

Making Strategy a Continual Process at the U.K. Ministry of Defence

by Lauren Keller Johnson

With a £25 billion (\$40 billion) budget and more than 300,000 military and civilian personnel, the U.K. Ministry of Defence (MoD) is one of Britain's largest government departments and the fifth largest military spender in the world. A broadened mission — fostering international peace and security, as well as providing for the national defense — and a mandate to modernize performance management prompted the MoD to adopt the Balanced Scorecard in September 1999. The ministry has since made big strides in making strategy a continual process — one of the Strategy-Focused Organization principles for which it was named to the BSC Hall of Fame this year.

Besides ensuring the national defense — its fundamental purpose — the MoD has extended its personnel and influence worldwide in recent years to include humanitarian and peacekeeping missions in regions as far-flung as Kosovo, the Persian Gulf, and East Timor. At home, the ministry's activities range from orchestrating search-and-rescue operations to managing agricultural epidemics, such as the devastating 2001 foot-and-mouth disease outbreak.

Choosing the BSC

The decision to adopt the Balanced Scorecard came after a late 1990s Strategic Defence Review — a radical assessment of the strategic implications of national foreign policy objectives that led to the reshaping and modernizing of the armed forces. As part of this review, the ministry also took the opportunity to examine ways to contribute to a larger government-wide agenda centering on modernization. With the help of the Performance Management Team (PMT) — part of the MoD's Directorate of Performance & Analysis (DP&A) — the MoD's Defence Management Board (DMB) began exploring ideas for enhancing its performance management in response to the modernization initiative.

As Royal Navy Captain Mike Potter, head of the Performance Management Project team, explains, the ministry had long enjoyed the high regard of the British public. But like all government departments, the MoD must continually squeeze better performance out of taxpayer money. The ministry's previous performance-management systems had several shortcomings. The reports were overly detailed, and lengthy and time-consuming to produce and read. Moreover, they didn't focus board members on the key issues. Given the number of personnel involved, the reporting process itself had proved unfocused and convoluted.

The ministry evaluated several possible new management models, including Six Sigma and the European Foundation for Quality Management (EFQM) Excellence Model. It ultimately decided that the Balanced Scorecard had the highest potential to simplify performance management and help the MoD distill its strategy — “generating battle-winning defence capability through improved operational effectiveness and better use of resources” — into clear perspectives and focused performance indicators. The Royal Navy had already experimented with an early version of the scorecard with promising results; so Potter's predecessor, Captain Simon Lister, proposed the new system to its executive board.

Addressing “Healthy Skepticism”

Sponsored by Sir Kevin Tebbit, permanent under secretary of state at the MoD and chair of the DMB, a small scorecard project team was assembled that comprised three individuals drawn from each of the three services (Navy, Army, and Air Force) and a civilian. As current team member Royal Air Force Wing Commander Des Cook points out, the team's earliest challenge came in the form of “healthy skepticism” about the Balanced Scorecard from some of the DMB's most senior military officers, several of whom had 30 years of service. Suspicious that the scorecard was “just another management model,” they wondered how it could fully reflect their extensive knowledge and wisdom.

To address their concerns, the team decided to try engaging the officers as fully as possible in the scorecard development process. Tebbit proposed forming four dissimilar pairs of board members (e.g., the vice chief of the defense staff paired with the chief scientific advisor) and then challenging each pair to oversee development of one of the four scorecard perspectives.

With increasing confidence, the pairs proceeded. They decided to forego the traditional financial, customer, internal business process, and learning and growth perspectives, and instead defined them as Output Deliverables (“Are we delivering what the government wants?”), Resource Management, Enabling Processes, and Building for the Future.

Building the Scorecard

The next step was to attach objectives and performance indicators to the perspectives. To that end, the scorecard team launched a series of workshops beginning in July 2000. Participants included 60 representatives from the MoD's 11 “top-level budgets,” or TLBs (the ministry's equivalent of strategic-business units). TLBs encompass the “fighting” commands of the Royal Navy, Army, and Royal Air Force, along with units that focus

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on personnel and training, logistics support and equipment procurement, central headquarters policy areas, and other functions. By September the workshops had yielded a scorecard with 17 objectives and 82 indicators.

Though the DMB began using this first cut, members knew the scorecard needed drastic streamlining. By asking, “Which indicators are we actually using?” they managed to whittle down the numbers to 15 objectives and 42 indicators by March 2001.

A year later, additional paring produced an even leaner tool containing just 13 objectives and 26 indicators. (See *Figure 1*.) Each objective has several indicators. For example, the “manning levels” objective under the Resource Management perspective contains the performance

indicators “overall strength” (number of service people) and “mission-critical trades” (the presence of people trained in specified, required skills [e.g., medics, engineers and technicians, and aircrew]).

