

# **BUILDING AND IMPLEMENTING A BALANCED SCORECARD**

## **CASE STUDY: UNUM CORPORATION**

### **Summary**

Disability and special risk insurer UNUM Corporation has used a balanced scorecard to drive the company towards its strategic vision. Crucially, the five-year scorecard was devised to meet specific performance targets to the year 1998. A near-obsessive focus on internal communications and an innovative compensation scheme have proved intrinsic to the company's success.

### **Introduction**

Headquartered in Portland, Maine, USA, UNUM Corporation provides disability and special risk insurance solutions to individuals and businesses. UNUM (which means 'one' in Latin) has about 7200 employees and operations in the US, Canada, the UK, the Pacific Rim, Europe, Bermuda and Latin America.

Reporting total revenues of \$4,076,700 in 1997 and net income of \$370.3 million, the company's subsidiaries include UNUM Life Insurance Company of America, First UNUM Life Insurance Company; Commercial Life Insurance Company; Duncanson & Holt, Inc; Colonial Companies, Inc and Colonial Life & Accident Insurance Company.

### **'61592' Corporate Goal**

Founded in 1848 with the principle to 'find a better way' UNUM was listed on the New York Stock Exchange in November 1986. At that time the company, under the direction of chairman and chief executive James Orr III, set its first corporate-wide goal, articulated as 61592 - to earn six dollars a share with 15 per cent return on equity by 1992. This was achieved one year ahead of schedule, largely because, as Eileen Farrar, vice president, human resources, states, "We have a highly committed and motivated workforce who saw the 61592 goal as a powerful rallying point."

### **Setting 'Balanced' Goals**

With the goal achieved, and recognizing the power of goals as mechanisms for breakthrough performance improvement, James Orr and his team set out to

develop new goals for the corporation. However, this time there would be a significant difference in how the goals would be focused and articulated. Farrar explains:

“By 1991 we had, through growth and acquisitions become a much more complex organization and the chairman recognized that a single focus on a financial result would be difficult to communicate effectively and would not reflect the diverse challenges of the corporation. Consequently he decided that we needed a set of goals that would be meaningful to all employees, that would focus their energies on improving customer-facing performance and would improve further shareholder returns. In short, he wanted a balanced set of measures that would reflect the interests of all UNUM’s stakeholder groups.”

To achieve this, Orr created an organizing team of 13 senior managers from throughout the corporation to develop this new set of ‘balanced’ goals and measures.

Says Farrar:

“The chairman told the team that he wanted financial, customer, employee and productivity targets, gave it a budget and, most importantly, his whole-hearted support. He made it clear that this was absolutely vital for the long-term success and growth of the company.”

Over the next eight months, the team educated itself on the balanced scorecard and on the business challenges then and how these may develop through to 1998 (the 150th anniversary of the company).

Farrar commented that this was an intense time as the team did not leave their regular jobs. Rather it met about twice a month and kept in constant contact through internal communication mechanisms such as Lotus Notes. To design the scorecard sub-committees were set up for each focus area, owned by a particular function, for example HR owned the ‘people’ perspective. This sub-committee sought input from employees throughout the organization and a draft set of goals and measures were tested at all levels of the company.

Although some outside experts, such as the well-known academic David Garvin of Harvard University, were used to facilitate several of the early meetings, it was the team itself which owned the process and chose the final set of interlocking goals and measures, which were rolled out into the organization in 1993.

## **Corporate Vision**

Before presenting UNUM’s balanced scorecard it is worth pointing out that, as with all the best practice companies profiled for this Report, UNUM’s strategic goals and measures are to support a clearly defined and meaningful corporate vision. As shall be explained later, the corporation has a specific vision statement for each of its four scorecard perspectives.

UNUM’s corporate vision is, ‘We will achieve leadership in our businesses.’ Although a generic statement which could be applied to any company in any

market, UNUM supports this statement with a clear description of what this vision means to UNUM. It says:

“Leadership does not necessarily mean a dominant market share. Rather, we will achieve leadership in areas that are meaningful and important to our business and the market (eg profitability, quality, reputation).

“We will focus our business on special risk-relieving products for which we can establish and sustain profitable positions. Development of these products will be driven by the needs of the customer, in both domestic and international markets.”

