Balanced Scorecard Evaluating Of British American Tobacco In Malaysia

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ABSTRACT

This study pointed at knowing the effect of relating the balanced scorecards on the concert of the British American Tobacco in Malaysia thought knowing the impact of the balanced scorecards methodologies and mechanisms with their five pivots such as the financial perspective, the customers’ perspective the internal processes perspective, the learning and growth perspective and the strategy vision perspective. The research was showed through the exploratory case study method. The choice of a case study is one of the most appropriate methods of empirical review, as qualitative studies are rendered necessary where organizational processes are involved, and also because budgetary practices and procedures have traditionally been investigated within the organizational context in which they operate. The researcher presented some recommendations such as increasing the efficiency of the internal communications in the company to achieve the maximum benefit of applying the balanced scorecards model. It is confirmed that magnitudes are positively interrelated with each other in learning & growth perspectives and new interrelation between financial perspectives factor and learning and growth perspective evidence was also found. The innovative dimension of this research is that we actually applied BSc in Malaysia and investigate factors relate to financial sector and interrelation between factors with each other.

Key words: Balanced scorecard, British American Tobacco, Performance evaluation, Organizing strategy.

Introduction

British American Tobacco (BAT) is the world’s second largest market leader that focuses on producing and selling cigarette around the world. As at 2011, BAT has 46 cigarette factories in 39 countries, and its subsidiaries companies sold 705 billion cigarettes. With more than 55,000 employees worldwide, BAT is a leading company of more than 200 brands such as Dunhill, Kent, Lucky Strike and Pall Mall.

British American Tobacco (Malaysia) Berhad is a subsidiary of British American Tobacco in Malaysia, with its head office located at Virginia Park, Petaling Jaya, Selangor. It was formed in 3rd November 1999 when Rothmans of Pall Mall merged with Malaysian Tobacco Company Berhad. British American Tobacco (Malaysia) Berhad is a market leader of manufactures and markets high quality tobacco products in this country with 61% market share and it ranks amongst the top 25 companies listed on Bursa Malaysia Securities Berhad. Today, it employs about 1,200 peoples that involved in the full range of tobacco industry from purchasing leaf, processing and manufacturing cigarette to distribution and marketing of cigarette products. With its wide-range of distribution network, British American Tobacco (Malaysia) Berhad dedicates in ensuring their brands are available everywhere in Malaysia. It has one factory in Petaling Jaya with nine Sales and Distribution Offices located at Penang, Ipoh, Malacca, Johor Bharu, Kuantan, Kota Bharu, Kota Kinabalu, Kuching and Brunei.

British American Tobacco (Malaysia) Berhad shares the same vision with its parent company which is to achieve leadership of the global tobacco industry in order to create long-term shareholder value. In order to achieve this vision, the company has designed strategies that based on growth, funded by productivity and delivered by a winning organization that acts responsibly at all time.

Board of Directors for British American Tobacco (Malaysia) Berhad consists of seven people. They are responsible in bringing the success of the company. The Executive Directors have direct responsibility for ensuring smooth business operations while the Non-Executive Directors are responsible for bringing independent judgment and scrutiny to decisions taken by the Board, providing objective challenge to the management (see Figure 1: British American Tobacco (Malaysia) Berhad’s Board of Director).
British American Tobacco (Malaysia) Berhad also have top management staffs that help the Board in making decision regarding company operations and activities (Figure 2).

For British American Tobacco (Malaysia) Berhad, achievement and success of the organization not only reflected by business performance and financial key indicators but also on awards and recognition received. The local and international awards are testaments for British American Tobacco (Malaysia) Berhad continuing commitment towards a more sustainable way of workings. It also represents the company’s efforts in continuing to set benchmark for high standard operation thus delivering high shareholder value and strong dividend payment. Among the awards received by British American Tobacco (Malaysia) Berhad:

i) Industry Excellence Award in the Consumer Products Category for Malaysian Corporate Governance Index 2011 Awards

