The Nolan Newsletter

People, Process, Technology

ROBERT E. NOLAN COMPANY
MANAGEMENT CONSULTANTS

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Robert E. Nolan Company
Management Consultants

92 Hopmeadow Street
Simsbury, Connecticut 06089
(860) 658-1941
(860) 651-3465 fax

17746 Preston Road
Dallas, Texas 75252
(972) 248-3727
(972) 733-1427 fax

Toll-free (877) 736-6526

www.renolan.com

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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Table of Contents

Vol. 36 No. 2 *Second Quarter 2009*

It's Time to Lead!

The way I see it, we have two options: 1) sit and wring our hands while the stock market's daily fluctuations hold the financial service industry hostage; or 2) get active about helping to lead our financial service sector into its next significant positive cycle. You make the choice. As I look out five years, that glass is more than half full. And when I say "get active," I'm talking about streamlining our own operations to be lean and mean and be creative with new product development that meet the needs of current and soon-to-be new consumers. It also means being vocal in the coming onslaught of governmental involvement and new "programs." The industry has brought this challenge on themselves, in many ways. Straying from proven and sound lending principles; believing the Pollyanna myth that everyone deserves the same, regardless of their contribution; and good old-fashion greed have all contributed to today's situation. The point is our industries—life insurance, banking, and health care—have all been hit hard. Although a half a million new jobs have come into the health care industry, investment portfolios have been hit hard and new planned governmental controls are lurking. It is time for leadership from within the industry.

The financial services and health care industries face an uncertain future, and we can give up or we can get involved by addressing the real issues: operational inefficiency; an inability or unwillingness to truly leverage technology; the need to rebuild consumer trust; and an ability to bring product and operational creativity and innovation to the marketplace. We know creativity and innovation are foreign words in government programs, but unless we take a hard look at the financial services industries and create value for today's customers and future generations of customers, we may all be paying higher taxes merely to pay ourselves an "average" salary as we all start working for one big new company—The U.S. Government.

It is your choice! To me, there is no choice, it is time to lead!!

Dennis B. Sullivan

Dennis Sullivan
Chief Executive Officer

Jim Dean Joins the Nolan Company

We are pleased to announce that Jim Dean has joined the Robert E. Nolan Company as Vice President. Jim will be responsible for managing client relationships and providing program leadership on client projects. Jim brings a wealth of experience in the areas of reinsurance, property and casualty, life, banking, and consumer-driven health care.

Jim's leadership experience includes business and IT strategic planning, program/project management, enterprise systems integration, M&A delivery management, vendor evaluation and selection, process redesign, and operational cost reduction.

Jim comes to us from KPMG/BearingPoint where he was a senior manager in their financial services vertical and co-led their banking and insurance practice. Jim also worked at Policy Management Systems where he was the Australian Country Manager. Jim is a frequent speaker and contributor in our industries and has published quotes in places such as *USAToday*, *CNN Money*, *Reuters*, *Healthcare IT News*, and *Bank System and Technology*.

Jim is a graduate of the Edinburgh College of Commerce in Scotland, with a major in Management Information Systems, and recently completed the Executive Management Course at Yale School of Management. ▪

Contact Information:

James C. Dean
Vice President

Robert E. Nolan Company
Management Consultants

jim_dean@renolan.com
(561) 379-8626

When the Going Gets Tough, The Tough Get Going

Jim Dunham
Senior Consultant
jim_dunham@renolan.com

Having played sports and served in the military, I have often heard the saying "when the going gets tough, the tough get going." In today's business environment, I find that leadership is more essential than ever and that tough decisions must be made with higher stakes than ever riding on the outcomes.

It is during market cycles like the current one, created by economic and market turmoil, that decisions need to be made that can position a company in the best possible ways for continued future profitability and growth. Leaders need to scrutinize every facet of an organization's operation and take actions that can provide stewardship through the difficult times.

There are five areas during times like these that should receive significant attention: 1) Structure Creep; 2) Management; 3) Poor Performers; 4) Products and Programs; and 5) Market Aggressiveness.

Structure Creep happens to most organizations during good times. Staff and support functions proliferate because the supposition is that controls and extra people support a growing bottom line. The argument is then made that more programs/controls can make the bottom line even better. At that point, areas outside direct customer contact and line operations can explode. The problem is that even in good times, as staff support gets bigger, all the work they generate is passed on to line operations to execute. Those critical customer-facing operations get bogged down in the implementation of a plethora of well-intentioned but cumbersome recommendations. The customer and production costs become the ultimate victims. The best way to attack this issue is to always monitor support-oriented positions and not let them grow at such an unjustifiably fast rate. If staff support has ballooned, the imperative—especially in environments like the current one—is to maintain customer-facing staff levels while reducing the support structure.

Management is crucial to the organization. An organization needs to look for and find managers who are people oriented and who think outside the box to develop ways to better serve their customers at a lower cost. In good times, the number of managers tends to grow and the ratio of management to production employees gets smaller. However, an organization should regularly aim for a ratio in the range 1:15 to 1:20. It is important to evaluate management using the key components of employee input, critical thinking, and accountability to improve results. No one should get a "bye"–only effective management in smaller numbers and fewer layers should be retained to keep the organization vibrant.

Poor Performers should be eliminated. Unfortunately, too often organizations let mediocre or even the worst performers stay onboard. Managing performance is the number one measure of a good manager. If an employee is given an opportunity to improve and doesn't, keeping them around does the organization a disfavor. Speed in dealing with performance is important because maintaining poor performers over a long period brings down the entire organization's performance levels.

