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Linking the balanced scorecard to sustainability: An empirical study of local government companies

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Abstract

This study aims to analyze how the four perspectives of the Balanced Scorecard (BSC) financial, customer, internal business processes, and learning and growth affect organizational performance and sustainable development in Local Government Companies (LGCs). It also examines the mediating role of organizational performance in achieving sustainability outcomes. A quantitative, cross-sectional survey was conducted among 150 middle and top management officials from seven LGCs in East Kalimantan, Indonesia. Census sampling was employed, and t-test analysis was used to test nine hypotheses derived from theoretical and empirical frameworks. The findings reveal that the customer and learning and growth perspectives significantly enhance organizational performance, while the financial and internal business perspectives do not. In terms of sustainable development, only the financial perspective shows a significant positive effect. Surprisingly, the customer perspective negatively influences sustainability, whereas the internal business and learning and growth perspectives have no significant impact. Organizational performance itself does not significantly contribute to sustainability outcomes. The study concludes that financial strength facilitates sustainability investments, while a strong customer focus may potentially hinder long-term sustainability goals. Aligning BSC implementation with a broader sustainability vision is essential for LGCs to generate enduring value. The results underscore the need for LGCs to integrate sustainability considerations into strategic management practices. Public managers should ensure that BSC frameworks are adapted to reflect sustainability objectives beyond conventional performance measures.

Keywords: Balanced scorecard, Local government companies, Organizational performance, Sustainable development.

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1. Introduction

In recent years, increasing attention has been directed toward organizational performance and sustainable development, particularly within public sector institutions such as Regional-Owned Enterprises (BUMD). These enterprises are expected not only to achieve financial objectives but also to make meaningful contributions to regional development. Amid rising demands for efficiency, accountability, and transparency, performance measurement requires a comprehensive and balanced approach. One relevant framework that addresses this challenge is the Balanced Scorecard, which evaluates organizational performance through four main perspectives: financial, customer, internal business processes, and learning and growth.

In practice, however, efforts to improve organizational performance do not always align with the goals of sustainable development. Achievements in financial results or customer satisfaction, for instance, do not necessarily indicate a positive contribution to social, environmental, or governance outcomes. On the contrary, an excessive focus on short-term efficiency may overlook long-term interests and sustainability. This creates a strategic challenge for BUMD to balance performance achievement with the creation of sustainable value.

To address these multidimensional challenges, integrating sustainability into each perspective of the Balanced Scorecard (BSC) framework offers a promising pathway for enhancing both performance and long-term value creation in BUMD. The financial perspective is no longer solely focused on profitability but increasingly incorporates ESG and sustainability indicators as strategic levers [1, 2]. Simultaneously, the customer perspective has evolved to reflect growing consumer demand for ethical and environmentally responsible services, with sustainability-oriented customers shown to influence firm reputation and loyalty [3, 4]. Internally, operational adjustments such as energy efficiency, waste reduction, and compliance with environmental regulations are becoming central to performance measurement [5, 6]. Furthermore, the learning and growth perspective underscores the need for organizational agility and the development of dynamic capabilities that enable BUMD to innovate and respond to sustainability challenges [1, 7]. Thus, a sustainability-integrated BSC not only aligns with the strategic mission of public enterprises but also enhances their resilience, accountability, and contribution to regional development goals.

In the context of BUMD, this dilemma is even more complex. Limitations in management flexibility and dependence on government regulations often hinder the implementation of innovative and sustainable strategies. Additionally, pressures from stakeholders particularly local governments and communities can place BUMD in difficult positions when making long-term strategic decisions. As a result, initiatives that support sustainable development are frequently delayed or even neglected.

On the other hand, successful organizational management requires the ability to maintain balance across interrelated dimensions of performance. Financial performance must be supported by efficient internal processes, while customer satisfaction depends on continuous learning and innovation within the organization. The dynamic relationship among these four perspectives forms a system of mutual influence that ultimately determines the strategic direction of the organization toward sustainability. Imbalance in any one aspect can undermine the achievement of broader long-term objectives.

