

# “Balanced scorecard for implementing united territorial communities’ social responsibility”

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# BALANCED SCORECARD FOR IMPLEMENTING UNITED TERRITORIAL COMMUNITIES' SOCIAL RESPONSIBILITY

## Abstract

Under decentralization, local governments gain more rights and opportunities to use various types of resources, thus, increasing their level of responsibility (including social responsibility) for the use of resources. The paper aims to reveal the consequences of decentralization reform for the indicators of united territorial communities (UTCs) budgeting that reflect their general socio-economic condition, as well as the nature of the latter one; to adapt the balanced scorecard (BSC) to the feature of UTCs' functioning, and to develop the UTCs strategic map. The paper indicates that the system of balanced indicators is an analytical tool for ensuring the realization of the concept of social responsibility of the UTCs. The research resulted in the development of the balanced scorecard of indicators for UTCs. It includes the following blocks: internal business processes, funding, service providers, service consumers, and environment. The research contributed to the development of UTCs strategic map based on BSC adapted to the peculiarities of UTCs. The strategic map provides an opportunity to link strategic goals of UTCs with the developed BSC blocks and allows for a successful implementation of the concept of UTCs' social responsibility in conditions of the need to achieve sustainable development.

**Keywords** balanced scorecard, strategy maps, social responsibility,  
community, decentralization, strategy, Ukraine

**JEL Classification** M14, M21, M40, M49

## INTRODUCTION

The efficient implementation of the range of reforms in Ukraine currently depends on decentralization, which creates conditions for a modern system of local governance through granting territorial communities the competences and resources and providing quality and accessible services to citizens. While defining the development priorities and ways for a certain united territorial community (UTC) that should be expressed in its development strategy, it is necessary to take into account the generally accepted sustainable development goals because they address the quality improvement of all spheres of residents' lives. As far as donors are attracted or a certain business project is implemented in case that it corresponds to the strategy of a UTC's development, correct social, environmental, and economic priorities will boost the development towards meeting the needs of all interested parties: community, business, and state.

Sustainable development of a community substantially depends on economic entities, which provide residents with jobs by working at its territory and is the source of filling local and state budgets, on the one hand. On the other hand, they can use local natural resources irresponsibly and contaminate the environment, etc. Each territorial community has its special capacity in the context of opportunities for

efficient business creation and conducting; however, in any case, the business must conduct socially responsible behavior. Unfortunately, the activity of most economic entities is in the first place directed at gaining profits, while the issue of social and environmental impact on the functioning environment remains in the background.

It is possible to secure the UTCs' sustainable development in case social responsibility is introduced, which encompasses the following directions: respect for human rights; compliance with the law; business and corporate ethics; environmental protection; cooperation with interested parties; compliance with international standards of behavior; care for older people; transparency and reporting (Komarova & Kovalchuk, 2016).

It is worth mentioning that according to social responsibility standard ISO 26000, "social responsibility is the responsibility of an organization for the impact of its decisions and activity on society and environment through acting ethically and transparently that contributes to the health and welfare of society; takes into account the expectations of interested parties and complies with current legislation; is in line with international standards of behavior and integrated into the activity of the entire organization" (ISO, 2018b).

It is impossible to secure practical implementation of the concept of social responsibility of a united territorial community (UTC) without consideration of the system of balanced indicators as an analytical tool that consolidates the interests of clients (residents) with services providers for their realization and promotion of their improvement. It should become an important element of UTC's development strategy and an answer to the challenges of the modern business environment.

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## 1. THEORETICAL BASIS

Many scientists address the problems related to the introduction of social responsibility into the activity of economic entities and the state in general. Some authors in the first place write the reviews on the importance of social responsibility concept in society at various levels, in particular: considering it in connection to the concept of "sustainable development" (Irtyshcheva, 2015; Stehnei, 2019), customer behavior on the consumer market (Shults, 2017; Panukhnyk, 2019), social interaction between different interested parties (Holovaty, 2015; Romanenko & Chaplay, 2016), in conditions of transformation of the legislative framework for local governance in Ukraine (Voznyak, 2015; Danko, 2020).

Foreign authors also vastly study the issues of social responsibility. Jamali and Karam (2018), while examining the developing countries, addressed corporate social responsibility (CSR), the ways it is manifested, and its consequences. They also studied the institutional measures of national business systems (NBS) of the countries under study, in particular, their formal and informal participants.

