The Balanced Scorecard and its Potential for Strategic Level Military HQs

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Abstract - Management of the strategies in the Strategic Level Military Headquarters (SLMHQ) has always been a challenge. Among the various strategy tools, Balanced Scorecard (BSC) has proven successful in profit and non-profit organizations throughout the last two decades. This paper tries to build a foundation to use the BSC as a strategy management system for a SLMHQ.

Index Terms — Balanced scorecard, strategy management, strategy tools.

I. INTRODUCTION

The heart of a military organization is the command headquarters in which the strategic decisions are made during the peacetime and the crisis. Strategic Level Military Headquarters (SLMHQ) manages the most critical capability development, force generation and preparation processes as well as planning, programming, and budgeting systems (PPBS) required for the organization’s mission accomplishment.

As one of the greatest military theorists, Carl von Clausewitz said as cited in [1, Para. 1]:

“Tactics is the art of using troops in battle; strategy is the art of using battles to win the war.”

Although strategy has a military origin and dates back to his Art of War, in which Sun Tzu described the philosophical concept of strategy as applied in battlefield, its usage has been widely accepted by the civilian business world. Strategic management practices and strategy tools are known to be developed and used in business management. These methods stemmed from the need to incorporate high level strategies into the business world to take a better place in the competition [2].

Despite many benefits acquired with the application of corporate strategy tools to the profit and non-profit organizations in private, public, and government sectors, the adaptation and use of these tools have not been a common practice for the military organizations. However, this trend has changed recently and a need for tailoring and adapting a proven strategic management system for the SLMHQs has arisen.

While commanding the military organization it is responsible for, the SLMHQ drives the most important strategic processes as a part of its mission and therefore, for the effective management of these processes, which is always a challenge, usually requires an effective strategy tool.

II. STRATEGY TOOLS

Stenfors [3:3] defines the strategy tool as “Generic name for any method, model, technique, tool, technology, framework, methodology or approach used to facilitate strategy work”.

[4]: 6 state that “Strategy tools are conceptualized as boundary objects that mediate the initiation and implementation of strategic initiatives across boundaries within the organization”.

According to Stenfors [3], although they are not called as management tools, strategy tools are mostly used in the organizations to solve management-related problems. The commonly available tools only cover a small part of the tasks that are involved in typical strategy work.

The strategy tools can be conceptual, process oriented or physical models, or artifacts used by managers to engage in strategy related activities such as planning, analyzing, and discussing [5].

Although there are many strategy tools listed in the literature [3], such as Balanced Scorecard applications, SWOT analysis, Porter’s Five Forces, Real Options, Enterprise Resource Planning, Management Information Analysis, Systems, Analytic Hierarchy Process and Data Envelopment etc., and they can be classified according to the targets they help the user to achieve, there is only a few that could be considered as a strategic management system itself.

Balanced Scorecard is one the few and defined and accepted as a strategic management system rather than being a tactical or operational tool [6].

III. THE BALANCED SCORECARD (BSC)

The origins of the Balanced Scorecard (BSC) date back to 1990s when a study called ‘Measuring performance in the organization of the future’ was conducted the Nolan Norton Institute, a research unit of Klynveld Peat Marwick Goerdeler (KKMP-a global network of professional firms providing audit, tax, and advisory services) [6].
The study questioned the existing methods of evaluating performance in business mostly dependent on accounting and financial indicators that were blamed to hinder the organizational value creating for the future. The study group discussions lead to the development of the BSC. In 1992, those findings were published in their very first paper on the BSC [6].

Before the authors first came up with the idea of the BSC, the managers were divided into two main groups in terms of measuring the performance of an organization; the first group was favoring the use of only financial measures, while the second believed that if the operational measures were improved the financial measures would follow automatically.

By observing and working with various companies, Kaplan and Norton realized that senior executives would not like to use one single set of measures to in favor of others.

Following their project with twelve companies, the authors devised the BSC. They made an analogy between an airplane cockpit and the BSC by referring various set of performance indicators that the pilot cannot prefer one to the others. Similarly, they described four perspectives that allow the managers to look at the business and are further divided into objectives and measures as shown at Fig. 1.

