System of Balanced Scorecard and its Implementation in Management of Norwegian Air Force and other Military Organizations

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Abstract: The system of Balanced Scorecard is one of the most successful modern tools of strategic management at present. Being a strategic, management and planning system, the main aim of the BSC is to help the top management of companies, firms, corporations and organizations to implement a set of strategic goals. At the same time, the BSC represents a system which actively and effectively influences the behaviour of all managers and employees, respectively. Also, it is considered to be a proven tool for delivering a better communication strategy in companies, firms, corporations and organizations. Although the BSC is used predominantly in private companies, firms, or corporations, it has also been successfully employed by public agencies and organizations, both governmental and non-governmental. In this paper the author aims to explain to readers what constitutes a successful implementation of the BSC in military organizations and to demonstrate its positive transformative impact on selected forces and the ministry of defence.

Key Words: Balanced scorecard, system, tool, goal, management, strategy, military, and defence.

1. INTRODUCTION

The dynamic processes in today’s globalized world make the profound qualitative changes in all fields of life of human societies manifest themselves already over the course of a single generation, unlike in history. With the increasingly burgeoning dynamics and tempo of the scientific-technological, economic and social developments, the potential of changes is so consequential that each company, firm, corporation (hereinafter referred to as company) or organization, government and non-governmental organization is required to make its analysis of the ongoing developmental tendencies the focus of its unwavering attention. Hence, the current position of private companies as well as of public organizations is rather intricate.

From the point of view of private companies, markets call for maximum performance and commitment, optimal readjustment, as well as outlook perspectives. As a consequence, company performance is now becoming a very topical issue. If companies are to reach a market-leader status and sustain a competitive edge over others, indeed, they need a strategic

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management system, one that is capable of implementing effective resources management strategies in furtherance of their visions. In an attempt to ensure and sustain their competitiveness, companies resort to employing a variety of innovative initiatives such as Total Quality Management (TQM), Just In Time (JIT) production system, customer-oriented business, production capacity and company realignment, reengineering, etc.

Each of these initiatives has its own supporters and opponents. One thing they have in common is that they all aim to instil, besides delivering either a performance breakthrough or enhancement, higher values in all the parties involved in business: shareholders, customers, employees and subcontractors. Despite this, many of the initiatives have brought disappointment to businesses. Namely, their main negative downside consists in their fragmentation and lack of interconnectedness with the company’s overall strategy; as a result, no desirable outputs may be expected to arise. The management system that comes to eliminate these deficiencies – one ensuring an efficient use of resources and bringing visions to fruition – is Balanced Scorecard (BSC). The BSC represents a system of balanced business performance indicators. At the core of this concept is an integration of non-financial indicators in traditional financial indicators [1], while at the same time emphasizing the need to pursue a corporate strategy.

With the onset of the information age, numerous businesses have come to a realization that in order to sustain their competitive advantage it is not enough to introduce new technologies. Admittedly, although information technologies may represent an instrument which delivers better and more effective organization of business processes, when it comes to developing a competitive advantage, it is imperative to grasp the changes in consumer behaviour as well as in consumer expectations. That is why businesses need to base their activities on a global, consumer-oriented strategy. All in all, strategic management presupposes a synergy of consumer requirements and expectations, realigned with internal and external processes of businesses, companies are otherwise incapable of sustaining their competitive edge [2].

2 THE SYSTEM OF BALANCED SCORECARD

The system of Balanced Scorecard (BSC), formulated at the beginning of the 1990s in the United States, represents one of the most successful and advanced tools for conducting strategic planning and management at present. The concept of Balanced Scorecard was for the first time published in Harvard Business Review in 1992 by Robert S. Kaplan and David P. Norton, both working in Harvard Business School. Their postulates were based on the criticism of American corporations and companies that they were excessively preoccupied with the system of management linked to financial measures only. For this reason, both authors attempted to extend the perception of traditional business measures by establishing a more balanced set of characteristics (a scorecard being a “cause and result table”) of business performance. What they have achieved is that the BSC breaks down the corporate mission and strategy into comprehensible chunks of performance measures. These serve as a reference framework for measuring the company’s business strategy and management system.