The research brought them to the conclusion that the CSR forms in a certain country depend on the formal and informal participants of governance systems and many multilevel factors.

Amaeshi (2011) studies the functions of the International Finance Corporation (IFC) in the developing countries and emphasizes its role as the global institutional participant of all project finance processes in the countries. The author focuses on the strategies and discourses used by the IFC and opportunities for the spread of CSR in developing economies.

Kolk and Lenfant (2013) focus on multinational enterprises (MNEs) and their interactions with NGOs. The authors examine MNEs' role in peaceful societies on the examples of innovative partnerships of MNEs and non-business partners.

Lund-Thomsen and Nadvi (2010), in their paper, consider collective action responses to the challenge of CSR compliance in selected export industries. They explain the differences in collective responses by the level of export industries' participation in global value chains.

Economic, political, and environmental changes and permanent crises in the world cause the need to conduct research and undertake practical steps to solve the problems of provision of information to all interested parties (Maksymiv, 2016), including the residents of a certain UTC, authorities, and business (Yakubiv, 2015). UTCs' social responsibility is formed in the first place on the grounds of CSR of certain economic entities that belong to a certain territorial community. It is common knowledge that corporate social responsibility impacts the opportunity for sustainable development of an economic entity and, therefore, the efficiency of companies, UTCs, and the state in general. In academia, the problem of UTCs' activity in the context of social responsibility is underresearched; therefore, in the paper, the works of scientists that examine the CSR at the level of economic entities will be covered in more detail. Most of the authors conclude that a socially responsible economic entity will have an impact in the form of a growing business reputation in case of a proper understanding of its impact on interested parties.

Thus, Titisari, Moeljadi, Ratnawati, and Indrawati (2019) analyze the impact of corporate governance and CSR on the company's value through the cost of capital in public companies. Based on the research, they argue that corporate governance and CSR can improve both the overall performance of the company and its internal and external corporate image. In its turn, the investors' confidence in the company grows, and, therefore, the necessary funding sources that can reduce the cost of capital can be attracted. The group of researchers (Mantzari, Reklitis, Trivellas, Mantzaris, & Reklitis, 2018; Gal, Akisik, & Wooldridge, 2018) determines the perception of CSR by the companies' employees and its impact on their attitude to work.

Most of the researches establish that the main advantage of CSR introduction is that it can improve the company's image (Gardberg & Fombrun, 2006; Babiak & Trendafilova, 2011; Melo & Garrido-Morgado, 2012; Pérez-Cornejo, Quevedo-Puente, & Delgado-García, 2019). They also prove that corporate social performance is the basis of national business corporate image, in particular, the CSR reporting quality.

However, while introducing the model of social responsibility to the activity of a certain company of UTC, it is important to use the correct methodology to form the system of the balanced scorecard and to consider the needs of all interested parties. If the strategic goals of the UTCs and sustainable development goals are not connected with BSC blocks and determined target indicators in the course of strategic map development as an integral part of the BSC, the result can disrupt the trust rather than improve it. The authors reveal that CSR may also have a negative impact on the reputation of an economic entity as it becomes the target of interested parties (Graafland, 2018).

Developers of the BSC Kaplan and Norton emphasize that the analytical instrument "aims at 'balancing' financial and non-financial, short-term and long-term, as well as qualitative and quantitative success measures". Key performance indicators measure each objective. Initially, the BSC focused on individual and groups of performance indicators for measuring and managing the implementation of strategic objectives (Kaplan & Norton, 1992). Kaplan and Norton (2001a,b) emphasized the strategy and cause-and-effect links with strategic objectives. Kaplan and Norton (2004), Neely, Marr, Roos, Pike, and Gupta (2003) substantiated the need to use strategic maps.

Regarding the research that combines social responsibility and balanced scorecard, it is worth mentioning David Crawford and Todd Scaletta who argue that companies that use BSC in its activity with CSR implementation can compete either by cost differentiation or leadership (or both) (Crawford & Scaletta, 2005).