Products and Programs should be reviewed to see if they are customer-oriented, profitable, and not counter-productive. Many products/programs are kept because one customer likes them or a senior manager is enamored of them. The fact is, many managers are not adaptable to changing needs or environments. Programs are started, take on a life of their own, and then are maintained at the expense of efficiency because things have "always been done that way." To eliminate non-essential products or programs, you have to go through your portfolio—meticulously—and make sure that all programs and processes support the organization's direction and profitability. If the answer is no (don't accept "maybe"), eliminate it *and* the work and resources that go with it.

Exercising Market Aggressiveness during economic upheaval can work to your advantage. Your competitors are probably struggling as well, so if you eliminate unnecessary costs and poor performers, you can channel your efforts toward aggressive market activity to capture business from those in your environment that are not adapting as well to the changing times. Look at the landscape and use lasered opportunities to create growth in tough times. In down times, the company that improves its position in the market will experience greater profitability and faster growth when recovery starts.

The best way to deal with the five areas of attention in your company is to make market aggressiveness a part of your corporate culture in good times and bad. Managing people, processes, and technology—coupled with a constant focus on results—places the emphasis on the most important part of the old saying: "…the tough get going!" ▪

Ed Fenwick
Senior Vice President
ed_fenwick@renolan.com

Much has been written about the promise of Service-Oriented Architecture (SOA) for system development and integration. Having read a fair amount of the published literature but only having the slightest grasp of what SOA was, I found myself recently at an industry conference where there was a presentation on SOA. I decided to attend as a final hope of gaining true insight.

Two self-confessed “Data Architects” gave the presentation. It was a case study of a large, complex, and successful transformation of a group benefits business model. This was a technology-oriented conference, and I could tell from the audience’s reaction that they really were interested in what these guys had to say. I, on the other hand, sadly found my hope of learning diminishing at the same rate my headache was growing. As I pondered walking out with mission unaccomplished, I heard the following from the podium: “and that is when the business side realized they needed to own the business processes and IT needed to own the technology that delivered the processes”. Finally, something I could understand and appreciate. I asked my fellow attendee next to me, a true techie, what preceded that statement. He said, “I don’t know, I think something about Use Case.”

In search of learning more, I spent the rest of the day stalking the presenters who were kind enough to advance my understanding. Here is what I learned: To develop or integrate systems using a Service-Oriented Architecture approach, you need a concise, complete, and consistent definition of the business processes to be enabled by the technology. As this organization undertook the challenging effort of defining their business processes, they adopted a common format of Use Case. As IT worked closely with their business partners to finalize these Use Cases, they realized the conversation was consistently moving from “we need the system to do X” to “then the process should do X.” What had happened is that through the disciplined effort of defining business processes the business side had a tangible representation that they could better own, communicate, and manage—something they had not had before.

The business Use Case is described in technology-free terminology, which describes the business process that is currently used by its business actors (people or systems external to the business) to achieve their goals (e.g., payment processing, application processing, enrollment, etc.). The business Use Case describes a process that provides value to the business actor, and it describes what the process does.

Technologists believe that SOA can help businesses respond more quickly and cost-effectively to changing market conditions. It probably is also essential to simplifying interconnection to, and usage of, existing IT (legacy) assets. But, if SOA requires Use Case development, it has another major benefit. It can help managers on the business side significantly improve their business processes through better documentation and understanding. ▪

"Any requests?"

Clay Ricord
Senior Consultant
clay_ricord@renolan.com

There is a strong likelihood that from a few to several IT projects have been cancelled at your company this quarter. These are projects that you were counting on to deliver operational improvements to your department. For the first half of the quarter, some research firms were suggesting that, while mutual insurers were more immune to postponements and cancellations, they were still pulling back and stock companies were making more aggressive pull-backs and delaying more decisions. On the list of delays are the major systems-replacement projects for policy and claims enterprise systems—ones that no doubt took many hours to get to the decision point and would take many more before installation even began.

The original business case for these projects usually includes both IT benefits from retirement of legacy systems, reduction of outdated skill sets, and improvement in interoperability and reliability. For a business, it is all about increasing competitive advantage, increasing operating efficiency, and making better use of staff skills. It was around these three pillars—competitive advantage, efficiency, and staff productivity—that most of the ROI was built that justified the effort and the initial cost. So, delays can be a real limitation on the performance of operations. Let's focus on the business area: where do you go from here? What is possible?

> *For a business, it is all about increasing competitive advantage, increasing operating efficiency, and making better use of staff skills.*

Let's start with the work already done to develop the RFP; it very likely focused on processes and needs related to information presentation, decisions, effort duplication, visibility, and getting closer to an STP state.

In some cases, you really do need that new system to deliver the full result, but from our experience with hundreds of companies, very impactful improvements in each of the three key areas mentioned above can be achieved in a short period. In some cases, this can be done with very little

IT impact, and in other cases, it is possible to leverage and use existing solutions developed by other areas of the company, but perhaps in a totally different way. These changes typically will not be the high-profile types of changes associated with new systems, but rather changes at the point of work to help deliver targeted performance improvement. However, there are some basic pitfalls to be aware of in this process.

Waste, even a small amount of waste, cuts the benefits and payback times of organizational changes, so care in planning and execution is extremely important to mitigate risk exposure. This means avoiding pure throw-aways unless you can justify an ROI in a short timeframe, and it means supporting long-term process and performance behaviors and goals. Also, don't invest undue time and energy improving low-volume/low-value sub-processes which do not yield significant benefits. By far, the biggest risk is the staff change factor: Is the new design easy?; is it consistent with the behaviors and the values you are trying to establish over the long run?; and does it add measureable value in the short run? Will the staff embrace the change? Do they see the value in it?