Making Strategy a Continual Process

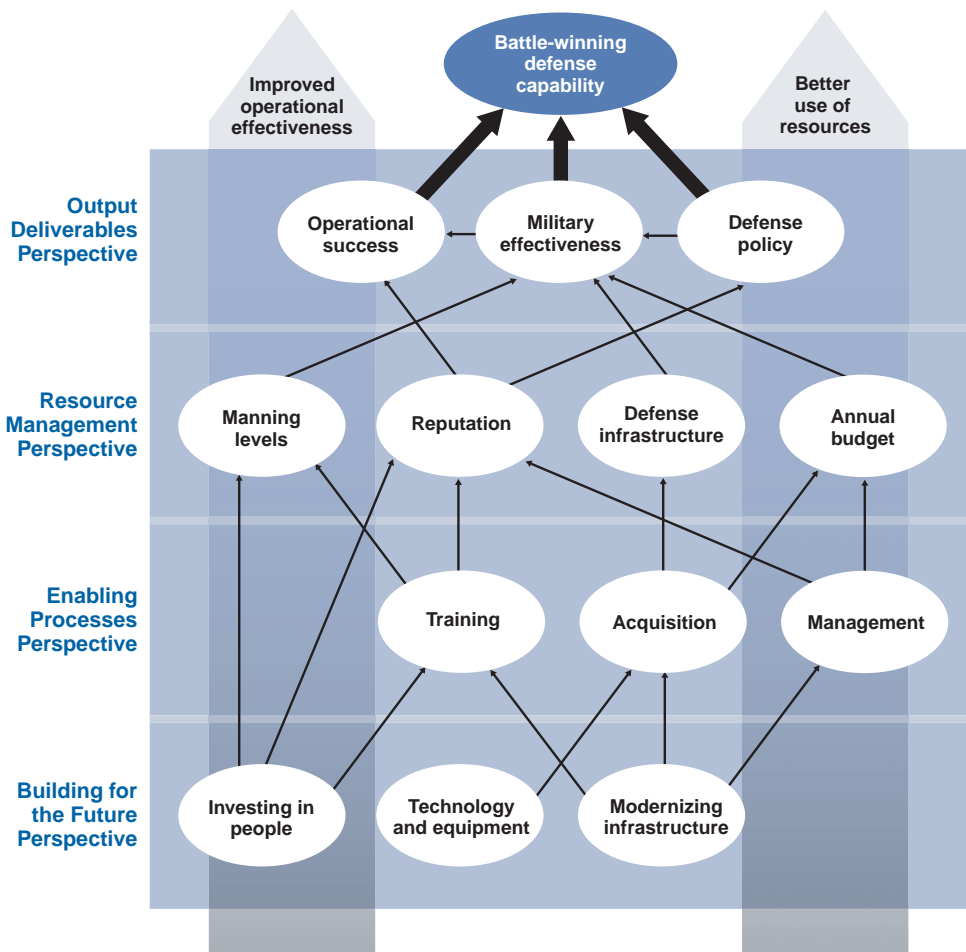
As its BSC initiative has unfolded, the MoD has found the scorecard to be crucial in sustaining a strategic focus. For example, the scorecard serves as the agenda for the DMB’s quarterly meetings, during which the board identifies weak performance areas. The DMB either targets weak areas with remedial action or readjusts its strategy to reflect shifting priorities. The scorecard is also published on the DMB’s intranet and is communicated down through the 11 TLBs.

Each TLB, in turn, has its own scorecard, owned by its individual board and reflecting the unit’s priorities in supporting the overall MoD scorecard.

Strategy is a continual process in the day-to-day life of the ministry as well. As Cook explains, some DMB members post the scorecard on their computer screens so that it’s the first thing a visitor sees when entering their offices. The scorecard’s steady presence thus creates a specific context for strategic conversations. Some members even carry a pocket version of the scorecard and have used it to communicate the MoD’s priorities during business conversations with defense-industry personnel.

When there are difficulties with a strategic initiative, DMB members now support one another and behave

Figure 1. The MoD’s Balanced Scorecard



The MoD redefined the traditional BSC perspectives to better suit its organizational structure, mission, and strategy.

more corporately, says Cook. Members now realize that one individual's problems don't occur in isolation—they have relevance for the other members as well, and for the MoD's ability to support its strategy and thereby fulfill its mission. Thus, board members see problems in a much wider context than they did before.

