Are You Cascading Your Strategy, Or Fragmenting It?

If all your departments are working off their own "mini me" version of the corporate strategy, you're in trouble!

STACEYBARR

Contents

Overview

The typical approach executive teams use to cascade, or roll out, their strategic direction is to produce a clear set of goals, objectives, critical success factors or a scorecard and then get each departmental or functional manager to take a copy of these goals for their part of the organisation. The trouble then begins…

A typical approach: each department adopts or adapts a version of the corporate strategy.

The first phase of most organisational planning processes is that the organisation's executives design and express a strategic direction using a framework of some kind. Commonly this framework will be something like a collection of key result areas or critical success factors or balanced scorecard[1] perspectives or triple (or quadruple) bottom line, and so on. Strategic goals or objectives will be developed within each part of this strategic framework, along with a set of key performance indicators (fondly nicknamed KPIs by the majority of the English-speaking business world). It could look something like this:

TABLE 1: EXAMPLE CORPORATE STRATEGY

Key Result Area	Strategic Goals for 2010	KPIs
Customer Focus	Raise customer advocacy to 25% Increase customer satisfaction to 95%	% Customer Referrals % Customers Satisfied
Sustainable Profitability	Double profit Reduce costs by 20%	EBIT (Earnings Before Interest & Tax) Total Expenditure
etc…		

[1] I don't necessarily refer to the original Balanced Scorecard by Kaplan and Norton, as many organisations have adopted this phrase to mean their strategic framework, and they have chosen or adapted Kaplan and Norton's original four perspectives of Financial, Customer, Internal Business Process, and Learning and Growth.

www.staceybarr.com | info@staceybarr.com | +61 1800 883 458

The next phase is often to communicate the strategy to the rest of the organisation, with a view to encouraging the next layer of management to translate it into a tactical or operational level strategy.

And here's what happens next: functional managers (of business units or departments or whatever you call the parts that your organisation is divided and organized into) create their own set of goals, aimed at contributing to the achievement of the organisation's strategic goals.

TABLE 2: EXAMPLE OPERATIONAL STRATEGY FOR THE CORPORATE SERVICES DEPARTMENT

Key Result Area	Corporate Services Goals for 2007	KPIs
Customer Focus	Increase internal customer satisfaction with our services	% Internal Customers Satisfied
Sustainable Profitability	Reduce consumables costs by 20%	Consumables Expenditure
etc…		

For example, the Corporate Services Department of an organisation, the part that manages the internal support processes like purchasing and payroll and information services, takes a look at the corporate strategy and translates it as best it can into its own operational strategy. They see the goal of customer advocacy and decides it's not really a goal that's relevant to them, as their customers can only ever be the internal customers of the organisation. They consider momentarily selling their services to other organisations, but discount it as it would increase costs too much, preventing them from achieving the organisation's expenditure reduction goal.

Next, they see the customer satisfaction goal and know straight away how important that is to them. So they establish a goal around internal customer satisfaction. And then they see the profitability goal, and realize the next best thing for them is budget performance, that's what they'll put in as their profitability equivalent. But the next corporate goal of reducing costs is certainly something that relates to them, at least in part. They can't really reduce their labour costs, as the rest of the organisation already puts more demand on them than they can effectively meet, so they establish an operational goal of reducing their consumables expenditure.

And it can be even more specific. A corporate target for downsizing (head count reduction, right sizing, whatever you call it – getting rid of people, basically) is 10%. So every department is expected to reduce its size by 10%, irrespective of whether the department has the scope to downsize by 30%, or whether it is already struggling with the insufficient number of people it has now. Or a corporate safety goal is to reduce the lost time injury frequency rate (LTIFR)[2] to 8. So every department is expected to achieve an LTIFR of 8, irrespective of whether their starting point is 9 or 42. Cascading targets like this, needless to say, causes all kinds of chaos and sub-optimisation and cynicism and wasted resources and missed opportunities… and more often than not, the corporate target never being achieved.

Have you seen this pattern of thinking play out before? Is this the approach you take to cascading strategy in your organisation? If so, you may very well be experiencing some of the common obstacles that come with cascading strategy this way.

A common experience: typical implementation problems.

Have you experienced any of these implementation problems in the act of cascading your organisational strategy?

[2] If you haven't come across this measure, the lost time injury frequency rate or LTIFR, you can find it everywhere on the internet. It's a standard safety measure adopted by many organisations.

Problem #1: some of the strategic goals seem irrelevant to your department

One of the typical implementation problems is the discovery that there is a goal (or two, or more) in the corporate scorecard that your department can't sensibly adopt or even adapt. For many departments that don't have external customers, for example, they obviously have no use of a goal about customer loyalty or customer referrals. Nor do they have any use of a goal about profitability. For departments that are already struggling to cope with the resources they have, cost cutting even further just because it's a strategic goal really puts the pressure on.

Problem #2: some of the strategic goals seem too high level for your department

Another typical problem is that when a team sits down to develop their own operational strategy, they have a really hard time trying to connect with the corporate goals. They struggle to relate the long range, all-encompassing corporate goal to what they can do and influence in the shorter term. Like a corporate goal of enhanced corporate image, how do they set themselves a goal that relates to this? Or a corporate goal of customer value, how specifically should they translate this into something more concrete for them?

Problem #3: some of the strategic goals overlook what is really important to your department

It's another of those most common experiences with cascading strategy – the strategy doesn't cover some of those things that you know still really matter for your department. Like equipment reliability for the maintenance department, or employee turnover for the human resources department, or employee competence for the organisational development department, or supplier relationships for the purchasing department. Where do they make space for these in their operational strategy? Leave them out, or tack them on the end somehow?

