The Nolan Newsletter

People, Process, Technology

Robert E. Nolan Company
Management Consultants

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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.

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THINKING YOUR WAY TO SUCCESS

The beginning of a new year is a good time to look ahead to what the future holds. However, it's become increasingly difficult to pick out trends these days. The economy is sending mixed signals: in financial services, the property and casualty insurance segment continues to do well; growth in the life segment is relatively flat; banks are seeing interest rates trend up; and health care is keeping a wary eye on Washington while it looks for ways to manage benefit costs. With no overriding single trend or any apparent management fad guiding us toward a focus, it appears that executives are left to do their own thinking.

Edward de Bono, who is widely considered the leading authority on learning thinking as a skill, says, "The quality of our future will depend entirely on the quality of our thinking." De Bono says intelligence level does not necessarily relate to good thinking skills. In fact, intelligence sometimes stands in the way of good thinking because intelligent people tend to adopt a view on something and then use their intelligence to defend that view against all challenges. Good thinkers, on the other hand, will take a step back and look at the total picture, working to understand the context of the problem.

Skillful thinking is important whether you are trying to improve service, reduce costs, or implement new or improved technologies. But de Bono warns us not to confuse "clever" with "creative" or with the more powerful "lateral" thinking process. To get even better results in the future, rigorous thinking skills, useful methodologies, quantitative analysis to evaluate hypotheses, and contextual viewpoints will be the keys to better answers to your questions.

As always, the Nolan Company wishes you much success in your improvement efforts, and we stand ready to support you as you think through your challenges for 2007 and beyond. ▪

Ben DiSylvester
Chairman

The Re-emerging *Need For Speed*

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There is a consistent vocabulary re-emerging today from our discussions with executive clients: agility; flexibility; delivery of faster service; shorter cycle times; and the ever-popular speed to market. For the industries we serve, particularly insurance and financial services, this is not surprising, and it's becoming more acute. The softening cycle in the P&C market, modest growth in life, the growth spike in annuities, the grab for the aging boomer market, and the intense competition and consolidation in health care are leading executives to a similar business imperative—the *need for speed*.

The speed of business has been an important and real issue for decades, but like many commercial concepts, speed to market comes and goes as a top priority for many. To be sure, it never falls off today's agenda—it just advances and retreats. From what we see, speed is back at the top of the executive agenda, resulting in programs and investments to streamline product development, streamline core business processes, and steadily increase service. To illustrate, let me give three examples drawn from a few active clients.

The first example is a prestigious commercial lines P&C carrier who has had the foresight to streamline its underwriting process and improve new business and renewal cycle times by 60–70%. Call it luck or good planning, but this client anticipated today's rate cycle and knew that doing nothing would result in giving up more on rate to keep customers and agents. This traditional pricing approach would certainly work, but both the top and bottom line would suffer. Rather than play into the rate game, the client elected to radically improve the service standard for its market segment and differentiated itself by price, relationship, **and** service.

The second example is the carrier who is completely revamping its approach to product concept, development, design, and rollout.

Investments in product redesign are a challenge, especially when margins are tightening. For this client, now is the best time to streamline its product life cycle process where new products are a considerable growth opportunity for this carrier. Improving speed to market for new products is positioning the client to dramatically improve top-line premium growth, especially as products are delivered and the eventual upturn in the market occurs.

The third example is a multi-line carrier whose P&C revenue growth is being challenged by today's market cycle. Like many of their competitors chasing top-line growth, this client is pushing the limits of its life and annuity lines to make up for lost premium in other areas. And like many multi-line companies, life and annuities sometimes take a back seat to core P&C lines. This client has taken a different tack by investing heavily in their life and annuities, making these lines extremely attractive for agents to sell—especially from a speed-of-issue and service point of view. With help from the Nolan Company, this client is issuing new applications and servicing in-force business as well as—or better than—their competitors. The list goes on… and in nearly every case, clients aren't just looking for a vision, a strategy, new products and services, improved customer service, or operational improvements. They are looking for these and other opportunities at a faster pace than ever. We are pleased to be helping so many fine clients today in their pursuit of speed to market. Let us know if a conversation about the *need for speed* might be valuable to your organization by e-mailing me at steve_discher@renolan.com. ▪

> The speed of business has been an important and real issue for decades...

Transforming Call Centers to Claims Centers

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When I began my claims career in 1973, policyholders reported losses to their agents, who then prepared carbon-copy loss report forms and mailed them to the local claims office. In some cases, an agent might have held onto claims and waited for the company adjuster, who stopped by the office about once a week.

