

Balanced Scorecard Field Guide: Target Setting

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Introduction and overview

Balanced scorecard objectives, and their corresponding measures, are helpful in establishing what is desired and how progress toward it will be measured. A critical next step is to get very specific with respect to creating a numerical representation of what level of progress is expected. In other words, for each measure¹, a specific numerical target must be created so that, at the end of the fiscal period, it can be compared to and assessed against actual results.

Section 1: Target setting for your organization

The Excel framework that is being used has a column for targets (see Figure 1).

Figure 1: Setting targets for each measure

| Strategic Objectives | | Measure | Target |
|----------------------|---|-----------|--------|
| Objective A | a | Measure a | |
| | b | Measure b | |
| | c | Measure c | |
| | d | Measure d | |
| Objective B | a | Measure a | |
| | b | Measure b | |
| | c | Measure c | |
| | d | Measure d | |

The task is to determine a specific target for each of the other measures. The number chosen would be one that, if the fiscal period ended with that target number being met, senior management could confidentially state that the fiscal period was a strong one with respect to that measure (i.e. performance met or exceeded expectations). In other words, if the targeted number turns out to be met, it would be felt that a contribution had been made to the relevant strategic objective.

This is usually involves a judgement call; target setters should make their best estimate knowing that actual results will differ. The key is not just to guess at what the actual fiscal period results will eventually be; rather, the target number should be created based on a good number for a positive contribution toward the strategic objective.

Section 2: Considering baselines

Many balanced scorecard developers prefer to look at recent history with respect to actual results before setting a new target. Figure 2 illustrates how a baseline number can be added. In this case, the baseline number would be the actual results from the previous fiscal period. While not necessary, baseline measures can be helpful in setting targets so might be an option.

¹ Except for measures where no target is intended to be established.

Figure 2: Adding a Baseline column

| Strategic Objectives | | Measure | Baseline | Target |
|----------------------|---|-----------|----------|--------|
| Objective A | a | Measure a | | |
| | b | Measure b | | |
| | c | Measure c | | |
| | d | Measure d | | |
| Objective B | a | Measure a | | |
| | b | Measure b | | |
| | c | Measure c | | |
| | d | Measure d | | |

Section 3: Assessment

While assessment is not part of the actual balanced scorecard build, it is useful to explain it as it puts the entire balanced scorecard purpose in better context. Figure 3 contains fictitious data to and a very simplified colour-coded assessment to illustrate the centerpiece of the balanced scorecard’s value which is in the assessment and analysis step.

An actual assessment will be rich in thoughts, insights, and notes on improvement ideas for the future. Hopefully this brief description has pointed to the direction the balanced scorecard work will take you.

Figure 3: Example of a simplified assessment

| Strategic Objectives | | Measure | Target | Actual | Assessment | Assessment Notes |
|----------------------|---|-----------|--------|--------|------------|--|
| Objective A | a | Measure a | 10 | 10 | Green | Target reached; no investigation necessary. |
| | b | Measure b | 100 | 74 | Red | Well under target; high priority investigation needed. |
| | c | Measure c | 4 | 4 | Green | Target reached; no investigation necessary. |
| | d | Measure d | 40 | 35 | Yellow | Under target; investigate and improve upon. |

Conclusion

Target setting is a critical step in the creation of a high-value balanced scorecard. The ability to set expectations both non-quantifiably (with objectives and measures), and quantifiably (with targets) is critical to successfully complete the balanced scorecard initiative.