

5 KEY PRINCIPLES OF Corporate Performance Management

Successful companies plan, communicate,
and manage strategy well.

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*, by Wiley Publishing, January 2007.

The first of three articles (June 2007 issue) focused on Principle 1, this article focuses on Principles 2 and 3, and the final article will focus on Principles 4 and 5.

As a quick refresher, here are the “Five Key Principles of Corporate Performance Management (CPM)” that I discussed in last month’s article and that are shown in Figure 1:

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

In this article we’ll explore Principles 2 and 3 through the Bronson Methodist Hospital (Bronson) book case along with input from Independent Health, Confederation College, and Intercomp Technologies executives.

If you’ll remember, Bronson Methodist Hospital is an award-winning nonprofit medical center that provides inpatient and outpatient care from a 28-acre urban campus in downtown Kalamazoo, Mich. 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.

PRINCIPLE 2: REFRESH AND COMMUNICATE STRATEGY

Bronson’s success depends on its ability to achieve the three Cs (below) as evidenced by key measures in the organizational scorecard. Through cycles of improvement and integration of the Baldrige criteria, Bronson identified critical success factors that have contributed to its competitive position and that serve as a key element of its strategic planning process along with its Plan for Excellence.

Clinical Excellence (CE):

- ◆ Achieve national best-practice performance in clinical outcomes.
- ◆ Use evidence-based medicine to achieve excellent patient outcomes.
- ◆ Be recognized as a safe environment for patients.

Customer and Service Excellence (CASE):

- ◆ Distinguish Bronson as an employer of choice.
- ◆ Be recognized as a culture of service excellence.
- ◆ Foster a culture of excellence that values diversity while encouraging teamwork, learning, and innovation.

