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**Results-Based Management: The Right Tools for the Job**

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## **Results-Based Management: The Right Tools for the Job**

In today's business environment, strategy has never been more important. Yet research shows that most companies fail to execute strategy successfully. Behind this abysmal track record lies an undeniable fact: many companies continue to use management processes - top down, financially driven, and tactical - that were designed to run yesterday's organizations.<sup>1</sup>

### **Introduction**

Performance management, at its best, allows managers to harmonize goals both laterally and vertically throughout an organization. A performance management framework assigns resources that assist in progressing the goals, measures performance against expectations, and continually improves results or outcomes based on feedback and informed decision-making. Performance management assists leaders assess and improve, if required, an organization's effectiveness, efficiency and economy in the delivery of its programmes and provides managers timely information vis-à-vis the need to change in order to meet

MBO, allow non-performance to be recognized and provide an opportunity to stress outcomes or results.

“Performance Management: Involves obtaining regular customer feedback, tracking actual performance along the measurement dimensions established in the goals, feeding back performance information to relevant subsystems, taking corrective action if performance is off target, and resetting goals so that the organization is continually adapting to external and internal reality.”<sup>3</sup>

Currently, there are major challenges restraining the Department of National Defence (DND) and the Canadian Forces (CF) from implementing an effective performance management system and thus employ results-based management. The lack of alignment of organizational objectives, a resource allocation process that does not align with objectives and a lack of understanding about the utilization of resources in the Department and the CF all contribute to the inability to manage for results.

The execution of Defence strategy for future success is problematic. The challenge is to tie DND’s and the CFs mission, vision, and strategy together in a performance management system that will achieve “a careful balance between the investments needed to maintain current operations and investments in people, infrastructure and equipment needed to prepare for emerging risks and future challenges.”<sup>4</sup> Organizational objectives, which reflect the overall strategy of the Department and the CF, must be translated into operational objectives so that activities performed throughout the organization support the achievement of strategic objectives.<sup>5</sup>

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<sup>3</sup> Geary A. Rummier and Alan P. Brache, Improving Performance (San Francisco: Josey-Bass Inc., 1995) 21.

<sup>4</sup> Canada, Department of National Defence, Shaping the Future of the Canadian Forces: Strategy 2020, (Ottawa: NDHQ, 1999) 5.

<sup>5</sup> Stephen P. Robbins and Nancy Langton, Organizational Behaviour (Scarborough: Prentice-Hall Canada Inc., 1999) 558.

Do parliamentarians and senior defence executives know whether DND and the CF are executing their strategy for the future effectively? Does management throughout the organization have a clear understanding of how the strategic change objectives and the defence tasks have been progressed? Although many frameworks have been established in Defence to link strategy with operations, alignment of strategic objectives with operational objectives and defence tasks down and across the organization is very limited. Just as significant, as strategy execution is to results-based management is the alignment of resources with the strategic objectives and defence tasks as the allocation of resources commensurate with goals is the key to an effective strategy.

Resource allocation must be aligned with its strategy in order for DND and the CF to be able to progress its objectives. The resource allocation process in DND funds organizations, processes and discrete projects, using baseline funding levels and historical allocation data, as a basis for determining resource levels. The result is that DND is committed to an output orientation (process and organizational view) of financial reporting because that is how it is currently funded. An output is defined as “the direct product or service produced through processes or activities without specific reference to their ultimate purpose.”<sup>6</sup> A results-based view that seeks financial performance information must be initially funded for results or outcomes. “The difference between an output and an outcome is that an output is product focused and an outcome is impact, consequence or results focused.”<sup>7</sup> Existing management processes in DND and the CF continue to support traditional budget driven processes focused on outputs as opposed to a results-oriented approach and without directly linking resources to organizational objectives; departmental

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<sup>6</sup> Canada, Department of National Defence, Maritime Capability Plan 2001, (Ottawa: NDHQ, 2001) Annex D - Glossary, 2.

results will remain a tertiary, nice to have, goal. In addition, the inability of the business planning process to shift the planning focus from what is to be achieved to how it will be achieved and at what cost, has further limited the Department's ability to execute strategy and thus manage for results.

The Defence establishment has been involved in preparing business plans for its organizations for approximately the past seven years. During this time, reduced budgets for Defence coupled with an evolving business planning process have made it extremely difficult for managers to see beyond immediate operational and support requirements. Accordingly, business plans have reflected a very short-term view that is mostly exclusively presented in resource requirement terms as opposed to the more important mission, vision, strategic plan and objectives oriented process that a good business plan is designed to represent.

Unfortunately, the purpose of the business plan has been perceived primarily as a vehicle to which annual funding levels are attached.

This paper will prove that the use of performance management tools in DND and the CF will compensate for endemic problems related to strategy execution, resource allocation and business planning, all which obstruct DND's and the CF's ability to manage by results. The analysis will focus on the problems experienced by the Department that hinder a results-based approach and provide a view of the existing output-based planning focus in the Department. Subsequently, three performance-based tools will be discussed relative to their ability to support results-based management for Defence given that solutions to the endemic problems will not be forthcoming, at least on the short-term. These widespread problems cannot be solved without changes that will have significant impact on political, organizational and personnel systems requiring decisions which stakeholders are not

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<sup>7</sup> Maritime Capability Plan 2001, Annex D – Glossary, 2.

prepared to make at this time. It is therefore essential that management and commanders in DND and the CF take action to improve results-based management. A balanced scorecard approach to achieve successful strategy execution, performance measurement to track progress toward objectives and activity-based costing (ABC) to understand how resources are consumed are three tools that when used together, will complement results-based management throughout the defence establishment. No one tool can solve the problems. Without these various tools there is no reason to expect that citizens, parliamentarians, and senior leaders and managers throughout DND and the CF will be any better informed in the future than they are now.

#### A Mandate for Results-Based Management

During 1997, Treasury Board of Canada initiated the Improved Reporting to Parliament Project in response to complaints that Members of Parliament were not receiving accurate, timely and meaningful information. The project was a joint effort of the Treasury Board of Canada and the Department of Finance Canada. The project was completed in 1998 and resulted in the implementation of the Improved Reporting to Parliament Project. The project was a joint effort of the Treasury Board of Canada and the Department of Finance Canada. The project was completed in 1998 and resulted in the implementation of the Improved Reporting to Parliament Project.

Departmental Performance Report (DPR), which is a department's overall performance report and expenditure summary for the previous fiscal year. The DPR "provides a focus on results-based accountability by reporting on accomplishments achieved against the performance expectations and results commitments as set out in the department's Report on Plans and Priorities."<sup>8</sup> The challenge is to perform a self-audit to assess whether programs were run economically, efficiently and effectively. This cannot be done without the means to do so which includes performance management program.

To fulfill Treasury Board EMS reporting requirements, senior leaders in DND and the CF made a commitment to "move away from managing processes to managing for results."<sup>9</sup> In doing so The Department of National Defence – Planning, Reporting & Accountability Structure (PRAS) was introduced which built upon the defence policies laid out in the 1994 Defence White Paper. The PRAS also identifies the strategic change objectives articulated in *Shaping the Future of the Canadian Forces: A Strategy for 2020* which describes the change agenda for DND and the CF. The PRAS also identifies defence tasks with related results to be achieved, which comprises the sustaining agenda. The PRAS provides amplifying information regarding defence business lines for financial reporting purposes in accordance with EMS requirements. This document sets out the framework for the adoption of an outcomes-based planning and management system that ensures every activity and process undertaken by DND and the CF contribute to the achievement of the defence results desired by Canadians. For the strategic change objectives and the defence tasks to have a realistic effect, all of the objectives must be embedded in the decision-making processes and

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<sup>8</sup> Canada, Department of National Defence, 2000 – 2001 Departmental Performance Report, (Ottawa: NDHQ, 2001) Forward.