Kaplan and Norton published a book titled “The Balanced Scorecard: Translating Strategy into Action” in 1996, where they summarised and elaborated on the BSC concept. Almost immediately the book became a bestseller among business publications and the BSC system was subsequently implemented in a large number of private companies, firms, corporations, governmental organizations and agencies worldwide. The concept’s
cornerstone hinges on the idea that, apart from financial measurements, also company performance in the field of customer services and processes must be taken into consideration. The BSC allows business managers to monitor the company’s actual performance and to collect information on how the company is exposed to future developments [3].

For the reasons mentioned above, the BSC may be characterized as an instrument in support of company management, especially at the corporate and business levels, allowing the company management to precisely define measures, targets and methods in order to achieve the delineated priorities. Simultaneously, the BSC is employed to measure the company’s development and achieved results in comparison with the organization’s projected goals. In selecting targets and measurements, the BSC reveals the company’s strategic direction and its measurable progress. If target selection is conducted appropriately, the BSC enables regulating the conduct of the organization and its employees in line with the strategy, with targets being projected directly into their conduct. Moreover, instead of a structured system of measurements, strategic goals and their display may come to the fore.

The BSC system is based on a simple assumption whereby “measurement of results is motivational”. The BSC places strategy at the centre of the management process and allows the organization to implement strategies promptly and reliably. As a result of being a strategic and planning management system, the BSC is predominantly employed by companies in the business environment. Importantly, it is also used by state agencies and non-governmental organizations. The system is aimed at aligning the day-to-day activities of company managers and employees with the company’s overall vision and strategy. This helps to improve internal and external communications and monitors the performance of the company’s strategic (long-term) targets [4].

The BSC has developed out of its initial form, in other words, from a simple system of measurable indicators to a complex strategic planning and management system. Thanks to the “new” BSC, strategies take on a direct action dimension, transforming themselves into everyday “executive orders” issued to all employees within the organization. While designing the BSC system, the authors built on the results of a research survey which had clearly demonstrated that although a majority of organizations were capable of drafting outstanding business strategies, only a small percentage of them were indeed able to implement them successfully. The survey conclusions established that the main reason for this was that only 5 per cent of all employees had been acquainted with and comprehended the strategy of their organization, whereas up to 86 per cent of the managing staff had allocated less than one hour per month to discussing the strategy’s implementation with employees. Equally interesting, the organization’s strategic targets were neither connected with the everyday execution of tasks nor with the budget [3].

The BSC is not only focused on attainment of financial results but also on the driving forces that play a role in delivering desirable results. At the same time, it is a significant tool for creating and implementing strategies. And although it is possible to apply other methods and approaches, there are several good reasons why we should use Balanced Scorecard. Most importantly, the BSC is a method which affords a much needed outlook into the future, one that is oriented towards the needs of a learning organization, whilst fully recognizing the need to emphasize the importance of human resources in the context of business management [5].

Furthermore, according to advisory and consultancy companies, the main reason why it is imperative to translate the BSC into everyday business practice is best reflected in the necessity to effectively implement strategies, to keep the classic system of measurements
upgraded, to make reporting more transparent, and to simplify the planning process. Last but not least, the BSC allows the company’s vision and strategies to be communicated throughout all levels of the organization. The real benefits of Balanced Scorecard will become most visible only if the BSC is construed as a system for managing companies and implementing their strategies [6].

2.1 Balanced Scorecard Perspectives

The BSC is a management system enabling the company management to clarify their vision and strategy, translating them into actual practice. It delivers feedback via internal processes as well as external outcomes for the purpose of improving the company’s performance and outcomes.

If fully unfolded, the BSC system transforms strategic planning from the academic (theoretical) level directly into practice. The BSC approaches the organization from four perspectives (angles). For each perspective there is a set of targets worked out into operational tasks in a cascade-like manner, level by level, reaching all the way to individual employees. The system is further enhanced by a mechanism of control measurements, which allows for data on the successes or failures of particular strategies to be collected in real time [3]. The basic BSC model, designed for businesses and profit-making organizations, recognizes the following four perspectives: Financial, Customer, Internal Business Processes, and Learning and Growth.