Hansen and Schaltegger (2016) quite rightfully argue that "there is much scholarly discussion about BSC architecture and how it can be designed to relate performance dimensions, strategic objectives, and the logical links among these elements". Despite the considerable input of researchers in the development of economic thought on BSC and social responsibility, the modern business environment of UTCs functioning causes the need to examine the opportunity to introduce the system of BSC as an analytical instrument of social responsibility concept implementation in UTCs.

## 2. RESULTS

Practice shows that implementation of decentralization reform promotes the qualitative improvement of living environment for community residents, creation of real conditions for comprehensive development of territories and human resources, and formation of foundations of efficient local governance.

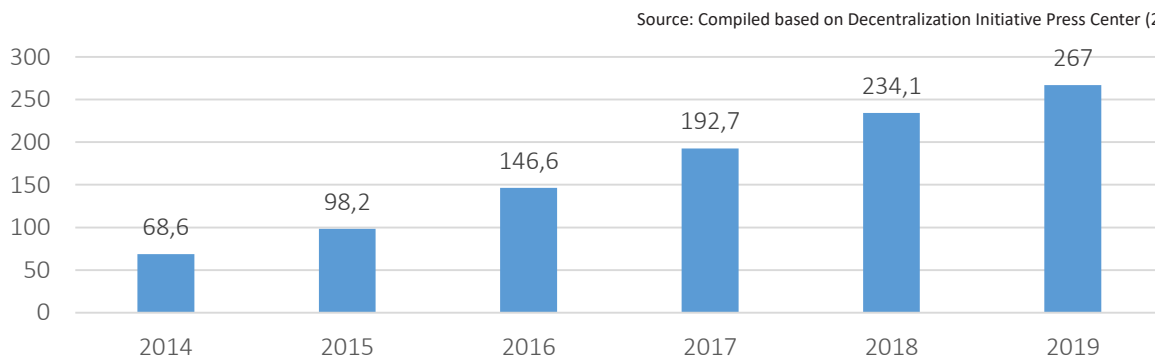
Thus, revenues from own income to general fund of local budgets in Ukraine (income without inter-budgetary transfers) amounted to UAH 234.1 billion in 2018 and increased by UAH 41.4 billion or 21.5% compared to 2017 (Decentralization Initiative Press Center, 2019).

Local budget revenues are established to have been having the increasing tendency since the beginning of financial decentralization; namely, their volumes amounted to UAH 68.6 billion in 2014, and they are expected to have grown almost four times in five years (Figure 1).

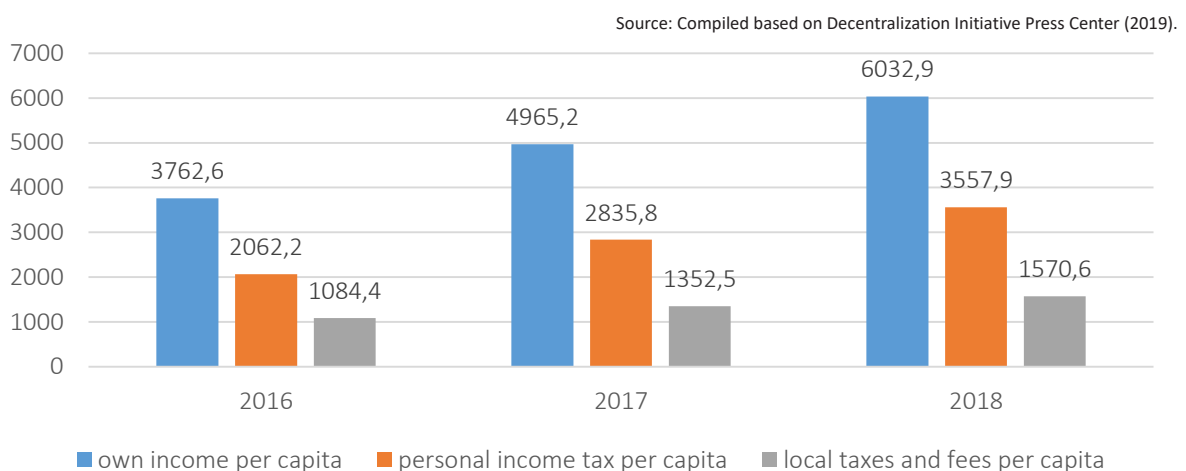
Experts consider that “such results have become possible due to expansion of competences and increased interest of local governments in growing revenues to local budgets, implementation of activities regarding the attraction of the reserves of their management and improvement of the administration of taxes and fees” (Decentralization Initiative Press Center, 2019).

