

## ENVIRONMENTAL PERSPECTIVE: A NEW PERSPECTIVE IN BALANCED SCORECARD

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### ABSTRACT

*The implementation CSR (Corporate Social Responsibility) does not optimal yet in Indonesia. It was happened cause by several factors first, Companies was imagined that CSR implementation will increase expense but not have direct effect to financial performance especially in short-term. Second, government doesn't have evaluation and monitoring procedures that can push the company to do that. If these circumstances be allowed to happen in the long run, then industry will threaten the environment. Such as environmental degradation, natural disasters, etc. Added environmental perspective into BSC (balanced scorecard) may be able to turn of the company mindset about implementation of CSR. As kaplan and norton (1996) said that BSC it is not enough with four perspective. In this paper, we empirically analyze the effect of environmental perspective to four BSC perspectives. One hundred and twenty five data obtained from documentation method. Conceptually, we examine correlation of four perspective BSC, plus environment perspective, the new one. Secondary data supports that all non financial perspective of the BSC has a positive influence on the financial perspective. Environmental perspective is the only non financial perspective that does not influence on the financial perspective, but instead, financial perspective has positive effect on the environment perspective. This indicated, only the company with good financial performance more care and having attantion to the enviromental, and they have done better. This confirm what worried by the company about CSR implementation, that do not have a direct effect on financial perspective. For the future government and academia having a big homework to change this phenomenon.*

Keyword: CSR, BSC, Financial Perspective, Internal Business Process Perspective, Learning Perspective, Consumer Perspectives and Environmental Perspective.

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### Introduction

In the 1960s Keith Davis expressed his idea "Iron Law of Responsibility" which states that the social responsibility of entrepreneurs together with their social position. Since then the discussion and implementation of social responsibility, or better known as Corporate Social Responsibility (CSR) is increasingly encouraged. The development of CSR in Indonesia starts from the historical development of the Partnership and Community Development Program (PKBL).PKBL is a small business coaching conducted by the state in accordance with Regulation No. 3 Year 1983. In 2007 the Government issued Law No.40 of 2007, which regulates the implementation of CSR liability for corporation. In Asia, investors are also increasingly interest to the performance of companies that meet the criteria of the Environmental, Social and Governance (ESG). Investors currently consider ESG issues when making their investment choices. ([www.lrqa.com.sg](http://www.lrqa.com.sg)).

However, among the countries in Asia, execution and report CSR in Indonesia is relatively low. In 2005 there were only 27 companies that provided reports on the implementation of CSR activities. In 2013, of about 100 large companies in North Sumatera, only about 30% which had been carrying out corporate social responsibility (CSR) (Admin LB, 2013). In 2010 reporting GRI Index, Indonesia is still under precisely positioned number 11 of 15 countries are ranked by Lloyd Register Quality Assurance (LRQA), one of the agencies concerning with the implementation of the Environmental Management System (EMS). Low level of CSR reporting and disclosure in the Asian, couse by the reluctance of many companies to be transparent and accountable.

In response to the implementation of CSR in Indonesia, Environment Ministry also conducts strategic movement. They launched the Performance Rating Program (PROPER). PROPER Award is aimed to encourage companies to adhere to environmental regulations and achieve environmental excellence. (Antara,2012) Companies that follow this PROPER activity increased during the period 2010 to 2012, the increase is an average of 313 companies per year. This is indicates the growing awareness of CSR. However, the increase in the number of participants is not followed by an increase in adherence to the rules of implementation environmental social responsibility. In 2011/2012 PROPER participants as much as 1,317 companies, only 12

(0.91%) have gained Gold, Green ranked numbered 119 (9.04%) company, Blue totaling 771 companies (58.54%), Red totaling 331 companies (25.13%) and Black totaling 79 companies (6.38%). (Antara,2012).