<sup>9</sup> Canada, Department of National Defence, Planning, Reporting and Accountability Structure, (Ottawa: NDHQ, 2001) 1.

management systems that will “guide planning, force structure and procurement decisions as well as our investments in personnel, education and training.”<sup>10</sup>

Following this series of initiatives and as a further step to improve reporting, the Treasury Board Secretariat embarked on a policy initiative intended to provide information to the public on the achievement of results. In 2000, the policy was set out in the document entitled *Results for Canadians: A Management Framework for the Government of Canada*.<sup>11</sup> Treasury Board adopted a results-based management framework and it means “clearly defining the results to be achieved, delivering the program or service, measuring and evaluating performance and making adjustments to improve both efficiency and effectiveness.”<sup>12</sup> The policy states that measuring and evaluating results produces information that transforms and empowers, allows for the rewarding of success and for learning from experience, all while building public confidence.<sup>13</sup> TB wanted to establish a performance management system for reporting results.

Notwithstanding the plans carefully laid out by Treasury Board and DND, the Auditor General for Canada, Denis Desautels, provided a critique of government reporting in his final report to Parliament in 2001. He cited three reasons for poor reporting:

- “Public servants still have not completely accepted management based on measuring results and reporting their achievement to Parliament.
- Reporting performance to Parliament has political consequences and there is a fear that performance reports could become a political tool of Ministers or the opposition.

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<sup>10</sup> Strategy 2020, Forward.

<sup>11</sup> Canada, Treasury Board of Canada Secretariat, Results for Canadians: A Management Framework for the Government of Canada, (Ottawa: TB, 2000)

<sup>12</sup> Results for Canadians 11.

<sup>13</sup> Results for Canadians 10.

- Nothing really happens to an organization that does not improve its reporting. In fact, because of our political culture poor reporting is safer.”<sup>14</sup>

Relative to Defence, Mr. Destautels also noted in his report that Parliament has received little or no information on the state of the armed forces throughout the 1990s. He criticized DND inability to adequately measure readiness or to build a Forces-wide measurement system that would inform senior leadership and parliamentarians about the state of current readiness.<sup>15</sup>

In response to the Auditor General's call for reporting improvements noted throughout his term of office, and to support TB requirements for managing by results, DND has developed extensive frameworks and guidance for managing the business of National Defence. The preparatory step was the introduction of departmental business planning in 1995, the next complementary step was the introduction of strategic change goals that promotes the change agenda, and key result expectations that promote the sustaining agenda. Lastly, the department's annual RPP and DPR were complemented with an annual Defence Plan.

The Defence Plan assigns tasks and resources to senior managers and provides a view of what the DND and the CF intend to accomplish in a given fiscal year. The assigned defence tasks are derived from the key result expectations that are linked to five Capability Programs outlined in the PRAS. The Defence Plan 2001 "is a plan of execution for 2001-02 and a guide for business planning for the period 2002/03 to 2004/05."<sup>16</sup>

Given the response by DND and the CF to manage-by-results and as demonstrated by planning and reporting efforts noted in the preceding two paragraphs, the implication is that DND and the CF intend to introduce and adopt the use of results-based management concepts

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<sup>14</sup> Canada, Office of the Auditor General, Reflections on a Decade of Serving Parliament: Report of the Auditor General of Canada to the House of Commons, (Ottawa: Auditor General, 2001) para 142.

<sup>15</sup> Report of the Auditor General 256.

and practices. Indeed, frameworks and processes have been established, and formal documentation has been produced to report results to parliamentarians and Canadians. Still, there is little reason to hope that DND will be able to move forward in this area beyond reporting on outputs versus results that are based on anecdotal, subjective information as opposed to objective evidence from a performance management perspective.

### Strategy Execution

In looking to the future, it is clear that the Canadian Defence Team must work together to make Strategy 2020 a reality. No one environment, group, branch or service provider can operate in isolation from the strategy. More than ever, military and civilian members of the Defence Team need to think and act with unity of purpose.<sup>17</sup>

Strategy execution is the process of linking strategy to performance throughout an organization that links strategic goals to objectives to outputs and activities.<sup>18</sup> As one reflects upon the endorsed strategic change objectives of the Defence establishment, at this point it is not apparent how Strategy 2020 objectives have been translated by senior management into specific operational choices. For example, a key objective is the initiative to improve the quality of life within the military. But at Level 2 and below, there is no indication as to how this goal will be achieved, whether through intermediate direction at Level 2 or by statements at Level 3. For planning and management purposes in the Department, Level 0 reflects the offices of the Chief of Defence Staff (CDS) and the Deputy Minister (DM). The next level, commonly referred to as Level 1, includes the offices of military officers and executives

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<sup>16</sup> Canada, Department of National Defence, Defence Plan 2001, (Ottawa: NDHQ, 2001) Foreward.

<sup>17</sup> Strategy 2020 12.

generally at the three star rank, who report directly to the CDS, the DM or the Associate. This level includes Environmental Chiefs of Staff and Assistant Deputy Ministers. An Associate can be considered at a .5 planning level between Level 0 and Level 1. Level 2 reflects all Director Generals (DGs), Formations and Bases reporting to Level 2 and includes, for example, Commander Maritime Forces Atlantic, Commander 1 Canadian Air Division and DG Fin. Level 3 includes Directorates at NDHQ and Base Branches such as CFB Esquimalt and Director Force Planning and Program Coordination at National Defence headquarters.<sup>19</sup>

That business plans in the Department descend abruptly from the strategic (Level 0) to the micro level (Level 3) further substantiates the lack of linkage between organizational objectives and activities at the tactical level. At many levels in DND and the CF, a disproportionate amount of attention is paid to the preparation and presentation of accounting information; meanwhile, how Commanders and managers intend to drive their organizations towards senior managements' strategic horizon is left unrecorded.

In essence, an objective is a statement of intended results that is directed towards achieving either a vision and/or a mission. Objectives set the direction for strategy implementation.<sup>20</sup> Objectives must be explicit in what results are expected. Too often junior managers and subordinates are left to guess at what management priorities are, and why and how they are being implemented. Leaders must set priorities for initiatives in DND and the CF in accordance with stated objectives rather than support initiatives. Resources must be directed to those initiatives that will have the greatest impact on progressing objectives in support of the defence vision and mission to avoid activity which may be counter productive

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<sup>18</sup> Rummler 85.

<sup>19</sup> Capt(N) R.MacIsaac, "NDHQ Missions and Roles," Ottawa, 15 Nov. 2001.

or unsupportive of organizational objectives. There is also a need to show the direct relationship between the strategic change objectives and defence tasks contained in Strategy 2020 and the PRAS respectively, and the supporting objectives at the next level down in the organization. “Goal Management: Involves creating functional subgoals that support the achievement of the overall organizational goals. Failure to set goals that reflect a function’s expected contribution to the entire organization will lead to silo-based suboptimization.”<sup>21</sup>

DND and the CF constitute a very large and complex organization. “In practice, many issues affecting Canada’s defence activities are decided jointly by the Chief of Defence Staff (CDS) and the Deputy Minister.”<sup>22</sup> For example, The Defence Management Committee meets regularly and is co-chaired by the DM and CDS. It is used to consider all management matters affecting the strategic direction of defence and to enable the DM and CDS to reach decisions or to coordinate decisions and advice to the Minister.<sup>23</sup> The special nature of the organizations’ military and civilian hierarchies, as demonstrated creates a framework of shared responsibility and accountability, which has many benefits, but also comes with many challenges, especially if organizational objectives are not communicated and executed effectively. The relationship between the DM and the CDS is indicative of the shared responsibility and accountability relationship between civilian employees and military members of DND and the CF at many levels throughout Canada’s defence structures. Adding to the difficulty is the mix of military members and civilians in DND and the members in the CF.

