

FAQ Answer: How do I create a Balanced Scorecard for operational managers?

Introduction

The biggest challenge with any Balanced Scorecard development is working out what is the most relevant information to include: choosing the right measures quickly, and being confident that you have chosen well are two of the challenges. This 2GC FAQ outlines a six steps step process to Balanced Scorecard implementation that works well. The process described here is intended to help you build a Balanced Scorecard for a management team with a primarily **operational focus**. Other 2GC FAQ documents outline a process that works better when building a Balanced Scorecard with a **strategic focus**.

Keep in mind that the best Balanced Scorecard designs are those developed directly by the people who will eventually use them: the development process described here focuses on establishing consensus within the development group about the design and its implementation.

A process for creating a Balanced Scorecard for operational managers

Step 1 – Choose key delivery objectives (Outcomes)

Start by identifying the key delivery objectives for the organisational unit or process to be monitored by the Balanced Scorecard. These objectives will usually describe required outcomes from the activity (e.g. volumes, quality levels, costs etc.) and need to be chosen in such a way that they are consistent where necessary with the wider strategic goals of the organisation. Aim for about 8 to 10 objectives. For now, put them to one side and label them all as '**Outcomes**'.

Step 2 - Identify action orientated objectives (or Activities)

Next, you need to work out what key actions are required if you are to achieve the objectives described in step 1. Some will relate to the execution of core processes (e.g. "keep wastage below 2%"), others to the making of changes that will subsequently influence your ability to deliver core processes (e.g. "retrain operators"). Aim for 10 - 15 objectives. You may also identify during the discussion some additional outcome objectives that were missed in step 1 – add these to your 'Outcomes' set, but try and keep the total number of 'outcomes' below about 12.

Now try and link the activity objectives chosen to the outcome objectives from before using 'causal' links. Drawing a diagram, or arranging paper shapes helps a lot at this stage. You may find that you have some objectives that don't 'link' to any of the others, try and work out why: disconnected objectives usually are a sign of a gap in your thinking.

Note: Steps 1 and 2 (and 4 below) can sometimes be facilitated by the use of simulation modelling, or similar approaches, that can provide insights into the critical steps within complex systems of activity.

Step 3 - Identifying Measures

For each of the objectives chosen, you should select one or two measures that inform you about how well the objective is being achieved. Looking at what others are using to monitor similar activities can often help you choose such measures – public measure databases can be useful here too. Measure selection is usually influenced by the need to obtain information quickly and cheaply and to use sources that update fairly frequently (typically 12 times a year or more as per the need). The measures should be identified with the focus on establishing 'how well are we doing at achieving the objective' rather than perfectly measuring a specific part of the underlying process. Some organisations struggle at this stage by trying too hard to find 'perfect' measures which are hard to define, and even harder to actually implement.

Although it is often suggested, our experience is that using measures defined by other organisations at this point is not very helpful. Most organisations already know what measures make sense (and are collecting them already). Suggestions of 'best practice', 'benchmark' or other measures (e.g. from a measures database) either tell you what you know already, or introduce potentially confusing measures

of something already measured some other way in your organisation.

Step 4 - Set Targets

Next set targets for these measures. Assign individual managers objectives from the Balanced Scorecard, and charge them with ensuring their delivery. These managers are then best placed to determine the most appropriate targets the measures associated with each of their objectives. Many processes often similar to those found in other organisations, and targets for these often can be based on industry standards or benchmark data (e.g. from TQM initiatives such as EFQM etc.). Simulation and modelling can also be used to help identify the right level of targets.

Step 5 – Define appropriate actions in case of variances

Having a Balanced Scorecard in place is not enough – the overall management control objectives will only be achieved if someone does something to cause them to happen. Ideally, the existing processes will work smoothly to deliver the outcome goals selected, but it is usually prudent to allocate some additional resource to identify both appropriate actions in case of variances, and who will be responsible for making these interventions. This helps provide operational teams with a structured communication about what needs to happen when in the event of variances occurring.

Step 6 – Review on regular basis

The most effective use of this type of Balanced Scorecard is simply to review it on a regular basis. Typically, these reviews are supported by a single concise report describing the performance against targets for all the measures on the Balanced Scorecard. Decisions on 'standard' pre-planned actions are taken in case of detection of a variance of outcomes from targets.

For More Information

The [Resources](#) section of the 2GC web site contains other 2GC FAQs relating to the Balanced Scorecard and modern 3rd Generation Balanced Scorecard and also recommendations for books and articles on the subject and links to useful web sites. For information on 2GC's services including our consultancy and training programmes, visit our services section of the web site or email Services@2gc.co.uk

About 2GC

2GC is a research led consultancy expert in addressing the strategic and performance management issues faced by organisations in today's era of rapid change and intense competition. Central to much of 2GC's work is the application of 3rd Generation Balanced Scorecard, an approach to strategic implementation, strategy management and performance measurement.