationship is reciprocal. The organization gives and gets something. So do the stakeholders. There is some kind of *quid pro quo*.

Some basic stakeholder groups are identified and are briefly described in subsequent paragraphs. These are intended as illustrative stakeholder groups and should not be viewed as a prescriptive set of stakeholder groups applicable to all organizations.

Clientele

"Clientele" refers to all those an organization serves. The use of "clientele" avoids unnecessary and unproductive debate about the meaning and use of terms such as "clients," "customers," and "users." All are included under the heading "clientele."

Employees

Employees are people, other than the officers and directors or trustees of an organization, who think of themselves as members of the organization. This view of membership carries connotations of people making commitments to the organization that go beyond pay in exchange for work performed.

Suppliers

The Suppliers stakeholder group consists of individuals and businesses that provide an organization with the products and services that are used to create the products and services the organization in turn provides, sells, or leases to its own clientele. Suppliers include vendors, subcontractors, and partners. Even utility companies qualify as suppliers. Technically speaking, employees are suppliers, too, but they constitute such a special class of supplier that they receive separate treatment. And, of course, there are those who supply capital and operating funds; namely, investors and lenders.

Stewards (Officers, Directors or Trustees, and Key Managers)

The officers, directors or trustees, and other key managers of an organization bear special burdens of responsibility for its performance -- financial and operational. They are also responsible for the extent to which the organization satisfies the needs and requirements of other stakeholder groups. In addition, they are concerned with the organization's image among various constituencies such as the general public, regulatory agencies, and professional communities of interest. Most important, they are concerned with the organization's impact on and contribution to society, and for its continued viability as an organization. As a stakeholder group, senior managers, directors, and trustees may be viewed as the "stewards" of the enterprise.

Differences between Stakeholder and Balanced Scorecards

There are two important differences between a Stakeholder Scorecard and a Balanced Scorecard.

Difference #1: Architecture

The balanced scorecard was originally developed as a means of offsetting what was viewed as undue, almost exclusive, emphasis on financial results as the measure of an enterprise's health and performance. The balanced scorecard is aptly named; it attempts to balance measures of financial performance with measures of performance related to the customer, internal operations, and learning and innovation.

The four categories on a balanced scorecard are very broad and could accommodate a wide range of specific measures. The question arises: Which measures to use? Kaplan and Norton, the balanced scorecard's creators, suggest that the measures on a company's scorecard should be ones that will communicate and drive the company's strategy. Using the balanced scorecard this way makes it a strategy deployment tool, not just a gauge of the organization's health or performance. Moreover, if the balanced scorecard is used only to drive strategy, and if it drives the wrong strategy, the organization won't know unless there are other gauges of organizational health and performance.

In terms of Harvard Professor Robert Simon's control systems scheme, the balanced scorecard is a "diagnostic control system" (Simons, 1995). Other kinds of control systems include belief systems, interactive control systems, and boundary systems. The point here is that no scorecard is, by itself, an adequate control system.

The goal of the Stakeholder Scorecard is to identify and make use of measures that reflect the health and performance of the organization. Again, the question arises: Which measures to use?

James Burke, former CEO of Johnson and Johnson, observed that the ultimate measure of an organization's success is the extent to which it "serves all of its constituencies better than its competition" (PBS Video, 1995). Clearly, this entails integrating, balancing, and satisfying the needs, wants, and requirements of the organization's stakeholders. This concept of stakeholder satisfaction has been adopted as the basic principle upon which the architecture of the Stakeholder Scorecard is based. Hence, the four categories of clientele, staff, suppliers, and management (this latter group being referred to herein as the "Stewards" of the enterprise).

Difference #2: Perspective

Another key difference between the balanced scorecard and the Stakeholder Scorecard lies in the number of perspectives involved. The Stakeholder Scorecard attempts to answer the question of "How are we doing?" from the perspectives of all the key stakeholders, of which senior management or the Stewards of the enterprise is only one.

To appreciate the significance of this shift in perspectives, it helps to consider what organizational theorists have termed the "contributions-inducements" relationship that exists between an organization and its members (Barnard, 1938; Cyert & March, 1963; and March & Simon, 1958).

