

5 KEY PRINCIPLES OF Corporate Performance Management

How do Balanced Scorecard Hall of Fame, Malcolm Baldrige, Sterling, *Fortune* 100, APQC, and *Forbes* award winners drive value?

BY BOB PALADINO, CPA

Author's note: Content for this article has been adapted in part from my recently published book, *Five Key Principles of Corporate Performance Management*, from Wiley Publishing, January 2007.

This first of three articles is focused on Principle 1: Establish and Deploy a CPM Office and Officer. The second article focuses on Principles 2 and 3, and the final article focuses on Principles 4 and 5.

What do award-winning enterprises know that eludes most of today's executives? How do they organize and conduct themselves to accelerate and achieve outsized results? What unique processes and best practices do they leverage? To find out, let's take a look at the key principles of executing strategy as told by some of the executives who work in these organizations.

GREATER PRESSURES TO PERFORM

Executives are expected to demonstrate results faster than ever before, and, unfortunately, one of the outcomes has been that CEO, CFO, COO, and CIO turnover has accelerated rapidly in the past few years. In fact, *HR Magazine* reports that CEO churn is at an all-time high. Increasingly, new CEOs enter a company, fail to deliver, and are sent packing. If they do produce results, sometimes other companies snatch them up. Either way, the process starts all over again.

Booz Allen Hamilton reported in the *Strategy + Business* Summer 2006 article, "CEO Succession 2005: The Crest of the Wave," that European and North American CEOs topped the list of involuntary exits in 2005. According to this fifth annual survey of CEO turnover at the world's 2,500 largest publicly traded corporations, global CEO departures reached record levels for the second year in a row but may be peaking, and performance-

related turnover set a new record in North America.

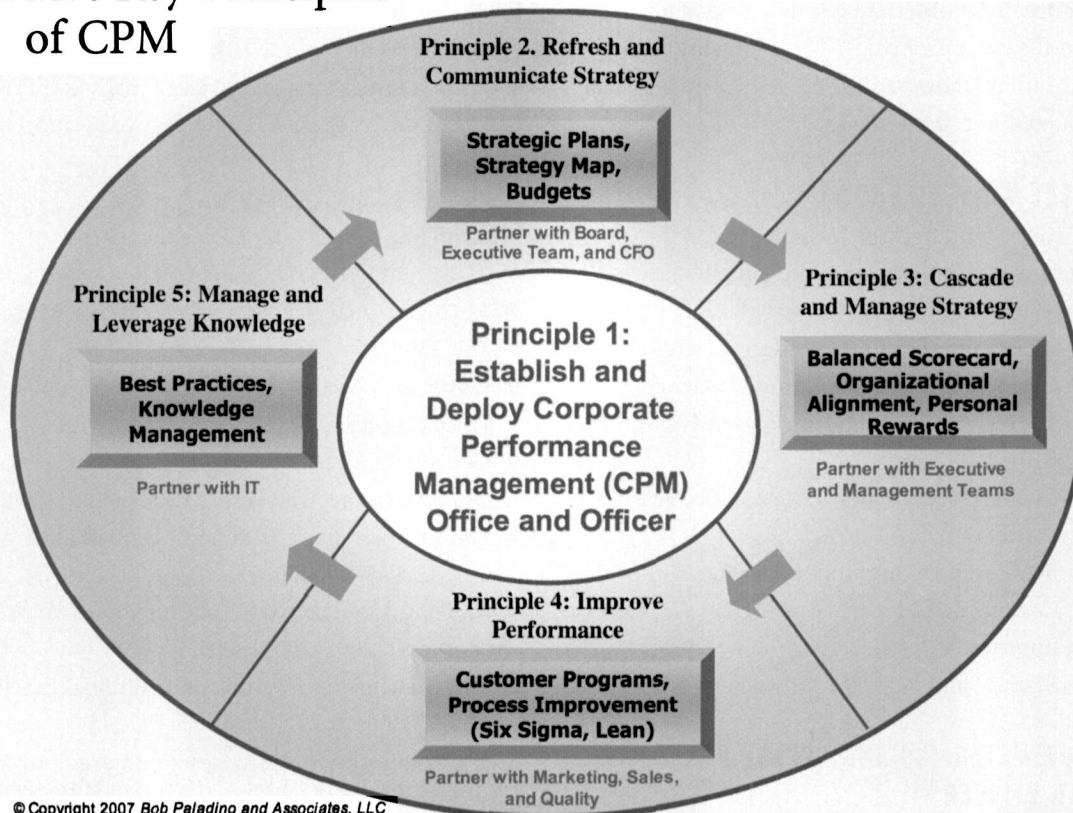
And in its report on "Blue-Ribbon Companies 2004," *Fortune* magazine noted, "If making the *Fortune* 100 best lists is an enormous accomplishment, consider how tough it is to repeat the feat every single year. Just 22 companies have appeared on our list every year since its 1998 inception." The turnover of *Fortune* 500 companies between 1998 and 2004 is staggering.