In the branch claims offices, managers reviewed incoming claims before handing them off to an adjuster. If the expected loss fell below a certain threshold, the adjuster went by the agent's word regarding coverage provided by the policy. Above the threshold, a request for coverage verification was prepared and mailed to the home office, where coverage was checked and the confirmation returned by mail to the branch claims office.

Once the home office had verified coverage, the branch office would create a paper file for each loss and forward it to the adjuster. The adjuster's first step in handling the claim was to contact the policyholder and other parties involved in the claim.

The purpose in describing this antiquated series of steps is to compare it to today's claim initiation process. Many, if not most, companies now maintain call centers as the primary point of contact with policyholders and others reporting new claims. Some of these call centers offer toll-free numbers and expanded or round-the-clock availability. Call center representatives collect loss information, explain the claim process, and assign the claim to the appropriate claim handler. Often, computers help collect the facts about the claim, select a claim handler, and move the new claim to the claim handler's in-basket.

The modern loss-reporting system boasts many advantages over the old. The most significant of these advantages is speed—speed in collecting information from the policyholder, speed in verifying coverage, and speed in matching the case with a claim handler. Why does speed matter? Among other reasons, it improves the final claim result as measured by loss costs, loss adjustment expense, and, most importantly, customer satisfaction.

> A claims center differs from a call center in several significant ways.

While claims initiation has come a long way since the 1970s, there are still opportunities to provide better and more cost-effective claims service. Many companies are now transforming their call centers into what I characterize as claims centers. A claims center differs from a call center in several significant ways. First, it is staffed with trained and experienced claims handlers. In addition to taking and entering loss information, the handlers triage claims based on guidelines to determine future handling and routing. The claims center keeps the simple, routine claims for processing, and explains and arranges things like appraisal appointments, car rentals, and direct repair options.

What happens to complex claims? Typically, a claims center representative identifies the claims that cannot be handled by the center and then determines who will receive the assignment. Based on the customer's needs and the nature of the loss, the claim can either be forwarded to an in-basket or directed to the assigned adjuster.

The use of claims centers accomplishes several key objectives of the claims process. For customers, claims centers are a quick and convenient way to report losses. They enable the early triage and segmentation of claims, ensuring a good match of claim characteristics and staff expertise. Staff have the opportunity to explain the claim process, set expectations, and reassure frazzled customers. Centers enable high-volume, routine claims to be handled efficiently. Finally, they reduce or eliminate redundant activities of call center staff and adjusters.

Taking advantage of the features and benefits of the claims center requires some adaptation on the part of managers. While typical call-center workload management and scheduling techniques still apply, the effective management of this kind of operation demands additional tools.

Early experimenters and adopters of the claims center concept have achieved remarkable benefits. Claims centers have been able to resolve more than 25% of personal auto and more than 40% of homeowner claims. The elapsed time from report of the claim to initiation of the claim process was cut in half. Claims centers increase customer satisfaction with no deterioration in the quality of the claim result. An unexpected benefit has been an improved ability to respond to catastrophes that generate a high volume of claims.

Technology provides the opportunity to provide better service at a lower cost. Taking advantage of new technologies with innovative process designs maximizes the possible benefits. The evolution of the claims center is a good example of how a combination of new technology and processes can better meet customer expectations. ▪

"Just take a seat until one of our agents is available to mire you hopelessly in paperwork."

THE ABCS OF NPS

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Net Promoter Score (NPS) is gaining a lot of attention lately as a way to gauge customer attitudes toward a company. Just as net worth represents the difference between financial assets and liabilities, NPS quantifies the difference between customer assets and liabilities. It is determined with one question—"Would you recommend us to a friend or colleague?"—and responses are recorded on a 10-point scale. With that one question, customers can be sorted into three categories: "promoters" who are loyal and enthusiastic (a 9 or 10 response); "passives" who are satisfied but unenthusiastic (a 7 or 8 response); and "detractors" who are unhappy but feel trapped in a bad relationship (a 1–6 response). To calculate an NPS, subtract the percentage of detractors from the percentage of promoters.

This hot business idea has a number of proponents in the financial services industry. American Express, Progressive, and Allianz have adopted it broadly. Allianz even went so far as to announce its mediocre score to investors in July with a vow to improve.

The approach clearly has appeal:

- It is easy to use. By requiring only one question, NPS avoids the trap of overly complex market research with long questionnaires that few customers will complete.
- It is simple for organizations to understand.
- It is a convenient rallying point for front-line managers and employees.

Like most trendy business ideas, NPS suffers from over-promotion. Initial developers claimed that a "12-point increase in a company's NPS doubles its growth rate." They have since backed off that stance, now stressing instead that companies with a strong NPS tend to grow faster than others in their industry. This rewording subtly moved their view of NPS from causation (high NPS causes growth) to correlation (high NPS and growth are related), which is where it should be. It can help your company focus on customer metrics, which will improve your responsiveness to your customers in the long run.

