

Balanced Forecasts Drive Value

CROWN CASTLE USA LEVERAGED THE BALANCED SCORECARD AND STRATEGIC MEETING MANAGEMENT TECHNIQUES TO IMPROVE FINANCIAL, CUSTOMER, AND OPERATIONAL RESULTS.

BY ROBERT E. PALADINO, CPA

Corporate America is littered with examples of failed strategies despite expending significant resources on balanced scorecard (BSC) programs. How is it that many well-intended companies come up short and leave large groups of investors, customers, and employees dismayed and perplexed? How could so many bright, energetic executives and their teams fail to understand the key drivers of value in their business and execute their company strategies poorly? What are the barriers to success? I'll identify some of the barriers based on my experience. I'll also describe how Crown Castle USA's Great Lakes Area (GLA) team has leveraged the BSC to improve measures and to forecast results to overcome these barriers and realize significant financial, customer, and operational benefits.

BARRIERS TO SUCCESS

Figure 1 provides some empirical evidence to help us understand the reasons why nine out of 10 companies fail to implement their strategies.

The “Management Barrier” indicates that 85% of executive teams spend far less time discussing strategies than operational issues. Is it no wonder that implementation rates are so low? Why do business people spend so much time in company meetings but fail to grasp the message conveyed by their reports and analyses?

The “Vision Barrier” postulates that only 5% of employees fully understand their company’s strategy. Why is it so hard for employees to understand the company’s direction? The strategy hasn’t been explained in terms that relate to their everyday objectives, roles, and responsibilities. If employees don’t understand the strategic objectives, then they could be focused on closing the wrong performance gaps and are often not aligned with company strategy. Are the teams solving the right issues?

The “Resource Barrier” shows us that most companies don’t link departmental and initiative budgets to strategies. In short, companies may be pursuing financial strategies that differ from or, worse, may be in conflict with their business and customer quality strategies. For instance, an operating unit will make its financial targets at the expense of not investing in preventative maintenance, which only defers inevitable quality defects until next year.

The “People Barrier” shows us that management incentives link to the company strategy only 25% of the time. By default, managers are pursuing objectives and projects that in most cases may not support the company direction.

What can be done to overcome these barriers? Why do some companies understand and overcome barriers and deliver exceptional performance? What do they understand that many other companies don’t? Let’s explore how Crown Castle USA Great Lakes Area innovated the BSC to overcome the vision, management, and resource barriers and realize significant results.

ABOUT CROWN CASTLE

Crown Castle International (CCI) is a leading independent owner and operator of shared wireless infrastructures, including extensive networks of towers. Its core business involves the engineering, deployment, marketing,

Figure 1: **Why Do 9 out of 10 Companies Fail to Implement Their Business Strategies?**



Today's management systems were designed to meet the needs of stable industrial organizations that were changing incrementally.

You can't manage strategy with a system designed for tactics.

Source: Balanced Scorecard Collaborative

ownership, operation, and leasing of shared wireless communication sites. Familiar tenant names include Verizon Wireless, Cingular, T-Mobile, Nextel, Sprint PCS, and AT&T Wireless Services. CCI is the only company to win both the coveted Balanced Scorecard Collaborative (BSCol) Hall of Fame Award (BSCol founders Robert Kaplan and David Norton independently verify the achievement of 25 BSC program best practices for Hall of Fame award recipients) and APQC's Best Practice Partner Award for its balanced scorecard implementation and results.

Headquartered in Canonsburg, Pa., Crown Castle USA (CCUSA), the U.S. operations, currently owns, operates, and manages more than 10,000 sites, more than 20,000 tenant licenses, and more than 8,000 ground leases in 44 states. CCUSA is organized into six areas (regional offices) consisting of 35 districts. Each area is tasked with the management and marketing of owned or managed portfolios and is led by an area president and staff consisting of area vice presidents of assets, sales, finance, and program management. Each district office is staffed by field specialists, sales executives, license specialists, asset specialists, and operational managers led by a district manager in charge of sales, margin, management, and maintenance for the towers.

CCUSA started its BSC program in 2001 and has steadily expanded it based on the 25 BSC best practice elements embodied in Kaplan and Norton's Hall of Fame program. It should be recognized, however, that the balanced scorecard takes two to three years for full implementation.

INTEGRATE PROVEN METHODS

I can say from direct experience that companies encounter problems with a piecemeal approach to strategic management and run the risk of leaving out a vital part of an integrated management framework. For instance, what is the value of a BSC program without the remedial improvement efforts of a Six Sigma or business improvement program to close performance gaps? Further, how can a company expect world-class performance levels to be sustained and nurtured throughout an enterprise without a best-practice or knowledge-management process for replication?