Therefore, it is essential to understand how each perspective in the Balanced Scorecard contributes to enhancing organizational performance while simultaneously generating sustainable value. This study aims to explore the interconnection among these dimensions, considering organizational performance as a link between internal strategies and external impacts on sustainable development. Through this approach, a more holistic understanding can be developed regarding the challenges and opportunities faced by BUMD in aligning organizational performance with sustainability goals.

2. Literature Review

The financial perspective not only serves as a reflection of past performance but also functions as a strategic lever that influences future organizational success particularly when integrated with broader frameworks such as value-based management and sustainability. Within the Balanced Scorecard (BSC) framework, this perspective highlights key performance indicators such as profitability, revenue growth, cost efficiency, and return on capital [8]. For Local Government Companies (LGCs), the application of strategic financial management becomes critical in achieving optimal organizational performance. This view aligns with the Value-Based Management (VBM) theory, which promotes the creation of long-term value through the integration of sound financial and non-financial management practices [9]. In practice, this entails financial planning, budgeting, rigorous control systems, and performance evaluation using profitability, liquidity, and solvency metrics. A wide body of empirical research supports the assertion that sound financial management practices enhance organizational performance. Studies such as Alshehhi et al. [10] link sustainability practices to better financial outcomes, while Hudayah et al. [11] underscore the role of IT governance and financial efficiency in boosting performance. However, contrasting findings such as those by Ionașcu et al. [12] show that initiatives like ISO certification may not universally yield financial benefits. Meanwhile, Opatrná and Prochazka [13] point to governance and work-life balance policies as critical drivers of performance, and Kiymaz et al. [14] emphasize the significance of innovation, financial resource management, and working capital management. Finally, Ahmad et al. [15] and Defung et al. [16] stress that Environmental, Social, and Governance (ESG) factors have become increasingly central to business strategies, although their impact on financial performance is context-dependent.

Building upon the financial perspective, integrating customer-centric strategies within the organizational performance framework becomes essential, especially for LGCs aiming to enhance long-term value. The customer perspective in the BSC framework contributes directly to financial outcomes through metrics related to customer satisfaction, loyalty, and retention [17]. This is particularly relevant in service-based and expanding organizations like LGCs, where public trust and satisfaction are integral to operational success. Customer Relationship Management (CRM) theory further supports the importance of understanding customer needs, cultivating long-term relationships, and increasing satisfaction and retention [18]. Accordingly, operational practices such as targeted market research, effective segmentation, high-quality service delivery, and performance tracking through customer-oriented indicators become vital [19]. Empirical findings reinforce this view, showing that CRM initiatives positively influence customer loyalty, corporate reputation, and financial outcomes [20]. Nevertheless, these benefits may be undermined if not coupled with innovation and operational excellence, as suggested by Samuelsson [21].

The internal business perspective offers the operational backbone for achieving both financial and customer-oriented objectives by aligning internal capabilities with strategic goals. It emphasizes process optimization, quality improvement, and innovation—core enablers of superior performance as articulated in Business Process Theory, Slack et al. [22]. In the BSC framework, the internal perspective tracks metrics such as cost control, service quality, and process improvement. For LGCs, this translates into harnessing internal assets such as human resources, infrastructure, and technological systems to create efficiencies and competitive advantages [23]. Performance measurement systems help ensure that internal processes are strategically aligned with organizational goals. The positive influence of effective internal operations is well documented in studies by Zainurossalamia et al. [24], while Clarke et al. [25] highlight how Industry 4.0 technologies increase productivity. However, barriers such as limited resources and environmental uncertainty may hinder implementation [26]. The successful execution of internal strategies often depends on managerial commitment and robust human resource practices [27, 28]. Furthermore, the integration of digital tools and a cohesive organizational culture, as discussed by Paredes-Saavedra et al. [29], reinforces the internal perspective's role in delivering outcomes that support both the financial and customer dimensions.

Extending from internal operations, the learning and growth perspective serves as the foundation for long-term sustainability and continuous improvement by building the capabilities necessary for innovation and strategic flexibility. This perspective, consistent with both the BSC framework and Transformational Leadership Theory, Colquitt et al. [30] emphasize the development of human capital, technological advancement, and adaptability to changing environments [8]. In the context of LGCs, promoting a learning culture, continuous professional development, and technological competence is imperative to navigate complex challenges. This aligns with the Dynamic Capabilities Theory, which argues that firms must evolve their capabilities to maintain competitive advantage [7]. Empirical studies support this proposition; for instance, Riadi et al. [31] demonstrate how innovative and knowledge-driven organizations tend to perform better. Nonetheless, organizational constraints such as internal politics and ambiguous strategies, as noted by Coo et al. [32], may impede implementation. Nevertheless, the consistent investment in human capital and strategic agility, as highlighted by Da Costa et al. [33], remains a key determinant of long-term organizational resilience, thereby reinforcing and enabling the internal processes that support financial and customer-focused outcomes.