ii) Distinction Award for Malaysian Corporate Governance Index 2011 Awards
iii) Highest Return on Equity Over Three Years in the Consumer Products Sector and Big Cap Category for The Edge Billion Ringgit Club Corporate Awards 2011
iv) Industry Excellence Award in the Consumer Products Category for National Annual Corporate Report Awards (NACRA) 2011
v) Inaugural winner of SVA Exemplary Award for KPMG/ The Edge Shareholder Value Awards 2011
vi) High recognition for 2011 FinanceAsia Awards Poll
vii) Notable Achievement in Environmental Performance for Prime Minister’s Hibiscus Award 2010/2011
viii) Winner for Reporting in an Annual Report category for ACCA Malaysia Sustainability Reporting Awards (MaSRA) 2011
ix) Gold Award for Environmental Responsibility and Investor Relations for The Asset Corporate Awards 2011
x) Top 10 Companies in Malaysia for Sustainability Disclosure in the Asian Sustainability Rating

Since BSC was introduced in 1992, many researches have been done to show the effectiveness of BSC as performance measurement. In one research conduct on a random sample of 145 manufacturing corporations show that there is positive relationship between the strength of the alignment of the strategic goals and the performance reporting system with organizational performance (Iselin, et al., 2008). Renko and Pecotich (2001) also indicate that the Balanced Scorecard is an unavoidable choice that a company must apply in order not only to survive in the market but also to remain prosper as a modern competitive institution.

Another study done by Dabbas (2012) show the existence of a relationship between application of the balanced scorecards and the Jordanian Banks performance based on four perspectives: the financial, the customer perspective, the internal processes perspective and the learning and growth perspective.

Even though Kaplan and Norton introduced Balanced Scorecard with four perspectives (Financial, Customer, Internal Business and Learning and Growth), there is no restriction for adding or using other different perspectives (LaChance, 2006). In a case study conducted at ENSR, there are six categories has been identifies; health and safety, employee engagement, client loyalty, cost management, profitability and revenue growth.

Broccardo (2010) highlights five perspectives rather than the normal four to study the flexibility of Balanced Scorecard as a strategic management and reporting tool. The five perspectives are economic financial perspective, customer “consumer” perspective, customer “restaurant keeper” perspective, internal process perspective and human and organizational resources perspective. Broccardo discover that BSC is a flexible tool and capable to adapt with needs of different firms as well as guiding them to the implementation of strategy and achievement of specific goals.

Research done by (Bromley, et al., 2006) found that how in-house version of BSC is created with objective of creating and sustaining a continuous improvement culture. Figure 5 shows Balanced Scorecard by EDF. This BSC is an expression of the company strategic vision in form of five ambitions (perspectives).

<table>
<thead>
<tr>
<th>ambition</th>
<th>measure</th>
<th>status</th>
<th>forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>shareholder’s expectation</td>
<td>shareholder contribution</td>
<td>★★</td>
<td></td>
</tr>
<tr>
<td></td>
<td>capital expenditure</td>
<td>★★</td>
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</tr>
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<td></td>
<td>working capital movement</td>
<td>★★</td>
<td></td>
</tr>
<tr>
<td>care for our customers</td>
<td>mass market customers</td>
<td>✔★</td>
<td></td>
</tr>
<tr>
<td></td>
<td>major business customers</td>
<td>✔★</td>
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</tr>
<tr>
<td>point of reference</td>
<td>CR Index</td>
<td>★★</td>
<td></td>
</tr>
<tr>
<td>fit, safe and responsible</td>
<td>HS&amp;E index</td>
<td>★★</td>
<td></td>
</tr>
<tr>
<td>employee satisfaction</td>
<td>employee opinion survey</td>
<td>★★</td>
<td></td>
</tr>
</tbody>
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**Key**
- well below target
- below target
- on/above target
- well above target

**Fig. 3:** EDF’s Balanced Scorecard
In other research to study the BSC at Indian companies, the researchers discover that instead of using only four perspectives, the managers consider other different perspectives also. They discover the financial perspective emerges as the most important (87.5%), followed by customers’ perspective (66.6%), shareholders’ perspective (62.5%), internal business perspective (54.2%), learning and growth perspective (54.2%), environmental and social perspective (41.7%) and employees’ perspective (41.6%) are considered in the Balanced Scorecard (Anand, et al., 2005).

The target consumer of the organizations is smokers. Smokers are more likely to suffer from cancers. In order to reduce harms from smoking, it is important for the organization to develop reduced-risk product. Therefore, the objective for harm reduction perspective should be developed less-risky products for consumers. The suggested measures are laboratory models of diseases, clinical study and biotechnology programme. While for the marketplace perspective, the organization should set high standards of corporate conduct within its marketplace as the objective. The measures are including international marketing standards, youth smoking prevention and underage access prevention.

