



# ASSET

Accounting for Sustainability,  
Social and Environmental Transparency



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## TEACHING MODULE 3

### Sustainability management accounting

# FUNDAMENTALS OF BALANCED SCORECARD

Urbino, 4-5 September 2024





# BSC: what is it?

The BSC methodology has been introduced by Kaplan and Norton (1996).

A Balanced Scorecard is a **strategic management control tool** to manage strategy and measure strategy execution and business performance over time.

**Multidimensional performance evaluation tool:** the name “balanced scorecard” comes from the idea of looking at a combination of measures in addition to traditional financial ones to get a more “balanced” and complete view of performance.

It combines financial and non-financial measures (16-20 KPIs) in a **dashboard** that allows, in a nutshell, the monitoring of the achievement of set objectives.



# BSC: why a multidimensional approach?



*“Today’s financial report will be a short one: We had money, now we don’t.”*

Financial measures may have the following limitations:

- Give an incomplete picture of performance
- Promote a short-term view
- Emphasise the result but not the causes that motivate it.

A combination of measures:

- ↪ Is often used to help monitor and motivate performance.
- ↪ Is usually more consistent with an entity’s long-term goals than financial methods alone.

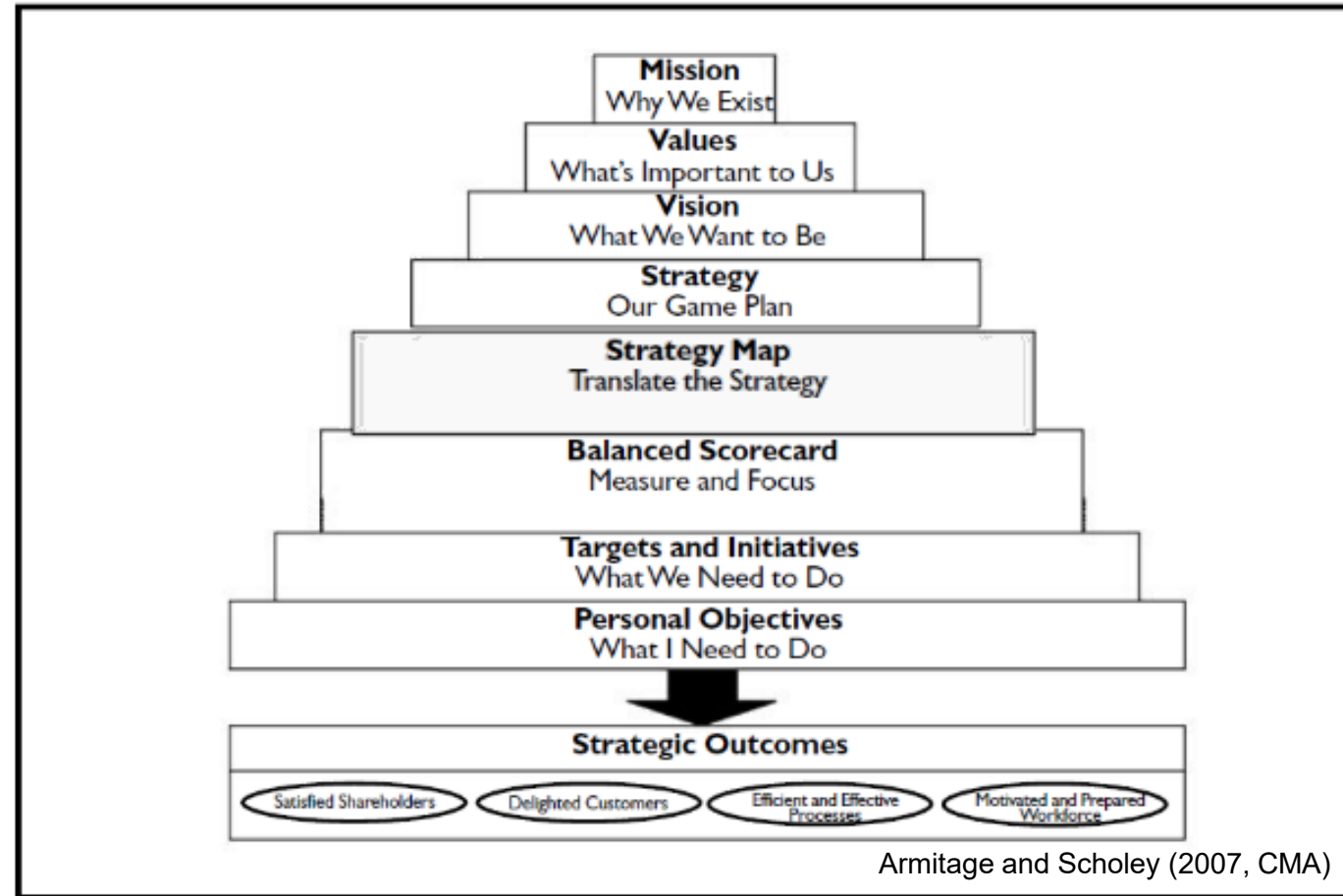


# BSC: why is it useful?

It helps to describe, explain, communicate and execute strategy.

It enables organisations to create a logical connection between all strategic planning and management elements.

Figure 3: The Strategy Pyramid



Armitage and Scholey (2007, CMA)



# BSC: how is it structured? 4 perspectives

How do we monetize the value created?

- Revenue
- Expenses
- Net Income
- Cash Flow
- Asset Value

Financial Perspective

What value do we create for customers?  
How do customers perceive us? What do our customer need?

- Customer Satisfaction
- Customer Retention
- Market Share
- Brand Strength

Customer Perspective

How do we create value for customers?  
At what processes should we excel?

- Inventory
- Orders
- Resource Allocation
- Cycle Time
- Quality Control

Internal Process Perspective

What should we learn to grow and prosper?  
What knowledge/skill gaps do we need to fill in? What skills does our team need?

- Employee Satisfaction
- Employee Turnover
- Employee Skills
- Employee Education