As well as Leadership, UNUM’s vision has three other elements.

First, ‘We will be a products-offered company’. Supporting this are explanatory statements such as:

- “Developing products that meet customer needs and leveraging our expertise and strengths. Our product development efforts will focus on providing the right solutions.
- “Developing our products in a high quality and efficient manner utilising existing and new channels.”

Second, there is a vision of what UNUM will ‘be known for’. This includes:

- Superior knowledge, expertise and risk management.
- Being responsive to the needs of customers and intermediaries.
- Being reliable, dependable and trustworthy.
- Providing the right solutions to current emerging needs.

And finally, UNUM’s vision includes ‘We will be a well-managed company’. The definition of which is:

- Consistently growing profits, efficient cost-structure, leadership returns and financially sound.
- Anticipating, shaping and effectively responding to relevant external forces and events.
- Making decisions in the best long-term interests of our stakeholders.
- Planning well, making clear and sound business decisions.

## **The Power of Corporate Values**

Furthermore, within UNUM, corporate values play a key part in creating a culture where employees are motivated towards achieving breakthrough business performance.

These values are clearly articulated and disseminated to all employees.

1. We take pride in ourselves and the organization’s leadership position.
  - Acting with integrity and high ethical standards.
  - Achieving leadership in performance, the community and the industry.

- Setting and meeting individual goals consistent with business goals, and owning our individual performance.
  - Being motivated and excited about the organization.
  - Believing in what we are doing.
  - Emphasizing the positives, celebrating successes and strengths, and constantly striving to improve our performance.
  - Delivering results.
2. We value and respect people.
- Dealing with each other as individuals and treating each other as we would like to be treated.
  - Developing people to their fullest potential.
  - Working together in a common endeavour; recognizing each other as important elements to the success of the whole.
  - Having a common understanding of each other's roles and how we fit with corporate objectives.
  - Collaboration with each other and having a sense of team.
  - Recognizing and accepting differences among people, but sharing the same values.
3. We value customers.
- Building long-term relationships with our customers and intermediaries.
  - Maintaining a strong orientation to service and the customer.
  - Delivering what we promise.
4. We value communication.
- Communicating clearly, consistently, and openly with everyone we deal with.
  - Building an environment that encourages open communication, participation, honesty and candour.
  - Listening.

## Balanced Scorecard

UNUM's balanced scorecard consists of four perspectives:

- UNUM people
- Operating effectiveness
- Customer satisfaction
- Shareholder value.

Each perspective has a vision, quantitative measure and goal. Crucially - and what makes the UNUM scorecard a particularly powerful strategic implementation framework - the scorecard aims to focus the organization onto time-sen-

sitive achievements. Therefore two of the goals define measurable results by 1998, and the scorecard itself is referred to as 'Goals 1998'.

Says Farrar, "Specifying a year by which we reach our goals worked well for the 61592 goal because it gave employees something definite to aim for, so it seemed sensible to take the same approach."

UNUM's balanced scorecard is shown below

## **.UNUM Balanced Scorecard**

### ***UNUM people***

Vision:

We will have the mind of a customer and the pride of an owner.

Quantifiable measure:

A benchmark survey will integrate the company's employee surveys into a tool for gauging progress.

Goal:

Our goal is to improve annually on the score established by the benchmark survey. In addition, we will monitor our progress towards the goal on an ongoing basis through formal and informal gathering of employee opinions.

### ***Operating effectiveness***

Vision:

We will increase customer value by rethinking, improving and streamlining our business processes.

Quantifiable measure:

Operating costs will grow at no more than one-half the rate of the top line.

Goal:

By 1998, our total operating costs ratio will be reduced by approximately one-third.

### ***Customer satisfaction***

Vision:

UNUM will provide the best value in offerings matched to customers' needs in the markets we choose to serve.

**Quantifiable measure:**

Each UNUM area with an external customer chain will develop a customer value measurement tool. It will be aimed at determining our customers' assessment of the overall value of our products and services.

**Goal:**

We will continually improve our customers' perception of the value of UNUM's offerings so that the number of customers who DO NOT rate UNUM as 'very good' will have declined by 40 per cent when we compile our final measurement in 1998.

**Shareholder value**

**Vision:**

We will deliver consistently superior long-term value to UNUM shareholders.

