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The Business Values Scorecard within BAE Systems: The evolution of a performance measurement system

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Abstract

This paper explores the evolution of a performance measurement system in BAE Systems, a UK aerospace company. In 1994, the company embarked on a culture change project, which focused the organisation on five key values: performance, people, customers, partnerships, and innovation and technology. Tracing the mechanisms used to implement these values through the culture change project, the study describes the introduction of the ‘‘Business Values Scorecard’’ (BVS), which provided a way of translating the five key values into a coherent set of performance measures. The paper contrasts the BVS in BAE Systems with the balanced scorecard (BSC) of Kaplan and Norton, emphasising the importance of ‘‘coherence’’, rather than cause-and-effect relationships. Furthermore, the BVS was not simply designed and then implemented; instead it evolved over an extended period of time. Finally, while it reflected the strategic vision of senior managers, the BVS was used as a tool to enable strategy to emerge from within the organisation, rather than as a mechanism for cascading down the hierarchy the strategy previously established by top-level managers. However, although the profitability of the company increased significantly over the period of the culture change project, many other things were also changing; consequently, it is not possible to isolate the effects on profits of introducing the BVS. Nevertheless, the belief within BAE Systems is that the BVS has made an important contribution to the recent success of the company.

Keywords: Business Values Scorecard; Corporate change program; Performance management; Evolution; Coherence

1. Introduction

The use of non-financial performance measures is not new. For example, General Electric (GE) in the US was using non-financial measures in the 1950s (Anthony et al., 1989) and French firms have, for many years, used the tableau de bord, which can be dated back to 1932 (Bourguignon et al., 2004). In addition, over the years, a number of theorists have pointed to the importance of non-financial measures (e.g. Hopwood, 1973; Anthony et al., 1984; Merchant, 1985; Schoenfeld, 1986; Eccles, 1991; Maciariello and Kirby, 1994). However,

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non-financial measurement systems have generally comprised loosely coupled local systems, guided by local needs and with little direct connection to the organisation's strategic objectives, and without any explicit balancing of local and organisational needs (Nørreklit, 2000, p. 66; see also Merchant, 1985).

In recent years, considerable research has been directed at constructing systems of non-financial measures linked to strategy (McNair et al., 1990; Beischel and Smith, 1991; Grady, 1991; Euske et al., 1993; Ittner and Larcker, 1998; Vaivio, 1999a, b, 2004; Surysekar, 2003; Ittner et al., 2003a, b; Malina and Selto, 2004; Chenhall, 2005; Tuomela, 2005). Probably, the most well known of these systems is the balanced scorecard (BSC) of Kaplan and Norton (1992, 1993, 1996a, b). Kaplan and Norton claim that ''the scorecard addresses a deficiency in traditional management accounting systems: their inability to link a company's long-term strategy with its short-term action'' (Kaplan and Norton, 1996c, p. 75). Whereas the BSC is intended to provide the means for putting strategy into action, in this paper we will explore an alternative approach in which a scorecard—a so-called ''Business Values Scorecard'' (BVS)—was used in order *to develop* strategy. In 1997, BAE Systems introduced its BVS to give managers financial and non-financial information covering the five key values of its culture change project.

In this paper, we will discuss the linkages between the BVS in BAE Systems and the company's culture change project. We will also contrast the BVS with Kaplan and Norton's BSC. We will describe how the BVS evolved, rather than being imposed, and examine the way in which the BVS was used to enable strategy to emerge, rather than as a way to implement the strategy set by top-level managers. The paper is organised as follows: the next section will review the literature on non-financial performance measures; then after Section 3 describes our research methods, Section 4 will describe performance measurement systems (PMS) in BAE Systems; Section 5 then discusses issues arising out of our case study and Section 6 provides some conclusions.

2. Non-financial performance measures

As mentioned above, the interest in non-financial performance measures is not a new phenomenon, but clearly such measures have become increasingly widely used in recent years (for reviews see Ittner and Larcker, 1998; Neely et al., 1995; see also Burns et al., 2003). In addition, over the years, a number of theorists have pointed to the importance of non-financial measures (e.g. Hopwood, 1973; Anthony et al., 1984; Merchant, 1985; Schoenfeld, 1986; Eccles, 1991; Maciariello and Kirby, 1994). Probably the most popular system associated with the use of non-financial performance measures in management accounting is the BSC developed and promoted by Kaplan and Norton (1992, 1993, 1996a–c, 2000). In part, the popularity of the BSC is because it has a range of different uses, and it can mean different things to different people (see Nørreklit, 2000).

Recent academic research has suggested that there are a number of different ways in which the BSC can be used (e.g. Malmi, 2001; Speckbacher et al., 2003; Ax and Bjørnenak, 2005). For example, Malmi distinguished, on the one hand, companies which use the BSC in a system of management by objectives and, on the other, companies which use the BSC merely as an information system. It is worth noting at this point that, in his study, Malmi also observed that many users of the BSC direct their attention to each perspective (of the score card) in turn, rather than exploring the cause-and-effect relationships between the different perspectives. We will explore this point in more detail later. Returning for the moment to the different uses of the BSC, Speckbacher et al. (2003) distinguished three types of BSC:

Type I: a specific multidimensional framework for strategic performance measurement that combines financial and non-financial measures;
Type II: type I, plus an explicit recognition of cause-and-effect relationships;
Type III: a type II BSC which explicitly implements strategy by defining objectives, action plans and reports, and which is linked to incentives.

In the case of types (II) and (III), BSC measures are linked in a chain of cause-and-effect relationships, but it is the type (I) which is the most common in Speckbacher et al.'s sample of BSC implementations in German-speaking countries. In another study, Ax and Bjørnenak (2005) found that the implementation of the BSC in Sweden had distinctive Swedish characteristics. For example, whereas Kaplan and Norton clearly state that