BALANCED SCORECARD COLLABORATIVE
Hall of Fame

National Reconnaissance Office

Balanced Scorecard Hall of Fame™ Case Studies

Abstract

The National Reconnaissance Office (NRO) designs, builds, and operates the nation's reconnaissance satellites. NRO products – provided to an expanding list of customers including the Central Intelligence Agency and Department of Defense – warn of potential trouble spots around the world, help plan military operations, and monitor the environment. Once a top-secret spy organization, the NRO sparked unusual attention in 1996 when for the first time its budget, processes, and activities were put under public scrutiny. Guided by its vision of being Freedom's Sentinel in Space, the NRO turned to the Balanced Scorecard to develop strategic plans and performance measures, and meet the challenge of merging three previously isolated divisions. Tuning the scorecard model to its public sector context, the NRO began learning from its performance data, gained a better understanding of its customers, and recognized the importance of employee satisfaction. The result was strategic alignment across diverse organizational units and customer focus in a highly technical, engineering-based organization.

Much of NRO's Balanced Scorecard information is classified. So while we are unable to share any detailed information about their scorecard implementation, this case is a good illustration of how the Balanced Scorecard framework can be used to create change and strategic focus even in a highly constrained governmental environment.

Background

The "nation's eyes and ears in space," the NRO was a top-secret organization until 1992. Up until then, only a few members of Congress knew it existed. While most of its activities remain classified, we can know that the NRO was responsible for many activities that led to the end of the Cold War. For example, it was the NRO that disproved the existence of a "missile gap" with the former Soviet Union while also detecting potential violations of arms control treaties with the Soviets.

Used to operating under cover, the 40-year old NRO faced significant organizational adjustments when it went public. In 1996 NRO faced unprecedented budget scrutiny, political pressures, new sources of competition, and growing demand. The new Government Performance and Results Act (GPRA) mandated new levels of accountability; budgets would now be tied to performance. At the same time, a major internal change was taking place. Three previously autonomous organizations were merged and reorganized. NRO's primary personnel from the Air Force, CIA, and Navy had been stove-piped into three competing operational units. In 1996, the three silos were merged and then reorganized by function – imagery intelligence, signals intelligence, and communications systems.

"Coming out" at the NRO meant developing a "corporate" approach to strategic planning, and developing a sense of the customer. Looking for a way to manage this strategic transformation, the organization's acting director decided to adopt the Balanced Scorecard.

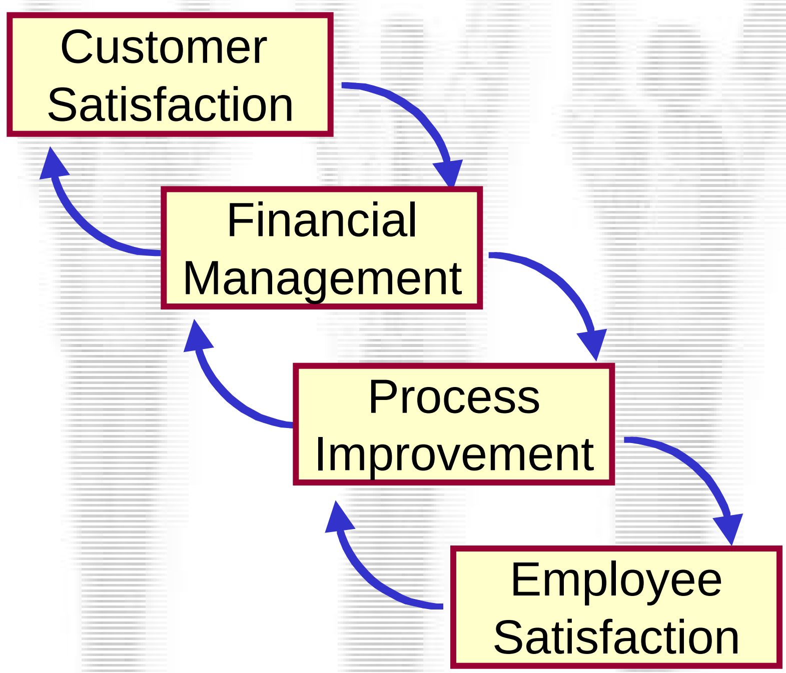
While most of NRO's senior executives understood the need for a tool like the Balanced Scorecard, implementation was a major challenge. First of all, as a federal agency, the NRO was saddled with some unique constraints:

- Government regulations
- No "business growth" – growth is prohibited by law with pressure to get smaller
- A budget cycle that is often the sole driver of strategy
- Strategic plans heretofore were written by "plans shops" not NRO executives so hands-on, iterative strategy development was not part of the culture

Translate

Faced with more oversight than ever before, NRO was in 1996 experiencing what its executives viewed as unwelcome intrusion. Its technological orientation and pure engineering culture had little appreciation for strategic planning and performance management. NRO executives are people who are accustomed to making real-time, complex, life and death decisions in near-term situations, notes Chesley. "How do you get the folks in emergency mode to think long-term about strategy?" she asks. Part of the answer was in creating buy-in for the BSC management framework by allowing the organization to make it its own.