In my January 2005 *Strategic Finance* article, "Balanced Forecasts Drive Value," I shared the "Four Barriers to Success" or "why nine out of 10 companies fail to implement their business strategies" popularized by Robert Kaplan and David Norton and encountered by companies failing to realize their strategic objectives and results. *Five Key Principles of Corporate Performance Management* expands this thinking and cites MIT Professor Charles Fine's research on industry rate of change, or "Clock Speed," and its impact on companies that fail to understand and develop strategic and management processes to address it. Fine's book, *Clockspeed: Winning Industry Control in the Age of Temporary Advantage*, provides concrete examples of how industries exhibit different rates of evolution or Clock Speed. Strategically minded corporate performance management (CPM) executives must understand and integrate CPM processes to deal not only with today's challenges but also with enterprise preparedness for evolutionary changes. *Clockspeed* provides us with a template

Table 1: Finalist Case Study Organizations

Enterprise (alphabetical order)	Balanced Scorecard Global Hall of Fame Award (Kaplan & Norton)	APQC Best Practice Award	U.S. President Malcolm Baldrige National Quality Award	Governor Sterling Quality Award	Deming Award	Fortune 100 Best Companies to Work for Award
American Red Cross						
Bronson Methodist Hospital				2 TIMES		3 TIMES
City of Coral Springs						
Crown Castle International						
Florida Dept. of Health				2 TIMES		
Hearst Publications (<i>Houston Chronicle</i>)						
KeyCorp						
LB Foster Company						
Medrad						
Raytheon						
Ricoh					2 TIMES	
Serono International						
Sprint Nextel						FORBES AWARD
Tennessee Valley Authority						

Figure 1: Five Key Principles of CPM



for understanding evolutionary dynamics of industries. Fine states, “The faster the industry Clock Speed, the shorter the half-life of your competitive advantage.” As a result, the strategic management processes should identify and leverage your competitive advantages. Further, in reactionary efforts to address the four barriers and Clock Speed, enterprises often begin CPM projects, many of which fail. Clearly, the allowable time for effectively implementing strategies to achieve results has been compressing, and new solutions are desired.

Five Key Principles provides best-practice research from globally recognized enterprises and offers guidance to enable you to implement your strategy rapidly through integrated CPM efforts. The book includes in-depth case studies and insights from executives who have won multiple globally recognized awards. Executives selflessly share key process maps, strategy maps, balanced scorecards, comparative tables, project plans, testimonials, charts, graphs, and screen shots of balanced scorecard and knowledge management (KM) systems. It also draws from my direct executive experience as vice president leading one of Kaplan and Norton’s Balanced Scorecard Consulting Divisions; as senior vice president, Global Performance, at Crown Castle International (Crown);

and client, study group, and advisory experiences with award-winning and high-performing organizations.

RESEARCH ON WINNING ORGANIZATIONS

I was fortunate to participate in research projects with executives and leaders from more than 40 leading organizations that included Balanced Scorecard Hall of Fame, Baldrige, Sterling, and APQC Best Practice Partner Award winners. Some of these projects included:

- ◆ Performance Management Consortia Best Practice Project
- ◆ Kaplan and Norton’s Office of Strategic Management (OSM) Study Group
- ◆ Customer Relationship Management (CRM) Consortia Best Practice Study Project
- ◆ Knowledge Management (KM) Consortia Best Practice Study Project
- ◆ Best Practice Sharing Consortia Study Project
- ◆ Performance Management Consortia Best Practice Study Project

Organizations that won just one of the noted awards would present a rich source of best practices for your CPM program, but we’ll learn from the contributions of enterprise executives who have won multiple awards. For

example, Bronson Methodist Hospital received six top awards and dozens of other notable awards that are described in the book case study. The 14 finalist case study organizations shown in Table 1 represent corporate, government, and nonprofit sectors.

