

## In 100 words...

The Balanced Scorecard is a performance management framework that aims to improve the effectiveness of strategic management. It is based around a recommendation to use a concise set of financial and non-financial measures to inform decision making. The challenge has always been working out which measures to use. First attempts (1<sup>st</sup> Generation designs - early 1990s on) were ineffective for many reasons. 2<sup>nd</sup> Generation designs (mid-1990s on) introduced ‘strategic objectives’ and ‘strategic linkage models’ to make measure selection easier. 3<sup>rd</sup> Generation designs (late 1990s on) add an additional element called a ‘Destination Statement’ to further simplify the design process.

## Evolution

The 3<sup>rd</sup> Generation Balanced Scorecard is based on refinement of two earlier generations of Balanced Scorecard design, with features intended to give improved functionality and strategic relevance. It comprises a mix of structural and design method recommendations, and now represents a proven and reliable methodology for implementing strategic Balanced Scorecards. The approach was built on years of practical and academic experience to overcome the shortcomings of the original design process. The 3<sup>rd</sup> Generation Balanced Scorecard addresses directly several acknowledged failure modes inherent in these earlier approaches, and is particularly effective at building management ownership, and encouraging the continual development of the Balanced Scorecard by the management team to reflect changes in the strategic context.

## Key Concepts

The 3<sup>rd</sup> Generation Balanced Scorecard approach is underpinned by five key concepts:

- **Relevance:** measures that inform management intervention are linked to strategic outcomes and the activities intended to achieve them.
- **Causality:** that there is a clear understanding of the actions required to deliver strategic outcomes.
- **Learning:** using feedback and intervention is used to identify ways of improving performance.
- **Ownership:** ensuring consensus so that everyone is clear on what needs to be done, is fully involved in the process and there is clear accountability to deliver results.
- **Communication:** providing clear and unambiguous information on strategic goals and priorities.

## Components

The 3<sup>rd</sup> Generation Balanced Scorecard approach makes these concepts operational using several design components:

- a clearly articulated description of the “desired state” or **strategic destination** of the organisation at some future date;
- measurable medium-term priorities or strategic objectives broken down into activities and outcomes (and then into the standard Kaplan & Norton perspectives if necessary);
- detailed descriptions of the strategic objectives;
- a **model of the linkages** amongst various strategic objectives to illustrate and test causal relationships;
- identification of and consensus on key measures to monitor achievement of strategic objectives, and;
- targets for key measures selected.

## Implementation

The content of, and principles used in the 3<sup>rd</sup> Generation Balanced Scorecard approach are derived from 2GC's extensive experience in helping organisations in public and private sector organisations worldwide. What is different in the 3<sup>rd</sup> Generation approach is that the Balanced Scorecard is created with the full and active participation of the management team that will eventually use it. The 3<sup>rd</sup> Generation Balanced Scorecard ensures efficient use of management time, but at the same time builds high levels of engagement and "ownership." To achieve this 2GC deploys its techniques in highly structured facilitated workshops. The method relies on the management team to establish the "content," with 2GC as the facilitator.

The potential benefits of a Balanced Scorecard are dependent on how it is used to drive improved performance. At its core, the Balanced Scorecard is a tool to support the control of organisations and it can be seen to support two distinct management applications: Management Control and Strategic Control. To be effective, the Balanced Scorecard needs to reflect in its design the issues that underlie each of these two management applications.

## 3<sup>rd</sup> Generation Balanced Scorecard - key design components

Two design components developed in the 3<sup>rd</sup> Generation design process are particularly important, the Destination Statement and the Strategic Linkage Model.

### Destination Statement

- The Destination Statement is a clearly articulated and quantifiable, long-term description of the desired state of the organisation at a particular future point in time.
- Typically this is focused on how the organisation will look after 3-5 years.
- The document describes what the future looks like, rather than how the organisation will get to the future.
- It is a backward looking description of the organisation if strategy has been implemented successfully.

