CGMA® CASE STUDY

Aligning strategy, planning and risk processes at MassMutual
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INTRODUCTION

Effective corporate governance and corporate performance

Providing effective governance in today’s complex organisations and economy presents boards and executive management with a formidable challenge.

Many factors are involved in successful business performance:

- Sound strategy and effective execution.
- A deep understanding of the business environment and the risks involved in meeting corporate objectives.
- The ability to innovate, adapt plans quickly, respond to risks and capitalise on opportunities.
- Alignment of strategy, planning and risk management throughout the organisation.

This case study and implementation guidance describes how an insurance and financial services company, Massachusetts Mutual Life Insurance Company (MassMutual), has developed and operationalised its strategic planning framework (i.e. the “Pinwheel” in Figure 1) to better align its strategy, planning and risk processes for improved governance and performance, and in the end to optimise allocation of business and capital resources.

Figure 1 shows the main Pinwheel process on the top. This occurs while the CEO and executive leadership team are working through the company’s ongoing strategy and financial planning and analysis (FP&A) process. The organisation’s business and corporate leaders meanwhile work through their own process, as shown on the bottom. It is essential that the two groups exchange information so that the process incorporates all available insight, data and information. The ultimate goal is to ensure that all parts of the organisation are aligned – top down. The enterprise strategy embraced by the CEO serves much like the compass, defining “true north”.

Key steps to implementing the annual Pinwheel framework:

- Understand how formal governance aligns strategy with risk and reward.
- Initiate formal process to implement the framework based on organisation’s culture.
- Reinforce the desired culture and cascade “top down” to subsidiaries.
- Create incentives for leaders to support and adopt the process and framework.
- Align with performance and enterprise risk-management “best practices”.
- Significant collaboration between CEO and subsidiary/business units.
- Clarify the management accountant’s role in each step.

Note: the Pinwheel process at CEO and Subsidiary level took 24 months to implement.
FIGURE 1: The MassMutual Pinwheel framework

**CEO and Executive Leadership process**

- Economic, sector and consumer trends
  - Measure/evaluate strategic performance
  - Additional disruptive/innovative initiatives?
  - Critical initiatives CEO and team discuss
  - Enterprise strategy still relevant?
  - Modify aspirations and metrics

**Subsidiary and business unit process**

- Evaluate trends
  - Update weekly dashboards
  - Measure and monitor
  - Build funded initiatives into three year plan
  - Seek funding of initiatives
  - Business strategy still relevant?
  - Modify assumptions and aspirations
  - Prepare base and stress scenarios

* Enterprise strategy drives subsidiary and business unit strategy.
When the 2008/2009 financial crisis began to recede, MassMutual emerged stronger than many peers and competitors. However, the experience convinced the new CEO and the board of directors that more formal governance around strategy and risk was needed, including greater transparency and improved alignment between the financial plan and strategic planning process.

This focused on better connecting the company’s business units, enterprise risk management, corporate control functions, executive leadership and the board. While the company had an effective strategic planning framework, it needed a better ability to evaluate business intelligence and assess the potential impact of strategic opportunities and risks across the organisation.

When introducing the Pinwheel framework, the Strategy and Corporate Development team used one subsidiary’s experience as a what-if scenario. The message was clear: the Pinwheel framework has the potential to help the organisation to become more strategically agile and aligned. The message resonated. By 2011, the Pinwheel framework had been fully adopted.

There are many strategic governance frameworks out there, so the key for MassMutual was to develop one that met its unique needs, culture and existing processes. The final framework design is based on best practice and competitive intelligence gleaned from interviews with other companies and consultants.

Learning from hindsight

Although no corporation with over 10,000 world-wide employees can effectively deploy a strategic planning process where all voices are heard, the Pinwheel framework supports a culture of knowledge sharing, transparency and communication.