The four perspectives give answers to the following questions: ‘How do customers see us?’ (Customer Perspective), ‘what must we excel at?’ (Internal Business Perspective), ‘Can we continue to improve and create value?’ (Innovation and Learning Perspective), ‘How do we look to shareholders?’ (Financial Perspective). Each perspective has goals and measures associated with them.

A. The Four Perspectives

In the light of the literature published by its founders, the four perspectives of the BSC are explained in detail below.

1) Customer Perspective (How do customers see us?)

Many companies have mission statements that focus on the customers. By utilizing this perspective, the BSC forces the managers to translate their general mission statement on the customer service and come up with measures that reflects the factors that really matters for the customers. The typical customer’s concerns are time, quality, performance, and service, which have specific meanings to the customers. For this perspective, in order to develop measures, customer driven report cards, and to set objectives, benchmarking procedures are suggested [7]. Together with financial perspective, customer perspective encompasses the desired outcomes from the overall strategy and has many lag indicators for the measurement [8].

2) Internal Business Perspective (What must we excel at?)

Customer based measures are to be translated into critical internal operations and processes to satisfy the customer needs. Those measures of the BSC should stem from the business processes that have the most impact on customer satisfaction factors. The company’s core competencies and the processes to be excelled should also be identified under this perspective [7]. In other words, this perspective encompasses the critical processes which have a great impact on the overall organizational strategy [8].

3) Innovation and Learning Perspective (Can we continue to improve and create value?)

Rapid changes in the competitive environment and intense global competition require continual improvements within the companies. In other words, the improvements conducted on the customer and internal business processes should be continually pursued by the managers by setting specific improvement targets within specified time horizons [7].

![Fig. 1. The Balanced Scorecard Linking the Performance Measures. adapted from (7:72)](84)

Intangible Assets: Innovation and Learning Perspective, later on called as ‘learning and growth perspective’, identifies the most important intangible assets critical to the strategy. The objectives presented under this perspective sheds light on which job positions (human capital), which systems (information capital), and what kind of climate (organization capital) are required to support the value-creating internal processes [8].

4) Financial Perspective (How do we look to shareholders?)

Despite their backward-looking focus and lack of contemporary value-creating actions, financial measures show whether a company’s strategy is contributing the bottom-line improvement. For a well-set strategy that focuses on increasing the profitability, these financial measures can be good indicators of a successful or failing strategy. However, not all long terms strategies are profitable, and it is not necessary that all the operational achievements are suitable for
a company to capitalize on. The BSC can only translate a company strategy into measurable objectives and does not guarantee a winning strategy. Despite the operational achievements measured on the other three BSC perspectives, if improved operational performance is not yielding lucrative results as foreseen in advance, the executive board members should revise their initial strategy or implementation plans. It is critical to use the increased capacity resulting from the improved operational performance to boost the revenues or to reduce costs depending on the type of the improvements achieved. In order to develop a successful BSC in the profit organizations, it is specifically important to learn how to establish the linkages between the operations and finance [7].

The four perspectives of the BSC have been thought to be robust across a wide variety of companies, however, they should be considered as templates but not strict ones allowing for the necessary customization [6]. In their work, C.-W. Hsu, Hu, Chiou, and Chen [9] depicted that they can deviate from these four perspectives and make necessary adjustments.

B. Historical Development of the BSC

Different from the other performance management systems prone to control bias in which financial experts are critical elements of successful implementation, the BSC methodology developed by Kaplan and Norton [7] sets forth a fundamental change in the basic assumptions of performance measurement and the involvement of senior managers. The BSC focuses on the strategy and the vision instead of control. It performs this by drawing people’s attention towards the overall vision. Combining the four BSC perspectives to achieve a specific strategy, BSC contributes to the cross-functional integration by increasing the manager’s awareness about the interrelationships. Having such understanding and being equipped with the BSC methodology, the managers acquire improved problem solving and decision making capabilities, which in turn keep their companies moving towards the future.

Following the first proposal of their BSC in January 1992, Kaplan and Norton [10] states that the BSC is not just a measurement system but also a management system to instigate competitive performance, which is the earliest identification of BSC as strategic management system by the authors.