Problem #4: achieving the corporate targets would sabotage other areas of performance

When a corporate target is set and cascaded to every department on an 'equitable' basis (that is, every one achieves the same numeric level of performance), many departments are faced with a change so large that their allocated resources are completely insufficient to achieve it, or they are faced with a making a change that will directly prevent them from achieving or even maintaining another performance result. They are locked into producing a result that is ultimately damaging to the organisation.

A shaky assumption: the whole succeeds if each part succeeds.

Each of the typical implementation problems with cascading organisational strategy in the common way is spawned from the same underlying (and very shaky) assumption – that for the whole organisation to achieve its strategic goals or targets, each part of the organisation needs to achieve similar goals or targets. Almost like the notion that to make a big elephant, you need to join lots of small elephants together.

Of course, that's a ridiculous notion. But for some reason, we've been applying it to the method by which an organisation achieves its strategic direction. To make an organisation, you don't need to join lots of smaller organisations together. You need to bring groups of people together, that can each perform different and complimentary functions that make the whole organisation capable of performing end to end processes like developing products and services that the market require, and marketing products and services to generate customer interest, and delivering products and services to satisfy the expectations of customers.

It's the processes of the organisation that make it live, just like our processes of breathing and feeding and walking make us live. If an organisation (or person) is going to change or improve, then it can only achieve this by changing or improving its processes. An athlete is no more going to achieve a goal of racing faster by making every cell in his body race faster, than an organisation is going to achieve cost reduction through all departments reducing costs. The athlete needs many of his cells to actually slow right down in order for him to race fast, such as brain cells so they don't distract him from his focus, or his stomach cells so they don't waste energy on digestion or anxiety.

The organisation faces a risk of actually increasing costs if some of its parts, such as purchasing or maintenance, reduce costs. Some parts may actually need to increase costs in order for the whole organisation to reduce costs, such as the business improvement department so it can find the most sustainable ways to remove rework and waste from the organisations processes. Are you waiting for me to recite that modern cliché of "the whole is more than the sum of its parts"? Well, there you have it.

Another approach: think about impact, not adoption.

So instead of cascading strategy by basically getting every department to adopt or adapt a duplicate of the corporate strategy, we need a better way. Ideally, this means shifting some mental models (beliefs, concepts, assumptions) about how organisations work and how strategy is developed and cascaded. Not a quick or easy way. But a simple way to get started on improving how strategy is cascaded is to change the questions we ask to engage our departments with the corporate strategy.

Typically, we ask questions like "what should our department's customer focus goal be?" or "what should our department's cost reduction goal be?". Instead we need to ask questions like "in what ways does our department impact on corporate customer focus?" and "in what ways does our department impact on organisational costs?". The answers are often totally different.

Instead of choosing a departmental goal of internal customer satisfaction because the corporate goal is about customer satisfaction, your department could end up with goals around service delivery cycle time, or product reliability or billing accuracy or consistent pricing or fast responses to customer enquiries or providing technical solutions in layman's terms for the sales team to respond to customer complaints. Anything to do with the process your department manages or works in, and how capable this process currently is. It's about understanding the unique impact your area or process has in improving the organisation's capability to achieve its strategic direction.

There are more formal planning approaches that cascade strategy this way, via organisational processes and their impact on corporate strategy, rather than via organisational departments and their adoption or adaptation of a version of the corporate strategy. But first you can get much better cascading of strategy by changing the questions that get people to explore what that strategy means to their areas and processes. It will encourage them to think about their unique contribution to how the organisation works, their unique contribution to the organisation's processes, and thus the results that matter most.

Taking Action

How are you cascading your strategy at present? If you'd like an engaging tool to visually and logically cascade strategy to all your teams (and even to individuals) then read more about "Results Mapping" at http://www.staceybarr.com/resultsmapping.html

www.staceybarr.com | info@staceybarr.com | +61 1800 883 458

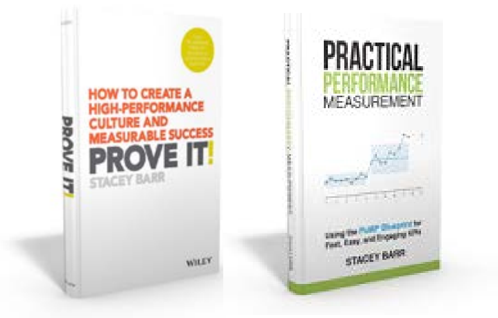
About the author

Stacey Barr

Stacey Barr is a globally recognised specialist in organisational performance measurement. She discovered that the struggles with measuring business performance are, surprisingly, universal. The biggest include hard-to-measure goals, trivial or meaningless measures, and no buy-in from people to measure and improve what matters. The root cause is a set of bad habits that have become common practice.

Stacey created PuMP®, a deliberate performance measurement methodology to replace the bad habits with techniques that make measuring performance faster, easier, engaging, and meaningful.

Stacey is author of Practical Performance Measurement and Prove It!, publisher of the Measure Up blog, and her content appears on Harvard Business Review's website and in their acclaimed ManageMentor Program.



Discover more about Stacey and practical performance measurement at www.staceybarr.com.

Disclaimer. *This article is provided for educational purposes only and does not constitute specialist advice. Be responsible and seek specialist advice before implementing the ideas in this white paper. Stacey Barr Pty Ltd accepts no responsibility for the subsequent use or misuse of this information.*