The investment expertise and individual strategies from numerous MassMutual subsidiaries were rapidly deployed at an enterprise level to capitalise on the 2008 commercial and residential real estate trends that contributed to the weakening US economy. This culture helped soften the long-term impacts of the financial crisis.
MAKING THE PINWHEEL FRAMEWORK FUNCTION

To develop the Pinwheel framework, MassMutual focused on keeping strategy aligned with risk and reward. By partnering with the company’s enterprise risk management group (ERM), the team was able for the first time to formalise strategic risk management.

As a life insurance and financial services company, MassMutual faces risks such as:
- Macro-environment (regulatory, demographic, etc.)
- Product (mortality, morbidity and longevity)
- Market and credit
- Liquidity
- Operational (financial reporting, change management, etc.)

Equally important to these is risk management, which is highlighted by the Pinwheel framework, and how it helps decision making.

By increasing the focus on strategic risk management, the SCD and ERM teams have shown how driving strategy in one direction (with subsidiaries aligned by a common purpose and vision) enables the quantification and management of significant risk, correlated across all of MassMutual’s businesses. In fact, simply adding risk management to the framework drives leadership to action.

For the framework to work, business leaders need to use it. When the Pinwheel process began at MassMutual, the CEO led the way and two of its ten business units were immediately on board. As with any significant change in a large company, there was also much discussion around the framework and to which degree each subsidiary should implement.

This interaction among company leaders led to some important changes, including an effort to simplify the framework and create a sense of urgency and ownership among users.

To reinforce the culture, the CEO gathers senior corporate and business unit leaders together off-site three times a year. As well as fostering transparency, teamwork and alignment, this ensures that the resulting information reaches the board of directors in time for its meetings. In effect, this creates a consistent cadence for leaders to run the Pinwheel framework for their businesses and provide information to the SCD and ERM teams in time for each off-site meeting.

The net result of all of this is that the company’s leadership team is much more engaged in what all the company’s businesses are doing, not just their individual divisional priorities. This makes them more collaborative and informed leaders. For example, the heads of sales in different business units are more apt to collaborate than in the past, because they know about one another’s initiatives. This, in turn, is helping to foster a more unified brand and culture across the organisation.

It is reaching employees at all levels, prompting them to slowly increase focus on the overall mission and vision of the firm.

Strategy and corporate development

Leading the effort to develop the Pinwheel model, the CEO created new Strategy and Corporate Development (SCD) and ERM functions reporting directly to him with a mandate to create a governance framework. The SCD and ERM teams now liaise between subsidiary units and the strategic aspirations of the CEO and board.

The SCD team is eclectic, bringing different points of view to build an effective process. It comprises a team of 10-12 professionals including CPAs, CGMAs, JDs, former McKinsey consultants, Ph.Ds, MBAs, masters in applied financial mathematics, actuaries and marketing specialists.

The SCD and ERM teams rotate their talent pool every three to five years. Individuals move on to new positions in the business units, becoming key business leaders who promote the Pinwheel process concurrently with other responsibilities.
Once the financial crisis eased, MassMutual’s Retirement Services division launched a line of stable value funds in collaboration with Babson Capital Management LLC, a subsidiary.

This expansion met two key customer requirements: the need for more choice in available investment funds for retirement, and the need for more stability in their retirement investing. The response was overwhelming, exceeding the $4 billion sales target by 50%.

However, the success and reward were not without risks. To identify all liquidity and market risks arising from this new product offering, MassMutual turned to the Pinwheel framework. The result highlighted the need for some important risk-management actions, such as managing sales volumes with the risks to which these product offerings expose MassMutual.

Implementing the Pinwheel framework

MassMutual’s iterative Pinwheel framework involves the continual collaborative exchange of information between business units and the corporate executive leadership team, and between executive leadership and the board of directors.

The strategy, risk management and financial planning and analysis teams work closely with business unit strategists, CFOs and controllers, as well as the CEO and business unit executives, to determine priorities, set targets, allocate resources, develop plans, review performance and determine rewards.

