

Is the Fifth Dimension of the Balanced Scorecard Approach Imperative for the Readymade Garment Industry of Bangladesh? A Conceptual Framework

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Abstract

Purpose: This study delineates insights regarding the role of the fifth pillar of the balanced scorecard approach for sustainable performance, focusing readymade garment industry of Bangladesh.

Design/Methodology/Approach: The study proposes a conceptual framework from the core premise of the "fit as mediation" approach, which signifies developing and implementing specialized mechanisms, such as management accounting systems that can assist in managing information and enhance superior firm performance.

Findings: The concept of the fifth dimension of the balanced scorecard approach is not novel, but the organization is still in a vague position on how to implement or measure for achieving its outputs.

Originality/Value: The conceptual framework has the potential to make a valuable contribution to the current body of literature on how sustainability initiatives can be measured through specific managerial systems. Besides, the top management level will get practical guidelines about the implication of social and environmental performance measures to maintain in the long run.

Keywords: The Fifth Dimension of the Balanced Scorecard, Social and Environmental Measures, Sustainable Performance, Readymade Garment Industry, Bangladesh

Introduction

Over the last four decades, Bangladesh's readymade garment industry (RMG) has become one of the leading export for the country, indicating 83% of the total export (BGMEA, 2015). Along with contributing to the economy, this industry assists in life expectancy, employment, literacy rate, and poverty eradication related to sustainable development goals (World Bank, 2015). Accordingly, the RMG industry has acquired over 10% of Bangladesh's GDP and granted 84% of its foreign export income compared with 2015 (BGMEA, 2020; World Bank group, 2019). Furthermore, this industry exports accounted for 29 billion U.S. dollars in earnings, contributing to a 6.5% share in the competitive world market. As a result, it became the second-largest apparel exporter throughout the world in 2017. However, the apparel and RMG companies are generally symbolized by the labour-

intensive sectors that significantly contribute to economic development but pose severe threats to environmental constraints (DataBD.CO, 2019). In this context, global RMG industries face challenges in achieving the novel sustainability aims presented by social, ecological and economic parameters.

Similarly, the RMG industry in Bangladesh is also the primary source of ecological and social deterioration. At the same time, sustainability issues in the measuring and reporting process are crucial but arduous due to increasing environmental hazards (The Daily Star, 2020). To ensure sustainable business performance in the industry, organizations are looking for effective strategies that are no longer optional but significant for achieving long-term goals. Hence, the balanced scorecard approach (BSC) takes a company's strategy and structure into an exact performance measurement system (Kaplan and Norton, 1996). At the same time, the organization should look at financial and non-financial factors with traditional performance measurement systems (PMS). A state art of literature highlights that nonfinancial measures for performance evaluation allow the manager to understand the most critical elements of the firm's long-term success (Kalender and Vayvay, 2016; Rabbani et al., 2014). In recent decades, the increasing universal focus on sustainability has prompted a global discussion on obtaining a sustainable world. Businesses are considered crucial contributors to achieving global sustainability objectives with this aim. The BSC approach has a promising possibility for incorporating environmental and social aspects into the overall management system (Kaplan and Norton, 1997). Even though the traditional BSC technique doesn't consider environmental and social factors, novel frameworks must be created to fix the problem. With this intention, Figge et al (2002) primarily developed that BSC can facilitate the simultaneous and balanced consideration of all relevant aspects for achieving sustainability. By integrating the three tenets of sustainability into a composite strategy, the BSC approach aids conventional approaches to environmental and social management (Figge et al., 2002).

Therefore, this study's primary goal is to demonstrate the applicability of the BSC ideology to the Bangladeshi RMG industry. The rationale for proposing social and environmental measures is that quality strategy, diversified performance metrics, and sustainability measures should be aligned to increase sustainable performance in today's competitive environment. It is plausible that this model will help the RMG industry in Bangladesh become more efficient so that it can compete on a global scale.