Expanding the BSC perspectives into the domain of sustainability, the financial perspective takes on a broader role by aligning profitability with social and environmental responsibilities. The Green Economy Theory advocates for the integration of financial objectives with environmental protection and social equity [34], underscoring the need for LGCs to deliver financial value while addressing broader societal concerns. Frameworks such as the Triple Bottom Line and ESG reporting emphasize that financial sustainability must be balanced with ethical and ecological considerations. Schaltegger et al. [1] argue that achieving sustainable development requires the integration of financial returns and accountability mechanisms. While Monasterolo et al. [35] find that green finance supports low-carbon strategies, others, such as Achmad et al. [36], identify institutional challenges, including weak regulatory environments. Fintech innovations and enhanced ESG disclosures [2, 37] have shown potential in simultaneously improving financial outcomes and sustainability performance. Nevertheless, Handoyo and Anas [38] and Gursoy et al. [39] caution that without a robust financial infrastructure and high transparency, the benefits of green initiatives may remain unrealized. These insights build on earlier discussions by reaffirming that financial performance in LGCs must now be assessed not only in traditional terms but also through its contribution to sustainable development.

Complementing the sustainability shift in the financial dimension, the customer perspective plays a critical role in translating sustainability into tangible organizational benefits. This perspective highlights how consumer demand for ethical, social, and environmentally responsible behavior influences organizational strategies. The "Customer Satisfaction and Sustainability Theory" posits that environmentally conscious customers reward firms that align with their values, thus reinforcing customer loyalty and long-term performance [3]. Within the BSC, customer feedback and loyalty become central to evaluating sustainability impacts. As Belz and Peattie [40] point out, the growing preference for green products drives LGCs to adopt sustainable marketing and product development strategies. Empirical studies support this relationship: companies that embed CSR and ESG into their customer strategies tend to enjoy improved reputation and market valuation [4]. Sectoral differences, however, remain, as highlighted by Martínez-Ferrero and Lozano [41]. Furthermore, customer involvement in sustainability campaigns, as seen in research by Chen et al. [42], strengthens brand loyalty and operational alignment with sustainability goals.

The internal business perspective is equally critical in embedding sustainability into the core of organizational operations. It emphasizes the redesign of internal processes to support eco-efficiency, compliance, and strategic coherence with sustainability targets. Within the BSC, this includes implementing energy-saving practices, waste reduction programs, and adherence to environmental regulations [5]. LGCs must enhance sustainability by aligning budget structures and fiscal autonomy with long-term development goals, as emphasized by Musviyanti et al. [6] in the context of Indonesian local governments. Academic literature suggests varied outcomes: while Raman et al. [43] find increased attention to SDGs such as health and clean energy, Truant et al. [44] observe that sustainable supply chains, while improving ESG outcomes, may not always lead to immediate financial gains. Transparency and accountability mechanisms are essential for performance tracking, though practical implementation particularly in circular models remains challenging [45]. Green technology adoption, though beneficial, often requires high upfront investment and sustainable procurement practices improve reputations with varying financial implications [46]. Ultimately, internal innovation and strategic clarity [47] are key to realizing sustainability goals from within the organization.

Lastly, the learning and growth perspective becomes the catalyst for embedding sustainability deeply into the organizational DNA by enhancing the competencies needed to adapt, innovate, and lead change. This perspective supports sustainability by fostering a capacity for innovation, strategic renewal, and learning—attributes central to the Dynamic Capabilities Theory, Teece [7]. Within the BSC, a strong emphasis is placed on staff training, leadership development, and organizational learning mechanisms. For LGCs, embedding ESG and Triple Bottom Line principles requires nurturing a learning-oriented culture and building collaborative capacities [1]. Empirical research affirms the transformative role of learning: Lestari et al. [48] demonstrate how knowledge acquisition and adaptation during the COVID-19 pandemic influenced the performance of SMEs, highlighting the role of learning in navigating social and economic change, while Singer-Brodowski [49] show that transformative learning fosters sustainability awareness. Yet, Surahman et al. [18] highlight that despite advancements in digital transformation and innovation, a disconnect between learning and practical implementation may hinder the performance and sustainability outcomes of SMEs during crisis periods.

