

The Nolan Newsletter

People, Process, Technology



ROBERT E. NOLAN COMPANY
MANAGEMENT CONSULTANTS

First Quarter 2003

Volume 30, Number 1

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Nolan is an operations and technology consulting firm specializing in the insurance, health care, and banking industries. Since 1973, we have helped companies redesign processes and apply technology to improve service, quality, productivity, and costs. Our consultants are senior industry experts, each with over 15 years of specialized experience. We act as trusted advisors to our clients, ultimately expediting and magnifying improvement initiatives and we are committed to delivering measurable and sustainable results. Visit www.renolan.com to download articles, client success stories, and industry studies.

Through the Nolan Newsletter we share with our readers:

- Updates on industry, business, and technology trends
- Client case studies
- Information on speaking engagements, conferences, and web seminars

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The Robert E. Nolan Company marks its 30th anniversary in 2003. Longevity is admired in most areas of business. For consulting firms, longevity also represents the accumulation of valuable intellectual capital from which clients benefit. We are grateful to the more than 500 companies who have shown the confidence to engage us over the past 30 years.

When we passed the 25-year mark, we were told that was the key milestone, as few consulting firms make it that far. However, at the recent Association of Management Consulting Firms Annual Meeting—an international gathering of heads of major consulting firms held in Boston, Massachusetts and chaired by Nolan CEO Dennis Sullivan—our consulting colleagues reported that the true milestone is 30 years. We now have that one covered as well. With that said, we welcome the challenge of continuing to raise the bar in all aspects of our company. This includes meeting the complex and evolving needs of our clients, exceeding expectations for results and increasing the quality of our consultants.

Five years ago in this space we said: “Your world has become more challenging and complex in solving the simple revenue versus expenses equation. Companies will use a combination of things to improve competitiveness. Among these are new technology, mergers and acquisitions, growth strategies, market analysis, benchmarking, basic process improvement and results-oriented business problem solving.”

This is exactly what is happening.

The theme for this quarter’s newsletter is technology. The implementation of technology is driving much of the need to reassess and realign business models and processes with updated strategies. Nolan brings its 30 years of experience, industry knowledge and understanding of technology to help you strategize, identify and assess alternatives, and achieve true business benefits from your technology investments. ■

Ben DiSylvester

Ben DiSylvester
Chairman

HELLO, RESULTS; ARE YOU IN THERE?



Ed Fenwick
Director, Insurance Practice

With few exceptions, financial services organizations are well on the way to overcoming the problem of technology projects coming in late and over budget. For the most part, this is the result of IT implementing the tools, methodologies and processes to solve project governance problems.

While on schedule/within budget delivery is certainly a good thing, we are still not where we need to be as an industry in getting the expected business results from our technology investments. Those business results are still coming to the party late and underdressed, even though the technology itself is getting implemented on schedule/within budget most of the time.

A number of things have to happen for a technology to deliver the expected business results on schedule/within budget. One of the first steps is to ensure that the business requirements for the initiative actually improve things. Sounds simple, but it is not so easy. The next time a technology project hits that all-important milestone of having the business requirements complete, ask the project team to show you where in that big stack of requirements the business improvements will come from. You and they will likely ask, “Hello, results; are you in there?”

Here are some pointers related to business requirements that can help your technology projects move forward in getting the business results on schedule/within budget:

- **Remember that all business requirements are not born equal.** On most major projects there is only a small subset of the business requirements that are going to drive most of the business results. The rest are important and have to be right, but don't drive improved results. The project team has to be able to identify these result-driver subsets. It would be impossibly expensive in most settings to try and

do any form of detailed impact analysis on the full set of requirements. A technique that helps is indexing requirements to process maps and using a coding convention for requirements that groups the ones with high impact.

