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Master in Defence Studies Research Project

**Business Planning in The Department of National Defence/Canadian Forces –**

**The Need For Transformation**

By Major CM Walton-Simm

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## **ABSTRACT**

Consistent with the Canadian government's direction, the business planning process was formally introduced into the Department of National Defence/Canadian Forces (DND/CF) in October 1994. Since then, the business planning process has evolved so that short-term activities can be related to long-term strategy, clarifying the relationships between resource allocation, activities and expected results with the Defence Planning & Management framework and the highest level of strategic objectives. Business planning is now an important part of this Departmental management framework, representing a significantly different way of managing resources. With this in mind, the current DND/CF business planning process needs to be enhanced further in order to bring together financial and non-financial performance information to link costs with actual or expected outcomes, ensure spending proposals are well-rooted in policy and are supportive of the department's mission and objectives. In order to fully capture the benefits that business planning has to offer and support managers and Commanders working within this framework, additional resource management tools must be integrated into the business plan and be fully embraced at all levels. This paper will review the DND/CF business planning process to date and discuss five resource management tools that have the potential to enhance the business planning process. These tools are: Activity-Based Costing; Zero-Base Budgeting; Performance Measurement; Cash Management; and Review Services.

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# Business Planning in The Department of National Defence/Canadian Forces –The Need For Transformation

*“The fact is, there’s no hope for this Department without proper planning.”<sup>1</sup>*

## INTRODUCTION

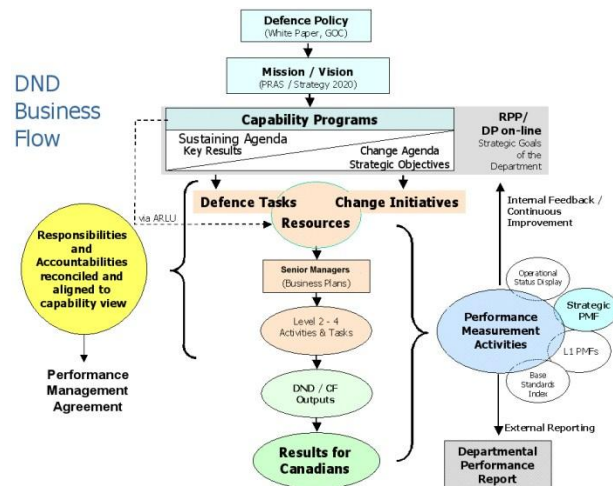
In his 1994 Budget Speech, the Honourable Paul Martin, Minister of Finance, mandated business planning for all federal departments.<sup>2</sup> Consistent with the Canadian government’s direction, the business planning process was formally introduced into the Department of National Defence/Canadian Forces (DND/CF) in October 1994 through the Vice Chief of Defence Staff’s call for the first submission.

CF/DND business planning will be a dynamic, cyclical process, which will provide the Department with a rolling five-year implementation plan [now 3 year] of the Defence Development Plan [now referred to as the Defence Planning and Management Framework or DP&M]. This will contribute to improved resource management and increased accountability in responding to continued fiscal restraint and changing operational priorities.<sup>3</sup>

<sup>1</sup> Maj Marsha Dorge, *Business Planning: It Just Makes Sense*, D2000 Newsletter (Ottawa: DND, 1997), 2.

<sup>2</sup> The Honourable Paul Martin, P.C., M.P., Minister of Finance, *Budget Speech* (Ottawa: Federal Government, 1995), 18.

<sup>3</sup> DND, *Flight Plan 97 Management Renewal* (Ottawa: DND, 1995), 4. The DND/CF now utilizes the capability-based business model outlined in the Defence Planning and Management Framework (DP&M) to organize its processes and activities. The model links the Capability Programs to individual responsibilities and tasks. It also aligns key results and accountability, and is the basis for the Planning, Reporting and Accountability Structure (PRAS), which is submitted to Treasury Board.



The DND/CF, along with other federal departments, received a number of multi-year funding reductions as part of the Government's Program Review 94.<sup>4</sup> In reaction to these budget reductions, the DND/CF developed a managerial initiative called "D2000" which called for the restructuring and streamlining of resource management in National Defence. The D2000 management principles respected the primacy and unique requirements of military operations and espoused a management structure based on service, empowerment and accountability by promoting innovation, delegating increased authority, fostering continuous improvement in results and efficiency as well as encouraging more cost-effective and competitive defence activities.

In his 1995 Budget Speech, the Finance Minister emphasized that business planning represented public scrutiny of budgets, resulting in new transparency and accountability.

We would not have to reduce spending as much as we do if that spending was under better control in the first place. Canadians make ends meet by watching their dollars every day. It's time government did the same.<sup>5</sup>

Within the D2000 managerial vision, accountability-oriented planning and resource management would link objectives and activities with resources, make costs visible and identify results achieved. The introduction of business plans department-wide was the starting point for the necessary managerial changes in this process. "The best business plans are about doing the right things the right way."<sup>6</sup> In line with this, the business planning process would potentially be able to provide visibility of DND/CF resource management. As well, the business planning

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<sup>4</sup> DND, *About DND/CF: Budget*; [article online]; available from [http://www.forces.gc.ca/site/about/budget\\_e.asp](http://www.forces.gc.ca/site/about/budget_e.asp), Internet: accessed April 2004. The federal Liberals launched a program review in 1994 that lasted until 1999, as they struggled to get their budget into a full nelson. At the end of it, the public service had been streamlined, several programs had been transferred to provincial control and spending curtailed. Defence underwent budget cuts as part of the federal government's effort to eliminate the deficit. Consequently, the defence budget, which totaled \$12B in 1993-1994, declined to \$9.38B by 1998-1999.

<sup>5</sup> The Honourable Paul Martin, P.C., M.P., Minister of Finance, *Budget Speech* (Ottawa: Federal Government, 1995), 11.

process itself appeared to be a logical move toward coherent and coordinated management activity. Business plans would be intended to have internal force as a guide for the departmental allocation of resources and setting of priorities and external value in setting standards of accountability.<sup>7</sup> A business plan, therefore, would be the extension of an organization's mission, forming a bridge between the organization and its environment. Given that the allocation of budgets had not, previously, been preceded by a purposive and directed strategic planning phase, elevating the importance of organizations' operational plans above the budget processes has proven to be a challenge.

Despite this challenge, proper and effective resource allocation and management can provide a tangible way to move an organization toward its mission by combining an understanding of its past performance and current situation with an understanding of its desired future. This means focusing on outcomes and being able to assess performance. With this in mind, the current DND/CF business planning process needs to be enhanced further in order to bring together financial and non-financial performance information to link costs with actual or expected outcomes, ensure spending proposals are well-rooted in policy and are supportive of the DND/CF mission and objectives.

Since the introduction of the department's new managerial framework resource allocations and consumption have yet to be properly correlated to operating outcomes, costs are not matched to outputs nor has the efficiency and effectiveness of an organizational entity been measured. So, apart from listing activities, capabilities, deliverables, assets, Person Years (PYs) and other resource requirements to be used in the Fiscal Year (FY), the business plan is still just a plan. Other than a more detailed source of information, we are not much further ahead in using the business plan to allocate and manage our resources than we were before. There is still no way of measuring the results

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<sup>6</sup> Maj Marsha Dorge, *Business Planning: It Just Makes Sense*, D2000 Newsletter (Ottawa: DND, 1997), 1.

<sup>7</sup> DND, VCDS, Defence Management System Manual, *Chapter 4, Business Planning*; [article online]; available from [http://www.vcds.forces.gc.ca/DGSP/dmsmanual/chapter4/intro\\_e.asp](http://www.vcds.forces.gc.ca/DGSP/dmsmanual/chapter4/intro_e.asp), Internet: accessed April 2004. Business planning was introduced into government to facilitate clear accountabilities and efficiencies in the management of public resources. In the DND context, business planning would make it easier to link accountability, responsibility and authority for defence outcomes and outputs with associated Level One Managers and their assignment and use of resources.

against the plan or assessing the value added of this exhaustive process. How do we know what is working and not working? In the absence of a viable performance measurement system we tend to be focusing on how the dollars were spent rather than whether or not we effectively generated the capabilities that we were mandated to fulfill.<sup>8</sup>

Consequently, the business planning process itself has been based on previous spending levels and other variables and guidance that at best are good estimates based on past experiences.<sup>9</sup> In the corporate/business environment, most of the variables in the business planning process reflect hard and proven data such as: product, pricing, sales and other similar inputs. However, as a result of the high degree of corporate decision making in DND, as opposed to full devolution and delegation to business planning, our business plans do not reflect accurate data inputs.<sup>10</sup> Consequently, the business plan has become a demand document for resources vice a statement of deliverables pertaining to the capabilities that we are mandated to deliver through the Defence Plan On-Line<sup>11</sup> (formerly the Defence Plan and Defence Planning Guidance). This is due, in part, to the way business plans are funded – the notional system.<sup>12</sup> Firstly, it is impossible to

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<sup>8</sup> Lieutenant Colonel W.C. Hussey, 1 Canadian Air Division Comptroller, telephone conversation with author, 10 September 2003. LCol Hussey has been intimately involved in the DND/CF business planning process and a number of key business planning workshops since the implementation of business planning in the DND/CF. As well, he has had extensive training in business planning and resource management both in and out of DND.

<sup>9</sup> DND, VCDS, Defence Management System Manual, *Chapter 4 Part 1-Level One Business Planning Process*; [article online]; available from [http://www.vcds.forces.gc.ca/dgsp/pubs/dp\\_m/bus-plan/intro\\_e.asp#2](http://www.vcds.forces.gc.ca/dgsp/pubs/dp_m/bus-plan/intro_e.asp#2); Internet: accessed April 2004. Business planning is the process by which Defence program objectives at all levels are planned, organized and implemented and by which resources are prioritized and allocated. The resources available to the business planner are assigned based on historical activities/spending patterns and provided in the resource tables of the Defence Plan On-Line (formerly the Defence Plan and the DPG). Each of the subordinate level managers then develop their business plan clearly outlining how these resources will be used and how the desired performance will be achieved within these resource limits. The business plan is a concise statement of how the subordinate organization will contribute to the Department's objectives within existing financial constraints.

<sup>10</sup> Ibid, *Chapter 4 Business Planning, Section 4.0.3*; [article online]; available from [http://www.vcds.forces.gc.ca/DGSP/dmsmanual/chapter4/intro\\_e.asp](http://www.vcds.forces.gc.ca/DGSP/dmsmanual/chapter4/intro_e.asp); Internet: accessed April 2004. Within DND/CF, there are limits to the full implementation of business planning, as might otherwise be expected in the average profit conscious company.

<sup>11</sup> DND, Defence Planning and Management, *Defence Plan On-Line*; [article online]; available from [http://www.vcds.forces.gc.ca/dgsp/pubs/rep-pub/dfppc/dpg/intro\\_e.asp](http://www.vcds.forces.gc.ca/dgsp/pubs/rep-pub/dfppc/dpg/intro_e.asp), Internet: accessed April 2004. The Defence Plan On-line (formerly the Defence Plan and Defence Planning Guidance) is the internal DND/CF Business Plan for execution in the upcoming fiscal year and it also provides planning guidance for the subsequent three years. It assigns tasks and initiatives to senior managers, describes horizontal priorities, displays high-level force structure and includes resource allocations.

<sup>12</sup> DND, *Resource Managers' Guide*; [article online]; available from [http://admfincs.mil.ca/organiz/dmac/guide/resman\\_e.pdf](http://admfincs.mil.ca/organiz/dmac/guide/resman_e.pdf), pages 27 and 35; Internet: accessed April 2004. The



ratify and justify the current notional levels assigned to organizations, largely a result of the devolution process. Secondly, business planners should not be focused on baselines or notional allocations. They should look at capabilities and deliverables first and then match these to available funding (zero-based budgeting).

