

ON THE
UP AND UP



ACHIEVING BREAKTHROUGH PERFORMANCE THROUGH INSIGHT

FOREWORD BY JEFFREY R. RODEK
CHAIRMAN AND CHIEF EXECUTIVE OFFICER, HYPERION



FOREWORD

IT'S A THIN LINE BETWEEN SATURDAY NIGHT
AND SUNDAY MORNING.

JIMMY BUFFETT



J E F F R E Y R . R O D E K
 C H A I R M A N A N D C H I E F E X E C U T I V E O F F I C E R
 H Y P E R I O N

Being a CEO is much less glamorous today than it was during the business boom of the late '90s. To my way of thinking, this is good because companies need less glamour and more substance to be successful in these challenging times.

The return to substance over self-promotion also plays more to my strengths. Born, raised and educated in the Midwest, I spent 16 years of my career at Federal Express (now FedEx), one of the most straight-arrow yet innovative companies in the world—and one of the most successful. My Midwest upbringing and my years at FedEx instilled in me a leadership style that I would like to think resembles that of the Level 5 leader as defined by Jim Collins. Jim is a self-described student of great, enduring companies and the author of two of the most influential books on business published in the '90s, *Built to Last: Successful Habits of Visionary Companies* and *Good to Great: Why Some Companies Make the Leap... and Others Don't*.

In an interview in *Information Outlook* magazine in December 2001, Jim described the Level 5 leader this way:

“Part of the signature of Level 5s is they are always thinking about what their ambition is for the company, the work and ensuring the greatness of what they are building more than their stature, celebrity and personality. That is not what drives them. That is what is so special about Level 5 leaders.”

But in 1999, I was the newly appointed chairman and CEO of Hyperion, an enterprise performance management software company struggling to get back on track after a failed merger and on whose board I had served for almost two years. At the time, Wall Street seemed to prefer rock star CEOs and companies with radical new business models. Sell-side analysts' opinions of Hyperion reflected their disdain for our more traditional approach to the software business, which emphasized growth *and* profits. And I can tell you that the pressure to conform was intense. I remember one analyst asking me, “What’s a guy from Ohio doing running a Silicon Valley software company?”

The fact that I had many years of relevant experience, having spent the early part of my career in operations research and financial planning and

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analysis, and having been a successful executive at FedEx and Ingram Micro, didn't seem to carry much weight with Wall Street. And even though I was confident I was the right person to be chairman and CEO of Hyperion, I'd be lying if I said I never questioned my leadership style in those days—especially when I'd see yet another high-flying CEO of an Internet company canonized on the cover of a prestigious business magazine. It hurt worse when I saw the inevitable share price increase that typically followed such attention.

I'd also be lying if I said that every business decision I made in those days adhered strictly to the principles of leadership I have evolved over 25 years in business. But fortunately most of them did.

For example, I used to get pressure from some of our customers to purchase their products in order to win their business—quid pro quo. I told our salespeople not to do business that way.

I also used to get pressure from investors to make acquisitions in order to add to our top line, even if the acquisitions looked like they might hurt, rather than

help, our long-term bottom-line prospects. I said no.

At one point in time, we were exploring a new business within the company and one of the strongest internal champions of the idea suggested that we spin it off as a separate unit or create a tracking stock that “undoubtedly” Wall Street would value more highly than that of our existing business. Fortunately, we didn't do it and later exited this business.

Another time, members of our management team suggested that we change the logo of the company to make the “e” in Hyperion stand out, emphasizing our prowess as an e-business. I'm pleased to report we didn't do that either.

Any one of these actions would have likely earned us some of the praise from Wall Street we were craving at the time. But I believed then—and subsequent events have borne this out—that they would have been bad for the company and, frankly, just bad business.

I've always been a huge Jimmy Buffett fan, and in those heady times a line that he used to introduce one of his songs kept coming back to me: “It's a thin line between

Saturday night and Sunday morning.”

I believe that a number of CEOs are thinking about that thin line now—many of us glad that we never crossed it and others regretting that they did.