The approach is gathering steam at a time when CEOs are increasingly focused on getting closer to customers. It also plays into executives' lamenting that loyalty management programs, which track customer retention, are among the most ineffective tactics in their toolbox. Pair that with mounting recognition of the power of word-of-mouth and social networks, and it's easy to see why buzz is building. At GE's annual global leadership meeting in Boca Raton, Florida, CEO Jeffrey R. Immelt greeted the approach with enthusiasm. As a result, in 2006 all GE businesses must report NPSs for the first time. "I have little doubt that this will be as big and long-lasting for GE as Six Sigma was," says Immelt of GE's vaunted and much-copied quality system.

With rhetoric like that, it's no wonder that net promoter scores are becoming a popular, and, many say, powerful way to measure customer loyalty, drive compensation, and flag troubled products. By asking customers whether they would put their own credibility on the line by recommending a company to a friend, net promoter scores, say fans of the concept, are truer indicators of loyalty and future behavior and, therefore, sales growth. ▪

"I'm undecided, but that doesn't mean I'm apathetic or uninformed."

Standard Exceptions

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"Oxymoron" is a term we've all had fun with in the past. The definition is two words with opposite meanings juxtaposed in a single term. If you are from my generation, you probably remember George Carlin's famous comedic routine about words you can't use on television. In his routine, he has fun with expressions like "jumbo shrimp." Are those little jumbos or really big shrimp?, he wonders.

Last week in a client meeting, the topic of which was a new system installation, a reference was made to the standard exceptions for a series of products. I stopped and questioned the logic of "standard exceptions," but the response from the people in the room was business as normal: they expect exceptions, and when they are common, they become "standard." "Standard exceptions" as opposed, I guess, to "non-standard exceptions."

Why does this bother me? First off, people no longer flinch about the cost of exception processing. It has become part of the game. Second, the fact that the impact on system development and downstream processing expenses doesn't even enter the conversation or get any attention when product managers talk about product changes is troubling.

The financial services industry is constantly fending off offshoring challenges for administrative services. Although there have been success stories, there are also examples of customer service nightmares. What drives administrative services offshore? Cost, plain and simple! If you want to maintain control of your service delivery model and be able to offer tailored service to the right clients, you have to be on the top end of the efficiency scale. That will take hard work and some compromise when it comes to exception processing.

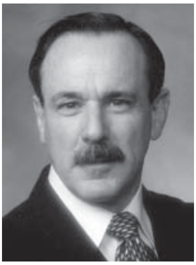
The two areas that are most affected by exception processing are operations and IT. Many CIOs pride themselves on being able to develop whatever unique business rules are required. The question is, at what cost? Downstream changes or modifications can be more costly, and maintenance can cost even more.

The solution is simple. Product development and benefit designs need to be a collaborative process at the beginning of the development cycle. Marketing, sales, operations, and information technology all need to be at the table. We need to balance "salability" of a product with the administrative and IT cost of servicing the product. Here is where real creativity comes into play. Only a seasoned pro possesses the skills needed to sell "our products" to a client looking for a modification of the standard offerings. It is a role that can often be supported by a knowledgeable IT professional who understands both sides of the equation—the technical aspects of administering a product on current systems and the client's expectation of benefits delivered.

> The two areas that are most affected by exception processing are operations and IT.

So, the challenge is one for the entire organization. How do we become flexible with product design while we are trying to become the most efficient operations organization? Collaboration is one key and understanding the long-range cost impact of exception processing is the second piece of the puzzle. In the past, I've written about the cost of keeping outdated processes in place to handle old products and services. Well, today's discussion topic is the ugly sister of the "pack rat" syndrome—those unchallenged "standard exceptions." ▪

Process Darwinism



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Last week, when I was in a hub waiting on yet another delayed regional jet, I read *Universal Principles of Design* by Lidwell, Holden, and Butler. What a great book! It has 100 ideas, with two pages per idea. Each idea is laid out in concise prose on one page, with illustrations or graphics on the facing page. Each article, a freestanding essay on an interesting aspect of design, also includes references in case you want to read more. What's special about the book, though, isn't the format but the selection of ideas.

The authors use "design" in a broad sense—it can mean the design of a system, process, or organization. The topics of the articles range from the "80-20 Rule" to "mental models" to "signal-to-noise ratio." I've given the book to several busy executives, and they've had two common experiences with it. First, they have all actually read it. Second, reading *Universal Principles of Design* helped them recognize that there was an element of design in problems they were working on.