The following pages outline how to implement the Pinwheel framework using the eight key steps outlined in Figure 2. This shows how MassMutual has operationalised it to align the strategy, planning and risk processes.
Step one: evaluate business intelligence

The process starts with an in-depth analysis of broad trends. A sound understanding of global business conditions and trends is fundamental to effective governance and planning.

One widely used tool for conducting a thorough review of the external factors and forces having potential impact on the business is a PESTEL analysis, encompassing the following areas:

- political & regulatory
- economic
- social & consumer
- technological
- environmental
- legal.

Key considerations for MassMutual in evaluating relevant competitor and business intelligence include:

- What is the impact of macro-economic factors on the financial services industry and its customers?
- What other environmental dynamics and trends are influencing consumer buying behaviour?
- Who are the competitors and what are the competitive advantages that customers consider before choosing MassMutual?
- What is the customer experience and what product or service changes are needed to optimise it?
- What are the threats and opportunities from outside our industry that could transform or disrupt our competitive advantages?
- What roles and resources are focused on innovation to experiment, build and launch the next subsidiary?

Another key element of the business intelligence process is to consider what actions the company can take to influence regulation and our brand.

Step two: refine strategic purpose and vision

Once a thorough understanding of the significant trends and key external factors has been obtained, the next step is to review and if necessary refine the organisation's purpose and vision. For MassMutual, this is an opportunity to influence and revise its purpose, vision, strategic priorities and aspirations - keys to the enterprise strategy.

MassMutual defines its purpose as:

To help people secure their future and protect the ones they love.

Its vision is:

To be the best company in the industry based on superior financial strength, high dividends and delivering a high-quality customer experience.

Consistency and clarity of purpose and vision are important. Yet, so too is professional skepticism to challenge them against the backdrop of trends identified during the evaluation of business intelligence (step one).
Step three: define goals and aspirations


A true aspirational goal is clear and compelling, serves a unifying focal point of effort, and acts as a clear catalyst for team spirit. It has a clear finish line, so the organisation can know when it has achieved the goal; people like to shoot for finish lines.

Reflecting their purpose and vision and the long-term perspective that articulates specific financial and non-financial targets, examples of MassMutual’s 2020 aspirational goals include:

1. serve 10 million customers
2. $1 trillion of life insurance in force
3. top 5 retirement plan and life insurance provider
4. cost structure in the top quartile
5. surpass 90% of employees proud to work for MassMutual.

Long-term aspirations are also a key catalyst for disruptive and innovative thinking beyond what is known as “momentum growth” embraced by most subsidiaries’ strategic planning frameworks. As we move to step six (integrating projects, operating plans and budgets) it is perfectly healthy to have “gaps” between a three-year strategic plan and the organisation’s aspirational goals.

Step four: develop strategic priorities

Strategic priorities are set by the CEO and his leadership team and become the pillars universal to all subsidiaries, that the company uses to set in motion the drive to achieve the aspirational goals. All subsequent operational or tactical planning and resource allocation is based on driving these strategic priorities.

Strategy and planning is a dynamic process, and disruptive innovation is essential for cultural change and strategic agility. Management and the board must continually consider new initiatives that may contribute to achieving the organisation’s long-term vision and aspirations.

This step involves both a review of current strategy and consideration of potential alternative strategic options. Potential threats to achieving those goals and objectives are also identified and evaluated. Underlying assumptions are challenged and scenarios are created to evaluate the potential impact of alternative developments and outcomes.

Up to this point for MassMutual, the SCD team was the primary contributor to the Pinwheel framework, for and with the CEO. From this point onwards, subsidiary leaders also have a great deal to contribute.

The key questions to ask in step four are:

- What are the best opportunities to defend or create competitive advantages that drive innovation and growth? New product development? Merger or acquisition? Organic growth? Business model change?
- What are the risks and projected returns?
- What are the sustainability considerations?
- Are we balancing short-term (pay and reward programs) and long-term interests (purpose, vision, aspirations)?