Literature Review

A literature review is a framework for presenting an in-depth topic analysis by drawing from relevant studies. The exhaustive research and explanation contribute to discussing a particular subject (Aveyard, 2010). In a nutshell, the current study emphasizes the role of the fifth pillar of the BSC approach with conventional BSC conceptions under PMS.

Traditional BSC approach

The Balanced Scorecard (BSC) was created in the early 1990s as a new way to measure performance. Management accounting had problems with short-term thinking and focusing on the past (Kaplan and Norton, 1992). This BSC aims to clarify how the organization's resources can contribute to long-term financial success and be turned into cash flow. The BSC is a strategic initiative that helps implement physical and metaphysical resources into a comprehensive framework and creates a constructive relationship between different metrics (Rabbani et al., 2014). In performance measurement, the BSC approach's concepts are extensively practiced. Therefore, BSC creates a hierarchical system for setting strategic goals in each perspective, including financial, customer, internal process, and learning and growth

perspectives through business strategy and economic considerations (Figge et al., 2002). The four views of the BSC can be summarized as follows (Kaplan and Norton, 1997).

(i) When it comes to the financial perspective, there are two ways to look at it. Firstly, the financial view offers valuable insights into the potential economic outcomes of a strategy modification. Additionally, the utilization of financial performance is a viable approach to attaining desired organizational results.

(ii) The customer perspective involves identifying the specific customer or market segments in which the company competes. This vantage point also focuses on the business unit's goal of gaining a competitive advantage in these particular markets.

(iii) The internal process perspective focuses on the internal business operations that enable a company to fulfil the requirements of its customers in potential markets and satisfy the interests of its shareholders.

(iv) Lastly, the learning and growth perspective lays out the foundational elements that must be in place to achieve the goals outlined in the preceding three views. In this scenario, the most crucial aspects to concentrate on are employee competency, inspiration, task orientation, and information systems.

The Fifth Dimension of the BSC Approach

The BSC concepts have been consolidated with sustainable factors, known as the sustainability BSC, to provide a valuable instrument for sustainability management because of the BSC's promising prospects to implement environmental and social aspects into the overall management framework as a fifth dimension (Adams et al. 2014). Furthermore, the long-term viability of a company has been improved by incorporating the economic, social, and environmental dimensions of sustainable development into strategic planning (Hahn and Wagner, 2001). This perspective, the non-market perspective, directly impacts all four of the organization's performance measurements. The social and environmental aspects may not only assist the company in identifying crucial strategic sustainable performance, but they may also make it simpler to identify how social and environmental factors can add value and prepare for the implementation of the strategy (Hsu et al. 2011).

Relationship between Novel BSC Approach and sustainable performance:

Recently, there has been a rapidly expanding body of literature that examines how distinct performance measurements influence the success of businesses (Al-Khasawneh et al., 2020; Danish et al., 2021; Lasiyono, 2019; Phornlaphatrachakorn and Na-Kalasindhu, 2020). However, these considerations have their roots in economic decision-making theory. The relevant literature also indicates that a manager can gain insight into the crucial determinants of sustained success using non-financial performance metrics. The attainment of sustainability in competitive markets is contingent upon the firm's presence. The BSC approach presents a promising foundation for integrating environmental and social considerations into a firm's primary management framework. The utilization of the BSC in sustainability management addresses the limitations of traditional environmental and social management systems by consolidating the three dimensions of sustainability (Figge et al., 2002). Besides, Stede et al (2006) also highlighted that when a higher number of objective and subjective non-financial metrics are entrenched in the system, manufacturing firms' superior performance is more strongly influenced by the performance measurement systems.