- **Put the small set of critical requirements through a rigorous analysis.** Now take those redesigned portions of the process maps and the supporting requirements, and test them to the operating reality of the business. This requires a number of tools depending on the expected results. A productivity model with standard times and volumes is needed to prove out cost improvements, and a time model is needed to validate service level improvements. To validate reduced error rates a quality model is needed, and in certain situations process simulations may be needed. Without these models the project team will be hard pressed to answer that question, “Hello, results; are you in there?”
- **Watch for the icebergs.** Even with the above, the icebergs can drift in almost unnoticed and wipe out expected business results. Icebergs appear small on the printed page of business requirements, but under the surface they have the potential to jeopardize some or all of the planned improvements. They may be tied to legitimate business or technical needs. Perhaps they support increased levels of compliance or can be driven by unmet information needs. Or, maybe, they are an expensive nice-to-have dressed in requirements clothing. Either way, they may not warrant the effort or expense they would require to implement. Icebergs must be identified and put through a rigorous analysis so their true impact is understood.

For a project team with the right tools and capabilities, the above steps won't add any time to reaching the milestone of having the business requirements complete. But those steps will shorten the time it takes to begin realizing the expected business results. ■

ACCOUNTABILITY IS THE ISSUE — TECHNOLOGY EXECUTIVES MUST DELIVER!



Dennis B. Sullivan
Chief Executive Officer

Recently I read an article in an IT magazine that condemned the rush by companies and executives to use return on investment (ROI) as a measure for investing in technology projects. The article stated that such myopic measures were the cause for many failed IT advances—a true IT response. The article then went on to say that it was the accountants of the world who were at fault for the Y2K problem, because coders were looking to cut back and only allowed two digits for the year field. At first I thought it was a satirical article, but soon I realized the author was serious. I thought I was hearing another Al Gore whine about how he really won the election.

Return on investment is not the *only* measure but it has to be in the equation for determining where IT dollars are invested. Many IT executives we have worked with use ROI as one of their key criteria for investment and for measuring results. As I see it, the challenge is how to marry the creative and experimental capacity of future technology uses with the delivery of effective “today” technology that delivers results. Without pushing the envelope, we will never get to the next generation of business/technology solutions. However, without generating the payback today to fund tomorrow’s creativity, companies will not be able to advance. It is a delicate balance. We have spent too many years being seduced by the big dollar savings projected in IT proposals. Nothing is free.

Nolan has worked with several clients to forge an effective methodology for rapidly implementing new systems and stand alone technologies—and with faster than normal payback. Our approach is guided by three principles: meeting customer needs, leveraging today’s technology advances and eliminating process components targeted by the new system/technology.

This methodology has allowed front-line managers, system designers and integrators to fully understand the linkages between process and technology. This partnership will deliver

the best results today and help both sides learn more about how and what to do for future improvements. With a dual focus on getting payback and pushing the envelope in design, organizations are beginning to reap the benefits of their IT investments, as well as educate their IT staffs in the fundamentals of the business process. It is our contention that the payback could not be achieved without ROI in the criteria mix. ■



"Have a seat. There are 342 email messages ahead of you."

LOOKING BACK ON THE OFFICE OF THE FUTURE

Richard T. Young

“The Office of the Future” was the final chapter in the 1978 book, “Improving Productivity Through Advanced Office Controls,” written by Ben DiSylvester, Bob Nolan and myself. When we began to write the chapter, we soon learned that Yogi Berra was right: “It’s tough to make predictions, especially about the future.” Let’s see how we did.

We projected linking departments and people with technology. While this has occurred, we had in mind the mighty mainframe and completely missed the personal computer revolution. It didn’t seem to make sense to consider using a device then largely used to play Pong or Space Invaders as an integral part of corporate technology.

We successfully projected a new organization for service industries. The new organization would put the customer closer to the company and eliminate functional departments such as word processing and data entry.

We forecasted that the office of the future might be no office at all but more like a cottage industry with remote workers linked to their employers by computers. The upstart air carrier, Jet Blue, has all of their reservation agents working from their homes and there are thousands of other employees who work from their homes on a full- or part-time basis. Today the predominant work place is still the traditional office with attendant woes of space cost, parking and commuting through increasing traffic.

While we envisioned a form of electronic mail, we never really defined how hard copy memos and messages would arrive at the work station. The Internet revolution, coupled with electronic mail and links to cellular phone technology, has fundamentally changed how we communicate and how we work. We did project the use of satellites to beam information around the world, and there are hundreds of these in orbit. Unless you live in a cave in a remote corner of the world there is no reason (unless it’s your choice) to be isolated from the rest of the world.