A business must coexist with the environment which it operates. Hence, the environment perspective should incorporate with the objective to minimize the impact of business on the natural environment. The performance measures can be in terms of energy use, carbon dioxide, waste of landfill, recycling and waste use. These performance measures serve as the indicators to reflect how well the organization engages in environment protections.

Besides, BAT should ensure its suppliers share the same values as it does. Therefore, the objective of supply chain perspective should be positive social, environmental and economic impact. The performance measures for this perspective are including wood fuel sources, social responsibility in tobacco production and child labor section of social responsibility in tobacco production.

In this paper, it has been presented the experience of using the Balanced Scorecard as planning and performance appraisal tool for managing the impact of British American Tobacco operations and products responsibly today and prepare for a future in which it continues to create value for shareholders as well as being in the best interest of other stakeholders. This paper focuses on five areas of sustainability agenda: i) Harm reduction, ii) Marketplace, iii) Environment, iv) Supply chain, and v) People and culture

Materials And Method

This paper has been conducted through an empirical analysis of exploratory case study. The choice of a case study is one of the most appropriate methods of empirical inquiry, because qualitative studies are necessary where organizational processes are involved. Case study research excels at bringing us to an understanding of a complex issue or object and can extend experience or add strength to what is already known through previous research.

Case study emphasizes detailed contextual analysis of a limited number of events or conditions and their relationship. Researcher Robert K. Yin defines the case study research method as an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly (YIN, 1984).

Strength of the case study method is that the emergent theory is likely to be testable with constructs that can be readily measured and hypotheses that can be proven false. Measurable constructs are likely because they have already been measured during the theory-building processes. The resulting hypotheses are likely to be verifiable for the same reason (Huberman, Miles, 2002).

The balanced scorecard (BSC) was developed by Kaplan and Norton as a device to the manager to improve their corporate performance alliance with corporate goals (Proctor, 2009). Unlike other traditional methods, BSC provides new framework of performance measurement that relies more than just on financial perspective. According to Kaplan (2010), balanced scorecard retains financial metric as the ultimate measurement of company success but with three additional perspectives which are customer, internal process, and learning and growth as the drivers for creating long-term shareholders value. The balanced scorecard provides a framework for organizing strategic objectives into these four perspectives (Kaplan & Norton, 2001).

i) Financial—the strategy for growth, profitability, and risk viewed from the perspective of the shareholder.
ii) Customer—the strategy for creating value and differentiation from the perspective of the customer.
iii) Internal Business Processes—the strategic priorities for various business processes that create customer and shareholder satisfaction.
iv) Learning and Growth—the priority to create a climate that supports organizational change, innovation, and growth.
Translating Vision and Strategy: Four Perspectives

Financial Perspective:

In this perspective, the top objective is to focus on delivery of value to shareholders or owner of the company as this the reason most organization operate (Makhijani & Creelman, 2008). It defines the tangible outcomes of the organization’s strategies and cover for long-term goal of the organizations. Financial perspectives are an outcome of other three non-financial perspective’s activities (Sanayei, et al., 2011). Therefore, under this perspective managers are required to generate measures that answer the following question: "To succeed financially, how should we appear to our shareholders?"

Customer Perspective:

This perspective gives a view of the company from customer side. Based on article wrote by Makhijani and Creelman (2008) in ‘Creating a Balanced Scorecard for Financial Services’, it describes how value is experienced through the eyes of the customers. Manager should translate general mission statement on customer into measurement that matter and easily understood by the customers. Customers’ concern can be classifies under four component; time, quality, performance and services, and cost (Kaplan & Norton, 1992). Thus, to understand more, manager should find the answer for this question “How should we appear to the customers?”

Internal Business Processes Perspective

This perspective focuses on internal business process that satisfies both customer and financial perspectives (Dabbas, 2012). The theme of this perspective is from the result of internal business processes that will lead to financial success and satisfied customers. The measures of this perspective are based on producing goods or services more efficient and effectively manner (Al-Najjar & Kalaf, 2012). It involves the answer to the question of "To satisfy our customers and shareholders, what business processes must we excel at?"