Following the first applications of the BSC to the organizations all around the world, Kaplan and Norton [11] extended their concept into a management tool to describe, communicate, and implement strategy. Furthermore, as they explained in their concept, the BSC showed the indications of turning into a strategic management system [12]. For them, the BSC enabled the managers to track the financial results, while simultaneously letting them to acquire the intangible assets by using other three BSC perspectives. Some of the companies have moved beyond their initial vision and used BSC to form a new strategic management system. During the following 15 years, thousands of private, public, and nonprofit companies have adopted the BSC.

C. Lead and Lag Measures

Kaplan and Norton [13] mention about the difference between Diagnostic Measures and Strategic Measures. Diagnostic Measures monitor whether the business remains "in control" and are able to signal when unusual events that require immediate attention occurs. Strategic Measures define a strategy designed for competitive excellence.

Measures are further classified as Core Outcome Measures (Lagging Measures) and Performance Driver Measures (Leading Measures). Core Outcome Measures are also called as Strategic Measures because they describe the outcomes the executives wish to achieve as a part of their new strategy. The lagging Outcome Measures show the results of previous decisions and actions taken much earlier, which do not provide early indications of success. For the National Insurance Company, in most cases, Performance Driver Measures describe how a business process is intended to change [13].

D. Strategy Maps

A Strategy Map can be defined as a one-page graphical representation of what one must do well in each of the four perspectives to successfully execute his/her strategy [14]. The specific strategic theme represented in this low-cost airline strategy map is called as “quick ground turnaround”.

By providing visual representation of the organization’s strategic objectives and their cause and effect linkages, strategy maps allows the organizations to project their strategies on to the processes and provide a clear view of how the individual jobs are linked to the organizational objectives, which in turn allows the employees to work collaboratively to achieve the organizational goals. They allow the conversion of organization’s resources and initiatives as well as its intangible assets into tangible outcomes [15].

The best way to build strategy maps is from the top to down, in other words, from more overarching vision, down to the four BSC perspectives; financial, customer, internal business processes, and learning and growth. The map can further be linked to initiatives and personal goals. Strategy maps can be utilized by various users, in the forms of such as executives and boards [16]. A strategy map example supported by measures, targets and action plan is shown in Fig. 2.

E. Strategic Themes

Kaplan and Norton [8] have defined ‘strategic themes’ as few critical strategic processes. Those strategic themes allow organizations to focus actions and to provide a structure for accountability. Strategic themes are further highlighted as the building blocks around which the execution of strategy occurs. Strategic themes, focusing on critical processes, are presented as vertical slices within the strategy map and they consist of a distinct set of related strategic objectives [17].

A strategic theme groups together different corporate-level objectives, measures, and for example, involves developing initiatives across the various perspectives of the balanced scorecard framework.
The leftmost column in Fig. III above shows an example of ‘Ground Turnaround’ as a strategic theme. As we see, the theme is focused on the critical strategic objective of ‘fast ground turnaround’ within the Internal Perspective (representing the Internal Processes Perspective of the BSC). Using a military metaphor, Kaplan and Norton [17:369] describe the strategic themes with an analogy to a battle; “…the strategy includes a ‘battle’ to improve solution selling, and a ‘battle’ to reduce the product development cycle. Battles are the building blocks of a military campaign, but unless battles are organized into a broader strategic logic, one can win several battles, and still lose the war. The same is true for our model of enterprise strategy-managers can successfully execute one theme, one piece of the strategy, but not achieve desired performance. They lose the war, in effect, because they have not executed or coordinated other strategic themes”.

Kaplan [19] identifies several problems related to the strategy formulation in nonprofit organizations. The first one is the lack of clearly identified strategies despite the existence of bulky strategy documents. Most of the time, these documents addresses the vision and mission, and without focusing on the specific outcomes, they jump onto initiatives and activities phase in which the performance measurement is simply based on achieving some milestone events towards the vision.

Normally, the BSC allows the managers to focus on the strategic objectives and their outcomes followed by set targets and initiatives in order to measure how good the organization performs to achieve the strategic outcomes.