One article stood out for me—the one on cost-benefit. Rather than a dry rehash of managerial accounting concepts, the authors explained cost-benefit in stunningly simple logic—activities will continue as long as their benefits exceed their costs. That statement made me stop reading and begin thinking. I was able to identify five different client problems from over the past three days that could be analyzed with this concept. Here are the examples:

- "Are we really getting a return from our disease management program?"
- "If we redeployed our account service reps to a contact center model, would we have the same or better level of service at a better cost?"
- "Do we have our regional offices in the right regions? Are we positioned to serve the old geography or the new pattern of growth?"

- "Will going to a hospitalist model improve care and cost? Or should we keep and improve the traditional internal medicine/specialist model?"
- "VoIP... should we switch to it?"

All of these questions had a common underlying structure—namely, "Given that we are doing x today, will the benefits of continuing it outweigh the costs?" For each question, an alternative design was forcing cost-benefit to be considered.

Once on-board the plane, my mind wandered as the flight attendant did the safety briefing. Several days earlier, I'd had a long discussion with a fellow about natural selection and survival of the fittest. The cost-benefit idea and natural selection came together for me as we waited on the runway. Of course, it is not a fully formed idea, and you are free to expand it, refute it, or ignore it. But you might be clever to use it as part of your management processes. Here it is:

- Executives use cost-benefit techniques as a means of natural selection.
- Processes and activities that are seen as having favorable cost-benefit survive better than those with less favorable cost-benefit measurements.
- Over time, under the pressure of this management practice, the future lies with the process that has the best cost-benefit.

Seems simple, right? But it explains a lot of different things we're seeing. Think of Southwest Airlines, the offshore movement of provider credentialing and accounting functions, and the transformation of customer service into self-service.

Cost-benefit thinking doesn't help with all problems. And some service designs can be competitively justified by difficult-to-quantify factors. Barnes & Noble and Amazon, for example, can co-exist and thrive.

If you find that you make decisions without cost-benefit thinking, stop for a second, walk around the parking lot, and take another look at the problem. You might just improve your design and avoid an avoidable mistake. ▪

Life Insurance Industry: Strategic Priorities Transitioning

Findings from the Robert E. Nolan Company's recent Life and Annuity Industry Survey indicate that increasingly, priorities among senior executives are being set by external market factors rather than internal drivers. Demands for returns and profitability are magnifying the pressure on growth, with increasingly complex industry conditions creating many conflicting choices for executives to sift through. Allocating the limited resources of time, money, and people to the trade-offs between service, support, product features, and returns has become the decision process requiring the greatest care and focus.

With more than 51% of the survey respondents at an EVP level or higher and almost 80% officers in their companies, finding the balance across this diversity of strategic considerations is at the forefront of the responses. The survey report offers valuable insights from active industry leaders on timely issues, including:

- Company self-assessments regarding goals, strategies, expense management, process improvement, and technology
- Important management issues such as outsourcing, technology management, and product strategies that warrant priority and resources from company leaders
- Changes foreseen in the competitive landscape ahead

Within this context, five strategically significant trends stand out as key differentiators for prioritizing and allocating limited resources:

- Clearly defined shifts in demographics paired with changing customer expectations
- Implementation challenges with expense management and the effective use of technology
- Leveraging sales and marketing investments for optimal returns in three key areas
- Using service as a competitive advantage to offset converging products
- Intense focusing of technology efforts across the four key service platforms

The detailed findings report elaborates on each trend and suggests next steps for consideration in each of the five major survey categories reviewed: Industry Trends, Sales and Marketing, Operations, Technology, and Outsourcing.

To receive the complete survey results, visit the Robert E. Nolan Company web site at www.renolan.com/lifesurvey. ▪

First Call Resolution: One More Time

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I recently received some feedback (thanks, Jack) on an article I wrote for this newsletter ("The Most Important Call Center Metric You're Not Measuring," third quarter, 2006). I'm afraid I wasn't quite clear about what First Call Resolution (FCR) actually was and how it's measured. FCR has a close cousin called "Resolved on Contact" (ROC). Both metrics are important, but they are very different. I suspect that many of you measure ROC and that most of you do not measure FCR.

FCR is focused on caller satisfaction. It measures the caller's ability to get their question answered or their issue resolved with one contact. ROC, however, is focused on call center productivity: it measures the call center's ability to resolve the inquiry without pending the call for additional follow-up work. Let's use some simple examples to illustrate the differences.

Call #1 – Alice: "Has my claim been paid?" CSR: "Yes. You should get the check tomorrow."

Call #2 – Alice (next day): "Has my claim been paid?" CSR: "Yes. Give the check another day."

Call #3 – Susan: "You paid my claim incorrectly." CSR: "You're right. We'll adjust it."

If you're measuring ROC, Calls 1 and 2 are resolved on contact because there is no additional work to do. Call 3 is not resolved on contact because the claim still has to be adjusted.