Internal business process perspective is different from other traditional approaches of performance measurement. The first difference is BSC approach usually involves identify the whole new process rather than just improve the existing process. The second difference is BSC approach incorporates objectives and measure for both long term and short term operation cycle (Kaplan & Norton, 1996).

Learning and Growth:

Under this perspective managers must identify measures to answer the following question: "To achieve our vision, how will we sustain our ability to change and improve?" Actually, this perspective is related to the employees of the organization, and it measures the extent to which the organization exerts efforts to provide its employees with opportunities to grow and learn in their domain

From this initial structure of balanced scorecard, company then will developed critical and comprehensive strategies known as “Strategy Map”. It is a strategy map that specifies the critical elements and their linkages for an organization’s strategy as well as creating a common understanding between all organization units and employees (Kaplan & Norton, 2001). The strategy map is built from the top to the bottom where the top management of the organization will review their mission statements, reason of organization existent, the core value and belief. From all this information, then the organization vision is developed. The vision will reflect the
organization’s goals and objectives. The strategies are then identifies the path intended to reach that goals. Figure 4 show an example of the strategy map.

![Figure 4: The Balanced Scorecard Strategy Map](image)

**Results And Discussion**

This paper focuses on sustainability and almost everything BAT does is preparing them for the future. That is why this Report focuses on what the future could look like and how they are preparing for it. For example, over the past year, it has been mapping climate change risks to help them identify where in the world things such as water availability and energy security could impact on its operations and tobacco growing in the future. BAT is also looking at how it can make sure it gets the very best people into the business. Employee expectations of a satisfying career are changing and they know they need to understand and meet those expectations. So can a business like theirs be sustainable? By taking the lead, setting out a clear agenda for the future and doing things right, the answer is yes. The tobacco industry has not met the expectations of its stakeholders in the past. However, it is working hard to align its business strategy with the expectations of society. Its sustainability agenda comprises five goals across its key impact areas. It will:

- Strive to bring commercially viable, consumer acceptable reduced-risk products to market;
- Take a lead in upholding high standards of corporate conduct within its marketplace;
- Actively address the impact of its business on the natural environment;
- Work for positive social, environmental and economic impacts in its supply chain; and
- Work to ensure it has the right people and culture to meet its goals.

Therefore, BAT has long been looking at some important elements of sustainability such as:

**Harm Reduction:**

BAT works with External Scientific Panel on the design of a longer clinical study of biomarkers of exposure to tobacco smoke toxicants and biomarkers of biological effect by end 2011. BAT implements its reinvigorated biotechnology program and submits the latest results of the research for publication by end 2011. Presents its scientific findings at international conferences and maintain or increase its publications in peer-reviewed journals by end 2011.

**Marketplace:**

BAT engages with the International Labor Organization and other relevant international organizations to ensure that the impact of regulation on issues such as employment and free trade are properly assessed by end 2011. Reviews youth smoking prevention in those markets is yet to implement its global approach by end 2011. Complete a pilot at its factory in Mexico of the industry-agreed system for digital tax verification by end 2011.
Environment:

BAT reduces its direct energy use towards its 2012 target of 11.03 gigajoules per million cigarettes equivalent produced, 6.7 per cent lower than its 2007 baseline. Reduces its direct water use towards its 2012 target of 4.2 cubic meters per million cigarettes equivalent produced, 13.4 per cent lower than its 2007 baseline. BAT reduces its waste to landfill towards its 2012 target of 0.022 tones per million cigarettes equivalent produced, 12 per cent lower than its 2007 baseline, and recycles at least 85 per cent of its waste. And also engages with stakeholders about the long-term challenges and opportunities of climate change, focusing on the areas of carbon pricing and renewable energy by end 2011. It also carries out a water footprint analysis to better understand the risks and opportunities that changes in water availability could present for BAT by end 2011. Reviews and revises its biodiversity risk and opportunity assessment tool for use in its next round of assessments of tobacco leaf growing operations by end 2011.