But despite what we read in the headlines as some of these CEOs and their management teams lose their jobs and even face criminal charges for their mistakes, it’s not all about greed. A good bit of it is about winning, and in business, that’s really what it’s all about. In business, you either win or you lose; there is no middle ground. And there is nothing wrong with winning.

But how you win matters—a lot. I want people around me who are competitive. I want people around me who share my desire to win, who hurt when we lose. But I also want people around me who are ethically strong and who can help us win in the right way.

And that’s the challenge: how to run a business in a way that increases your chances of winning and, equally important, in the right way. That’s a lot of what my business career has been about. That’s certainly what my job at Hyperion is all about. And that’s what this book is all about.



People sometimes ask me if I am focused on Business Performance Management because I am the CEO of Hyperion or if it’s the other way around. I’ve been focused on performance management in one way or another my entire professional career, and that’s what made the chance to run Hyperion so appealing.

My first exposure to performance management came when I went to work at FedEx. I was hired as a financial operations research analyst in FedEx’s operations research department and later went on to manage a group of analysts in the company’s financial planning and analysis department. Both departments focused on projects aimed

at using the latest technology to help the company get better information and make faster, more informed decisions. We focused primarily on tools for modeling, budgeting, planning and analysis.

The outcome of one of the projects I managed in the early ’80s was an automated flexible, or “flex,” budgeting system. I worked on this project with a team of people, but principally with a colleague named Mike Sternad, who had brought me into FedEx and had hugely influenced me by introducing me to sophisticated modeling, analysis and decision support techniques and technologies. Mike and I have continued to work together off and on over the

years, and I give him a lot of credit for shaping my views on performance management.

Flex budgeting was one of the breakthroughs that let FedEx move from a static annual plan to rolling plans that could be updated continuously throughout the year with improved accountability. And by the way, it was far more exciting than my first project in financial planning and accounting: reconciling the 12-foot stacks of budget printouts to the general ledger.

Another project I worked on in the '80s was inspired by the weather map in *USA Today*. The beauty of the *USA Today* weather map is that it presents a daily forecast for the entire country in a single, brilliantly colored, user-friendly image. It had always struck me as an incredibly useful way of presenting information. One day it occurred to me that we could use it as a model to develop an information system for FedEx executives that was similarly useful and user-friendly. The project resulted in FedEx's first dashboard-based management report.

The flex budgeting system and the dashboard-based management report both earned me the company's highest employee recognition, the Five Star Award. They were extremely difficult projects, considering the state of technology then, and required every ounce of creativity we could muster. And while I knew then that we were pushing technology at the leading edge,

it wasn't until I left FedEx years later that I realized how much the company was at the forefront of technology-based performance management processes.

Later when I joined the board of Hyperion—I had actually joined the board of Arbor, which merged with Hyperion, and I stayed on—and got a glimpse of the work the company was doing in performance management, I was thrilled. Many of the applications and systems we struggled so hard to develop at FedEx back in the '80s were coming together into a new category of enterprise software that Hyperion was pioneering. In 2001, when I had been CEO of Hyperion for two years, we put a name to the category, calling it Business Performance Management, and defined it as management processes and business systems that let companies translate their strategies into plans, monitor execution and provide insight to manage and improve both financial and operational performance.

At Hyperion, when we first started talking to our customers about a comprehensive way to manage performance, we got a fair number of blank stares. It was really only the forward-thinking customers who understood where we were taking the category and who embraced it from the beginning. The picture is very different today.

In the aftermath of Enron and other high-profile disasters such as WorldCom and now Parmalat, stringent new corporate accounting and reporting

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rules, such as those in the Sarbanes-Oxley Act of 2002 in the United States and the new International Accounting Standards (IAS) in Europe—also known as International Financial Reporting Standards (IFRS)—are driving demand for accountability at all levels of an organization to all stakeholders. These new regulations mandate better internal controls and, in the case of Sarbanes-Oxley, require CEOs and CFOs to personally certify financial results or suffer personal penalties.

