The Nolan Newsletter

People, Process, Technology

Robert E. Nolan Company
Management Consultants

Third Quarter 2008 *Volume 35, Number 3*

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.

Through the Nolan Newsletter we share with our readers:
- Updates on industry, business, and technology trends
- Client case studies
- Information on speaking engagements, conferences, and web seminars

NOLAN

The Nolan Newsletter

People, Process, Technology

Table of Contents

Perceptions Present Challenges to Management..2

Speed - The Indy 500..3

Driving to California, Dirty Socks, and Two Women................................5

Putting Management Back in Workforce Management.............................8

Characteristics of Successful Mid-Size Insurers: Part 1........................10

When in Doubt... Make a List!..12

Client Spotlight:
Operations Improvement Process...14

Don't Ignore the Small Projects...16

At the Intersection of BPM and AWF..18

The Hunt for Easter Eggs...20

The Behavioral Benefit That May Go Unmeasured,
but Not Unnoticed...22

It's Budget Time Again...24

Negotiation: Not "What Can You Do for Me?"..25

Nolan Events..27

Nolan Bats Go Undefeated..28

Vol. 35 No. 3 *Third Quarter 2008*

Perceptions Present Challenges to Management

A recent editorial published in our local newspaper started with, "Do you realize that every human being on this earth alive today believes he or she is right?" This is not saying that people are just being difficult. Rather, the author went on to say that we all are doing what we think at the moment is the right thing to do, based on the belief that our perceptions are correct.

This concept that perceptions are all-important helps one to understand the challenges that management faces in companies on a daily basis. Management's perceptions shape strategies, attempts at innovation, service levels, technology decisions, processes, and morale.

Effective leaders gather information from a number of sources, depending on the importance of the issue to be addressed. Usually, quantification helps close the gap between perception and reality, but only if the quantification measures the right thing. For example, recently a manager proudly showed us a report that indicated that his high-volume call center had virtually no wait time or abandoned calls at any time of the day or week, and he vowed that customers always talked to a live person when they called. Upon further review, it became clear that the "call center" was acting strictly as a conduit, shuffling most calls to other areas of the company, where the callers were mostly placed into voice mail because those areas were not staffed to handle customer service calls. First call resolution would be a better measure in this case.

This problem of perception is one reason organizations engage consulting services. A good team of consultants can bring objectivity that stems from an unbiased view of the environment, effective methodologies designed to help people defer perception-based judgment, and an ability to consider all practical alternatives before arriving at a solution: these benefits are invaluable, even to the most talented of organizations.

How important is this issue of understanding perceptions and their effect on decision making? A quote from Ayn Rand that appeared in the previously mentioned op ed piece says it all: "We can evade reality but we cannot evade the consequences of reality." All leaders and managers must ensure that they are narrowing the gap between perception and reality on a continuous basis. A regular "health check" of functions and processes helps. It will ensure that what is perceived to be working well isn't growing into the reality of a serious issue over time. ▪

Ben DiSylvester
Chairman

Speed - The Indy 500

Dennis Sullivan
Chief Executive Officer
dennis_sullivan@renolan.com

I'm sitting on a plane reviewing two current projects, one in which a client is looking at a new product launch and the other in which the client plans to roll out a new service delivery model. In both cases, they want it done sooner rather than later.

I also just read an article in *Sports Illustrated* about Danica Patrick and her quest to win the Indianapolis 500. It seems that anything worthwhile has a component of speed attached to its success. Yes, there are other components, but apparently, speed is a critical one in sports and many business situations. Speed is everywhere! Speed to market. Speed of delivery. Speed at the track. The sub-four-minute mile, the 40-yard dash… and how quickly can you get that system change installed so the agents can use it?

In business, we have found that quick action can be the dominant variable in many situations, and a cumbersome and bureaucratic approval or decision-making process can often thwart speed. It delays implementation and reduces momentum, and sometimes that means interest or, more importantly, funding.

Our extensive experience dealing with change in the financial services industry has taught us that speed is a critical component in all successful implementations. Speed in processing is equally important: minimizing the time between a customer request or transaction and the company's delivery of service means a better, cheaper process and a happier customer. I just completed a new application for a banking relationship with my new individual health plan. I got an approved application with a new account number as soon as I logged back onto my e-mail—I was shocked! That's a simple example, but their speed in approval and assigning an account number was almost instant. I'm impressed with HSA Bank.

> *... speed is a critical component in all successful implementations.*

What stands in the way of speed? A lot of things can prevent speed of implementation. If your review process requires multiple sign-offs and multiple levels of approval before you can get started—and if you have funding and resource levels roughed out in advance so operations people can move from evaluation and redesign to execution without a hitch. “How fast can we move once we have a plan?” should be one of the first questions answered by the improvement team.