The current notional process forces and/or encourages organizations to generate activities or costs of activities to fit the resource level. This inhibits managers and Commanders from ensuring effective and efficient planning for, allocation of and control over resources. The Department must have a planning and control process, which leads to timely, well-defined and well-substantiated departmental resource utilization plans. Planning and control rests squarely on good budgetary control as resources are consumed and on comprehensive accountability reports that fairly present how resources have been used in terms of purpose, responsibility and results.<sup>13</sup>

New resource management practices must be embraced by the DND/CF to fully capture the benefits that business planning has to offer and support decision makers working within this framework. This paper will demonstrate that, when integrated with fundamental resource management tools, the business plan can be transformed from a demand document to a true statement of departmental deliverables pertaining to the DPG mandated operational capabilities, while ensuring continuous improvement in performance and outcomes achieved. The paper will begin with a brief review of the DND/CF business planning process to date. Then, the DND/CF current business planning process will be examined to highlight shortfalls in the process. Next, Activity Based Costing (ABC), Zero-Base Budgeting, Performance Management, Cash Management and Review Services will be introduced as the tools needed to strengthen and

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resources available to the business planner are shown, in detail, in the resource tables of the Defence Plan On-Line. Funding allocations based on historical spending patterns and previous activities are provided as planning figures prior to managers embarking on the business planning process. This is known as the notional funding allocation system. The business plan then outlines how these resources will be used. All managers are expected to operate within their allocation and, when resources are insufficient, they are expected to report the activities that will be eliminated or curtailed in order to meet their resource allocation. The fundamental principle of 'living within assigned resource levels' is the basis for all departmental management systems and is a crucial point to DND's own Defence Management System (DMS).

<sup>13</sup> Lieutenant Colonel W.C. Hussey, 1 Canadian Air Division Comptroller, telephone conversation with author, 10 September 2003.

broaden the current business planning process. Finally, it will be established that, by incorporating these tools into the current DND/CF business planning process, the process will have the capacity to provide managers and Commanders with a meaningful representation of departmental deliverables pertaining to the Defence Plan On-Line mandated operational capabilities, through a cycle of continual refinement of resource utilization and achievement of results. A brief review of the DND/CF business planning process to date will now be presented in order to provide the necessary background information needed to fully understand why the process must be transformed.

### **DND/CF BUSINESS PLANNING PROCESS IN REVIEW**

Subsequent to the 1994 commencement of business planning, The Estimates of the Government of Canada, Part III Expenditure Plan (now referred to as the Report on Plans and Priorities or RPP)<sup>14</sup> established management principles that demonstrated the relevance of business planning in the conduct of an organization's business. Specifically, the Estimates for DND in 1995-96 underlined the need for a strategic approach to the management of the core business.

Leadership which emphasizes partnership, participation, communication and innovation; a management structure that provides requisite authority and flexibility to decision-makers and makes their accountabilities clear; an approach that encourages innovative decision-making and prudently manages associated risks; an orientation to customer service and to continually seeking ways to improve quality and efficiency; business-like

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<sup>14</sup> TB Secretariat, *The Estimates of the Government of Canada*; [article online]; available from [http://www.tbs-sct.gc.ca/rma/dpr/99-00/PWGSC-TPSGC/PWGSC9900dpr\\_e.asp](http://www.tbs-sct.gc.ca/rma/dpr/99-00/PWGSC-TPSGC/PWGSC9900dpr_e.asp), Internet: accessed April 2004. The Estimates of the Government of Canada are structured in several parts. Beginning with an overview of total government spending in Part I, the documents become increasingly more specific. Part II outlines spending according to departments, agencies and programs and contains the proposed wording of the conditions governing spending, which Parliament will be asked to approve. Part III provides additional detail on each department and its programs primarily in terms of more strategically oriented planning and results information with a focus on outcomes. On April 24, 1997, the House of Commons passed a motion dividing on a pilot basis the *Part III of the Estimates* document for each department or agency into two separate documents: a *Report on Plans and Priorities* tabled in the spring and a *Departmental Performance Report* tabled in the fall. This initiative was intended to fulfill the government's commitments to improve the expenditure management information provided to Parliament. This involves sharpening the focus on results, increasing the transparency of information and modernizing its preparation. In the remainder of this paper the term *Estimates* will be used to identify this document as it relates to DND/CF.

planning and resource management systems; and Defence activities that are as cost-effective as they can be.<sup>15</sup>

These management principles were to guide the achievement of the corporate business planning vision and the fulfillment of day-to-day organizational activities. Moreover, they would serve as the foundation for improved resource management within the DND/CF. Business planning was now a 'Tool of Renewal' and, as such, had a corporate, or 'top-down', element and an organizational, or 'bottom-up', element.

The 'top down' government and DND/CF corporate direction from late 1994 had set the following activities for improvement: "planning, budgeting and accountability processes; DND/CF-wide material, financial, personnel, information and general administrative systems; the work processes and structures employed by the DND/CF units to achieve their missions; and leadership priorities."<sup>16</sup> Business planning was to provide a process for cascading objectives and priorities throughout the hierarchy. The direction flowing from higher-level business planning activities would clarify accountability, thereby helping units to focus resources on what is truly important, the results being achieved.<sup>17</sup>

In the 1996-97 Estimates, Treasury Board (TB) placed greater emphasis on the necessity of incorporating performance measures into the business planning process by indicating that a business plan must state how missions, objectives and key results would be achieved to the

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<sup>15</sup> DND, *1995-96 Estimates, Part III*, National Defence (Ottawa: Minister of Supply and Services, Canada, 1995), 25.

<sup>16</sup> DND, *1995-96 Estimates, Part III*, National Defence (Ottawa: Minister of Supply and Services, Canada, 1995), 27.

<sup>17</sup> DND, Resource Managers' Guide; [article online]; available from [http://admfincs.mil.ca/organiz/dmac/guide/resman\\_e.pdf](http://admfincs.mil.ca/organiz/dmac/guide/resman_e.pdf), page 36; Internet: accessed April 2004. Business planning was introduced into government to facilitate clear accountabilities and efficiencies in the management of public resources. In the DND context, business planning was expected to make it easier to link accountability, responsibility and authority for defence outcomes and outputs with associated managers and with their assignment and use of resources. Business planning was intended to be the vehicle by which Defence objectives at all levels would be planned, organized and implemented and by which resources would be prioritized and allocated. A business plan would clarify objectives and priorities, link activities with resources and describe the framework to

expectations directed in the Defence Plan<sup>18</sup> or superior level planning guidance and how this achievement would be determined.

The effectiveness of the Defence Services Program should be evaluated through output and outcome measures of DND's ability to defend Canada, contribute to international peace and project Canadian interests abroad. Admittedly, trying to develop general indicators to reflect performance towards achievement of these abstract goals is an ambitious and difficult task which the Department is attempting to tackle. As part of this process, the Department is developing business plans, initially at the corporate, Command and Group levels. It will be a requirement of those business plans that they include key results and performance indicators. The first iteration of these plans and performance measures is currently being drafted and will serve the foundation for the development of base and unit level plans and performance measures. Ultimately, the objective is to be able to roll up the subordinate measures into a comprehensive set of performance measures for the Department as a whole; this should be accomplished during fiscal year 1996-97.<sup>19</sup>

The DPG 97, focused on migrating the business plan away from a demand document towards a true statement of statement of deliverables pertaining to defence capabilities as was originally intended.

DND/CF business planning represents a fundamental change in the way the Department plans and manages resources. The purpose of business planning is to establish a management environment across the Department which matches resources with capabilities and provides a means of continuously monitoring results. Level One Business Plans establish a five-year plan [now a three year window], detailing how each Level One Business Plan owner intends to implement the direction provided in the DPG.

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report results achieved. Managers would respond to higher level planning guidance direction to develop their own business plans.

<sup>18</sup> The Defence Plan (now called the Defence Plan On-Line) is the plan of execution for the current fiscal year and a guide for business planning for the three subsequent years. It is aligned closely with the annual Report on Planning and Priorities (RPP), providing users with an overview of DND/CF's long-term and short-term strategic objectives as articulated in Strategy 2020, the Planning, Reporting and Accountability Structure (PRAS), and other key DND/CF documents. Links to many of these documents are incorporated within DP On-Line for easy reference at: [http://www.vcds.forces.gc.ca/dgsp/pubs/rep-pub/dfppc/dpg/intro\\_e.asp](http://www.vcds.forces.gc.ca/dgsp/pubs/rep-pub/dfppc/dpg/intro_e.asp).

<sup>19</sup> DND, *1996-97 Estimates, Part III*, National Defence (Ottawa: Minister of Supply and Services, Canada, 1996), 34. The Defence Services Program is the spending portion of the DND business plan. The Defence Services Program contains departmentally, approved activities and projects, in resource terms, over time, in satisfaction of government policy. The Corporate business planning cycle begins with the development of annual corporate priorities by the Deputy Minister and the Chief of the Defence Staff (CDS). The Command level and Environment Chiefs of Staff (ECS) refers to the senior managers of operational military organizations (such as the Army, Navy and Air Force and the operational organizations under these structures) and the Group level refers to the senior managers of the personnel, materiel, policy and communications, finance, and information services groups. The deputy chief of the defence staff (DCDS), the senior military operations staff officer in the CF is also considered a group principal. The corporate, Command and Group level is defined the Level 1 Manager or Senior Manager.

Business plans are not a demand document; rather, they are a means of prioritizing resource expenditures within a constrained resource envelope. Business plans establish a contract between business plan owners and superior levels.<sup>20</sup>

The 1997-98 Estimates highlighted the importance of comprehensive resource management in order to correctly apply resources towards the effective and efficient achievement of goals.

To maximize the resources available for operational forces, the Department will ensure that the resources made available by Government are used in an effective and prudent manner and that efficiencies are achieved in all areas. To encourage efficiency and flexibility, the Department has adopted operating budgets, corporate accounts, apportioned corporate accounts and business planning as key resource management concepts.<sup>21</sup>

By the DPG 98, the prioritization process was to be carried out within a defined resource allocation level.

DND/CF is committed to the continued use of the business planning process as the foundation for strategic resource management. Fundamental to the process is the requirement for ECS/Group Principals and other Level One Managers to manage within their existing resource allocations, both for operating budgets and corporate accounts. CCs [Capability Components] are therefore required to develop their FY 98-99 business plans within their assigned resource planning levels.<sup>22</sup>

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<sup>20</sup> DND, *Defence Planning Guidance 1997* (Ottawa: DND, 1997), Section 407, para 1.

<sup>21</sup> DND, *1997-98 Estimates, Part III*, National Defence (Ottawa: Minister of Supply and Services, Canada, 1997), 2-9. The operating budget identified in the DPG resource tables shows the resources (dollarized in the case of personnel) for which the Level One Manager is directly accountable and for which there is fully devolved decision making authority. Corporate accounts are accounts that are centrally administered on behalf of the DND by a designated Level One Manager. Such accounts include military pay, cost moves and national procurement. The apportioned corporate accounts identified in the DPG resource tables show those portions of these accounts over which the Level One Manager has direct influence, but has limi

At the same time, TB direction on business planning had evolved to the extent that the 1998 Business Planning Guidance also highlighted the importance of sound resource management in providing the TB Secretariat with a basis for developing an overall appreciation of departmental issues, funding pressures and the status of program review.

The business plan is a vehicle for a Minister to communicate her/his strategic priorities and plans to Treasury Board with a particular emphasis on: relevant elements of change in the environment, the influences on programs, and inherent risks; new demands on the organization including new policies and priorities of the government; impact on delivery and program integrity and results; assessment of risks and program drivers; opportunities; assessment of progress to date; identify major inhibitors or facilitators; analysis of variance in results achievement; program and resourcing strategies to achieve results over three years; demonstrate linkage results and resources (value for money); internal reallocation plans to deal with resourcing requirements and key pressures; resourcing shortfalls that threaten program integrity; and raising TB awareness of the state of resourcing and management in the Department or agency so that new requirements may be considered in an appropriate context and with adequate information.<sup>23</sup>

Notwithstanding the requirement for comprehensive resource management, a business plan is more than a list of activities and a resource allocation to them. Business plans must enable more accurate attribution of costs to outputs and outcomes, more responsive management of resources, the assignment and measurement of achievable standards of success and the clarification of accountabilities.<sup>24</sup> Performance measurement, however, was still a theoretical concept.