Supply Chain:

The BAT introduces requirements for its leaf suppliers to meet minimum performance thresholds in its Social Responsibility in Tobacco Production (SRTP) assessment scores by end 2011. BAT incorporates requirements for human rights and other sustainability criteria into all its framework agreements with global suppliers by end 2012. It establishes an external stakeholder panel to provide guidance and challenge on supply chain sustainability issues by end 2011. It also uses its approach for considering environmental impacts in all global factory sourcing decisions by end 2011. BAT extends its third-party manufacturing assessments to include water by end 2011. Also it carries out a review of its Business Enabler Survey Tool to incorporate further sustainability criteria into the assessment process by end 2011. And it further integrates sustainability principles into the selection criteria for its direct materials and machinery suppliers by end 2011. BAT trials its environmental scorecard with strategic materials suppliers by end 2011.

People and Culture:

BAT completes the development of its global learning management system and implements it across the group by end 2011. It works with its employees to devise improvement plans in response to the results of its employee opinion survey by end 2011. BAT also implements its plan to reduce vehicle-related injuries in its Trade Marketing & Distribution teams by end 2011.

In year ended 31st December 2011, British American Tobacco (Malaysia) Berhad achieved total revenue of RM 4,127 million with profit before tax of RM 956 million and total net profit of RM 720 million. The company also accomplishes RM 432 million on shareholder’s fund which is 166.7% of net return on shareholder’s fund. The net earnings per share as year ended 2011 is RM 2.52 per share and RM 2.76 for net dividend per share.

Conclusions:

In conclusion, BAT is committed to reducing the health risks of its products, so its approach is to make available a range of reduced-risk tobacco and nicotine products for adult consumers. BAT has established a stand-alone company, Nicoventures, to explore the development and commercialization of regulatory approved nicotine products. And it seeks to grow its market share, but it does this responsibly its marketing activities are not aimed at the underage and not misleading about the health risks of tobacco products. BAT is working to fight the black market in tobacco, such as through developing new technologies to further secure the supply chain.

The inherent business nature of BAT is contradicted with social norm since its principal of business is selling cigarettes which seem like reaps profits at the expense of others. In fact, Malaysian government imposes stringent rules and regulations to reduce the number of smokers in the country. Such rules and regulations including imposes sin tax, forbid advertising on cigarettes and etc. Due to these risk factors, the future prospect of BAT is questionable.

The sustainability report issued by BAT revealed its main concern is on the business continuity. BAT foresees the challenges (i.e. smoking restrictions impose by governments, black markets and etc.) in the future and take necessary actions such as sets the contingency plans to overcome them. The negative impact of tobacco on public health has tainted the image of organization. It is important for organization to reshape its image in stakeholders’ eyes. Hence, it is crucial for organization to measure performance of these elements and translate into corporate strategy.
Table 1: Summary of Balanced Scorecard for BAT in Malaysia

<table>
<thead>
<tr>
<th>Source: British American Tobacco Sustainability Report, 2011</th>
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<tbody>
<tr>
<td><strong>Trend key:</strong> Improvement or maximum level</td>
</tr>
<tr>
<td><strong>International Marketing Standards</strong></td>
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<tr>
<td>Number of reported instances of partial or non-adherence</td>
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<tr>
<td><strong>Youth smoking prevention</strong></td>
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<tr>
<td>Reports running or supporting youth smoking prevention programmes</td>
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<tr>
<td><strong>Preventing under-age access</strong></td>
</tr>
<tr>
<td>Reports engaging with the government, directly or indirectly, to improve measures to help prevent under-age access to tobacco</td>
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<tr>
<td><strong>Energy use</strong></td>
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<tr>
<td>Cigarettes per million cigarettes equivalent produced</td>
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<tr>
<td><strong>Carbon dioxide</strong></td>
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<tr>
<td>Tonnes CO2e per million cigarettes equivalent produced</td>
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<tr>
<td><strong>Waste to landfill</strong></td>
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<tr>
<td>Tonnes cigarettes equivalent produced</td>
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<tr>
<td><strong>Recycling</strong></td>
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<tr>
<td>Percentage of waste recycled</td>
</tr>
<tr>
<td><strong>Water use</strong></td>
</tr>
<tr>
<td>Cubic metres per million cigarettes equivalent produced</td>
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<tr>
<td><strong>Local succession coverage</strong></td>
</tr>
<tr>
<td>Percentage of the business unit with at least one local successor in the short term and two local successors in the long term for each senior position</td>
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<tr>
<td>Long term</td>
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<tr>
<td><strong>Local top teams</strong></td>
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<tr>
<td>Percentage of local representation on business unit senior management teams</td>
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<td><strong>Employee opinion “Your Voice” survey</strong></td>
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<tr>
<td>British American Tobacco Malaysia vs Towers</td>
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<tr>
<td>Watson Malaysia national benchmark</td>
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<tr>
<td>Score in the Engagement category</td>
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<tr>
<td>Ranked by difference from benchmark</td>
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<tr>
<td><strong>Gender diversity</strong></td>
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<tr>
<td>Percentage of women in management grades</td>
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<tr>
<td>Management trainees</td>
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<tr>
<td>Management grade 34</td>
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<td>Management grade 35</td>
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<td>Management grade 36</td>
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<td>Management grade 37</td>
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<td>Management grade 39</td>
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<td>Management grade 40</td>
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<tr>
<td><strong>Lost Workday Case Incident Rate (LWCCR)</strong></td>
</tr>
<tr>
<td>LWCCR = Number of lost workday cases through injury x 200,000 divided by total hours worked</td>
</tr>
</tbody>
</table>