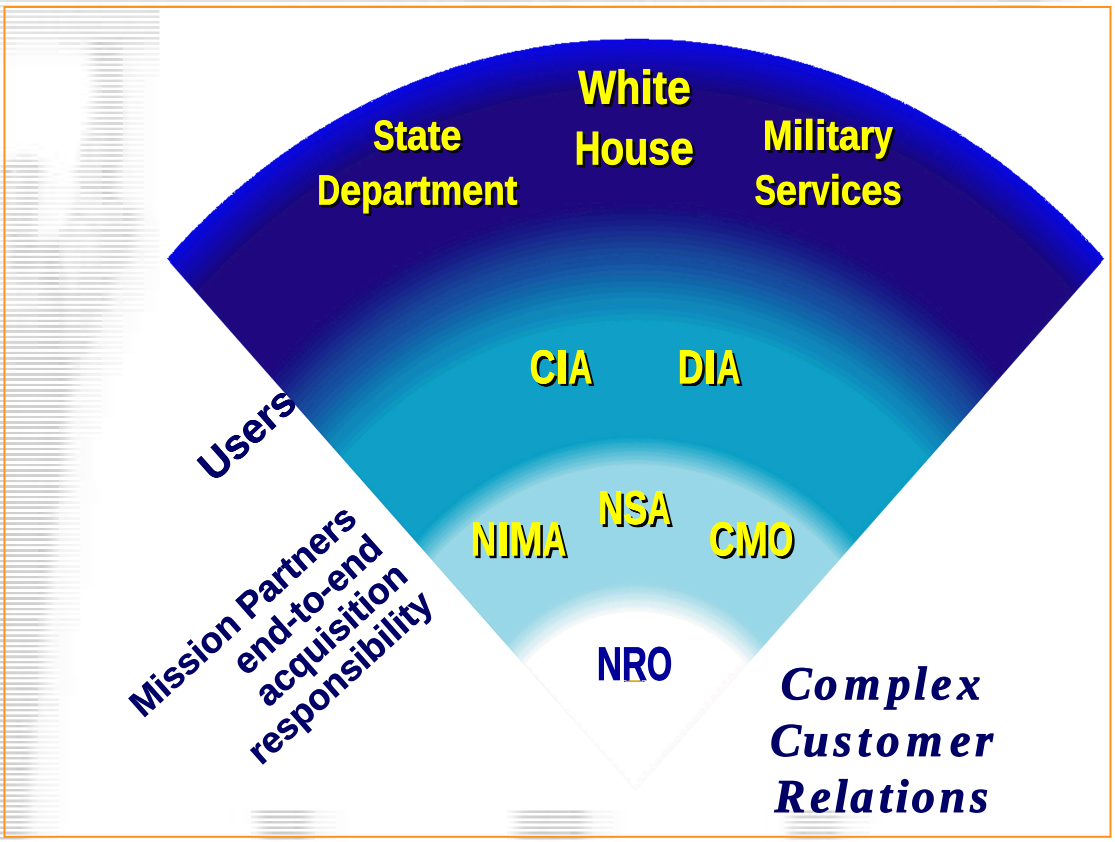
Senior executives took ownership of the strategic transformation process by doing what Chesley refers to as "tuning the model." They didn't actually change the BSC model, but rather rearranged it to reflect NRO's unique needs and goals. To that end, "customer satisfaction" replaced the financial perspective at the top since profit is not one of the Office's goals. "Financial management" included budgeting, which is a key goal for this federal agency. "Process improvements" replaced the internal perspective, and "employee satisfaction" replaced "innovation and learning." These small changes got people involved in the conversation, creating ownership and strategic discussion, says Chesley. All of NRO's reporting units, had to develop measures that supported the overall NRO model.