If you're measuring FCR, Call 1 was not resolved to Alice's satisfaction because she didn't get the check. She had to call back the next day. The only way to know that Call 1 was not FCR would be to survey Alice after Call 2. As of right now, Call 3 is FCR as long as Susan receives the adjustment, decides it's correct, and doesn't call back.

I hope this helps to better explain FCR and to show why it's so hard to measure. As always, I appreciate the feedback. Please e-mail me with your call center questions. I'd be glad to help. ▪

THE GAP KEEPS GETTING WIDER BETWEEN THE IMPROVING AND THE "TOO BUSY" OR "TOO COMPLEX"

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Why are the "too busy" not seeing the waterfalls ahead? Just this past month I witnessed an auto lease transaction that required the lessee to sign or initial 14 documents in a total of 23 places. It seems ludicrous that any bank would continue to burden customers by insisting that they take the time to read and sign this many documents as a routine matter of doing business. Why would the customer consider deepening their relationship with your bank when a simple transaction is forced to be this complex? The lender was asking for far too much information in this case, and if I were the borrower, I would "run away, run away," as the Monty Python line goes. When the lender was pressed to explain the need for much of the additional information, they were at a loss. I can honestly report that it does not take this much paperwork to either disclose or secure debt—even in the highly regulated times we live in.

In a recent Nolan industry study on real-estate-based loans, the findings revealed that a gap in cycle time performance ranged from three days to nearly two months. At the expedited end of the range were scored loans for existing relationships; at the other extreme was an excruciating process that included defining needs, appraising collateral, assessing the ability to repay, structuring the deal, and romancing the deal through the mine fields of the bank's credit process. I can't imagine it. When we talked to the borrowers who took months, they were as puzzled as we were regarding the time and effort it took to get approval and booking. "It takes industry knowledge for complex deals," said the two-month banks; however, my take, based on 34 years in the industry, argues that lender experience and knowledge should shorten the overall process for customers, not lengthen it. The gap is real, but the argument for its existence is not.

I do believe that regulations and credit history in some institutions have resulted in policies, processes, and practices that limit the risk for some banks. But the data and experience tell us that manual processes and too many levels of oversight will also limit a bank's domestic growth and the likelihood that customers will rave about your bank to their friends and family. And by the way, the gap is getting wider. ▪

Division of Labor, Stacking, Sequencing, and Cycle Time Reduction

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It is almost impossible to read about, participate in, or lead a redesign or re-engineering workshop or project and not hear about the reduction in cycle times and the quality improvements that result from value-added task analysis. In a macro way, it is a simple activity. Figure out which tasks add value and keep them. Figure out which tasks do not add value (or enough value to justify the costs) and get rid of them. Figure out which tasks you are not doing, but would add value, and bring them into the process. Figure out how to do each task as efficiently as possible. Finally, we sequence all these tasks into sub-processes and—voilà—we have our new process. Through task elimination and more efficient task completion, we have reduced our cycle time. Let's go implement the new process.

Not so fast. We have left a good number of cycle time improvements on the table. Two related, and often overlooked, activities will reduce our cycle times even further—maximizing division of labor and task stacking.

> ...tasks requiring similar skills should be completed by the same person as often as possible.

Division of labor? You bet. To complete each task requires a specific set of skills, and many tasks have identical or very similar sets of required skills. For instance, in an insurance company, the skills required to underwrite a risk are typically different from those required to rate a policy, and those skills can differ from the skills required to issue the policy. To maximize this division of labor, tasks requiring similar skills should be completed by the same person as often as possible. When viewed on a process chart, these divisions of labor take the form of "swim lanes" that represent an individual or a group with similar skill sets. This person or people are charged with completing the same set of tasks within a process.

Sounds simple enough, but mismatches frequently occur because not enough care is taken to analyze what skill sets are best suited to each task. Another reason is that it is often assumed that because the task has been historically completed by an employee of a certain skill level, it should continue being performed at that level in the future.

Another culprit can be skill requirements within one person or group that are far too broad to be cycle-efficient. These mismatches can increase cycle times and lead to employee boredom, frustration, and ultimately, to unacceptable turnover rates. If all the above problems and associated expenses are not bad enough, these mismatches can severely under-utilize salary and salary-related expenses. In short, they can institutionalize division-of-labor inefficiencies.

Let's say that we have been very careful with our skill-and-division-of-labor matches and have further reduced our cycle times. Are we ready to implement the new process? Nope; not yet. Now we have to stack and sequence these tasks within each swim lane while minimizing the number of hand-offs. Stacking involves sequencing tasks between multiple swim lanes so the tasks can be worked on simultaneously.