Similarly, Asiaei and Jusoh (2017) has investigated the effect of diversity of measurement on organizational performance in the Iranian context. The study suggested that relevant financial and non-financial information tends to assist effective decision-making for improving organizational performance. However, a recent examination of corporate sustainability accounting information systems Dagiliene and Štutienė (2019) has revealed an imbalance between the measurement and interpretation of sustainability consequences and the accumulation of sustainability issues with accounting and information systems. Contrarily, Thapayom (2019) has used PMS from the BSC perspective from the sphere of strategic management accounting for sustainable organizational

performance based on 148 companies in Thailand's industrial states. The result revealed a positive correlation indicating that companies should pay close attention to investment strategies that enhance organizational performance. Recently, Danish et al (2021) also examined the role of PMS on corporate performance while the study suggested that PMS more logically seem to be the best-concerning technique for firm performance in the aviation sector of Pakistan.

In the Bangladeshi context, Masum and Fakir (2016) provided a comprehensive framework regarding the implementation strategy of multifaceted PMS for the RMG industries of Bangladesh. The study suggested that multi-dimensional performance measuring techniques in local textile businesses may improve efficiency and speed up operations. In addition, this philosophy will incorporate the goals and objectives of each company into the overall business plan. To provide more authenticity to the topic, Hossain et al (2019) investigated the PMS in light of BSC conceptions on firm performance in the textile industries of Bangladesh. The study showed that using measures and solely subjective metrics does not improve industry performance. Still, customer-oriented policies, sustainability indicators, and a manufacturing quality plan with firm size improve industry performance. In conclusion, the above arguments provide a strong foundation for developing a novel research agenda through a conceptual framework in management accounting and sustainability.

Conceptual Framework

Many researchers contend that the organization's external environment impacts changes in PMS (Kaplan and Norton, 1992). Businesses must consider social and environmental issues when constructing their mission, vision, and goals. BSC with the fifth dimension will be demonstrated in this section using a conceptual model to provide a more comprehensive glimpse. The framework is grounded based on contingency theory which suggests that the absence of universally applicable control systems necessitates the identification of appropriate management systems, which is contingent upon the situational approach that determines the most suitable method in the dynamic business environment (Gordon and Miller, 1976; Otley, 1980). The Contingency Theory posits that an organization's performance relies upon the alignment between its context, strategy, and overall performance (Venkatraman, 1989). From a sustainability perspective, Dagiliene and Šutiene (2019) suggested that there are no strict guidelines for accumulating and analyzing sustainability-related information; consequently, the theory of contingency posits that accounting should be constructed in a modular fashion and linked to specific circumstances. After investigating the initial strategic blueprint, the following BSC model with the fifth dimension is designed from the core conception Kaplan and Norton (1996); Rabbani et al (2014), as mentioned in Figure 1.