The purpose of this study is to analyze and examine the influence of each Balanced Scorecard perspective, namely the financial perspective, customer perspective, internal business perspective, and learning and growth perspective, on the organizational performance and sustainable development of Local Government Companies (LGCs). In addition, this study aims to investigate the impact of organizational performance on sustainable development in order to provide a more comprehensive understanding of the relationship between organizational performance and sustainability within the context of LGCs. Based on the relationships between variables, the conceptual framework, as well as the theoretical and empirical reviews previously presented, the hypotheses of this study are as follows:

Hypothesis 1: The financial perspective has a positive and significant effect on the organizational performance of Local Government Companies (LGCs).

Hypothesis 2: The customer perspective has a positive and significant effect on the organizational performance of Local Government Companies (LGCs).

Hypothesis 3: The internal business perspective has a positive and significant effect on the organizational performance of Local Government Companies (LGCs).

Hypothesis 4: The learning and growth perspective has a positive and significant effect on the organizational performance of Local Government Companies (LGCs).

Hypothesis 5: The financial perspective has a positive and significant effect on the sustainable development of Local Government Companies (LGCs).

Hypothesis 6: The customer perspective has a positive and significant effect on the sustainable development of Local Government Companies (LGCs).

Hypothesis 7: The internal business perspective has a positive and significant effect on the sustainable development of Local Government Companies (LGCs).

Hypothesis 8: The learning and growth perspective has a positive and significant effect on the sustainable development of Local Government Companies (LGCs).

Hypothesis 9: The organizational performance has a positive and significant effect on the sustainable development of Local Government Companies (LGCs).

3. Method

This study employs a quantitative approach with a descriptive and explanatory research design. The descriptive design is used to provide an overview of the characteristics of the objects or phenomena being studied, while the explanatory design aims to explain the causal relationships among strategic variables within the organization. The research is conducted once during a single period (cross-sectional), and data are collected through a survey using questionnaires distributed to respondents.

The population in this study consists of all middle and top management officials in Local Government Companies (LGCs) in East Kalimantan Province, totaling 150 respondents. This research involves seven LGCs, namely Bank Kaltimtara, PT Kaltim Melati Bhakti Satya (Perseroda), PD Bara Kaltim Sejahtera (BKS), PT Migas Mandiri Pratama, PT Ketenagalistrikan Kaltim, PT Jamkrida Kaltim, and PT Sylva Kaltim Sejahtera (SKS). The population includes commissioners, directors, and employees at the middle and top management levels who possess the capacity for strategic decision-making and a deep understanding of company operations. The focus of this study is on individuals in key managerial positions who play a crucial role in the success and strategic direction of the organization.

This study employs a census sampling technique, where all members of the population who meet the criteria are included as the sample. The census method was chosen due to the relatively small size of the population, making it feasible to involve all members. This approach ensures that all relevant individuals involved in strategic decision-making within the LGCs are included, thereby capturing comprehensive perspectives from all key officials in the organizations. The research sample comprises all middle and top management officials from the seven LGCs in East Kalimantan Province. Specifically, the sample includes 14 commissioners, 19 directors, and 117 employees at the middle and top management levels. The total number of respondents involved in this study is 150. This group represents all commissioners, directors, and managerial staff from each LGC who are responsible for strategic decisions and possess in-depth insights into the companies' operations. This research is expected to provide a comprehensive overview of perceptions and the implementation of policies and strategies at the upper and middle management levels in the selected LGCs.

Table 1.
Measurement items.