1) Financial Perspective – a shareholder’s view. As part of this perspective, the top management should ask themselves the question: “How do we look to shareholders?” Based on the response, the managers should compose a set of criteria and indicators which will be regularly measured and evaluated. In this regard, it is highly likely that short-term as well as long-term profit will be thoroughly measured. In the governmental, non-governmental and military organizations the financial perspective is replaced by the organization’s core functions. In this context, the top defence managers should ask themselves the question: “How does the founder wish to see the implementation of the organization’s core functions?” Hence, what will be measured in case of military organizations is their success rate in executing operational tasks within international as well as national crisis response operations, combined with the level of readiness to respond to new, potential crisis situations, which may resurface as a result of the strengthening globalization processes today and tomorrow.

2) Customer Perspective – a customer’s view. The contemporary managerial philosophies in all sectors have demonstrated an increasing importance of being oriented towards the customer. The main indicator of this is the customer’s satisfaction. If customers are dissatisfied, in today’s era of deepening globalization, there is no problem for them to find other suppliers who will meet their requirements. Poor performance in this perspective points to a future decline, although the current financial gains may seemingly look good, without revealing any future complications. Similarly, governmental, non-governmental and military organizations may replace the customer perspective by a resources perspective, taking account of short-, medium- and long-term outlooks. Effective, economical and purposeful use of allocated resources is of exceptional importance in non-profit organizations.

3) Internal Business Processes Perspective. This perspective is related to the internal processes applied in a given organization. In military organizations, measurement of performance processes is geared especially towards defence and operational planning processes, resources management performance, and procurement performance. To managers,
measures and results in this perspective demonstrate how well/poorly the internal business processes have been set.

4) Learning and Growth Perspective. In general, this perspective encompasses “corporate culture”, employee training, work with talented prospective employees, intangible assets enhancement such as processing of lessons learned and information storage (creation of databases), etc. In today’s era of technological changes it is essential for employees to stay in a perpetual “learning mode”. Measures carried out in this field lead managers to channel resources into employee training where they are most needed. From the point of view of a military organization, this mainly encompasses training, preparation and sustenance of top quality military personnel, a thorough analysis of lessons learned from previous and ongoing peace support and combat operations, at home or abroad, and their application in designing new operational procedures [4]. Against this backdrop, it is necessary to highlight that, in discharging their managerial duties, managing staff place emphasis on realignment of funds, customers, processes and employees. Even if they were to project their considerations in several dimensions, while taking account of their mutually interdependent decisions, what still poses a problem is the way they approach the realignment issue. Managers tend to consider individual perspectives differently, depending on their area of specialty and with different intensity. Hence, there is a danger that individual perspectives may be turned into the sole domains of managers representing their own areas of activity. Therefore, the BSC has a significant role in limiting the possible effect of isolationism on individual perspectives by clearly formulating and approaching them as mutually interdependent and balanced [5].

2.2 Balanced Scorecard Maps and Software Support

The BSC was gradually extended to incorporate so-called strategy maps. The strategy map was originally used as a communications tool and it was deemed beneficial to have the organization’s overall strategy displayed graphically in a simple chart for better understanding by managers and employees. The strategy map lays down strategic goals in individual perspectives and their logical interconnections in the form of casual chains, expressing causes and effects. Among other things, it also demonstrates internal interconnections of individual processes, such as improvements in the performance of targets under the learning and growth perspective, which, subsequently, allows the organization to generate desired results as part of the organization’s main mission perspective and resources perspective.

The BSC is currently supported by a whole array of software applications. At this point it is worthwhile to emphasize that the implementation of software is not equal to the implementation of the BSC. Software may be employed to transfer the right information on the results of measurements to the right person in real time. Automation gives the structure and the discipline of the BSC’s implementation, helps to transform separate data into coherent information and disseminate information on performance results. As a rule, one may not speak about the successes of the BSC until it has become interwoven into the fabric of day-to-day managerial processes by the organization’s top management.

3 IMPLEMENTATION OF BALANCED SCORECARD SYSTEM

An essential prerequisite for a successful introduction of the BSC framework is the top management’s massive support for and active involvement in the initiative. Yet another precondition is to realign the organization’s activities with the new control management system. If a viable company is to be created through the BSC, one capable of adjusting
flexibly to a strategy, then it needs to be linked to the company’s management system. The complexity of this task arises from the BSC’s incompatibility with the architecture of the existing management system. While the BSC’s structure and content may address several organizational units simultaneously, the management system is focused on the organization’s hierarchical and functional structure and content. Overall, the systems of management, planning, quality reporting and accounting are exclusively oriented towards the organizational structure.

