



# Transformation in the defence sector: The critical role of performance measurement



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## ABSTRACT

This paper presents a longitudinal case study of strategic transformation in a complex organisation – Her Majesty's Naval Base (Clyde). The research identifies nine Critical Success Factors from the change management literature and analyses their position in driving the transformation. Findings suggest that many of the success factors suggested by the literature were not present during the transformation. However the presence of a robust performance management system within the organisation resulted in significant progress towards the strategic goals despite the absence of other factors. This paper demonstrates how strategic change can be accomplished by the use of more operational toolsets such as performance management systems.

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## 1. Introduction

“In this tough economic environment, if you wait too long to envision and implement transformational changes, you are out of the game” (Kanter, 2009).

This quote, by one of the ‘masters of change’ in discussing the fate of GM's ex-CEO Rick Wagoner, neatly summarises the position of change management in the 21st century. While scholars have long debated the nature of organisations, asserting that they are dynamic entities existing in a constant state of flux where continual change is necessary to remain competitive (Porter, 1990; Burnes, 2005), even Kanter, when writing ‘The Changemasters’,

may have been hard pressed to foresee how the current global economic climate has emphasised the need for change-mastery while simultaneously pressing the fast-forward button on the pace of its implementation.

Significant work has been done to characterise the nature of change (Bessant and Caffryn, 1997; Todd, 1999; Weick and Quinn, 1999), the contextual forces that drive it (Kilmann et al., 1988; Drew and Coulson-Thomas, 1997; Francis et al., 2003); and the processes through which it can be achieved (Lewin, 1951; Kilmann et al., 1988; Garvin, 2000). This work has produced a number of models that claim to capture change. Interestingly there is much consensus in the content of these models, they tend to be defined by their similarity with their differences representing little more than presentational window-dressing. It almost seems that in the field of change management there is little left to argue about.

However this body of theory, while consensual, is not simple. Most change models, suggest that many factors such as strategy and structure (Miller, 1996; Miles, 1997; Mintzberg et al., 1998; Galbraith et al., 2001; Wischnevsky, 2004), people and culture (Blumenthal and Haspeslagh,

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1994; Miles, 1997; Mintzberg et al., 1998; Bititci, 2007) and resources and competencies (MacIntosh and MacLean, 1999, 2001; Eisenhardt and Martin, 2000; Wischnevsky, 2004) must be considered when implementing successful change. This complexity within the change literature is at odds with the need for quick change within the increasingly dynamic industrial context. Therefore it is proposed here that these multi-factor views of change that dominate the current literature are becoming less and less useful in an organisational context where speed is critical.

This paper presents a case study of a successful transformation within the defence sector. The case study examines the transformation of Her Majesty's Naval Base-Clyde (HMNB-C), made necessary by new contractual arrangements between the Ministry of Defence (MoD) and the Babcock International Group, that resulted in radical changes to working practices and significant cost savings. This change was carried out using performance measurement as a key lever in the change process. On analysis of the transformation the researchers were left questioning whether the critical factors normally associated with success were present therefore the key issue that this paper explores is whether organisational transformation does require certain critical success factors to be present – or whether effective performance measurement is enough to drive transformation?

To address this question, this paper begins by reviewing the literatures on both strategic change and performance management. It then describes the background to the case study before presenting the findings of research carried out at the naval base to establish whether the critical success factors were present and to what extent performance measurement was central to driving the transformation. Conclusions are then offered on the relationship between performance management systems and strategic transformation.

## 2. Literature review: strategic transformation and operational performance

Change management theory originated in the fields of group dynamics and behavioural psychology before emerging in the 1940s as an independent discipline as factory managers worked to understand how to reduce employee resistance to changes in working conditions and practices (Burnes, 2004). Since then, it has expanded from an interest solely in employee behaviour to encompass management of all aspects of the change process. Today organisational change management operates on a very broad canvas often driven by the strategic desire to move from existing business models that are not achieving the required results to new, more effective business models that will (Kilmann et al., 1988; Francis et al., 2003). As a result of this widening of scope, change management has become possibly the most promiscuous of management disciplines used to some extent in all companies.

### 2.1. Strategy and change

Because of this strategic imperative, the edges between organisational change and strategic management have

become increasingly blurred as organisations continuously alter their strategies in order to cope with the demands of the external environment. Further, it has been argued that it is now the principal task of the strategist or leader of an organisation to adapt it to ensure sustained competitive advantage (Voola et al., 2004). Studies of organisational flexibility (Hitt et al., 1998; Dreyer and Grønhaug, 2004; Sawhney, 2006), configuration (Miller, 1996; Dyck, 1997) and dynamic capabilities (Teece and Pisano, 1994; Eisenhardt and Martin, 2000) in the context of organisational change highlight that there is some common ground between the change and strategy literatures (Kilmann et al., 1988; Francis et al., 2003).

This common ground is found in the stimulus for strategic change that comes from the generation of a new strategic vision. Strategic vision is normally influenced by a combination of contextual factors which Pettigrew (1987) defines in two dimensions; the 'outer', concerned with the economic, political and competitive environment; and the 'inner' concerned with elements such as organisational structure, capabilities, culture, and power. The focus when dealing with strategic change tends to be on the external context with stimuli such as competition (Kilmann et al., 1988; Drew and Coulson-Thomas, 1997), market changes (Drew and Coulson-Thomas, 1997), changing customer needs (Drew and Coulson-Thomas, 1997) and technological change (Kilmann et al., 1988; Drew and Coulson-Thomas, 1997; Francis et al., 2003) seen as driving strategic direction. However internal stimuli including new leadership (Boeker, 1997), poor performance (Burke and Litwin, 1992) and overall 'dissatisfaction with the way in which the business is operating (Kilmann et al., 1988) also contribute.

### 2.2. The nature of change

Ackerman (1997) suggests that change can be of three types; developmental change that is 'first order' focusing on improving skills or processes; transitional change that is second order or radical resulting in the movement from one state to another; and transformational change that, while also radical, is more extreme involving both a change in strategic state and major changes in key organisational dimensions (Francis et al., 2003; Wischnevsky, 2004). This third transformational type is the focus of this paper. The characteristics of transformational change are summarised in Table 1.

While transformation may be conceived at the strategic level it is generally implemented operationally within the organisation. Theory in the implementation of change splits broadly into two literatures. First that borne out of the aforementioned organisational development literature which focuses on the 'whats' of change management – what is the content of change and what is the process it follows? And second, that borne out the operations management literature that focuses on the 'hows' of change management – how change is carried out and how it is controlled.

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