### XYZ Co Destination Statement MAY 2013

#### Financial and Buyer Expectations

F/BE1 - We have a turnover of £XXm+ from: circa £XXm+ Consulting, circa £XXm Licence sales £XXm SLAM/optimisation  
 F/BE2 - We have a net profit of £XXm+ (8%)  
 F/BE3 - XYZ Co is owned by the founders 60%, staff 20% and external/venture capitalists 20%  
 F/BE4 - Our sales revenue is split 75% private sector and 25% public sector  
 F/BE5 - Our sales revenue is split 70% large 20% medium and 10% small organisations  
 F/BE6 - We make 85% of our sales revenue in the UK, 10% in Europe and 5% in the rest of the world  
 F/BE7 - We have successfully acquired (and possibly integrated) two consulting businesses: one of 100 or so people and one smaller specialist of 20 people and have established offshore resourcing capability  
 F/BE8 - We have established a "franchise" model for growth outside the UK  
 F/BE9 - We have an established process for evaluation of options to expand our services outside of the Sayer world (JDP, Petrec, Jebel, Nowesoft capability)

#### Processes & Capabilities

PC1 - Our use of on-line electronic collaboration allows us to share standard templates so that our business process and support systems are repeatable and efficient  
 PC2 - Our best practice sales methodology comprises: planning (accounts, territories, compensation) and management (lead, opportunities, budgets, forecasts) supported by our centralised customer and prospect database  
 PC3 - We use clear and well understood processes with defined responsibilities for the qualification and winning of bids, the delivery of projects and post-sale customer management  
 PC4 - Our business is supported by an infrastructure comprising HR, training & development, finance and IT  
 PC5 - Our learning and sharing culture is underpinned by our Knowledge Management system  
 PC6 - Our commitment to people is demonstrated by our Investors in People accreditation  
 PC7 - We have evolved a strong quality and risk management culture supported by effective and proven management processes

#### External Relationships

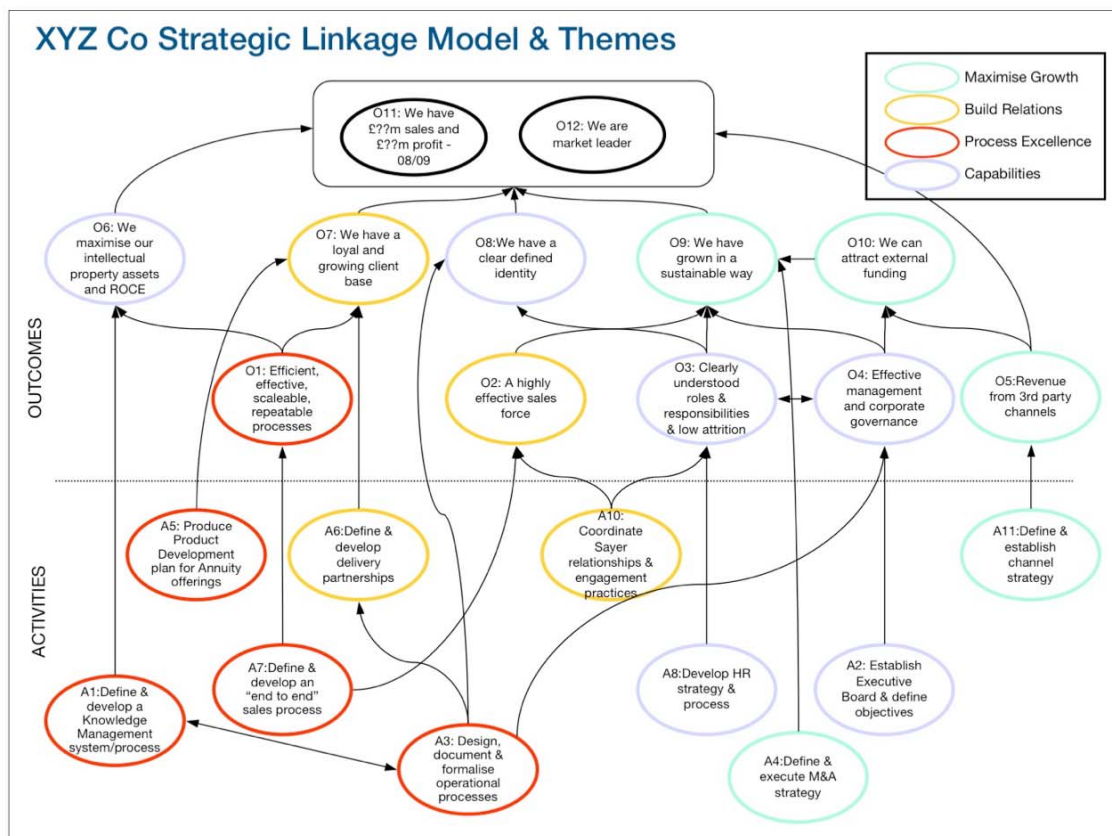
ER1 - We are the UK's leading independent consultancy providing expert advice and solutions to the Sayer community and our clients see us as their "trusted advisor" in all matters relating to Sayer - the company, their product and services, and their strategies  
 ER2 - Our clients benefit from our ability to understand of their business drivers and trends within their vertical industry sector  
 ER3 - Sayer Corporation management see XYZ Co as an enabler of growth at low cost, through innovative routes to market  
 ER4 - Sayer sales see XYZ Co as a trusted safe pair of hands  
 ER5 - XYZ Co's employees see being with the company as the best career move they ever made  
 ER6 - XYZ Co are consistently quoted by the UK IT press on Sayer matters  
 ER9 - Our suppliers see XYZ Co as one of their most valued clients