Own revenues of the general fund per capita increased in 2018 compared to 2017 by 21.5% and amounted to UAH 6,032.9. Volumes of personal income tax revenues per capita increased by 25.5% and amounted to UAH 3,557.9, local taxes and fees per capita increased by 16.1% and amounted to UAH 1,570.6 (Figure 2) (Decentralization Initiative Press Center, 2019).

Dynamics of united territorial communities’ budget revenues outpace the growth of income across other levels of local budgets. Thus, local budgets’ own income revenues in 665 UTCs in-



**Figure 1.** Own revenues of local budgets fund, UAH billion



**Figure 2.** Own revenues of general local budgets fund per capita in January-December 2016–2018, UAH

creased by 62.1% (or UAH 8.0 billion) in 2018 and amounted to UAH 20.9 billion (Table 1).

It is worth mentioning that 299 new UTCs, where the first local elections were held in 2017, only in 2018 received 60% of revenues from personal income tax to their budgets, and their own resources increased 2.7 times (or by UAH 6.2 billion) compared to the same period of the previous year and amounted to UAH 9.7 billion.

Moreover, the paces of own income growth in 366 UTCs (formed in 2015–2016), which received 60% of personal income tax revenues to their budgets in 2017, account for 19.8% (or UAH 1.8 billion).

The remaining balance on treasury accounts of local budgets testifies to the financial capacity of local budgets. As of 1 January 2019, the remaining balance of all local budgets of Ukraine amounted to UAH 49 billion, including UAH 31.8 billion on accounts of the general fund. The remaining balance of local budgets of the cities of regional significance amounted to UAH 7.7 billion, including UAH 5.4 billion on accounts of the general fund. The remaining balance on the UTCs' accounts amounted to UAH 5.1 billion, including UAH 4.2 billion on accounts of the general fund.

It is worth mentioning that budgeting indicators show the general socio-economic condition of respective territory and its capacity to develop further. Availability of sufficient resources in local budgets indicates that a territorial

community has an opportunity to provide more quality and diverse services to its residents, implement social and infrastructural projects, create conditions for business development and investment attraction, elaborate local development programs and finance other activities for overall improvement of the community residents' living conditions.

As a result of preliminary research and analysis of specialized literature (Jamali & Karam, 2018; Amaeshi, 2011; Bird & Smucker, 2007; Kolk & Lenfant, 2013; Pylypiv, Maksymiv, & Piatnychuk, 2018; International Organization for Standardization, 2018a; Schaltegger, Bennett, & Burritt, 2006; International Organization for Standardization, 2014; International Organization for Standardization, 2015a; International Organization for Standardization, 2015b; Pylypenko, 2010), the authors' view over the general concept of social responsibility was formed as follows: it is a set of socio-economic (social) relations, where the central place is occupied by people and their activities, which stipulate forming of social responsibility at the level of a country, a region, a UTC and certain business (company), resulting in social protection of the population of either the country, the region or the UTC. Such an understanding of the concept under study will contribute to the application of the empirical approach to conducting further scientific research to solve the outlined problems and to find the ways to successfully accomplish the sustainable development goals.

**Table 1.** Own income revenues of 665 UTCs in January-December 2018 compared to January-December 2017

Source: Compiled based on Decentralization Initiative Press Center (2019).

