

# CHAPTER 1

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## Introduction

What do award-winning companies know that eludes many of today's executives? How do they organize and innovate to achieve outstanding results in their fields of endeavor? What core and innovative processes and best practices do they have in common that they can leverage in challenging times to achieve success? How have they overcome what a recent CEO study calls the "change gap," or the ability to innovate and change in a challenging market?

In good times, strengths and weaknesses of a business model are often overlooked. In bad times, as with the global recession, weaknesses often come to the forefront. Market forces and prolonged recession have caused organizations to rethink their business models and innovate through best practices. I was intrigued by how several companies have thrived and innovated, particularly in one of the worst recessions since the Great Depression. Leaders were kind enough to share their stories with me. Research in this book focuses on core best practices from my first book<sup>1</sup> and on how award-winning organizations have developed dozens of new, innovative best practices not only to survive but also to lead their sectors.

*That some should be rich shows that others may become rich, and, hence, is just encouragement to industry and enterprise.*

—Abraham Lincoln

### What about the First Book?

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My first book, *Five Key Principles of Corporate Performance Management*, was published in January 2007 and to my surprise was the number 1 release on the largest global Web channels, Amazon and Barnes & Noble. For three years it has continued to be the number 1 corporate performance management (CPM) title (from over 2,500 titles globally). All royalties are

donated to [www.honorflight93.org](http://www.honorflight93.org) to honor the families of Flight 93 and [www.saluteamerica.org](http://www.saluteamerica.org) to assist wounded soldiers to rebuild their lives. Since this book builds on the first, I will share some of the strategic backdrop and research highlights from the first book that motivated its publication.

In 2001, I was fortunate to be invited by the CEO of Crown Castle International (a telecommunications company) to be the senior vice president of global performance (CPM office) and to form and deploy a new CPM office. Crown shortly thereafter experienced what is now referred to as the telecom meltdown. The economic backdrop and research showed conditions were very challenging, as demonstrated by the following:

- *Kaplan and Norton*, co-inventors of the Strategy Focused Organization and Balanced Scorecard, and my former employers and mentors, discovered that “9 out of 10 companies fail to implement their strategies” and that four barriers (vision, people, management, and resources) were responsible for these shortcomings.<sup>2</sup>
- *Fortune* magazine reported, “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.” Between 1998 and 2004, the turnover of Fortune 500 companies has been staggering.<sup>3</sup>
- *Booz Allen Hamilton’s* study, “Why CEOs Fall: The Causes and Consequences of Turnover at the Top,” showed turnover among chief executives soared 53 percent between 1995 and 2001. The number of CEOs who left their jobs under pressure more than doubled during that period, and average CEO tenure plunged more than 23 percent, according to the study of 2,500 publicly traded companies.<sup>4</sup>
- *Drake Beam Morn’s (DBM)* study, “CEO Turnover and Job Security,” revealed that two-thirds of the world’s companies have changed CEOs at least once in the last five years.<sup>5</sup>

In response, my team and I relentlessly searched for methods and best practices from award-winning companies to share with the Crown organization to assist in improving our performance.

We researched, visited, and collaborated with over 40 award-winning organizations that encompassed all types of business models including government, quasi-government, publicly traded, privately owned, and non-profit; and that participated in numerous sectors including aerospace, financial services, telecommunications, consumer products, utility, pharmaceutical, entertainment, communications, and high technology hardware and software.

This research revealed a common DNA consisting of 30+ CPM best practices that were grouped by the Five Key Principles:

- 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.

The companies of the executives who generously shared their methods with us have earned an impressive roster of awards and honors, including the following:

- U.S. President's Malcolm Baldrige National Quality Award (MBNQA)
- Kaplan and Norton Global Balanced Scorecard Hall of Fame Award
- Deming Quality Award
- American Productivity & Quality Center Best Practice Partner Award
- State Quality Awards (based on MBNQA criteria)
- *Fortune's* "100 Best Companies to Work For"
- Several other honors and awards in each case

In truth, I was thrilled to direct Crown's global improvement efforts with a very supportive and collegial executive team and employee base. The CPM best practices started to take hold, and Crown earned several notable, globally recognized awards and honors, including the following:

- The *Wall Street Journal* ranked Crown in the Top 20 Most Improved Companies in Shareholder Value (out of 4,000).
- The company's share price appreciated from \$1 to over \$30 during my tenure.
- The company won the Balanced Scorecard Hall of Fame Award from Kaplan and Norton.
- The company won the American Productivity & Quality Center Best Practice Partner Award.