Examples of MassMutual strategic priorities include:

1. **Relentless customer focus**: a deeper understanding and connection to the customer.
2. **Enhanced distribution**: reaching broader market segments in innovative ways.
3. **Collaboration and solution development**: innovation to serve new and existing customers and distributors.
4. **Brand and cultural alignment**: a high-performance culture that embodies capabilities as well as integrated branding and customer experience.

As subsidiaries align with the firm’s strategic priorities, the SCD team takes a proactive approach to grow capabilities for driving purpose, vision and aspirations through partnerships and acquisitions.
Step five: identify critical initiatives

Strategic priorities are used to guide all critical initiatives towards aspirations. Critical initiatives have clear owners (mainly business and corporate units) and are linked to reward mechanisms.

In this step, MassMutual identifies those critical initiatives that are the most important activities or programmes and ensure alignment to purpose, vision and aspirations. Some of these critical initiatives will be sponsored by the CEO to ensure they are funded and managed.

Important considerations for this step include determining:

- Which initiatives and investments are critical for the successful execution of our strategy and achieving our performance objectives and long-term goals?
- What are the key non-financial metrics that drive performance? Relevant non-financial indicators might include metrics for important business drivers such as customer satisfaction, talent management, market penetration, new product development and quality or other critical business-process measures
- What strategic as well as operational and compliance risks are associated with these initiatives?

Step six: integrate projects, operating plans and budgets

Once critical initiatives have been identified, more detailed projects and operating plans are built and incorporated into three-year operating and one-year budget to monitor and track performance.

Important considerations for this step are to:

- Determine key project milestones, measures and owners.
- Align incentives with the achievement of financial and non-financial performance targets.
- Identify key risk indicators that need to be monitored.
- Establish sound enterprise risk-management practices across the company (operating risk).

Revised goals and objectives are incorporated in MassMutual’s three-year operating plan and one-year budget. Strategy then compares the trajectory of these plans to long term aspirations and known industry and competitor outlooks. Gaps are identified and communicated to the CEO and his leadership team and become an off-site agenda discussion.

The partnership between the FP&A function, the ERM function and the CFO comes strongly into play at this stage of the process. This is when assumptions, underlying plans and projections are tested by developing “base,” “best” and “stress” scenarios to determine the potential impact of significant deviations in key variables (both controllable and uncontrollable).
Step seven: monitor critical initiatives

Solely reviewing performance against established financial targets and budgets does not constitute effective governance. Effective oversight entails monitoring key non-financial performance indicators and the progress of initiatives deemed essential to the successful execution of strategy, the achievement of long-term goals and realising the organisation’s vision.

In addition to the operating plans and budgets monitored by the FP&A team, the CFO and financial controller, specific projects are identified that directly support the achievement of a critical initiative. These are then subjected to a cost-benefit analysis cutting across subsidiaries, extending several years and including significant commitments to material costs and people resources.

The expansion by MassMutual into the stable value business outlined above exemplifies this step in action. After thorough analysis and approval of the expansion into this new product offering, evaluation and monitoring continue to manage risks and the overall impact on the organisation.

For MassMutual, monitoring is an ongoing and multi-layered process. In addition to quarterly monitoring of progress against the three-year operating plan and one-year budget, the company has initiated bottom up “huddle boards” that provide critical and timely information across all levels of the organisation, including to the CEO.

Step eight: assess strategic performance

Effective corporate governance also entails evaluating the performance of competitors and relative gains or losses in competitive position, brand and market share. This informs the ongoing evaluation of the organisation’s strategic position and options against the competitive advantages of peers.

Effective governance requires a tailored information strategy for the executive leadership team and the board of directors. This should include:

- Essential information needed to monitor and evaluate strategic execution of the organisation
- Risks to the achievement of long-term objectives
- Risks to conformance with compliance and reporting requirements

In assessing strategic performance, it is critical to separate performance into “management actions” and “external actions.” By way of example, if management is executed flawlessly, yet the stock market or interest rates do not perform in line with the plan’s assumptions, it is important that leaders have this knowledge. Conversely, strong markets may mask areas where management actions are in need of evaluation.