Payments to budget	665 UTCs, overall				Including							
					366 UTCs consolidated in 2015 and 2016				299 UTCs consolidated in 2017			
	Revenues, million UAH		Deviation		Revenues, million UAH		Deviation		Revenues, million UAH		Deviation	
2017	2018	+, -	%	2017	2018	+, -	%	2017	2018	+, -	%	
Overall, including:	12,873.1	20,865.3	7,992.2	62.1	9,299.5	11,138.3	1,838.8	19.8	3,573.6	9,727.1	6,153.4	172.2
1. Personal income tax	5,223.3	11,880.3	6,656.9	127.4	5,223.3	6,444.4	1,221.1	23.4	-	5,435.9	-	-
2. Excise tax	1,522.8	1,538.7	16.0	1.0	794.4	806.8	12.5	1.6	728.4	731.9	3.5	0.5
3. Local taxes and fees, including:	5,614.4	6,701.5	1,087.1	19.4	2,962.0	3,533.9	571.9	19.3	2,652.4	3,167.6	515.2	19.4
• land fee	2,698.1	2,997.4	299.3	11.1	1,407.8	1,581.3	173.5	12.3	1,290.3	1,416.1	125.8	9.7
• single tax	2,646.2	3,299.1	652.9	24.7	1,408.4	1,740.3	331.8	23.6	1,237.8	1,558.8	321.0	25.9
• immovable property tax	245.9	373.6	127.8	51.9	132.7	195.8	63.1	47.6	113.2	177.9	64.7	57.2

The introduction of a system of BSC is an efficient analytical instrument of implementation of UTCs' social responsibility concept and securing of their sustainable development. Although it was developed to be used by companies, its general techniques can be applied to the implementation of both UTC's development strategy and UTC's social responsibility concept.

Moreover, the BSC is a powerful tool to manage the company's strategy, which considers its activity from several perspectives and produces efficiency monitoring not only across financial indicators but also by the quality of work with clients, staff, information technologies, production processes, etc.

The statement of Malyarets and Shterever (2008) appears to be quite legitimate. They argue that securing the functions of collection, systematization, and analysis of information is the major designation of the balanced indicators system, which is necessary for making managerial decisions and strengthening of development strategy, its formalization, securing of monitoring and feedback to track and generate organizational initiatives not only at the lower level – the companies but also legitimate for higher-level strategy, where the UTCs are placed.

The importance of the use of the components of the balanced indicators system is explained by the fact that they are used not only for strategic management goals but also to evaluate the implementation of the social responsibility program and level of UTC's development strategy goals achievement to secure its sustainable development. Therefore, the authors adapted the system to the conditions of UTCs functioning with outlining of separate blocks, which integrally form its structure.

Traditionally, four blocks are outlined in the BSC system used at the company level: internal economic processes, finances, training and growth (staff), clients. However, the structure of the BSC system at the UTCs level will differ from the abovementioned one. It is explained by the fact that the central position in the social responsibility concept is occupied by a person, which plays two roles (acts in two positions):

- 1) as a member of a community – a consumer of services (by analogy, at the level of business social responsibility – as a client);

- 2) as a member (representative) of a UTC – provider of services (by analogy, at the level of business social responsibility – as an employee).

Moreover, the functioning of UTCs as economic entities is revealed to be characterized by specifics that differ them from companies, namely: functioning objective; organizational structure; sources of funding; responsibility, etc. (Pylypiv, Piatnychuk, & Sologub, 2018). It is necessary to take into account the detected specifics of UTCs functioning in the construction of the BSC system as an analytical tool of successful implementation of UTCs' social responsibility concept to secure their sustainable development.

As the findings indicate, it necessary to form the following BSC blocks in the context of the implementation of UTCs' social responsibility program: internal business processes, funding, service providers, service consumers, environment (Figure 3).

The block of such internal business processes within a UTC as management process, main and interim processes, which should provide comprehensive information on their condition and efficiency, is among the important blocks. Therefore, the block provides the indicators that estimate the tendencies regarding the efficiency of UTC's strategy implementation, the success of sustainable development goals achievement, implementation of decisions by the UTC's managerial staff; quality of services granted by providers (educational, cultural, medical facilities, etc.) and companies functioning at the UTC's territory; availability of necessary resources for UTC's functioning; indicators regarding information management in the UTC.

Funding is the next equally important block, which is represented by indicators that contribute to the assessment of UTCs' economic growth and efficiency of the use of their financial resources. Therefore, the indicators of financial block help the managerial staff of UTCs to adequately assess their opportunities and to make decisions regarding the ability to accomplish sustainable development goals based on this information. The block includes the following indicators:

1. UTC's economic growth: indicators of assessment of the development of small and medi-

um businesses at the UTC's territory; indicators of assessment of poverty overcoming; indicators of assessment of the efficiency of energy resources exploitation.