WHAT DO THE WINNERS KNOW?

During the course of the research, study, and many successive client projects, a winning company DNA started to emerge because true winners follow a discernable pattern. These organizations follow a pattern we refer to as the “Five Key Principles of CPM,” within which are dozens of best practices. Shown below and in Figure 1, the principles are:

- Principle 1:** Establish and Deploy a CPM Office and Officer
- Principle 2:** Refresh and Communicate Strategy
- Principle 3:** Cascade and Manage Strategy
- Principle 4:** Improve Performance
- Principle 5:** Manage and Leverage Knowledge

PRINCIPLE 1: ESTABLISH AND DEPLOY A CPM OFFICE AND OFFICER

I’ll share portions of three CPM Officer cases: Bronson Methodist Hospital (Bronson), with a focus on deployment of the Malcolm Baldrige Quality Program (see Prin-

ciple 4); Serono’s CPM Officer, with a focus on deploying the balanced scorecard program (see Principle 3); and Universal Weather and Aviation, with a focus on strategic and business planning and strategy maps (see Principle 2). CPM Officer is adopted as a normative position title.

Bronson Methodist Hospital

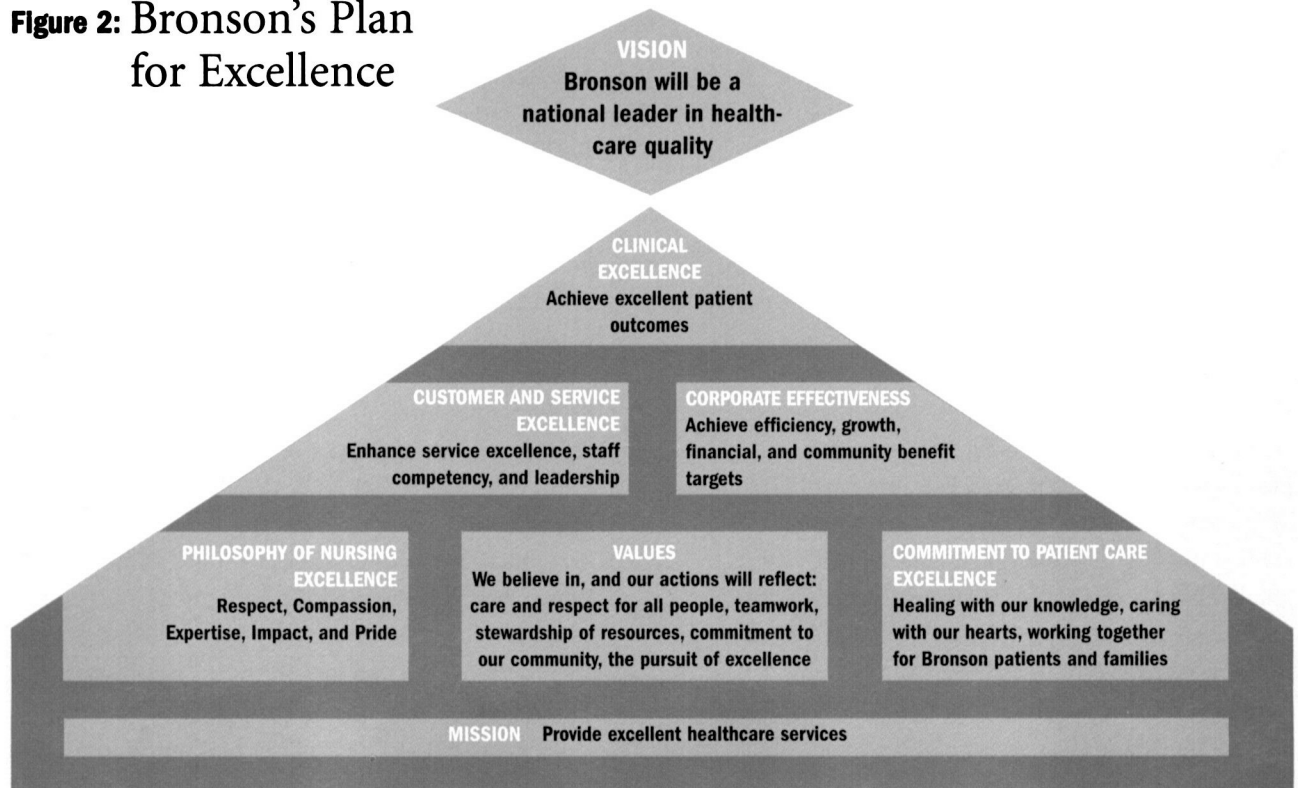
Bronson has earned several notable awards:

- ◆ Malcolm Baldrige National Quality Award (2005)
- ◆ Michigan Quality Leadership Award (2001, 2005)
- ◆ 100 Top Hospitals Award (2005).
- ◆ Governor’s Award of Excellence for Improving Care in Hospital Setting (2004, 2005, 2006)
- ◆ Governor’s Award of Excellence for Improving Preventive Care in the Ambulatory Care Setting (2005, 2006)
- ◆ *Fortune* magazine’s “100 Best Companies to Work For” (2004, 2005, 2006)
- ◆ *Working Mother’s* “100 Best Companies for Working Mothers” (2003, 2004, 2005, 2006)
- ◆ VHA Leadership Award for Operational Excellence (2005, 2006)

To learn more about Bronson’s numerous awards, go to www.bronsonhealth.com.

Bronson Methodist Hospital is a nonprofit medical center that provides inpatient and outpatient care from a 28-acre urban campus in downtown Kalamazoo, Mich.

Figure 2: Bronson’s Plan for Excellence



Established in 1900, it's a 343-bed, state-of-the-art, all-private-room facility designed as a peaceful, healing environment. The hospital is the flagship organization in the Bronson Healthcare Group. Bronson's 3,200 employees and 780 medical staff manage more than 77,000 emergency visits and 21,000 admitted patients each year while generating \$751 million in gross patient revenues.

The Bronson culture is built on a focus on and passion for excellence. The hospital's purpose and reason for existence are stated in its mission, which is to *provide excellent healthcare services*. The mission, values, commitment to patient care excellence, and philosophy of nursing excellence provide the foundation that supports the organizational strategy, which is illustrated in the vision, which is *to be a national leader in healthcare quality* and the three Cs of corporate strategies (see Figure 2):

1. **Clinical Excellence (CE),**
2. **Customer and Service Excellence (CASE), and**
3. **Corporate Effectiveness (CORE).**

Excellence is the thread that ties together the vision, mission, values, commitment to patient care excellence, philosophy of nursing excellence, and overall strategies. These elements, which make up the Plan for Excellence (see Figure 2), form the culture and guide decision making. Bronson's commitment to excellence begins with the visionary leadership provided by President and CEO Frank J. Sardone. "Continuously raise the bar" is Sardone's leadership mantra and a concept that has moved Bronson steadily forward in achieving its vision to be a national leader in healthcare quality. In 1999, Sardone and his executive team adopted the Baldrige criteria as a framework for running the Bronson business effectively. Michele Serbenski, executive director, Corporate Effectiveness & Customer Satisfaction, and a trained Baldrige examiner, helps the executive team follow the principles of the Baldrige criteria in all of their leadership processes. This position functions as the CPM Officer within Bronson.

Serbenski is a member of the Bronson executive team reporting to the executive vice president/chief operating officer, a direct report to the CEO. She works collaboratively with the entire executive team to implement the necessary change programs throughout the organization. Bronson's organizational structure includes three strategic oversight teams, each chaired by a member of the executive team. (Serbenski chairs the Customer & Service Excellence team.) These teams are responsible for oversight and achievement of the organization's strategic plan, specifically the annual goals of the corporate strategies or three Cs. Bronson's focus on improvement is

driven by the areas identified through the continuous planning process in the Strategic Management Model. To assist Bronson in the use of its improvement model, Plan-Do-Check-Act (PDCA), five dedicated project coordinators lead and facilitate team-based improvements.