Figure 1: Five Key Principles of CPM

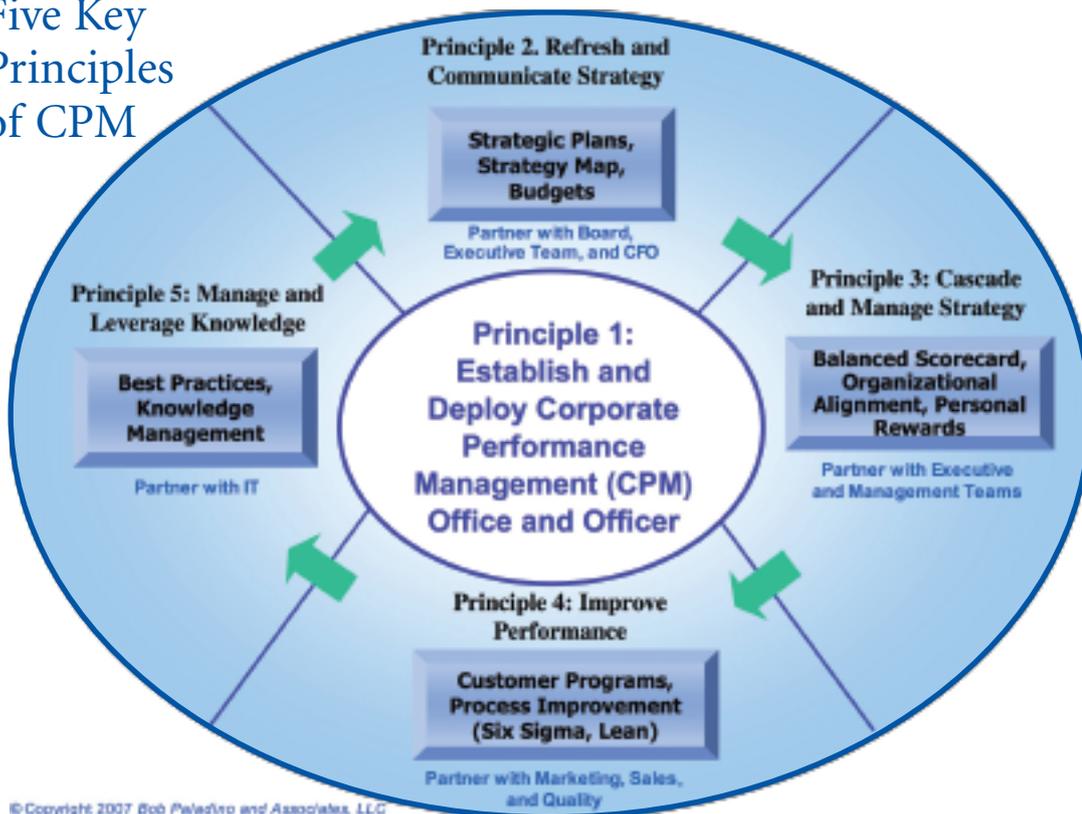
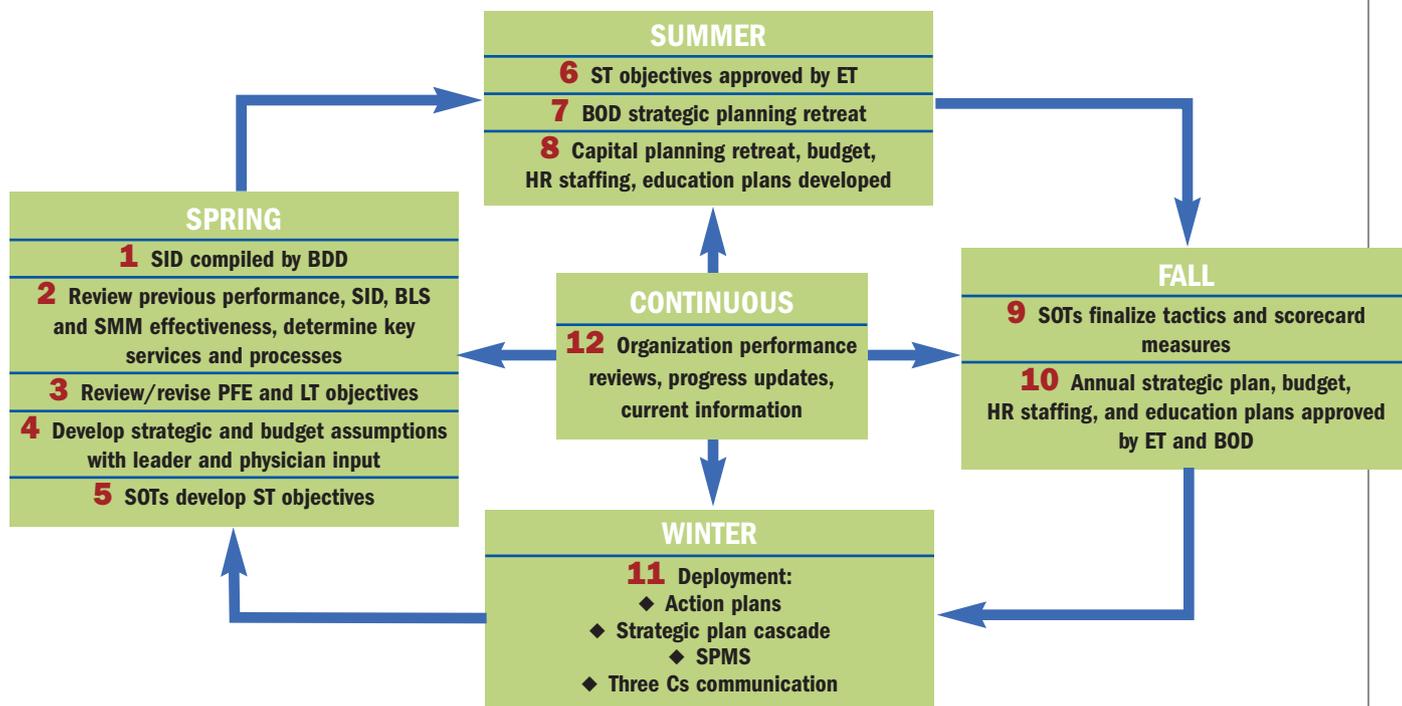


Figure 2: Bronson's Strategic Management Model



Corporate Effectiveness (CORE):

- ◆ Provide strong financial performance to allow for capital reinvestment, growth, and sustainability.
- ◆ Partner with physicians, the community, and others to achieve common objectives.
- ◆ Use the Baldrige criteria for performance excellence to improve processes and organizational performance.