Translate

The Balanced Scorecard changed the way executives viewed the organization. For example, it got people focused on the customer – was NRO meeting the national security needs of its customers. In the past, a "we know best" attitude prevailed because customers were viewed as having little knowledge about satellite design. A growing customer base and greater demand for product gave customer needs and wishes a new relevance for product design. Attitudes quickly changed because it was clear that NRO would become irrelevant if it didn't pay attention to its customers. Having an organization now in place to listen to customers, Chesley says, "has fundamentally changed how we do business."

The Office's indirect relationship with many of its end users adds a lot of complexity to its customer relationship management. For example, asks Chesley, how do you deal with intermediaries when coming up with measures? With several sets of customers, NRO had to determine their various needs to ensure they were satisfying their constituents. One solution was to create working groups with several of these mission partners.



Align

"We had to figure out, what does it really mean to measure performance?" says Chesley. At this point in the process, the director assigned each member of his executive team a draft goal. They were to define desired outcomes, the steps involved, and appropriate metrics. As they addressed NRO's first customer goal, "providing assured, timely global coverage," executives had to specifically define NRO's customers – a discussion that was both difficult and contentious at times.

In the end, says Chesley, the whole focus changed. People began to more closely examine what was really driving the end result as they figured out the right measures and interrelationships.

After the BSC was introduced, NRO's top 50 executives were interviewed on several key areas. The results were mixed, but also encouraging. Some executives:

- Questioned the relevance of existing performance measures
- Complained that the system doesn't communicate feedback especially at levels below senior management
- Felt the NRO hadn't done a good job of linking accountability to job descriptions
- On the positive side, the same survey found that the BSC:
- Helped NRO gain a sense of strategic direction and focus, especially in the area of stakeholder's needs
- Fostered open communication among executives
- Brought customer relationships "light years ahead" of where they had been four years earlier
- Moved the NRO from a siloed, loose confederacy to a single, integrated organization.

And, perhaps most significantly, a management tool that had previously been viewed with a lot of skepticism had been embraced by the vast majority of top-tier executives.

Making Strategy a Continual Process

As the BSC process took hold, NRO began seeking feedback on both process and content. Process feedback led to the substantive modification or elimination of goals. Content feedback resulted in new initiatives and resources being deployed or redeployed. For example, the NRO's first-ever workplace survey revealed that employees did not feel recognized. As a result, a new employee rewards and satisfaction program was created. Learning to learn, says Chesley, is how they find out whether they are "measuring the right stuff."

The NRO's new director instituted monthly strategic planning meetings and quarterly offsites where executives discussed strategy development and scorecard building. This gave a clear message that performance measurement was there to stay.

Because there is a lot of turnover at the top of the organization, it is important to continually reinforce use of the BSC so that it is an integral part of the context when new people join the organization.

Lessons Learned

One factor that played heavily in the success of NRO's scorecard effort was that special consideration was given to the organization's context. According to Chesley, successful strategic transformation demands "understanding the context – the mind-set of your leaders as well as the context of your industry." At NRO, this meant acknowledging that past failures were one reason why people were averse to trying yet another strategic planning program, and NRO's unique and formidable external and internal constraints were another. Engaging the senior team in tweaking the BSC model, defining the "customer," articulating the strategy, and hammering out metrics all enhanced acceptance of the BSC as a new way to manage at NRO.

Portions of this case study were taken from "The NRO: Out of the Closet, into a Customer-Focused World" *Balanced Scorecard Report,* March-April 2002

BSCol Hall of Fame

Balanced Scorecard Collaborative Hall of Fame winners have achieved breakthrough performance largely as a result of applying one or more of the five principles of a Strategy-Focused Organization: mobilize change through executive leadership; translate the strategy to operational terms; align the organization to the strategy; make strategy everyone's job; and make strategy a continual process.

Other selection criteria are: implement the Balanced Scorecard as defined by the Kaplan/Norton methodology; present the case at a public conference; achieve media recognition for the scorecard implementation; produce significant financial or market share gains; and demonstrate measurable achievement of customer objectives. Hall of Fame honorees are nominated by the Collaborative's in-house experts and are personally selected by Balanced Scorecard creators Dr. Robert Kaplan and Dr. David Norton.

About Balanced Scorecard Collaborative

Balanced Scorecard Collaborative, Inc. (BSCol) is a new kind of professional service firm dedicated to the worldwide awareness, use, enhancement, and integrity of the Balanced Scorecard (BSC) as a value-added management process. Led by Balanced Scorecard creators Drs. Robert Kaplan and David Norton, BSCol provides consulting, conferences, training, publications, action working groups, software certification, and online services. For more information, please call us at 781.259.3737, or visit us on the web where you can join Balanced Scorecard Online for the latest insight and resources at bscol.com