



## Cigna P&C Case Abstract

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The Balanced Scorecard played a significant role in transforming Cigna P&C from an unfocused company that, according to CEO Gerry Isom, “tried to sell insurance products to lots of people in lots of states through lots of distribution channels,” into a well-focused specialist. Isom credits the Balanced Scorecard with helping Cigna attain clarity of purpose, allowing it to sell “...products and services that we were good at in the states where we could make money, through distribution channels that made sense.” Within 6 years, the BSC helped change Cigna P&C from a company with negative value to one with a 3.5 billion-dollar price tag.



## Cigna P&C Case Report

In 1993 Cigna P&C was the worst performer in its industry with:

- \$680 million in operating losses (1993), including \$221 million set aside for asbestos and environmental litigation plus a \$97 million after-tax restructuring charge.
- Almost all lines of business, operating within a “generalist” product strategy, were marginal

Cigna’s strategy had two main components. First was to focus on niches where it had a comparative advantage and move from being in industry “generalist” to an industry “specialist.” Second, the company instituted the “combined ratio,”— an industry standard measure — as a surrogate for profitability with the goal of driving P&C’s combined ratio from 140 in 1993 to between 103 and 105 by 1998.

Using the Balanced Scorecard:

- Cigna P&C returned to profitability within 1 year (1994)
- Sustained and improved financial performance over the following 4 years
- Achieved its goal of top-quartile industry ranking in 1998
- Combined Ratio (Losses + Expenses divided by Premiums) reduced from 140 to under 105 over a 5-year period (1993-98).
- Four sub-companies within P&C re-rated upward by A.M. Best from B++ to A-. (1995).
- Went from industry “cellar-dweller” (\$680 million in 1993 operating losses and special charges for litigation and restructuring expenses) to being sold for \$3.45 billion.



## Why Cigna Chose the Balanced Scorecard

Gerry Isom, president of Cigna P&C wanted radical change. Business losses were mounting and a demoralized workforce was skeptical of his goal to make P&C a “top-quartile specialist in 5 years.” They needed a clear picture of what this would look like and how it could be achieved.

A turnaround management team at Cigna P&C had developed a new strategy to become a “specialist” in the insurance industry by focusing on niches where it had a comparative advantage. The deployment of this new strategy to its 18 new business units in 1993 required the use of the Balanced Scorecard as a core management process.

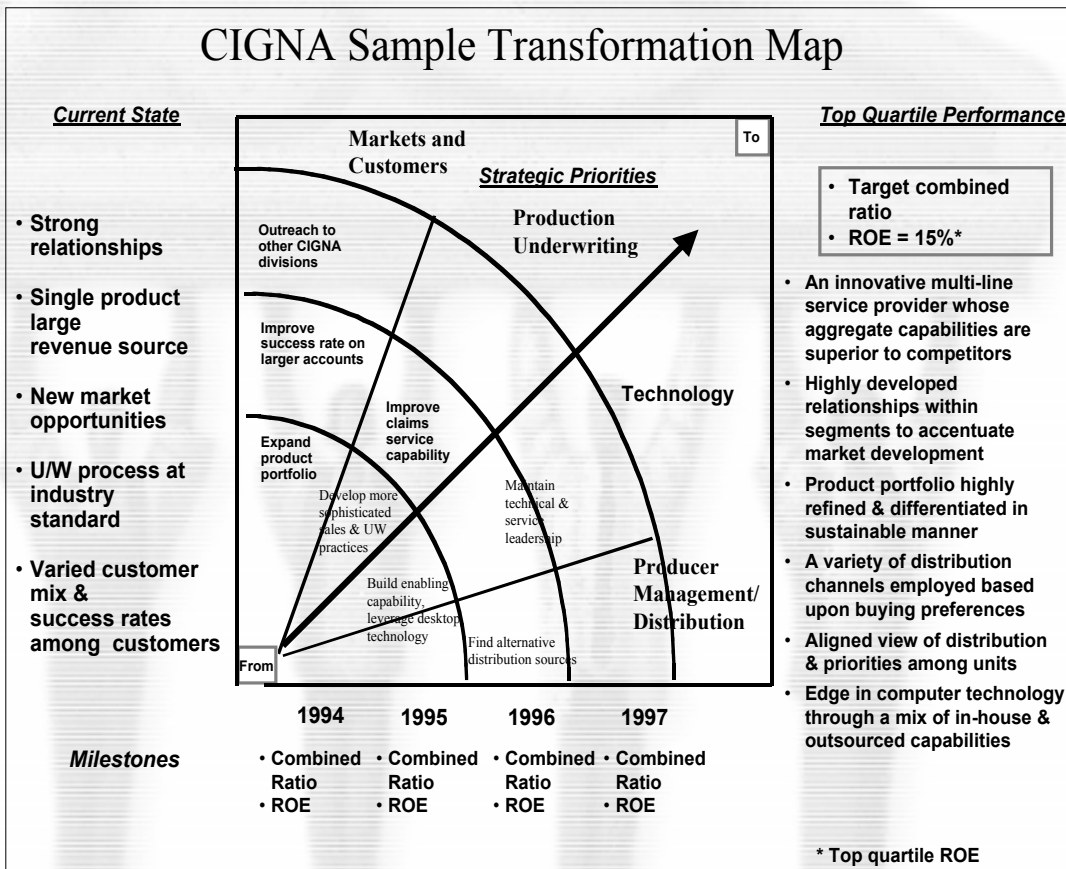
Instituting the “combined ratio,”— an industry standard measure — as a surrogate for profitability, Isom’s goal was to drive P&C’s combined ratio from 140 in 1993 to between 103 and 105 by 1998. The Balanced Scorecard helped drive his 6500 employees in that direction.

