

Cascading: Developing, linking and aligning multiple Balanced Scorecards

2GC Briefing Paper

Introduction

In the context of Balanced Scorecard, the term ‘cascade’ refers to the process of developing - usually within the same organisation - multiple Balanced Scorecards that are broadly ‘in alignment’. The cascade process is undertaken to maximise the coherence of subsidiary units’ goals and objectives, with those of the parent organisation. There are several ways to ensure an organisation’s Balanced Scorecards are aligned and this briefing aims to present some of the options, with recommendations.

The briefing is informed by 2GC’s research and experience in facilitating successful cascades. Organisations who have benefited from 2GC’s experience in facilitating cascades include: United Biscuits, BP, Saudi Aramco, the Abu Dhabi National Oil Company, the Environment Agency, Tawaniya Insurance, and the UK Department for Innovation, Universities and Skills.

The briefing first discusses the why organisations cascade Balanced Scorecards, and then reviews the two most common approaches used, and ends with some comment on how to plan a cascade¹.

Why do organisations cascade Balanced Scorecards?

Cascaded Balanced Scorecards can be used for several purposes, but the two primary roles of a cascade are for performance reporting and performance management.

Performance Reporting

Some organisations use Balanced Scorecard to supply senior management with performance information on subsidiary organisational units. Senior management normally chooses the contents of the Balanced Scorecard, because they are the intended users of the Balanced Scorecard information. Under this model of cascading, subsidiary Balanced Scorecards can be made to ‘add up’ – superior objectives, indicators and targets are broken down and allocated across organisational units. However, the subsidiary management team usually have little influence as to the content of the Balanced Scorecard associated with their unit.

Performance Management

This is when the Balanced Scorecard is used to inform a management team about their unit’s performance. The content of the Balanced Scorecard should be the information that is most useful for that team, and so ideally the management team itself chooses the contents of the Balanced Scorecard. Under this model, multiple Balanced Scorecards within the same organisation are unlikely to ‘add up’. The objectives and indicators chosen by the various management teams will necessarily be distinctive. This is because each team encounters and prioritises divergent issues arising from the unique environments in which they operate. But unsurprisingly the senior management of the organisation has a strong interest in ensuring that these multiple Balanced Scorecards are consistent, co-ordinated, and aligned against common goals. This process of alignment is usually called ‘cascading’.

Purpose of the cascade - 2GC recommendation

The uses of Balanced Scorecard for performance management or performance reporting purposes are, in some respects, opposite ends of a spectrum. Both are useful, and we find that most organisation’s requirements are a combination: some performance reporting (to reassure senior management that all is well) while at the same time providing managers with information they can use to better manage their unit. In practice then, organisations will use the Balanced Scorecard for both purposes at the same time. Subsidiary units (e.g. functions, regional units, country units ...) will have some objectives and indicators that are mandated and non-negotiable, while most objectives and indicators are selected by the subsidiary management team itself. In 2GC’s experience this hybrid approach is perfectly acceptable and workable. However, 2GC’s specific recommendation concerns the balance of mandated to locally selected objectives and targets. If mandated objectives and targets comprise more than about 25% of the total, then subsidiary management begins to question their role in the cascade process, and can become de-motivated as a result.

¹ This briefing is intended to be self-contained, but if any of the ideas are unclear it is recommended that you read the 2GC FAQ on “What is the “state of the art” in Balanced Scorecard design?”. Download it from the Resources area of www.2GC.co.uk