Are there such opportunities for actionable change in your process? Let's look again at those first criteria I suggested:

- Information presentation
- Decisions
- Effort duplication
- Visibility
- STP

In fact, all of these can be impacted in an incremental manner. The solution can be found in redirecting the current process, focusing on the end results you are striving for, and looking at what is currently in the enterprise toolkit that can be used in a new way with minimal extra effort. It could mean better handling of billing disputes, making improved risk decisions, managing paper flows, controlling follow-ups, or satisfying callers on the first call—all of these can usually be improved greatly in the short term before the new system arrives. The key benefits of this approach is getting a head start on achieving your preferred way of doing business and having valuable process insights when you do begin your system implementation work. ▪

Characteristics of Successful Mid-Size Insurers: Part 2

Steve Discher
Senior Vice President
steve_discher@renolan.com

In the third quarter 2008 edition of The Nolan Newsletter, we published part one of a two-part discussion around characteristics of successful mid-size insurers. Since then, changes in the political environment, along with the economic crisis, have consumed much of the headlines and have introduced new dynamics into the market. A lot has changed since Part 1, and I appreciate those of you who have asked for Part 2. I have been waiting for some measure of calm in the market before publishing Part 2. While calm is a relative term, I think now is the right time for Part 2.

Building on Part 1, the Nolan Company has the good fortune of working with all sizes of insurers and financial services companies, from the largest multibillion-dollar entities to those whose revenue and premium are less than $100M. It is common to hear about the accomplishments of very large companies. Less is heralded about smaller companies and what makes many of them so successful.

From Part 1, we noted three core themes for successful mid-size companies:

1. Their ability to identify and exploit niche markets;
2. Their ability to maintain a close pulse on the market through intimate relationships with channel partners, customers, and the local marketplace; and
3. Their ability to listen carefully to the market and act swiftly.

Not surprisingly, leadership is at the top of the list for Part 2. The carriers we see have leaders who create a culture and environment of high-performance standards and constructive behaviors. They ask tough and probing questions of their teams, their employees, and yes… their outside advisors. Executive managers are not command-and-control characters, but rather those who excel at delegation, holding their people accountable, and staying close to the issues at hand. These companies have very strong and loyal cultures where it takes years to develop people and their management teams. Many hire and promote almost exclusively from within. The most successful executive teams stay close to the issues not only to 'trust and verify,' but also to coach and help their teams work through the issues. Modest-size organizations can't afford to immediately terminate or move someone aside who has the capacity to get the job done, but simply lacks the training or exposure. It is also true that these carriers are often in smaller communities, which constrains the talent pool, requiring more focus on internal development versus outside hiring.

The next theme is around focused use and leverage of technology. With scarce resources and often niche market positioning, it is critical for the mid-size carrier to be laser-focused with investments in technology, especially where technology is key to supporting the business strategy. These carriers have strong internal agreement on the role of technology (e.g., Support vs. Enabling vs. Driving), as well as investment and delivery plans.

Next is a deep-rooted dedication to ongoing learning and continuous improvement. An example of this is strong representation at many of the industry conferences. Mid-size carriers are hungry for ideas and lessons learned. Rather than following textbook fads, they look for what works and what will fit their situation. They have a culture that asks "Why?" or, "How can we do this better?" at every level of the organization. And, they are willing to share their ideas and successes with others.

The last theme is mid-size companies' long-term versus short-term commitment to their customers, market, partners, and business plans. This is especially true for mid-size private versus public companies. For example, mid-size mutuals take a hard look at the long-term viability of their business. Modest-size public companies tend to be much more bottom-line focused and reactive to fickle market attention, which can result in greater efficiency, but fewer products and services, which leads to longer-term growth and viability challenges. Taking a short-term view can lead to decisions that limit long-term prospects, which leads to further consolidation… and, you know the rest of the story; i.e., a self-fulfilling prophecy of following the leader and being gobbled up by the larger competitor.

In a world filled with jargon attributing successful business strategies with words like scale-driven, consolidation, outsourcing, off-shoring, commoditization, and meeting short-term earnings commitments, there is a contrasting and successful business model, which can be described as local, personal, niche, entrepreneurial, relationship-based, and committed to the long-term. Mid-size carriers have the distinct advantage of being able to pursue these values on their own terms. We salute the many successful mid-size carriers who are proving it during these exceptionally challenging times. ▪

Finding Gold in a Bleak Economy: Part 1

A. Craig Loughrige
Senior Consultant
craig_loughrige@renolan.com

Nearly everyone is feeling the pinch of the economic downturn. Management teams everywhere are struggling to adjust budgets and looking for operational efficiencies to execute their plans. Smart teams are also looking for ways to position their organizations for the next growth spurt, not just hunkering down in the hopes of riding it out.

This article is about one way to both trim your budget and position your company for the future. The target is **procurement**; you *can* find gold in the money you spend on the procurement of goods and services, especially in information technology (IT). Many companies in our industries spend 60% of their procurement funds on IT, and the rich vein in IT lies in IT contract labor services. We typically see our clients reduce expenditures from 20% to 35% in this area alone. One recent client achieved a savings of $22M on its $60M annual IT contract labor expense. In addition to the financial benefit, their program also yielded these benefits:

- Improved quality of service.
  - Rapid placement of contractors in open positions
  - Streamlined invoice processing and administrative efficiencies
  - Fewer vendor interruptions
- Improved vendor relations, which yielded higher quality placements because vendors understood the requirement.
- Fulfillment of goals related to minority and women vendors.

If this appeals to you and you pride yourself on being a tough negotiator, look out! As a deeper drill into the traits of the procurement environment will show, this takes more than negotiating skill. Why?