In order to augment the linkage of the BSC to the management system, it is necessary to ensure:

- the BSC’s integration into strategic and operational planning – with the aim of continually adjusting the new strategy and working out the operational goals and strategic actions into annual plans and budgets,
- control over the implementation of the BSC’s strategic actions,
- continuous reporting of achieved objectives,
- the BSC’s integration into the human resources management system – joining operational goals and strategic actions into personal objectives. The company needs to clearly devolve the responsibilities for achieving BSC targets and link them to the system of employee evaluation and rewarding [1].

The BSC management concept is closely linked to Shareholder Value, Target Costing and EFQM. The BSC supplements and even partially overlaps these concepts [6]. Information technologies play an important role in implementing the BSC. It is especially in organizations with several BSCs that the significance of this factor rises [1].

In Slovakia, the BSC system is little known and in low demand. A prerequisite for translating the BSC into practice is the implementation of a functional system of strategic management. That’s something our companies are lacking. Generally, management theories arising from the latest expertise are in perpetual conflict with the prevailing traditional mindset in companies. Therefore, the role of managers is to come to terms not only with the technical aspect of strategic management but also with the changes of corporate culture, employee rewards system, evaluation system, etc.

Even though performance measurements in companies are now recording a rapid development in the form of newly formed concepts, our managers are confronted with difficulties in implementing and using them thoroughly. An unfavourable situation may unfold in companies attempting to preserve the traditional systems of performance measurement, inadequately efficient and unsupportive of constant improvement. Most of these company performance measuring systems contain a large number of areas to be measured as well as indicators (sometimes there may be thousands of indicators), of which only a negligible fraction may be actually exploited. For managers, it is much easier to monitor costs and profits. This allows them to compromise the economic results and cushion the impact of specific senior managers’ response-abilities [7].

4 THE USE OF BALANCED SCORECARD IN MANAGEMENT OF NORWEGIAN AIR FORCE AND OTHER MILITARY ORGANIZATION

The use of the BSC is no longer the privilege of private firms, companies and corporations, because the BSC has, by now, been successfully implemented by a number of governmental or non-governmental organizations and agencies, as well as by military organizations, whether that be directly at the level of defence ministries or at the level of individual armed
forces components. Even though there may not be many countries applying the BSC at the level of defence and security, the following examples demonstrate that the system, if applied reasonably and backed organizationally, legislatively and especially politically, may find its place even within specific military conditions.

4.1 The use of Balanced Scorecard in the Royal Norwegian Air Force

One of the examples of the BSC’s successful implementation in the military environment is the Royal Norwegian Air Force (RNAF), which has recorded a remarkable improvement in pilot training. The end of the Cold War claimed a number of strategic and operational changes in the RNAF, the most significant ones being linked to the closure of air bases and the need to sustain the RNAF’s viability and readiness to respond to new challenges. In the recent decades, the complicated situation in which the RNAF had found itself resulted in NATO rating the RNAF ‘insufficient’ in its evaluation report. To set the Air Force on the right track, a decision was taken to exploit the benefits of the BSC [4]. With the strategic aid of the Balanced Scorecard, the RNAF has succeeded in increasing the total flying hours by 30 per cent and allocating 50 per cent additional funding for training, without adding on to the RNAF’s overall operating costs. With the RNAF’s improved training programme, NATO ratings had risen by 40 per cent over the course of two years. Since the RNAF began to implement the BSC and to proceed in line with its operational and financial indicators, it has enjoyed NATO’s highest operational readiness ratings. In 2003, the RNAF’s efforts were rewarded by gaining a prestigious prize for its BSC implementation – it was allowed to enter the BSC’s Hall of Fame [8].

4.2 The use of Balanced Scorecard in the United States Army

The United States Land Forces (US Army) were one of the first military organizations to embrace the BSC system and have used it throughout their bases worldwide. The US Army differs from most of the corporations insofar as its main goal is not to make money but to execute missions in the field of defence and in furtherance of national interests. In this particular case, the BSC does not primarily focus on the organization’s financial aspects but rather presents an overall picture of the US Army’s strong and weak points, it is not just a statement of balance. According to the Harvard Business School website, “the Balanced Scorecard enabled the U.S. Army to become leaner, more nimble, and technically advanced to achieve its mission of serving the American people, protecting national interests, and fulfilling military responsibilities.” Thanks to an aggressive initiative to unfold the BSC via automation and training, the US Army has managed to transform its military components throughout the entire world. The US Army’s success in using the BSC was so great that even the other military organizations – including, notably, the Defense Finance and Accounting Service (DFAS), the Defense Logistics Agency, and the U.S Army Pentagon Office built their strategic planning around the BSC [4].