#### Organisation & Culture

O&C1 - We have a "can do-will do" culture  
 O&C2 - We have strong Intellectual Property in our people, our Sayer knowledge, SLAM and our customer database  
 O&C3 - We have a communication programme that successfully allows our management and employees to be fully up to speed with all relevant information  
 O&C4 - We have established a performance management framework that enables alignment of individuals' performance to the company's business objectives  
 O&C5 - We have successfully recruited the right people with the right cultural fit for all job functions  
 O&C6 - We have maintained our strategy to outsource non-core business functions  
 O&C7 - Our success as a "trusted advisor" comes from our continued focus on putting our clients first  
 O&C8 - We celebrate our successes and share and learn from our failures  
 O&C9 - We have, wherever possible, maintained a predominantly virtual office approach  
 O&C10 - We have approximately 150 full-time employees  
 O&C11 - We have a less than 10% attrition rate

## Strategic Linkage Model

- The measurable strategic objectives organised in a cause and effect diagram to capture management thinking on the relationships amongst medium term activities and outcomes.
- The objectives can later be organised based on Kaplan & Norton's standard four perspectives if this is needed, but many organisations use other labels. 2GC prefers to identify simply two: "Activities" and "Outcomes."



## More Information...

A full discussion of Balanced Scorecard evolution can be found in:

*Lawrie, G J G and Cobbold I (2004). "Third-generation Balanced Scorecard: evolution of an effective strategic control tool," International Journal of Productivity and Performance Management, Vol. 53, No. 7, pp. 611-623.*

The **Resources** section of the 2GC web site contains other 2GC **FAQs** relating to the Balanced Scorecard, in particular the 3<sup>rd</sup> Generation Balanced Scorecard. The website also has 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 [info@2GC.co.uk](mailto:info@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. Founded in 1999, UK-based 2GC has worked with organisations in over 30 countries, helping senior management teams to implement their strategic goals. Central to much of 2GC's work is the application of its 3<sup>rd</sup> Generation Balanced Scorecard, an approach to strategic implementation, strategy management and performance measurement.

For more information on 2GC's approach, please

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