- There is no control on how many vendors you have or how you add more to the mix.
- There are too many vendors (more than 10), which dilutes leverage and raises costs.
- The company has relatively weak relationships with vendors because there are simply too many vendors with which you discuss mutual business needs.
- The company has higher processing costs and slower fulfillment because it does not shift work (like interviewing and reviewing resumes) to the vendor.

- Roles and responsibilities are both unclear and inappropriately applied. Companies turn all their power over to the vendor through inappropriate shared information; many faces to the vendor.
- The company focuses on the internal function rather than the integrated vendor stable; enabling vendors to charge different rates for the same skill and skill level.
- The process to fill an opening and establish a rate is cumbersome and costly.

Note: Skill sets and demand volume do not drive the number of firms needed.

Sound familiar? If it does, your company would probably find value in an IT procurement program. How do you mine the value from such a program?

- Establish a central vendor program with appropriate controls and monitoring. The program should be easier to use and less bureaucratic. You want vendors to consider it a privilege to be one of your vendors.
- Limit the number of vendors to about five to eight for contract staff augmentation work.
- Demand low cost, appropriate quality, and timely execution on every deal.
- Establish a set rate for each job title and level and allow only that rate, not a maximum rate with an RFQ for each assignment with a negotiated rate.
- Tighten the fulfillment process for every placement to manage the mix of junior and senior consultants to control costs.
- Send vendors back to the team.

Be prepared for detractors, especially among the IT managers. They will say that they have to retain a certain firm even though their price is high, or that they will lose a valued resource who is the only expert, or that a small number of firms cannot handle their requirements. But these concerns can be overcome by understanding the structure of vendor firms and working internally as a team, showing one face to the vendor.

In Part 2 of this series, we’ll explore the ways to implement an effective IT procurement program. ▪

The Importance of Communication

Karen Sloat
Senior Consultant
karen_sloat@renolan.com

Often, a client will ask me what the critical components are in making a project a success. Indeed, as I work with various companies and reflect back on my days as a company person, I find myself asking the same question. Why do some projects succeed while others stumble, never to realize the expected benefits?

A few months back, I wrote about the selection of a skilled project manager as one critical success factor of a winning project. Now I would like to discuss another important component that I always observe when a team excels in executing change—good communication.

I have come to the conclusion that there is no such thing as being too good at communicating. It has proven to be a skill that, no matter how good we think we are at it, there is always room for improvement. Think about all the opportunities for miscommunication or, worse, non-communication, during the life cycle of a project.

...there is no such thing as being too good at communicating.

Project initiation is the first step. Why are we doing this? What do we hope to accomplish? How does it affect me (the employee)?

The second step is **project development**. How are the teams progressing? What kind of recommendations are being generated? What other departments might be affected? How does it affect me?

Next, there is approval to move to the **implementation stage**. What projects have been approved? Do the recommendations impact the customer? What benefits do we expect to get by implementing these changes? How does it affect me?

Finally, there is implementation. When will the changes take affect? Are jobs changing? Is new technology being introduced? What training is required? How does it affect me?

I remember very well my days as a manager of a commercial lines services group for a major multi-line insurer. The company had underwriting/processing offices in 38 states, and we would often receive memos stating that our processes were changing effective such-and-such date and that I, the manager, was to ensure a successful implementation of the change. Being somewhat of a rebel; instead of just following the memo, I first asked the normal series of "who, what, why, when, and how" questions. Why is the change being made? What impact should I expect it to have on my department? Who was involved in the recommending of this change—did anyone talk to anyone in the field? Did anyone consider…?

As a consultant, I advocate that a communication plan be developed at the start of every project.

Of course, I did what was needed to ensure that the change was implemented, but it would have been easier if there had been a series of communications that addressed some of my questions along the way; giving me and my staff the opportunity to provide feedback and participate in the decision-making process.

As a consultant, I advocate that a communication plan be developed at the start of every project. I encourage the project leads to look at their plan not only from a management point of view, but also from that of an employee, and to combine that with what is appropriate to share at any given time during the project.

We have so many communication vehicles available today to make the process smooth and seamless. Once you have outlined a communication plan, go back and ask yourself if you have considered all the possibilities as to where things could break down or where engaging those most affected would simplify and support the final implementation.

Taking the extra time to keep folks in the loop as much as feasible will inevitably make it easier when it comes time to enlist the troops in a successful implementation, and turn your potential "rebels" into partners in the process! ▪

CLIENT SPOTLIGHT

Project: Core Replacement System Selection

Client: Neighborhood Health Plan of Rhode Island

Industry: Health Care

Product Lines: Medicaid HMO and Related Services

Objective

Neighborhood Health Plan of Rhode Island engaged Nolan to select a vendor and system to replace the automated systems serving its core functions. Within this broad objective, there were several related goals and requirements to be met:

- Dramatically improve transaction efficiency and accuracy throughout the organization through increased automation of eligibility and enrollment of new members, provider management, claims processing, and customer service.
- Reduce the number of IT workarounds (typically, FoxPro applications that had been added over several years).
- Dramatically reduce IT involvement in routine processes.
- Reduce dependence on the system vendor for routine processes.
- Support business process redesign.
- Maintain and enhance Neighborhood's demonstrated competencies of customer service and medical management.
- Select a platform that will support business expansion.

Current Environment

Neighborhood currently provides Medicaid coverage to nearly 75,000 members and processes 84,500 claims per month, 71% of which are received via EDI. Current auto-adjudication rates are 79% for professional claims and 65% for facilities. Neighborhood maintains contracts with more than 2,750 providers. Current claims processing is handled by an early version of the Diamond managed care information system.