This same technology has made the customer a de facto employee of the supplier of services. Customers can access their account information, get quotes for new services, buy goods or services or cancel unneeded services with no human intervention by the supplier at the point of service. This ability for the customer to do business at a time when it is convenient for him or her to do so was not on our radar screen.

What will the future bring? Well, once again we can learn from the great sage Yogi, who said, “You can observe a lot just by watching.” The progress of the past has been a few major technological breakthroughs like the PC and Internet, followed by countless applications converting these technologies into real-life processing situations.

Watching for new technologies and finding ways to use them to solve service and cost problems will result in the breakthroughs every company seeks. Often these breakthroughs are a result of taking several existing

technologies and combining them into a new application. For example, the existing technologies of bar code readers, scales, touch screens and cash/credit card dispensers have combined to create consumer-operated checkout lanes in groceries and other retail establishments.

Automating poor processes and yesterday’s strategy will yield few results and many failures. The companies that will be most successful in the future will implement new technologies that will solve strategic and operational problems, rather than implementing technology and then finding a use for it. ■

“The progress of the past has been a few major technological breakthroughs like the PC and Internet, followed by countless thousands of applications converting these technologies into real-life processing situations.”

The author, Richard Young, was the first senior consultant hired by Nolan. He retired in 1999.

A NATIONAL MULTI-LINE INSURER:

Using Process Cost Modeling to Maximize the Impact of Technology

Company Background

A national multi-line insurer was investing \$25 million in a technology initiative to automate the new business process for their individual life insurance business. They were implementing imaging, workflow, expert underwriting and electronic ordering/receipt of medical requirements.

The system was an integrated, browser-based underwriting desktop. It had a rules engine that defined the underwriting requirements and tracked ordering, receipt, review and approval throughout the underwriting process, then uploaded the final approved data to the legacy system.

Project Background

Process redesign work had been completed for 18 months, and the project team had been in place for nearly one year. Release one of the new software was in testing and due in 60 days. Release two was in process, and three subsequent releases were scoped and planned.

The client decided they needed some assurance that the technology initiative would really deliver the projected \$10 million in annualized labor savings and 40% reduction in cycle time. They engaged the Robert E. Nolan Company to help answer these critical questions.

In addition, the client asked Nolan to identify short-term processing improvements and to help prepare the organization for transition. As each release of the software was implemented, the process would be changed and staffing needs would be reduced. Eventually, some jobs would be eliminated, many would be redesigned and the organizational structure would be streamlined. The client needed a tool to manage the process and people changes as the new technology was rolled out.

Process Cost Modeling

In order to develop a reasonable assessment of the savings potential, two fundamental things had to be looked at. First, the functionality of the new system had to be fully understood in

terms of how it would impact current work. Some processing tasks would be eliminated altogether while others would be made easier. Ancillary tasks like phone calls and follow-up would also be impacted.

Second, all current process costs had to be quantified. This meant identifying every task performed in each of the processing teams and developing task times, volumes and frequencies so that total staff processing costs were directly tied to current workload and current methods. This second step would result in a current process cost model.

Once the current process cost model was complete and the full scope of the technology impacts was understood, any specific component of new technology could be evaluated in terms of how it would impact processing cost.

The knowledge gained from developing the model and evaluating the technology impacts allowed Nolan to identify several short-term process improvements. These process changes had the dual benefit of accelerating savings and preparing people for related changes that would be technology driven. In addition, the model identified excess capacity that became extremely valuable in helping to plan personnel training and transition.

Technology Spending Out-of-Sync

As the process cost model was being completed and as the full scope of the technology effort became clear, Nolan made two discoveries that altered the course of the remainder of the development project.

1. They discovered that some features planned for future release would only deliver minimal benefits and would not likely justify their development cost. One element of functionality in particular was estimated to cost more than \$2 million and would probably not have delivered much more than \$60,000 in annualized savings.
2. They discovered that there was opportunity for technology to deliver significant benefit, but the necessary functionality was not contained in the project scope.

As a result of these two major discoveries, the remaining project scope was revised. The process cost modeling work enabled Nolan to accurately quantify the savings potential from the current project scope and to identify additional business problems that were going unresolved.

As the revised software releases were being developed, Nolan was retained as a global process subject matter expert for the Business Requirements Specifications and Information Architecture documentation. In this role, Nolan was responsible for ensuring that all aspects of technology development were focused on the most pressing business problems.