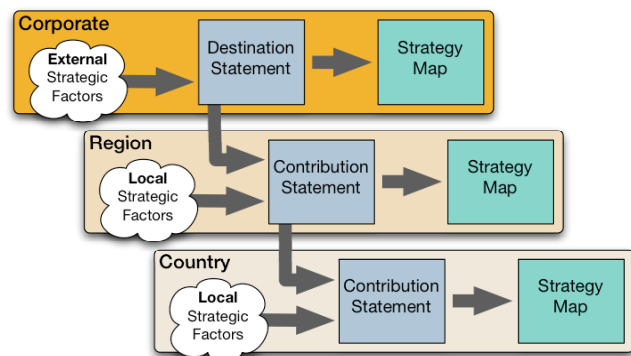
Alternative Cascading Approaches

In practical terms, modern Balanced Scorecards can be cascaded either via “Destination Statements”, or via “Strategic Linkage Models” and their associated Objectives. A Destination Statement is a description, ideally including quantitative detail, of what the organisation (or that part of organisation managed by the Balanced Scorecard users) is likely to look like at an agreed future date. A Strategic Linkage Model (sometimes referred to as a Strategy Map) is a picture of cause and effect as defined by the managers of the organisational unit. It lays out the unit’s assumptions about what short to medium-term objectives are important in delivering strategic success, and makes explicit the links amongst objectives, and between objectives and longer-term strategic success. Both elements are produced as part of a modern Balanced Scorecard design process, such as the 3rd Generation Balanced Scorecard approach. Some older Balanced Scorecard designs only include the second (Strategic Linkage Model) element

Cascading via the Destination Statement

The starting point for this approach is a high level (e.g. “corporate”) Destination Statement – which describes a leadership team’s view of where the whole organisation needs to be at a nominated future date. Subsidiary units interpret this document to produce unit-specific versions that describe how the organisation-wide changes will be reflected within the unit. This local description is often called a “Contribution Statement”.

The Contribution Statement can be used to validate and communicate the unit’s understanding of the implications of the wider changes envisaged – promoting useful dialogue about the alignment of the unit’s understanding with that of the senior management team. The Contribution Statement, once agreed upon, can be used as the starting point for the development of a unit level Strategic Linkage Model.

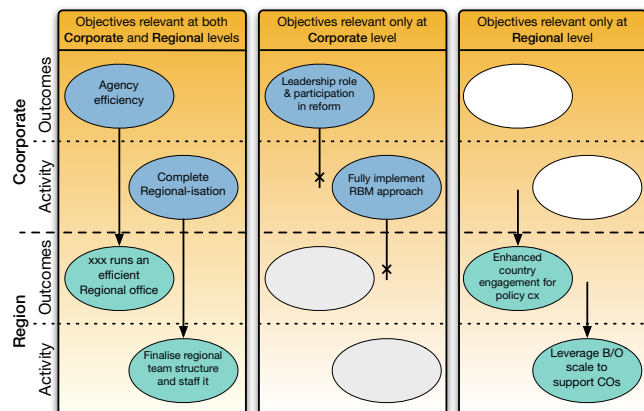


Strategic Linkage Models developed in this way form a strong foundation for the subsidiary unit Balanced Scorecard as they can explicitly reference and build upon previously agreed unit-level plans. They clearly reflect the specific priorities of the unit, in ways that Balanced Scorecards developed centrally, or cascaded via Strategic Linkage Models cannot (see below). Such local fit improves the ownership and adoption rates of the Balanced Scorecard by subsidiary unit managers. However, this approach does require relatively more time to be allocated by the unit management team to complete the design activities. This cascading approach can be repeated in identical fashion at several levels without compromising the quality and relevance of the outputs produced.

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Cascading via Strategic Linkage Models

This common approach to cascading uses the objectives on the ‘top level’ / corporate Strategic Linkage Model to guide the development of Balanced Scorecards by subsidiary management teams. Each objective is taken in turn and its relevancy to the subsidiary unit is evaluated. Where the superior objective is entirely valid, it is retained; where it is not, the corporate objective does not form part of the subsidiary Strategic Linkage Model. The approach (illustrated opposite) uses less design time and effort than cascading via Destination Statements, but does not enable the same quality of discussion around unit-specific strategic goals. Further, the approach does not provide a vehicle for identifying objectives not represented on the corporate Strategic Linkage Model, but which are applicable to the subsidiary unit. A significant weakness with this approach is that it is not repeatable – after just one cascade step, the top level strategic objectives are often perceived as distantly related to the priorities of a unit management team. As we move down the hierarchy this dissonance increases. Furthermore, due to the ‘fall out’ of objectives higher up, the objectives become quite few in number. Ownership of the resulting devices is poor, largely because unit managers view the reported objectives as less relevant to them and their local issues.



The general approach to cascading - 2GC Recommendation

2GC recommends that organisations cascade via Destination Statements. This approach will help to strengthen management teams’ alignment around the meaning of Strategic Plans for them and their specific unit. The approach will also strengthen the local relevancy and comprehensiveness of the subsidiary Balanced Scorecard. The approach is more time-consuming, but in 2GC’s experience the investment is justified because of improved quality, and greater engagement by local management.