Strategic Planning:

A Comprehensive, Continuous Process

At Bronson, strategic planning is a continuous process driven by the hospital's mission, values, and vision and forms a very robust strategic management model (SMM), shown in Figure 2. The SMM, with its continuous planning process, allows for greater agility than a traditional, static approach to strategic planning does. The SMM is the mechanism used to develop organizational strategies—both short-term strategic objectives and long-term goals—and to ensure that the strategic objectives cascade throughout the organization. Through the SMM, the board of directors and executive team provide input into planning as members of strategic oversight teams (SOTs), the Clinical Practice Council, and service line teams.

The following numbers link to the SMM diagram in Figure 2:

1. The planning cycle kicks off in the spring with the

business development division preparing the strategic input document (SID). The SID contains relevant information related to all of the key factors recognized by the Baldrige criteria for performance excellence, including these inputs: healthcare market needs; competitive environment; technological and innovation changes; SWOT (strengths, weaknesses, opportunities, threats) analysis; societal, regulatory, and ethical issues; and analysis of the economic environment.

2. A day-long quarterly strategic planning retreat, which includes the executive team and key directors, is held to review the SID and a summary of the previous year's performance.

3. At the quarterly strategic planning retreat, the elements of Bronson's Plan for Excellence—including the organization's mission, values, vision, and long-term goals—are reviewed and then revised, if warranted.

4. Using a SWOT analysis gathered in steps 1 through 3 of the SMM, the executive team develops key strategic and budget assumptions that are tested at a series of planning meetings with leaders and physicians. The executive team assigns responsibility for each of the three Cs to the appropriate strategic oversight team.

5. The SOTs develop preliminary short-term objectives.

6. At the summer quarterly strategic planning retreat, the SOTs present short-term objectives for approval and

Table 1: Short-term Objectives and Long-term Goals

| Strategies and Strategic Challenges | ST Objectives | LT Goals | Key Tactics and Action Plans | Changes | HR and Education Plans | Key Performance Measures |
|---|--|---|--|--|---|---|
| <p>CE: Achieve excellent patient outcomes</p> <p>SC1</p> <p>SC2</p> | <p>Medicare mortality at CS top 15%, recognized by Leapfrog as safe environment, exceed national standards for core indicators</p> | <p>Top 100 hospital, 5 stars for targeted areas, third-party recognition for patient safety</p> | <p>Decrease VAP, optimize Medicare mortality and morbidity, optimize core indicator performance, build CPOE, optimize communication among providers</p> | <p>Hospitalists admitting ortho patients</p> <p>Medical management for adult patients with chronic diabetes and HF</p> | <p>SBAR education</p> <p>Fill CPOE team positions</p> | <p>Medicare mortality</p> <p>VAP</p> <p>Patient falls</p> <p>Skin ulcers</p> <p>SIP</p> <p>Core measures (AMI, HF, pneumonia)</p> <p>Hand washing</p> |
| <p>CASE: Enhance service excellence, staff competency, and leadership</p> <p>SC3</p> <p>SC4</p> <p>SC5</p> | <p>Magnet status, leader in MD satisfaction, overall turnover and vacancy better than national best practice, EOS diversity scores improve, patient satisfaction scores improve from benchmark</p> | <p>Best practice customer and MD satisfaction, 100 Best Employer, maintain Magnet status</p> | <p>Implement Respiratory care development program, implement mentor program, operationalize Diversity Council, implement EOS and LPMS, physical surroundings and discharge process recommendations</p> | <p>Gallup survey with national benchmarks</p> <p>Campus expansion project moves some support services off campus</p> | <p>Respiratory care development candidates</p> <p>Mentor program education</p> <p>Diversity education plan</p> | <p>Vacancy</p> <p>EOS diversity score</p> <p>MD satisfaction</p> <p>Patient satisfaction</p> <p>Patient satisfaction with physical surroundings</p> <p>Patient satisfaction with discharge</p> <p>Overall turnover</p> <p>RN turnover</p> |
| <p>CORE: Achieve efficiency, growth, financial, and community benefit targets</p> <p>SC6</p> <p>SC7</p> | <p>Meet growth targets for targeted service lines, profit margin</p> | <p>X marketshare in targeted services, profit margin, Baldrige recipient</p> | <p>Implement long-term campus expansion plan, implement short-term technology/facility plan, recruit key physician specialists</p> | <p>MD ambulatory surgery and outpatient diagnostics centers</p> <p>Expansion of adult medical unit capacity</p> | <p>Realign campus project leadership, "change management" training for move, hire staff for new capacity, train on new technology</p> | <p>SL marketshare</p> <p>SL marketshare</p> <p>SL marketshare</p> <p>SL marketshare</p> <p>Profit margin</p> |