The key issues are the following:

- The current system is no longer supported by the vendor.
- The current system requires constant workarounds.
- The current system does not allow for business process redesign.
- The current system will not be compliant with new regulatory requirements, e.g., 5010, ICD-10.

Project Scope

The core project team members represented most of the company's business areas: Enrollment, Claims, Customer Service, Finance, Medical Management, Provider Services, Network Performance and Regulation, Analytics, and Information Services (IS). In addition to these internal areas, the initial scope included eight vendors of potential replacement systems. To manage the many communications among internal and external parties, we used Nolan's ShareFile service—formal communications were electronically driven, instantly confirming material delivery to and from vendors and lessening the disruption to Neighborhood.

Project Results

- Reviewed current workflow with subject matter experts and IT team members.
- Gathered business requirements from all in-scope areas for incorporation into an RFI.
- Developed and refined the RFI evaluation criteria and requirements weighting.
- Evaluated vendor proposals and presentations (as requested by the Steering Committee).
- Issued the RFI to pre-qualified vendors.
- Conducted a bidders' conference and Q&A review period.
- Developed scoring methodology and directed core team members to score vendors.
- Conducted a requirements "fit" analysis (business and technology), including cost.
- Evaluated vendor stability.

Of the eight companies invited to bid, three were selected as finalists. Nolan conducted custom scripted vendor demos with the three finalists. A preliminary contract negotiation was commenced concurrent with the demos. Rigorous evaluation and analysis was conducted to objectively determine the suitability of each system.

For selection of the three finalists, Nolan provided Neighborhood senior management with detailed and summary views of their claims system requirements and the relative ability of six vendors to meet those requirements. The RFI process and analysis considered traditional software licensing as well as ASP models. Ultimately the chosen system was met with a strong consensus.

The remaining steps, currently in process, are to determine the delivery model (license vs. ASP) and to complete negotiation of the contract.

The participative process employed throughout the project resulted in great buy-in regarding the selected solution and regarding the considerable change that will be undertaken to realize the benefits of this important investment.

OF ROCKETS AND HORSES: WHY CHANGE MATTERS

Steve Callahan
Senior Consultant / Practice Development Director
steve_callahan@renolan.com

Have you ever wondered how complicated decisions are made—say, for example, what size to make the solid rocket boosters (SRBs) that take our shuttle into space? It's an interesting story with an obvious lesson in change management (or lack of it).

The Space Shuttle's SRBs are built to be as large as possible and still fit in the train tunnels through which they must pass, since rocket engines this large are transported by train. The train tunnels were built to be just barely larger than 4 feet, 8.5 inches, which is the standard distance between the rails of a train track. This distance is identical to the one used in England, since it was English expatriates who laid America's first rail tracks.

Why did the English use this measurement? Because the first rail lines were built by the same people who built the pre-railroad tramways, and that's the gauge they used. The people who built the tramways used the same jigs and tools used in the past to build wagons with that same wheel spacing. And the wagons used that particular wheel spacing because any other spacing would result in the wagon wheels breaking on some of the old, long distance roads in England where the wheel ruts were long ago already grooved that far apart.

Here's where it gets really interesting. It was the ancient Romans who built the first long-distance roads in England that over time created these wheel ruts, which in turn set the cascading standards leading to today's train tunnels. The Romans used a distance of 4 feet, 8.5 inches because that was the space needed for two warhorse behinds to fit between the wheels of their chariots.

And so, thousands of years later, as we marvel at humanity's most advanced form of transportation—the space shuttle—we are looking at a design based on the width of the ancient Romans' horses' behinds.

Do you find yourself facing constraints in your company that seem to have a similar basis in some long-past convention that has outlived its meaningfulness, in effect constraints that are being passionately defended and perpetuated by talented and ambitious people? Why might that be? In truth, it's all about getting people to understand and accept the need to leave behind the tried and true…to move forward to new, untested ground for the good of the organization.

The best way to achieve change comes not from a boardroom of executives following a structured process, but with inspired leadership. Contrary to the tendency to focus on the mechanics and processes, inspired leadership instead looks to the motivations of individuals. Behavior change is rarely the product of logical argument. Rather, the key lies with three critical leadership practices:

1. Ensure that everyone understands the underlying problems.
2. Create a sense of urgency to solve them.
3. Generate emotions that inspire action.

Using this approach, a ground swelling of support can be achieved, increasing the probability of a successful change. As Keith Morrow, 7-Eleven CIO at the time, said, "You've got to get people involved, excited, and energized to where the change is something they're a part of, something they make happen as opposed to something that happens to them."

The best way to achieve change comes not from a boardroom of executives following a structured process, but with inspired leadership.

Oversimplification, a perceived need for immediacy, or a lack of understanding of the change process often results in management ignoring the critically important human element while instead focusing solely on cost, quality, and time. The reality is that people are deeply influenced by their perceptions and beliefs; the emotional inertia behind resisting change amplifies the need for those impacted to understand and accept the reasons driving change.

Remember, change involves a transition from a comfort level to the new and unknown. Communication, collaboration, championing, team strategies, and training have all been shown to facilitate acceptance. Having the tools to adapt empowers employees to innovate and solve instead of depend upon established processes. More importantly, enduring change requires that individuals understand how the new behavior contributes in some significant manner to them personally. The emotional connection to a new behavior that comes from the belief that personal growth and satisfaction will result drives employees to embrace the change willingly, and pursue it with a passion that is likely to be sustained over time.