A table outlining typical information requirements for effective board oversight is included in Appendix A.
THE MANAGEMENT ACCOUNTANT’S ROLE

Regardless of whether the organisation follows a Pinwheel-like framework like MassMutual or some other approach, management accountants have an important role to play. Whatever specific framework the company chooses, the focus should be outward as well as inward.

By looking at external factors, management accountants can identify what customers want, where competitors are operating and expanding, and whether the company’s strategy is aligned with the resulting demands.

Management accountants can also play an important role in aligning and integrating various functions within the organisation to smooth the planning process. For example, integrating enterprise risk management and the financial planning and analysis/budget function can help to manage risks effectively and to allocate limited capital more quickly and efficiently.

Finally, management accountants need to ensure that any model their companies use is resilient enough to accommodate a range of changes and stresses to the business. For example, will the model still be relevant when the company grows or contracts following mergers, acquisitions or spin offs? Will the model be able to accommodate new businesses the company enters or acquires?

Market forces, political, regulatory and economic change, changes to customer buying behaviour and the availability of new and more types of data, are just some of the factors than can impact this model. It must therefore have the flexibility needed to deal with change in an appropriate way. In many cases, after all, such changes are to the company’s benefit – the model must be able to recognise that and adjust accordingly, in alignment with the company.

Translating data into knowledge and wisdom is what separates the great accountants from the good ones.
Appendix A: Typical board information requirements for strategic oversight

<table>
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<tr>
<th>Topic</th>
<th>Minimum frequency</th>
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<tbody>
<tr>
<td>Situation analysis</td>
<td></td>
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<tr>
<td>Industry information and trends (key success factors)</td>
<td>Annually</td>
</tr>
<tr>
<td>Competitor intelligence (major initiatives and positioning)</td>
<td>Annually</td>
</tr>
<tr>
<td>Regulatory, political and economic information</td>
<td>Annually</td>
</tr>
<tr>
<td>Technological forecast</td>
<td>Annually</td>
</tr>
<tr>
<td>Competitive positioning of the company – benchmark (major share, pricing, quality)</td>
<td>Annually</td>
</tr>
<tr>
<td>Strengths and weaknesses analysis of the company (including functional – for example, employee retention and turnover and R&amp;D investments)</td>
<td>Annually</td>
</tr>
<tr>
<td>Reports on major risk factors</td>
<td>Annually</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Topic</th>
<th>Minimum frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy formulation</td>
<td></td>
</tr>
<tr>
<td>Report on major capital expenditures, acquisitions and divestitures</td>
<td>As required</td>
</tr>
<tr>
<td>Annual strategic plan (corporate, major business segments)</td>
<td>Annually</td>
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<tr>
<td>Operating plans (major functional supporting initiatives)</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Alternate strategies considered and rejected</td>
<td>Annually</td>
</tr>
<tr>
<td>Five-year strategic plan (long-term corporate strategy)</td>
<td>Annually</td>
</tr>
<tr>
<td>Implementation process</td>
<td></td>
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<tr>
<td>Reports on major policies/management systems and organisational structure</td>
<td>Annually</td>
</tr>
<tr>
<td>Budgets</td>
<td>Annually</td>
</tr>
<tr>
<td>Evaluation and control</td>
<td></td>
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<tr>
<td>Progress report on strategic plan – reports on operating variances (deviations/shortcomings from original plan)</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Progress report on major capital expenditures, acquisitions and divestitures</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Reports on financial performance (for every major business segment of the company)</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Reports on corporate operating performance (for example, productivity or quality data) for every major business segment of the company</td>
<td>Quarterly</td>
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Source: Governing for Performance, CGMA 2012
Acknowledgements

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