

# **CASCADING THE BALANCED SCORECARD : A CASE STUDY ON NOVA SCOTIA POWER, INC.**

*Paul R. Niven*

*PAUL R. NIVEN is a management consultant and noted speaker on the subjects of Performance Management and the Balanced Scorecard. As both a practitioner and consultant, he has developed successful Performance Management systems for large and small clients in a wide variety of organizations, including Fortune 1000 companies, public sector, and not-for-profit. He can be reached through his Web site at [www.primerusconsulting.com](http://www.primerusconsulting.com).*

## **EXECUTIVE SUMMARY**

- **Faced with changes in the utility industry, as well as in the overall business environment, Nova Scotia Power, Inc. developed a new corporate strategy and moved to Strategic Business Units.**
- **Although initially Nova Scotia Power, Inc. used the Balanced Scorecard solely as a tool to gauge the company's effectiveness in fulfilling its new strategy, it now uses the BSC as a measurement system, strategic management system, and communication tool.**
- **Cascading the Scorecard throughout the organization has ensured goal alignment, despite the esoteric nature of the Strategic Business Units at Nova Scotia Power, Inc. The development of Scorecards from the boardroom to the back room has given all employees the opportunity to display how their day-to-day actions link to the achievement of the company's long-term strategy.**

The effects of constant change on the modern business organization are difficult to overstate. Regardless of size, market, location, or maturity, every company in every industry is facing tremendous change. The electric utility industry is certainly not immune to the new realities, and is facing fundamental change of its own, as many jurisdictions around the world begin to deregulate the industry. As the industry prepares itself for the challenges and opportunities of the 21<sup>st</sup> century, it has started to examine new strategies, build on previously unconsidered synergies, and look for tools to effect the changes necessary to thrive in this new landscape.

Nova Scotia Power Inc. (NSPI) is one such utility company preparing itself for the changing marketplace. An investor-owned utility, NSPI operates in the province of Nova Scotia, Canada, where it serves over 425,000 customers.

## **TWO BOLD STEPS**

In 1996, NSPI took two bold steps forward in its quest to positively shape its own future. First, a new strategic plan was developed. The new plan focused not only on financial performance goals, but on the needs of all key stakeholders of the organization, including customers and employees. This presented the challenge of developing a measurement system that would allow them to track performance in achieving the new strategies. It was at this time that they discovered the Balanced Scorecard (BSC) system. By integrating performance from four balanced perspectives, the Scorecard allowed NSPI to gauge its success relative to its strategies.

The second step NSPI took in 1996 was to align the company into Strategic Business Units (SBUs). Today NSPI consists of three operating units: Power Production, Transmission and Distribution, and Customer Service and Marketing. They also have several Corporate Resource Groups, such as Finance, Human Resources, and Public Affairs. Given the diverse nature of the SBUs, the company needed a tool that would unite everyone in purpose and ensure that they were moving toward the same overall goals. The Scorecard proved to be appropriate, with its ability to be cascaded throughout an organization.

## **THE BSC AT NSPI**

Although the history of the BSC is relatively short, it has already been subject to many modifications, and some would say improvements, based on practical applications and research. At NSPI, the BSC is considered a multifaceted business performance tool. It is used as a measurement system, strategic management system, and a communication tool.

For many companies utilizing the BSC, including NSPI, the method has evolved from a measurement tool to what Robert Kaplan and David Norton describe as a “Strategic Management System.”<sup>1</sup> Used in this manner, the BSC allows an organization to link short-term actions with long-term strategy by integrating the system into key management processes. At NSPI, the BSC has been linked to many critical systems. For example, the annual business planning and budgeting process is now driven by the Balanced Scorecard. This new system is called “Strategic Resource Allocation,” because it provides the opportunity to display how resource allocation decisions directly influence the achievement of strategy. The Scorecard is also linked to the incentive compensation system, and has been cascaded throughout the company to ensure goal alignment at every level.