Internal business planning is entering the third cycle since 1995-96. With the gain from this experience, Level One Business Plans have been significantly refined to improve their ability to guide the assignment of resources and responsibilities within the Defence Services Program. With the completion of the corporate framework for performance reporting, it is expected that individual organizations will be in a position to begin reporting measured performance internally during 1997-98. However, the standards and information needed to establish departmental level performance reporting cannot be developed until capability components have their systems fully operational. As a result, departmental level performance reporting will not be fully functional until 1998-99.<sup>25</sup>

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<sup>23</sup> DND, *Departmental Business Plans 1998-1999* DRAFT (Ottawa: Treasury Board Secretariat, 1998), 3.

<sup>24</sup> DND, *Resource Managers' Guide*; [article online]; available from [http://admfincs.mil.ca/organiz/dmac/guide/resman\\_e.pdf](http://admfincs.mil.ca/organiz/dmac/guide/resman_e.pdf); Internet: accessed April 2004.

<sup>25</sup> DND, *1997-98 Estimates, Part III*, National Defence (Ottawa: Minister of Supply and Services, Canada, 1997), 2-67. The Department has assigned responsibility for the delivery of defence capabilities to Level One Managers, each entrusted with varying levels of resources. The Level One management structure is outlined at Annex A to

The various Capability Components (CCs) basically used similar planning processes, at least for the FY 98-99 Business Plans, with ‘top-down’ planning guidance or strategic direction of some sort. However, the various Level One Business Plans did not show the prioritization exercises that had taken place in order to live within funding limitations. Some did note, though, that they were unable to meet the funding ceilings or that they were effectively mortgaging the future. Generally, the tone of the Level One Guidances available, suggested that ‘top down’ priorities, vice ‘bottom up’ requests, were more prevalent.<sup>26</sup>

This direction did not substantially change for the DPG 99. The prioritization process continued to be exercised by each of the Level One business planners within the DND/CF but the activities were not rolled up and prioritized for the whole Department. If anything, departmental prioritization was set in advance through the DPG resource allocations to the Level One business plan owners. While some Level One business plans indicated a requirement, or at least a request, for additional funding, there does not appear to have been any sort of DND/CF priority list for which Level One business planners would receive any additional funding, should any become available.<sup>27</sup>

Continuing the management renewal agenda, the DND/CF released a process document ‘Shaping the Future of the Canadian Forces: A Strategy for 2020’ in June of 1999.<sup>28</sup> Corporate priorities and strategic change objectives were set within this strategy, which aimed to focus efforts and resources on most critical areas within a long-term context and to guide longer-term

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Chapter 1, Part 4 - Defence Services Program (DSP) of the Defence Management System Manual; available from [http://www.vcds.forces.gc.ca/dgsp/dmsmanual/chapter1/ch1A\\_e.asp](http://www.vcds.forces.gc.ca/dgsp/dmsmanual/chapter1/ch1A_e.asp).

<sup>26</sup> Lieutenant Colonel W.C. Hussey, 1 Canadian Air Division Comptroller, telephone conversation with author, 10 September 2003.

<sup>27</sup> Chief of Review Services, *Review of Level 1 Business Plans Integrated Report* (Ottawa: PriceWaterhouseCoopers, 2001), ii/iii.

<sup>28</sup> DND, *Shaping the Future of the Canadian Forces: A Strategy for 2020* (Ottawa: DND, 1999). This strategy will be referred to as Strategy 2020 henceforth in this essay.

business planning. This strategy would “guide planning, force structure and procurement decisions as well as our investments in personnel, education and training.”<sup>29</sup>

Then, in the spring of 2000, the President of the Treasury Board tabled in Parliament a new management reform document called "Results for Canadians: A Management Framework for the Government of Canada".<sup>30</sup> This framework set a clear agenda for broadening the improvement and modernization of management practices in federal departments and agencies. It focused on results - benefits to Canadians - not on activities. This new management reform document set government departments', including the DND/CF, performance in context and associated that performance with earlier commitments, explaining any changes. Supporting the need for responsible spending, the framework was aimed at linking resources to results and it meant “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>31</sup>

In September 2001, the Treasury Board of Canada approved the DND/CF's new Performance, Results and Accountability Structure (PRAS), which marked a shift in the department's resource planning, allocation, and reporting structure “from managing processes to managing for results.”<sup>32</sup> This new structure would allow the DND/CF to enhance its resource allocation and strategic decision-making capabilities, and to better communicate to Canadians the value of the DND/CF. The PRAS set out the framework for the adoption of an outcomes-based planning and management system that ensured every activity and process undertaken by the DND/CF contributed to the achievement of the defence results desired by Canadians. For the

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<sup>29</sup> Ibid (Ottawa: DND, 1999), Forward.

<sup>30</sup> TB Secretariat, *Results for Canadians: A Management Framework for the Government of Canada* (Ottawa: TB, 2000).

<sup>31</sup> Ibid, Section B.



strategic change objectives and the defence tasks to have a realistic effect, all of the objectives would need to be embedded in the decision-making processes and management systems.<sup>33</sup>

At this juncture, performance measurement still remained focused at the strategic level in the DPG 01.<sup>34</sup>

Performance measurement in DND continues to be based on the corporate Performance Measurement Framework (PMF), which was refined further during 2001-02 with measures and indicators developed at the corporate level. The collection and analysis of data, and a proposed synchronization of reporting cycles with business planning and corporate priorities, have commenced. Also, it is expected that, over the next few years, the PMF will be enhanced to reduce areas of deficiency, thus providing DND with the capacity to improve reporting to Parliament and internal decision-making, based on performance information.<sup>35</sup>

Then, in the Defence Plan On-line 02, the business planning process was revised to complement the work underway in the pursuit of modern management. It emphasized, “the linkage of business planning with the overall defence management process and the use of business plans to manage throughout the year.”<sup>36</sup>

In line with this modification of management structures and decision-making processes, the Defence Plan On-line 03 underlined the importance of “incorporating lessons learned as part

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<sup>32</sup> DND, *Planning, Reporting and Accountability Structure* (Ottawa: DND, 2001), Forward.

<sup>33</sup> DND, *Making Sense Out of Dollars*; available from:

[http://www.forces.gc.ca/admfincs/financial\\_docs/msood/2002/pt2\\_e.asp](http://www.forces.gc.ca/admfincs/financial_docs/msood/2002/pt2_e.asp); Internet: accessed April 2004. The PRAS brought about a shift from eight Service Lines (Maritime Forces; Land Forces; Air Forces; Joint Operations and Civil Emergency Preparedness; Communications and Information Management; Support to the Personnel Function; Materiel, Infrastructure and Environment Support and Department/Forces Executive) to five Capability Programs (Command and Control; Conduct Operations; Sustain Forces; Generate Forces and Corporate Policy and Strategy). This new structure allows the Department to enhance its resource allocation and strategic decision-making capabilities, and to better communicate to Canadians the value of the Department and the Canadian Forces.

<sup>34</sup> The Defence Planning Guidance was issued, on 11 April 2000, in its previous form as DPG 2001 and remained in effect for the original planning period. The Defence Plan 2001 would replace it as a transitional document intended to serve as a bridge to the new annual planning process that was being developed that year. The DPG 2001 can be accessed at: [http://www.vcds.forces.gc.ca/dgsp/pubs/rep-pub/dfppc/dpg/dpg2001/intro\\_e.asp](http://www.vcds.forces.gc.ca/dgsp/pubs/rep-pub/dfppc/dpg/dpg2001/intro_e.asp).

<sup>35</sup> DND, *Defence Plan 2001* (Ottawa: DND, 2001), Chapter 7, Section 703; available from [http://www.vcds.forces.gc.ca/dgsp/00native/rep-pub/dfppc/dpg/plan2001\\_e.pdf](http://www.vcds.forces.gc.ca/dgsp/00native/rep-pub/dfppc/dpg/plan2001_e.pdf); Internet: accessed April 2004.

<sup>36</sup> DND, *Defence Plan On-line 2002* (Ottawa: DND, 2002); available from: [http://www.vcds.forces.gc.ca/dponline/main\\_e.asp](http://www.vcds.forces.gc.ca/dponline/main_e.asp); Internet: accessed April 2004.

of the continuous improvement in the management of Departmental resources.”<sup>37</sup> Building on this concept, in an October 2003 memo, the Chief of Defence Staff (CDS) and Deputy Minister (DM) promulgated corporate priorities for Defence for 2004-2005, which underscored the importance of maximizing effectiveness in the management of resources.

As has been outlined, the business planning process of the DND/CF has matured since its inception in 1995 and has provided a focal point for the Department’s “Management Principles and Capability-Based Business Model.”<sup>38</sup> The current business planning process consists of three essential components:

- [Defence Plan](#), which starts the process;
- A set of agreed-upon [management principles](#) and processes; and,
- A performance measurement and reporting process based on the Treasury Board approved [Planning, Reporting and Accountability Structure \(PRAS\)](#).

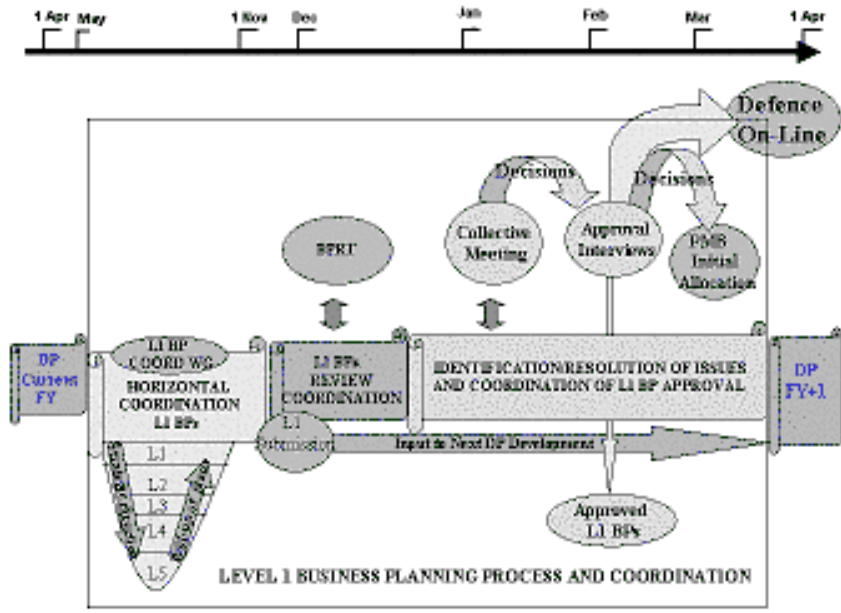
The following diagram depicts the Level 1 Business planning process and coordination activities consisting of:

- Horizontal Coordination of L1 Business Plans;
- L1 BP review Coordination; and,
- Identification/Resolution of Issues and coordination of Level 1 Business Plan Approval.

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<sup>37</sup> Ibid.

<sup>38</sup> DND, Defence Planning and Management; [article online]; available from [http://www.vcds.forces.gc.ca/dgsp/pubs/dp\\_m/intro\\_e.asp](http://www.vcds.forces.gc.ca/dgsp/pubs/dp_m/intro_e.asp); Internet: accessed September 2003.



**Figure 1 - Level 1 Business planning process and coordination activities**

But, ultimately there remains a gap between the strategic construct and the continuous improvement cycle that involves planning, implementing, assessing results and realigning. For example, a recent study of business planning in the DND/CF concluded that, “current business planning must further evolve to achieve sufficient visibility of key assumptions, alternatives, trade-offs and risks. If a central intent of business planning is to provide a vehicle for engaging senior management in decision-making, this need is not being met.”<sup>39</sup> This CRS study suggests that the current process needs improvement.

**SHORTFALLS IN THE CURRENT DND/CF BUSINESS PLANNING PROCESS**

To start with, business plans should be closely connected to what an organization produces but at present they fail to fully achieve this results-based linkage. The current resource allocation process in the DND/CF is based on years and years of funding to organizations that has built up a traditional baseline-funding concept. Therefore, under this type of top-down and

out-put oriented system, no meaningful link between departmental results, resource consumption and funding allocation can be made.

Of particular concern is the continued inability to allocate resources and report resource consumption against departmental objectives.<sup>40</sup> At the highest level, the eight change objectives identified in Strategy 2020 and the five defence tasks are not linked, nor does the DND/CF apply resources for these objectives and tasks.<sup>41</sup> In reality, managers and Commanders are resourced to produce outputs along organizational and process lines; therefore organizations receive resources to generate outputs that are not directly aligned with departmental results.