2. Financial resources: indicators of forming of budget estimates and financial plans; indicators of efficiency of the use of budget funds; indicators of efficiency of the use of investment, grants, and other types of financial assistance; indicators that characterize the volumes of funding of activities under the implementation of UTC's social responsibility program; indicators that characterize the volumes of funding of activities to accomplish the sustainable development goals.

Another block, namely the services providers, is represented by the indicators that define the organization of labor within the UTC and its labor capital. Information obtained as a result of analysis of these indicators will provide the UTC's managerial staff with an opportunity to command a situation regarding the working conditions of services providers, their qualification level, quality of

provided services, compliance with the principles of continuous learning and professional growth in current conditions of a dynamic business environment. The block includes the following indicators:

1. Labor organization: indicators of availability of professional services providers in the UTC; indicators of employees' professional training; indicators of working conditions of services providers.
2. Human capital: turnover coefficient; staffing coefficient; structure of staff in the services industry.

It is clear that the next block is the most important, and the assessment of the implementation of the UTC's social responsibility program, meeting the needs of the community's population, and their welfare depend on it. This is the block of services consumers represented by indicators:

1. Assessment of residents' social life conditions: indicators of meeting the need for food and adequate accommodation; indicators of se-

Source: Developed by the authors based on Malyarets and Shterever (2008), Pylypenko (2010).

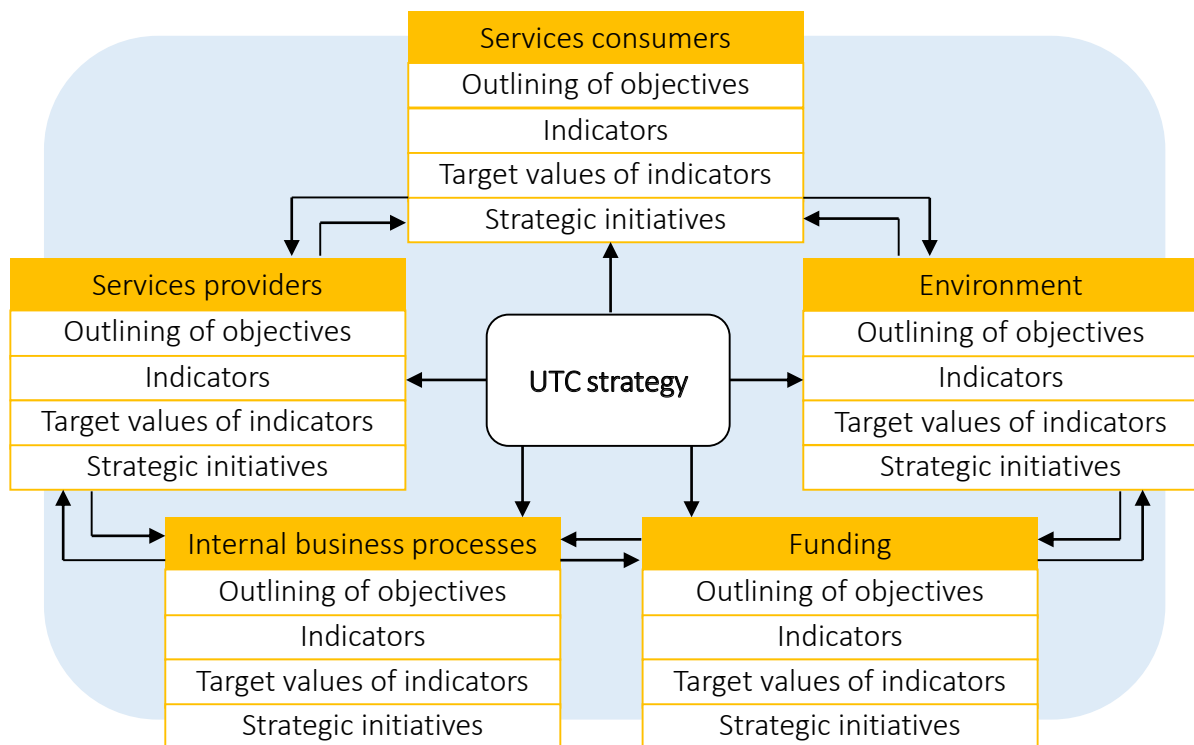


Figure 3. Information component of BSC blocks

curing a healthy lifestyle and access to medical services.