Finally, and perhaps most importantly, the BSC is a powerful communication tool, signalling to everyone in the organization key success measures, and how they can influence them. Kaplan and Norton suggest that a well-constructed Scorecard should tell the story of the organization's strategy through a series of cause-and-effect relationships inherent in the measures. While the development of these measures can prove a challenging task, the results are worth the effort because the Scorecard will then provide a focal point for disseminating strategy throughout the entire workforce.

## **CASCADING THE BALANCED SCORECARD**

Producing a series of aligned Scorecards throughout the organization ensures maximum effectiveness of the Scorecard system. By cascading, we are able to use the BSC in all three ways described above: measurement tool, strategic management system, and communication aid.

### *Why Cascade the Scorecard*

Like many companies, NSPI started by creating a high-level Corporate Balanced Scorecard, representing the critical drivers of future success for the NSPI corporate entity. Consistent with Scorecard theory, the company worked hard to create a document that told the story of their strategy and after minor modifications, they created a multifaceted business performance tool.

At its core, the new Scorecard was a measurement system. Tracking results on objectives and measures helped gauge the effectiveness in fulfilling company strategies. More than that, however, NSPI had plans to create a strategic management system by linking the Scorecard to compensation and business planning, management reviews, and other key processes. Finally, the Scorecard served as a powerful communication tool. By distributing the Scorecard, every employee in the company was aware of the company's vision, strategies, and measures of success.

The question to consider was this: Did mere awareness of corporate vision and strategies lead to change at all levels of the organization? Literature on creativity and motivation in the workforce suggests that informed employees do in fact exhibit greater creativity.<sup>2</sup> To truly maximize the effectiveness of the Balanced Scorecard, it had to align individual employee performance with overall company strategies. The goal was to give every employee the opportunity to display how their day-to-day actions could influence the achievement of the company's key strategies.

That is what the idea of cascading is all about — creating a line of sight from the employee on the shop floor back to the company's long-term strategies. Kaplan and Norton consider cascading the Scorecard an important method of increasing employees' intrinsic motivation; a method that leads to innovation and problem solving.<sup>3</sup> Given these advantages, cascading the Scorecard to ensure goal alignment is a natural extension of the process.

### *The Cascading Process*

There are differing schools of thought on the development of a Balanced Scorecard program. Many companies would advocate the use of a pilot program in an area of the company that may prove more amenable to a change of this nature. This argument certainly has merit; however, NSPI began with the development of a high-level Corporate Scorecard that told the story of their new strategies. This may have been a function of timing as much as anything else. New strategies had been developed for the organization, and they required a tool that would allow NSPI to gauge its success in meeting the goals of these strategies.

By integrating performance from four balanced perspectives, the Scorecard is an ideal tool to test the ongoing implementation and execution of strategy. So, for that reason NSPI began their series of linked Scorecards with an NSPI Corporate Scorecard containing the twelve key objectives and measures that they felt were instrumental in the pursuit of new strategies.

Because the Corporate Balanced Scorecard identifies key measures of success, it is absolutely imperative that everyone in the organization understand the strategic significance of these measures (and the related objectives) before they begin their own Scorecard program. This is particularly true of those individuals who will have the responsibility of leading the development of Scorecards within SBUs and work groups. If these individuals do not have a solid understanding of the Corporate objectives and measures, it may prove difficult to construct Scorecards that are truly aligned to Corporate goals.

To ensure this understanding existed in the employee base, NSPI undertook an extensive communication and education plan. To begin with, the Corporate Scorecard was distributed to every manager in the company with accompanying notes as appropriate. NSPI, however, did not want to simply distribute the document with an order for everyone to study it, and develop their own Scorecard. The company believed that effective face-to-face communication was critical in sharing insights and disseminating information. To that end, NSPI created a plan to share the Scorecard, and the new methodology it represented, to a critical audience: the management group.

NSPI brings their management group of approximately 150 people together three or four times a year to discuss strategic initiatives and share information with colleagues. The Corporate Scorecard was unveiled at one such meeting in March of 1996. Most of the two-day event was spent discussing this new tool, reviewing each of the measures and their strategic significance, answering questions, and outlining the plans for cascading. Breakout sessions by SBUs allowed the groups to discuss implications for their units, as well as to develop specific strategies for ensuring that their Scorecards aligned with the Corporate card, and at the same time displayed their unique challenges and value propositions.