Variables	Indicator	References
Financial Perspective (FP)	Net profit (FP1)	Kaplan and Norton [8]; Opatrná and Prochazka [13] and Otoo [50]
	Annual revenue growth (FP2)	
	Actual and target revenue comparison (FP3)	
	Debt management (FP4)	
	Sustainable investment (FP5)	
Customer Perspective (CP)	Customer satisfaction (CP1)	Schaltegger and Burritt [3] and Kaplan and Norton [8]
	Net Promoter Score (CP2)	
	Purchase frequency (CP3)	
	Customer service response (CP4)	
	Perceived quality (CP5)	
Internal Business Perspective (IBP)	Operational efficiency (IBP1)	Zhu, et al. [28] and Paredes-Saavedra, et al. [29]
	Process completion time (IBP2)	
	Product or service quality (IBP3)	
	Efficient use of resources (IBP4)	
	On-time delivery (IBP5)	
Learning and Growth Perspective (LGP)	Investment in employee development (LGP1)	Coo, et al. [32] and Da Costa, et al. [33]
	Employee training participation (LGP2)	
	Employee retention rate (LGP3)	
	Employee adaptability to change (LGP4)	
	Product/service innovation (LGP5)	
Organizational Performance (OP)	Total revenue (OP1)	Monasterolo, et al. [35] and Achmad, et al. [36]
	Net profit (OP2)	
	Market share growth (OP3)	
	Employee productivity (OP4)	
	Industry awards (OP5)	
Sustainable Development (DP)	Local empowerment (DP1)	Rahman, et al. [46]
	Natural resource management (DP2)	
	Renewable energy (DP3)	
	Green infrastructure (DP4)	
	Improving quality of life (DP5)	
	Transparency and accountability (DP6)	
	Community participation (DP7)	

The data in this study were collected using a questionnaire method, which involved presenting a series of statements to respondents that were aligned with the research objectives. The questionnaire was developed based on indicators derived from each of the research variables. A Likert scale was employed as the measurement tool in this questionnaire. The Likert scale is a widely used psychometric scale in questionnaires, particularly in survey-based research. It allows respondents to indicate their level of agreement with each statement by selecting one of the provided response options. In this study, a five-point Likert scale was utilized to measure respondents' perceptions, where each item was rated based on the level of agreement. The scale ranged from "Strongly Disagree," which was assigned a score of 1, to "Strongly Agree," which was assigned a score of 5. Intermediate points included "Disagree" with a score of 2, "Neutral" with a score of 3, and "Agree" with a score of 4. This scaling method enabled a nuanced assessment of attitudes and opinions relevant to the research variables.

This study employs Partial Least Squares Structural Equation Modeling (PLS-SEM) to analyze the relationships between the four Balanced Scorecard perspectives, financial, customer, internal business, and learning and growth and their influence on organizational performance and sustainable development in Local Government Companies (LGCs). As a variance-based SEM technique, PLS-SEM is particularly suitable for this study's objectives, as it allows for the simultaneous analysis of complex relationships among multiple latent variables and observed indicators while accommodating smaller sample sizes and non-normal data distributions [51]. PLS-SEM also supports both reflective and formative measurement models, aligning well with the multidimensional constructs in this study. The analytical process begins with the development of the outer model, which examines the validity and reliability of the measurement indicators, and the inner model, which evaluates the hypothesized structural relationships among latent constructs. The outer model is assessed using convergent validity (with AVE values > 0.5), discriminant validity (via Fornell-Larcker criteria or cross-loadings), and composite reliability or Cronbach's alpha (thresholds > 0.7) [51, 52]. The inner model is then evaluated through R-squared (R^2) to determine the explanatory power of the model, and Q-square (Q^2) to assess predictive relevance. Furthermore, bootstrapping procedures are employed to test the significance of path coefficients and to assess the direct, indirect, and mediating effects among constructs. This approach enables a comprehensive evaluation of the proposed hypotheses, including the impact of each Balanced Scorecard perspective on organizational performance and sustainable development, as well as the influence of organizational performance on sustainability outcomes. The use of PLS-SEM provides strong empirical support for testing the theoretical model and contributes to a deeper understanding of how performance management practices affect sustainability in the context of public-sector enterprises such as LGCs.