How Bronson Applied Principle 1: Establish and Deploy CPM Office and Officer Best Practices

- ◆ Bronson sponsored CPM Officer at a high level.
- ◆ CPM Office executive reports to a CEO direct report.
- ◆ Small senior team experienced in change programs, full-time roles in contrast to many organizations that try unsuccessfully to leverage junior people part-time to drive results.
- ◆ Able to organize large-scale virtual or distributed teams to drive results in one or more CPM methods (Plan, Do, Check, Act). Team members aren't directly reporting to the CPM Office. Rather, they report to local department or functional leaders but observe and follow the CPM standardized methods.
- ◆ Established centralized CPM oversight with senior executives.
- ◆ Executive team owns and directs the Strategic Management Model process throughout the enterprise.

Serono

Serono received the Balanced Scorecard Hall of Fame Award.

Serono is a 100-year-old biotechnology company based in Geneva, Switzerland. It's the largest biotechnology company in Europe and the third largest worldwide. Serono develops and markets specialized medicines in four therapeutic areas: (1) multiple sclerosis, (2) women's reproductive health, (3) growth hormone, and (4) psoriasis. Serono is one of the world's only fully integrated biotechnology companies, which means it covers the entire value chain from drug discovery and product development to manufacturing and sales to physicians. Serono has seven recombinant biotechnology products on the market and revenues of \$2.5 billion. With a workforce of 4,900 employees spanning 45 countries, the company has a truly global presence.

Serono's CEO has advocated additional responsibilities to Strategic Planning over the years to help achieve and manage change and to ensure focus on strategic priorities. The head of Strategic Planning, who reports directly to the CEO and serves on the Executive Management Board, is also in charge of Internal Audit, Corporate Quality Assurance, Risk Management, Compliance, the

CEO Office, Strategic Projects, Performance Management, and Business Reviews. These functions facilitate CPM change activities and the monitoring of such activities, and they ensure tight focus on the strategic priorities and objectives. The office is led by the senior executive vice president, head of Corporate Administration, and Group Compliance Officer and is responsible for these CPM Office responsibilities:

Strategic Planning. Custodian of the process to formulate and update the strategy and ensure that strategy is at the center of the process.

Performance Management. Design and report on the balanced scorecard measures that describe and monitor the strategy.

Governance. Custodian of the governance process that puts strategy at the center of the organization.

Compliance. Manage and ensure that the company is compliant with the necessary authorities and regulations in a value-adding manner.

Risk Management. Oversee and manage the enterprise risk management program.

Initiatives. Identify and oversee the management of strategic initiatives required to execute the strategy.

Alignment. Ensure alignment with the strategy at all levels of the organization and with all core business processes (financial, commercial, human resources, research and development).

Reviews. Work with senior management to continually shape the agenda for strategic review and learning.

Best Practices. Facilitate processes to identify and share best practices.

Awareness. Create a comprehensive communication and education process focused on the strategy.

Lawrence Ganti, corporate director, Strategy Management, has been leading Serono's Strategic Balanced Scorecard program and functions as the CPM Officer. He says, "We have a very strong performance-oriented culture. We use the balanced scorecard as the management tool, which helps us to align global objectives and harness the power of the collective efforts across all functions."

Ganti explains the program: "We first implemented the balanced scorecard in 1997. Over the years, we have linked our balanced scorecard to compensation, then planning, and then budgeting. The entire organization is aligned to the balanced scorecard, and people consider the balanced scorecard to be their marching orders from the CEO. As the communication of 'what the balanced scorecard is' [was] some time ago, the CEO and Executive Board commissioned a benchmark of our balanced scorecard in early

2004 to better understand the internal perceptions and to see how we compare to our peers and best practitioners. Our benchmark uncovered some areas that we could further develop. The next two years entailed a comprehensive implementation program that included enhanced communication, additional alignment, tie-ins to risk management, and a further development of our Office of Strategy Management (CPM Office)."

The strong support of the CEO and Executive Management Board has allowed Serono to continue to improve its Strategic Balanced Scorecard program year after year and continue to look for new ways to improve. Over the last six years, Serono has seen double-digit growth in total revenues and net income. The company launched a number of fully recombinant products; its flagship product for multiple sclerosis, Rebif, reached blockbuster status; and the company doubled revenues to \$2.5 billion in five years.

How Serono Applied Principle 1: Establish and Deploy CPM Office and Officer Best Practices

- ◆ Serono sponsored a CPM Office at a high level.
- ◆ Established centralized CPM oversight with senior employees.
- ◆ Department staffed with experienced personnel with deep understanding of strategic planning and balanced scorecard.
- ◆ Department displayed a mature, collaborative approach and partnered across the organization.
- ◆ Established a virtual balanced scorecard community of more than 20 champions.
- ◆ CPM Office employees demonstrated a willingness and ability to learn continuously.