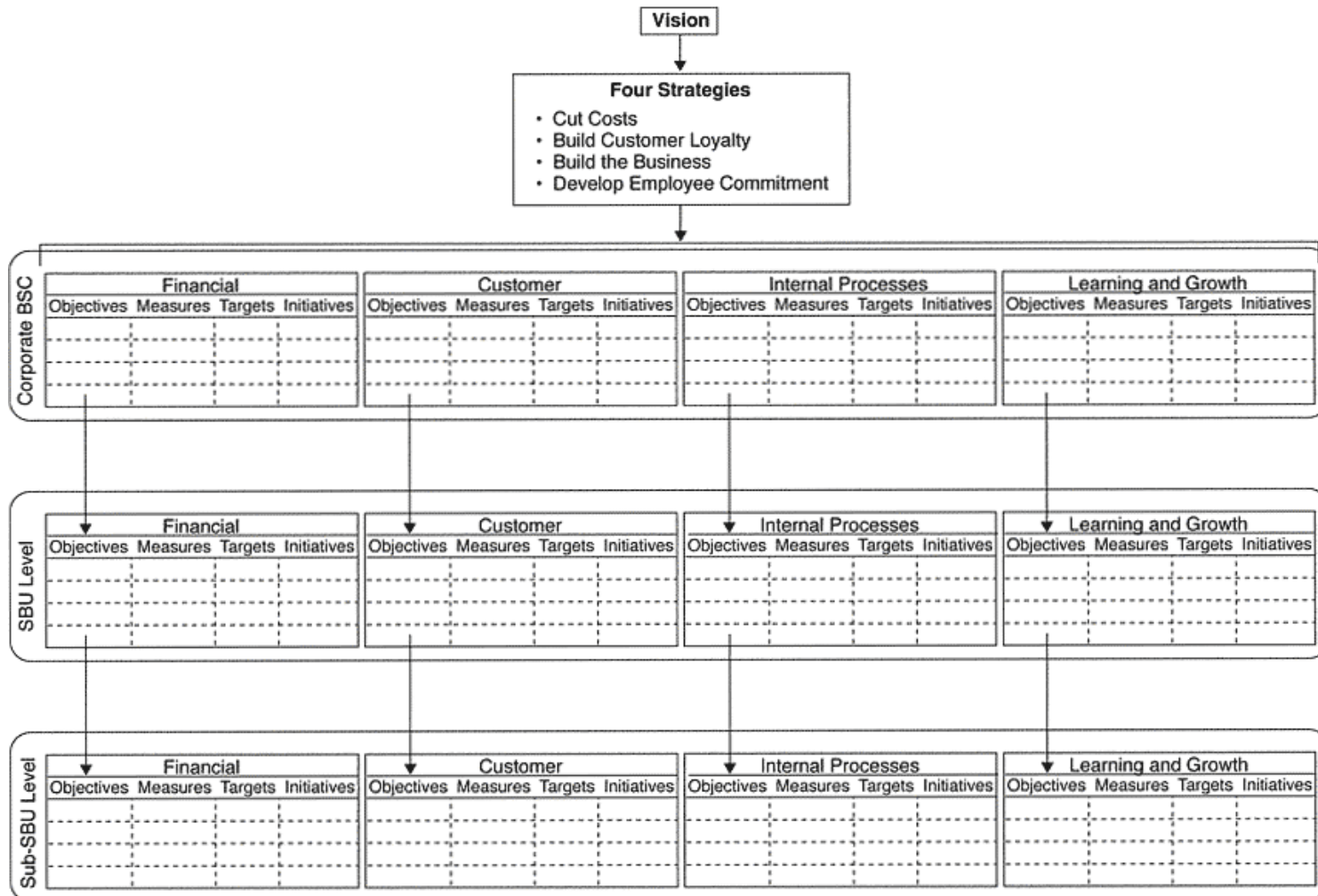
The Scorecard has been a key agenda item at these meetings since its inception in 1996. At subsequent meetings, not only has the Scorecard and its effect on helping the company achieve its strategy been discussed, but new tools have been distributed to help managers use the Scorecard more effectively. For example, a communication board was developed that displays the Corporate strategies, and allows space for work groups to write in their specific measures and results. Managers have been encouraged to post to these boards in focal points of their operations.