“Cigna used the Balanced Scorecard to manage its transformation from a generalist company to a top-quartile specialist,” says Isom.



## Building Cigna's Balanced Scorecard

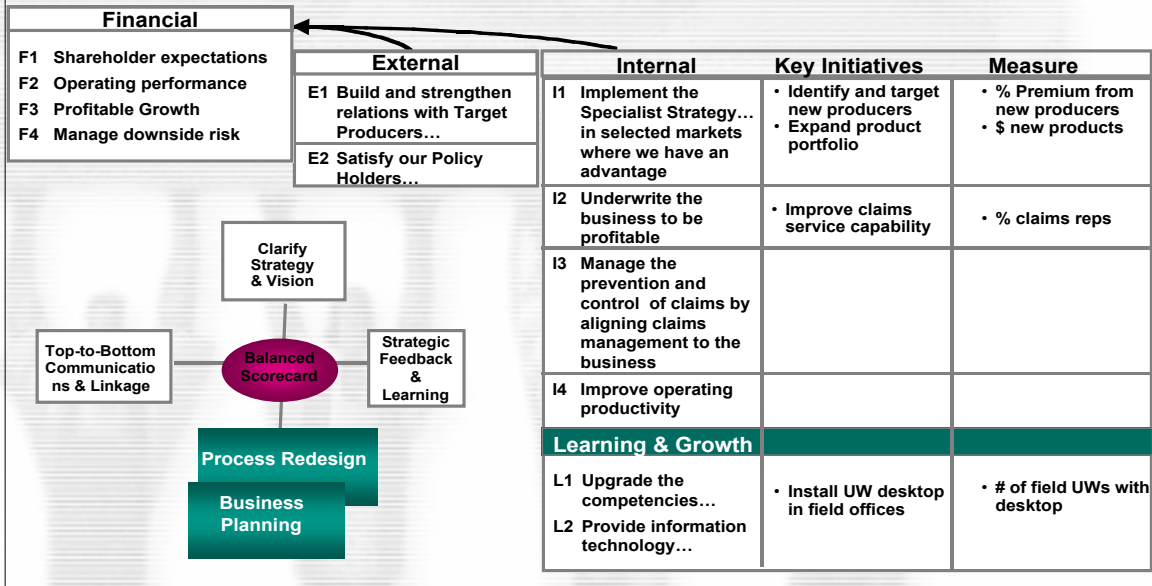
While Cigna P&C did not construct a strategy map, it did put together a "transformation map" highlighting its change management path. In addition, "performance models" for various functions were developed which approximated strategy maps. They showed a system dynamics view of cause-and-effect relationships.



Cigna (the parent company of Cigna P&C) had a core set of objectives against which all divisions framed their respective operational measures.

## The Balanced Scorecard Helped Us Focus and Integrate Our Planning Process

### Balanced Scorecard Strategic Objectives



## Corporate Alignment

Gerry Isom at Cigna P&C and his executive team adopted eight major competencies or themes to express their new strategy of achieving “top-quartile” business performance as a specialist insurer:

- Select and enter new markets with above-average profit potential
- Select and attract the right kinds of customers
- Select and manage the producers for those businesses
- Better identify exposures and hazards
- Drive pricing more accurately toward the right risk assessment
- Form partnerships with customers in order to reduce frequency of claims
- Reduce claims severity
- Manage claims performance to the required service level of each business unit

This set of themes was then translated into strategic outcomes at lower levels.