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<sup>20</sup> Maritime Capability Plan 2001, Annex D – Glossary, 2.

<sup>21</sup> Rummler 21.

<sup>22</sup> Canada, Department of National Defence, Organization and Accountability, (Ottawa: NDHQ, 1999) 9.

<sup>23</sup> Organization and Accountability 12.

There are no less than 16 direct reports to the Deputy Minister (DM) and the Chief of Defence Staff (CDS).<sup>24</sup> Approximately half of these reports are members of the CF while the other half are senior civilians in the Department, all holding key positions of authority, responsibility and accountability.

The Organization and Accountability framework established for DND and the CF encourages all employees and CF members to work together for the common goals of the organization. It also recognizes that “The matrix structure of NDHQ is grounded in the need for a mutual understanding of what must be done by each of the parties mandated to participate in achieving results.”<sup>25</sup> Unfortunately, “The disharmony of political and military attitudes, interests and values - a clash of belief systems - lead invariably to disconcerted defence policies, decisions, and outcomes.”<sup>26</sup> Given these organizational constructs, reporting relationships and the diversity between the military and civilian culture and personal goals, it is now more important than ever for DND and the CF to be able to execute its strategy to enable their objectives to be reflected in all facets of the defence institution.

The system of shared responsibility and accountability is particularly problematic in that it regularly complicates the decision making process. Furthermore, “An absence of performance information may also create - or harden – major organizational conflicts. Without performance criteria and information, there is no way to evaluate the relative effectiveness of alternative strategies, resource allocations, organizational designs, and distributions of power. As a result, organizational conflicts are likely to occur more often than they should, to serve narrow partisan interests, and to be resolved in ways that do not

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<sup>24</sup> Organization and Accountability 35.

<sup>25</sup> Organization and Accountability 14.

<sup>26</sup> Dr. Douglas L. Bland, “The Profession of Arms in Canada: Past, Present and Future – Canada’s Officer Corps: New Times, New Ideas,” CDA Institute XVth Annual Seminar, 1999.

further the organization's mission."<sup>27</sup> Since DND and the CF consist of many decentralized divisions, and support and operational units, each unit must link its objectives to the goals of the next higher organizational level to create alignment and synergy across the defence organization. At the moment, the linkage between organizational strategy and operational activity is tenuous best.

It is essential to clarify what the organization wants to achieve and where people should spend their time. Once this is done, people will know how they fit in and how they need to respond to make things happen. Strategic goals must be translated into operational objectives so that activities performed throughout the defence organization support the goals intended for defence. Without the benefit of linked departmental goals and strategy alignment throughout the organization, this cannot be accomplished.

Today, much greater reliance is placed on multi-disciplinary teams, broad policies, elimination of non-essential rules and more permissive guidelines to enable people to achieve organizational goals with fewer resources.<sup>28</sup> This coupled with a matrix organization, which embraces a framework of shared responsibility, and accountability is particularly problematic for DND and the CF in working toward common goals.

### Resource Allocation

According to the Defence Plan 2001, financial resources for fiscal year 2001/2002 were assigned to Defence in accordance with the 2000 Federal Budget announcement which

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<sup>27</sup> John M. Bryson, Strategic Planning for Public and Nonprofit Organizations (San Francisco: Jossey-Bass Publishers, 1995) 30.

states "Funding for the next three years has also been increased to improve National Defence's ability to participate in peacekeeping activities, upgrade capital equipment and address quality of life issues within the military."<sup>29</sup> Although these three objectives are clear and funding has been identified for their achievement, it is not clear what relationship exists between these priorities, the RPP 01 priority areas, and the DP 01 corporate priorities, and to what level these objectives and priorities are to be funded. There is no direct linkage between the budget reference level for fiscal year 2001/2002 and these objectives and priorities, except for the incremental funds assigned. Coincidentally, the PRAS states "The Department...is committed to moving away from managing processes to managing for results."<sup>30</sup> How can this goal be accomplished without a resource allocation process that funds objectives, as opposed to funding organizations based on historical funding levels? "When formulating strategy, managers must decide what resources are necessary for a firm's strategy, and how to develop or acquire these resources over time."<sup>31</sup>

Because the department funds organizations such as Associate Deputy Minister (Material) and functional programs such as the Information Management Program as opposed to objectives in support of the departmental strategy, how can the organization's strategy be implemented? For example, resources applied to National Procurement are assigned independently of those resources assigned to the Operating Budgets and there are be activities in both accounts that contribute to the achievement of the same objective. For example, Director General Maritime Equipment Program Management (DGMEPM) within ADM (Materiel) works directly with Chief of Maritime Staff in determining engineering and

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<sup>28</sup> Organization and Accountability 13.

<sup>29</sup> Defence Plan 2001 1-1.

<sup>30</sup> Planning, Reporting 2.

maintenance requirements for the fleet. Although the Formations within Chief of Maritime Staff are responsible for the actual work involved in the maintenance of the ships, both DGMEPM and the Formations acquire material and services to sustain the equipment, services and systems required to sustain the fleet of ships. Thus, both organizations support activities related to the same organizational objective, to sustain maritime equipment.

Based on Defence policy and a budgeted resource envelope, financial resources are broken down into Operating Budgets (including Operating and Maintenance Accounts, Corporate Accounts and National Procurement), Human Resources, and Capital. Operating accounts are allocated to Level 1 managers and below for operating expenses such as fuel, civilian personnel, training and travel. Corporate accounts are those accounts funded directly from headquarters such as military relocations, Cadets, and NATO contributions. National Procurement is used to support activities, systems, and equipment from the national level.<sup>31</sup> The Human Resources budget supports the military pay and the Capital account is allocated to strategic capital purchases and corporate construction. What is evident by this funding methodology is that accounts and organizations are being funded as opposed to organizational objectives. Clearly, there is no connection between resource allocation in the Department and stated objectives and priorities.

Adding to the confusion are at least four or even five enterprise resource programs (ERPs) used by DND such as the Financial and Managerial Accounting System (FMAS), People-soft, and the Canadian Forces Supply Systems Upgrade (CFSSU). Each of these systems records data in different ways and shapes and none of them are academically or

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<sup>31</sup> Paul W. Beamish and C. Patrick Woodcock, Strategic Management (Toronto: McGraw-Hill Ryerson Ltd., 1999) 60.

<sup>32</sup> Major D. L. Dempster, "Generalship and Defence Program Management," Generalship and the Art of the Admiral, ed. B. Horn and S. J. Harris, (St. Catharines: Vanwell Publishing Limited, 2001) 446.

rigorously inter-linked. Therefore, tracking information related to resource consumption using these various programs is difficult at best let alone try to relate the consumption to organizational objectives. The result is that the assignment of dollars to objectives occurs after the fact, if at all, as opposed to assigning resources to achieve results. Under the present construct, managers are accountable largely for dollars related to an organization or process and not accountable and responsible for the achievement of goals. There is a product and service component to the organization, but they are not directly linked to the goals and objectives. If the use of additional resources is proposed, the request is not always justified in terms of additional results, or if resources are reduced, the impact on results is not shown.

While the concept of managing for results has a nice ring to it and is one of the catch words of the day for government reporting, at present it cannot be achieved in National Defence. It must be clearly stated that if DND and the CF are serious about managing for results, then a huge change in the way resources are allocated and business is conducted will be required. Since organizations and processes have been built up over many years based on a process and output view of resource consumption - and funds are allocated to the processes and organizations - the dramatic shift entailed in managing for results will require leadership, direction and organizational change on a scale heretofore unheard of in Defence.