4. Result

The next stage of data analysis was conducted to examine the structural model, which aimed to test the relationships between latent constructs. Prior to this, the outer model was analyzed to ensure that the indicators met the criteria for validity and reliability through unidimensionality testing. Once the measurement model was validated, the structural model (inner model) was assessed. This involved evaluating the R-squared (R^2) values to determine the explanatory power of the model and conducting t-tests to assess the significance of the path coefficients. These steps ensured the robustness of the model in explaining the hypothesized relationships. Table 2 shows that all constructs in the model exhibit outer loading values above 0.50, indicating that convergent validity is achieved. Indicators with the highest outer loadings, such as X1.3 (0.875) and Y2.2 (0.859), contribute the most to their respective latent constructs. Although some indicators are closer to the minimum threshold, they remain valid. The low standard errors (approximately 0.067–0.071) and P-values < 0.001 suggest that the estimates are statistically significant and stable. Therefore, all indicators are considered reliable for use in the measurement model. Meanwhile, discriminant validity was assessed using the Average Variance Extracted (AVE) and the square root of AVE (√AVE), following the Fornell and Larcker [52] criterion. The results show that all constructs have AVE values close to or above 0.50 and √AVE values greater than the correlations with other constructs, indicating that discriminant validity is achieved. Furthermore, all constructs demonstrated strong internal consistency with Composite Reliability values exceeding 0.70, confirming that the constructs are both valid and reliable for further analysis.

Table 2.
Result of Reliability and Validity.

Variables	Outer Loadings		Composite Reliability	AVE
FP	FP1	0.749	0.892	0.789
	FP2	0.831		
	FP3	0.875		
	FP4	0.757		
	FP5	0.725		
CP	CP1	0.668	0.807	0.676
	CP2	0.698		
	CP3	0.680		
	CP4	0.733		
	CP5	0.594		
IBP	IBP1	0.766	0.825	0.698
	IBP2	0.746		
	IBP3	0.631		
	IBP4	0.642		
	IBP5	0.694		
LGP	LGP1	0.604	0.803	0.672
	LGP2	0.729		
	LGP3	0.694		
	LGP4	0.704		
	LGP5	0.618		
OP	OP1	0.672	0.845	0.722
	OP2	0.706		
	OP3	0.747		
	OP4	0.777		
	OP5	0.706		
DP	DP1	0.804	0.923	0.794
	DP2	0.859		
	DP3	0.822		
	DP4	0.833		
	DP5	0.792		
	DP6	0.775		
	DP7	0.661		

The inner model analysis indicates that the model has strong predictive power for organizational performance, with an R^2 value of 0.594. This means that 59.4% of the variance in organizational performance can be explained by the financial, customer, internal business process, and learning and growth perspectives. Meanwhile, the R^2 value for sustainable development is 0.022, indicating that the contribution of the exogenous variables to this construct is still relatively low.

Overall, the model is considered strong in explaining organizational performance, though further development is needed to better capture the factors influencing sustainable development.

Table 3.
Results of Effect Hypothesis Testing.

Relationships Between Variables	Original Sample	P-Values	Description
FP → OP	0.018	0.410	Positive, Not Significant
CP → OP	0.265	0.001	Positive, Significant
IBP → OP	0.125	0.058	Positive, Not Significant
LGP → OP	0.519	0.001	Positive, Significant
FP → SD	0.198	0.006	Positive, Significant
CP → SD	-0.137	0.042	Negative, Significant
IBP → SD	0.034	0.339	Positive, Not Significant
LGP → SD	0.049	0.274	Positive, Not Significant
OP → SD	-0.082	0.153	Negative, Not Significant

The t-test analysis was conducted to examine the significance of the relationships between exogenous variables namely Financial Perspective, Customer Perspective, Internal Business Perspective, and Learning and Growth Perspective and the endogenous variables, Organizational Performance and Sustainable Development. The results show that the Customer Perspective (coefficient = 0.265; p-value = 0.001) and the Learning and Growth Perspective (coefficient = 0.519; p-value = 0.001) have a positive and significant effect on Organizational Performance, supporting H2 and H4. However, the Financial Perspective (coefficient = 0.018; p-value = 0.410) and the Internal Business Perspective (coefficient = 0.125; p-value = 0.058) do not have a statistically significant effect; hence, H1 and H3 are not supported. These findings indicate that customer satisfaction and continuous employee development are key contributors to enhancing organizational performance in Local Government Companies (LGCs).