Results

The client has achieved impressive results. Within one year of completion, cycle time has improved by 50 percent and the \$100 per application savings target has been met. Lower-than-expected volume, due to adverse market conditions, has limited gross annual savings to \$7 million.

As with any project of this magnitude, the reasons for success are many and varied, but the Nolan contribution is clear.

For little more than two percent of the total project cost, Nolan consultants:

- Delivered a process cost modeling tool that accurately quantified technology savings and measured every aspect of the business process.
- Identified short-term improvements and excess capacity that accelerated savings.
- Helped guide the process and people transition through technology implementation to assure savings targets were met.
- Triggered project scope changes that maximized the technology benefits and avoided over \$2 million of unnecessary technology spending.
- Assured that the revised project scope addressed the most significant business problems to assure maximum impact from the technology investment. ■

AVOID FUMBLING ON THE TWO-YARD LINE



Robert E. Grasing
President

Over the past ten years we have closely examined the efficiency ratios of North American banks. The top performing banks, as well as those banks that continue to struggle at delivering service, are significantly shifting costs toward technology.

In the mid 1990s we noted a class of banks that kept their technology costs down, to the detriment of overall personnel costs. This strategy shifted as we approached Y2K, and we now see a new category of bank that has shifted its thinking towards technology investments without putting in place practices to ensure the expected business benefits.

Improved service and productivity is typically a prerequisite of major technology investments. The business cases supporting those improvements often lead to prioritization of technology projects. When we examine requests for proposal, the benefits are typically clear and tangible. Why then do some banks fail to measure and manage the results they so carefully detail for the selection process? Using a sports analogy, it is the equivalent of fumbling on the two-yard line.

We have observed several reasons that cause banks to under-manage this critical element of technology implementation. The first is that, over the past four years, the pressure to keep personnel costs down has left many companies without staff that is experienced in accurately managing (and measuring) projected business improvements. The technical skill sets are in place, but the focus is on the technical installation—and not on achieving the expected service and staff capacity benefits.

Achieving those business results requires reporting, actively managing the details of implementation at the point of customer contact, accountability and attention to detail by executive management. Each year we work with dozens of financial services companies, and we see major variances in the talent assigned to manage key technology implementations. As you might imagine, we recommend that you put your best and

brightest business people in key roles on your technology initiatives. But that doesn't always happen because the best and brightest are often the most time-challenged—they have more “here and now” matters to attend to.

Another major reason is that banks continue to allow database programs to supplement their management reporting instead of making the changes to core system reports. The underlying cause for this seems to be the desire to implement quickly. Banks are understandably anxious to get benefits from new software, so they allow users to design their own reports rather than establishing a managed reporting environment and making consensus-based adjustments to built-in reports. We also encounter banks that allow line-of-business managers to get whatever they need to manage their business, without any formal enterprise coordination. This often results in “workaround” database reporting and confusion over which reports are the “truth source” for accurate information.

The shift in costs from staff to technology can mean as much as seven points on a bank's efficiency ratio. If managed effectively, this cost shift will result in the service improvements you would expect. In football terms, it requires you to cross the goal line and see the score recorded before celebrating a touchdown. ■



"I haven't the slightest idea who he is. He came bundled with the software."

EXPENSE SAVINGS THROUGH STAFF MODELING



Rob L. Keene
Banking Practice Director

With interest rates continuing to spiral downward, banks are seeing their margins squeezed to levels that are a cause for concern now and for the predictable future. Coupled with lower loan volumes, driven in part by economic conditions, it is difficult to see how, short of acquiring earning assets, a bank can grow its primary revenue stream to cover the shortfall in earnings generated by the current interest rate/economic scenario. As a result, even the most efficient banks are looking for ways to further cut expenses while they battle these economic threats.

When confronted with a new round of expense cutting, bank managers have difficulty identifying areas that can be trimmed without endangering service levels. Staffing is frequently the first target since compensation is typically the biggest non-interest expense. To cut staffing expense there are the obvious options of implementing across-the-board salary cuts, decreasing benefits or forcing managers to have fewer people by taking the money out of the budget somewhat arbitrarily. While these solutions may lead to quick, short-lived expense relief, they can have a negative impact on the bank's cultural message since both employees and customers are impacted. They can also result in higher expenses in the long run if cuts are made in the wrong areas or by using flawed logic.