Depend on data that the company still seem reluctant to implement CSR, because there mindset that implement environmental social responsibility company is increasing "corporate expenses". This is like Act 40 of 2007 Article 74 paragraph 2, which states that CSR is a liability for the company and is considered as an expense by the company. Thus reasonable when the company still considers that the implementation of CSR is a burden and is only done to fulfill their obligation. Implementation is not to implement responsibility that is implemented with full awareness. Moreover, the implementation of CSR is often not have direct impact to the company. On the other hand, until now, the government just making the rules, yet provide facilities for monitoring and evaluating the implementation of environmental social responsibility. The results of the study also indicate that environmental social responsibility fail to influence short term, especially in the company financial performance (Januarti and Apriyanti (2005), Kurnianto (2011) and Indrawan (2011).Until now, researchers have not found the impact of implementation CSR on long-term performance of the company too. The implementation of CSR can be increased by change the mindset of the company. We must give evidence to the public that CSR implementation give the impact to the performance (financial or non financial), or we must known what the think that can drive to the company can increase the implementation of CSR. Including the implementation of CSR in the performance measurement is good movement. That is the idea of this research.

Combining the performance measures of financial and non-financial has been carried by many companies since Kaplan and Norton explained their ideas about the Balance Score Card (BSC) in 1996. During this generic model balance scorecard has four perspectives, namely internal business process, and learning perspectives growth, consumer perspektif and financial perspective. In Translating Strategy into Action The Balanced Scorecard, Norton and Kaplan (1996) are still questioning the adequacy of the company performance measurement based solely on the four perspectives. The times and the widespread interest of stakeholders, the researchers assume that adding one perspective that call environmental perspective in BSC is the most appropriate step. If the company realizes that there is a strong link between environmental performance on financial and non-financial aspects of the company are expected to be able to change the mindset that the implementation of CSR is not a burden but a form of shelf-term investment. In addition, the BSC models become increasingly rich and comprehensive as a measure of corporate performance. In this study, we will examine the relationship of environmental perspective as one of the non-financial performance measures to financial performance in conjunction with other perspective performance in the BSC. Linking CSR with other aspects of the financial and non-financial companies as a measure of performance so that the stakeholders, especially the shareholders can obtain a more complete picture of overall corporate performance, is one of the steps to improve the implementation of CSR. Companies are increasingly aware that the implementation of CSR is not an obligation but it is implemented as a form of consciousness and also the purpose of the company.

## THEORY AND HYPOTHESES DEVELOPMENT

### Balance Scorecard

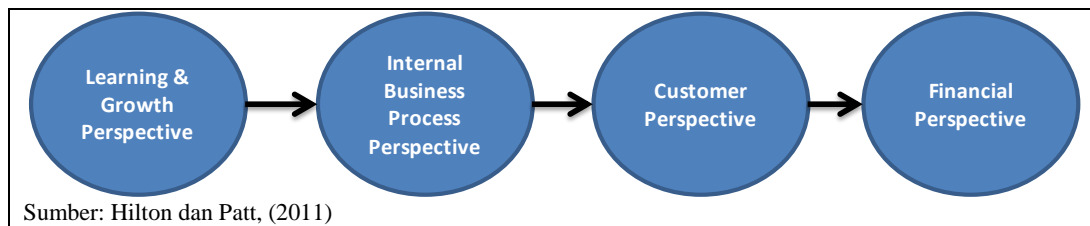
Balanced Scorecard (BSC) defines the organization mission and strategy into a comprehensive performance measure that provides a framework for measuring strategies and management systems. The balance scorecard measures organizational performance through four perspectives: financial, customer, internal processes business, and learning and growth (Kaplan and Norton 1996; 2). BSC is designed as a measurement tool to assess not only the short-term profit-oriented, but also take into account the long-term profits. BSC is trying to balance the interests of stakeholders. (Hariadi, 2002: 404).

### Four Perspectives : Is it Enough?

Kaplan and Norton uses four perspectives, namely: 1) Financial Perspective. Financial perspective is related to financial sustainability. This perspective is used by the shareholders to assess the performance of the company. 2) Customer Perspective. Measurement perspective, companies should conduct a customer satisfaction survey, the level of complaints from customers per month, expanding market segment, and others. 3) Internal Business Process Perspective. Business processes are managed to provide excellent service and good value to shareholders and customers can integrate processes and company services for customers. 4) Learning and Growth Perspective. The purpose of this perspective is to increase the capability and commitment of employees. The size of this perspective can be seen from three sources, namely human, systems and procedures of the organization.

The four perspectives of the BSC should be viewed as a flexible model. The relationship between the four perspectives can be seen in Figure 2.1. By the time an organization is able to improve the learning and growth perspective, it is the perspective of the internal processes of business organization will also be organized automatically. Thus, it will affect the customer perspective as well as investors. Thus, it will make a good financial perspective because of the trust of the customer and any investor who wants to invest in the company.