Learning / Growth Perspective



# Strategy Map, example

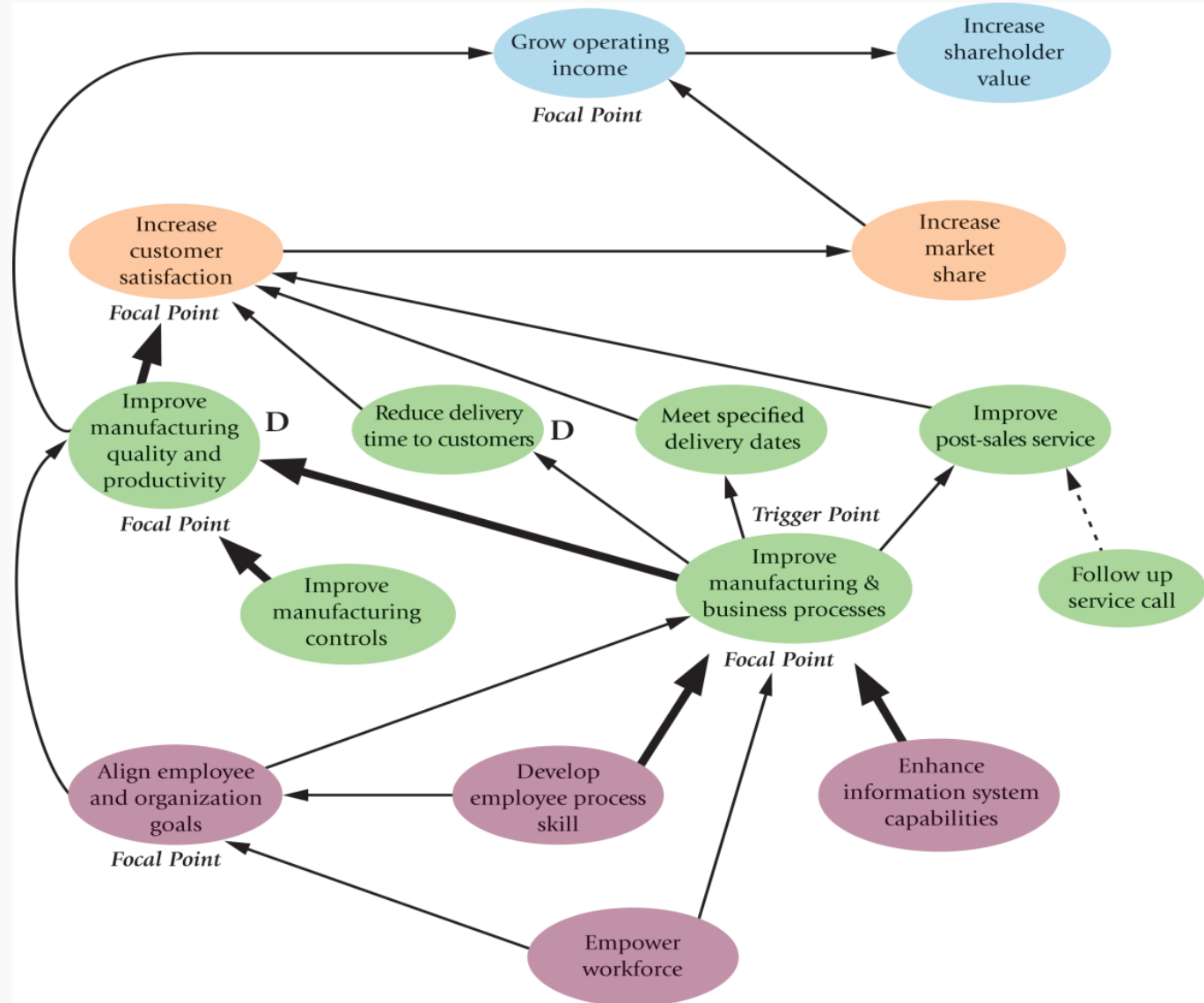


Exhibit 12.2 Strategy Map for Chipset, Inc., for 2017



# BSC: what do we consider in each perspective?

	What the strategy must achieve	How will success be measured	Level of performance required	Projects and Programs
	Objective	Measure	Target	Initiative
Financial	Increase company profitability	% Increase in Turnover	...	...
Customer	Improve customer satisfaction	% Customer complaints	...	...
Internal Process	Reduce the cost of repairs	Cost of repair	...	...
Learning & Growth	Prapared and trained sales staff	Average number of training hours per sales employee per year	...	...





# BSC: example

Balanced Scorecard Perspective	Strategic Objectives	KPI	Target	Weight
Financial	1. Increase revenue	1. Revenue growth	1. 20%	1. 25.2%
	2. Improve cost structure	2. COGS	2. N/A	2. 13.9%
	3. Increase profitability	3. Net income	3. N/A	3. 7.6%
Customer	1. <i>Sustainable partnership</i> : Maintain/Increase the number of customers	1. A. Repeat purchase rate	1. A. 80%	1. A. 1.0%