Forward-looking banks should consider taking a more precise approach to "right-sizing" their staffing levels in order to keep the need for making arbitrary staffing expense cuts at bay. One effective way to maintain service levels while increasing

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employee productivity and cutting cost is to use staffing models to determine appropriate staff size. Staff modeling, if done correctly, will properly determine the human resource needs and thereby the staffing cost of a functional area. Implementing an accurately developed staffing model has the additional benefit of forcing managers to be disciplined in the areas of process reengineering and continuous improvement—resulting in consistent and efficient deployment of human resources.

The primary keys to developing staffing models are (1) the thorough identification of the activities performed; (2) the accurate measurement of the time it takes to perform each activity; and (3) the development and validation of the volume of work or the number of times each activity is performed. Also important but less difficult to ascertain is the measurement of non-productive time built into the functional area, such as work breaks, vacation time and training time caused by staff turnover.

Activities performed can usually be identified by the managers or supervisors of the areas examined. Compiling a list of these activities and then observing the work being performed provides appropriate validation of the workflow elements. Next, the amount of time, usually down to the minute, must be determined for each activity. Developing times through observation or by using certain automated or manual tracking techniques is usually the only way to accurately measure times per unit. Measuring observed times must recognize that some workers are more productive than others. A cross section of work activity must be measured to ensure that the measured times for each activity are not too high or too low. Finally, volumes are best obtained from data maintained by the department, typically found as the source for monthly management reports. It is not unusual, however, to discover that certain activities are not measured. In these cases the only way to collect the data is through sampling and recording each activity. When collecting volumes through sampling the volume cycles must be considered—that is, sampling should be performed at both the peaks and the valleys throughout the measurement cycle.

Standards for producing a unit of work are a valuable

management tool and a real benefit of staff modeling. Managers and supervisors should agree on standards that, while achievable, will stretch the productivity of workers. They should also agree to continuously analyze the value of the work performed, eliminating or reconfiguring any low value work, and the processes used to perform the work. The best managers of staffing models constantly seek ways to cut the time it takes to perform a task by re-thinking and reengineering the workflow.

Development of staffing models should take weeks, not months. Managers, supervisors and workers must participate in the process both in collecting the data and in validating the results. If done properly, each model will accurately calculate the number of people required to perform the work. The models are also useful in predicting staffing needs if new activities are added or if work volumes change.

Ideally, staffing models are developed before the need to cut expenses arises. If overstaffed in certain areas, employees can be re-deployed to areas that may be revealed to be understaffed. If the end result is that there are too many employees, if done before the need to cut expenses, attrition can be a valuable and less expensive way to achieve the right staffing level.

The reality of tightened margins requires the re-evaluation of expenses. While it may seem a daunting task, developing and implementing staffing models can result in what may be unnoticed expense savings. ■

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WHERE DOES YOUR BANK RANK?

Find out by participating in the 2003 Efficiency Ratio Benchmarking Study.

The study is a survey of income, expense, staffing levels and productivity by line of business. Within each line of business, the study provides a series of measures that show you how your institution's efficiency and productivity compare to a pool of other participants of similar asset size. Currently, the pools contain data from more than 80 U.S. banks! This gives executive management a structured process for identifying departments and lines of business that have the greatest opportunity for immediate profit improvement.

All banks and credit unions over \$900 million in asset size can participate in the study. The primary value of participation is to provide directional assistance to identify, quantify and prioritize specific areas with the greatest opportunities for improvement. Participants commonly identify improvements within staffing levels, compensation, capacity, financial reporting, unit cost for production volumes, revenue: non-interest & net-interest, and expenses.

The information provided to participating banks and credit unions goes well beyond the typical peer group comparisons commonly available. All participants receive an executive summary containing hundreds of ratios showing their efficiency and effectiveness compared to benchmark (top quartile), median and average performers in each business area.

There are no registration or participation fees. Contact Denise Feeley at denise_feeley@renolan.com to register.