4.3 The use of Balanced Scorecard in the United Kingdom Ministry of Defence

The example of the United Kingdom illustrates the use of the BSC in managing the UK Ministry of Defence. After the 1997 elections the UK government set out to modernize individual ministries and governmental agencies with the aim of enhancing their performance and efficiency. For this to be achieved, the United Kingdom Ministry of Defence (UK MOD) set up a project team, tasked to provide solutions to the UK MOD’s better performance. The initiative addressed the key MOD activities in a way as to ensure the
strategy’s implementation into practice. The project team came up with the BSC system to implement a set of requirements. When the BSC was introduced across the MOD, it brought a greater coherence in the organization’s planning and evaluation processes, insofar as they became grounded in the themes anchored in the MOD’s strategic plan and converted into clear and measurable objectives for the future. Thus, the regular quarterly performance assessment periods of the MOD via the BSC became the fundamental agenda of the MOD’s top management, bringing about a considerable change in the MOD top executives’ management style. The defence managers began to better understand their impact on the organization’s performance and the wider context in delivering future military capabilities. According to the words of Sir Kevin Tebbit, Permanent Under Secretary of State and Chairman of the Defence Management Board, who was at that time responsible for implementing the Balanced Scorecard within the UK MOD, this initiative has been one of the most important top management projects ever implemented in the history of the MOD. As a result, today’s strategies and defence plans are drawn aided by the BSC and their regular assessment is forwarded to the UK government and parliament [9].

5. CONCLUSION

From the point of view of implementing and applying the BSC system in private companies it is important to summarise the following several factors. Today’s business environment is characterized by constant monitoring of company performance and efficiency. Performance measurement and evaluation are, besides the actually attainable results, significantly impacted by the methods through which they are realized. What follows from the information mentioned above is that one of the most successful systems for measuring and controlling performance, as well as implementing strategies in the world, is the BSC system. At the core of the system is realignment and implementation of strategies with regard to the company’s long-term planning and future orientation, projecting them into particular operational goals and indicators within the entire organization. The BSC provides a set of balanced scorecards as a result of which it is becoming a valuable starting point for complex strategic benchmarking. The BSC’s assessment proves particularly crucial in ensuring the flow of undistorted and relevant information and, therefore, is beneficial for strategic management [7].

At the same time, the BSC is a modern method of strategic management that fosters the development of the company’s vital assets in the interest of achieving their synergy and in furtherance of the company’s strategic goals. To use the BSC effectively in managing performance, it is imperative that individual perspectives be interconnected by delineating the relations among individual indicators, which is not an easy task at all. By applying the BSC system in company management, the BSC may live up to its message only when the managers are compelled to clearly define goals and seek ways how to attain them, so that the company’s long-term efficiency may be sustainable.

No way can a company or organization be successful if it fails to employ strategies and strategic planning. However, one cannot mistake the BSC for a strategy, because it is not a strategy. In fact, it is a system designed to implement the company’s financial and non-financial goals. And its benefits lie in delivering strategic goals and objectives of business units at all levels of the organization, followed by an evaluation process it incorporates. Moreover, the BSC offers feedback on improvement of internal processes. The financial targets, which tell the managers ‘what happened’, have proved to be insufficient indicators, since managers are required to be aware of whether their businesses will be successful or
not, also in the future. Indeed, future success depends on non-financial measures as “key indicators”.

From the point of view of the BSC’s implementation and use in state-run organizations, particularly in military organizations, it may be concluded that, based on the given examples (as well as dozens of others) and, if suitably applied and organizationally, legislatively and especially politically supported, it is possible to apply the BSC under specific military conditions and thereby achieve a real enhancement of the MOD’s performance as well as success in implementing reforms, especially under the currently strained conditions of limited resources and an abundance of restrictive measures in the defence ministries worldwide.

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