begin developing tactics.

7. During the summer, the strategic assumptions are revisited with the board of directors (BOD) at the annual strategic planning retreat. This review enables the board to validate the strategic challenges based on current information and provides the necessary foundation for the organization to prepare for strategic plan and budget approval later in the year.

8. During the capital planning retreat in the summer, human resources and finance use the SOT tactics and leader input to formulate the staffing, education, and budget plans. This day-long capital planning retreat lets everyone focus on both short- and long-term capital planning needs.

9. The SOTs finalize tactics and the scorecard measures in the fall.

10. The strategies, long-term goals, short-term strategic objectives, organizational scorecard, budget, staffing, and education plans are approved by the executive team at the fall retreat and by the board at a monthly meeting in late fall.

11. Deployment begins in the winter.

12. In between each quarterly strategic planning retreat, the executive team meets to review organizational performance and progress in achieving the strategic objectives. Regular updates at the weekly executive team and monthly or biweekly SOT meetings support the continuous planning process and ensure that the most current information is integrated into the SMM. A systematic review of organizational performance, review of the quarterly system indicator report (QSIR), and regular environmental scanning mitigate the potential for blind spots caused by factors that may have changed since the initial development of strategic objectives and tactics. Market analysis and intelligence resources indicate that one year is currently appropriate for short-term plans to remain responsive to market forces and synchronized with the budget cycle. The long-term planning horizon, three to five years, is determined by evaluating constraints, such as the time to introduce new services or the optimum life cycle of existing services, as well as market intelligence related to competitive strategies and plans.

Alignment and Balance

Key short-term objectives and long-term goals, as well as the timetable for accomplishing them, are shown in Table 1.

The strategic challenges are identified during the planning process and are aligned with organizational strategies to ensure that all challenges are addressed. The

capability to balance short- and long-term challenges and opportunities is built into the SMM. A one-page planning document that contains both the long-term goals and short-term strategic objectives in the three Cs format communicates plans, values, and expectations to employees, physicians, suppliers, and the community.

How Bronson Employs Principle 2

Strategic Planning. Bronson personnel conduct strategic planning to understand changing market conditions including competitors, suppliers, rivals, potential entrants, and substitutes in the marketplace. The SMM includes a comprehensive SWOT analysis. Bronson also has effectively linked its philosophy, mission, strategies, and annual plan with its balanced scorecard (BSC) goals and measures, which are cascaded throughout the company. Bronson links strategic, operational, and people plans.

Strategic Plan. Bronson produces a comprehensive strategic plan that is updated continuously throughout the year.