* Indicates that this marker has met or outperformed the Group target for this measure.

Notes:
1. The environmental data is from our online Gensquare EHS reporting system. Previous figures reported in local publications may vary due to differing local reporting standards.
2. The 2009 percentage of local representation on the business unit senior management team has been reclassified to the one previously reported at 7/9 per cent, due to the same figure being incorrectly quoted in the previous report.
3. Data is based on 2009 and 2010 biennial employee survey.
4. Sadly, there was one vehicle-related fatality in a contractor in 2011.

Source: British American Tobacco Sustainability Report, 2011
Discussion:

Our findings show that the balanced scorecard of the British American Tobacco is in different shapes looking at the model posed by Kaplan and Norton because it is a comparison between 2009 until 2011. This has made it a little more complicated unlike the normal balanced scorecard that has four main processes, that is, financial, internal processes, customer perspective and learning and growth. The BAT’s balanced scorecard is more of figures and data based on regional performances.

In terms of the BAT Malaysia balanced scorecard 2011, the trend key is as follows:

- **Improvement or maximum level**
  BAT had achieved the maximum improvement level in international marketing standard, youth smoking prevention, waste to landfill, water use and local succession coverage in long-term. In the area of Gender diversity (management grade 34), BAT had achieved improvement level from 29.0% in 2010 to 33.9% in 2011, and (management grade 36) from 25.0% in 2010 to 32.0% in 2011. Lastly the Lost Workday Case Incident Rate (LWCIR) had an improvement from 0.12% in 2010 to 0.07% in 2011.

- **Minimal or no change (2 percentage points or less)**
  BAT had achieved minimal or no change in preventing underage access, recycling, local succession coverage in short-term and local top teams. In the area of Gender diversity, (management grade 40), BAT had a minimal or no change trend of 0.0% in 2010 and 2011 respectively.

- **Decline**
  BAT had a decline in energy use, carbon dioxide and employee opinion in 2010. In terms of Gender diversity (management trainee), BAT had a decline from 69.0% in 2010 to 53.8% in 2011, and a decline in (management grade 38 and 39), from, 25.0%, and 25.0% in 2010 to 14.3% and 20.0% in 2011.

The recommendations will be central on four types of primary stakeholders which are consumers, local community, suppliers and shareholders. It is vital for organization to sustain its business in continuous manner in order to maximize shareholders’ wealth. It is important for organization to make contributions to society in order to create returns to shareholders in long run. Corporate social responsibility can be used as the strategic tool to regain public confidence on organization (Amran & Devi, 2008). For example, actively engage in charities and donations, appropriate part of revenues as charity fund and etc. These social responsibilities are able to improve reputation of organization.

Despite there are different perspectives using by BAT, however, the function of balanced scorecard basically is the same. One of the benefits of balanced scorecard is it provides comprehensive performance measures in terms of financial and non-financial measures. In addition, balanced scorecard can be adapted flexibly in order to suit different types of organizations. Obviously, the sustainability performance of BAT should be measure in non-financial measures since its main concern is on public welfare rather than profitability. It is advised for BAT to incorporate balanced scorecard into corporate strategy as it able to provide a clear picture to the entire organization what should be done to achieve the objectives.

References