Results based management suggests that the department is committed to managing goals, outcomes, capability and implementation plans, and performance measures from the perspective of key departmental results. From the Defence Plan 2001, we can intuit that these results are captured in the 16 strategic change and defence tasks detailed therein.<sup>33</sup> To fund along these result lines would mean a drastic change in departmental allocations as the

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<sup>33</sup> Defence Plan 2001 2-2, 3-1.

majority of funds would have to be allocated to the Army, Navy and Air Force who are the primary "doers" of the eight change objectives and the defence tasks.

To exemplify the change, military regular pay would no longer reside at ADM HR-Mil, as it would be provided to the eight strategic objectives and defence tasks. As the majority of the objectives are accomplished by the Army, Navy and Air Force, these funds would be devolved to the support agencies (organizations/processes) (or a decision to purchase support from outside the department that would support the achievement of objectives could just as easily occur). Accordingly, ADM HR-Mil would no longer be needed to control funding and complete the payment process for regular force military personnel. A case in point exists regarding the funds allocated for military moves which ADM HR-Mil controls. When funding was required for moving the crew of the HMCS Victoria from Halifax to Victoria, ADM HR-MIL did not agree to fund this endeavour, even though the introduction of the VICTORIA Class submarines into the Fleet is the number one priority for the Canadian Navy.<sup>34</sup> Thus, the funds had to come from the Navy budget, which was not funded to support this activity. If the military move budget was, for the most part, tied to the activity supporting the agreed objectives, funds available for military moves would for the most part, be allocated in priority basis.

A similar funding methodology would occur in other Group Principals such as ADM HR-Civ, ADM IE, and ADM Fin as the majority of these Group Principals complete an organizational and/or support function in the department. For this to actually occur in DND is highly unlikely due to the power elite in DND that includes a majority of the other Level 1 Senior Advisors<sup>35</sup> who would actually have to make this decision. Similarly, at the

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<sup>34</sup> Canada, Department of National Defence, MARCOM Capability Plan 2001, Ottawa: NDHQ, 2001) 9.

<sup>35</sup> Defence Plan 2001 6-2.

Formation levels in the Navy, funding would primarily go to the Fleet and be dispensed from the Fleet to support units who would have to vie for these funds based on their ability to support the departmental results. Thus, Level 3 organizations such as the Base Construction Engineering Office (BCEO) and the Base Logistics Office (BLogO) would seek funding commensurate with their value to the Fleet in achieving departmental results.

As one can imagine, this shift in funding would be a huge undertaking that has so far, only been enunciated in the PRAS. Some will say, perhaps, that the department can still manage to achieve results without changing the present funding methodology. This is wishful thinking since empires that are established to produce goods and services will continue to produce these things (and will also maintain the necessity for these goods and services) because they are there and not because of any intrinsic wish and/or need to directly benefit the overall results of the department. Without directly linking resources to results, results will remain a tertiary nice to have goal for organizations. Ultimately, it is for this reason that managing for results makes sense, but whether it is actually feasible is another story.

### Business Planning

Since the introduction of the business planning process in 1995, business plans have received at best, passing attention from many senior personnel in the department. Beyond the executive summary and impact statements arising from funding shortfalls, the plans tend to be regarded primarily as a means for subordinates to communicate detailed, tabular-style information to one another. Resource summaries, referred to in business planning guidance,

as the heart of the plan, are indeed the main body of the document in terms of volume. However, variations from year to year as to how funding data been “sliced and diced” merely reinforces the belief that the business planning process is somewhat directionless and peripheral to the core concerns of senior management. It is a rare occasion for a staff officer to make use of the resource tables upon which so much effort was expended in the year the plans were developed. This lack of use, clearly communicates a lack of high-level involvement in managing system design and implementation or possibly confirmation that imposed management techniques are unsuited to managers’ needs for information for decision-making purposes.

This disregard for the relevance of business plans in the day-to-day conduct of an organization’s business is reinforced by the painfully slow implementation of a functional system of performance management. Business plans should clearly hold management accountable through continual monitoring of financial and operational measures of progress. By the very nature of the commercial environment with a profit motive, private sector measurement systems lend themselves to quantitative metrics or indicators (sales, profit, market share, product returns, share price, etc.). In an outcome-oriented organization, whose ultimate product or service is “security” or “readiness”, the challenge of selecting useful qualitative measures is considerable, even though measures, such as the percent of training completed, percent of on-time immediate operational requirements (IOR) deliveries, vehicles off-the-road rate, etc, have always been in place. What has failed is our ability to identify the measures that are key to our military effectiveness and then attach those measures to the business plans through a process that revisits them on a routine basis during the year especially at year-end. Unless resource managers are assessed throughout the year during the

execution of the business plan, credibility of the business planning process as a cornerstone of the superior/subordinate relationship is dubious. Until this happens, the plan will continue to be shelved once approved.

Business plans are frequently referred to as a “contract” between levels of the organization, under which certain activities or outputs are agreed to at the negotiated resource level. However, if one searches most of the business plans currently in place, there is no evidence as to what those outputs (or hoped for outcomes) actually are, let alone cost per unit of output. Mission statements and capability tables only provide vague indications and the resource tables have merely carved up potential funds according to arbitrary designations by allotment type such as salary wage envelope (SWE) and operations and maintenance (O&M) or alignment with a senior level capability reporting structure. In most cases the plans do not actually say what the planner will do in exchange for the funds provided except in cases where outputs are captured by direct labour hour or where much of the output is related to an operational plan. Apart from the need to remain within budgetary limitations, there is a lack of specificity in the “contract” which challenges the superior/subordinate relationship through the business planning process.

The business plan must move beyond being considered a “demand” document to the point where outputs (sea days, production hours, clients served) and “customers” or “stakeholders” are defined and where possible measured. This is no small task especially where outputs do not lend themselves to easy quantification or where quantifiable outputs may not properly represent the organizations business or mission. For example, although high readiness ship days<sup>36</sup> are measurable, how is mission capability or warfare proficiency

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<sup>36</sup> Defence Plan 2001 3-1. Readiness is the level of preparedness for personnel and materiel to respond to the tasks described in a scenario or to an operation being considered. Applicable readiness states are high, normal,

reported and measured? Similarly, direct labour hours expended reports what our fleet support resources produced, but what information is provided about material readiness? Ultimately, how much to increase various outputs such as sea days and maintenance hours in order to achieve improved outcomes such as readiness and sustainability is the question. Conversely, what impact may a given level of resource reductions have on our mission capabilities?

Business planning is only different from the strategic and operational planning in its explicit consideration of costs, in dollars only, at all levels. The presentation of costing data has been recognized as a major source of non-value-added staff work in past business planning cycles. Formats for reporting have been greatly simplified with funds reported at macro level organizational outputs such as public affairs services, collective and refresher training, and safety programmes. This format is then superimposed upon a higher-level structure, which is required to meet the Defence Plan reporting requirements. Maritime Command (MARCOM) has developed an output model that is being used as a cost-capturing framework. This model has the downstream advantage of conforming to the eventual view of resource flows upon which ABC is founded.

Notwithstanding the shortcomings in the way business planning is conducted currently, the business planning process remains the only alternative to the one to three year planning activity that organizations must undertake. Business planning allows the vision and mission to be shifted from what we are to do to how it will be done, only within each planning level. It provides the operational connection between strategy, the budget and the activities that need to be performed but again only within each level due to the lack of

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reduced and mobilization. High readiness ship days refers to the number of days a ship remains at a high readiness state.

strategic linkage up the chain to overall organizational objectives. Although business planning does have some notional advantages, it continues to fail in DND.