Hand-offs typically increase cycle times and can lead to quality reductions, so balancing cycle time improvements produced by stacking against hand-off impacts always involves trade-offs. But because cycle time improvements can be substantial, the rewards might be well worth the effort. On one recent project, stacking alone reduced cycle times by an additional 15% after all the other process improvements were considered. This saved over one full week per transaction!

Yes, now we are ready to implement the new process. Of course, getting the right people in the right place and creating the right environment can be equally important success factors, as are our new process and process metrics. But these are topics for another article. ▪

THINK OF ZEBRAS

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Quick—what's the first thought that pops into your mind when you hear the words "hoof beats?" I came across an inane movie on TV a while back, and before I switched channels, I heard a phrase that made me stop and think a minute. Two detectives were puzzled over a crime that had occurred. As the senior detective scratched his head, the junior detective said, "We've got to think of zebras." You can imagine the look on the senior detective's face and the tone of his voice as he said, "Zebras?" The junior detective explained, "Whenever I couldn't figure out something, my mom always said that when you hear hoof beats, think of zebras." Meaning, don't always settle on the obvious; force your mind to think of the other possibilities. What a deep thought from a rather silly movie.

I must admit that I am a *USA TODAY* crossword fanatic. I have found that applying zebra thinking to a word I am stuck on most often results in being able to come up with the word I was looking for. Recently, for example, the clue was *pond film*. Well, "On Golden Pond" was too long and Walden didn't fit, either. Once I forgot about films and thought of zebras, *algae* became the obvious correct answer.

...don't always settle on the obvious; force your mind to think of the other possibilities.

This advice holds very true for many situations in the work environment. We sometimes jump to sub-par conclusions or solutions because we haven't thought through the full realm of possibilities. The next time you're scratching your head about a problem, thinking of zebras might lead you to the right answer. Even when we think we have the right answer, we should still pause to consider the zebras clopping around in our minds. They might just be bringing you the solution you need. ▪

Disaster Plan Reality Check

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Your systems are restored in four hours, but are your people really back to work?

Business continuity and disaster recovery have become more important to the financial services industries than ever before. From its roots in IT systems security and recovery, business continuity (BC) has been evolving rapidly over the last decade. The specter of a vast Y2K meltdown of on-line systems and data (and the accompanying hype around the threats to society itself) served as the catalyst for propelling business continuity and disaster recovery planning forward on corporate agendas.

As the clock struck midnight around the globe on December 31, 1999, most of the prognosticated chaos never materialized (or, some would argue, was successfully averted). But one thing was certain, it was clear that "business as usual" was no longer something to be taken for granted. The events of September 11, 2001, the Northeast power outages of 2003, and the seemingly relentless march of hurricanes across the Southeast have taken disaster recovery planning beyond the hypothetical and squarely into the reality of running a business.

External pressures are also mounting, with increasing focus on the post-disaster viability of companies with significant fiduciary responsibilities. The Federal Financial Institutions Examination Council (FFIEC), Sarbanes-Oxley, HIPAA, and a host of other regulatory and auditing authorities are increasing the compliance standards for business continuity management. This trend is expected to continue, if not accelerate.

IT recovery and systems restoration procedures have been extensively addressed in most organizations in the financial services industries. But what about the core processes, and the people conducting the business behind the systems? Here's where many disaster recovery plans may need a reality check.

Defining and building specific plans, by business unit and for each critical process in each phase of recovery, are essential. Beyond software and systems restoration, processes must be designed to work in the post-disaster environment. People must know how they will work, where they will work, what will be different, and what is most important.

There are a wide variety of robust and sophisticated software packages available today to aid in business continuity and disaster recovery planning. Software can help manage the complexities and intricacies of the plan. Recovery information can be stored, aggregated, cross-referenced, accessed, updated, and managed, including call trees, critical processes, emergency procedures, tasks, teams, software, equipment, supplies, locations, vital records, and critical relationships (vendor, regulator, customer, supplier, and others). The software is remarkable in its ability to support continuity planning and disaster recovery. A potential drawback, however, is the uncanny ability of software to lull its users into a sense of completeness or complacency. After all, if everything has been input into the software, isn't the plan complete? Not by a long shot.

An effective plan for business continuity and disaster recovery will consider and balance all aspects of the people, processes, and technology. From knowing what to do in the first minutes, to restoring the business in the weeks and months ahead, everyone must know their part. Processes must be identified and designed to run in the post-disaster environment. Immediate IT systems restoration is only the beginning.

After identifying the critical processes and all of their components, establishing recovery teams charged with specific tasks is crucial. Teams must know where to report, their priorities, and how they will get the job done. Thoroughly developing operational plans to support critical business processes is vital to recovery.