Another limitation is the fragmented resource devolution process that fails to link all the requisite resources down to the organizational levels that actually expend those resources.

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, a sound correlation between these outputs and Departmental results is difficult to achieve and accountability for outcomes is problematic. Accordingly, the business plans put forth by these organizations are output focused purely on the products and services generated by the specific organization. Such outputs include 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 results achieved and ultimately the defence objectives and tasks. The Department has yet to deal with determining what the output requirement is in relation to the objectives of the organization. Such a requirement has to take into consideration the needs of the recipient of the service or product based on their mandate to achieve certain objectives, which once

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<sup>39</sup> Chief of Review Services, *Review of Level 1 Business Plans Integrated Report* (Ottawa: PriceWaterhouseCoopers, 2001), ii/iii.

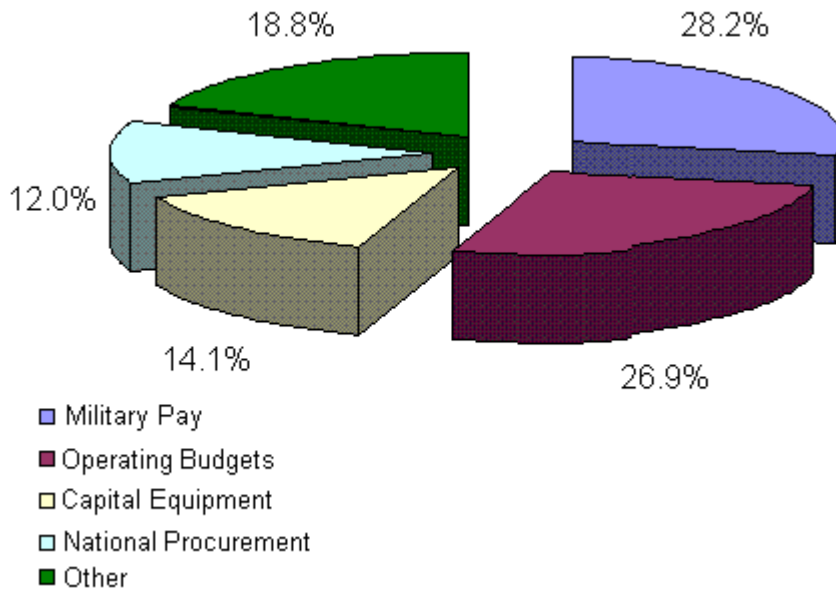
<sup>40</sup> DND, *Resource Review of CAS*, draft (Ottawa: DND, 2003), 36. The Air Force was tasked by the CDS and DM to conduct a review of its mandate and allocated resources. In this review it was noted that DND resource allocations are made on the basis of operating budgets, corporate accounts and apportioned corporate accounts divided by Votes. Operating budget allocations are made to organizations based on identified need through business plans and tracked by organization in the DND/CF financial management system. Allocations are not made on the basis of activity, capability or outcomes.

<sup>41</sup> DND, *Shaping the Future of the Canadian Forces: A Strategy for 2020* (Ottawa: DND, 1999), Strategy 2020 identifies eight longer-term change objectives: innovation path; decisive leaders; modernize; globally deployable; interoperable; career of choice; strategic partnerships; and resource stewardship. These objectives are not coherently linked to the five defence tasks outlined in the PRAS: command and control; conduct operations; sustain forces; generate forces; corporate policy and strategy. Therefore, there is no direct relationship between the strategic change objectives, defence tasks or the supporting objectives at the next level down in the organization. As a result, linkages between Defence Policy, the Defence Plan, allocation of resources and the outcomes are problematic. Furthermore, resource allocations are aligned with organizations vice defence objectives, tasks and activities.

again must be linked to the organizational goals. The expression of requirement is the essential missing link that defines the level of output needed.<sup>42</sup>

The chart below represents the planned DSP expenditures by major components.

Operating budgets account for 26.9% (approximately one third) of the total DND/CF funding, which is the portion devolved to Level 1s and below.



**Figure 2 - DSP expenditures by major components**

A further constraint in the business planning process relates to the current resource allocation framework, which does not take defence capabilities into consideration. The PRAS discusses using Capability Programs to illustrate the direct connection between the Defence Mission and the results that the DND/CF must achieve to accomplish its mission. Resource allocation is not based on this arrangement, nor is the Department's financial management system compatible with it. Resource allocations are currently made to the DND/CF on the basis

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<sup>42</sup> Lorna J. Flemming, *Results Based Management: The Right Tools for the Job* (Toronto: Canadian Forces College CSC 28 Masters Thesis 2001), 24.

of operating budgets, corporate accounts and apportioned corporate accounts divided by Votes.<sup>43</sup> Operating budget allocations are made within the Department to organizations based on an identified need through the business planning process and tracked by each organization (via the Financial and Managerial Accounting System or 'FMAS' Fund and Cost Centre structure<sup>44</sup>) using General Ledger (GL) accounts. Allocations are not made on the basis of activity, capability or outcome. In this respect, the biggest challenge faced by resource managers is the FMAS currently utilized within the Department. FMAS reports by General Ledger (GL)<sup>45</sup> and by organization rather than by activity. This makes it difficult, without significant effort, to capture costs associated with any particular activity, let alone a specific defence capability.

Under the present resource allocation construct, managers and Commanders are accountable largely for resources related to an organization or process and not accountable and responsible for the achievement of goals and objectives. Although there is a product and service component to the organization, they are not directly linked to the goals and objectives. Furthermore, if the need for 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.

Since the introduction of the business planning process in 1994, much emphasis has been placed on the need for measuring performance in the DND/CF through which senior management can monitor the achievement of results and report on performance. However, in order for this to be realized, the defence policy needs to provide guidance with sufficient clarity so that accurate performance measurement constructs can be built to provide accurate

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<sup>43</sup> DND, *Resource Review of CAS*, draft (Ottawa: DND, 2003), 36. For a detailed discussion on how DND/CF funds are distributed and managed see DND, *Resource Managers' Guide*; [article online]; available from [http://admfincs.mil.ca/organiz/dmac/guide/resman\\_e.pdf](http://admfincs.mil.ca/organiz/dmac/guide/resman_e.pdf).

<sup>44</sup> DND, *Resource Managers' Guide*; [article online]; available from [http://admfincs.mil.ca/organiz/dmac/guide/resman\\_e.pdf](http://admfincs.mil.ca/organiz/dmac/guide/resman_e.pdf); Internet: accessed April 2004, v.

<sup>45</sup> *Ibid*, 43.

assessments of performance and the concomitant expenditure of resources required to achieve the performance.

“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>46</sup>

However, the implementation of a functional system of performance measurement has been and continues to be extremely slow. As discussed in the PRAS, defence tasks and resource allocations should flow from key result expectations.<sup>47</sup> Managing for results means focusing on results (also referred to as outcomes) and being able to assess performance.<sup>48</sup> By adopting a results-based planning and management structure, the DND/CF would be well positioned to make explicit linkages between internal planning, resource allocation, and desired results. This would enable the DND/CF to enhance its resource allocation and strategic decision-making capabilities and ensure resource utilization is supportive of the DND/CF mission and objectives. While some measures against these expectations are possible, no financial or resource consumption measures can be directly applied to these objectives currently.

The above disconnects, are fundamental issues that affect ongoing decision-making within the DND/CF and impede the achievement of departmental objectives. At many levels in the DND/CF, a disproportionate amount of attention is paid to the preparation and presentation of accounting information; meanwhile, how managers and Commanders intend to drive their organizations towards senior managements’ strategic objectives and tasks is left unrecorded. A Chief of Review Services (CRS) study of business planning in the DND/CF, to date, indicated that the business plan has yet to be connected to the actual business itself. The study argues that,

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<sup>46</sup> DND, Planning, Reporting and Accountability Structure (Ottawa: DND, 2001), 8.

<sup>47</sup> DND, Planning, Reporting and Accountability Structure, (Ottawa: DND, 2001). The PRAS can be found at: [www.vcds.dnd.ca/dgsp/publications/pras\\_2001\\_e.doc](http://www.vcds.dnd.ca/dgsp/publications/pras_2001_e.doc).

in order to bridge this gap, an emphasis must be placed on: bringing the establishment into balance and reducing to zero cash offset; enabling visibility into the DND/CF costs (Resource Review); linking resources to operational utilization; and enabling educated choices to be made. “We need to return to a concept of planning that seems to have vanished in our system. This means you build a model force as a benchmark against which to make decisions.”<sup>49</sup>

While the introduction of business planning into the DND/CF has increased awareness of the financial implications of decisions and has led to a certain level of accountability within the Department, the tools required to appropriately cost, plan, budget, allocate, measure and modify the resources by activity and by results are still not available. Given the limited control managers have over their resources, the output orientation of organizational funding, the fact that results are not funded in the DND/CF and the lack of performance measures, 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 D2000, PRAS, Strategy 2020 and in the Defence Plan.

In short, managing for results cannot be achieved in the DND/CF under the present construct of business planning. However, by combining the business plan with the right resource management tools, a broader and more exhaustive business planning process would result, enhancing decision and clarity and allowing the vision and mission to be shifted from what we are to produce to how results will be achieved between all planning levels. In this way, the

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<sup>48</sup> TB Secretariat, *Report on Plans and Priorities 2002-03*; [article online]; available from [http://www.tbs-sct.gc.ca/est-pre/20022003/nd-dn/nd0203rpp03\\_e.asp](http://www.tbs-sct.gc.ca/est-pre/20022003/nd-dn/nd0203rpp03_e.asp); Internet: accessed April 2004, Section VI.

<sup>49</sup> Douglas Bland, “Everything Military Officers Need to Know About Defence Policy-Making in Canada” in *Advance or Retreat? Canadian Defence in the 21<sup>st</sup> Century*, ed. David Rudd, Jim Hanson and Jessica Blitt (Toronto: The Canadian Institute of Strategic Studies, 2000), 14.



business planning process would provide the strategic linkage up the chain to the budget, the activities that need to be performed and the overall organizational objectives.

## **RESOURCE MANAGEMENT TOOLS FOR THE ENHANCEMENT OF THE CURRENT BUSINESS PLANNING PROCESS**

There are five key resource management tools that are able to tie resources to activities and then give managers and Commanders an objective view of how effectively resources are being expended and how necessary the activities are to the overall success of the organization (results). Activity Based Costing (ABC), Zero-Base Budgeting, Cash Management, Performance Measurement and Review Services are five tools that, when used together, will lead to strategy execution and cohesively provide a framework for results-based management. Together they will assist the DND/CF 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.

### **Activity Based Costing**

The first of these five resource management tools to be considered is Activity Based Costing (ABC). ABC is a more accurate cost management system than traditional cost accounting. Traditional costing methodologies load indirect resources and overhead into direct resources to create a fully loaded consumption 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. ABC is a very important tool that captures the true cost of delivering a specific product or service.

ABC is a cost accounting methodology that can provide definitions of processes, identify what the cost drivers of those processes are, determine the unit costs of various products

and services, and create various reports on agency components that can be utilized to generate activity- or performance-based budgets. A major advantage of using ABC is that it avoids or minimizes distortions in product costing that result from arbitrary allocations of indirect costs. Unlike more traditional line item budgets which can't be tied to specific outputs, ABC generates useful information on how money is being spent, if a department is being cost-effective, and how to benchmark (or compare oneself against others) for quality improvement.<sup>50</sup>

ABC is a method of determining the cost of an objective by measuring and costing the subordinate activities, business processes and tasks that are involved in achieving that objective. Thus, ABC can provide a foundation for business planning by developing a detailed model of how objectives are achieved with cost factors assigned to all the various resources required in the process<sup>51</sup> For example, the cost of providing a meal to one soldier is not just the cost of the food consumed, but also includes a portion of the wages for the cooks, food preparation, food servers, dishwashers, mess administrative staff and Base Administrative staff, as well as building maintenance costs, electricity and gas costs, depreciation on equipment in the kitchen, the furniture in the mess hall and so on. As well, you would have to charge a portion of the cost of finance, medical, dental and other Base support functions. Every sub-component that contributes to the overall objective of having that soldier eat his meal adds to the true cost of that objective. Developing a technically accurate cost is obviously a labour-intensive process and, largely for that reason, has tended to scare away ground-level business planners from using this technique to develop their business plans.