Kaplan [18] further states that in the early examples of the strategy application in nonprofit organizations, mistakenly, the initiatives have become goals instead of means to reach strategic goals. As a second problem, these strategy documents turned into wish lists that were far away from identifying the strategic themes, which set forth clearly defined and understood strategies. Last but not the least; another problem is the difficulties in obtaining the focus and alignment. Despite their diligent effort to contribute to the organization’s mission, some self-motivated employees may cause a threat to the unity of effort due to their wrong perception of already knowing what to do in order to achieve the goals. Their personal focus also causes difficulty in obtaining the alignment of the corporate and individual goals under the same corporate strategy [19].

BSC’s original perspective architecture that places the financial perspective above the other perspectives also causes a problem for NPGOs. Instead, the scorecard should be rearranged to put the customers or constituent at the top. BSC developers in the NPGOs should put an overarching objective at the top of their scorecard to represent their organization’s long-term strategy, which is already well represented by the mission statement. Therefore as shown in Fig.3, the NPGOs can place the mission on top of other perspectives in the BSC [20].

As also addressed by Niven [21] in the case of public or non-profit organizations, a BSC model should consider the particular characteristics of this sector, giving emphasis on mission and passion, while private sector tends to focus on profit and competition.

The BSC developed for profit organizations, should consist of measures that improve the bottom-line performance. Usually, this increase in performance will yield improved shareholder value and in the end will increase the accountability against the financial stakeholders [21]. However, in the nonprofit organizations this is different. Even if the allocation of funds in NPGOs may be important, the ultimate goal usually serves for a higher end state, ‘the mission’.

As shown in Fig.3, mission being on the top and strategy remaining at the core with an elevated customer perspective on top of others, constitute the main adaptations required for nonprofit organization’s BSC. For the nonprofit organization,
despite the customer perspective’s elevated new position on the top, defining and determining the customer itself may become a challenge. Financial perspective represents the financial resources and constraints that the NPGO will need to implement its strategy. Therefore the budget reviews, efficiency and reduction in costs will also be important activities for a successful financial perspective setup for the NPGOs [21].

Since the people who are contributing the fund raising activities in a nonprofit organization may be different from the direct beneficiaries of the services provided by these organizations, the donors and fund raisers also should be considered as being customers in addition to the recipients of the services [19].

A summary of BSC perspectives in top to down order as they are in the NPGOs strategy maps are shown in Military Application EXAMPLES of the BSC

A. United States (US) Army BSC

The US Army was one of the first major organizations to put the balanced scorecard into practice with a degree of success that placed the scorecard’s concepts at the heart of the US military’s strategic planning.

The US Army’s success in using a balanced scorecard was such that other lower level American military organizations - including the Defense Finance and Accounting Service [22] and the Defense Logistics Agency (DLA) as well as the Department of the Army - now put the balanced scorecard at the centre of their logistical planning.

B. Royal Norwegian Air Force (RNoAF)

RNoAF enhances its mission readiness with the BSC capabilities of Strategic Enterprise Management (SAP), and won the prestigious Balanced Scorecard Hall of Fame Award, which was presented in recognition for its strategy management efforts in 2003.

With strategic guidance and methodology assured by using the BSC, the RNoAF have been able to increase flight time by as much as 30%, and dedicate 50% more funds to training without increasing overall spending. RNoAF has improved the results of our NATO evaluations by 40% in just two years, which is thought to be due to its enhanced training program conducted in line with the strategic objectives [23].

We do not have many details how the RNoAF developed and executed the BSC and its strategy map. However, from the published BSC reports, we know that the RNoAF used a group of young officers to form a BSC Project Team. Every element of the scorecard has an owner and their names are publicly announced, yielding good overall results and reported as a best practice [24].

As we can see, the original perspectives and their order have dramatic changes in NGPO strategy map. For the nonprofit organizations, which are usually financially dependent on fundraising, the financial perspective seems to be at the very bottom.

