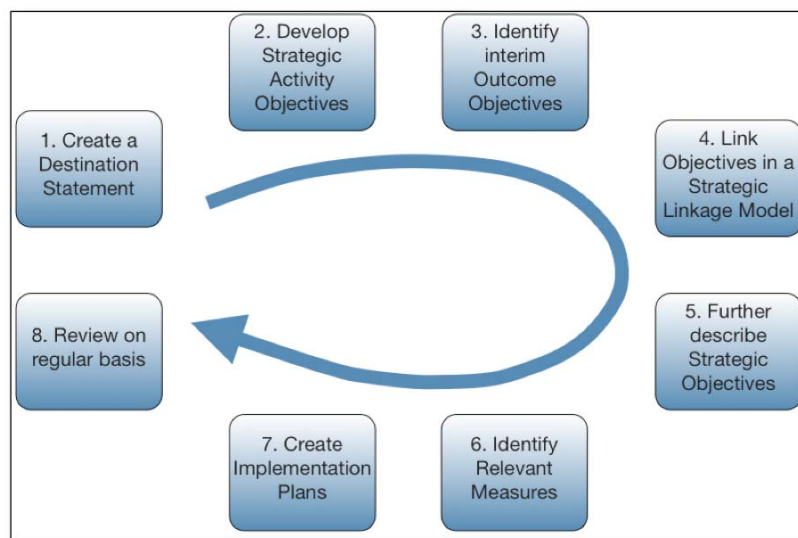


# FAQ Answer: How do I create a strategic Balanced Scorecard?

## Introduction

The biggest challenge with any Balanced Scorecard development is working out what is the most relevant information to include – particularly for Balanced Scorecards to be used for “strategic control” purposes (see 2GC FAQ “[What are the main benefits of Balanced Scorecard?](#)” for more information about types of Balanced Scorecard). Drawing on 2GC’s Balanced Scorecard development experience, this FAQ Answer outlines eight steps your Balanced Scorecard implementation should include.

Bear in mind that the best designs are those developed directly by the people who will eventually use them: the development process should focus on establishing consensus about the design within the development group. Also bear in mind that this document is a very brief outline of what in practice, needs to be a well organised, tightly structured and highly “choreographed” design process.



## 1. Create a Destination Statement

You should start with the articulation of and agreement to a Destination Statement - a fairly detailed description of where the company, business unit or department is expected to be 3 to 5 years later, provided current plans are successfully implemented. It is unlikely that all aspects of the Destination Statement will be subject to immediate action. Destination Statements can be large documents, and the idea that a management team should address all aspects at once can be overwhelming. Further, some Destination Statement elements will be dependent upon the completion of others. Some prioritisation across the elements of the Destination Statement may be necessary.

## 2. Develop Strategic Activity Objectives

Next think about what your organisation needs to do next (i.e. In the next year to 18 months) if it is to achieve the outcomes described in the Destination Statement elements. Summarise these in the form of a set of priority Strategic Activity Objectives. Focus on a limited number of objectives - aim for fewer than ten. One way to reduce the number is to combine several activities into common programmes.

## 3. Identify interim Outcome Objectives

The strategic activity objectives developed in step 2 will provide a basis for selecting *measures* of whether strategically relevant activities are being carried out. However, you also need to have some feel for whether these activities are moving the organisation in the right direction - towards achieving the Destination Statement: you can't wait 3 to 5 years to decide whether the actions you are carrying out are delivering the results required! To this end, it is necessary to identify some “Outcome Objectives” that can be used as a basis for selection of outcome measures. In best-practice Balanced Scorecards you see approximately the same number of Activity and Outcome Objectives (e.g. 10 of each is a good target).

## 4. Link Objectives in a Strategic Linkage Model

If your thinking so far has been 'joined up', then you should be able to show how the activity objectives will link to the delivery of the outcome objectives. Clearly if you have an activity that has no link to any of your chosen outcome objectives, or an outcome objective that none of your priority strategy activity objectives will deliver, there is a weakness in your Balanced Scorecard design. Being able to create a Strategic Linkage Model that incorporates your objectives is a good way of demonstrating how joined-up your thinking is. Some find these visual representations of your Balanced Scorecard good communication devices too.

Avoid having too many links between objectives - this just makes the model hard to follow. Include just enough links to reassure you that your understanding of how the two sets of objectives link together is valid.

## 5. Further describe Strategic Objectives

Write down clear statements that describe each objective chosen, and how they think it might be measured. Not only will this help subsequent communication of the Balanced Scorecard design, 2GC's experience is that the design team will quickly forget the fine detail of their thinking if it is not recorded. If you choose the objectives in a workshop process, ideally you want to record these descriptions within the workshop itself.

## 6. Identify Relevant Measures

For each objective you should aim for one or two measures that will track organisational progress towards the objective over time. This is a good time to think to think about setting targets too. Measure selection is normally strongly influenced by the availability of appropriate information. It is usually better to choose measures that can be quickly and cheaply obtained and can be updated fairly frequently (at least four times a year).

## 7. Create Implementation Plans

Having a Balanced Scorecard is not enough – the objectives and overall vision will only be achieved if someone actually does something to cause them to happen. A core part of the Balanced Scorecard development process is to work out how the organisation will be mobilised to deliver the selected objectives – an activity that involves communication, resource allocation, and project prioritisation. A good way is to do the planning while all the ideas fresh in your mind – i.e. as part of the Balanced Scorecard development process. Having a plan also helps in subsequent communications about what needs to happen when.

## 8. Review on regular basis

Using the Balanced Scorecard creates a reference point for management discussions that can promote more objective and analytical discussions based on a shared view of what needs to be done: it provides factual information about what is happening, enabling management teams to become more efficient and effective at implementing strategy. The best way to use of this type of Balanced Scorecard is for the responsible management team simply to agree to review it on a regular basis. As part of these review meetings, improvements to the overall strategic vision and goals are often identified, and changes to the measures used to track performance are requested. The review meetings become a forum for continually updating and refreshing the Balanced Scorecard design – essential if the tool is to have long term value.

## For More Information

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 the [services section](#) of our 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 3rd Generation Balanced Scorecard, an approach to strategic implementation, strategy management and performance measurement.

For more information on 2GC's approach, please visit the 2GC web site at [www.2gc.co.uk](http://www.2gc.co.uk), telephone 2GC on +44 1628 421506 or email us via [info@2gc.co.uk](mailto:info@2gc.co.uk)