The question of effective change management is one that faces organizations and leaders every day, whether dealing with hidden agendas, long-tenured staff, or market fluctuations. The ability to effectively maneuver through organizational transformations to new levels of performance is a cherished leadership commodity. As Peter Drucker, famed management guru, was known to point out, “It is easier for companies to come up with new ideas than to change old ones.” Tapping into emotions, creating a sense of urgency, and inspiring action through participation all drive organizations forward towards success.

Before your company builds its next metaphorical rocket engine, make sure age-old practices based on obsolete logic are not limiting the solutions. Whether limited by legacy systems, ingrained procedures, or subjective beliefs unsupported by current facts, the well-trodden tracks of the past must be challenged in order to make a difference. Take a moment to look objectively and make sure that the tracks you lay today are not merely the continuation of ancient practices. ▪

“Under my continued leadership,
we’re sure to make a 360° turn.”

One Size Fits All, or Does It?

Hayden Jones
Managing Consultant
hayden_jones@renolan.com

I am not a big guy. Whenever I see "one size fits all," I have to wonder who the "all" are because those things don't fit me. Remember when you could buy a hat that was sized and didn't have a belt buckle or a plastic snappy thing in the back to "adjust the size"? In those days, I could get a hat to fit, but now, no way. Today, if I'm not careful, I get a hat that makes me look like Dark Helmet from the movie "Space Balls."

Clients ask me to share best practices with them so that they might become more effective and efficient. They want one-size-fits-all best practices, and, frankly, no such thing exists.

Each company I work with has differences that set them apart from other companies. What may be a best practice for Company A may be a disaster for Company B. How can two life companies or two property and casualty companies be so different? Here are a few differences that will have a hand in determining whether a single practice will be effective in a company.

Cultural Differences

The company culture may be the most powerful influence on a best practice. Companies vary dramatically in how they measure success, manage their employees, set expectations, and conduct business. A practice that works well and is accepted and supported by the employees of one company may be viewed as too harsh and uncaring by another company.

Distribution Differences and Preferences

A best practice that works well in a company with captive agents may create difficulties when used in a brokerage company or a direct writing company. In a captive company, there's no strong need to attract the broker to sell your products. Direct writers bypass traditional distribution channels and seek to attract the customers without an intermediary.

Very often, even companies that have similar distribution systems have difficulty in using a common practice. Big companies with a captive agent force will develop a practice that is quite effective, but could be all wrong for a small regional company.

System Differences

Many of today's best practice processes are strongly influenced by a company's IT system. One company's system built 20 or 30 years ago is not going to align with another company's best practices where the systems are of modern architecture and contain databases, data marts, workflow, rules engines, integration hooks, and other speed-of-light features. Trying to identify a single best practice that focuses on processing is not practical.

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Customer Differences and Expectations

Company A's customers might accept a Web-based interactive system or an automated call center that permits the customer to complete transactions without having to talk with a person. But that best practice might flop for a company selling Medicare supplement coverage to elderly customers who want to do business the old-fashioned way—by talking with a real person.

These are only four potential differences that make it difficult to select one best practice; there are many more. And now you ask, "How do I find or develop a best practice for my company?"

Think about buying a suit. You first find your size and select a color. The suit you selected is similar to thousands of others. The suit, however, doesn't fit, so you get a tailor to customize it by taking in or letting out the waist, hemming the slacks, taking in or letting out the jacket, shortening the sleeves, and so on. When the tailoring is complete, the suit is similar to many others, but it has been modified to meet your differences.

Building a best practice is similar. You may start with a best practice that works for another company, but must be modified to meet your specific situation. In the end, you may have a practice that resembles that of another company, but it's been tailored to fit you.

Remember, one size does not fit all, and even if it does, it might not look good on you! ▪

Why Wait Until Now?

Larry Wood
Senior Consulant
larry_wood@renolan.com

For the past several months, the popular and professional media have been inundated with articles discussing extraordinary changes being initiated in response to the current economic situation. While some of these changes are innovative, and some both startling and disturbing, many fall into the category of conventional, sound business practices. As I read these articles, I have to ask myself, “Why did we wait until now to do this?”

In the property and casualty insurance industry, there are several examples of this.

- Why wait until now to make sure that staffing levels are appropriate and that productivity is measurable and meeting expectations?
- Why wait until now to make sure that pricing makes sense from a profitability point of view?
- Why wait until now to carefully consider technology decisions based on cost/benefit analysis and return on investment?

The answer, in many cases, is that companies have not waited. The soon-to-be-released *Nolan Property and Casualty Survey Report* includes the analysis of information collected last year that included asking executives to identify their top priorities. Key responses included:

- Exercising close management of expenses to ensure appropriate allocation of resources
- Improving customer-centric service, focusing on differentiation in the marketplace
- Driving organic growth
- Investing in talent management; upgrading staff skills and productivity
- Leveraging existing technology and making only selected, well-justified purchase decisions

Clearly, these priorities are important regardless of how the economy or the financial markets are behaving. As in the past, the formula for achieving the above objectives is a combination of continuous-improvement activities and the regular review of business practices, processes, and technology.

The continuous-improvement effort is critical in applying constant pressure in order to make ongoing incremental improvements in the areas of operating expenses and customer service. In addition to this, however, it is critical that a periodic end-to-end review of business processes and technology be conducted. This in-depth review ensures that new developments in processing, technology, and management techniques are examined and incorporated into business practices, where they are deemed beneficial and cost effective.

The need to maintain and improve process and technology performance does not change based on the prevailing economic climate. Indeed, during difficult times it is even more important to have well-thought-out and efficient business processes and supporting technology. It should be a part of standard operating practices.

The true answer to the question, "Why did we wait until now?" is that companies in the property and casualty insurance industry have not waited and will not suspend or delay these critical activities, because they will help assure our success during these difficult times and into the future. ▪

"We're a day late and four hundred million dollars short."