Core and Adjacent Products and Services. Bronson defines and determines core, adjacent, and new services to focus on the highest probabilities for success.

Link Strategic Planning and Budgeting Processes. Bronson links strategic planning to the budgeting process to provide for a seamless continuum.

Communications Plan. Bronson communicates strategy throughout the organization using a comprehensive communications plan.

Independent Health Association

In a related high-performing HMO case example, the quality strategy of the Independent Health Association (IHA) has been very successful. IHA was named one of the top 10 commercial health plans in the nation and the highest-ranked plan in Western New York for the second consecutive year by *U.S. News and World Report* and the National Committee for Quality Assurance (NCQA) in their rankings of "America's Best Health Plans 2006."

"These rankings should be of great interest to local employers and consumers as they consider their health-care options for 2007 because they represent the most objective and reliable information available within the industry for assessing the value that health plans provide for their members," Dr. Michael Cropp, president and CEO of Independent Health, says. "They also serve as an important reminder to Western New Yorkers looking for economical health coverage that they don't have to sacrifice on quality.... If you look at the nation's best health

plans as judged by an unbiased third party, such as NCQA, it becomes apparent that Independent Health continues to set the local benchmarks for excellence in quality care and member satisfaction.” Cropp adds: “Our ability to differentiate ourselves from local competitors is based on an approach to health management that is deeply rooted in working closely with customers, collaboration with providers, innovative products and services, accessible and responsive local management, resulting in improved health outcomes that compete with the nation’s very best plans.”

COO Carol Cassell comments on the importance of their strategy management program: “Key to making a difference with our customers and achieving the related success is providing clarity to the organization in execution of our growth and quality strategies. This requires delivering on our values of passion, caring, and respect with collaboration and accountability across our product, sales, medical management, network, pharmacy, underwriting, service, operations, and support teams. Our industry is dynamic, and having the ability to set targets, monitor performance, and adjust proactively to our members’ and customers’ needs is an essential component of managing our strategy and making a difference for our customers.”

Confederation College

The college sector has also embraced strategy formulation to enhance learning opportunities for its “learners,” whom the commercial sector would term customers. Confederation College is an agency of the province of Ontario, Canada, and its mission is serving a diversity of learners, developing citizens who will be positioned for success in their lives and careers. The College offers a full range of programs and educational services throughout the region, many which utilize a combination of traditional and distance modes of delivery. It provides services to 4,000 full-time and 10,000 part-time students annually and has an operating budget of \$56 million. It employs 424 full-time and approximately 335 part-time employees.

Confederation College President Patricia Lang explains how her team refreshes its strategy: “Our strategic planning process ensures a multiyear accountability agreement aligned with government expectations and public demands for learning. We have modified the traditional Drs. Kaplan and Norton strategy map and place *Learners* at the top (not Financial) supported by two key pillars: *Academic and Business Processes* and *Staff or our People*. We have placed the Financial perspective at the base of

the map consisting of government funding and our donor base.”

Confederation College uses its strategy map to filter and prioritize its initiatives. Lang describes a specific project: “Before we approved spending \$4 million on converting our Library to a Learning Commons and creating “smart classrooms” equipped with the latest technology for Internet access, we first evaluated the impact of this potential project against our strategy map perspectives and raised many penetrating questions. How well have our *People* been trained to support this new approach? How well could our *Academic and Business Processes* support this shift in curriculum? Moreover, will access to learning opportunities increase for our geographically bound *Learners* with this investment?” In short, Pat Lang and her team have adopted Principle 2 using the strategy map as a key method to refresh the College strategy and to prioritize initiatives to achieve its mission and strategic objectives.

PRINCIPLE 3: CASCADE AND MANAGE STRATEGY

Beginning in the fall phase of the SMM, the Bronson strategic oversight teams oversee development of detailed tactics and action plans that include timelines, responsibilities, and measurements. Once the executive team and board approve the annual strategic plan and budget, deployment of action plans begins.