**Quantifiable measure:**

Shareholder value will be measured in terms of total return - ie dividends plus share price appreciation.

**Goal:**

We will achieve a total return that consistently places UNUM among the top 125 companies listed on the Standard & Poor's 500.

## **Internal Communications**

An absolute prerequisite, according to Farrar, for achieving corporate goals and for making the scorecard meaningful to all employees is investing significant energy and time into employee communications.

Farrar believes that implementing a scorecard is a process of relentless communication and education, and it must be explained in ways that make sense within the context of the employee's own working environment.

At a corporate level, the company has defined exactly what it means by each of its scorecard perspective visions. Starting with, 'We will have the mind of a customer and the pride of an owner' as the vision for the UNUM people perspective, the company has communicated throughout the organization that this requires UNUM employees to:

- think like a customer
- be interested in results
- discover better ways

- live by our word
- continuously grow and learn
- strive together towards our goals
- feel accomplished and recognized
- value differences
- master change
- share and listen.

UNUM is realizing this in a number of ways. First, there is the benchmark survey which measures employees' perception of whether these behaviours are indeed being 'lived' within the organization. The goal being to increase the number of employees who agree that these behaviours are being practised at UNUM and decrease the number of employees who disagree or who are not sure that these behaviours are part of daily life at UNUM.

Second, employees within UNUM America developed a trust workshop which focused on what barriers existed within the work unit or company to stop employees trusting managers. This identified the key issues and the findings were shared throughout the organization.

A 360 degree appraisal system, through which managers are appraised by, for example, their direct reports as well as their superiors, helps further ensure managers are aligned to corporate behaviours.

## **1998 Goals Stock Option Plan**

However, perhaps the most powerful, and innovative, vehicle by which employees are encouraged to 'have the mind of a customer and the pride of an owner,' and indeed focus their minds squarely onto achieving the 1998 goals, is UNUM's '1998 Goals Stock Option Plan'.

The 1998 Goals Stock Option Plan was launched in January 1995. Each UNUM employee was provided with a stock option grant of \$18 per share to purchase 300 UNUM shares once the grant was vested (a decreasing number of shares has been provided to employees hired post-launch).

The date of vesting of the 1998 Global Stock Option Plan will depend on the level of progress UNUM has made on its 1998 goals. In the event of the 1998 goals not being met, vesting of the 1998 Goal Stock Option Plan will automatically occur nine years after the grant date.

Farrar commented, "This has really helped employees to think like owners. Financial results are disseminated to all employees quarterly, and how the plan works has been clearly explained."

One communication medium for this is 'Knowing Your Options: a guide for employees to UNUM's 1998 Goals Stock Option Plan' which outlines how the plan works and offers employees a telephone number and e-mail address for further information.

Farrar feels that as owners of UNUM, employees can better contribute to and share in UNUM's success by better understanding how the business works - how UNUM makes money, and how the money is invested to grow the company.

A further compensation mechanism used to focus employees' attention onto the 1998 goals is the annual bonus, part of which is for achievement against annual goals and part for progress against the 1998 goals.

To make the vision of the operating effectiveness perspective ('We will increase customer value by rethinking, improving and streamlining our business processes') meaningful, UNUM has communicated throughout the organization an outline of how employees can contribute to attaining this goal. Statements include: 'Bending Over Backwards', which within a corporate information pack the company explains as:

Says Farrar:

"This is how we achieved the 61592 goal one year ahead of schedule! And, it's precisely the way we will meet our operating effectiveness goal and each of our '98 goals. We will succeed only with the commitment of every member of the UNUM team. And, we will look to each other - every UNUM employee - for leadership and creativity in improving our operating processes.

"When we talk about operating effectiveness, we are not just talking about taking costs out, but deploying money and resources in the most effective way and constantly comparing our performance against that of our competitors."

## **Chairman's Involvement**

To contribute to this perspective, and indeed the other perspectives, the chairman regularly charges teams to focus on developing some area of best practice, for example within disability insurance, in order to look at how best this area can be improved and to share information throughout the organization.

This is just one way that James Orr demonstrates leadership and personal involvement in the Goals 98 programme. He also holds an annual chairman's review, in which he meets with a group of employees representing each operating company or function to discuss how the employees perceive progress towards the goals. Employees are drawn from different organizational levels each year and, says Farrar, are encouraged to speak candidly.