In summary, the "business" side of business continuity planning is often overlooked. Yet it is just as important as IT disaster preparedness and is absolutely essential for orderly resumption of core business processes. Make it a priority to review your business continuity plans and pay particular attention to the non-IT elements of those plans. ▪

LOOKING AHEAD

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At any given time there are few technologies and management practices that warrant attention from business and IT leaders. My criteria for "warrants attention" are that something is getting considerable coverage in the trade media, and it has either the potential to favorably impact business, or it has the potential to cause trouble. Here are a few to think about in the coming year:

- **SOA.** Service-oriented architecture is a conundrum to me. If you read the principles of SOA, you quickly realize it is simply a blueprint for IT done right. Some companies have operated this way for years, yet they've never heard of SOA. Others want to attain some kind of SOA status, so they buy audit systems and architecture guidelines. Even though SOA is purported not to be a product you can buy, there are dozens of compliance systems and services and certifications for sale. If you want to get on the SOA bandwagon, my suggestion is to buy nothing. Rather, study the principles of SOA—many of which you no doubt already practice—and look also at the solid fundamentals espoused in such initiatives as ITIL, PMI, CMM, and BPMG (Google these!). Implement and sustain those practices that complement and upgrade your IT function. These might include a contemporary development/implementation life cycle, consistent project management practices, and performance measures such as customer satisfaction, schedule adherence, and financial payback. An IT function with solid management practices and consistent positive results is, voilà, an SOA environment.
- **Vista.** For corporate environments, Microsoft's new operating system, Vista, represents a potentially major expense with little if any ROI. Corporate environments should make 2007 the year of "wait and see" for Vista. Let

the consumers and hackers have a year to flog the system. If there is no business payback for upgrading, why do so?

- **Ethics.** The stock-option and pretexting scandals of late have proven once again that no matter how much governance we put in place (e.g., Sarbanes-Oxley), some people will rationalize bending the rules or claim ignorance or abdicate responsibility. Ethical behavior is not just following a rule or coming clean after the fact. The essence of ethical behavior is doing the right thing in any given situation, regardless of what others may be doing. None of us is perfect, so an occasional ethics refresher via management training or perhaps just an article in your company newsletter can go a long way toward prioritizing ethics in your company culture.

These are only three of a dozen or more such items that are vying for our attention. I'll share my thoughts on a few others in a future article. In the meantime, I welcome your thoughts and feedback. Please e-mail me at rod_travers@renolan.com. ▪

"Oh, like you know something the Internet doesn't know."

Do You Know What Your People Don't Know?

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We all know how fast things change in today's business environment. Technology is outdated before you get it out of the box, products change to be competitive or because the government is helping us in our business efforts, units experience turnover, and processes change quickly, which in turn affects functions and tasks. People who work for you must adapt to these constant changes, and adaptation requires new or modified skills and/or knowledge. Management often assumes that their people know what they are to do. This leads to management not knowing what their people **do not** know. Failure to track and monitor skill sets and knowledge within a unit can lead to a "Unit@Risk."

Unit@Risk occurs when the unit's skill or knowledge level is insufficient to complete a basic process or when all of a single critical skill or knowledge set rests with one person in the unit. What if that one person wins the lottery? The concentration can bring a process and a unit to its knees. Failure to recognize the unit's risk can impact quality, customer service, and the cost of operations. To prevent the risk, or at least minimize it, managers need to monitor their people's skill/knowledge levels at regular intervals.

To effectively monitor skill levels, the manager must:

1. Identify and define the skills/knowledge necessary to effectively complete each process within the unit and clearly communicate these definitions to staff.
2. Meet with the entire unit and ask each employee to score themselves on their skill/knowledge level. I use 4 as a high (meaning the person can perform the skill at an exceptional level, even training others when needed) and 0 as a low (the person doesn't have the skill/knowledge as described). It's always best to talk through the definitions to avoid confusion.

3. After employees have scored themselves, you should also score each person based on your experience with, and observations of, that employee. This will identify gaps between your perception of the employee's skill/knowledge level and their own self-assessment.
4. Where gaps exist, discuss them with the employee and come to a consensus as to what level they really have.
5. Put the final results of the scoring exercise into a spreadsheet with the employee names on one axis and the skills/knowledge on the other. For any given skill/knowledge, the maximum score would be four times the number of people. If one skill/knowledge set scores less than 60% of the maximum, there may be danger of a Unit@Risk, and, to reduce the risk, steps should be taken as quickly as possible to complete training for some or all of the employees.
6. At the same time, you may evaluate each employee's total score against a desired level and establish training programs for employees who fall short.