Many companies making changes to become more compliant also are recognizing that improved compliance is a good foundation—and, frankly, a strong incentive—for improving overall business performance. Let's face it: Compliance is expensive and it's not optional. Many companies now are deciding that if they are going to spend to ensure compliance, it makes sense to leverage that investment into more comprehensive performance management solutions and reap even larger benefits.

Hyperion is a good case in point. When I became CEO, Wall Street viewed Hyperion as a company that was straightforward in its disclosures but not

especially forthcoming with detailed information about the performance of its business. Because we felt we needed to reach out to the financial community and other stakeholders to rebuild trust and confidence, we decided to break out and report on the performance of our business in a much more detailed way than we had done previously.

We did this not just to provide transparency into our operations for our external stakeholders, but also to hold our own managers accountable for results they were promising to deliver. We found that reporting performance internally and externally in a more detailed way galvanized people at Hyperion around performance issues. Because we were able to report on our performance in detail, we also were able to establish clear goals, metrics for success (and failure) and more precise accountability. We adopted a mantra at the time that pretty much summed up our expectations of managers: no-excuses execution.

In addition to management processes and business systems, successful Business Performance Management implementation requires a certain

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leadership style and company culture. The end goal of Business Performance Management is to build a performance-accountable organization, one in which all

people at all levels work collaboratively towards the same goals, striving for breakthrough performance and accountability in all of their actions.



I've had the good fortune in my career to work for two people who are, in my opinion, two of corporate America's finest leaders: Fred Smith, the founder of FedEx and still its chairman, president and CEO, and Jim Barksdale, who served as COO of FedEx and later CEO of AT&T Wireless Services before becoming president and CEO of Netscape. Together they built a culture at FedEx that exemplifies the performance-accountable organization I just described.

Fred Smith deserves enormous credit for the innovative business idea that grew into the FedEx we know today. When FedEx was founded, no one thought of overnight package delivery as a competitive advantage or as a way to build a Fortune 100 company. But Fred also pioneered the idea of creating concrete metrics for "softer" performance drivers such as employee and customer satisfaction, and he deserves equal credit for his views on the role of leadership and culture in building a world-class business. It was while working for Fred that I became a disciple of his philosophy of People/Service/Profit—one that still guides FedEx today and greatly

influences my own leadership priorities at Hyperion.

The FedEx People/Service/Profit philosophy, which appears in the FedEx manager's guide, is: "We believe that if we take care of our people, they, in turn, will deliver the impeccable service demanded by our customers, who will reward us with the profitability necessary to secure our future."

FedEx was the first place I worked that routinely surveyed employee satisfaction and, equally important, tied executive compensation to it. I learned quickly that there is no better way to get an executive's attention on an issue than to base his or her compensation on it.

Another key to employee satisfaction at FedEx was a program called Guaranteed Fair Treatment, or GFT. GFT was a companywide commitment to a process that allowed employees to air their issues with management and get resolution. From the GFT program, I learned how important it is to treat people fairly.

On the service side, Fred's call was for higher and higher levels of customer satisfaction. I remember the year we

hit 95 percent customer satisfaction—which meant that we were meeting our package delivery commitments 95 percent of the time. It was an incredible achievement, but Fred wasn't satisfied. There were some rumblings in the company about how good we really had to be. Wasn't 95 percent good enough? Fred's response was to ask if we would be willing to get on an airplane with a 95 percent chance of not crashing. Or if we'd go to a surgeon whose patients lived 95 percent of the time. Or whether we'd do business with a bank that got its monthly checking statements right 95 percent of the time.

In the early '90s, when it seemed like the company was becoming immune to customer satisfaction levels measured in percentages, Fred changed the relevant metrics to absolute failures, weighted by severity. He introduced the new metrics by saying that given our size that year, even if we achieved a 99 percent customer satisfaction level, it wouldn't take long for us to fail every single man, woman and child on the planet.

This dedication to service not only made FedEx a great place to work, it resulted in FedEx becoming the first service company to receive the Malcolm Baldrige National Quality Award.