The secret is to integrate proven methods. Combined, the strategy map, the balanced scorecard, and customer surveys overcome the barriers to success that I described earlier. In Figure 2, an illustration of such a combination, the information flows depict the reinforcing links among these disciplines. For instance, the strategy map (located at 12 o'clock) contains Crown Castle's strategic objectives, which in turn link to the company's BSC (2 o'clock). The BSC customer perspective is kept informed by the customer surveys (4 o'clock). Imagine improvements you could achieve in your organization if your employees not only deployed these three methods but also understood

their integration with action improvements. A high-performing team at Crown Castle USA, the GLA team, did this and provided two innovations to the BSC program to improve their performance.

The Crown Castle strategy map is depicted in Figure 3. The four linked objectives will illustrate how both measure refinement and strategic meeting management drove superior financial, customer, and operational results for GLA.

The causal links in our strategy map (depicted by green lines) propose the following causal links: If we perform operationally and drive objective "O5, Accelerate Application to Rent Cycle Time" for our customers, then we will experience an increase in customer ratings for objective "C2, Meet Time Commitments." Following this causal line of reasoning, improvements in C2 will drive objective "F3, Increase Pipeline," resulting in higher financial results in objective "F1, Maximize Shareholder Value." Regular use of the strategy map and the balanced scorecard in the organization overcomes the vision, management, and resource barriers.

THE GREAT LAKES AREA TEAM

The Great Lakes Area staff consists of GLA President Dave Tanczos and his leadership team (see Table 1). As