Reducing the Efficiency Ratio: A Client's Story

Our client, an \$8B National Bank, was concerned about expense controls, capacity improvements and untapped revenue opportunities. They set a goal to reduce their efficiency ratio below the current 53 percent level. Bank management determined that a first step toward improvement was to participate in the Robert E. Nolan Company's annual Efficiency Ratio Benchmarking Study.

Bank management placed high importance on uncovering

the gaps between their line-of-business performance and that of other banks, including the top-quartile performers. The Efficiency Ratio Benchmarking Study would provide them with over 1,000 comparative measures by line-of-business efficiency and productivity.

The bank was involved in merger activity during the initial data-gathering phase of the study. To ensure they met the data submission deadline, they retained Nolan to gather and prepare their data. The gathering process in an organization of this asset size would take one Nolan consultant approximately two weeks.

The first step in the process was to translate the bank's financial and internal cost accounting reports to match the study's format. In addition, the Nolan consultant identified volumes (number and balance) for portfolio and new production and full-time employee (FTE) levels.

As data was gathered and recast to fit the study specifications, all steps were documented in detail to create an audit trail for the decisions and reallocations made. The documentation would be an important resource for answering questions to enhance understanding of the results of the study.

Upon completion of the first draft of the input form, Nolan processed the data against its database of over 70 previous-year participants. The client reviewed these preliminary results, comparing their ratios with the benchmark and average results.

The results of the Efficiency Ratio Benchmarking Study will vary by participant. For this client, the study pinpointed:

- Areas where productivity increases were needed to build higher capacity.
- Expense and revenue improvements.
- Financial reporting changes that will provide line managers with better results by line of business. ■

WHERE IS IT GOING?



Rod Travers
Senior Vice President, Technology

There is speculation in the corporate world about the future of the IT field. Has it become too complex? Will everything go offshore? Where's the elusive payoff? Why not just outsource? No matter what the answers are, I think the prospects for the future of IT are encouraging. And of course the IT world of the future will be different than today.

Years ago, people wrongly predicted the end of the movie business and of radio when TV appeared. More recently, the Internet was predicted to threaten societal staples such as traditional retail, call centers and insurance agents, among many other things. Indeed, those entities have evolved under the influence of changing technology, but they continue to exist much the same as they always have.

The same is true for the IT function. Technology itself is becoming more pervasive, and thus IT will evolve to become less of a discrete “department” and more of a built-in element of every department within a company. This is a positive trend because the biggest challenge with corporate technology today is bridging the gap between business and IT. Ideally the emphasis in technology will move away from “managing technology projects” to “applying information systems effectively.” Hopefully IT, and especially the vendor community, will finally give up their predilection for the latest “silver bullet” and evolve toward a competency of truly understanding business problems/opportunities. They will also hopefully, in turn, apply the most appropriate business technology solution.

Regarding jobs going offshore, at present those are mostly commoditized positions—ones that don't require an intimacy with a company's culture or environment. Back home, those individuals who are successful in delivering unique business value within their organizations will continue to have plenty of opportunity in corporate America.

So, where is IT headed? First, make business results your success measure. Figuring out the rest will then be much easier. ■

HOW TO DOMINATE THE DECADE



C. Kim Wilkes
Senior Vice President

I recently called to order merchandise from a Fortune 100 membership rewards program that I belong to. I expected them to ask for the catalog number, verify I had enough points and ship the item to me. Instead, I was told that a certificate would be issued to me within three weeks, and once I received it I could call the company that makes the product and send them the certificate for redemption. WHAT? Not only do I feel like this is very poor customer service, but it also seems to be far more expensive for this company. Consider some of the costs involved in this transaction:

- Someone enters the data and at some point the certificate is printed.
- Once the certificate is printed, it is then mailed to me so there is additional postage cost involved.
- I now have to call the manufacturer, order the item and then mail them the certificate. Plus I now wait additional weeks until the item arrives.

In this era of technology you can visualize how simple this procedure should be. In Michael Hammer's new book, *The Agenda*, he discusses two themes of what every business must do to dominate the decade: (1) become ETDBW—easy to do business with—and (2) put process first and become process fanatics.

Clearly, the company in question is not easy to do business with, and they most definitely have not thought through the process. Hammer stresses the fact that processes need to be continually reviewed, not once, but over and over again, continually refining and “obsessing about the end-to-end processes that create all value for your customers.” In order to dominate the decade, this mindset must change as people and technology give us continual opportunities to improve the process. ■

TECHNOLOGY OR MYTHOLOGY?