Many managers start assessment programs but fail to follow through. At a minimum, these evaluations should occur once a year, perhaps as part of the planning/budgeting process. Based on the frequency of changes in a unit, quarterly evaluations might be appropriate. Also, it is very important to keep the training programs up-to-date and in-line with the currently required skills/knowledge—otherwise, the effort produces well-trained people whose skills or knowledge do not apply to the unit's needs.

Many managers start assessment programs but fail to follow through.

Remember, it's not what your people know that will hurt your unit, but what they don't know. And, as Yogi Berra might have said, "If you don't know what they don't know, you can't fix it." ▪

Plan Your Project Communications, Then Plan on Greater Project Success

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In the old days, IT techies would get an idea, retreat into a corner, develop something, and then bring it to the users. They were continually flabbergasted when the user world didn't throw roses at them in gratitude. In fact, projects that were developed this way had exactly the opposite reception—the services weren't used or weren't used happily. Interestingly, the services the projects produced were usually needed—the problem was a lack of effective project communication. The techies working on the project had one idea of how the project results should work, and the users had another. With better communications between developer and user, the outcome can be dramatically different.

How can communications problems be avoided? An old project adage goes, "Plan your work and work your plan." In this case, we'll modify the adage to "Plan your communications and execute the plan." Everyone who has managed a project has learned the value of developing a project plan. A typical plan lists project activities, who will do them, and when they're scheduled for execution. To improve the chances for project success, add tasks that address what will be communicated and when.

The Project Management Institute (PMI) is an international organization whose sole purpose is to further good practices in project planning and management. According to PMI, communications planning is one of nine essential areas on which successful projects depend.

How do you go about planning project communications? There are four easy steps to follow: 1) identify whom you need to communicate with, 2) decide how you will communicate with them, 3) decide what to communicate about, and 4) determine how often you will do it. One tip is to work with all the people on the communications list as you develop your communications plan.

Deciding who needs to be communicated with involves compiling some people lists. Include the people who are sponsoring or approving the project (typically senior management), the people directly affected by the project (the primary users), and the people who will be working on or supplying information to the project. These three groups are often collectively referred to as the "primary stakeholders."

The timing of communications with each of the stakeholder groups will depend on the stakeholders' preferences. Some prefer to know exactly what is happening at all times, while others will only want periodic updates. Both timing and the method of communication—written reports, verbal updates, or a combination of the two—are decided by the users of the communicated information. Start with project sponsors and ask them what they would prefer. Put their answers into the project plan, then go on to the next group and do the same.

The frequency of communications should satisfy two needs—the users' need to stay informed and make decisions and the project managers' need to get all the answers and decisions required to successfully execute the project. As a general rule, the shorter the project, the more frequent the communications should be. And the more complex the project, the more formal the communications should be.

As you speak with stakeholders about communications, many will ask, "What communications plan would you recommend?" Be ready to suggest a starting point. One example of a communications plan would be biweekly meetings with verbal updates for the project sponsors and a monthly written progress report that will document progress, problems, decisions made, decisions needed, and overall project health.

Project sponsors and stakeholders hate to be surprised. It is the rare instance where "surprise," after all, means that the project will be finished early, will do more than planned, or will come in under budget. With good communications, negative reactions to undesirable events can be minimized, and the chances for success greatly increased.

To summarize, communications are critical to project success. It is as simple as planning the communications and executing the plan. While building that plan, don't go off in a corner, build it by yourself, and then expect roses when you bestow the plan on the stakeholders.▪

Nolan Events

Panasonic Thought Leadership Forum
January 24, 2007

Nolan Senior Vice President Rod Travers will serve on an insurance industry panel at this conference to be held in San Antonio, Texas. Visit www.toughbooktlf.com for more details.

LOMA Emerging Technology Conference
February 7-9, 2007

Nolan Senior Consultant Terri Butler will serve on a panel for the session "Real World VoIP: Capturing the Business Value" which takes place from 11am-12noon on February 9, 2007 at the Crowne Plaza - San Antonio Riverwalk in San Antonio, Texas. Visit www.loma.org for more details.

LOMA Customer Service Conference
February 28-March 2, 2007

Nolan Insurance Practice Director Ed Fenwick will speak on the topic of telecommuting entitled "Not Just An Excuse To Wear Pajamas To Work." This presentation takes place March 2, 2007 at 9:45am at the Mirage Las Vegas in Las Vegas, Nevada. Visit www.loma.org for more details.

IASA Annual Conference
June 3-6, 2007

The Nolan Company is honored to sponsor the keynote presentation to be given by General Colin L. Powell, USA (Ret.) at this conference held in Minneapolis, Minnesota. Nolan will also co-present in two sessions and moderate the IT Town Hall. Visit www.renolan.com/iasa for more details.

Please visit www.renolan.com for information on these and other upcoming industry events.