### The Current Status - An Output-Oriented Approach

The requirement in the PRAS and the Defence Plan to make direct links between Level 1 outputs and the 16 departmental change and defence tasks, is a challenge. Many believe that links intrinsically exist although meaningful links cannot be made at this time between outputs at Levels 1, 2, and 3 and departmental results. For instance, public affairs services are provided by various bases throughout DND although these services, or outputs, do not tie in to any specific defence task. Exacerbating this problem is the organizational funding methodology that is directly linked to organizational outputs but, more often than not, cannot be financially linked to departmental results. Of particular concern is the continued inability to report resource consumption against departmental objectives, a requirement of the Defence Plan.<sup>37</sup>

The disconnects are summarized as follows:

- The eight change objectives identified in Strategy 2020 and the five defence tasks are not linked.
- Organizations receive funds to generate outputs that are not directly linked to departmental results.
- Only about one-third of the resources consumed by an organization are funded directly through a unit commander – with the remaining being funded by

completely separate organizations, thus accountability for outcomes is problematic.

- Business plans are directly linked to what an organization produces but at present have very loose connections to departmental results.

Section III of the PRAS states “To determine when the results are achieved, measurable performance expectations will be assigned as part of the Business Planning process. These expectations will be used by Level 1 managers to align their outputs/capabilities to accomplish Defence Objectives.”<sup>38</sup> While some measures against these expectations are possible, no financial or resource consumption measures can be directly applied by Level 1 managers to these objectives. Simply put, since DND does not apply funding for the defence and change objectives, managers are not funded to achieve these objectives. In fact, managers are funded to produce outputs along organizational and process lines that in many cases have nothing to do with these objectives.

For example, Maritime Forces Atlantic receives funding for support services that have no direct link to the change objectives and defence tasks. How much of the services provided go to clients such as the Navy, Army or Air Force can only be attributed in the crudest fashion. Accordingly, the portion of resources consumed by Maritime Forces Atlantic that can be attributed to the departmental objectives must be determined not only by a client attribution scenario, but also through a further attribution against the objectives by each client that receives these services. Similarly, from a broader perspective, the services provided by ADM (Mat), that also have no direct link to the defence objectives, must be attributed to clients and then to the defence objectives, so another set of attributions must

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<sup>37</sup> Defence Plan 2001 7-3.

occur. Thus, no meaningful link between departmental results, resource consumption and funding can be made under this pervasive and complex funding system.

The current funding process in DND is based on years and years of funding to organizations that has built up a traditional baseline-funding concept. In many ways, current funding methodology in DND is linked far more to an organization's Canadian Forces Organizational Order (CFOO) responsibilities than to its goals, particularly from the support perspective. The introduction of business plans to the Department has not changed how this funding was derived or how funds are apportioned. This is clearly evident in the historical funding apportioned to just about every support agency in DND be it a Base, a Group Principal or a training establishment. These organizations are there to provide support services such as training, infrastructure maintenance, administrative and personnel support, engineering and maintenance services and the like which are stand alone outputs and have no concrete links to defence objectives.

Accordingly, the business plans put forth by these organizations are output focused merely on products and services. Outputs are products or services that are provided to other entities, both within and outside of their respective commanders' purview that may or may not have direct links to defence objectives and tasks. While this output view is valuable, the Department has yet to grapple with the most significant issue when utilizing an output view, which is, what is the output requirement in relation to the objectives of the organization. The requirement needs to take into consideration the needs of the recipient of the service or product based on their mandate to achieve certain objectives, which once again must be linked to the organizational goals. The expression of requirement is the essential missing link that defines the level of output needed. It is also evident that, in the limited cases where

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<sup>38</sup> Planning, Reporting 8.

a requirement has been identified, commensurate funding is not always provided. For the Fleet Maintenance Facility in Maritime Forces Atlantic, a different need arises; that of funding a certain capacity instead of funding a requirement due to the complexity of an industrial plant, the flexibility offered to fleet operational scheduling, and the efficiency gains that are endangered when using this approach.

Further, the problem is exacerbated for managers because they only receive a small portion of the resource funding essential to the production of their outputs. For example, The Canadian Forces Naval Operations School and the Canadian Forces Naval Engineering School, both in Maritime Forces Atlantic in Halifax, together consume about \$45 million annually in fulfilling their training mandate but the schools only receive about \$7 million directly.<sup>39</sup> Although the schools are responsible for producing trained naval personnel in accordance with standards set by Maritime Command, they only manage 15% of the resources required to do so. The remaining \$38 million is managed by other Group Principals. This makes conscious resource decision-making difficult for both the Commandants of the schools (who get the smallest portion) and for the other controlling interests that are not close enough to the operation to be effective in the production of their output and the management of these resources. Accordingly, no meaningful decisions can be taken based on the departmental results, because not only the Fleet Schools don't directly support any of the defence tasks, but also because the schools only receive a small portion of the funding required to produce its own outputs.

One of the more significant aspects of this particular disconnect is that resource managers cannot be held accountable for the vast majority of resources they consume in

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<sup>39</sup> Canada, Department of National Defence, MARITIME FORCES ATLANTIC FY 02/03 Capability Plan, (Halifax: MARLANT, 2001) 2-4/10.

fulfilling their mission because they do not control these resources. Indeed, it may well be impossible for superior commanders to hold the Fleet Commander responsible for the achievement of departmental objectives related to maritime surveillance, a departmental objective. The Fleet Commander controls only about one-eighth of the resources consumed by Maritime Forces Atlantic, in order to meet the defence tasks the ships are mandated to achieve. Given the limited control managers have over their resources, the output orientation of organizational funding, and the fact that results are not funded in DND, a business planning process has evolved in the department that relates to what organizations produce, their outputs, and what can be achieved with these outputs. No direct link exists between this business planning approach that funds organizations and processes, and the results based management framework envisioned in the PRAS, Strategy 2020 and in the Defence Plan 2001.

### The Solution

A proposed solution to reverse this methodology and to move towards managing for results would require the CDS and the Deputy Minister to fund adequately the sixteen defence and change objectives. The impact of this approach would be two-fold. First, it would focus every entity in Defence, including service providers, on the operational core and the departmental results. Second, it would force service providers to become efficient, effective and competitive with industry standards, while at the same time ensuring that operational commanders are expending resources to achieve core results. This recommended solution assumes that the base funding is available but just not well distributed. Whether the resources are available to achieve intended results is another matter.