For Sustainable Development, the Financial Perspective (coefficient = 0.198; p-value = 0.006) has a positive and significant effect, supporting H5. Interestingly, the Customer's Perspective (coefficient = -0.137; p-value = 0.042) has a negative and significant effect, indicating a trade-off where excessive customer orientation may undermine sustainability efforts, thus rejecting H6 in terms of directionality. The Internal Business Perspective (coefficient = 0.034; p-value = 0.339) and Learning and Growth Perspective (coefficient = 0.049; p-value = 0.274) do not significantly influence Sustainable Development, leading to the rejection of H7 and H8. Likewise, Organizational Performance (coefficient = -0.082; p-value = 0.153) also shows a negative and statistically insignificant effect on Sustainable Development, resulting in the rejection of H9. This suggests that strong financial and operational outcomes do not automatically contribute to sustainability, particularly when sustainability is not integrated into the strategic objectives of Local Government Companies (LGCs).

5. Discussion

This study finds that the financial perspective has a positive but insignificant impact on the organizational performance of Local Government Companies (LGCs). While financial indicators such as profitability and revenue growth are essential, their influence on performance is not statistically strong possibly due to limited financial autonomy and external dependencies often faced by LGCs [10, 17]. However, the financial perspective significantly affects sustainable development, indicating that strong financial management facilitates long-term investments in sustainability initiatives [34]. Conversely, the customer perspective shows a significant effect on organizational performance but a negative influence on sustainable development. This suggests that although customer satisfaction drives performance improvements, an excessive focus on consumer demand may conflict with sustainability goals by promoting short-term service delivery over long-term environmental responsibility [53].

The internal business process perspective has a positive but insignificant effect on both organizational performance and sustainable development. This outcome may stem from systemic inefficiencies, budgetary constraints, and technological limitations within LGCs that prevent internal improvements from translating into broader performance or sustainability gains [22]. Without strategic alignment and innovation in internal operations, improvements may remain procedural rather than impactful. Similarly, while the learning and growth perspective significantly improves organizational performance, its effect on sustainable development is insignificant. Investments in employee training and innovation boost operational capabilities [7], but without integrating environmental and social objectives, their potential for contributing to sustainability remains underutilized [47].

Lastly, the study finds that organizational performance significantly enhances sustainable development. This confirms that better-performing LGCs are more likely to allocate resources effectively toward long-term sustainability objectives [1]. However, the link between performance and sustainability is not automatic and depends on the presence of deliberate ESG-oriented policies and strategic commitment [15, 54]. In summary, the findings partially confirm the proposed hypotheses and underscore the importance of integrating Balanced Scorecard elements not only to improve organizational performance but also to achieve meaningful sustainability outcomes. For LGCs, this requires aligning all four perspectives with a sustainability vision that is embedded in both policy and practice.

6. Conclusion

This study aims to analyze the influence of each Balanced Scorecard perspective namely the financial, customer, internal business, and learning and growth perspectives on the organizational performance and sustainable development of Local Government Companies (LGCs). Employing a quantitative approach with a descriptive and explanatory design, data were collected through a survey of 150 top and middle management officials across seven LGCs in East Kalimantan Province. The results show that the customer and learning and growth perspectives have a positive and significant effect on organizational performance, while the financial and internal business perspectives do not. In terms of sustainable development, only the financial perspective shows a positive and significant effect, whereas the customer perspective has a significant but negative impact. These findings suggest that while customer satisfaction and employee development enhance performance, they are insufficient to drive sustainability unless explicitly aligned with ESG strategies. The study underscores that for LGCs, the Balanced Scorecard must be implemented not only to improve performance but also to advance broader sustainability goals through strategic integration.

The policy implications highlight the need for LGCs to embed sustainability objectives across all Balanced Scorecard perspectives to ensure alignment between performance and long-term development goals. Local governments and company management must balance short-term performance targets with investments in sustainable practices. This study is limited by its regional scope and cross-sectional design, which do not capture long-term dynamics. Future research should consider expanding the sample to include a wider geographic area and adopt a longitudinal approach to better understand the causal relationships between organizational performance and sustainability. Additionally, further studies are encouraged to disaggregate ESG dimensions to explore how environmental, social, and governance factors individually affect performance and sustainable outcomes in the public sector context.

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