#### *Construction of a Balanced Scorecard*

Once everyone is comfortable with the Corporate Scorecard, they are ready to begin constructing their own Cards that will demonstrate how their activities link to the Corporation's objectives (see Exhibit 1 ). The corporate scorecard identifies the key measures of success for the corporation, and serves as the basis of development for all

other Scorecards in the company. This is the foundation upon which all future cascading efforts rest.

**Exhibit 1.**  
**The Cascading Process at NSPI**



Strategic Business Unit Scorecards display the key measures of success at the Strategic Business Unit level. At the Corporate level, the importance of understanding is emphasized. At the SBU level, the key concept is influence. The question to ask when constructing the Scorecard at the SBU level is, “What can we do at our level to help the company achieve its goals?” The SBU Scorecard will align with the Corporate Scorecard, but will not necessarily contain the same measures. That is a key point. Each area of the company will have different issues, and can offer specific value propositions to help the company achieve its overall goals.

The measures on the Corporate Scorecard represent the outcomes of the Corporate objectives. Therefore, when developing Strategic Business Unit Scorecards, an attempt should be made to determine if there are Corporate objectives the SBU can directly influence. They may use the same measures of success as the Corporate card, but they could also find that they will identify measures that are more appropriate for their own area.

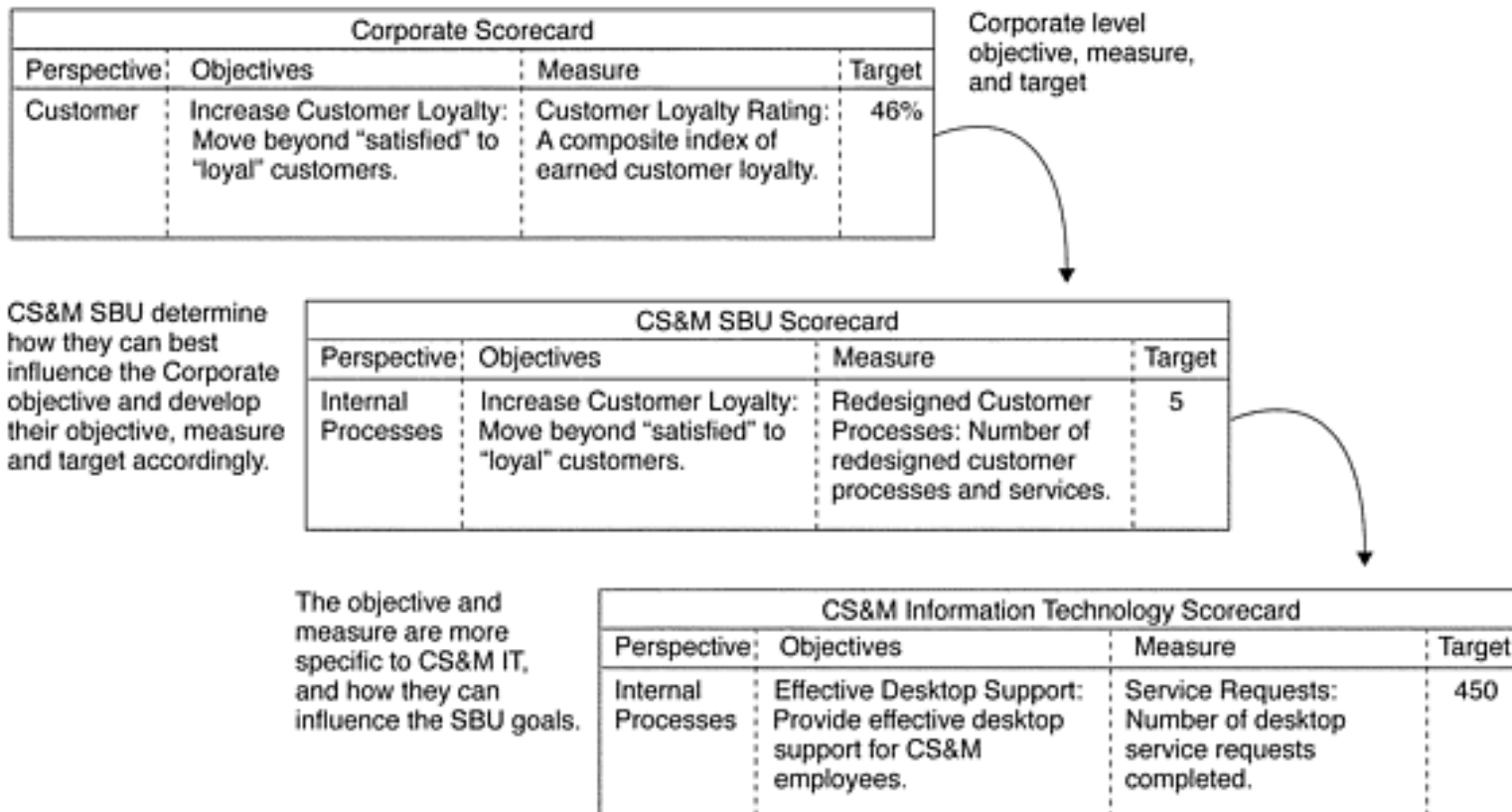
So how is alignment ensured? The objectives on the Corporate Scorecard were carefully selected to ensure they represent the company's four key strategies. The challenge of the SBU is to determine which of those objectives it can influence at its level, and then define its particular measures of success. If the Strategic Business Unit has linked to the Corporate objectives, it will necessarily have linked to the four key strategies.