Managing for results suggest that the strategic change objectives and the defence tasks are resourced to the extent that the vision as articulated in Strategy 2020 is realistic and the mission noted in Defence Plan 2001 can be achieved. For ease of reference, the eight change objectives and the five defence tasks are listed below with the prime responsible capability component providers identified:

Table 1 - Capability Programs (Business Lines)<sup>40</sup>

Capability Program:	Responsible Entity:
<ul style="list-style-type: none"> <li>• Command and Control</li> </ul>	<ul style="list-style-type: none"> <li>• DCDS, CMS, CLS, CAS, CFNA, ADM (IM)</li> </ul>
<ul style="list-style-type: none"> <li>• Conduct Operations</li> </ul>	<ul style="list-style-type: none"> <li>• DCDS, CMS, CLS, CAS, CFNA, ADM (HR-Mil), DGPA</li> </ul>
<ul style="list-style-type: none"> <li>• Sustain Forces</li> </ul>	<ul style="list-style-type: none"> <li>• DCDS, ADM (IM), ADM (HR-Mil), ADM (Mat), ADM (IE)</li> </ul>
<ul style="list-style-type: none"> <li>• Generate Forces</li> </ul>	<ul style="list-style-type: none"> <li>• DCDS, ADM (IM), ADM (HR-Mil), ADM (HR-Civ), ADM (Mat), ADM (S&amp;T)</li> </ul>
<ul style="list-style-type: none"> <li>• Corporate Policy and Strategy</li> </ul>	<ul style="list-style-type: none"> <li>• DCDS, CMS, ADM (IM), ADM (HR-Mil), ADM (HR-Civ), ADM (S&amp;T), ADM (IE), ADM (Fin CS), ADM (Pol), VCDS, CRS, DGPA</li> </ul>

Table 2 – Strategic Change Objectives<sup>41</sup>

Change Objectives:	Responsible Entity:
<ul style="list-style-type: none"> <li>• Innovative Path</li> </ul>	<ul style="list-style-type: none"> <li>• All</li> </ul>
<ul style="list-style-type: none"> <li>• Decisive Leaders</li> </ul>	<ul style="list-style-type: none"> <li>• All</li> </ul>
<ul style="list-style-type: none"> <li>• Modernize</li> </ul>	<ul style="list-style-type: none"> <li>• VCDS/CMS/CAS/CLS</li> </ul>
<ul style="list-style-type: none"> <li>• Globally Deployable</li> </ul>	<ul style="list-style-type: none"> <li>• DCDS/CMS/CAS/CLS</li> </ul>
<ul style="list-style-type: none"> <li>• Inter-operability</li> </ul>	<ul style="list-style-type: none"> <li>• DCDS/CMS/CAS/CLS</li> </ul>
<ul style="list-style-type: none"> <li>• Career of Choice</li> </ul>	<ul style="list-style-type: none"> <li>• All</li> </ul>
<ul style="list-style-type: none"> <li>• Strategic Partnerships</li> </ul>	<ul style="list-style-type: none"> <li>• DCDS/CMS/CAS/CLS</li> </ul>
<ul style="list-style-type: none"> <li>• Resource Stewardship</li> </ul>	<ul style="list-style-type: none"> <li>• All</li> </ul>

<sup>40</sup> Planning, Reporting 8-9.

As can be seen from the above tables, if objectives were to be funded, the majority of DND resources would accrue to the objectives and tasks achieved by the VCDS/DCDS/CMS/CAS/and CLS. The six remaining objectives largely reflect a methodology approach in how the department wishes to achieve its results and are, from a funding perspective minor in nature. In addition, as these latter six objectives are accomplished by all, resources would have to be allocated or spread as an overhead based on some factor that would create relativity across all entities. From the initial allocation, these core result achievers would then purchase those services it requires from support agencies, be they internal or external providers. For those entities within the department, likely a service level agreement process would be the simplest method to fund support agencies. For those agencies external to the department, standing offers or normal contracts could be used.

In short, managing for results cannot be achieved in DND under the present construct of resource control and funding. There is no direct link between resource consumption, business plans, and the objectives contained in Strategy 2020, the PRAS and the Defence Plan. Direct links can be achieved through funding by departmental objectives. At this time, however, resource managers, who only receive about one third of the funds required to achieve their organizational outputs, cannot be held totally responsible and accountable for their outputs and cannot make a meaningful link between these outputs and departmental results. Accordingly, business plans and funding mechanisms will continue to be linked to organizational and process outputs managed at the local level, and not DND and CF results.

If the DND and the CF is sincere in its push toward managing for results, and funding was apportioned based on the change objectives and the defence tasks, the VCDS, DCDS and the three environmental commanders would receive the vast majority of the Defence Services

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<sup>41</sup> Strategy 2020 9-11.

Program funds. This approach would offer much more responsibility and flexibility to the operational commanders than they currently have and would focus all support agencies on the operational core of the CF. Without a results based approach, DND and the CF will continue to reward managers and commanders for their ingenuity in surviving rather than their ingenuity in supporting departmental objectives. These disconnects are fundamental issues that affect ongoing decision-making within DND and impede the achievement of departmental objectives.

### Performance-Based Management Tools

A variety of tools are available that will close the gap between DND's limited ability to report results and the mandated Treasury Board requirements to provide results for Canadians. These tools offer solutions to problems that exist with strategy execution, resource allocation and business planning throughout defence. The balanced scorecard, performance measurement, and ABC are three tools that when used together will lead to strategy execution and cohesively provide a framework for performance-based management. Together they will assist DND communicate its strategy, measure performance, prepare meaningful plans which identify the relationships between goals, objectives, outputs and activities and assist in costing activities throughout the organization. To be effective for all operations in DND and the CF, they must be driven and exploited from the most senior levels and managed throughout DND and the CF.

At the activity level (Level 3) in an organization, where the work is done, economic level ABC is likely the most effective performance management tool in the kit bag. At the

efficiency level (Level 2), business planning provides a structure for sound planning and sharing knowledge of the business complete with a clear understanding of outputs and objectives of the organization when coupled with ABC information and performance measurement indicators. At the effectiveness level, a tool such as the balanced scorecard, when coupled with a sound mission, vision and outcome perspective, is likely the best performance management tool. Of course, the more synthesis between the tools within and between each level in the organization, the more effective the overarching performance management framework will be to achieve value added change throughout the organization. Accordingly, managers at different levels in the organization need to be aware of the tools that are the most effective at levels in the organization other than their own. It is a managers responsibility to integrate these tools, with those that have been identified as being the most effective in achieving economy, efficiency and/or effectiveness as appropriate, at their own level.

### Balanced Scorecard

The balanced scorecard is a powerful tool that provides management with the ability to achieve organizational alignment at all levels in an organization. “The balanced scorecard provides a means for linking the strategies of different operating units within an organization to the overall mission and vision. But perhaps the most important aspect of a balanced scorecard is that it allows organizations to link long-term strategy with short terms actions.”<sup>42</sup>

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<sup>42</sup> Preston Cameron, “The Balancing Act,” CMA Management Feb. 2002: 30.

The basic premise behind the balanced scorecard is that long-term organizational survival depends on more than achieving short-term financial results, and that explicit consideration of other perspectives than just a financial one is essential for long-term viability. The balance scorecard influences managers to look at performance, based upon stakeholder value, innovation and learning benefits, and internal process functioning. An explicit organizational strategy is the essential link between these perspectives. To effectively use a balanced scorecard as a strategic framework for action management must; focus on critical management processes, clarify and translate vision and strategy, communicate and link strategic objectives and measures, plan and set targets, align strategic initiatives, and enhance strategic feedback and learning. “A well designed and well communicated scorecard can be a great way to get everyone pulling from the same rope. Using a balanced scorecard to achieve consensus around strategic objectives sends the message that the employees will be measured for doing the things that the organization believes will drive end results.”<sup>43</sup>

The balanced scorecard was first developed to solve problems managers of organizations were experiencing with performance measurement. The traditional financial measures being used could not capture the value-creating activities from the organization’s intangible assets; the skills, competencies and motivation of employees; the databases and information technologies; efficient and responsive operating processes; innovation in products and services; customer loyalty and relationships; and political, regulatory and societal approval.<sup>44</sup> Today, executives of top performing organizations are using the balanced scorecard to implement new strategies and test them by identifying the cause and

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<sup>43</sup> Cameron 31.

effect relationships between actions and outcomes and measuring the progress toward an ultimate goal.