In actuality, such depth of costing accuracy is not what is currently required in the DND/CF business plans. As discussed earlier, business planning is organizationally 'bottom up'

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<sup>50</sup> United States Department of Defence Comptroller, *Activity-Based Costing (ABC)*; [article on-line]; available from <http://www.dod.mil/comptroller/icenter/learn/abconcept.htm>; Internet; accessed December 2003.

with respect to the performance of the activities that result in accomplishing objectives.<sup>52</sup> What a bottom level business planner has to do is accurately plan out the list of activities for that business-planning period, deduce what resources are required to accomplish each activity and assign accurate costs to those resources. The total resources required by that unit will be determined once all the unit's activities have been listed. These activities will then have to be prioritized so that, if resource adjustments are required, it will be quick and simple to see what can and cannot be accomplished and respond rapidly and effectively to changes.

Once the bottom level business planner has created the unit business plan, including a prioritized list of the planned activities and their associated costs as determined utilizing ABC, this business plan will be submitted to the next level of review. Here, the prioritized activity list will be amalgamated (and reprioritized, as required) with those of the other business plans from the same level. Eventually, the list ends up with a business planner for the next level, who produces a larger prioritized list of the planned activities for the whole formation of units. Once the activities are mapped out for the unit, assigning costs to them is easier than ever before. With the devolution of budgets down to the unit and section level, most costs are directly known by the activity performers who are responsible for managing those budgets and/or paying for those activities. With all the activities listed out, the business planners can project future year activities and consider cyclical activities, which will have funding requirements. Examples of

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<sup>51</sup> TCM Bulletin on Activity Based Costing (ABC), *ABC the Road to Cost Management*; [article on-line]; available from <http://www.greenbusinesscentre.com/Documents/TCM%20bulletin-ABC.pdf>; Internet: accessed September 2003.

<sup>52</sup> DND, *Resource Managers' Guide*; [article online]; available from [http://admfincs.mil.ca/organiz/dmac/guide/resman\\_e.pdf](http://admfincs.mil.ca/organiz/dmac/guide/resman_e.pdf); Internet: accessed April 2004, 36 and 37. Business planning is the vehicle by which DND/CF objectives at all levels will be planned, organized and implemented and by which resources will be prioritized and allocated. The focus is operationally oriented, identifying what the tasks are and what can be done to fulfill them within the allocated resources to achieve the desired defence outcomes.

such activities would include replacing office computers every four years or replacing the roof on a building the upcoming year.

More importantly, once costs are assigned to activities, a first line opportunity to ask ‘why?’ is presented: ‘Why does this activity cost so much?’ or ‘Why do we do this activity?’ or, even, ‘Why is this considered an activity?’ Here is where pressure can be applied to find a more economical solution or to determine if the activity is truly within the unit’s mandate. This will also establish the basis for determining cross-unit relationships with respect to who performs activities for whom, which may indicate that those specific costs should be assigned to the originating unit’s activities. As an example, the Borden Base Administration budget manager incurs costs for a certain level of rations and quarters due to the Canadian Forces School of Administration and Logistics (CFSAL), running the Advanced Logistics Officer Course (ALOC), which is supported by Base Borden. Therefore, the true cost of ALOC is actually greater than the costs shown in CFSAL’s Business Plan because the CFSAL plan does not include costs paid by Base Borden.

At the point where no answer can be found as to why an activity is performed (other than ‘we’ve always done it this way’), it may be possible to cease doing that activity and to reduce the funding requirement all the way up the business plan chain. If sufficient analysis is done at the basic level of activity, enough non-required or non-mandated activities may be deleted which will assist in the realignment of resources to activities that require further support. In this way then, the DND/CF would be in a position of being able to validate that every activity being performed within the DND/CF is mandated and necessary and, therefore, that resources are being utilized as effectively and efficiently as possible.

Furthermore, a business plan needs to include full disclosure of all the fundamental activities of an organization's operation and these activities must have their costs assigned to them. Linking resource expenditures precisely to either activities or the outcomes that result from activities will make it possible to rationally prioritize them, situate them throughout the planning cycle to formulate a cash forecast, measure the basic performance objectives to determine whether or not the activities were successfully accomplished, gauge how close to budget they came and provide key review services to ensure continuous improvement. If all business planners committed to paper the activities they honestly believe they will have to accomplish, it might be possible to 'scrub down' those that are not adding value and use those resources for higher priorities.

Activity-Based Costing encourages managers to identify what activities are value-added—those that will best accomplish a mission, deliver a service, or meet a customer demand. It improves operational efficiency and enhances decision-making through better, more meaningful cost information.<sup>53</sup>

The business planning process 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. In essence, ABC provides an operational tool for the production of tangible costing results that clearly links resources to activities and processes and outputs.

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 and Commanders to come to grips with what it is that they are truly there to do, provide military capability. ABC identifies opportunities to improve business process effectiveness and

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<sup>53</sup> United States Department of Defence Comptroller, *Activity-Based Costing (ABC)*; [article on-line]; available from <http://www.dod.mil/comptroller/icenter/learn/abconcept.htm>; Internet; accessed December 2003.

efficiency by determining the "true" cost of a product or service and is used to identify, describe, assign costs to, and report on departmental operations.

Treasury Board Directives and Guidelines dictate the manner in which Government expenditures are classified and financial systems mirror that requirement. As indicated previously, the DND/CF does not allocate resources downward by capability; resources are allocated through the fund centers and cost centers (by organization), segregated by vote. Similarly, expenditure reporting is not performed using the DND/CF Capability Structure. Furthermore, until funding can be achieved by Departmental objectives, the current DND/CF resource allocation and tracking systems will lack the capacity to enable capability-based and outcomes-based allocation and tracking.

Currently, ABC capabilities are being developed independently, without a common departmental framework or definitions. The absence of such an overarching costing framework to guide the development of ABC models significantly increases the risk of stovepipe ABC systems generating information that is not comparable among Commands and Groups. This could result in costing information being included in Business Plans that is not comparable across Commands and Groups and, hence, could impede the cost information roll-up capability of the Business Planning process.<sup>54</sup>

The ideal comprehensive ABC mapping would take the expenditure data from FMAS and other data sources and departmental systems, and Comptrollers would develop the allocation tables required to assign expenditures from the Cost Center to the defined capability structure element. Such a system would help the DND/CF to define allocations from the top down in a capabilities or outcomes format, and then assist with expenditure reporting in a similar capabilities or outcomes data structure. Although a future bottom-up process may be difficult, developing a linking mechanism with the capability structure and the five elements identified in the PRAS could be performed by an ABC type mapping.

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<sup>54</sup> Chief Review Services, *Preliminary Assessment of Activity-based Costing (ABC) in DND and the CF*; [article on line]; available from [http://www.dnd.ca/crs/pdfs/abc\\_e.pdf](http://www.dnd.ca/crs/pdfs/abc_e.pdf); Internet; accessed December 2003.

## Zero-Base Budgeting

The second business planning process enhancement tool to be explored is Zero-Base Budgeting, which is “a budgeting and financial management strategy aimed at redirecting effort and funds from lower priority current programs to higher priority new programs, improving efficiency and effectiveness and reducing spending.”<sup>55</sup> The current resource allocation practice in the DND/CF funds organizations, processes and discrete projects, using baseline funding levels and historical allocation data, as a basis for determining resource levels. Such a process continues to support traditional budget driven methods focused on outputs as opposed to a results-oriented approach without directly linking resources to organizational objectives. ZeroBase budgeting, on the other hand, is a detailed and concentrated study of those activities that might be considered costly or ineffective and that continue to be funded primarily because they are never examined.

It reverses the working process of traditional budgeting. In traditional budgeting, departmental managers need to justify only increases over the previous year budget. This means what has been already spent is automatically sanctioned. In case of ZBB, no reference is made to the previous level of expenditure. Every department function is reviewed comprehensively and all expenditures rather than only increases are approved. ZBB is a technique, by which the budget request has to be justified in complete detail by each division manager starting from the Zero-base.<sup>56</sup>

Zero-base budgeting requires that a program be justified from the ground up each FY. For example, if the DND/CF used zero-base budgeting, each organization or unit would have to justify its funding every year. That is, funding would have a base at zero. A unit would have to show why its funding efficiently helps the organization towards its goals.

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<sup>55</sup> Zero-Base Budgeting and Beyond, *What is Zero-Base Budgeting?*; [article on line]; available from [www.caltax.org/ZeroBase.pdf](http://www.caltax.org/ZeroBase.pdf); Internet; accessed December 2003.

<sup>56</sup> The Managementor, *Zero-Based Budgeting (ZBB)*; [article on line]; available from <http://210.210.18.114/EnlightenmentAreas/finance/CFA/ZeroBasedBudge.htm>; Internet; accessed December 2003.

The DND/CF has been involved in preparing business plans for its organizations for approximately the past nine years. During this time, reduced budgets for Defence coupled with an evolving business planning process have made it extremely difficult for managers and Commanders to see beyond immediate operational and support requirements. Accordingly, business plans have reflected a very short-term view that is primarily presented in resource requirement terms as opposed to more important mission, vision, strategic plan and objectives oriented process terms 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 based on last year's expenditures are attached, in other words a demand document.<sup>57</sup> This is a fundamental budgeting mistake and, more often than not, leads to a habitual budget growth (creep) factor of 5-12% per year. This budgetary creep-factor can be effectively neutralized through zero-base budgeting, which demands that everything in the budget be open for healthy debate and defended logically if it is to get back into the newly created budget.<sup>58</sup> When zero-base budgeting is inserted into the annual budget process, instead of automatically increasing the expenses, new ideas begin to emerge and the thinking becomes more non-linear (out-of-the-box) and interesting results usually happen. For example, the ZBB planning process can eliminate one of the major disadvantages of most traditional management and budgeting systems.

Typically, in the traditional budgeting system planners focus on the incremental cost increases from year to year. ZBB overcomes this traditional budgeting weakness by subjecting all proposed programs and expenditures to the type of scrutiny that is normally conducted for new programs. The comprehensive resource cost analysis process is a strong internal planning characteristic of ZBB.<sup>59</sup>

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<sup>57</sup> Lorna J. Flemming, *Results Based Management: The Right Tools for the Job* (Toronto: Canadian Forces College CSC 28 Masters Thesis 2001), 22.

<sup>58</sup> PRM426, *Module 4: Creative Fiscal Management - Chapter 6 On-line Lesson*; [article on line]; available from [http://www.prm.nau.edu/prm426/creative\\_fiscal\\_mgmt\\_lesson.htm](http://www.prm.nau.edu/prm426/creative_fiscal_mgmt_lesson.htm); Internet; accessed December 2004.

<sup>59</sup> Back To SWB, Inc. Home Page, *Zero-Base Budgeting An Overview*; [article on line]; available from <http://www.swb-inc.com/zbb.htm>; Internet; accessed April 2004.



Simply put, zero-base budgeting is a financial tool that forces an organization to think about and constructively debate the resource requirements and priorities for the coming year. As such, business planners can use this type of budget process to demand a tight alignment of corporate goals to resource expenditures. Resources must be directed to those initiatives that will have the greatest impact on progressing objectives in support of the defence vision and mission in order to avoid activity which may be counter productive or unsupportive of organizational objectives. A well-developed budget process such as zero-base budgeting would put into place the necessary structure to measure, manage and control the utilization of resources within the DND/CF.

The PRAS states that the DND/CF “is committed to moving away from managing processes to managing for results.”<sup>60</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 and Commanders must decide what resources are necessary for an organization’s strategy, and how to develop or acquire these resources over time.”<sup>61</sup> Zero-base budgeting enhances this type of decision-making and, when integrated with the business planning process, provides “a ranking of programs and activities based on proven effectiveness and suggested alternatives to expensive or ineffective programs.”<sup>62</sup>

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<sup>60</sup> DND, DGSP Presentation on PRAS; [article on line]; available from [http://www.vcds.forces.gc.ca/dgsp/00native/cours/bps/DGSP-PRAS\\_e.ppt](http://www.vcds.forces.gc.ca/dgsp/00native/cours/bps/DGSP-PRAS_e.ppt); Internet; accessed December 2003.