Figure 1. The relationship between the BSC Perpekstif



The four perspectives can be developed more in accordance with the needs of each company and industry. Perspective is usually dependent on the development of industrial and business unit strategy, so it is still very possible for the perspective to increase. All become stakeholders benefit when they attach importance to the success of the business unit strategy can be incorporated into the BSC (Kaplan and Norton 1996; 34-35)

### Corporate Social Responsibility

Corporate social responsibility (CSR) according to the World Business Council on sustainable Development (WBCSD) is a commitment of the company to implement behavioral ethics (behavioral ethics) to improve the quality of life of employees and their families, communities local, as well as the wider community, but it also has to contribute to sustainable economic development (sustainable economic development). The increasing trend of adoption of CSR become a form of implementation of Good Corporate Governance (GCG).

Four benefits obtained by the company in the implementation of CSR can be considered an investment in the future of the company, namely: 1) The existence of the company can grow and sustainable, while also creating the positive image in the community. 2) The company is easier to get access to capital. 3) The company can maintain the quality of human resources and 4) the Company may increase decision making on critical matters and simplify the management of risk management.

### Triple Bottom Line Concept

The concept of the triple bottom line was popularized by John Elkington in 1997. Hegive konsep that if the company want to be sustain, they must be aware with 3P (Profit, People, Planet). In addition to the pursuit of profit (profit), companies must pay attention to the welfare of the surrounding community (people), and also to preserve the natural environment (planet). Companies no longer rests on the single bottom line where only the economic aspect which is reflected in corporate financial perspective, but rests on the triple bottom line which the company must also consider the social and environmental aspects.

### Act No. 40 OF 2007 & Government Regulation no 47 of 2012

As stated in Law No. 40 of 2007, Chapter V of the Social and Environmental Responsibility (Article 74), with each paragraph as follows: 1) The Corporation is conducting its business activities in the field and / or related to the natural resources required to implement the Social and Environmental Responsibility. 2) Social and Environment Responsibility as referred to in paragraph (1) is an obligation of the Company that must be budgeted and calculated as the companies expense that the implementation is done with regard to decency and fairness. 3) Company that do not doing this obligation referred to paragraph (1) get the sanctions in accordance with the provisions of the legislation. 4) Further provisions on Social and Environmental Responsibility set by government regulations. Indonesian Government Regulation No. 47 of 2012 about Social and Environmental Responsibility for the corporation is implementing the provisions of Article 74 of Law No. 40 of 2007.

### Hypotheses

Hypotheses are developed based on the research Hypotheses BSC generic model that was first developed by Norton and Kaplan (1996). Financial companies can be increased in line with customer loyalty, customer loyalty can be increased when consumers feel satisfied. Customer satisfaction can be obtained when the company is able to meet the needs of both consumers and service aspects of the product and it can be created when the company enterprise business processes run well. Business process can work well if the company is always innovative and well supported by employees who are qualified, so that hypotheses 1-3 can be formulated as follows:

**H1: Performance Learning and Growth Perspective positive effect on the performance of the Internal Business Process perspective.**

**H2: Performance Internal Business Process Perspective positive effect on the performance of the Consumer perspective.**

**H3a: Consumer Perspective Performance positive effect on the performance of Financial Perspectives (Revenue).**

**H3b: Consumer Perspective Performance positive effect on the performance of Financial Perspectives (CFOA).**

**H3c: Consumer Perspective Performance positive effect on the performance of Financial Perspectives (ROA).**

The four perspectives of the BSC can be developed more so in accordance with the needs of individual companies and industries Kaplan and Norton (1996). Currently wider stakeholder demands one of which is on the environmental aspects, then this research will test the model by adding a new perspective of BSC, namely environmental perspective. Companies with poor financial performance may not be able to carry out CSR activities are good also such, means that CSR cannot be properly implemented without financial support from the company. Based on the description above, the hypotheses can be as follows:

**H4a: Performance Perspective Financial Performance (Revenue) has positive effect on the performance of the Environmental Perspective.**

**H4B: Performance Perspective Financial Performance (CFOA) has positive effect on the performance of the Environmental Perspectives.**

**H4c: Performance Perspective Financial Performance (ROA) has positive effect on the performance of the Environmental Perspective.**