This was the beginning of the Five Key Principles model (shown in Exhibit 1.1) that has since been used by dozens of organizations to emulate the winners, with striking results. This model has been updated based on the results of new research.

## **Innovation and Accumulated Knowledge**

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Since the Crown experience and the publication of my first book, I was often asked if I would follow up on the initial book and continue the research. I became intrigued by how several companies led their sectors prior to and

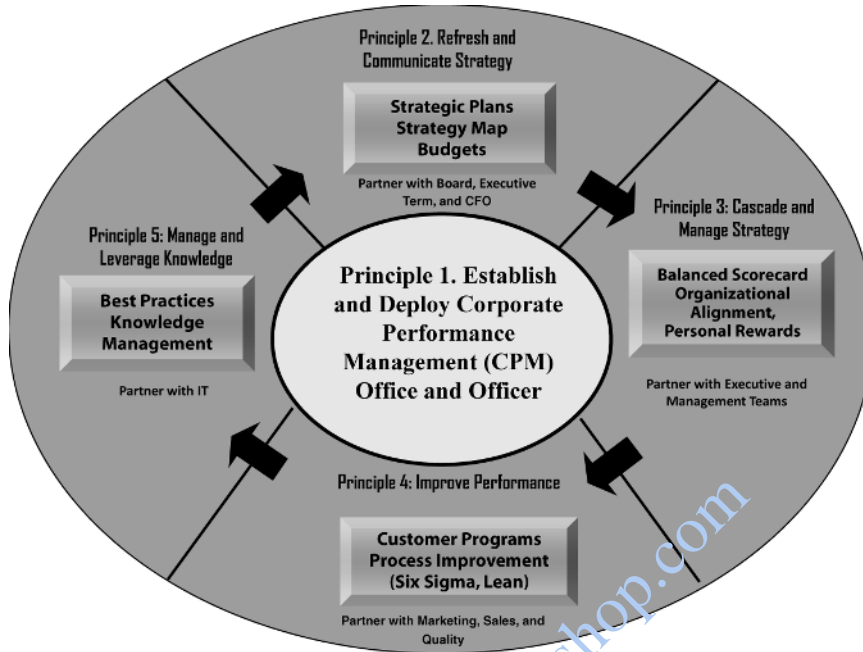


EXHIBIT 1.1 Five Key Principles of CPM

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during one of the worst recessions since the Great Depression, and I decided to pursue further research on them for this sequel. The case companies have amassed over 175 distinguished awards and honors.

Innovation has been at the heart of our existence and advancement for centuries. Alchemists would argue that innovation is really our natural state. Exhibit 1.2 chronicles some innovations spanning 5,000 years for us to ponder and appreciate.<sup>6</sup>

To put a sharper point on our need to embrace and adapt to an increasingly innovative society, consider the following trends.

The U.S. Congress invented the U.S. patent system in 1790. In 1883, the U.S. Patent and Trademark Office processed only a few hundred patents. However, between 1977 and 2008, a deluge of 2,096,055 patents were filed.<sup>7</sup> This is not a uniquely American experience, for every society has its way of expressing innovation or creativity.

Globally, the World Intellectual Property Organization reports the explosion of patents and ideas in its annual report. Consider that it took almost

## EXHIBIT 1.2 Innovation Highlights

BC	Inventions/Innovations
3000	Abacus invented by the Chinese
2800	The 12-month, 365-day calendar devised in Egypt
1550	Earliest surviving medical textbook written in Egypt
700	First purpose-made sundials appear
650	Standardized coins used by Greece
400	The catapult, the first artillery weapon, is invented by Greece
312	Work begins on the Appian Way, the first great Roman road
210	Archimedes, the Greek scientist, invents the Archimedean screw
AD	Inventions/Innovations (Inventor)
1440	Printing Press (Johannes Gutenberg)
1494	Double Entry Accounting (Friar Luca Pacioli)
1642	Adding Machine (Blaise Pascal)
1668	Reflecting Telescope (Isaac Newton)
1673	Microbiology (Anton van Leeuwenhoek)
1742	Franklin Stove (Benjamin Franklin)
1760	Bifocal Glasses (Benjamin Franklin)
1793	Cotton Gin (Eli Whitney)
1800	Electric Battery (Alessandro Volta), Volts, Voltage so named
1824	Braille (Louis Braille)
1836	Colt Revolver (Samuel Colt)
1867	Baby Formula (Henri Nestlé)
1869	Air Brake (George Westinghouse)
1889	Automobile (Karl Benz) later Mercedes Benz
1895	Wireless Telegraph (Guglielmo Marconi)
1903	Airplane (Wright Brothers)
1942	Nuclear Reaction (Enrico Fermi)
1947	Instant Photography (Edwin Land), the Polaroid Land Camera
1976	Personal Computer (Steve Jobs and Steve Wozniak)
1998	Google (Sergey Brin and Larry Page)