Lee C. Broad
Senior Consultant

Among the challenges of implementing solutions to business problems is often the presumed accuracy and certainty of what people say, especially with regard to technology. My experience, however, is that people many times are guilty of rushes to judgment and the imprecise use of technical nomenclature, which, in turn, give rise to invisible monsters of mythology. What do I mean?

Challenging the Myths

I mean that “systems problems,” once understood, often are totally unrelated to the hardware, software, interfaces, networks and other pieces of plumbing and wiring associated with sending electronic pulses among chips, storing data and generating output. Yet corporate mythology, built over months and years of unchallenged storytelling, frequently supports a full set of honestly held, but completely wrong beliefs!

Here is an example. One client maintained a system to record fees received with respect to lending activities. During a recent process redesign, the client initially decided to centralize this data entry function because the belief was that the system was too difficult and the number of entries too few for people to maintain the skill level required to enter the data accurately. We also heard that the system didn't work—that is, the internal mathematical operations and algorithms were resulting in incorrect output. Talk about a problem! Unfortunately, none of these beliefs, albeit widely shared and accepted, were true.

What was the real root cause? A formal system training program did not exist, only a few of the current users had received on-the-job training, and the system documentation had been last updated nearly three years ago. Also, the definitions of fees, which the data entry people referenced to interpret the type of fee, had been expanded to more than 30 (!) to serve management information needs that had not been satisfied elsewhere—it had been long forgotten that this system was

designed to be a subsidiary system for the general ledger, not a fee income report writer.

Here is another example. A client with many branch offices had a cash system that interfaced with other systems, one of which provided data regarding the purchase, sale and exchange of mutual funds to its trade execution group. The client was experiencing large monetary losses because these transactions were not being processed in a timely manner. The firm belief was that the cash system was designed with a standard 24-hour delay and, thereby, was a major contributor to the problem. Many thought the solution was an overhaul or replacement of this system. Again, facts dispelled the belief!

The reason that the additional 24 hours of cycle time existed was that each branch manager was not closing the books on a timely basis each day, so the cash system would not transmit and upload the data. Voila! Another myth simmers in the broth of assumed understanding of technology.

Other Corners to Shine Lights In

There are two other places to look for mythology:

1. **Data Integrity:** Processes to assure that data used in common databases are timely, accurate and complete may be strong for some data residing on key systems, but weak elsewhere. The process of reconciling the general ledger drives monetary data integrity, but non-monetary data is unaffected by this process. While errors may be found and corrected in other, less critical, databases, there may be no systematic approach to doing so.
2. **Business Rules:** Report writing applications use business rules to compile required data. These rules rely on definitions for which universal acceptance and observance often do not exist within the user organization. Consequently, queries and reports depict data that are embraced as accurate and complete only by some. Also, the business rules may not satisfy any one audience. As a result, users see some data as relevant, but may view other data as insufficient or even wrong.

Monsters from the Myths

While an obvious offspring of such mythology can be the expensive and pointless investment in more systems and software, other monsters lurk in this particular darkness. One of these is the “hydra”—multiple independent systems, spreadsheets and legal pads that spring up to fill the imagined void.

Further, for various reasons, members of the organization may, at least from time to time, publish financial data that they believe accurate, but which are inconsistent with the data residing in the company’s official books and records. This is more than a source of confusion. There should be concerns of publicly disclosing misleading or incorrect information, providing regulatory agencies with inconsistent data, and risking the appearance, if not the reality, of management not having accurate data upon which to make informed decisions.

Dispelling the Myths

Here are six steps that can be taken to challenge at least some of the mythology surrounding systems and data:

1. Develop and implement processes around maintaining integrity across all critical data.
2. Establish a comprehensive and shared set of definitions upon which data set business rules can be promulgated for consistent use throughout the organization.
3. Deploy a process to resolve perceived data discrepancies. (This being said, data in the company’s official books and records should be presumed as correct.)
4. Set and enforce a business policy that only one set of financial data is permitted to exist within the organization.
5. Engage in process of discovering and validating the company’s data integrity and report writing capability.
6. Never (yes, *never*) accept the proposition of a technology-based problem without scrutiny and reality testing.