**RESEARCH METHOD**

**Research Design**

Design research is a blueprint for the collection, measurement, and data analysis (Cooper,2007: 156). Here is a design analysis for this study:

- a) The degree to which the question has been in the crystallize, there are two points of view in the research, namely exploratory and formal study. This research is formal studies as it aims to test the hypothesis in answer to the research question posed.
- b) Data collection method. In this study, researchers collected data by means of the process of observation, the researchers conducted observations on the annual report published by the company sample.
- c) The strength of research in influencing variables studied this research is ex post facto research, because researchers do not have the ability to manipulate the effects of control over the variables. Researchers can only report what has happened and is happening.
- d) The purpose of this research study using a study of causation as researchers try to examine the relationship of non-financial perspectives (customer, internal business process, learning and growth, environmental) with the financial perspective.
- e) Dimension of time. In this research the time dimentionis pooled data because the data used in this study is a time series and from many companies.
- f) Scope of research. This research was designed to study the broad scope but not deep, so that research can produce a conclusion with a high level of generality. This study is a statistical study.

**Sample**

The population in this study is the Mining and Mining Services company and various agriculture which become participants of PROPER. The sample is a small group of observed and forms part of the population. Samples were selected through purposive judgment sampling method. The criteria used is based on the following considerations:

Table 1. Samples

	2007	2008	2009	2010	2011	2012	Total
Mining and Mining Services company	93	298	299	327	337	447	1,801
Data incomplete	(87)	(288)	(281)	(289)	(307)	(415)	(1,676)
Sample	6	10	18	29	30	32	125

**OPERATIONAL DEFINITION**

**Financial Perspective Performance**

Financial Perspective of performance referred in this research is the financial sustainability of the company as seen from the sales revenue, the level of return on assets used by the company, and the company obtained cash flow from operating activities of the company. Performance measurement for financial perspective in this study is measured by looking at the following three things:

- a. Revenue. In this research, revenue will be divided by total assets company. This is to mitigate the size effect, because size company is allegedly will affect immensity revenue company. Obtained from a formula

$$Revenue = \frac{Revenue (t_x)}{Asset} \times 100\%$$

Increasingly large percentage income is, means that the company performance increase the better. Otherwise, the smaller income, then the company performance declining is worse

- b. *Return on Asset* (ROA), diperoleh dari rumus:

$$ROA = \frac{\text{net income } (t_x)}{\text{Asset}}$$

This size is used to see the ability of company to earn profit on assets that are possessed by the company. The value of its net profit or profit years running could be seen in the financial report of the profit loss the company. In this research indicators return on assets will more be given a name by (ROA). The higher value means that the company performance more good, company be able to to produce a net profit of any assets that are owned by the companies. On the contrary, the smaller of the value its mean companies performance was considered bad in producing net profit of any assets it holds.

- c. Cash flow from operating activities, can be seen in a report cash flow konsolidasian company. This value reflect cash inflow and cash outflow that deals with activity operate. The higher the value produced mean the bigger cash obtained company of activity operate. Otherwise, the lower or minus value the produced the more large cash issued by a corporation to fund its operation activity.

### Customer Perspective Performance

Customer Perspective performance in this study is the number of countries where the company products are marketed and sold. The size of this perspective can be seen at the company annual report of sales and marketing. The higher the number is more wider range of products the company markets will have. It means that enterprise customers will be good.

### Learning And Growth Perspective Performance

In this study, learning and growth perspective is performance improvement and learning processes undertaken by the company to improve internal business processes, which is seen through the capabilities of the company employees. Measurement for this variable is employee productivity, obtained by the formula:

$$\text{Employee productivity} = \frac{\text{Revenue}}{\text{Number of Employee}}$$

The higher employee productivity resulting value indicates the better of development and growth of a company, employees are increasingly effective in providing products or services. Conversely, the smaller the value is generated, it shows that the company workforce is less productive and less effective in reflecting the company performance, so that the development and growth of the company has decreased

### Internal Business Process Perspective Performance

Internal business process perspective in this study is that the company's activities related to the process that occurs in companies operating segments to produce a product or service. This perspective is measured by the increase or decrease in the percentage of reduce cost by an enterprise from the previous year. The calculation of the Reduce costs in this study was obtained from the formula:

$$\text{Reduce cost} = \frac{\text{COGS}}{\text{Revenue}}$$

Large percentage the produced its mean the company more efficient in running his business; otherwise if the smaller number reduce cost, company considered insufficient efficient in its operation activities