		B. Customer growth	B. 30%	B. 1.8%
		C. Number of new followers on social media	C. 67%	C. 3.1%
	2. <i>Operational excellence</i> : Prioritize superior product/service quality	2. A. Number of complaints	2. A. 10%	2. A. 0.7%
		B. Customer satisfaction index	B. 4 ("satisfied")	B. 3.1%
Internal Business Process	1. <i>Operational excellence</i> : Ensure operational excellence	1. A. Production: time efficiency	1. A. 95%	1. A. 1.6%
		B. Number of failures	B. 0	B. 4.0%
		C. Service: response time	C. 7	C. 6.1%
	2. <i>Sustainable partnership</i> : Ensure operational continuity	D. R&D expense	D. 1%	D. 2.6%
		2. A. On-time delivery	2. A. 100%	2. A. 0.7%
	B. Competitive price from suppliers	B. 5%	B. 1.0%	
Learning and Growth	1. Exceptional human capital	1. A. Candidate experience rating	1. A. 4 ("satisfied")	1. A. 1.2%
		B. Employee satisfaction rating	B. 4 ("satisfied")	B. 4.4%
		C. Employee turnover rate	C. 15%	C. 1.8%
	2. Innovation excellence	D. Number of training	D. 24	D. 2.8%
		E. Number of conducted one-on-one sessions	E. 50%	E. 6.9%
	2. Number of employees with new ideas	2. 90%	2. 10.6%	