While you are racing off to your next business meeting, trying to catch that last commuter train, or speeding to get to your son’s Little League game, think about how you can build speed of delivery into your next project. Speed can be the differentiator between success and failure.

Vrrrooom vrrrooom! Start your engines! ▪

"Be patient, madam. At this very moment, high-speed computers are working to eliminate or aggravate your problem."

Driving to California, Dirty Socks, and Two Women

Karen Sloat
Senior Consultant
karen_sloat@renolan.com

I like analogies. During workshops or when mentoring individuals, I often find myself using personal anecdotes and comparisons to explain a concept to my workshop participants; it tends to liven up the process and gives the team something they can relate to in their own personal experiences.

Below are my most frequently used stories. See if any of these will work for you:

1. When discussing how to break a major project, problem, or challenge into smaller "bites," I often use my "driving to California" story.

If you are going to take your family on vacation and plan to drive from Chicago to Los Angeles, you wouldn't just jump in your car and start driving. You would plan your trip in advance and break the total trip into daily chunks with planned checkpoints or stops along the way. At the end of each day, if for any reason you either exceeded the plan or were behind schedule, you'd adjust to meet the end goal of arriving in Los Angeles by a certain date.

Why not apply that same principle when tackling a major problem or preparing a project plan? Break it into reasonable segments with logical stops along the way. Make sure that you evaluate your progress and adjust accordingly.

2. When describing to workshop participants the level of detail required when analyzing a process, I sometimes ask the group to jot down everything they do from the time the alarm goes off until the time they walk out the door.

... most people tend to overestimate the time that it takes to get something done.

Invariably, I get everything from "the alarm goes off, I shower, get dressed, get my coffee, and drive to work" to a step-by-step account, such as, "stop the alarm, pull off the covers, put feet on the floor, walk to the bathroom, pick up my toothbrush, add the toothpaste," and so on. This example will not only give the group a base from which to work, but is also an excellent illustrator of how people tackle the same task differently.

3. Occasionally, you will find that you need estimates from workshop participants as to the amount of time spent on a task. This is often more difficult than it sounds because most people tend to overestimate the time that it takes to get something done.

Try the "how long is a minute" activity to give the group some perspective. Ask the participants to raise their hands when they think a minute has passed. Few will make it all the way to a minute.

4. Do any of your team members suffer from the "dirty sock syndrome"?

I find that my husband has trouble finding the hamper and often leaves socks lying around. I pick them up on a regular basis and put them in the hamper. Until one day, something else gets in the way of an otherwise steady relationship, and I break into a rant ending with "and why can't you ever pick up your socks?" My husband, of course, is confused as to what socks have to do with the issue at hand.

This little story often reminds the group that principles of the One-Minute Manager are helpful. One-minute praise, a one-minute reprimand, and one-minute planning. Don't store up praise, and certainly don't store up concerns, problems, or issues. Constructively address them with the appropriate individual(s) as they arise.

5. Finally, I like to demonstrate to the group that there are many ways to look at the same problem. Each individual will see things from his or her viewpoint. One is not necessarily right and the other wrong. To illustrate this, try passing this picture around and ask each participant to write down what he or she sees. Some will see an attractive young woman. Others will see a haggard old lady. Both are correct.

Ask the group if they can now find the other lady. What is interesting to point out is that whichever woman they see first, it is often difficult for people to adjust to find the second. An excellent illustration of the difficulty the group will have in dealing with changing perspective and keeping an open mind when analyzing an issue or presenting a resolution to a problem.

These are some of my favorites. Finding ways to assist the group in getting on the same page can be beneficial and also adds some fun to the approach. Look for ways to facilitate the team's productivity while helping them understand that a problem might have multiple solutions and that every team member's perspective and feedback are valuable to the process. ▪

*"Maybe it's not a **wrong** answer—maybe it's just a **different** answer."*

Putting Management Back in Workforce Management

Steve Murphy
Senior Consultant
steve_murphy@renolan.com

Some years ago, Ronco pitchman Ron Popeil had an infomercial to sell rotisserie cookers. During the demo, he kept repeating the mantra, "just set it, and forget it." While this is an appealing tag line for a kitchen gadget, the approach does not work very well in the area of workforce management. Unfortunately, in many companies that is often the fate of workforce management software and, as a result, the workforce management function breaks down.

Over the past several years, I have encountered many organizations that have invested heavily in workforce management (WFM) software. You know the high-powered packages that collect, analyze, and generate integrated forecasts, staff schedules, schedule adherence tracking, and intra-day data. These expensive systems typically require significant upfront configuration that ultimately make monitoring and management of the contact center much easier and efficient. The potential for major customer service and operational improvement is tremendous. Unfortunately, after all the upfront work is completed, many organizations adopt the Ronco approach and "set it, and forget it." Thus, they never realize any sustainable improvements. Gradually, the management team realizes they are still fighting the same fires they were fighting before the WFM software was installed, and the tool becomes yet another management obstacle and/or slips into oblivion and is not used.