2. Meeting the consumers' needs: number of complaints; volume of punitive sanctions.
3. Welfare of population: indicators of the level of residents' purchasing power; indicators of the volume of social benefits.

It is worth mentioning that information received as a result of analysis of these indicators will help the UTC's managerial staff command a situation regarding the social conditions of UTC residents' life, quality of obtained social services, level of meeting the needs of services consumers and their welfare, making possible the assessment of the lev-

el of UTCs' social responsibility in the context of accomplishment of sustainable development goals.

To obtain information on the impact of companies' activity at the UTC's territory on the environment, the use of the fifth block – environment – is reasonable, which will contribute to the assessment of compliance with environmental requirements of companies' activity in UTCs that impacts their business reputation and competitiveness.

It is explained by the fact that compliance with environmental requirements should be assessed in compliance with global principles and standards of quality and should reflect information on indicators regarding the volumes of air pol-

Source: Authors.

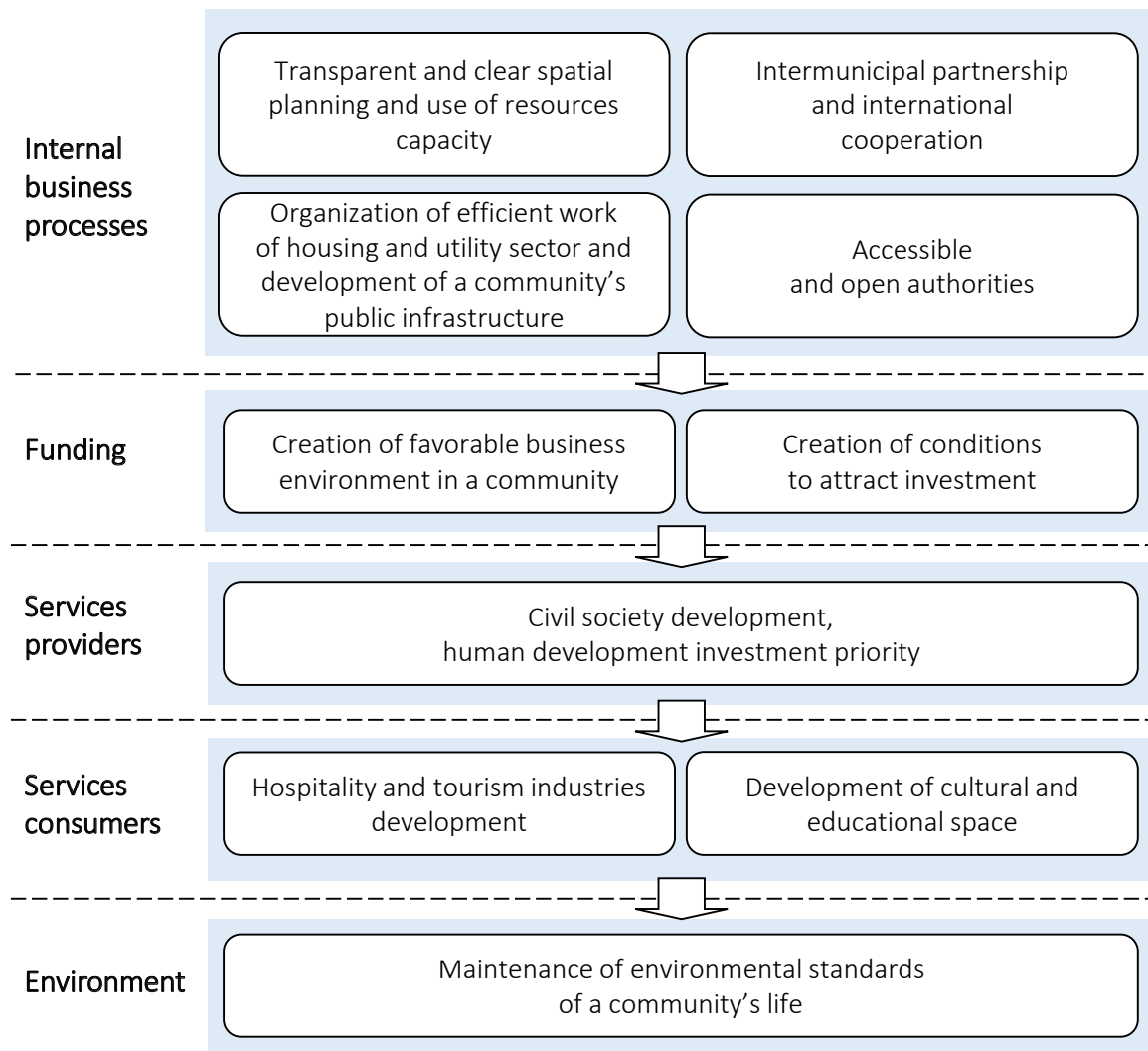


Figure 4. Strategic map for Broshniv-Osadska UTC

lution; indicators of solid waste management; other indicators of environmental protection.

Development of a strategic map that enables to connect a UTC's strategic goals with the BSC blocks and determined target indicators is an important step towards the maintenance of efficient implementation of the UTC's social responsibility concept. For example, the strategic map based on the BSC for Broshniv-Osadska UTC has been elaborated, taking into account its development strategy (Figure 4) (Broshniv-Osadska UTC, 2018).

Therefore, the UTC's strategic map developed and suggested for practical use will contribute to the implementation of the concept of the UTC's social responsibility by connecting it with the strategic goals of the community. A qualitatively developed system of strategic accounting that forms the information provision of strategic management is an important foundation for control and timely regulation by the indicators defined in the strategic map. It is the information on the solved issues related to consumers, competitors, suppliers, project cost, and reasonability to invest in the project implemented within a UTC (Pylypiv & Piatnychuk, 2018).

The suggested application of the system of balanced indicators to assess the implementation of UTC's social responsibility program secures com-

plex analysis of the situation in compliance with UTC's social responsibility concept, availability of financial, labor, and material-technical resources in the UTC, assessment of activity and environmental protection, facilitating the selection of well-grounded solution to successfully achieve the sustainable development goals of not only the UTCs, but also the country in general.

The research enabled to suggest that the BSC system as an analytical tool for assessing the implementation of UTC's social responsibility concept should be introduced in interconnection with the system of motivation that will secure the successful achievement of the set goals and accomplishment of the planned activities under the UTC's social responsibility program.