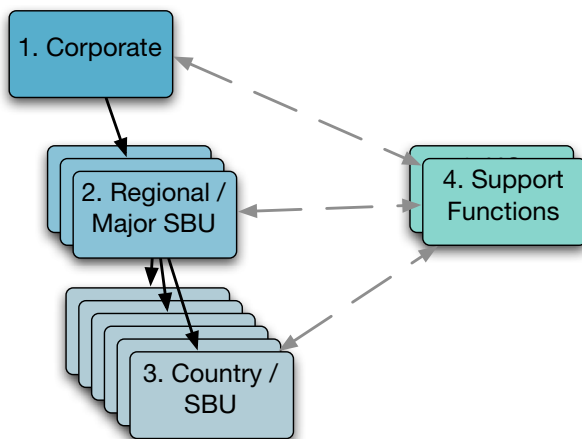
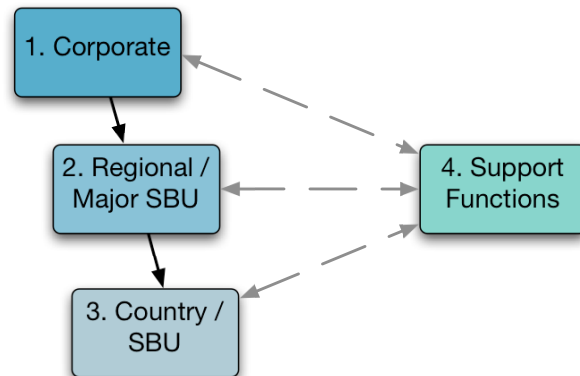
The Cascade Sequence

What are the sequencing options?

In developing Contribution Statements the effectiveness of the selection and interpretation activity is increased when there is clear guidance from the superior unit in the hierarchy. From the viewpoint of maximising opportunities for hierarchical alignment of goals, the 'ideal' cascade would be to start with the highest corporate level then work down through regional units / major strategic business units (SBU), then country level offices / SBU, and finally work with support units.

There are strong reasons to support delaying the design of 'support or functional unit' Balanced Scorecards until after the development of other organisational Balanced Scorecards. Support unit managers need to be aware of the strategic priorities that the core business is working on, enabling them to make more informed decisions about how they can maximally support the core business. Our experience is that the outputs from Balanced Scorecard development provide a concise and current view of these priorities. To be able to review these outputs, support units need to wait until late in the process.

A common concern cited by support unit managers in response to suggestions that they go 'last' in the cascade sequence relates to the inclusion of 'unrealistic expectations' for service support within the other Balanced Scorecards. A robust and manageable way of addressing this concern is to arrange for representatives of key support functions to participate in the Balanced Scorecard design activities within each of the corporate / regional (or major SBU) / Country / SBU level units. Such participation ensures that a balanced and appropriate representation of support level capacity is reflected in unit thinking. This approach is illustrated to the right.



A common variation of this approach is to run the later stages of the cascade in several parallel streams. For example, more than one Major SBU or several country offices could work on a Balanced Scorecard design concurrently, without compromising the 'ideal' design sequence. Such parallel working shortens the duration of the cascade process as a whole, but increases the facilitation requirements. Sufficient facilitators to handle all the concurrent design activities are required. Furthermore, parallel working also increases the control and co-ordination requirements, and hence overheads, of the design project. However, for a cascade to be completed within a workable period, it is usually necessary to introduce some parallel working, even in moderately sized organisations. This type of approach is illustrated to the left.

The Cascade Sequence - 2GC Recommendation

Under these conditions, the recommended sequencing is to adopt the 'ideal' or top-down sequence with a degree of parallel working as described above, but with recognition that variations may be required to expedite the process. However it should be noted that such variations would likely increase the cost of the process, and also increase programme risk.

Planning a Cascade - Practical Implementation Hints

So far this briefing has looked at the reasons why organisations seek to cascade Balanced Scorecards, discussed best practice approaches to the design of these Balanced Scorecards, and looked at how best to sequence the work required. This final section draws upon 2GC's extensive practical experience of supporting such work to reflect upon two of the most common practical issues that are encountered when organisations carry out a Balanced Scorecard cascade project.