Sub Business Units at NSPI consist of Geographic Regions in the Transmission and Distribution business unit, Generating Plants in the Power Production business unit, and individual departments in the Customer Service and Marketing business unit. When constructing Scorecards at the Sub Business Unit level, the question to ask is, “What can we do at our level to help the business unit achieve its goals?” As a prerequisite, the group must possess a strong knowledge of the Strategic Business Unit's Balanced Scorecard. The same principles apply as in the case of the Strategic Business Unit Scorecards. Sub Business Units may share some measures with their parent SBU, but most likely the measures selected will represent the specific issues faced at that level of the organization. The key point is that the objectives align with the Strategic Business Unit objectives because the SBU objectives are in alignment with the Corporate objectives. For a specific example of the cascading process see Exhibit 2 , which provides an illustration from NSPI's Customer Service and Marketing Business Unit.

## Exhibit 2.

### Cascading the BSC in Customer Service & Marketing

In this example, the measure becomes more specific with each level of cascading. However, linkage to the overall corporate objective remains intact. Redesigning customer processes will help us reach the goal of increased customer loyalty. The IT group can contribute to this by ensuring that they provide efficient desktop support to all CS&M



## **GUIDELINES FOR CREATING ALIGNED SCORECARDS**

Cascading the Scorecard is critical to ensuring that everyone at NSPI understands how they may contribute to the achievement of the company's overall strategies. Therefore, once the Corporate Scorecard was established, a very aggressive schedule for cascading that high-level Scorecard was developed. All Scorecards produced at NSPI had one vital thing in common: goal alignment.

**Develop Accountability.** Probably the single most helpful thing to be done when cascading the Scorecard is to provide clear guidelines and accountability. For most employees the Scorecard will represent an entirely new phenomenon and will be viewed by many with skepticism and be perceived as intimidating. To ease employees through this process, it is important to develop helpful devices up front, including clear timelines for everyone so that they know exactly what is expected of them and when, as well as using consistent templates throughout the organization.

NSPI developed a simple template that was based on their Corporate Scorecard. The document was available on the company's network, and all groups could use it as a guide for the development of their own Scorecards. NSPI also issued “how to” guides to help people with the process. Finally, and perhaps most importantly, the company offered personal assistance. The Corporate committee was, and still is, available to help groups throughout the company develop their own Scorecards.