100 years for Japan to reach a level of 150,000 patent filings per year, but only 20 more years to reach almost 450,000 patent filings per year. The rate of innovation is clearly accelerating. The United States, China, and Europe have all attained 150,000 or more filings per year.<sup>8</sup>

Failing to understand and embrace change and innovation can be costly. Did you know the following companies were removed from the S&P 500 index during this past decade?<sup>9</sup> What happened? They failed to innovate on one level or another.

Anheuser Busch  
AT&T Corp.  
Bear Stearns Cos.  
Seagram Co.  
Alcan, Inc.  
BellSouth Corp.  
Circuit City  
Countrywide Financial  
COMPAQ  
Dow Jones & Co.  
Enron Corp.  
Global Crossing  
Lehman Brothers  
Lucent Technologies  
Merrill Lynch  
Maytag  
Nortel Networks  
Bank One  
Reebok International  
Adolph Coors Co.  
Rohm & Haas Co.  
Schering-Plough Corp.  
Times Mirror  
Unicol Corp.  
Wachovia Corp.  
WorldCom Inc.  
Wyeth

### CEO Study Reveals the “Change Gap”

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One of the most comprehensive CEO global surveys by IBM<sup>10</sup> in late 2009, which studied over 1,000 leaders of the largest global enterprises in Europe (403), North and South America (358), and Asia (359), revealed the following astounding insights:

- Organizations are bombarded by change, and many are struggling to keep up.
- Eight out of ten CEOs see significant change ahead, and yet the gap between expected change and the ability to manage it has almost tripled since the prior year’s CEO study.
- CEOs view more demanding customers not as a threat, but as an opportunity to differentiate. CEOs are spending more to attract and retain increasingly prosperous, informed, and socially aware customers.

- Nearly all CEOs are adapting their business models; two-thirds are implementing extensive innovations.
- More than 40 percent are changing their enterprise models to be more collaborative.

In the 2006 CEO survey, 57 percent of CEOs felt their companies changed successfully, yet 65 percent of CEOs felt change would continue, a change gap of 8 percent.

In the 2009 CEO survey, 61 percent of CEOs felt their companies changed successfully, yet 83 percent of CEOs felt change would continue, a change gap of 22 percent.

More astonishingly, the change gap expanded from 8 percent to 22 percent, an increase of 275 percent in just three years.

Also, while the number of companies that successfully manage change has increased slightly, the number reporting limited or no success has risen by 60 percent. So what is causing this growing gap? Constant change is certainly not new. But companies are struggling with its accelerating pace. Everything around them seems to be changing faster than they can.

I thank the 11 leadership teams for generously sharing the innovative CPM journeys of their award-winning companies, which have defied the odds and thrived in these challenging times. My hope is that you as a reader will gain key insights, leverage these CPM best practices to accelerate results, and realize your full potential.

## Notes

1. Bob Paladino, *Five Key Principles of Corporate Performance Management* (Hoboken, NJ: John Wiley & Sons, 2007).
2. Paladino, *Five Key Principles*, 11.
3. "Blue Ribbon Companies 2004," [www.fortune.com](http://www.fortune.com) (accessed November 4, 2005).
4. Paladino, *Five Key Principles*, 12.
5. Robert Grossman, "Forging a Partnership Executive Turnover," *HR Magazine*, April 2003, 16.
6. "Great Idea Finder Innovation Timeline," [www.ideafinder.com](http://www.ideafinder.com) (accessed December 28, 2009).
7. U.S. Patent and Trademark Office, March 2009, 7.
8. World Intellectual Property Organization, *World Patent Report: A Statistical Review*, 2008.
9. Andrew Garcia Phillips and Carolyn Cui, "Companies Removed from the S&P 500 This Decade," *Wall Street Journal*, R4.
10. IBM Institute for Business Value, *CEO Enterprise of the Future*, IBM Global Services, 2008.

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