Universal Weather and Aviation

Universal Weather and Aviation, Inc. (Universal) began providing weather briefings specifically for corporate aviation in 1959. Today it's the leading global trip support services provider, serving clients at every point along their trips virtually anywhere they fly. Through Trip Support Services, the UVair® Fuel Program, UVglobal Network®, and online trip planning tools, Universal is prepared to meet every client's need for a given trip, from start to finish, from sample flight plans to aircraft protection to ground services. This breadth of services combined with experience and information resources attracts clients worldwide to Universal. But it isn't the services themselves that have made Universal the industry leader. What sets Universal apart is its ability to consistently facilitate successful trips—to learn each client's unique

definition of success and deliver it every time he or she takes to the sky. Universal has a global physical presence throughout the world. Universal launched the UVglobal Network, now with more than 50 members, in countries where stopovers are common. Universal maintains a vast database of aircraft, route, weather, airport, and accommodations data. At Universal, each account is assigned a dedicated team of experienced professionals. The people working on your trip know you and your operation and work as a team with your team.

President Ralph Vasami recognized the value in establishing an in-house CPM Office and capability, so he hired a new direct report, Kelly Dowe, director of Strategic Planning. Dowe is responsible for facilitating the following key CPM processes focused primarily on strategic and business planning and strategy maps (see Principle 2), referred to as Integrated Performance Advancement System (IPAS). Key activities include:

- ◆ Revisit vision, mission, value of the brand.
- ◆ Review and refresh Corporate Strategy Map—value drivers—results and trends (from the prior year).
- ◆ Prepare industry segment analysis to understand competition, market growth, national and regional trends, suppliers, new entrants, etc.
- ◆ Prepare SWOT (strengths, weaknesses, opportunities, threats) analyses at company level.
- ◆ Prepare competitive assessment including market share analyses, key target customer segments, market overlaps, etc.
- ◆ Prepare alternative growth strategies; consider blue oceans.
- ◆ Evaluate potential merger, acquisition, and divestiture scenarios.
- ◆ Prepare financial models, and simulate alternative strategic business scenarios.
- ◆ Identify major imperatives; translate into key initiatives/projects. Update initiative map for portfolio of initiatives.
- ◆ Prepare final strategic plan, and cascade it through the company.
- ◆ Partner with CFO to integrate and synchronize strategic planning and budgeting processes.

How Universal Applied Principle 1: Establish and Deploy CPM Office and Officer Best Practices

Executive sponsorship. The CEO actively sponsored the CPM Office and CPM projects for a sustained period and with the right visibility to enable maturity to process state.

Organizational level and reporting relationship. The

CPM Officer reports directly to the CEO.

CPM Office staff. The staff consists of a small senior team experienced in change programs.

Leadership and ability to influence. CPM employees are able to organize large-scale virtual teams to drive business planning processes.

Ownership of CPM methods. The CPM Office owns and substantially influences the portfolio of CPM processes throughout the entire enterprise.

CPM, industry, and company knowledge. Team members have deep CPM knowledge to help guide resolution of project issues.

Collaborative maturity. CPM leader very experienced in working horizontally and vertically through the organization.

Ability to learn. CPM leader open to new ideas, methods, and approaches; able to streamline, integrate, and adapt methods and to think concurrently.

FOCUS ON CPM

Nine out of 10 companies today fail to implement their strategies due to four barriers and failing to adapt to their industry Clock Speeds. Research into award-winning companies reveals that they observe Five Key Principles of CPM. This article explored three partial cases focused on CPM Principle 1: Establish and Deploy CPM Office and Officer. Next month we'll cover Principles 2 and 3. ■

Bob Paladino, CPA, is the founder of Bob Paladino & Associates, LLC. He advises boards of directors and executives and offers CPM/balanced scorecard services for rapidly implementing and integrating proven methodologies to drive breakthrough results. Recently, as senior vice president of Crown Castle International in the Office of the CEO, he directed the global CPM/Balanced Scorecard program to win the Hall of Fame award and APQC's Best Practice Partner award. You can reach Bob at (978) 857-6766 or bobpaladino@paladinoassociates.com.

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