**Use Business Plans.** Business plans provide excellent raw material for the creation of Scorecards. The plans contain key BSC ingredients such as vision or mission, key strategies, processes, objectives, initiatives, and the associated costs. Balanced Scorecard development has proven to be a very complementary activity to business planning in that it provides an organized framework for measuring success in achieving business plans.

**Linking to objectives represents a principal tenet in Scorecard development.** Review the objectives of the Scorecard from the level above, and determine what can be influenced. This is a key point because forging this link to objectives ensures a link to the strategies of the organization.

**Brainstorm Key Performance Measures.** Try to generate a broad list of performance measures for each objective without considering any criteria for “good” measures. This is an important step in Scorecard development, because it illuminates critical performance measures without the pressure of generating measures in the context of strategy and the four perspectives of the Balanced Scorecard. The corporate committee was able to list over 100 measures during its brainstorming session.

**Review Key Processes.** This step provides a dual purpose. First it acts as a sanity check for the measures developed during the brainstorming session by ensuring that all measures align with key processes within a Business Unit or work group. Second, reviewing key processes facilitates the determination of further measures based on the

key functional and cross-functional processes in which the unit or group may be involved. NSPI's committee was able to highlight thirteen key processes at the Corporate level that facilitated the generation of several additional measures.

**Group into Four Perspectives.** A substantial list of key performance measures relating to each of the Scorecard perspectives should result from the brainstorming and process review sessions. At this point, review the objectives and measures to ensure they correspond with the most appropriate Balanced Scorecard perspective. NSPI stresses the use of the traditional BSC format with the four perspectives: Financial, Customer, Internal Processes, and Learning and Growth. The Scorecard is used to promote a language for change, and as such it is critical that all groups within the company use the same format.

Key steps in the **Refine Measures phase** are:

- *Measurement Criteria.* Remaining measures should be examined in light of certain key measurement criteria such as accessibility, simplicity, and relevance.<sup>4</sup> The bottom line is that measures should be easy to collect, conceptually simple, relevant, and reliable.
- *Definitions.* Measures and objectives must be carefully worded to ensure there is consensus among all involved. This is an important and valuable step. It is easy to assume everyone has the same definition of each measure, but on closer examination it might be found that each person defines success differently. Many organizations using the BSC approach comment that the journey is more important than the destination. Most are referencing the very challenging task of developing metrics. Defining measures, however, will build consensus among organizational participants and heighten the credibility of the Scorecard as a management tool.
- *Targets and Initiatives.* Once the measures are in place, targets are required for each. When setting targets, try to consider both annual performance targets and stretch targets. Initiatives may be considered action plans to achieve success with measures.
- *Data Ownership.* Determine who is responsible for gathering and reporting the data for each measure. This person will most likely be the one with accountability for explaining why targets are not achieved.

## **THE NEXT STEP**

This article began with a review of how NSPI uses the Scorecard as a measurement system, strategic management system, and a communication tool. The series of aligned Scorecards throughout the company ensures that all groups are harnessing the power of the Scorecard in all three ways. While all key strategies for success are shared, influencing them can vary throughout the company.

Using the BSC as a measurement system allows all Strategic Business Units and work groups to focus on the critical drivers of future success for them. This in turn contributes

to the achievement of overall Corporate objectives. Linking the Scorecard to key management processes, such as budgeting and business planning, ensures all energies are directed toward the fulfillment of strategies. Finally, cascading the Scorecard to all levels of the company signals to every one of the 1,650 employees what constitutes success at NSPI, and allows them to determine how their day-to-day actions contribute to that success. In his book, Ricardo Semler, CEO of Brazil's Semco corporation, argues: "No one can expect the spirit of involvement and partnership to flourish without an abundance of information available even to the most humble employee." The Scorecard can be a key tool in the overall information-sharing strategy.

Cascading provides an excellent method of reinforcing both strategies, and the use of the Scorecard is a key tool in the implementation of those strategies. By cascading the Scorecard, a consistent language is developed throughout the firm, and everyone understands and acts on the same strategies.