Balanced Scorecard Templates

A common embellishment of the sequencing approach proposed above is to have co-ordinating units, for example regional / major SBU level units, develop one or more Balanced Scorecard 'templates' for its subordinate units. The usual thinking is that such templates will speed development in the units, and promote consistency between the Balanced Scorecard designs adopted by similar organisational units. Both these benefits are real ones. Provided such work respects the need for individual management teams to customise templates to suit their own perspective on the management issues they face, they can improve the quality of thinking applied to the subordinate units' Balanced Scorecards. At the very least, the approach helps provide a consistent language / glossary for the Balanced Scorecard in a given region or SBU. However, a reason to be cautious is that

over ambitious use of templates can lead to the co-ordinating unit dictating the content of lower level Balanced Scorecards, which rapidly leads to disengagement from the process by lower level managers. A good compromise is for the co-ordinating unit to specify a small number of 'key topics' that must be included in lower level designs, but to refrain from defining specific objectives.

Pilots and trials

Often arguments are made for trialing or piloting the Balanced Scorecard at middle and lower levels in the organisational hierarchy before carrying out the corporate Balanced Scorecard design work. The benefits of doing this are described as enabling lessons learnt to be applied in a later cascade, and removal of the risk that 'corporate' invests time and effort in an 'unproven' approach. The implications of such deviations from the 'ideal cascade sequence' can be expressed in three ways:

1. Developing the Balanced Scorecards 'out of top-down sequence' increases the risk that some elements of goal alignment would be missed due to lack of information from elsewhere in the cascade. For example, a country Head Office developing a Balanced Scorecard before its regional HQ does so could result in the country office making incorrect assumptions about how the regional HQ might interpret corporate priorities within the region. Such assumptions might lead to inappropriate priorities being reflected in the country-level Scorecard.
2. Developing the Balanced Scorecards 'out of top-down sequence' is likely to lead to additional cost. Supplemental effort will be expended within each out of sequence Balanced Scorecard developed to 'estimate' what the missing information is, and re-work might be required to correct any mistakes.
3. Developing Balanced Scorecards 'out of top-down sequence' is likely to weaken confidence in the design process across the organisation. If key senior people are perceived as disengaged from a process in which they expect the enthusiastic participation of others lower in the hierarchy, engagement in the process will be reduced.

Planning a Cascade - 2GC Recommendation

The ideal sequence for carrying out a Balanced Scorecard cascade is as described earlier in this briefing document. However it is not unreasonable for organisations to look for short-cuts; to speed the development process, and to construct a development sequence that is more 'practicable' for them. Both of these short-cuts can be beneficial - but in both cases the benefits come at a price: overdoing either will increase the probability that the overall cascade program will fail. Working out where to draw the line for the best balance between benefits and project risk needs to be done on a case-by-case basis, and is best done by someone with real, hands-on experience of best-practice Balanced Scorecard cascade work. Getting professional advice from a firm such as 2GC makes a lot of sense - Balanced Scorecard cascades are time and resource intensive activities: it makes sense to be sure you are doing the right thing before you start.

Summary

Cascading is one of the most challenging areas of Balanced Scorecard design. Both practitioners and academics admit that there are few hard and fast answers in the area. However, 2GC experience suggests these three guiding considerations.

1. The approach to cascading ultimately derives from the purpose of the cascade, which in turn derives from local interpretation of 'alignment.' Does 'Corporate' seek to 'drill down' and align primarily for reporting, and implicitly, direct-control purposes? Or does it seek to rationalise and harmonise lower-level contributions by supplying information to allow autonomy and discretion in response to higher-level imperatives?
2. If the latter then the design of the cascading process should in-turn be underpinned by principles of autonomy and discretion. In 3rd Generation Balanced Scorecard parlance, this last implies cascading via Destination Statements rather than Strategic Linkage Models or, "perish-the-thought", measures and targets!
3. Finally, the ideal cascade sequence is determined by the information requirements of each Balanced Scorecard design team; the responsible management team. These requirements nearly always imply a top-down approach, but will also, invariably, require a degree of customisation.

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, telephone 2GC on +44 1628 421506 or email us via services@2gc.co.uk