From my observations, many WFM projects fail early in their lifecycle due to one or more of the following:

- IT installs and configures the software without contact center management input.
- The management team does not understand what the software is designed to do.
- The management team does not know how to use the software output.
- The management team abdicates resource management responsibilities to the WFM team.

The bottom line is that without enlightened contact center management engagement before, during, and after installation, a successful outcome is doubtful.

It is also important to remember that WFM software is not a resource management solution; it is a resource management tool that needs regular disciplined management interaction and execution in order to maximize its value. In many cases, this disciplined approach is shortchanged or omitted, and the management team finds itself working harder just to get the same results they had prior to installing WFM. (Note: a good rule of thumb for any technology installation—if you are working as hard as or harder than before the solution was launched, you have a problem.)

...without enlightened contact center management engagement before, during, and after installation, a successful outcome is doubtful.

Therefore, contact center management engagement is the lynchpin to successful workforce management execution. I don't want to minimize the importance of the installation and configuration of the software, but the most critical success factor is regular management interaction with the WFM data. Managers need to meet daily (often throughout the day) to discuss the previous day's results and focus on allocating available resources to meet the day's goals (phones and production in a cross-functional environment). These goals must be communicated to the staff in timely intervals—a continuous process that repeats itself throughout the day as situations change. The goal is to minimize reactive management. I like to say, we are proactively reacting to changes throughout the day in a way that minimizes associate disruption and maximizes customer service. That is a wordy way to say "having the right people, in the right place, at the right time."

When this is done routinely, service levels are consistently achieved, associates are happier, and management has more time to coach and develop their staff.

I welcome your questions and comments about improving workforce management. Please contact me at Steve_Murphy@renolan.com. ▪

Characteristics of Successful Mid-Size Insurers: Part 1

Steve Discher
Senior Vice President
steve_discher@renolan.com

The Nolan Company has the good fortune of working with all the different sizes of insurers and financial services companies, from the largest multibillion-dollar entities to those whose revenue and premium bases are less than $100M. While a great deal is written about the characteristics of the very large (or at least the best-publicized) companies, less is noted about the smaller companies and what makes many of them so successful. To that end, I am dedicating my next two Nolan newsletter articles to the characteristics of great mid-size insurers.

Yes, there has been substantial consolidation within the P&C, life, health, and banking industries over the past decade. Some sectors have consolidated by as much as fifty percent within the past 10 to 15 years. Even still, small to mid-size financial services firms continue to thrive and grow, and there are countless examples of companies that continue to endure in the land of much larger competitors.

The first noteworthy attribute is an ability to **identify and exploit niche markets**. The smaller players who've been successful have scanned, screened, and realized niche market opportunities faster than their competitors. Niches can include specialization of product, channel, customer type, or a combination of the three. For example, one client saw an opportunity with a number of its largest agency partners to exploit a new product placement. While the product was only placed with a handful of agencies, the size and profitability of the niche placement made good business sense for the client. Niches can also include business that might be considered non-core to many, such as third-party processing or service fee businesses. Companies that successfully realize niche opportunities maintain a markedly different culture and mindset—they are focused on business development and are highly entrepreneurial. They look at how to make an opportunity work, not find reasons that it will never work. While opportunistic, they are highly disciplined, subjecting every niche market being explored to the fundamental question, "How much would this business add to the bottom line?" In terms of cost-benefit analysis, niche markets are often too small for large competitors to consider, but they can often be very attractive to the mid-size firms who have access and the ability to capture them.

Exploiting niche markets cannot be achieved without the ability to find and source the opportunities. Those who exploit niches well **maintain a close pulse on the market through intimate relationships with channel partners, customers, and the local marketplace**. Mid-size financial services companies often cannot afford big research departments and large investments in traditional market intelligence; instead, they leverage their customers, channel partners, and the relationships of their senior management to keep them in the flow of ideas and opportunities. Yes, necessity is the mother of invention; that is why successful companies have very close, sometimes family-like relationships with their customers, who are most often agencies and other channel partners. Being close with their partners and customers allows companies to identify possibilities before they become known by others.

Because niche prospects often spoil quickly, the best mid-size companies **listen carefully to the market and act swiftly**. These companies are truly nimble and are able to act on market opportunities in days or weeks vs. months or years. They are able to move forward on market niches with measured experimentation and minimal bureaucracy. Their behaviors, people, and culture are focused on problem solving, and they value content and good ideas over tenure, hierarchy, structure, and empire-building. They have an adaptable human resource model that allows them to add businesses to the operation while minimizing the traditional human resource and organization structures. And their internal metrics and rewards systems keep management's attention and actions fixed squarely on top-line growth.