Once mythology takes hold, only systematic and analytically based challenges to beliefs can lift the scales from afflicted believers’ eyes. Only then will the answer be known to the question “is it technology or mythology?” ■

SHOULD YOUR ORGANIZATION OUTSOURCE?



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Many corporate leaders assume that everything that's being done in their organization is necessary. They fail to consider the function's lack of contribution to the core functions, the distraction caused by such a function, the loss of resources for core functions when they support this function, and the financial cost to complete a non-core function.

Outsourcing may be a solution to these issues, but that decision requires information that is often not easily accessible. To consider outsourcing:

- You must understand the current environment. Knowledge of costs, headcount, volumes, cycle times and other data is critical to understanding what exists today. You must determine the function's interaction with the core functions of the company. It is also important to identify the distractions caused by the function and their associated hidden costs (diverted resources, systems time, meetings, etc.).
- To properly evaluate outsourcing, consideration must be given to the potential future environment. This involves developing knowledge of future changes to the function and/or services being delivered and the impact they will have on costs, headcounts, volumes, etc. It would be wrong to make a decision based only on the current environment.
- You will need to identify issues that exist within the current and future environments. These issues may be as simple as training or more complicated systems and programming resource times. These issues will tend to cause distractions from the company's core functions and have no recognizable solutions.
- There is a need to determine flexibility requirements. Whether driven by company policy, market demands, legislation or regulation, change is constant in today's business environment. Without this knowledge, it will be

difficult to determine the requirements for benchmarking and possibly outsourcing to a vendor.

Now that you have a clear picture of the function being considered for outsourcing, begin providing vendors with criteria for pricing. Select vendors as candidates who can:

- Match or nearly match the function(s)—current and future. Too many times decisions are made on what appears to be a match rather than recognizing differences and their potential impact.
- Provide maximum flexibility for future needs and change. Since change is constant, it is critical to understand the flexibility a vendor brings and at what cost in time, resources and dollars.
- Have proven track records for providing service. Decisions cannot be made on financial impact alone. Saving vendor dollars may have a substantial cost in customer satisfaction.
- Handle the size of the function being outsourced. Vendors may make promises to secure your business but be incapable of delivering on them. It is important to understand the capacity and capability of the vendors.

Once the vendors respond with pricing and service information, a true analysis can be completed to determine if outsourcing is a viable solution. While price is important, it should never be the only element on which the decision is made.

Often the company can handle the function for less in the near term, but recognizes the longer-term negative impact that may be caused by not outsourcing. This may be the result of limited flexibility in systems, the inability to meet government requirements, the increased service demands and the distractions they cause to the company's core function.

All of these elements are part of the decision making process. The question is not, "How can I outsource this function?" Rather it should be, "How do I determine if outsourcing is the correct action for my company?" ■

NOLAN SPEAKING ENGAGEMENTS

March 2 – 5, 2003: LOMA Systems Forum

Nolan is proud to be a bronze-level sponsor at this year's forum to be held in San Antonio, Texas. Our client, Nationwide Insurance, was selected to present a ground-breaking project they conducted with Nolan.

March 13 – 15, 2003: PIAA COO Workshop

Nolan Chairman Ben DiSylvester will speak at this upcoming workshop in Scottsdale, Arizona. He will discuss results from a recent survey of all PIAA member company chief executives that reveal their views about future trends and expectations within the medical malpractice insurance line.

March 24 – 26, 2003: LOMA Customer Service Conference

Nolan client CareFirst Blue Cross Blue Shield will get "Back to Basics" when speaking about improving service performance by reviewing and emphasizing call center fundamentals.

April 1, 2003: AMIFs/BAI Profitability and Performance Measurement Forum

Nolan President Robert Grasing will analyze factors of performance by line of business. He will discuss the Nolan Efficiency Ratio Benchmarking Study and provide practical advice on how to make a bank more efficient and profitable.

June 4, 2003: IASA Annual Convention and Business Show

Nolan CEO Dennis Sullivan and an executive from a top-ten insurer will discuss how one company's use of "just-in-time" ROI analysis allowed it to focus its resources on the right applications so that immediate impact was achieved.