The chairman has also articulated a set of questions which are used throughout the organization to ensure that the 1998 strategic goals remain the key focus of employees. These include:

### **Overall**

- What is the overall level of understanding of the '98 goals within the organization?
- What are the benchmarks for the planned progress towards the '98 goals within the organization?

- What are additional enterprise-wide support needs?
- What are the ‘best practices’ which can be shared with other UNUM organizations?

### **People goal**

- What actions are being taken, and what are the results? What are the challenges to employee understanding?
- What are the measures used to assess the progress between corporate surveys (real-time metrics)?
- What is the composition of agreement/disagreement statements, and how is this being addressed?

### **Customer satisfaction**

- What are the current dynamics of the market place? How is this changing UNUM’s customer needs and satisfaction?
- How is the ‘voice of the customer’ being heard? What are the measurements used to track customer satisfaction?
- What efforts are under way to better understand customer needs and provide ‘best value’?

### **Operating effectiveness**

- What steps are being taken to grow the top line?
- What are the key processes being worked on?
- Why were they selected? How do current efforts enhance value from the customer’s perspective?
- What sharing/leveraging of strengths is taking place across the enterprise? What economies of scale are being realized?

### **Shareholder value**

- Discuss return on equity target trends if appropriate.<sup>16</sup>

The chairman’s belief in the scorecard was clearly shown in UNUM’s Annual Report 1997 where, in his letter to the shareholders, he outlined progress against each of the scorecard perspectives. For example, regarding the customer satisfaction perspective, he said:

“1997 was a year of profound learning for our organization, particularly in terms of serving our customers. We know it is not enough to keep our customers merely satisfied. To keep customers coming back, to remain competitive, we must earn customers’ loyalty.

“In fact, customer loyalty is one of the greatest growth levers available to UNUM. For example, typical long-term disability customers create twice as much value for our organization in the second five years they are with UNUM than in the first five years... .

“As a result of these learnings, and in support of our 1998 Customer Satisfaction Goal, UNUM employees focused on further developing the ‘Mind of a Customer’ in 1997, and the results were outstanding. What started out as an experiment - to reach out to our customers through our new Customer

Loyalty and Satisfaction Center - turned into a tremendous success and a critical lever for accelerating growth... .”<sup>17</sup>

Customer satisfaction is articulated within UNUM as:

- putting our customers first in all that we do
- listening carefully to find out what they really want
- anticipating what they need
- meeting, even exceeding their needs and expectations in all of our contacts and with all of our products and services.

## The Money Machine

For the shareholder value perspective UNUM has communicated to all employees what investors are looking for and why this perspective is important. By making Shareholder Value a goal, they have given investors, stockbrokers and financial analysts a ‘yardstick’ by which UNUM’s progress toward its other stated goals can be measured. Their attitude is that companies that meet their goals win favour with investors and therefore enjoy a more favourable capital position.

To communicate the scorecard holistically UNUM’s finance function has designed an easy to understand presentation entitled ‘Money Machine’, which includes a textual explanation of how UNUM makes money and a graphic that walks through the whole organization process from sales to customers to the payment of shareholder dividends.

Says Farrar, “The money machine shows where opportunities for making profit exist and, importantly, people can see themselves in that continuum.”

## Deployment

For deployment of the corporate scorecard, each operating unit is charged with finding its own way to achieving the strategic goals.

Farrar maintains that:

“It is up to the management of each company to decide on the most effective way to move that company towards strategic goals. At unit level, it is the responsibility of the manager to roll the unit’s goals back to company and corporate goals. However, annual business goals will not be accepted unless they represent progress towards our corporate goals.”

Alignment is further ensured through UNUM’s performance contracts, all of which, from the chairman down, have the same categories as the corporate scorecard. Says Farrar:

“Individual objectives support the scorecard goals, so you can see the line of sight from employee performance through unit, company and ultimately to corporate performance.”

## Strategic Successes

So, given the amount of time and energy expended on the 1998 goals, the million dollar question is has UNUM succeeded against these goals?