And finally, on the subject of profits Fred was equally clear. To survive, a business must make a profit. Profits are necessary to reinvest in the business, reward employees and provide return to shareholders. Fred believed that you should never be ashamed to make money.

It was also well understood at FedEx that making money was the outcome of doing right by your people and doing right by your customers—not a primary business goal. In this belief, Fred was in agreement with management expert Peter Drucker, who wrote in his groundbreaking book *Management: Tasks, Responsibilities, Practices*, “Profit is not a cause but a result—the result of the performance of the business in marketing innovation and productivity.” Profit as an outcome and not a goal has become an important distinction in my career.

During my years at FedEx, every important business issue, every key decision was evaluated through the lens of People/Service/Profit. When I talk about People/Service/Profit now to my own employees at Hyperion, I talk about it as a three-legged stool, with each component managed in balance. I remind everyone that a three-legged stool can't stand on one or two legs.

While Fred Smith defined the business and set the standards at FedEx, Jim Barksdale inspired us by bringing the mission and values of FedEx to life. He was (and still is) a charismatic yet down-to-earth leader who understood the power of communication. He is originally from Mississippi and had a lot of colorful sayings that often perfectly captured the moment and were easy to remember. I never met anyone more adept at using symbols and symbolic actions to motivate a group of people to greatness.

Two examples of Jim's leadership style come to mind. The first took place at one of our FedEx annual sales meetings. As COO of the company, Jim was giving a keynote speech about the importance of customer satisfaction, the importance of front-line employees in serving our customers and the role of management in serving our front-line employees. At FedEx, the most important job on the front lines is that of courier, the people who pick up and deliver packages, and who have more contact with customers than anyone else at the company. The heroics of some FedEx couriers in serving the customer have become legendary stories in the industry.

At this sales meeting, Jim walked onstage in front of hundreds of our salespeople and top managers—impeccably groomed as always, wearing a coat and tie—and began a simple, low-key speech developing his themes. As he spoke, he casually loosened his tie.

Then he took off his jacket. By the end of the speech he was standing in front of us all in a FedEx courier uniform. If anyone there was wondering before that speech what Jim considered our top priority at the company, all doubt was gone. It was one of those rare moments that send a palpable ripple of emotion through a room.

Another time Jim was talking to a group of regional managers about FedEx's People/Service/Profit goals, discussing each one in detail. One of the managers raised his hand and commented that it was going to be difficult to achieve all three. He asked Jim how he would rank the goals so we would know which one to really focus on. Jim's response was that all three were equally important: "If I just needed one of these, I could get anybody to do the job. But I need all three and that's why I need you."

It was this combination of toughness and the ability to inspire people to do more than they thought they could that made Jim a great leader. When I think of Jim, I often think of another famous Drucker maxim from *Management*: "The purpose of an organization is to enable common men [sic] to do uncommon things."

The day Jim Barksdale left FedEx was a sad one for all of us. So many people cared about him and wanted to see him before he left that the company announced that on Jim's last day he'd be in the lobby of the headquarters building to shake hands and say

goodbye to anyone who wished to come down. When Jim got there, a line had already formed around the lobby, out the front door and beyond. It looked

like a receiving line for a head of state. I think everyone, including Jim, was shocked at this demonstration of the impact he had had on so many people.



The lessons I learned from Jim Barksdale about the power of symbols served me well later at Hyperion. In the summer of 2001, we were still struggling as a company and as a management team to get a turnaround kicked into high gear. The poor economy and performance of the stock market weren't helping, but I was convinced that a big part of the problem was that our strategy wasn't clear enough and that I didn't have complete buy-in from all of Hyperion's top managers. I decided to pull them together for a two-day off-site to develop a new strategy for getting the company through this tough time. Equally important, the meeting was structured so that all along the way we had mechanisms for checking in with everyone to see if they truly were committed to the decisions we were making.

On the night the meeting began, we had all the tables in a private dining room set with fine linen, silver and wineglasses for each of what looked like many courses. Against the walls were waiters in white jackets. As our top managers filed in, they could see a panoramic view of San Francisco's beautiful skyline. A number of people

admired the view and a few minutes later we all sat down.