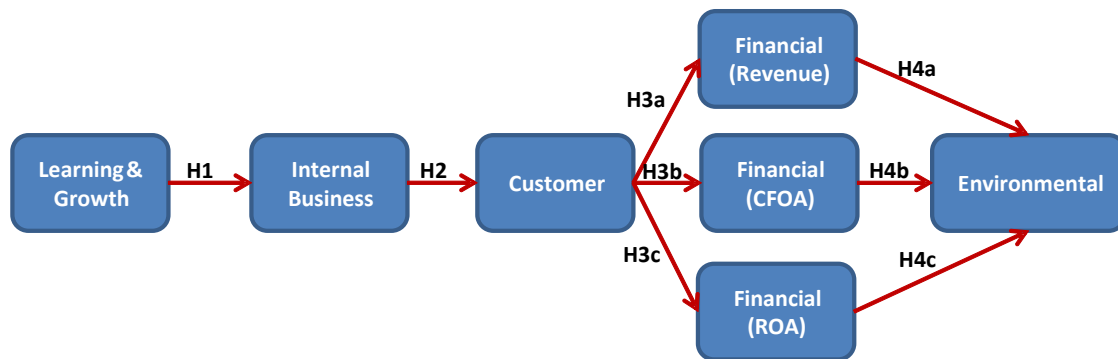
### Environmental Perspective Performance

Environmental performance perspective in this study is related to the activities view of both corporate responsibility towards stakeholders and the environment where the company is located, the use of resources nature, and energy for production companies, as well as corporate responsibility of impacts that may arise as a result of operating activities seen through proper assessment results issued by the Ministry of Environment of the Republic Indonesia. In this study environmental perspectives were measured using PROPER results obtained by the company from the Ministry of the Environment, they are: Gold (score 4), Green (score 3), Blue (score 2), Red (score 1) and Black (score 0). Higher score means the company more responsible to environment. Otherwise, the lower score means, the company not liable to environmental.

### Hypothesis Testing

This study used path analysis to test the hypothesis, because model in this study is a model which is formed simultaneously through more than one dependent variable. Path analysis (path analysis) in this study aided by application of AMOS (analysis of moment structure). Figure 1 is the research model.

Figure 2: Research Model



**Result**

Before test the hypothesis structural equation modeling need to test the goodness of fit. The result of goodness of fit model in just partially fit. Some of criteria just closed to fit. The result of the correlation between the variable will seem as follow table 2.

Tabel 2. Regression Weights

			Estimate	S.E.	C.R.	P
<b>CUSTOMER</b>	<---	LG	.000	.000	1.755	.079
<b>CUSTOMER</b>	<---	IBP	4.775	7.871	.607	.544
<b>REVENUE</b>	<---	LG	.000	.000	3.372	***
<b>CFOA</b>	<---	IBP	.396	.112	3.538	***
<b>ROA</b>	<---	IBP	.348	.092	3.776	***
<b>CFOA</b>	<---	CUSTOMER	.004	.001	3.392	***
<b>ROA</b>	<---	CUSTOMER	.004	.001	3.567	***
<b>CFOA</b>	<---	LG	.000	.000	-.685	.493
<b>ROA</b>	<---	LG	.000	.000	-.322	.747
<b>REVENUE</b>	<---	IBP	.655	.462	1.416	.157
<b>REVENUE</b>	<---	CUSTOMER	.005	.005	.951	.342
<b>ENVIROMENT</b>	<---	CFOA	2.551	.409	6.232	***
<b>ENVIROMENT</b>	<---	ROA	-2.323	.492	-4.719	***
<b>ENVIROMENT</b>	<---	REVENUE	-.110	.101	-1.087	.277

Based on the table 2, it appears that the relationship of internal business processes and consumers (sig: 0,544) and revenue (sig: 0.157) were not significant. In addition, variable Learning and growth was also not significantly related to the variable operating cash flow and ROA both of which are a proxy of the financial perspective. Furthermore, consumer perspective is not directly relevant and significant with revenue and revenue is not well directly related to environmental perspective.