At the time of writing this case study, the company was still assessing its final position. However clues can be found within the UNUM 1997 Annual report. To quote James Orr:

“We continue to make solid progress to our 1998 goals - goals that have served UNUM well over the past five years. Because of these aggressive goals, UNUM is closer than ever to its vision - and ultimate goal - of world leadership in disability and special risk insurance.

“We exceeded our overall ‘People’ goal target in 1997, aimed at creating a work environment for all UNUM employees that supports superior business results. And our UNUM America business again received national recognition for progress in this area during 1997. Examples of plaudits that UNUM America has received, include being voted within the:

- 100 best companies to work for in America by *Fortune* magazine
- 100 best companies for working mothers by *Working Mother* magazine
- top 30 family-friendly companies by *Business Week* magazine
- top 50 employers by *Equal Opportunity* magazine.”

Orr continued:

“...We met our Operating Effectiveness goal ‘rule of thumb’ of growing the top line at twice the rate or more of operating expenses. On a cumulative basis, we have improved our operating cost structure by 22 per cent over our 1992 base year, moving towards our 1998 target of 33 per cent...

“...Regarding our five-year annualized rate of return measured in our Shareholder Value goal, we were ranked in the second quartile of the Standard & Poor’s 500 at year end 1997, short of the top-quartile performance that is our target. We have, however, delivered exceptional returns over the past 10 years, with an annualized total return of 30.2 per cent, ranking us 39th of the 457 current Standard & Poor’s 500 companies with 10-year stock histories.

“And, we continue to make solid progress towards our Customer Satisfaction goal - progress that is reflected in our 1997 results. While we are still below our target for this goal, our work in this area has been, again, a source of significant learning and opportunity for UNUM.”

Also at the time of writing a leadership team had been created to co-ordinate the creation of a new set of corporate goals.

Says Farrar:

“We will certainly continue using the balanced scorecard. It is an excellent way to focus attention on creating value for shareholders and indeed all stakeholder groups.”

And as Orr said:

“...As we develop our next set of goals we will seek ways to accelerate our progress, grow our company by building long-term relationships with...our shareholders, by continuing to build shareholder value. We made great progress in 1997, but we know we are capable of more in 1998 and beyond.”<sup>18</sup>

## Conclusion

According to Farrar, the five-year experience of using a balanced scorecard has revealed a number of key learning points. Not least that as the 1998 goals were such long-term goals, the company had to work hard to constantly balance short-term and long-term goals and to clearly communicate to employees any trade-offs. She believes management must be vigilant in explaining how decisions today, such as acquisitions, new product launches or exiting businesses, impact long-term goals. If you do not do this, she believes, it can cause a lot of confusion within the organization.

She maintains that there are three things a company must get right if it is to succeed with a balanced scorecard:

- “1. First and foremost it is critical to be clear about what the company believes is important to measure and why it believes this.
- “2. Understand that the goal is itself a vehicle for getting somewhere. For example, we didn’t say that meeting these four goals would make us the global leader, we said it would make us a stronger company and significantly closer to that vision. So don’t confuse means and ends.
- “3. Engage all levels of the organization in defining the goals and align the organization behind the goals.”

## Key Learning Points

Finally, UNUM's success with its balanced scorecard has been the result of getting a number of fundamental things right. These include:

1. The balanced scorecard built on the success of UNUM's '61592' corporate goal, but was designed to reflect changes to the organization and a new set of business challenges.
2. The chairman James Orr was totally committed to creating the balanced scorecard and has been personally involved in building the original scorecard and in continually communicating its importance to stakeholder groups.
3. Senior managers within UNUM owned the process of building the corporate scorecard and used external help only for facilitating early meetings.
4. UNUM drafted a clearly defined and meaningful corporate vision statement.
5. The scorecard was designed to meet specific time-sensitive goals. This made the scorecard tangible to all employees and proved a catalyst for breakthrough improvements.
6. The reason behind the scorecard perspective goals and measures were clearly explained to employees.
7. The company had a near obsessive focus on internal communications.
8. An innovative compensation programme entitled the 1998 Goals Stock Option Plan proved a powerful mechanism for aligning individual performance with corporate goals.
9. All individual performance contracts, from the chairman down, reflect the scorecard's four perspectives.

## References

17. *1997 Annual Report*, UNUM Corporation
18. *1997 Annual Report*, UNUM Corporation