In the future, the ministry would like to make its BSC even more accessible internally. However, the sensitive nature of its work hinders disclosure, and the board doesn't want to release a scorecard that requires so much "sanitization" as to render it less meaningful. Finding ways to communicate the BSC and the MoD's strategy — to make strategy everyone's job — is particularly challenging for the ministry. Unlike corporations, the MoD can't use financial incentives to spur individuals to align their performance to organizational goals and strategies. As Mike Potter points out, the ministry's complex and diverse workforce and its remuneration rules mean that cascading the BSC to the individual level may never be appropriate.

A Window into Cause and Effect

Staying focused on strategy has also shed light on the complex cause-and-effect links among the various components in the MoD's strategy map. In addition, it has revealed important leading indicators. For example, in identifying personnel retention as a key leading indicator of future military capability, the ministry saw that retention hinges on morale. Morale, in turn, depends on satisfactory living accommodations for enlisted individuals, sufficient time available to spend with their families, and other factors related to the "investing in people" objective under the Building for the Future perspective.

Clarifying cause-and-effect links has also contributed to wiser resource-allocation decisions. For instance, if the ministry can boost retention rates, it will be able to spend less on retention incentives and recruiting, thereby

freeing up funds for other important objectives, such as enhancing technology and equipment.

In Defense of the Budget

The MoD has already seen the benefits of communicating its BSC externally, according to Cook. For one thing, external communication has improved the ministry's relationship with other government offices.

For instance, the MoD now uses its scorecard during funding negotiations with the Treasury. By removing the emotion from funding discussions and enabling the MoD to dispassionately demonstrate the impact of various funding scenarios, the scorecard helps focus the conversation on the facts and key priorities.

Next: Targeting, Forecasting, and Risk Management

According to Potter and Cook, the next step is to use the BSC more explicitly for targeting and forecasting. For example, after establishing a fighter-jet acquisition target, the ministry would use a red/amber/yellow/green traffic-light system (amber and yellow denote the

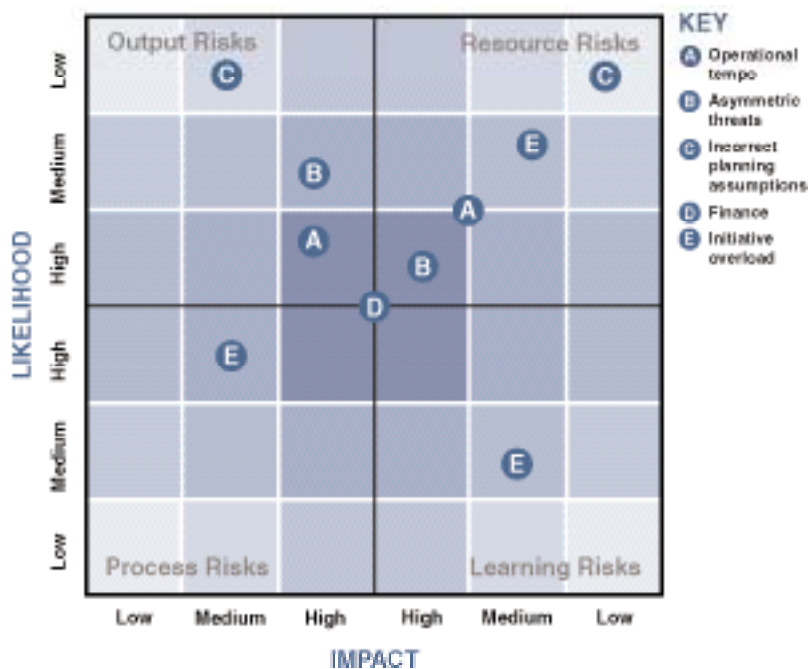
large middle ground) to indicate the likelihood of missing that goal, given the available funding and the board action required to mitigate against this risk. Some areas of the MoD are experimenting with using an additional color (blue) to indicate potential overperformance that will allow for the reallocation of resources to weaker areas of the organization.

The ministry is also especially interested in finding a systematic way to assess the risks associated with failure to achieve its objectives. Such a failure could have crucial financial repercussions or could spawn an overwhelming flood of new initiatives. By creating a risk management map (see *Figure 2*), the MoD is clarifying its thinking about the likelihood and potential impact of particular risks.

Given the scope of its mission, strategy, and operations, the MoD is clearly getting more firepower out of the BSC than the performance-management system it originally envisioned. The BSC's accountability and risk management applications are already serving this public agency well — a fact private industry might well note.

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Figure 2. Risk Management Map



Risks to individual scorecard objectives can have a huge overall effect on the MoD's BSC. The map shows these risks in each of the perspectives they would affect.