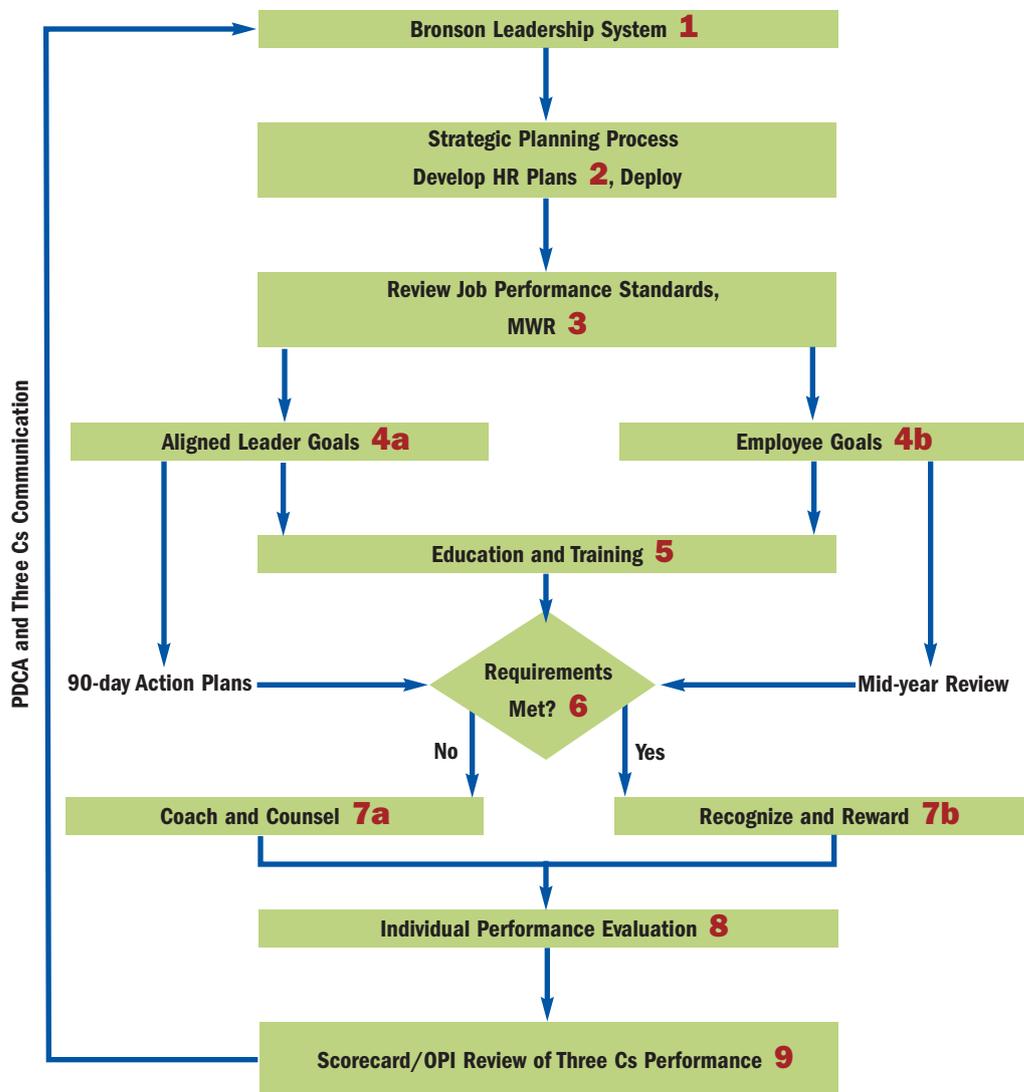
Cascading Scorecard Objectives and Measures

The executive team developed an enhanced strategic plan cascade in an effort to strengthen alignment across the organization. The annual strategic plan, with specific tactics and action plans aligned by the three Cs, is cascaded throughout the organization and is illustrated by these levels:

1. Plan for Excellence,
2. Annual Strategic Plan,
3. Scorecard and Performance Indicators,
4. Secondary Scorecards,
5. Staff Performance Management System, and
6. Leader, Salaried Professional, Individual Employee Goals (gainshare).