<sup>61</sup> Paul W. Beamish and C. Patrick Woodcock, *Strategic Management* (Toronto: McGraw-Hill Ryerson Ltd., 1999), 60.

<sup>62</sup> Zero-Base Budgeting and Beyond, *What is Zero-Base Budgeting?*; [article on line]; available from [www.caltax.org/ZeroBase.pdf](http://www.caltax.org/ZeroBase.pdf); Internet; accessed December 2003.

## Performance Measurement

Within the DND/CF, the overall management concept focuses on outcomes and accomplishing the Defence Mission: Defend Canada, Canadian Interests and contribute to international peace and security.<sup>63</sup> The mission and outcomes are articulated downward through sustaining and change agendas outlined in operational guidance set out in such documents as: D2000; DP; PRAS; Strategy 2020; and DPG. Performance Measurement is another tool that is effective in monitoring resources expended in performing specific tasks and developing efficiency measures so that all aspects of performance may be analyzed. Within the Defence Planning and Management (DP&M) framework<sup>64</sup>, depicted below, performance measurement is a key element of the feedback loop connecting Departmental outputs and outcomes with Strategic Objectives, reflecting a cultural change within the Department, one in which personnel at all levels of management are ultimately held accountable for the resources allocated to their organization.

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<sup>63</sup> DND, *Defence Plan On-line 2002*; [article online]; available from [http://www.vcds.dnd.ca/DPOne/PDF/Predefined/DefencePlan2002\\_e.pdf](http://www.vcds.dnd.ca/DPOne/PDF/Predefined/DefencePlan2002_e.pdf); Internet: accessed September 2003.

<sup>64</sup> DND, Defence Planning and Management, *DP&M Definition & Purpose*; [article on line]; available from [http://www.vcds.forces.gc.ca/dgsp/pubs/dp\\_m/intro\\_e.asp](http://www.vcds.forces.gc.ca/dgsp/pubs/dp_m/intro_e.asp); Internet; accessed April 2004.

The Defence Planning & Management framework is currently the overarching structure that DND/CF uses to:

- Plan its long, mid and short term strategic direction;
- Manage the Sustaining and Change Agendas;
- Monitor performance and risk management; and
- Report to government through the Report on Plans and Priorities (RPP) and the Departmental Performance Report (DPR).



**Diagram 3 – The Defence Planning and Management (DP&M) Framework**

In broad terms, the DP&M framework requires managers and Commanders to articulate meaningful, results-oriented strategic objectives and to improve measurement and reporting of related outputs and 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>65</sup> An outcome is defined as a result or visible effect. A results-based view that seeks financial performance information must be initially funded for results or outcomes.

In the DND/CF, performance measurement is aimed at describing, “expected results, program achievement and the resources used to achieve results.”<sup>66</sup> and is an integral part of the business planning process. Performance measurement acts as a type of control mechanism and

<sup>65</sup> TB Secretariat, Guide for the Development of Results-based Management and Accountability Frameworks; [article online]; available from [http://www.tbs-sct.gc.ca/eval/pubs/RMAF-CGRR/rmafcgrr05\\_e.asp](http://www.tbs-sct.gc.ca/eval/pubs/RMAF-CGRR/rmafcgrr05_e.asp); Internet: accessed December 2004.

feedback process that should be practiced at all levels to ensure the achievement of generally accepted departmental objectives. These objectives are specified in Strategy 2020 and included in the objectives is ‘Objective 8: Resource Stewardship’, which is aimed at guiding and directing effective resource stewardship through adopting “a comprehensive approach to planning, management and comptrollership, focused on operational requirements, that prepares us to respond rapidly and effectively to change.”<sup>67</sup>

As part of the evolutionary process of Departmental business plans, performance measurement applies to the actual development of standards and the analysis of all aspects of the results or outcomes. This is the first step to comparing planned costs to actual costs and the monitoring of resources expended to perform the activity. Determining exactly what resources are expended to perform each particular activity undertaken within an organization is an essential part of the resource allocation process.

As budgets get tighter and objectives expand, every manager must become as economical as possible in the utilization of resources. The philosophy of performance measurement is based on the acceptance of the following general principles: managers and Commanders are responsible for trying to find the most efficient and effective way of achieving their objectives; any new projects must also include a proposed method of measuring the outcome; and requests for additional resources are submitted only after every effort has been made to finance the applicable activity from within existing resources.<sup>68</sup> When and if the re-prioritization of activities is required, performance measurement would allow for the assessment of achievement

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<sup>66</sup> DND, *Resource Managers’ Guide*; [article online]; available from [http://admfincs.mil.ca/organiz/dmac/guide/resman\\_e.pdf](http://admfincs.mil.ca/organiz/dmac/guide/resman_e.pdf); Internet: accessed April 2004, vi.

<sup>67</sup> DND, *Shaping the Future of the Canadian Forces: A Strategy for 2020*; [article online]; available from [http://www.cds.forces.gc.ca/00native/docs/2020\\_e.doc](http://www.cds.forces.gc.ca/00native/docs/2020_e.doc); Internet: accessed April 2004, 11.

<sup>68</sup> DND, *Canadian Forces Administrative Order 2-18*; [article online]; available from [http://www.forces.gc.ca/admfincs/subjects/cfao/002-18\\_e.asp](http://www.forces.gc.ca/admfincs/subjects/cfao/002-18_e.asp); Internet: accessed September 2003.

levels through a comparison between the planned and the actual outcomes. A manager and Commander have to aim at achieving the business plan requirements and are ultimately accountable for the outcome. To this end, the information obtained through the performance measurement process can be useful to the manager and Commander in assessing the activities being done against the planned activities, checking how well the activities were performed and determining what needs to be changed in order to improve performance. With an increased emphasis on devolved responsibility within the Department, also comes a corresponding increase in accountability.<sup>69</sup>

Simply put, the aim of performance measurement is to achieve good management and effective control which would allow a manager and Commander to reallocate resources as necessary, and to make the most efficient use of resource reserves to reinforce success or change course as necessary to ensure mission success.

However, setting goals is only a starting point in the whole process. To help attain the goals, the following are required: clear and concrete outcome-oriented expectations; knowing when things are to occur; and the exact level of performance needed to fulfill the commitment. Such precision will make it easier to judge how well a program is doing and provides realistic performance expectations. There is no point in identifying outcomes that have no chance of being attained, therefore, accomplishments must be focused on outcomes, key programs and elements and the ability to measure performance of those accomplishments against expectations. By using fair and reliable performance measurement information, managers and Commanders will be able to determine if they have, indeed, attained their planned outcomes.

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<sup>69</sup> DND, *Resource Managers' Guide*; [article online]; available from [http://admfincs.mil.ca/organiz/dmac/guide/resman\\_e.pdf](http://admfincs.mil.ca/organiz/dmac/guide/resman_e.pdf); Internet: accessed April 2004.

The framework for performance measurement includes three basic features.<sup>70</sup> The first feature is the ‘measure’ itself. This refers to what must be examined to verify whether the planned outcome has been achieved. The second feature is the ‘indicator’ or that aspect of the measure that must be assessed to determine performance. Managers and Commanders, at all levels, have to know how effective the performance has been. The third feature is the standard or the goal of the activity - both qualitative and quantitative. Managers and Commanders, at all levels, have to know how efficient the performance has been.

For performance measurement to be most effective across the DND/CF, measures, indicators and standards must be established at all levels of management. Furthermore, performance measurement will not be a successful activity if attempted in isolation. At every level, the following requirements are essential: acceptance of performance information (buy-in); consistent guidance and direction from senior personnel; and identification of good practices/feedback.<sup>71</sup>

Performance measurement is an indispensable element of modern resource management. Through the business planning process, one is able to link resources to activities. Performance measurement then gives the leader an objective view of how effectively resources are being expended, and how necessary the activities are to the overall success of the enterprise. Performance measurement means many things to many people, and its character often depends upon the level at which one is operating.<sup>72</sup>

The business plan is an excellent means of coordinating performance measurement activities and assessing the success of the outcomes in terms of comparison of both the planned activities and costs to the actual ones. This is, in fact, a determination of compliance to the

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<sup>70</sup> DND, VCDS, *Enhanced Performance Measurement Framework*; [article online]; available from [http://www.vcds.forces.gc.ca/dgsp/pubs/tools/idmf/perfMeasure/EnhancedPMF\\_e.doc](http://www.vcds.forces.gc.ca/dgsp/pubs/tools/idmf/perfMeasure/EnhancedPMF_e.doc); Internet: accessed September 2003.

<sup>71</sup> TB Secretariat, *Performance Management Programs: Overview/Lessons Learned*; [article online]; available from [http://www.tbs-sct.gc.ca/Pubs\\_pol/hrpubs/TBM\\_114/dwnld/saix\\_pres\\_pm\\_e.pdf](http://www.tbs-sct.gc.ca/Pubs_pol/hrpubs/TBM_114/dwnld/saix_pres_pm_e.pdf); Internet: accessed April 2004.

<sup>72</sup> Vice-Admiral Gary L. Garnett, “The Flag and General Officer as a Resource Manager” in *Generalship and the Art of the Admiral*, ed. Bernd Horn and Stephen J. Harris (St. Catharines: Vanwell Publishing Limited, 2001), 476.

business plan and to the agreement between levels of management. The plan, itself, should be treated as a living document and not something to be used as a paperweight or shelved immediately after its fall publication. Once the agreement has been published and the planned activities identified and approved, the real ingenuity is in ensuring that the activities accomplished are actually necessary to fulfill the Defence Objectives, as identified earlier, and that they are accomplished in the most effective and efficient means possible through continuous improvement and benchmarking.

It is apparent from these discussion arguments that, effective performance measurement can lead to better budget management, better decision-making, and better accountability. Measures that are key to the effectiveness of defence must be identified and then attached to the business plan through a process that revisits them on a routine basis during the year, especially at year end. 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. Business plans should clearly hold management accountable through continual monitoring of financial and operational measures of progress. By integrating performance measurement into the business planning process, delivery of optimum capability with allocated resources can be achieved.

### **Cash Management (In-Year Management)**

The fourth business planning tool that has the ability to enhance the business planning process is Cash Management or In-Year Management as it is denoted in the DP&M paradigm. Often referred to as ‘managing the plan’, cash management is the central, collective activity of managing and adjusting against the Defence Plan in the current fiscal year.<sup>73</sup> At the corporate

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<sup>73</sup> DND, Defence Planning and Management, *In-Year Management-Overview*; [article on line]; available from [http://www.vcds.forces.gc.ca/dgsp/pubs/dp\\_m/res-man\\_e.asp](http://www.vcds.forces.gc.ca/dgsp/pubs/dp_m/res-man_e.asp); Internet; accessed April 2004.

level, fundamental in-year activities are called for in strategic guidance and direction. However, cash management has yet to be fully exploited at other levels of the business planning process.

During the year, either as new pressure arises or funded initiatives do not develop as planned, it may become necessary to manage these variances from the Defence Plan (DP) and the approved Level One Business Plans. With the approval by the Deputy Minister (DM)/Chief of the Defence Staff (CDS) of the Initial Allocations in March, each Level One Advisor becomes responsible for managing their program within the assigned budget. Initial Allocations will include an amount of corporate over-programming to provide additional flexibility for in-year resource management.<sup>74</sup>

As discussed earlier in this paper, business plans can include ABC, zero-base budgeting and performance measurement features to make them much more than simply a demand document. Cash management is another valuable feature that can augment the business planning process by providing timely and relevant fiscal information to decision-makers.

Cash management, in government or business, is the process of identifying the cash inflow (revenue) and outlay (expenditure) requirements for a specific period, monthly, quarterly etc.<sup>75</sup> Simply put, it is the ability to forecast revenues and expenditures for a fixed period of time so as to make more efficient use of available cash reserves or to limit borrowing costs used in covering expenditures.