Figure 2: **Combining Proven Methods for Success**

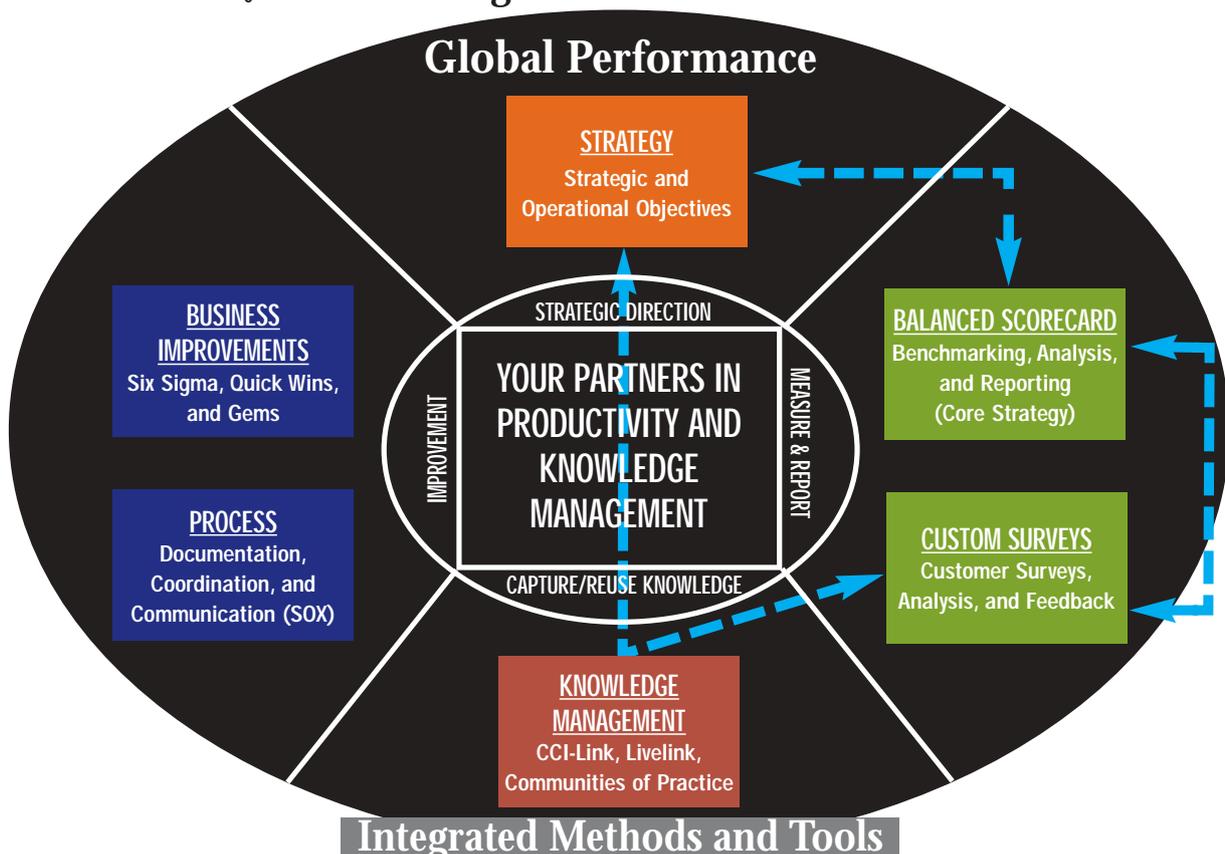
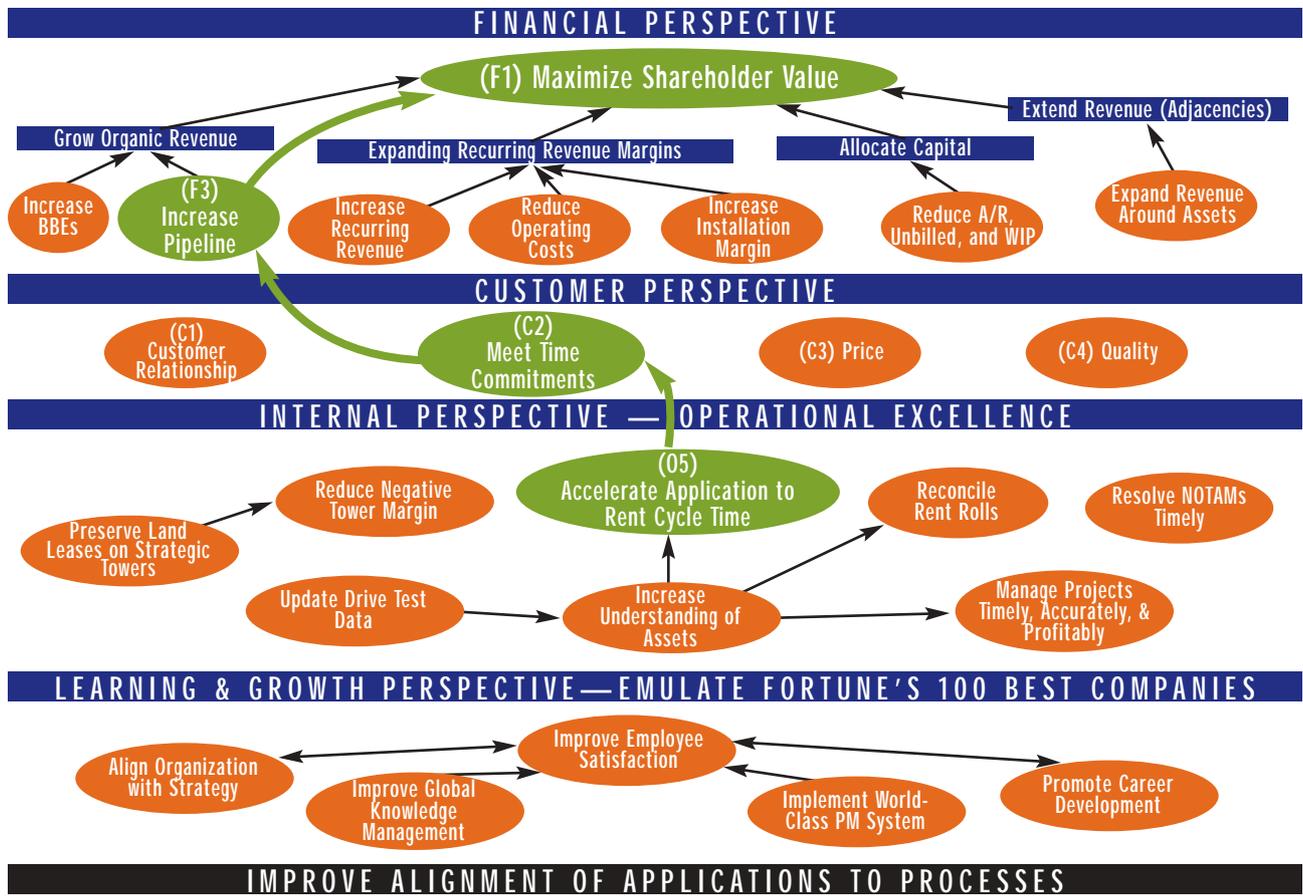


Figure 3: CCIC Strategy Map—Four Major Themes



president of the GLA, Tanczos reports to the president and chief operating officer of Crown Castle USA. Prior to this appointment, he served as vice president and general manager of the Mid-Atlantic Region for CCUSA, and he has also held positions at Verizon Wireless and Bell Atlantic.