The Balanced Scorecard (BSC) is a multidimensional framework for describing, implementing, and managing strategy at all levels of an enterprise by linking objectives, initiatives, and measures to an organization's strategy. The scorecard provides an enterprise view of an organization's overall performance by integrating financial measures with other key performance indicators related to customer perspectives; internal business processes; and organizational growth, learning, and innovation. The BSC is not a static list of measures, but a framework for implementing and aligning complex programs of change and indeed, for managing strategy-focused organizations. A successful BSC program starts with the recognition that it is not a “metrics” project; it’s a change project. One of the strengths of a Balanced Scorecard is that it brings disparate parts of an enterprise together and gives them a common set of strategic objectives on which to focus. It also has the potential to significantly influence human behaviour, as what appears red will inevitably get the attention of senior leaders and consequently receive the requisite attention at lower levels to ensure yellow and eventually green indices.

Using the analogy of an airplane instrument panel as an example, the navigation system tracks results – how many miles the plane has traveled during any given trip. While this is clearly a useful measure to track, monitor, and review regularly, it does not provide a complete measure of an airplane's performance. If you choose to fly from Trenton to Greenwood, monitoring only the odometer could put the result of arriving at your destination

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<sup>44</sup> Robert S. Kaplan and David P. Norton, The Balanced Scorecard (Boston: The Harvard Business School Press, 1996) 126 – 127.

in question. Many other important processes that allow an airplane to make such a trip must be tracked and monitored along the way to ensure you reach Greenwood.

If the fuel gage is teetering on the empty, one could reasonably predict that you would be left stranded somewhere between the two Wings. Alternatively, if the oil pressure was low, one could reasonably predict that arrival in Greenwood would be in jeopardy. While the airplane's instrument panel only has several key indicators, they are a proper blend of process and results measures that allow the pilot the comfort of knowing that should something go wrong, he/she will be alerted. The instrument panel may not prompt as to what specifically is wrong, but it will help the pilot and his mechanic find the root cause of the problem.

The balanced scorecard helps achieve strategic coherence because it links all strategic goals to each other within a logical sequence based on intended cause and effect relationships. Thus, it becomes an enabler for focusing on strategy. As such, the goals and related performance measures become linked on a balanced scorecard. “Traditional performance measurement systems focus on improving the cost, quality, and cycle times of existing processes.”<sup>45</sup> “The Balanced Scorecard highlights those processes that are most critical for achieving breakthrough performance for stakeholders over the long run.”<sup>46</sup>

An organization’s vision, mission, strategy, and resource allocation should flow down from the top. Innovation, feedback, and learning flow up the organization from the front lines. For these two paths to meet, goals are established so the vision can be realized and the front lines know where the company is going and can work towards achieving that goal. By identifying the processes that link the ABC with the goal, managers can use the balanced scorecard to align their business units, teams and individuals around the organization’s goals.

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<sup>45</sup> Will Kaydos, Measuring, Managing and Maximizing Performance, (Productivity Press, 1991).

<sup>46</sup> Kaplan, “Balanced” 37.

Thus, managers can focus key management processes such as planning, resource allocation, budgeting, periodic reporting, and management meetings in the organization's strategy.

Most non-profit and government organizations have difficulty with the original architecture of a balanced scorecard because the ultimate goal is not profit oriented but value driven. Give

provides a mechanism to transmit performance expectations throughout the organization by translating policy and strategy into quantifiable objectives to focus day-to-day ABC at all levels. If the goal is to effect change within the organization to better achieve the mission and vision, then performance measurement is a value added tool in the manager's kit bag. Since change has mostly to do with human behaviour then the overall objective is to influence human behaviour so as to more effectively, efficiently and economically achieve outcomes. Having determined that changing human behaviour so as to better achieve outcomes is the ultimate purpose of your measurement initiative, managers at all levels can begin to put the right basics in place for a comprehensive and useful performance measurement framework.

Central agency and departmental documentation in response have been calling for the development of a formal performance measurement system since 1995 in accordance with the "Improved Reporting to Parliament Project" initiated by Treasury Board.<sup>47</sup> Still, many if not all have implemented performance measurement to the point where it is used as a regular feature of management and decision-making. Why is performance measurement still greeted with scepticism? For some, it is simply a bean counting exercise offering little in terms of program planning and performance improvement as performance measurement is implemented as a stand-alone information system used primarily for accountability reporting of past performance.

Throughout the Defence establishment, performance measures, including indicators and standards are already in place, however, many are not linked to a comprehensive performance management framework. It is necessary to supplement existing measures with measurement requirements in order to assist managers and commanders assess performance

across all critical processes and activities in their organization. Moreover, performance measures must be developed not only for direct outputs at various levels in the organization, but also for the strategic objectives and the defence tasks.<sup>48</sup> Critical measures of performance should be determined with higher organizational levels of endorsement so that senior leadership ultimately receives a distilled version comprised of those issues that are vital to manage. However, the higher the level of abstraction, the more information there is in a measure, potentially the less useful it becomes as a means of assigning causes to swings in performance. Also, the magnitude of effort involved in establishing a valid measurement system across the full range of defence activities cannot be underestimated.

Given that performance measures are designed to assess progress towards achieving measurable goals, determining appropriate measures falls out of an in-depth knowledge of the business that you are in and the required goals to achieve objectives. In determining appropriate measures, there are different types of measures for different aspects of the business. For example, at the organizational level, measures should be directly related to effectiveness or results achievement. In short, there are measures for outcomes at the corporate level that are different from the measures at the regional and production levels. While corporate measures are directly related to results or outcomes, regional measures are likely aimed at effectiveness measures (the degree to which outputs achieve an objective e.g., # of widgets needed vs # of widgets produced. A 1:1 ratio being the most effective), production measures are likely aimed at efficiency measures (the relationship between activities, processes, and outputs - the fewer similar activities/processes required to generate output(s), the more efficient you are), and ABC measures are likely aimed at economy

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<sup>47</sup> Report of the Auditor General 138.

measures (the relationship between inputs or resources, and activities - the less resources consumed the more economic the ABC.) While managers at each level need to be aware of the totality of measures throughout the organization, their focus is necessarily concentrated on measures of elements that they control at their level.

Analysis of the data collected and implementing an action plan as a result of the analysis are key steps in completing a sound measurement process. Indeed, without these final action steps, the whole purpose of doing performance measurement/management will be lost. If managers are not willing to go the distance in this area, then performance measurement is a waste of time. This cannot be over-emphasized and is likely the most important decision that managers must make before undertaking performance measurement of any kind. The decision is really the fundamental issue or *raison d'être* for measuring - is the organization willing to utilize performance measurement to influence human behaviour? If the answer is no, then there is no point in pursuing a measurement system.

### ABC Based Costing

It has become increasingly evident that the departmental business planning framework would be better served if supported by ABC based costing (ABC). ABC is a management tool which identifies the activities and processes performed in an organization, determines the costs of these activities and processes, links these activities and processes to products or services and to customers, assigns costs to activities based on their use of

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<sup>48</sup> United States, Department of Transportation, Developing Actionable Performance measures for Government Programs, (Cambridge: Volpe National Transportation Systems Center, 2000) 7.

resources and assigns costs to services and customers based on their use of activities. In essence, it provides an operational tool for the production of tangible costing results that clearly links resources to activities and processes and outputs. In Defence, reductions have been accomplished by a proportional “tax” based on the percentage of units’ operation and maintenance budgets compared to a total budget figure. This 'shaving the ice cube approach' is not always the best approach as it does not take into consideration the cost drivers affecting resource consumption, service levels which must be maintained, the impact of other unit ABC on your own, and improvement efforts which may have been implemented. Making these important indicators visible to managers is an important benefit to ABC efforts.

ABC is a very important tool that captures the true cost of delivering a specific product or service. Traditional costing methodologies load indirect resources and overhead into direct resources to create a fully loaded labour rate. This approach does not properly allocate overhead activities such as human resources and distorts the true cost of delivering a product or service to customers. In contrast, the ABC methodology examines the causal relationship between an organization’s activities and the resources those activities consume.