Members (e.g., employees, suppliers, and even customers) contribute to the organization in return for certain inducements. Employees, for example, might contribute by performing assigned work, producing specified results, or simply making available time and energy to be expended as directed. The inducements employees receive might include pay, benefits, opportunities, recognition, and the prospect of continuing employment. Suppliers might contribute favorable terms in exchange for prompt payment, larger orders, or long-term relationships. Customers, of course, contribute money, as do lenders, investors, and donors. Customers receive goods and services; lenders and investors hope to receive a return on their loans or investments. Money received from customers, lenders, and investors is used as part of the inducements offered to other stakeholders (e.g., to pay employees and suppliers).

This transaction-based or *quid-pro-quo* view of the relationship between an organization and its members or stakeholders (see Figure 2) forms the structure of a Stakeholder Scorecard.

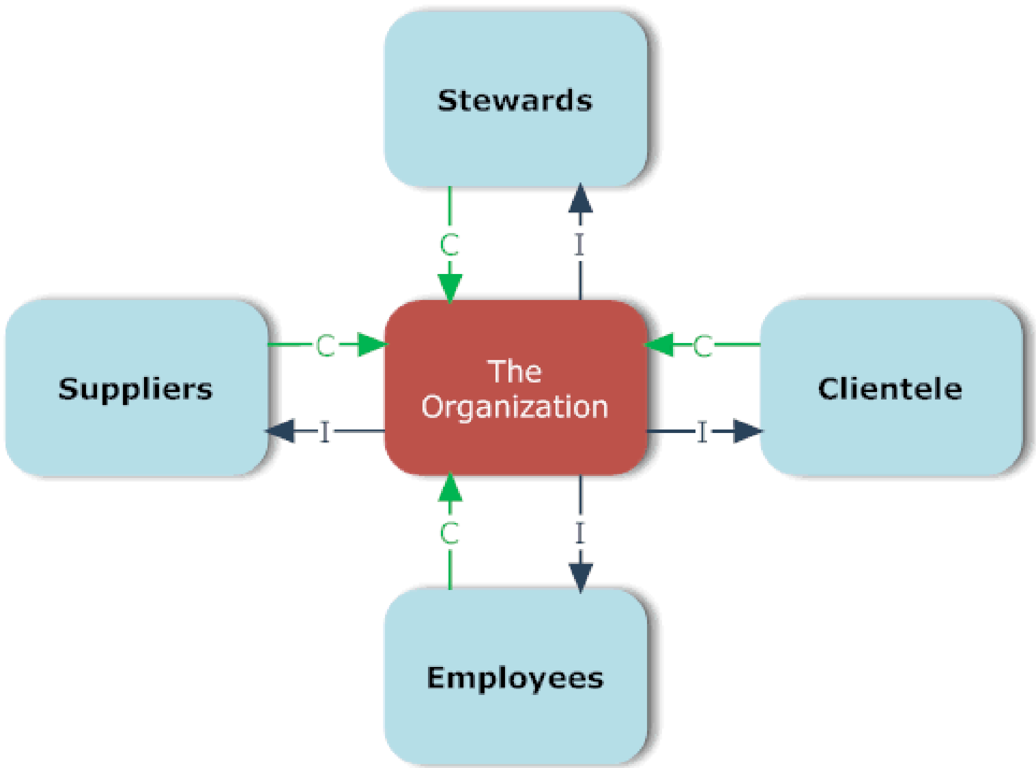

Figure 2 - The Contributions-Inducements Relationship

A satisfactory contributions-inducements relationship exists when both parties view it as such. The contributions-inducements relationship with customers cannot be unilaterally defined any more than it can with employees. Thus, in determining how the organization is doing in relation to its key stakeholder groups, the leadership of an organization must ask two questions:

(1) How are we doing with respect to getting what we want from them?

and

(2) How are they doing with respect to getting what they want from us?

The first question can be answered from an internal perspective. Answering the second question requires more than empathetically getting into the customer's or supplier's or staff's shoes, it requires two-way dialog. Organizations must find out what stakeholders want and determine how well the organization is doing in their stakeholders' eyes before they can say their Stakeholder Scorecard is complete, let alone balanced.

Nonprofits and government agencies are special cases. They do not exist to turn a profit or to compete in the marketplace; instead, they exist to serve society. For this reason, although it is not reflected in the diagram shown in Figure 2, society and societal impact must receive special attention in an Stakeholder Scorecard for a nonprofit or a government agency. At Educational Testing Service, for instance, "Educational Impact" was used to identify the educational establishment and society at large as key stakeholder groups.