## Operations Alignment

Each of the 18 sub-businesses within Cigna P&C created its Balanced Scorecard in alignment with the corporate scorecard. The corporate SFS (Strategic Feedback System) “desktop” for managers was the automated version of that scorecard. It was linked with personal computers used in various departments by thousands of workers and linked by networks to process-specific knowledge databases and to the corporate SFS. By this linkage Cigna’s leaders were able not only to track corporate-level and SBU-specific measures of work processes, but also to communicate with the “process owners.”





## Building Awareness

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At Cigna P&C, the Balanced Scorecard was the centerpiece of massive redesign efforts affecting work processes, job roles and information support systems. The goal: Build a technology-enabled network or community of practice among many workers that would allow cross-functional communication and knowledge-sharing to occur. In particular, it was felt that the Claims organization could share information and experience with Underwriting and in so doing help Underwriting make smarter decisions.

To facilitate this intelligence sharing, underwriting managers became responsible for updating knowledge databases derived from internal best practices associated with the specialist services that the new strategy demanded. Thus, new workers would learn more quickly the essentials of how the strategy operated at their level. These underwriting managers became “process editors” for the knowledge associated with specific workflow steps. BSC measures were the basis for learning about and controlling work processes.



## Making Strategy Everyone's Job

### Personal Scorecards

At Cigna P&C, each employee was assigned to an "alignment roster." Both profit center employees and shared service unit (SSU) employees (claims, IT, HR) were directly connected with an SBU for purposes of personal performance measurement and compensation. SSU employees who served multiple profit centers were associated with the one that consumed 50% or more of their time and effort. All employees had "line-of-sight" views of their contribution to SBU profits, and their paychecks depended on performance of their assigned SBU.

Cigna's Underwriting Department exemplifies the alignment of personal and team objectives with corporate scorecard objectives. After a re-engineering firm developed a comprehensive, 29-step protocol, members of one troubled Underwriting group began making the new protocol a part of their job. They transferred this new pattern to their underwriting peers in the other 17 lines of insurance business.

### Rewarding Results

"Incentive compensation programs are all about reinforcing," says Cigna President Gerry Isom. "If your people do a really good job on their BSC, I can't think of a better way to reinforce their accomplishments than linking them to an incentive program. For us, the linkage has been everything."

Cigna P&C linked executive compensation to its Balanced Scorecard within the first year of its use. While Isom did not dictate a specific plan for how bonuses were to be distributed, he did allocate bonus funds to each business unit for their discretionary use. One unit's "Performance Share Plan" (PSP) eventually became the model after which all other units patterned themselves.



Each employee was awarded a number of “position shares” at the beginning of the fiscal year, based on their positional responsibilities. In addition, their managers were empowered to give them “performance shares” at various times throughout the year, based on personal performance. The payout value of these shares was calculated on the basis of the business unit’s performance vis-à-vis its scorecard results.

## Incentive Compensation System at Cigna P&C

**Total Shares = Business Shares + Performance Shares**  
**Share Value Determined from BSC (Par Value = \$10.00)**

Strategic Objective	% Weight	Financial Measures	Non-Financial Measures
(F1) Shareholder Expectations	20	Net Operating Income	
(F2) Operating Performance	15	Accident Year Combined	
(F3) Growth	20	GWP	
(E1) Producer Relationship	10		Producer Feedback (Councils, Surveys, etc.)
(I2) Underwrite Profitability	10		U/W Practice Reviews
(L2) Information Technology	5		Upgrade Computer Literacy
Other	20		

### Example #1

$$\begin{aligned}
 &\$5.00/\text{Share} \quad \times \quad 50 \text{ Business Shares} \\
 &\quad \quad \quad \quad \quad \quad \quad \quad + 100 \text{ Performance Shares} \\
 &\quad \quad \quad \quad \quad \quad \quad \quad = 150 \text{ Shares} \\
 \hline
 &\text{Bonus} \quad \quad \quad \quad \quad \quad \quad = \$750.00
 \end{aligned}$$

### Example #2

$$\begin{aligned}
 &\$14.00/\text{Share} \quad \times \quad 50 \text{ Business Shares} \\
 &\quad \quad \quad \quad \quad \quad \quad \quad + 10 \text{ Performance Shares} \\
 &\quad \quad \quad \quad \quad \quad \quad \quad = 60 \text{ Shares} \\
 \hline
 &\text{Bonus} \quad \quad \quad \quad \quad \quad \quad = \$840.00
 \end{aligned}$$



## Make Strategy a Continual Process

### Feedback Systems

Cigna P&C communicated monthly updates to its BSC with an automated Strategic Feedback System (SFS).