The Navy began its first ABC initiative in late 1994 with an ill-fated look across a broad range of activities. Unfortunately, the initiative was a failure for a number of reasons. First, it tried to do too much with too little (the broad perspective look at activities was not specific enough). Second, neither the consultant nor the Department were mature enough in performance management to know where this initiative was going, what the overall desired outcome was, and what to do with the information that was actually gathered. Third, the Department was not committed to influencing human behaviour with the resulting

information.<sup>49</sup> “A case in point was the discovery in Maritime Forces Pacific that there were five different entities involved in separate and distinct “carpentry” shops in the same geographical location.”<sup>50</sup> Even though this information was clearly identified in 1995 by this ABC initiative, nothing was actively done with the information until 1999 and then only because other pressures came to bear. Finally, this was a huge undertaking in terms of personnel time and resources and was mandated from above with very little consultation with the end user. Accordingly, participation was begrudging at best and this ultimately tainted the results and what could be done with those results. A number of lessons were learned by the Navy in this process and these lessons were put to good use in subsequent attempts at introducing performance management initiatives.

As a performance management tool, ABC concentrates on economy issues and is very valuable in determining what drives costs and on what is overhead. It also forces managers to come to grips with what it is that they are truly there to do, produce products and provide services. It is a tool that requires very little initiative from the top and works best when initiated at the shop level and thus is a bottom up tool. From an outcomes perspective, ABC has very little value and is quite limited in its application at the corporate level, particularly in complex, multi-dimensional contexts such as DND.

## Conclusion

What has been mandated by Treasury Board in 2000, and noted as deficient by the Office of the Auditor General in 2001 is the requirement to report results to parliamentarians

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<sup>49</sup> Commander Lee Reed, personal interview, 14 Mar, 2002.

and Canadians. Unfortunately, DND and the CF will not be successful with the adoption and implementation of a performance management program to be able to manage by results in order to satisfy this requirement. Three key management processes that are a challenge for DND and will continue to be are strategy execution, resource allocation and business planning. However, performance management tools are available which, if employed, will offer solutions to the DND and the CF to effectively reduce the difficulty experienced because of these challenges and provide results for reporting purposes.

Strategy execution is not cannot be adequately achieved as objectives are not aligned throughout the organization both vertically and laterally. Moreover, the resource allocation process does not fund objectives but maintains traditional budget practices, which funds organizations. Further exacerbating these issues is the limited relevance of business plans to results or outcomes and managers inability to use the information provided in the plans for decision-making. Strategy execution, the concept of resource allocation with organizational objectives and an effective planning process are key concepts with regard to the implementation of a performance management system and effective reporting of results.

What DND and the CF are left with is an output-based model which focuses on services and products produced at Levels 2, 3 and 4. Objectives at these levels can be established as this is where most of the work is produced so activities are readily defined and easily linked to outputs. Resource consumption by output can be determined because specific budgets can be applied to related activities because organizations at this level produce individual products and provide discernable services. Strategy execution in DND and the CF could be successful if strategic objectives and defence tasks were linked and

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<sup>50</sup> Bruce Nelms, "Performance Management at DND," Performance Measurement Conference, Edmonton, Feb 2001.

communicated throughout the organization, resources were applied to the objectives and tasks for them to be carried out and the business planning process was not simply output focused.

Management will not be able to effect the required changes to implement results-based management in the near future and perhaps longer due to the large and complex system of authority, responsibility, and accountability in DND and the CF. The Deputy Minister and the CDS together manage the integrated HQ and draw on the skills of civilian and military staffs to carry out the business of the two organizations. This has created a challenge and “It is said that some might contend that the challenge still exists, and it is challenging but for different reasons than the first fifteen or so years. The confusing sharing of power so eloquently criticized by such writers as Douglas Bland, has, for the most part, been clarified by the development of the organization and accountability document which clarifies the roles.”<sup>51</sup> The bottom line is that all personnel are accountable to their superiors for the exercise of Departmental authorities that have been bestowed upon them. Both military and civilian personnel can occupy positions in the integrated structure of authority and accountability that operates within NDHQ and elsewhere.

Moreover, the decision to allocate resources to objectives as opposed to organizations will not be forthcoming due to partisan opposition and the budget convention dictated by the Defence Management System. The business planning process is maturing however, due to a lack of strategy execution and biased resource allocation improvements are unlikely.

Therefore what managers and commanders need, to be able to apply performance management principles to their operations and to be able to manage by results, are tools that will assist in executing strategy, measure performance and understand resource consumption

within their own level in DND and the CF as a minimum. Thus, parliamentarians and Canadians may be informed about the performance of DND and the CF and how effective and efficient managers and commanders are at achieving their objectives. A balanced scorecard, performance measurement and activity-based costing are tools that will provide some answers.

A balanced scorecard is a multidimensional tool used for describing, implementing, and managing strategy at all levels of an enterprise by linking objectives, initiatives, and measures to an organization's strategy. A balanced scorecard provides a view of an organization's overall performance by integrating financial measures with other key performance indicators around customer perspectives; internal business processes; and organizational growth, learning and innovation. The balanced scorecard is not a static list of measures but a framework for implementing and aligning objectives for successful strategy execution in complex organizations. The concept of a balanced approach to attain goals minimizes the risk of over-emphasizing one aspect of the business to the detriment of the overall programme. A balanced scorecard will fill the void that exists within the defence establishment – a lack of a systematic approach to the implementation of a performance management process to obtain feedback regarding the achievement of its strategic objectives and performance of its defence tasks. The remaining tool to round out a manager's ability to report performance is activity-based costing.

There is no cost capturing mechanism or performance-reporting tool in the Department to identify what is being achieved with the dollars being spent. Like businesses DND must implement changes to its financial system to establish links between resources and activities. Prior to this development, which is not likely due to the magnitude and

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<sup>51</sup> MacIsaac.

implications of these changes, an ABC tool could bridge the existing gap by directly linking cost to activities and outputs and ultimately defence capabilities. Moreover, by making the cost of activities more visible, ABC would allow subordinate managers and commanders to cope better with devolution of resource responsibility. ABC gives managers access to more accurate information for resource management decision-making as ABC identifies costs by ABC and output as opposed to traditional budget lines. Moreover, ABC makes the costs of activities more visible, which contributes to simplifying cost-benefit analysis for project proposals related to programs and activities as opposed to budget line items, such as stationery or telecommunications.

The most important lessons that have been learned during the past seven years of trying to implement a system of performance measurement DND and the CF are that without each of the aforementioned elements in place, measuring is a lot of hard work for very little gain. Once, however, the basics are in place, performance measurement becomes a natural and iterative process that is value added; does contribute to economy, efficiency and effectiveness; and can provide a tool for results-based management. “Many organizations think they don’t have the time, so they develop a makeshift performance measurement system that is more tactical than strategic in nature. The problem with that approach is that it can steer away from measuring the things that really matter.”<sup>52</sup> In addition, there is the challenge of tracking, managing and reporting progress as scorecards are produced by various directorates throughout the defence institution.

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A fair amount of time has been spent presenting the “basics” for good reason. In DND and the CF many frameworks have been established, objectives stated and measurements taken but by 2002 little progress has been made executing the strategic objectives and the defence tasks so eloquently articulated. The final comment focuses on allowing managers to manage. Performance Management is about measuring progress towards achieving goals. Just as there are different tools in the kit bag for different levels in the organization, so too is there a need to let managers at the different levels do their job and provide the Minister of National Defence with the information he requires to be able to report results to parliamentarians and Canadians.

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<sup>52</sup> Cameron 31.

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