Then the music started playing—Elton John's "Funeral for a Friend"—and I stood up to speak. I could see a flicker of uncertainty in a few of the managers' eyes. I spoke over the music, describing my disappointment in our performance—how we were failing our employees, customers and shareholders—and giving my views of what we needed to do to get the company back on track. It was a tough speech and I didn't pull any punches. While I spoke, the waiters brought out plates of bread and glasses of water. Then they left.

In wrapping up my introductory remarks, I brought everyone's attention to the bread and water, and told them that was all we were going to get for dinner because that was all we deserved.

Everyone looked at me with curiosity. Then I said if they were still hungry after eating their bread and drinking their water, they were free to go out to dinner later that night but I didn't want to see a single meal on anyone's expense report.

The next day we had the most productive management off-site we'd

had since I joined the company, and we all realized later that it was a pivotal moment in Hyperion's turnaround. The checkpoints throughout the meeting accomplished our objective of allowing everyone to air their concerns before buying in to decisions. But at the end of the second day, I felt the need for one more symbolic action.

After my closing remarks, I moved to stand on one side of the room with all our top managers on the other side. Then I asked each person to make a choice to either join me on my side of the room or leave the room altogether. Joining me meant they were committed to the decisions we'd just made as a team and would strive to make them work in the company. Leaving the room meant they did not buy in to the decisions we'd just made and I could not count on them to be part of the turnaround. One by one, each person got up and walked over to my side of the room.

Today, Hyperion has been profitable and demonstrated consistently improved performance in other ways for 10 straight quarters, and our stock has outperformed the market. Our operating margin has

increased consistently year over year and sequentially. We have market-leading products in our category and the industry's broadest set of offerings. We've been clear with our employees and our other stakeholders about what we intended to do, and we've done it. Most of these accomplishments occurred during one of the worst economic climates for technology companies ever.

And in what certainly has to be one of Hyperion's finest moments, at the beginning of this year it was selected as one of the 100 Best Companies to Work For by *Fortune* magazine and the Great Places to Work Institute. Those chosen to be in the group of final candidates completed a rigorous, six-month-long evaluation process involving a detailed review of people policies, practices and philosophies plus a "no-holds-barred" opinion survey of hundreds of employees.

Building a great company is an ongoing process—a journey and not a destination, to borrow a phrase. Nevertheless, seeing the kind of progress Hyperion has made in the last five years is extremely gratifying—especially for this "guy from Ohio."



As I look to the future, with its inevitable economic and stock market ebbs and flows, it is my view that businesses need to shift their thinking to new priorities

dictated by the changing climate.

For starters, I believe that beginning this year success will be defined differently. After a few very difficult years, the focus

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will shift from just the bottom line to both the bottom and top lines. And instead of focusing only on cost cutting, companies will have to develop strategies for profitable growth and improved performance. For successful organic growth, companies must improve their understanding of the factors that drive their business and the metrics available to evaluate their success. For mergers and acquisitions, acquiring companies must assess how the acquisitions will affect their future business success. In either case, organizations must learn how to grow profitable customers and lose the unprofitable ones.

Regulations such as the Sarbanes-Oxley Act in the United States and IAS/IFRS 2005 in Europe will continue to demand attention from corporate executives. But this year, we'll also see more companies move beyond compliance to superior governance, solid accountability and, ultimately, breakthrough business performance. It's my prediction that companies lacking the insight and access to information to optimize business performance will be left behind.

Now more than ever, Business Performance Management will play an increasingly important role in helping

companies gain insight into the factors that drive their business results. An in-depth study of 500 organizations by the research firm META Group reveals that 85 percent already are either fully committed to Business Performance Management or thinking seriously about it.

Which brings me to the goal of *On the Up and Up: Achieving Breakthrough Performance Through Insight*. In this book we offer perspectives, insight and practical advice from business leaders and academic experts about all aspects of building and, equally important, sustaining a performance-accountable organization. These include leadership, management processes and business systems, and culture.