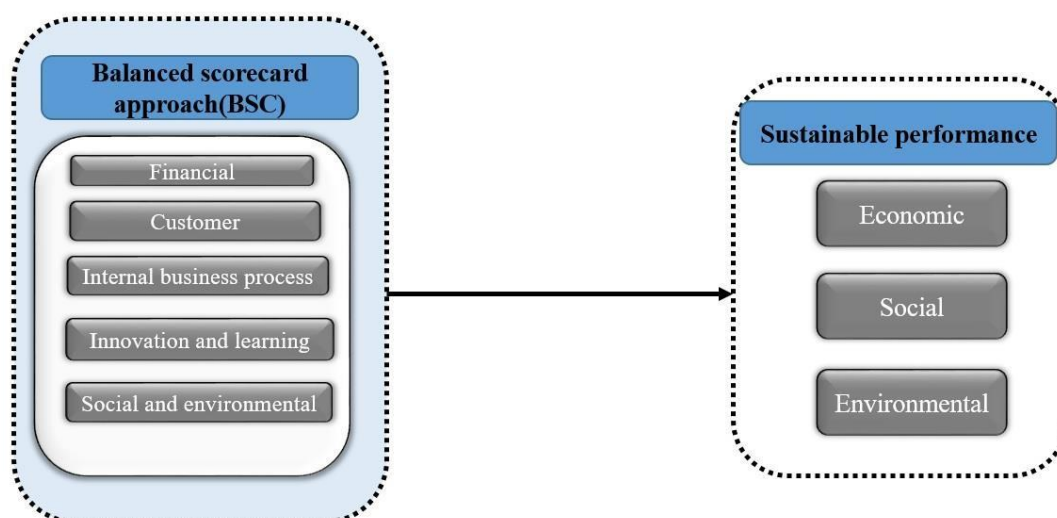


Figure 1: Conceptual framework

Conclusions

However, the fifth pillar of the BSC method for RMG companies is difficult to evaluate because it plays a distinctive role in the country's economy, society, and environment. In addition, this industry is experiencing a rise in competitive pressures. Modifications in economic and financial factors may arise in an adverse situation for generating revenue. For instance, Vietnam has surpassed Bangladesh by increasing its market share by 6.4 per cent, while it was 6.2 per cent in the preceding year. However, the General Statistics Office of Vietnam and EPB showed in the data that the export earnings of Vietnam's RMG sector reached a total of USD 30.94 billion during the period spanning from July 2019 to June 2020.

In comparison, Bangladesh's RMG sector recorded export earnings amounting to USD 28.82 billion (Business Inspection, 2022). Hence, internal measurement techniques should be emphasized to maximize long-term performance for regaining the position. Over a thousand organizations, 80 per cent of firms that routinely use the BSC reported improvements in operating performance, and 66 per cent of these organizations also reported a rise in revenue based on the study (Rabbani et al. 2014). The two significant constraints of the new BSC model are that firstly, there is a lack of employee expertise to imply a novel measurement model in the organization; secondly, there are difficulties in adapting the traditional strategy with sustainability techniques. Therefore, the proposed study will be exemplary for the RMG companies of Bangladesh to imply the novel BSC approach for achieving future strategic goals and improving the organization's effectiveness and efficiency level. The fifth pillar of the BSC approach is an innovative tool for managing resources pertinent in a competitive business environment.

This conceptual study might have some theoretical and practical repercussions in the future. The importance of corporate social responsibility (CSR) has grown in the current sustainable landscape, with a heightened focus on social and environmental issues. Hence, the investigation of tactical factors holds significance and pertinence in research. Theoretically, this conceptual paper aims to integrate contingency and resource-based views into sustainability and management accounting, thus making a valuable contribution to the existing body of knowledge. Despite remaining uncertainties surrounding the connection between the BSC approach and sustainable performance (Dagiliene & Štutienė, 2019; Lasiyono, 2019), previous research has contributed to the knowledge of how performance measurement systems (PMS) can predict organizational performance under sustainability factors. Besides, contingency theory's assumptions positively affect the role of the novel BSC approach under management accounting for ensuring sustainable business performance. This paper exhibits promising potential in providing several practical implications. Hence, top management can utilize this measurement technique to improve policies for matching established criteria and estimating the strategic operations to fulfill the stakeholder's needs. The proposed conceptual model has the potential to offer managers valuable guidance in designing appropriate PMS that effectively align with sustainability issues. The framework can also show how organizations and their practitioners decide which metrics to use to learn more about the driving forces behind their long-term objectives and critical success elements.

Finally, this study primarily relies on a theoretical examination of the current literature and does not present empirical evidence to substantiate the conclusions. There are ample opportunities to examine the balanced scorecard approach from a sustainability perspective to align and manage the relationships with sustainable performance. In this sustainability-focused world, specific managerial processes are required to achieve long-term performance. Future studies can incorporate additional components of performance measurement systems, such as strategic planning, strategy, budgeting, and integrated PMS techniques, to enhance the validation of the subject matter more efficiently. Additional research may employ an empirical qualitative methodology to examine the impact of a balanced scorecard approach for sustainable performance in dynamic environments and their evolution during strategic transition periods.

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