Supported by browser-based search capability, the browser allowed 100% of Cigna P&C's employees to "point-and-click" on written performance assessments and measures with the desired level of detail for any

- profit center
- performance objective
- timeframe

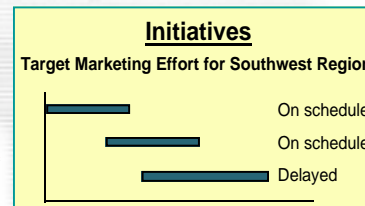
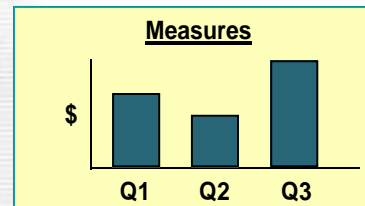
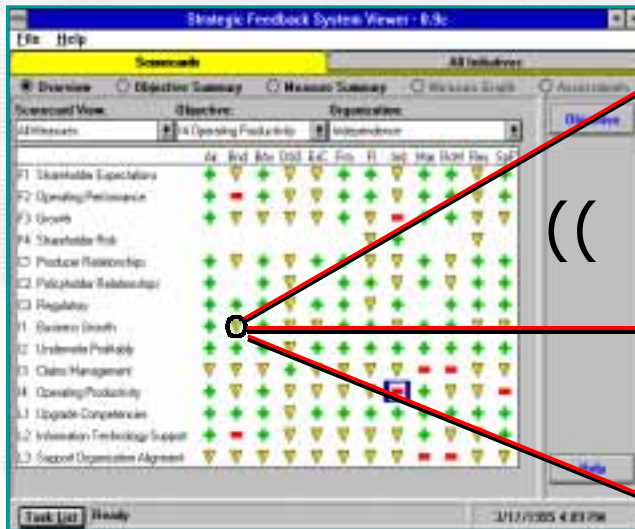
They also had the ability to respond to anything they read on the scorecard with an email message directed to the owner of the performance objective and its data.

This automated feedback system not only created widespread awareness of the BSC management system, but was also the technical foundation for organization-wide, rapid-sensing capability. Such a capability would enable leaders at all levels to learn from thousands of front-line observations and suggestions that the system captured and use them to continuously revise strategy.

"It was a tremendous adjustment for people to report their problems because they knew that everyone in the company would see them. It took a while for people to be totally objective about reporting performance," notes Isom.



## Cigna Executive Team Used Balanced Scorecard Feedback System to Facilitate Cultural Change



### Assessment

Recent Performance in the Business Growth area has been at or above performance for the past three quarters. The following assessments have been provided by initiative owners:

a. Anne Sullivan	9/25/96
b. John Dark	11/14/96
c. Marianne Ritchie	1/15/97



## Making Strategy Everyone's Job

### Strategic Learning

Cigna P&C's Strategic Feedback System provided feedback to the organization about its performance against the scorecard. Since many of the work processes had been re-engineered, with new job roles and new business priorities at many levels, the scorecard was the unifying tool for sustaining a new structural vision of the strategy in operation. To prevent employees from reverting to old ways, the system was created and installed early in the scorecard implementation to provide continuity for the changed way of working.

The scorecard was embedded within the periodic and ad hoc software reports that the SFS generated to leaders at many levels. The "viewer" and "publisher" modes underwent testing during Q4 of 1994 and became fully operational in early 1995.

By 1996, 100% of the Cigna P&C workforce could access scorecard information about all of the profit centers.



## Mobilize Change Through Executive Leadership

Cigna P&C's Gerry Isom created urgency for change in several ways. He reorganized the business into three new profit centers:

- Specialty Insurance Services
- Commercial Insurance Services
- Special Risk Facilities

Within these three divisions he created 18 new business units. Each new business entity focused on a specialist market niche, serving well-defined customers with well-defined products.

Isom simultaneously created a "President's Executive Council" of 10 members, including 4 members from outside the company.

Two outside consulting firms were hired to reengineer the organization's work processes and install a Balanced Scorecard for managing performance.

Forming a joint venture, the firms analyzed the business and its processes. Their recommendation was to work on the "metabolism of the whole organism" rather than just reengineering processes.

To that end, Isom translated his specialist vision and strategy into a Balanced Scorecard. He also automated the scorecard structure and associated data with an electronic "Strategic Feedback System" (SFS) to frame the performance management of the 18 new business units.



Work processes within these businesses were redesigned with help from 20 “best performers” assigned to change-management teams in the following areas:

- Producer Management (agent relationships)
- Underwriting
- Claims
- Support Alignment (elimination of non-essential support positions and unused printed reports)
- Measurement (Balanced Scorecard development)

These and other business re-design initiatives were supported by aggressive re-design of various information technology support systems.