Currently under development is a template for the NSPI Personal Balanced Scorecard. This two-page document completes the chain of linked Scorecards from the executive to the shop floor. Not only will it include information on Corporate and Strategic Business Unit Scorecard objectives, but it will also incorporate the key elements of individual incentive compensation and personal development. The document will provide all employees with an important at-a-glance summary of how their individual actions help the company achieve its goals, including what it requires of them and the rewards that await breakthrough performance. Cascading the Scorecard taps the creative and innovative potential of an organization while ensuring alignment from top to bottom.

#### **Sidebar 1.**

##### **The Electric Utility Industry in Canada:**

The electric utility industry has grown tremendously since 1882, when Thomas Edison's Pearl Street electricity generating station in New York introduced the electric utility system to the world. In Canada, electricity is critical to virtually every aspect of the economy, and is expected to grow in the coming years. In 1995 there were almost 88,000 people directly employed by the industry, which contributed 3.6 percent of Canada's gross domestic product.

The utility industry in Canada is organized along provincial lines. This is a result of the Canadian constitution, which states that electricity is primarily within the jurisdiction of the provinces. Seven provincially owned Crown Corporation utilities account for 83 percent of Canada's total installed capacity, and 79 percent of total generated electricity. The remaining capacity and generation is shared by five investor-owned utilities, two municipal utilities, and two territorial Crown Corporations.

Like their American counterparts, Canadian utilities are fully engaged in the dizzying transformation of the industry to one of competitive markets. The pattern of change is similar regardless of geographic location: Utility operations are unbundled into separate generation, transmission, and local distribution businesses. The generation market and local distribution of electricity are deregulated, while the transmission of electricity remains regulated. In addition to deregulation, continued change is likely due to the rapid convergence of networked service industries — electricity, telecommunications, and natural gas — providing the impetus for

many new business ventures.

Within Canada two provinces, Alberta and Ontario, have taken the lead in industry restructuring. Since the passage of the Electric Utilities Act in Alberta in 1995, energy in that province has been acquired through a power pool. The provincial government is committed to further deregulation, and full competition will be implemented in Alberta by 2001. As a result of these changes, TransAlta Utilities was the first Canadian utility to successfully apply for a Federal Energy Regulatory Commission (FERC) marketers' license in the United States. TransAlta has moved quickly to establish a presence in the United States, and has also invested in New Zealand and South America.

In Ontario, the government has developed a nine-part plan for restructuring the electricity industry. Two new commercial electricity companies will succeed provincially owned Ontario Hydro. The Ontario Electricity Generation Company will take ownership of Ontario Hydro's generation assets, and will have a mandate to ensure safety, reliability, and sound environmental performance while maximizing the value of the generation business to Ontario taxpayers.

The Ontario Electric Services Corporation will be a holding company for other electricity businesses, including transmission and distribution, retail, and operating contracts. In addition, a new nonprofit corporation, the Independent Electricity Market Operator (IMO), will ensure reliable supply and fair access to the \$10 billion consumer market. The provincial government expects these, and other, changes to allow for open competition in the industry in the year 2000.

In the remaining jurisdictions, the future electric market structure remains uncertain. Utilities are preparing for potential competition by reducing product costs and becoming increasingly customer focused. In several cases internal business units have been introduced to simulate the unbundled market.

---

[1](#)

Robert Kaplan and David Norton, "Using the Balanced Scorecard as a Strategic Management System" *Harvard Business Review* (January/February 1996): 1–13.

---

[2](#)

See, e.g. Teresa M. Amabile, "How to Kill Creativity", *Harvard Business Review* (September/October 1998): 76–87.

---

[3](#)

Catherine and Joe Stenzel, "The Language for Change: An Interview with Robert Kaplan and David Norton" *Journal of Strategic Performance Measurement* (April/May 1998): 26–35.

---

[4](#)

Michael Vitale, Sarah Mavrinac, and Mark Hauser, "New Process/Financial Scorecard: A Strategic Performance Measurement System" *Planning Review* (July/August 1994): 12–16, 44.