Figure 3. Adapting the BSC Framework to Nonprofit Organizations, adapted from [19:100]

V. MILITARY APPLICATION EXAMPLES OF THE BSC

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TABLE 1
BSC PERSPECTIVES SUMMARY FROM THE NPGO STRATEGY MAPS [18]

<table>
<thead>
<tr>
<th>Organization</th>
<th>Sector</th>
<th>Top-to-down BSC perspectives</th>
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<tbody>
<tr>
<td>Boston Lyric Opera</td>
<td>Music (nonprofit)</td>
<td>Customer</td>
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<td>Internal Business Process</td>
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<td>Learning and Growth</td>
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<td></td>
<td>Financial</td>
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<tr>
<td>Teach for America</td>
<td>Education (nonprofit)</td>
<td>Social Impact</td>
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<td>Constituent</td>
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<td>Internal Operations-Key Levers</td>
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<td>Financial</td>
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<td></td>
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<td>Organizational Capacity</td>
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<td>Fulton County School System</td>
<td>Public (nonprofit)</td>
<td>Student Achievement</td>
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<td>Customer-Stakeholder</td>
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<td>Administrative Processes</td>
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<td></td>
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<td>Learning and Growth</td>
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<td>Financial Performance</td>
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<td>UK Ministry of Defense</td>
<td>Government (nonprofit)</td>
<td>Output Deliverables</td>
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<td>Resource management</td>
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<td>Enabling Processes</td>
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<td>Building for the Future</td>
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<td>US Department of Commerce</td>
<td>Government (nonprofit)</td>
<td>Stakeholder</td>
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<td>Economic Development Administration (EDA)</td>
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<td>Customer-Financial</td>
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<td>Internal Policy Leadership-Organizational Excellence</td>
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<td>High Impact Investment</td>
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<td>Organizational Excellence</td>
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<td>Royal Canadian Mounted Police</td>
<td>Government (nonprofit)</td>
<td>Clients-Partners-Stakeholders</td>
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<tr>
<td>(RCMP)</td>
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<td>Bridge Building-Operations-Management Excellence</td>
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<td>People-Learning-Innovation</td>
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<td>US Army</td>
<td>Government (nonprofit)</td>
<td>Core Competencies</td>
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<td>Internal Processes (Readiness-Transformation-Sound Business Practices)</td>
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<td>Learning and Growth</td>
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<td>Resources</td>
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C. Royal Air Force (RAF)

Being one of the most important military organizations under the UK Ministry of Defense (MOD), performance management has given a key role in the Royal Air Force (RAF). The management takes place by using a series of hierarchical Performance Indicators (PI) acting as a cockpit for the senior commanders to predict the readiness of their forces to meet the future war scenarios developed in the light of higher-level guidance. Those PIs are reported in the BSC format based on adapted 4 perspectives: Resources Supplied, Processes Undertaken, Outputs Delivered, and Enhancements for the Future [25]. This BSC format is named as ‘Reporting Scorecard’ and shown in Fig. 4.

RAF is organized into four management layers: service, command, group, and station. We know that the cascading occurred at the lowest level where the best level of readiness understanding takes place in some 30 stations. The aircraft and their crews are based on these stations where they train and operate with the support of the ground staff [25].

VI. CONCLUSION

The historical development of the BSC clearly shows that even if it is initially designed for profit organizations, it has a very good reputation among the non-profit and non-profit government organizations.

When we examine the military applications, the BSC seems very promising to assist strategic level military decision makers and commanders in developing strategies to perform the headquarters’ mission and focusing attention on the strategy-related activities in order to achieve the desired end state described by the HQ’s strategies to reach its vision statement.

Although the military organizations usually publish mission and vision documents that contain the strategic objectives very similar to BSC and strategy maps, in real life, the links and methodological approach that will make these goals come true with continuously monitoring are missing. It is expected that with a soundly developed BSC model, those documents will find a way to be better put into application by the executives with less expected resistance due to its common familiar aspects to the current strategic management processes within the military HQs.

Because the BSC enables the managers to track the results while simultaneously letting them acquire the intangible assets, some of the companies have moved beyond their initial vision, and put BSC in a position to form a new strategic management system [12].

Adoption of a BSC-like strategic management tool by SLMHQ may help to monitor both the individual and organizational performance as a daily task instead of stressful.
evaluations that can only be conducted several times a year. For that reason, not only the selection of a proper strategy tool but also its adaptation is critical for a successful assessment of strategic orientation in military organization and its headquarters. Therefore, it is believed that the BSC will be a good choice as a strategic management system for a SLMHQ.

REFERENCES