For insight on leadership, we turned to some of the nation's most accomplished leaders and experts:

Bill Campbell, a three-time Silicon Valley CEO who is currently chairman of Intuit—a leading provider of business and financial management solutions for small and mid-sized businesses—writes about the “The CEO as Chief Performance Officer: Visibility and Control Are Key.”

Tracy G. Schmidt, formerly senior vice president and CFO of FedEx Express and now CFO of CNL Holdings, Inc.,

gives us his own personal reflections on “The Changing Role of the CFO: Bridging Strategy and Tactics.”

Noel M. Tichy, Professor of Organizational Behavior and Human Resource Management at the University of Michigan Business School and director of the Global Business Partnership, offers us his perspective on “Leadership Vision: Developing a ‘Teachable Point of View.’”

Aldo Papone, senior advisor to American Express and a member of the Hyperion Board of Directors, gives us his views on “Creating Premium Value: A Winning Strategy.”

We also include in its entirety a report from the first major survey of corporate board members on their views of performance management, conducted by the Business Performance Management (BPM) Forum and sponsored by Hyperion. The report, “Benchmarking the Board: The Performance Accountability Audit,” includes responses from 150 corporate board members.

Roger W. Raber, president and CEO of the National Association of Corporate Directors (NACD), writes about “Courage, Candor and Conscience: The Rise of Principles-Based Governance.”

Michael Schroeck, partner and global/ Americas business intelligence leader, IBM Business Consulting Services, provides commentary on the results of a survey of 450 CFOs conducted by IBM Business Consulting Services in

“Evolution of the CFO: Rising to the Challenge of Performance Management.”

To provide perspectives on the management processes and business systems that define market-leading Business Performance Management today, we assembled some of the best minds at Hyperion. This section offers insight into what’s driving demand for performance management, how to build a performance-accountable organization, an overall strategy for performance management and some practical advice on getting started now.

To tackle the topic of performance-accountable culture, we looked to Michael Useem, the William and Jacalyn Egan Professor of Management and director of the Center for Leadership and Change Management at the Wharton School, University of Pennsylvania. An expert on corporate organization, ownership, governance, restructuring, outsourcing and leadership, Professor Useem moderated a roundtable discussion among accomplished business leaders and academic experts in February 2004 in Atlanta.

In addition to Professor Useem and me, other roundtable participants were:

- Raj Aggarwal, professor and Firestone Chair of Finance, Kent State University
- Denise K. Fletcher, managing director of the FA Group and a former CFO of MasterCard

- Raymond Hutton, vice president of finance, Turner Broadcasting
- Blythe J. McGarvie, president of Leadership for International Finance and a former CFO of the BIC Group
- Pete Sinisgalli, president and CEO of NewRoads
- Greg Thompson, CFO of cross functional initiatives at Wachovia
- Edward Zajac, James F. Bere Distinguished Professor of Management and Organizations, Kellogg Graduate School of Management, Northwestern University

To bring Business Performance Management to life, we present stories of companies that have undergone some of the leadership, cultural and other transformations necessary to

make performance a top priority. Our featured case studies are:

- “Logitech: On the Fast Track to a Daily P&L”—the story of a California-based global company that designs, manufactures and markets personal interface products that enable people to work, play and communicate in the digital world
- “Telenor: Answering the Call to Privatization”—the story of the Telenor Group, Norway’s largest telecommunications company with substantial international mobile operations
- “District of Columbia: Making Government Work”—the story of the government of the District of Columbia



On behalf of Hyperion and the business leaders, experts and companies who have contributed to this project, I hope you find this book valuable in your own quest for ways to improve performance and accountability. I also hope you find the insights and experiences you read about inspiring, as I have. From my observation, it is usually the combined influences of other people’s perspectives and your own personal experience that lead to the best paths for success.

I also wish for you the same passion and fun in your work as I have in mine. If Peter Drucker is my professional philosopher-muse, then Jimmy Buffett is undoubtedly my personal philosopher-muse. His music never fails to remind me that life is short and that you must be passionate about what you do and have fun!