Regarding the balanced scorecard, Tanczos explained, “The BSC helps each person on our team focus on the specific job functions he or she needs to master to ensure we exceed our team and company goals. It also allows us to quickly identify those districts that have found new best practices that we can share with other districts. The BSC plays a key role in helping us maximize our financial and operational results as well as the levels of our customer and employee satisfaction.”

INNOVATION #1: REFINING MEASURES

Dave Tanczos’s team has a history of innovation and advanced use of the balanced scorecard to manage meetings and allocate resources to achieve strategic and operational objectives. Over the past few years the BSC measures have evolved to more accurately reflect Crown’s

Table 1 Great Lakes Area Leadership Team

TEAM MEMBER TITLE	NAME
Great Lakes Area President	Dave Tanczos
District Manager Chicago	Sean Borst
District Manager Pittsburgh	Brian Cabe
District Manager Cleveland	Patrick Doyle
District Manager St. Louis	Linda Merkel
District Manager Indianapolis	Dan Wolfgang
VP Asset Management	Matt Sturgill
VP Finance	Paul Conlon
VP Sales	Kristen Pedersen
VP Program Management	Gina Wolbert
Service Partner: Global Performance BSC Manager	Shannon Crooks

business needs. Great Lakes Area VP Asset Management Matt Sturgill first noticed that the initial cycle-time measure linked to objective “O5, Accelerate Application to Rent Cycle Time,” told only part of the story regarding our customer expectations and experience. That is, customers experienced approximately 10 milestones in Crown’s order process to affix an antenna to a Crown tower to transmit signal for their wireless customers, but

the BSC measure captured results for milestones five through 10. From our customer survey, we learned that our customers expect an actionable document with pretty much all of the contingencies approved back to them within three weeks from submission. This is captured in the earlier milestones.

Concurrently, GLA customer feedback from the company's new quarterly e-survey for "C2, Meet Time Commitments" indicated that customers wanted more careful attention to the front end of the process measured by earlier milestones. Armed with this knowledge, Matt Sturgill piloted a new measure, "% of applications completed in less than 21 days" (covering earlier milestones), for the GLA in total and for each of its five district offices. Sturgill commented, "Our existing cycle-time measurement was difficult to grasp operationally and was not indicative of the customer experience. By aligning the measurement and our efforts closer with customer expectations, we hoped to make a greater impact on satisfaction as measured by our survey results." The results were startling—noticeable improvements in the percentage of applications processed through early milestones translated directly into increases in "F3, Increase Pipeline." Increased pipeline volume resulted in higher forecasted financial results captured in objective "F1, Maximize Shareholder Value."

In a related customer e-survey, a customer said, "It became very clear that Crown's capabilities improved dramatically during the last quarter. They became more focused and responsive. Upper management became involved and demanded performance improvements from both their supervisors and contractors. This was extremely important in meeting our on-air goals." An example of one of these improvements would be the increased visibility and accuracy of tower site attributes and readiness to respond more rapidly to a customer application to rent a given level (e.g., 150' height) on the tower.

This example clearly shows how measuring strategic objectives overcomes vision, management, and resource barriers. Given the success of GLA's new BSC cycle-time measure and the desire to more closely align the application process with customer expectations throughout CCUSA's 35 district offices structure, a new measure team was formed to consider nationwide adoption. Shannon Crooks, BSC manager, commented, "The measure team immediately identified the correlation between the operational and customer measures and saw an opportunity to improve while focusing on our mission statement."

Since cycle-time measures impact several vertical func-

tional organizations (e.g., licensing, sales, assets, engineering), a cross functional Steering Committee was also formed to evaluate proposed measure changes. That is, if changes required increased meshing of functional processes, then input from these functions would be critical to designing and implementing improvements. The measure team recommendations for new cycle-time measures were accepted by the Steering Committee.

In addition to overcoming key barriers, the GLA experience yielded many benefits, which included:

- ◆ Responding to customer needs provided by the new and highly sophisticated e-customer surveying process;
- ◆ Increasing cross functional cooperation to solve complex business issues;
- ◆ Reducing risk of business disruption by piloting new measures prior to distributing nationwide; and
- ◆ Tightening the linkages among BSC operations, customer satisfaction, and financial perspective objectives, measures, and results (recall the strategy map).