# Sustainability BSC

How to switch from a traditional BSC to an SBSC?

Two approaches:

Adding a fifth  
perspective:  
sustainability

Integrating  
sustainability into  
the 4 traditional  
perspectives



# SBSC: the fifth perspective

FINANCIAL	Strategic Objectives	Measures (KPI's)	Targets	Action Plans
CUSTOMER	Strategic Objectives	Measures (KPI's)	Targets	Action Plans
INTERNAL PROCESSES	Strategic Objectives	Measures (KPI's)	Targets	Action Plans
LEARNING & GROWTH	Strategic Objectives	Measures (KPI's)	Targets	Action Plans
SUSTAINABILITY	Strategic Objectives	Measures (KPI's)	Targets	Action Plans



# SBSC: the fifth perspective

Perspectives, strategic objectives and KPIs on the SBSC.

Pers.	Strategic Obj.	KPI
Sustainability (S)	Reducing Natural Resource Consumption (S1)	Water Consumption (S11) Electricity Consumption (S12) Natural Gas Consumption (S13)
	Enabling Waste Management (S2)	Amount of Hazardous Waste per Unit (S21) Amount of Non-hazardous Waste per Unit (S22)
	Protecting the Health and Safety of Employees (S3)	Number of Occupational Accidents (S31)



# SBSC: integrating sustainability

Martín - Gómez et al., 2024

Perspective	Objective	Indicator
P1 Finance	E1 Increasing profitability.	Sales growth
		Cost reduction
		Company profitability
	En1 Enabling long-term sustainability through recycling and the implementation of reverse-logistics processes.	Costs derived from reverse-logistics processes
		Quantity of packaging returned to recyclers
		Quantity of recycled raw materials purchased per year
P2 Customers	E3 Increasing the level of customer satisfaction.	New customers through referrals
		Number of complaints
		Customer satisfaction
		Abandonment rate
	E4 Improving customer service and after-sales service.	Time to process an order
		Delivery time
P3 Internal Process	E5 Increasing the efficiency of the production process.	Rate of requests fulfilled on time
		Performance efficiency
		Machine utilization rate
		Annual energy savings
		Reduction in production waste
	En6 Promoting eco-design.	Production delays
		Sustainable designs developed
	Hours dedicated to R&D&i on eco-design	
	Recycled material used in production	
P4 Training and growth	S7 Increasing the level of employee satisfaction.	Complaints received
		Suggestions implemented
		Employee satisfaction
		Absenteeism rate
	En7 Raising staff awareness of the need to implement circular and environmentally friendly principles.	Sustainability awareness campaigns
	Employees awarded for their commitment to the circular economy	



# SBSC: why does a growth-oriented small business need it?

- ✦ Clearly understanding the strategy by having a global view of company performance, identifying strengths and weaknesses and defining concrete actions to implement to improve company performance.
- ✦ Straightforward approach to planning: focus on a few variables that matter for effective strategy implementation.
- ✦ Presenting the idea to potential investors and/or partners.
- ✦ Integrates environmental and social considerations into management accounting practices.
- ✦ ...



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**Thank you!**

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