The executive team and SOTs ensure that the Bronson scorecard measures are supported by the organizational performance indicators (OPI) and are aligned with the secondary scorecards. This alignment ensures that department, service line, and key process measures support the strategic objectives. Through careful monitoring of scorecard performance at all levels, the executive team

Figure 3: Staff Performance Management System



ensures that key process changes that support achievement of action plans are sustained. The Staff Performance Management System (SPMS) described later aligns individual performance with organizational objectives and action plans. The 90-day action-planning process defines the necessary steps for the execution of plans. This process allows for agility and rapid change or development of new plans, if required.

Performance Projections/Targets

A summary of performance projections for key short- and long-term measures includes past performance, future one-year projections, five-year long-term projections, and long-term projected performance compared to competi-

tors. These comparisons demonstrate that in five years Bronson will be the regional market leader in all key services and will fulfill its vision of being a national leader in healthcare quality. Targets are set based on national best practices. In some cases, this may create a gap in performance between local competitors or organizations of similar size nationally. When a gap is identified, the executive team assigns appropriate accountability to an SOT, which develops and deploys action plans and related measurements to address the gap.

Staff Performance Management System, Alignment to Strategic Objectives

The Staff Performance Management System is designed

to support organization-wide expectations of high-performance work by all staff and is the primary mechanism for the achievement of action plans. See Figure 3 for all the steps involved.

During the deployment phase of the SMM, strategic plans are translated into performance requirements and deployed to the entire workforce in step 2 of the SPMS. In step 3, the annual review of job performance standards and minimum working requirements is completed so that job standards are derived from the planning process. In step 4a, leader goals are aligned with the strategic objectives and scorecard/OPI measures. At the individual staff level, in step 4b, employees develop three personal goals that support the three Cs. They create these goals based on the appropriate organizational, department, or service line-specific action plans that relate to the individual job duties of the employee. Personal goals, educational needs, and career progression plans are discussed with employees during a mid-year review and informally at staff meetings or on the job.

In step 5, education and training provide staff with the skills and competencies necessary to accomplish their goals and achieve high performance. Through the annual performance review process and regular coaching sessions, employees are encouraged to use educational opportunities to improve their current skills as well as develop new skills for advancement within the organization.

In step 6, leaders evaluate individual performance to determine if the job requirements are met. If requirements are *not* met, step 7a puts coaching, counseling, additional training, and corrective action planning into place to improve performance. In step 7b, reward and recognition mechanisms tied to organizational strategy recognize employees who achieve high levels of performance and motivate staff to contribute to overall organizational excellence. For example, the gainshare program involves quarterly bonus payouts based on achievement of organizational and department-specific performance indicators tied directly to the three Cs. Annual performance evaluations, step 8, provide a two-way feedback mechanism for staff to receive critical feedback on their performance as it relates to the expectations set by the executive team through the Bronson leadership system.

In step 9, the overall effectiveness of the SPMS is evaluated through performance in the scorecard measures/OPI. Results are communicated throughout the organization using the three Cs communication format.

Industry and Cross-Industry Benchmarking

During the strategic planning process, when scorecard indicators/OPIs are determined by the executive team, a key step is the selection and use of comparative information. Once the need for comparative data is identified, the executive team selects comparisons based on reliability, reproducibility, availability, and resources required to collect the information. Comparisons are collected from many local, state, and national sources for clinical, customer, and service excellence (e.g., Gallup) and corporate effectiveness (Moody's, Council of Teaching Hospitals and Health Systems (COTH), Solucient). When they are available, Bronson also uses national databases for comparative sources because this type of information is highly reliable. Key comparative data is reviewed at least annually during the development of the scorecard/OPI measures. Bronson ensures the effective use of key comparative data by performing a gap analysis with the scorecard/OPI measures. Once the gap analysis is complete, the Plan, Do, Check, Act (PDCA) quality improvement process is implemented to close the gap and improve performance.