In the last analysis, the objective of a Stakeholder Scorecard is an appropriate balance of power among the stakeholders. The organization (or, more precisely, its leaders,) will never be in a position to unilaterally dictate the contributions and inducements for any stakeholder relationship over the long haul. The balance of power ebbs and flows. Better to manage it on a harmonious basis than have it be an eternal source of conflict.

Developing a Stakeholder Scorecard

The first step is to *identify the key stakeholder groups*. In general, these will consist of clientele (constituencies served), employees, suppliers, and the stewards of the enterprise. Others might include the community at large, regulators, lenders, donors, and so on. A simple list naming and defining each stakeholder group will do.

Next, for each stakeholder group*, identify the contributions received from the group and the inducements offered the group in return*. For employees, the contributions might include being willing to perform assigned tasks, reliability, improvements to work processes, and so forth. Inducements likely include such factors as acceptable pay and benefits, a secure earnings stream, recognition, and other factors. A two-column form, with the name of the stakeholder group at its top will serve to capture the list of contributions and inducements for each group.

Once the contributions and inducements have been identified, the next task is to prioritize the two, that is, *identify the most important contributions and the most important inducements.* If the lists are not terribly long, it will help to rank order them.

Then, *determine basic measures of the important contributions and inducements*. The issue here is to identify ways of assessing the extent to which the contributions and inducements are acceptable to those receiving them. It is important to check perceptions of inducements with the relevant stakeholder groups.

Finally, *put the measures into effect* and determine what they say about the extent to which the contributions received satisfy the needs and requirements of the organization and the extent to which the inducements provided meet the needs and requirements of the various stakeholder groups. Significant gaps indicate areas requiring attention.

To recap the steps involved in preparing a Stakeholder Scorecard:

1. Identify the stakeholder groups
2. Identify the contributions received from and the inducements provided to each stakeholder group (from the perspective of the organization and the stakeholders)
3. Prioritize the contributions from the perspective of the organization, and prioritize the inducements from the perspective of the stakeholders)
4. Establish measures of the contributions and inducements
5. Apply the measures

A Prototype at ETS: Some Lessons Learned

The effort to develop an Accountability Scorecard produced a "first of class" or prototype of a Stakeholder Scorecard and much was learned about how to develop one (as well as some pitfalls to avoid). The ETS scorecard had five major sections, each representing the perspective of a major stakeholder group:

- clientele
- employees
- suppliers
- stewards
- society

From the perspective of clientele, the scorecard focused on customer and client satisfaction, retained business, new business, and diversification of the overall book of business.

From the employee perspective, the scorecard got at various inducements falling under the heading of employee satisfaction and attempted to balance those with a productivity and performance index as the primary indicator of employee contribution. The suppliers' perspective was similar to the employees' perspective in that it balanced supplier satisfaction and supplier performance.

From the stewards' or senior management perspective, key indicators relatd to the organization's performance, especially in relation to process performance and achievement of the corporate objectives; workforce health (e.g., retention of key staff); and ETS's financial health as a self-funding or entrepreneurial nonprofit.

From the societal perspective, the contributions-inducements formulation was reflected in measures of ETS's image with various constituencies, its perceived leadership role, and an index of its participation in important educational matters.

One of the more important realizations to emerge from this prototype effort was the difficulty in maintaining focus on the contributions-inducement relationship, and in ensuring that the perspectives of all stakeholder groups are adequately reflected. It proved very easy, for example, to fall into the trap of generating large numbers of measures and indicators, all of which in one way or another, really reflect the managerial perspective, not that of the stakeholder groups.

Another important learning point had to do with staffing the effort to develop a Stakeholder Scorecard. An internal task force was used to develop the first version of ETS's Accountability Scorecard. This seemed reasonable on the surface but experience showed that it suffered from two shortcomings:

1. First, there was a pronounced tendency for the senior management perspective to dominate the scorecard measures.
2. Second, it afforded no more "buy in" from the stakeholder groups than if the effort were carried out by a small staff group. It became clear that a successful effort would have to draw more directly on representatives of the stakeholder groups.

Lastly, there was a tendency to generate numerous measures, thus making the scorecard extremely complex, necessitating the use of software to make it operational. A simpler approach would have been to start with no more than one or two key measures of the main contributions and inducements for each stakeholder group. This would not have required software support and would have forestalled any "hardening of the conceptual arteries" owing to prematurely embedding the scorecard in a software package. The rush to a software package should be avoided.

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