Accelerating Underwriting Profitability

Jim Dean
Vice President
jim_dean@renolan.com

In challenging financial times, insurance carriers cannot rely as much on investment income to boost profits. They must look for improvement opportunities across the enterprise, including core business operations. One area of close examination is improving loss ratio through improved risk selection and premium pricing. But such changes take precious time. *The real trick is to accelerate implementation of improved underwriting standards to achieve benefits sooner.*

Research shows a typical underwriting period—that is, the time between implementing one set of underwriting changes and the next—ranges from 32 to 36 months. By reducing this cycle time to 18 months, a carrier can, over a 3-year period, effectively *double the effective loss ratio improvement.*

By utilizing stand-alone technologies such as new data analytics tools, advanced rules engines, automated workflow, and predictive modeling techniques, underwriting improvements can be accelerated without the need of expensive and costly changes to existing underwriting, claims, and back-office systems. Other benefits can also be achieved with these tools. For example, expenses can be reduced by improving productivity and reducing labor costs associated with developing and rolling out new rates and rules. The tools also enable actuaries and underwriters to analyze more pricing scenarios with a greater number of rating variables than previously possible, which in turn reduces risk and improves effectiveness.

How does a carrier begin to implement these improvements and accelerate capturing the benefits? Fortunately, such changes can yield significant benefits when applied incrementally, as opposed to a massive redesign/replacement of the existing environment. In fact, the infrastructure needed is complementary to an existing environment. The first step is to develop a clear vision of the desired environment based on five key areas: data research, rate and rule development, predictive analysis, automated exception monitoring and notification, and a framework for how they will all work together. In my next article, I'll elaborate on subsequent steps which include process and solution design, implementation, and benefits capture. ▪

It's What We Don't See

Ron Zimmer
Senior Consultant
ron_zimmer@renolan.com

This headline caught my attention−***"Backing-up Vehicles Killed 221 and Injured 14,000."***

After my immediate reaction, I thought about it more. I'm sure those drivers didn't mean to do damage—they just did not see what was in their path. Many probably thought they were being careful, so if people just like us try to see ahead and still have horrible outcomes, what does that say about our ability to move forward? In the same way, corporate eyesight has not been too good lately, either.

Why do organizations have poor eyesight? Blurred vision is the loss of sharpness and the inability to see small details. Many times, companies don't look close enough to see clearly. It has become too easy to look at data and generalize a conclusion that may hide the relevant insights.

We see what we expect to see. It is human nature to rely on past experiences to interpret new information. Merit Smith, Nolan Vice President and Health Care Practice Director, summarized this best when he said, "People draw the mountains they've seen." So, we miss finding the new, unexpected information.

It is human nature to rely on past experiences to interpret new information.

We don't look hard enough. Many times organizations evaluate a market and then create a strategy that misses the real opportunity. It takes time and energy to investigate and interpret findings.

We refuse to believe what we see. Afterward, it is all too obvious—for example, everyone could see that oil is a limited resource and that the world has a growing industrial population. But we didn't believe a severe shortage could strike *us*.

Some things just can't be seen. Every vantage point has its blind spots; find and eliminate them. In your car, adjust your mirrors or install cameras. In your organization, gather useful data to fill information gaps. If we don't look in the right places, we sometimes can't see the truth—e.g., it is difficult to understand medical providers when we look only at disease data.

Sometimes, we just can't see it at all. We don't see gravity, but we know it's there. Many times, the real finding has to be derived from other observations. And it may not be simple; it may take several observations added together to understand a complex situation.

...it may take several observations added together to understand a complex situation.

Improve your corporate vision. Look for information in new places. If we refer to the same data sources time after time, it is easy to miss emerging trends not held within that repository. Expand your search, and gather new opinions.

There is also the problem of open communications. After almost every product failure, someone says, "I could have told them that." That person knew but didn't (or couldn't) communicate the knowledge. Organizations have thousands of eyes—capitalize on that awareness by creating ways for people to share their findings to build deeper insights.

Be thorough—sometimes 80% right isn't good enough despite the 80/20 mantra of many organizations. You may need to dig deeper to validate early conclusions and assumptions.

Learn to see in the dark. Three simple rules may help you:

- *Let your eyes adjust to the dark*. Many people rush in and immediately come to a conclusion, but sometimes they need to immerse themselves in the data and let their sight adjust to the environment.
- *See by listening*. When you cannot see clearly, let other senses (including common sense) help interpret the data.
- *Scan—don't stare*. Our senses get dulled by focusing on just one point. When you look across and around, you will see more and better.

We know it is difficult to see ahead, but we also don't want surprises. So, as our mothers taught us, look both ways before you cross the street. ▪

Management Modeling

Don Himes
Senior Consultant
don_himes@renolan.com

When we change or completely redesign how work is done, it is often difficult to determine whether you've achieved an optimal set of trade-offs among process time, elapsed time, and labor and support costs. Also, it is difficult to predict in advance the unintended consequences that may occur as you introduce change in the way work is performed. To address these issues, management modeling can be used to test the effectiveness of alternative changes before committing to a new design, avoiding associated costs for technology change and training for the involved staff.

Management modeling is the process of building a model, typically using a process map, then experimenting with the model to improve the process. The components of the management model, which are held in a common repository, include the tasks performed, the organizational actors (roles) and their associated costs, and other demographics associated with the process. The components may be used for a variety of purposes, such as staffing models, unit cost, and workflow analyses. Simulation of the process lets you test and experiment in a risk-free way at minimal cost and in a fraction of the time of other approaches.