INNOVATION #2: ROLLING FORECASTS

GLA was responsible for a second BSC innovation, the development and use of a two-quarter rolling forecast, published weekly. But we have to go back in time to more fully appreciate how far Crown Castle has progressed culturally with this innovation. The evolution of the balanced scorecard for meeting management followed a fairly predictable path, which I will attempt to chronicle through anecdotal quotes. In the early days, manager comments ranged from "Is this the initial du jour?" to "What does the measure called EBITDA stand for?" and from "The measure definition does not reflect my performance" to "My data is different from yours; which is right?" Once the measure definitions were refined and accepted broadly, comments could be heard such as, "The BSC benchmark reports indicate we are in the middle of the pack. What do we have to do to improve? Maybe we should contact other districts and ask what new ideas they have implemented to reduce their cycle time."

As the leadership team started to embrace the BSC as a management framework to make decisions, improvement came, and user comments started to emerge, such as, "I understand the value of the new measures, but can the BSC be produced faster after month-end for more timely use?" and "What I really need is a greater mix of customer and operational measures to monitor performance."

As the BSC development and adoption progressed, the GLA was again at the forefront of innovation. Effective

meeting management overcame the vision, management, and resource barriers.

All areas prepare monthly budgets for every BSC measure, enabling stoplight (red, yellow, green) color coding. Area President Dave Tanczos conducts monthly area and district BSC reviews with his district managers and functional team, which consist of reviewing exceptions to stoplight BSC reports with particular emphasis on understanding “the story” or linkages among, for instance, the four objectives noted earlier—the causal links among operations, customer, and financial results including relevant leading and lagging impacts from changes.

But Tanczos wasn’t content to wait until month-end for his team’s results, so he devised a forecasting approach whereby *weekly* his area could predict its results for current and next quarter-end using the two-quarter forecasting approach. In short, he applied a forecasting approach to understanding and driving operational, customer, and financial results. Dave and his team append month-end BSC reports to include actual results since the previous month-end, but, more importantly, they forecast results for the upcoming two quarters. His weekly senior management team roundtable meetings focus heavily on understanding key trends, reforecasts of results, and devising countermeasures to improve performance gaps.

To understand these dynamics, recall the interplay and causality among the four strategy map objectives where a given objective is reinforced by the one(s) below:

- ◆ F1, Maximize Shareholder Value
- ◆ F3, Increase Pipeline
- ◆ C2, Meet Time Requirements
- ◆ O5, Accelerate Application to Rent Cycle Time

How does this actually work? If GLA experienced yellow (within 10% of target) or red (more than 10% less than target) stoplight results against budget in objective “F3, Increase Pipeline,” the team could adjust their activities and focus on removing any obstacles in “O5, Accelerate Application to Rent Cycle Time,” understanding that the improvement in F3 would show up in F1 within the current or next quarterly forecast.

Conversely, if the F1 results were green against budget (meeting or exceeding target) for a district in the current quarter, then the team would discuss causal factors or best practices in F3, C2, or O5 with an eye toward adoption by other districts and in repeating the performance in the next quarter.

There are several immediate benefits from using the two-quarter BSC rolling forecast:

- ◆ Predicting results with a mature understanding of

intra- and inter-quarter fluctuations;

- ◆ Improving resource allocation across and within different districts;
- ◆ Increasing visibility and improving the timing of key initiatives;
- ◆ Focusing resources on specific objectives based on current and forecasted trends; and
- ◆ Scheduling employee enrichment activities such as vacations, off-site retreats for planning, and training classes (such as the Six Sigma Green Belt program).

KEEP MOVING

In summary, the GLA team plans to continuously review, evaluate, challenge, and improve BSC measures where appropriate to reflect constantly changing business and customer requirements. It has set its monthly 2005 BSC area and district office targets to reflect local market conditions in geographies as diverse as Chicago to Pittsburgh. Balanced scorecard results will again be reinforced through linkages to base salary, bonus, and stock incentive compensation.

Now that you’ve seen a real-world example of the use of the BSC framework to link strategy and financial, customer, and operations results to drive value, let’s look at one more thing. I recommend that CEOs, CFOs, and company executives provide flexibility for line and staff organization adaptation of leading-edge BSC tools to mirror business requirements. This advice extends to understanding and promoting a greater appreciation for the leading indicators embodied in the operations and customer BSC perspectives to drive the lagging financial perspective results such as free cash flow to ultimately drive private or public share appreciation. ■

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