Before applying the concept to the DND/CF, it would be appropriate to gain an overview of how cash management works in business. In business, the principal function of cash management is cash flow forecasting. One feature of an accurate estimate of future revenues and expenditures is to allow business to make maximum use of its reserves by investing funds in various short-term investment vehicles. In most large businesses, cash flow forecasting is done

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<sup>74</sup> DND, Defence Planning & Management, *In-Year Resource Management*; [article on-line]; available from [http://www.vcds.forces.gc.ca/dgsp/pubs/dp\\_m/res-man\\_e.asp#4](http://www.vcds.forces.gc.ca/dgsp/pubs/dp_m/res-man_e.asp#4); Internet; accessed March 2004.

<sup>75</sup> PlanWare, *White Paper-Making Cash Flow Forecasts*; [article on-line]; available from <http://www.planware.org/cashflow.htm#1>; Internet; accessed March 2004.



on a daily basis and attempts to predict the amount of available cash in the bank after all deposits and payments have been made at the end of the day.<sup>76</sup> A good cash flow report is designed to help managers identify where the cash is going and to spot danger signals. If a manager notices expenditures greater than revenues, the manager must determine if the difference is coming from reserves or if the company is relying on increased credit.

On the other hand, lax cash management can rob a company of investment capital, increase the need for borrowing and substantially undermine profitability. In providing an example of poor cash management, an audit conducted on the cash management activities of the city of San Jose, California will be referred to.<sup>77</sup> The major finding of the audit was that unreliable cash flow information impaired the ability of city officials to manage the city's investment portfolio. The city's method for forecasting cash receipts and disbursements produced inaccurate information. Although the Treasury Department used a software system to generate cash forecasts, the accuracy of the system was poor because the data input was deficient. Because the forecasts were inaccurate, Treasury staff maintained the city portfolio at a shorter maturity period than would have been necessary had they used a more precise forecasting system. As a result, the city had realized lower interest earnings.

In terms of the federal government and the DND/CF in particular, cash management has become an increasingly important tool, as has the increase in resource managers, resulting from devolution and responsibility transfers, has had a greater influence on the Department's overall expenditure patterns and revenue generation/inflow. To emphasize this point, the DND/CF Financial Management Accountability Framework states that managers and Commanders must

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<sup>76</sup> The University of Arizona, Financial Management, *Cash Flow Forecasting*; [article on-line]; available from <http://www.fso.arizona.edu/fso/cash/forecast.asp>; Internet; accessed March 2004.

make decisions in light of timely, relevant, and reliable financial information, analysis, and advice.<sup>78</sup> The framework was introduced to increase the Deputy Minister's confidence that financial management is being properly carried out. Each year, Group Principals and Environmental Chiefs of Staff and their respective Comptrollers must personally sign a letter of attestation stating that they have met the Deputy Minister's expectations with regard to their financial management responsibilities.<sup>79</sup> The framework mandates that all long-term plans, short-term plans and proposed initiatives include an appropriate analysis of financial implications and that all assets, liabilities and expenditures are managed to optimize cash flows and minimize capital costs. In other words, the framework mandates some sort of cash management procedure to limit the costs to government in making departmental funding accessible and to make better use of whatever funding is available.<sup>80</sup>

We can now focus attention on cash management in the DND/CF and the fact that it is not being done effectively or efficiently and describe one approach to bringing more visibility to the subject. As it now stands, a considerable amount of time at various levels is consumed in trying to assess the status of expenditures at a given time and determining potential year-end cash positions. Surplus funds are being identified too late in the FY to be applied in a rational manner against higher priorities. Part of the problem is that financial planning is still not an

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<sup>77</sup> San Jose California Home Page, Office of the City Auditor, *Review of the City's Retirement Plans and the City and Redevelopment Agency's Cash Management Activities*; [article on-line]; available from <http://www.ci.san-jose.ca.us/auditor/8707.html>; Internet; accessed March 2004.

<sup>78</sup> DND, ADM(Fin CS), *DND/CF Financial Management Accountability Framework*; [article on-line]; available from [http://admfincs.dwan.dnd.ca/organiz/dfpp/fmaf\\_e.asp](http://admfincs.dwan.dnd.ca/organiz/dfpp/fmaf_e.asp); Internet; accessed March 2004.

<sup>79</sup> DND, DGSP, *Defence Management System Manual, Chapter 1, Part 3- Planning and Reporting and Accountability Structure*; [article on-line]; available from [http://www.vcds.forces.gc.ca/DGSP/dmsmanual/chapter1/ch1-3\\_e.asp](http://www.vcds.forces.gc.ca/DGSP/dmsmanual/chapter1/ch1-3_e.asp); Internet; accessed March 2004.

Organizations are accountable to achieving outcomes and key results in accordance with approved business plans or as otherwise directed by the DM/CDS. In addition, organizations are accountable to the DM through the Financial Management and Accountability Framework, March 98 which requires that each Level 1 manager produce a Letter of Attestation attesting to the fulfillment of financial management responsibilities.

<sup>80</sup> Ibid.

integral part of operational planning and Commanders are not providing sufficient motivation to operators to become more involved in managing departmental funds.<sup>81</sup> Another part of the problem is the limited financial reporting and analysis being requested by Commanders. Neither the information needs at each level of command nor their performance expectations and standards are well defined. Also, a perception of ‘use it or lose it’ still prevails in some areas, with individuals or managers hoarding or protecting funds until the last minute, rather than doing what would be the responsible thing from a corporate perspective: expediently declare the funding surplus for a higher priority requirement in the organization. Finally, there exists a mentality of planning to spend two percent less than the full FY expenditure limit (the carry-forward), which contributes to the potentially large swings in estimates near year-end. A solution to the latter point will be discussed later.

Although there can be no perfect solution to ensuring 100% accuracy in cash forecasting, there are means at the Department’s disposal that could potentially eliminate or, at least, identify much of the uncertainty. Basically, this can be accomplished through the use of the business plan and quarterly cash forecasts.

The Quarterly Review process is the primary mechanism to identify financial variances from Plans. Early in each new fiscal year a co-signed Director Budget (DB)/ Director Force Planning and Program Coordination (DFPPC) memo will establish the reporting dates for each of the fiscal quarters and the reporting dates to Program Management Board (PMB). In the fourth quarter (Q4), reports are made monthly. The memo will also provide Coordinating Instructions to Level One comptrollers. In accordance with this memo, Level One Advisors provide a report to DB and DFPPC.<sup>82</sup>

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<sup>81</sup> DND, Minister’s Advisory Committee on Administrative Effectiveness, *Achieving Administrative Efficiency*; [article on-line]; available from [http://www.forces.gc.ca/site/Focus/AE/report/toc\\_e.htm](http://www.forces.gc.ca/site/Focus/AE/report/toc_e.htm); Internet; accessed March 2004.

<sup>82</sup> DND, Defence Planning & Management, *In-Year Resource Management*; [article on-line]; available from [http://www.vcds.forces.gc.ca/dgsp/pubs/dp\\_m/res-man\\_e.asp#4](http://www.vcds.forces.gc.ca/dgsp/pubs/dp_m/res-man_e.asp#4); Internet; accessed March 2004. The PMB provides resource management oversight and direction at the project and activity level of the program. It supports the Vice Chief of the Defence Staff (VCDS) in coordinating the delivery of the Defence Services Program (DSP) as outlined in the Report on Plans and Priorities (RPP). It also gives action to decisions taken by the Deputy Minister (DM)/Chief of the Defence Staff (CDS) (at either the Defence Management Committee or Daily Executive Meeting). The Director Budget (DB), manages all funding allocations and consumption for the DND/CF. Director

As discussed above, the business plan identifies activities and tasks to be completed during the year. Since one Annex of the plan already identifies more or less what activity will take place and what resources are to be used, it can be refined to include the timing, the month or quarter, in which the expenditure or activity is forecasted to occur. Once implemented, cash management can be ingrained into the business planning process and be reviewed/revised on a continuous basis throughout the year. Managers and Commanders at all levels will know their cash position on, at least, a quarterly basis and will have a thorough understanding of their spending patterns. Managers and Commanders have the tools at their disposal to monitor, measure and analyze actual spending against budgeted amounts: historical averages, standards, spending targets etc. Surpluses and/or shortfalls can be identified as soon as possible and acted upon by appropriate resource committees. Once rolled up, the DND/CF should have a relatively good idea of the cash requirements throughout the year and be able to plan accordingly. Significant expenditure variances to the plan could be reconciled to funding or activity changes in the business plan.

With any change to the business planning process, there are associated risks, constraints and obstacles that should be taken into consideration. In terms of risks, the quarterly forecast reports might be misinterpreted by higher headquarters and acted upon in a manner that discourages proper management. For example, if there is a potential surplus in one quarter, the funds could be moved prematurely to another activity without proper consultation. As well, commitments in the departmental financial system may not always be accurate due to duplicate and missing information and there can be concern that funds given up by one organization will

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Force Planning and Program Coordination (DFPPC) coordinate departmental strategic direction with defence resources over the business planning horizon.

not necessarily be allocated to higher priority activities or units. Although not an exhaustive list the following risks are also of concern with respect to cash management in the DND/CF:

- One of the constraints is that government policy may limit the ability to conduct sound business;
- Due of increasing complexities, managers and Commanders do not have the financial expertise necessary to ensure accurate cash management and forecasting;
- Some managers and Commanders may resist the changes both overtly and covertly;
- There are conflicting priorities within the cash management framework in regard to the carry-forward option (the option to spend two per cent of a current FY's single operating budget allocation in a successive FY);
- The perception that a surplus is poor management may influence decisions;
- Units may not have a good perspective on what is happening in the big picture, therefore, not necessarily making the best decisions with respect to redistribution of resources;
- Many budgets are based on historical spending patterns as opposed to being zero-based, as established earlier;
- Units are expected to produce business plans that more or less match the funding levels given from the top but lack the standards, performance measurement indicators or benchmarks to accurately reflect actual activity costs; and
- There are certain obstacles to be considered that may impede the accuracy of the process.

One of the main artificial restrictions in the current cash management/budget system is the year-end procedure with respect to the two percent carry-forward option.<sup>83</sup> Although it is intended to allow for the carry-forward of projects and other funding related to specific activities,

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<sup>83</sup> DND, *Resource Managers' Guide*; [article online]; available from [http://admfincs.mil.ca/organiz/dmac/guide/resman\\_e.pdf](http://admfincs.mil.ca/organiz/dmac/guide/resman_e.pdf); Internet: accessed April 2004.

this mechanism can be counter-productive since, in many cases, it is used as a reserve cushion for the next FY. The carry-forward funding normally arises from cancelled activities or projects, which, due to time, activity change or weather-related constraints, are postponed or even cancelled outright. Unless the funding can be put to other meaningful and do-able unfunded activities in the plan, it should normally be returned to higher headquarters for other uses.<sup>84</sup> In many instances, this funding is significant and exceeds the existing two percent allowed for carry-forward. This being the case, many units will defer, plan and fund the activity next year, spend this year's funding on other priorities not included in their business plan, or simply carry it forward as a reserve. This is not ideal given our fiscal environment.

Alternatives to this would be to allow an increased carry-forward to be approved by higher headquarters or to manage the funding cycle in terms of two years, thus giving units more flexibility to achieve their objectives, spending 110% this year and 90% the following year. A typical situation is where a unit may learn of opportunities to take advantage of favorable market conditions to purchase materials or supplies or to contract construction projects, but is restricted due to the limited funding available at the present time. If authorized to exceed the current year's funding envelope, they would generate savings now for activities that would have been funded out of the following FY. On the other hand, a unit may have recognized significant savings in the current year, which exceed their two percent carry-forward and would like to combine these savings with a portion of next year's funding to engage in a major project not otherwise possible without external funding support. This kind of action could relieve pressure on higher headquarters to fund big-ticket items traditionally in their realm of responsibility.

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<sup>84</sup> DND, ADM(Fin CS), *DND/CF Financial Management Accountability Framework*; [article on-line]; available from [http://admfincs.dwan.dnd.ca/organiz/dfpp/fmaf\\_e.asp](http://admfincs.dwan.dnd.ca/organiz/dfpp/fmaf_e.asp); Internet; accessed March 2004.

Notwithstanding regulatory concerns<sup>85</sup>, these are just two examples of what could be pursued if alternatives were available.

By fully exploiting the innovative options that cash management brings to the table, it proves itself as a tool that should be fully integrated into the business planning process. Cash management would provide more visibility into the nature and value of planned activities and would provide some measure of performance indicators in relation to expenditure forecasting.