The approach for one of our recent projects was as follows:

- Document current processes in standardized workflow diagrams, capturing the discrete tasks performed by each organizational area.
- Populate components of the process diagrams with task duration times, delay times, labor costs, and other relevant data.
- Conduct simulations for five of the processes and analyze two additional processes in depth. The simulation tool we used provided calculations for:
    - Unit costing of each business process
    - Profit and loss for each process
    - Queuing times to illustrate bottlenecks and show how task times affected key performance indicators

During the course of the project, a simulation of the critically important initial-assessment process demonstrated that improvements identified would yield a 31% productivity gain among a staff of 17 RNs working to reduce a backlog; a related client project subsequently achieved the improvement that Nolan had predicted. A second simulation demonstrated that elimination of misrouted calls at the front-end of the process could yield a 20% productivity gain.

At another client, analysis of the workflow for admissions to a clinic yielded some surprisingly simple but effective improvements, such as adding a scale in exam rooms, saved approximately $117,000 per year.

For commercially available simulation software, the investment to get started is a few hundred dollars plus the time to learn, apply, and adopt the concepts and techniques for use in your organization.

The results can be displayed in a graphical format (process map) or tabular format (Excel spreadsheet) tailored to client-defined preferences. Finally, management modeling and simulation can be integrated with other improvement approaches, such as Lean and Six Sigma.

We have helped our clients with all of the above. If you would like to know more, please e-mail me. ▪

"I'll be happy to give you innovative thinking. What are the guidelines?"

Emergency Procedures Required

Ben DiSylvester
Chairman
ben_disylvester@renolan.com

Recently, the nation was amazed by the outcome of US Airways Flight 1549. After birds rendered his engines powerless, Captain Chesley Sullenberger calmly glided his plane into the Hudson River with no loss of life.

Shortly after this incident, I read an article that listed the four things pilots are trained to do when experiencing an emergency in flight. They are:

- Maintain control of the airplane,
- Assess the situation,
- Decide what to do, and
- Do it!

I realized that there are direct parallels with what was necessary to survive this incident and the economic situation companies find themselves in today.

First, when the engines quit, the pilot no doubt was startled, but he maintained control of the aircraft. Similarly, with managers seeing sales and profits quickly eroding, it would be understandable if they took their eyes off of the controls. However, that is the worst thing to do. Customers still call for service, mission-critical projects still need to get done properly, and planning must continue, albeit with shortened horizons for the time being.

Second, management needs to calmly assess what is really happening in the organization. If sales are declining, what percentage is due to decreased market demand versus customers going elsewhere—where service, support, products, and pricing may be better?

Third, deciding what to do is made a bit easier if the assessment is on target. Captain "Sully" knew his engines were rendered useless, but he was not alone in this crisis. He was working with Air Traffic Control (ATC) to determine if there was an alternative airport close by where he could land safely.

Fourth, knowing there was not time to get to an airport, he decided to land in the Hudson. Mixing in these four steps with the appropriate level of communication kept everything under control, averted panic among the passengers, and contributed to the successful outcome.

No one step is more important than the others, but they do build on one another. Maintaining control of operations is essential so that a bad situation does not become worse. Making the right assessments points the way to the appropriate action. Getting help with those assessments from a knowledgeable and trusted advisor assures that all reasonable alternatives are considered.

Finally, settling on the right course of action and properly implementing it increases the chances for success—and, most importantly, affords the opportunity to “fly again” in the future. ▪

“This is so cool! I’m flying this thing completely on my Palm pilot!”

The Life Insurance Conference—March 30 - April 1: Orlando, FL

Nolan Chairman Ben DiSylvester will serve as a panelist at two sessions, "Trends in Life Insurance Products" and "Ask the Expert." Nolan is pleased to be a refreshment break sponsor at this conference. - *www.loma.org*

The Life Insurance Conference—April 1-2: Orlando, FL

Nolan Chairman Ben DiSylvester will moderate the session, "Structuring Organizations to Tackle the Retirement Income Opportunity," at this conference held at the Hilton at Walt Disney World Resort in Orlando, Florida. - *www.loma.org*

NAMIC Personal Lines U/W Seminar—April 22-24: San Antonio, TX

Nolan is a sponsor of this seminar to be held in San Antonio, Texas, at the Westin Riverwalk. - *www.namic.org*

ACORD LOMA Insurance Systems Forum—May 17-19: Orlando, FL

A Nolan client will once again give a presentation at this year's conference. Leroy McCarty, Assistant Vice President-Administration of Fidelity Security Life Insurance Company, will present "Technology & Operations Road Mapping: The Path to Success" on Monday, May 18 at 10:15-11:00 a.m. - *www.acordlomaforum.org*

Farm Bureau Annual Conference—June 6: Orlando, FL

Nolan Senior Vice President Steve Discher will present "Trends and Issues Facing the P&C Industry" on June 6 at the 63rd Annual Farm Bureau Conference to be held in Orlando, Florida. - *www.aaic.com*

2009 IASA Annual Conference—June 7-10: Orlando, FL

Nolan is honored to sponsor the conference's keynote address to be given by Michael Eisner, former CEO of The Walt Disney Company. Eisner's speech, "The Creative Economy," will discuss the importance of generating fresh ideas while enhancing and protecting your brand. Nolan executives will also co-present and moderate various sessions. - *www.iasa.org*

NAMIC Management Conference—June 21-24: Quebec, Canada

Nolan will be sponsoring the Morning Break on June 24 at 9:15 a.m. at the NAMIC Management Conference to be held at the Fairmont Tremblant in Quebec, Canada. The Management Conference is a summit for CEOs and senior executives. - *www.namic.org*