Despite present achievements and significant contribution of scientists and economists to the development of practical instruments to achieve strategic goals of economic entities in the context of sustainable development, the BSC as an analytical instrument of successful social responsibility implementation at the level of UTCs is an under-researched aspect of the problem. It is worth distinguishing the structure of the BSC system at the level of companies and at the level of UTCs because there are substantial differences between them regarding the organizational and economic functioning aspects.

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## CONCLUSION

The research shows that social responsibility is the tool that links the interests of services consumers as UTC's residents with service providers for their realization, promoting the improvement of the services. The development and implementation of UTC's social responsibility concept should become an important element of its development strategy as a response to the contemporary business environment. The system of balanced indicators adapted to the specifics of UTCs and forming of information necessary for managers with a higher level of analyticity, accuracy, and relevance serves as an analytical tool for securing the implementation of UTC's social responsibility concept.

The paper shows that four blocks can be outlined in the system of companies' BSC: internal economic processes, finances, training and growth (staff), clients. However, the research shows that the structure of the BSC system at the UTCs level will differ from the abovementioned one, which is related to the specifics of UTC's functioning as an economic entity, namely the goal of functioning; organization structure; sources of funding; responsibility, etc. Therefore, in the context of the execution of UTCs' social responsibility program, the following BSC blocks have been formed to improve the level of analyticity of information necessary for managers: internal business processes, funding, service providers, service consumers, environment.

The strategic map developed for Broshniv-Osadska UTC that contributes to connecting of the UTC's strategic goals with the BSC blocks and determined target indicators is an important element for the efficient implementation of the concept of the UTC's social responsibility. Therefore, the UTC's strategic map developed and suggested for practical use will contribute to the implementation of the concept of the UTC's social responsibility by connecting it with the strategic goals of the community.

Suggested application of the system of balanced indicators to evaluate the implementation of UTC's social responsibility program secures the complex analysis of compliance with social responsibility concept, UTCs provision with financial, labor, and material-technical resources, evaluation of activity and environmental protection that contributes to making well-grounded decisions to successfully achieve sustainable development goals both in a UTC and the country in general.

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