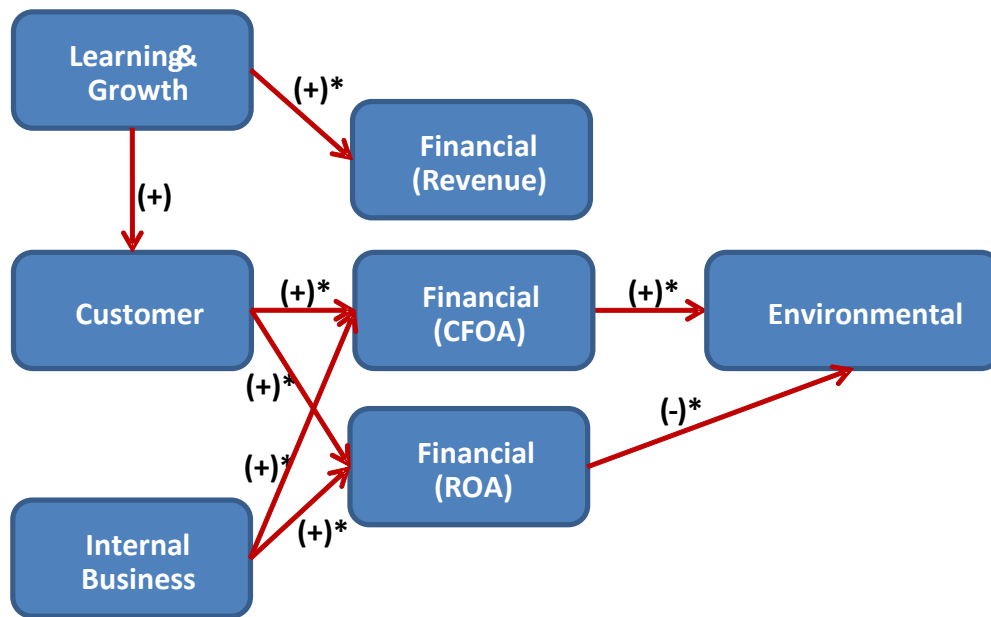
The significant relationships between the variables shown that hypotheses 4b and 4c supported in this research. This is shown in Table 2 that the ROA, and CFOA to environment has significance for both (0.000) and positive significant, meaning Performance Financial Perspective (CFOA) and ROA) positive effect on performance Social and environmental perspectives. While the hypothesis H4a is not supported in the work this study because the significance value is at 0.277 values greater than 0.05, the performance means the Financial Perspective (Revenue) does not affect the performance perspective Social and

Environmental. Results of testing Model 1 then repaired by removing relationships were not significant, the result will seem as figure 2.

**Model 2**

Model2 is simply made by connecting directly to the independent variable dependent and directly linking the variables or indicators of the balanced score card to between variables and the associated implementation of CSR(corporate social responsibility) company. The form of model 2can be seen in the figure 2

Figure 3: Research Model Revised



Rationale used to explain the model2 is the performance financial perspective becomes an important factor to achieve financial stability of the company that will be able to lead the company to give more attention to the environment. Other aspects of balance score card Performance ,like Learning and Growth Perspective, Internal Business Process Perspective and Consumer Perspective will strengthen the financial performance. The result of model 2 show that non-financial perspective have effect to financial perspective. All f non-financial perspective have positive effect to financial perspective. Learning and growth perspectives has, positive effect on the of financial perspectives performance as measured by revenue. Internal business perspective performance and customer perspective performance positively to financial performance as measured by ROA and CFOA. While related to the impact on environmental perspective can be seen the results on the tabe above where the CFOA have correlation with environmental perspective (p-value 0.00). Surprisingly ROA has negative significant correlation with environmental perspective. This result show that awareness to environment and community done by the company if the company have a good financial performance, especially if the operating cash flow was positive. In the other hand, if company has hight return from their asset they tend not aware to the environment.

**Conclusion**

Depend on results of the above analysis, it seems that the environmental perspective was not influenced by Learning and Growth perspective, Internal Business Process and Customer. However, environmental perspective is affected by the financial perspective. Internal Business Processes perspective and learning and growth perspective, both affect consumer perspective which then affects the consumer perspective the financial perspective (ROA and CFOA).

**Recommendations**

Based on the above conclusion, it seems that Government regulators must be careful because the only issue legislation that forces companies to think about obligation; CSR is not able to make the company aware of its environmental responsibility. For investors can look wider for investment decisions. The liquid company turns out to be good at doing environmental responsibility. It can mean that the company is doing is the environmental responsibility when in a good financial.

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