### **Review Services**

The final resource management tool to be introduced as a catalyst to broadening the business planning process is Review Services. As described by Chief of Review Services (CRS), Review Services are structured assessment projects/programs that follow audit, evaluation or other types of established or leading-edge methodologies which result in an oral and/or written report.<sup>86</sup>

At the strategic level, a variety of review services address: review intelligence, strategies and plans (including business planning); policy, practices and quality assurance; performance management and communications; professional resources development; and information management.<sup>87</sup> Review Services, are a full range of structural, support and monitoring activities within an organization that helps it achieve its goals. The focus of review services is “financial

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<sup>85</sup> DND, *Resource Managers' Guide*; [article online]; available from [http://admfincs.mil.ca/organiz/dmac/guide/resman\\_e.pdf](http://admfincs.mil.ca/organiz/dmac/guide/resman_e.pdf); Internet: accessed April 2004. Government regulatory requirements include:

- Government funding allocations cannot cross-over more than one fiscal year (except in certain circumstances);
- Operating within budgets and meeting financial obligations on time;
- Payments are to be deferred as long as possible;
- Minimal investments in accounts receivable, inventories and pre-paid expenses; and
- accelerate the collection of revenues.

<sup>86</sup> CRS, *Our Methods*; [article online]; available from [http://www.dnd.ca/crs/pages/methods\\_e.htm](http://www.dnd.ca/crs/pages/methods_e.htm) Internet; accessed March 2004.

<sup>87</sup> DND, *Resource Managers' Guide*; [article online]; available from [http://admfincs.mil.ca/organiz/dmac/guide/resman\\_e.pdf](http://admfincs.mil.ca/organiz/dmac/guide/resman_e.pdf); Internet: accessed April 2004.

controls which are heavily weighed towards providing front-line managers with the capability to do their jobs well and with the feedback essential to their success.”<sup>88</sup>

Achieving goals by establishing purpose, commitment and capability and following through with monitoring and learning is a formidable challenge. Nevertheless, criteria can be established for each of these components that provide an indicator as to what controls are essential and how they should be framed. Using these criteria as functional goals, financial controls are then formulated to help managers and Commanders achieve them.

Self-assessment<sup>89</sup> is one form of review service. This involves the regular and systematic review of organizational processes and results, allowing an organization to identify its strengths and improvement opportunities, as well as identifying the drivers of sustained high performance. All this is based on the concept that customer satisfaction, people (employee) satisfaction and impact on society are achieved through leadership driving policy and strategy, people management, resources and processes, all of which will lead ultimately to excellent business results. Self-assessment is a strategic business improvement tool. Managers at the highest level of the organization lead self-assessments. Commitment to improvement is demonstrated by senior management involvement in self-assessment activities. Self-assessment increases line management and other employee involvement in improvement. It is a team activity, which engages team members in focused continuous improvement.

The need to introduce continuous improvement into the culture of the DND/CF is a central theme to all major change initiatives. However, in order to ensure a successful introduction, purposeful action is required on several fronts: the entire DND/CF team must be trained to understand the principles and practices of continuous improvement; team members must adopt a process view of their daily activities to gain a clear understanding of their

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<sup>88</sup> Ibid.

<sup>89</sup> CRS, *Our Methods*; [article online]; available from [http://www.dnd.ca/crs/pages/methods\\_e.htm](http://www.dnd.ca/crs/pages/methods_e.htm) Internet; accessed March 2004.



customer/client relationships; and all organizational elements must integrate a quality framework. Simply put, continuous improvement is the application of the scientific method of a business process.

The strength in self-assessment is in its increased focus on people (employees), change management, empowerment, communication and customers. These are the ‘softer’ skill areas in which most organizations not only struggle to implement effective improvement strategies but, for the majority, do not know how to measure progress. The quotes: “If you do not know where you are today, how will you know you are better tomorrow?” and “If you can’t measure it, then you cannot manage it” sum up why organizations have often neglected these important elements. The use of self-assessment should be seen as something with which to ensure that the organization continues to build on strengths and identify and implement opportunities.

Another form of review service is Benchmarking.<sup>90</sup> This is defined as the process of identifying and adapting good management principles to help an organization improve its performance. Benchmarking can be conducted against internal operations, external operations, external product competitors and/or generic best practices and processes. With the requirement to improve services, resource use, delivery times and overall operational efficiency and effectiveness within the DND/CF, benchmarking is increasingly being recognized as a powerful tool for improving service quality. Benefits of benchmarking include: an objective review of processes, practices and systems; objective outside data on methods of operation; identification of potentially better ways of operating; support to proposals for change; presentation of common targets for improvement; ‘breakthrough’ ideas; and support to continuous improvement.

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<sup>90</sup> Ibid.

“Trying to simultaneously “run the business” and “change the business” requires an integrated, adaptable and flexible planning mechanism-the business planning process.”<sup>91</sup> The proficiency of the process is based on a number of key elements, one of which is the generation of feedback to support continuous improvement. To this end, feedback must include information concerning the results of actions, which is then transformed into lessons learned or knowledge. With knowledge, managers and Commanders are empowered to manage resources and make decisions in the best interests of the Department.

Review Services work towards: “overcoming resistance to change and finding the balance between recognizing the employees’ varying perspectives on change and actually getting on with it.”<sup>92</sup>

As discussed throughout this paper, the major tools for dealing with change are strategic planning and resource management. They both involve taking the long view, anticipating change by proactively examining emerging trends and conditions, synthesizing results and developing options relevant to successfully achieving goals and objectives. Information is the key to the attainment of tactical, operational and strategic objectives. It is important for resource managers to adopt good management practices and learn new techniques for data gathering, reporting and analysis.

### **Resource Management Tools - Summary**

To summarize, all the above tools provide more useful and relevant information to decision-makers at all levels, and connect departmental management principles with increased responsibility and accountability, devolution of resources and continuous improvement. Under

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<sup>91</sup> Vice-Admiral Gary L. Garnett, *The Flag and General Officer as a Resource Manager*, Generalship and the Art of the Admiral, (St. Catharines: Vanwell Publishing Limited, 2001), 476

<sup>92</sup> Harry Hubley, *Getting on With Changes at CRS*, D2000 Newsletter, (Ottawa: DND, 1997), 1.

the DP&M framework, new departmental management principles have been adopted that define the goals of management renewal and represent a results-oriented paradigm for resource management. As a foundation for this new management framework, the business planning process represents an operating agreement between successive levels in the organization and the principle means of defining quality and quantity of the activities/outputs expected of managers and Commanders and the resources available/allocated to achieve the results. Fully integrated with the five resource management tools described above, the business plan can become the primary means for resource planning/allocation and can support devolution of authority and accountability to the lowest practical level.

First, ABC provides decision-makers with on-line reporting of resource consumption by activity and outputs according to capability elements, taskings and units. 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. This will support resource re-allocation decisions to meet expected outputs within the resource envelope of the business plan. Second, zero-base budgeting increases resource efficiency, improves services, increases restraint in developing budgets, reduces the entitlement mentality with respect to cost increases and makes budget discussions more meaningful during review sessions. Third, performance measurement provides a foundation for an integrated accountability framework. Measurable performance indicators, when included in the business plan, will define the quality and quantity of outputs/products expected of commanders. Fourth, cash management is essential to successful long-range resource allocation, planning and decision-making. It enables resource management decisions to be made in concert with the devolution of resources and responsibilities, the business planning process and the operating budget concept. A process for

tracking expenditure targets is required to permit commanders to divert funds to important organizational improvements or acquisitions or, in emergencies, to assist other units to meet urgent operational commitments. Fifth, review services provide indicators to support and foster continuous improvement and internal/external benchmarking. They will focus on process and client/customer feedback. With the devolution of responsibilities and funds, comes the need for management control activities to provide a regular and systematic review of financial management practices and supporting systems and services. The focus of review services is to ensure that the tools are available to financial managers to carefully and responsibly manage public resources and to enable them to make effective, efficient and economic decisions.

## **CONCLUSION**

In conclusion, to make plans and assess the results, managers and Commanders need the right information, in the right form, at the right time and at the right cost. As this paper has argued, business planning must integrate financial/non-financial, materiel, and human resource information and must link to departmental outputs and results in a way that corresponds to the accountability framework of the DND/CF. To this end, there are resource management tools that, when incorporated into the business planning process, are able to deliver the required financial information, analysis, risk assessment and advice to support the decision-making process.

Currently, the approach to business planning is 'top down' driven through the DPG and Planning Guidance developed by each subordinate organization. However, plans at any level cannot be finalized without simultaneous participation and communication at all levels. Changes to objectives, resources or performance expectations at any level must be reflected throughout all levels of business planning as required, a 'bottom up' element. Business planning is all about

outputs, outcomes, conditions and expectations. “It’s all about running the affairs of the Department in a business-like way, delivering balanced combat-capable forces with optimum efficiency and fulfilling the obligation to be good stewards of resources.”<sup>93</sup>

Although the DND/CF is committed to a results-based orientation, current financial funding and reporting remains output-based (process and organizational view). Strategy execution cannot be adequately achieved if objectives are not aligned throughout the organization both vertically and laterally. Moreover, as mentioned previously, the resource allocation process does not fund objectives but maintains traditional budget practices, which funds organizations. Funds must be allocated by capability structure achieving a better alignment of resources to capabilities based on results. As a result, there is limited relevance of business plans to results or outcomes and managers are unable to use the information provided in the plans for decision-making. There is no common cost capturing mechanism or consistent performance-reporting tool in the DND/CF to identify what is being achieved with the dollars being spent. Like businesses, the DND/CF must implement changes to its financial system to establish links between resources and activities. 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.

As stated before, managers and Commanders are responsible for using Departmental resources to achieve objectives, which are in the best interest of the Canadian public and the Department. Therefore, it is paramount that they have the necessary resource management tools to ensure that resource allocation decisions are optimized, resources are effectively controlled

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<sup>93</sup> Maj Marsha Dorge, *Business Planning: It Just Makes Sense*, D2000 Newsletter, (Ottawa: NDHQ, 1997), 2.

and reports to internal and external authorities include both the decisions made and the results achieved.

This paper has shown that the business planning process has evolved so that short-term activities can be related to long-term strategy, clarifying the relationships between resource allocation, activities and expected results with the DP&M framework and the highest level of strategic objectives. Business planning is now an important part of this Departmental management framework, representing a significantly different way of managing resources. In order to fully capture the benefits that business planning has to offer and support managers and Commanders working within this framework, additional resource management tools must be integrated into the business plan and be fully embraced at all levels. As this paper has discussed, there are five resource management tools that have the potential to enhance the business planning process. These tools are: Activity-Based Costing; Zero-Base Budgeting; Performance Measurement; Cash Management; and Review Services.

Again, the above resource management tools provide the means for linking of inputs, outputs, outcomes and improvements into the business planning process. They also produce the rationale needed for making resource trade-offs and for ensuring balance among the many competing demands. Furthermore, these tools generate a clear picture of the organizational objectives and provide management focus for the internal management of the resources. Properly implemented and coordinated with these five resource management tools, business planning will provide real freedom to operate by allowing flexible resource and activity trade-offs within the boundaries and constraints established in the accountability framework. Likewise, it has been established that, by integrating these tools into the current business planning process, the DND/CF resource management can be improved to reflect a true statement

of departmental deliverables pertaining to the DPG mandated operational capabilities, while ensuring continuous improvement in performance and results achieved.

The business planning process does not end in planning. Business planning is a management system. It integrates the management functions of planning, organizing, implementing and controlling. The business planning process provides management with basic tools and information that describe the management and resource environment, and contribute to establishing the accountability framework needed to manage in a devolved and dynamic environment. It is a part of a continuous improvement cycle that involves planning, implementing, assessing results and realigning. When used together within the business planning process, ABC, Zero-Base Budgeting, Cash Management, Performance Measurement and Review Services will achieve successful strategy execution, track the progress of objectives, understand how resources are consumed and complement results-based management throughout the defence establishment. No one tool can solve the problems. Without the integration of these various tools, there is no reason to expect that citizens, parliamentarians, managers and Commanders throughout the DND/CF will be any better informed in the future than they are now.

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