Measurement Relevancy and Currency

Bronson keeps its performance measurement system current with healthcare needs and directions through the continuous improvement process inherent in the PDCA model. The information management strategy, as well as the specific scorecard/operating performance indicator measures, are reviewed, evaluated, and updated annually through the SMM. This validates alignment with organizational strategy, customer requirements, and industry trends. Performance measures are developed or changed through continuous monitoring of market and industry trends, regular updates from the Advisory Board, American Hospital Association, Institute of Healthcare Improvement, and professional conferences. Through the strategic management model, the executive team evaluates performance measures on a weekly basis. If immediate action is required to develop a new service or improve a current process, the model calls for a revision to the measurement system first so that pre-set targets can be deployed to leaders through the 90-day action planning process.

CPM Review Meetings: Performance Analysis and Review

The executive team meets weekly, using the scorecard/OPI to review organizational performance, capabilities, and progress relative to the strategic objectives and action

plans. Each executive is assigned to a strategic oversight team, and some indicators are delegated to the appropriate team for review according to schedule. Individual executives are responsible for reviewing performance indicators and reporting to the entire executive team when performance isn't meeting targets. Through the strategic plan cascade, as well as the 90-day action-planning process, Bronson ensures it has the agility to rapidly respond to changing organizational needs and challenges in the healthcare environment. Analyses performed to support the review of organizational performance include gap, trend, financial ratio, root cause, cause and effect, and failure mode and effects analyses.

How Bronson Employs Principle 3

- ◆ Partner with business owners, including line and staff leadership team members, to gain support and influence as partners to help them achieve results.
- ◆ Develop an executive-level balanced scorecard (BSC), the highest level in the organization.
- ◆ Leverage proven BSC methods, including use of the four perspectives and appropriate number of measures.
- ◆ Cascade the BSC to the lowest levels of the organization, including to the individual employee level.
- ◆ Define personal BSCs for teams and/or individuals that align with higher-level and support-services BSCs.
- ◆ Align support services to the corporate BSC objectives and measures.
- ◆ Align rewards, recognition, and compensation programs to the balanced scorecard.
- ◆ Manage the business effectively using BSC meeting management techniques focused on exception-based management.
- ◆ Manage BSC meetings to address the appropriate mix of strategic and operational issues; link these issues with Principle 4: Business Improvement.

Intercomp Technologies

In a related payroll-outsourcing industry example, internationally recognized Intercomp Technologies has a flexible strategy. It has adjusted to fast-changing needs of multinational clients by incorporating new country-specific products and updating its balanced scorecard to manage this strategy. Based in Moscow to process Commonwealth of Independent States (10-12 former Soviet Union country states) country payrolls, it recognized a need—based on client requests—to expand to more

countries, so it bought a Geneva-based company with a multinational, multilingual, multicurrency payroll-processing platform and now has the ability to address the payroll needs of multinationals on a global basis. Founder and Chairman Ted Miller comments on the importance of Intercomp's strategy management program: "Based upon our strategy-focused balanced scorecard approach, we recognized the growing need for multinationals to outsource their payrolls on a regional and global basis in order to lessen outsource contract administration and for the desire of major business process outsourcers (BPOs) to subcontract their multinational customers' payroll needs. This acquisition allowed us to deal directly with multinational customers as well as international BPO providers to build a broader service offering."

STRATEGY IS KEY

Research into award-winning companies reveals that they observe the five key principles of CPM that we are examining. In this article, we explored Principle 2: Refresh and Communicate Strategy and Principle 3: Cascade and Manage Strategy. We did so through the eyes of award-winning Bronson Methodist Hospital and with valuable input from Independent Health, Confederation College, and Intercomp Technologies. Next month we'll cover Principles 4 and 5. ■

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