Companies that successfully realize niche opportunities maintain a markedly different culture and mindset...

These are just a few of the core characteristics of mid-size companies that are flourishing in today's world of larger scale, consolidation, outsourcing, off-shoring, and commoditization. We look forward to sharing the second half of the story next quarter. Until then... ▪

When in Doubt… Make a List!

Eugene Reagan
Senior Consultant
eugene_reagan@renolan.com

Michael H. was a smart guy. As a senior business analyst, he was the subject matter expert (SME) in many areas. However, he was occasionally asked to come up with improvements in areas about which he had little knowledge and no expertise. Over the years, he learned a technique to bail himself out of these situations. He would simply convene one or more meetings with the real SMEs for the process under investigation, set up a flip chart, and *make a list*. He threw out a series of questions (which was easy, since he had no answers) and wrote down everything that was said. Then, he sat down with the SMEs and department management to interpret and prioritize the findings.

Sarah S. was a smart woman. She had been a member of a number of development and implementation teams. She had a thorough understanding of the key processes and was well trained in techniques for documenting and analyzing them. Sarah's problem was that she rarely actually completed anything. She always had a number of activities that were 60 percent complete or 75 percent done, but the tasks always seemed just a little too large or too complicated to finish. In Sarah's case, the solution was also—*make a list*. As her manager, I sat down with her every morning and we made a detailed to-do list for the day. We included personal activities like "call your Mom" so that all the distractions would be identified in advance and could be marked off when completed. A very important factor was that we began every list with the same task: "Make a list." No matter what happened, she started off the day by marking that item off her list.

The Power of the List

As managers, we are all familiar with project plans, system request prioritization documents, and a variety of other planning tools. At their heart, though, these are nothing more than lists.

The power of the list is its ability to bring focus. Simply adding an item to a list gives it something in common with every other item on the list. You can later discard the item or you can downgrade its importance, but for a brief moment, it is the subject of attention. A specific decision to add it or erase it from the list requires thought on the part of the list-maker.

So, how can lists be helpful? Let's make a list:

The list can help determine importance or priority. The first question is, "Is it important enough to be on the list in the first place?" Then, you can begin to question if item 3 is more important than item 4. This can be easy if you are using the same, simple criteria (e.g., cost, geography, ease of implementation, and so on). If the criteria used are more complex, a matrix or weighted evaluation might be required.

The list can help determine timing. Everything cannot be done at once. At its simplest, a list can be re-ordered to indicate that item 6 really has to be done before item 3. This, of course, is integral to the development of any kind of project plan.

The list can help determine responsibility. Another key component of any project plan is the identification of responsibility for each activity. Many times, this just takes one look at the overall list of activities. "Activity 4 is John's area of expertise; he's our man."

The list can measure progress. Whether it is a complex project plan or a simple, daily to-do list, activities are completed and marked off the list. Those activities that are not marked off in a timely fashion stand out and can be addressed directly.

A list is a simple tool. But its simplicity gives it flexibility and power.

A list is a simple tool. But its simplicity gives it flexibility and power. We can dress it up; we can automate it; we can make it hundreds of pages long. But it still begins with a need to sort things out and make a list. ▪

CLIENT SPOTLIGHT

Project: Operations Improvement Process

Client: Enterprise Bank

Industry: Banking

Product Lines: Consumer Loan Acquisition Process, Branch Back Office Activities

Objective

The client engaged Nolan to:

- Significantly improve retail back office efficiencies (productivity and cycle time) to ensure scalability of processes, improve data quality, enhance customer service, and reduce the overall cost of providing service; and
- Reduce the time in the consumer loan new business process to meet customer expectations and match competitor delivery.

Current Environment

Enterprise Bank is a customer centric, independent, commercial bank committed to annual growth of 15 percent to 18 percent. Executive management recognized that that there was a need to make substantial change in their core processes to support the overall growth and customer service goals.

- The branch processes were inefficient due to manual procedures initiated as interim measures to comply with regulatory changes.
- The consumer loan new business process was not meeting retail customer or management expectations regarding cycle time. The bank's office traffic was 80 percent commercial; attention to the retail new business delivery process improvement was deemed essential for growth and overdue.
- Branch administration was staffing the branches based on a transaction count model which was in need of improvement.
- The bank's efficiency ratio was higher than peer organizations in the local region and it was time to address the cost of delivery.

Project Scope

Teams of Enterprise bank staff members were organized around the major process improvement initiatives. Nolan facilitated each of the teams through redesign utilizing a structured and fact-based creative improvement process. The Nolan consultant also conducted diagnostic analysis to support the teams' efforts and to provide insights to the degree of change possible. Nolan's knowledge of "best of class" methods, policies, and work structures helped to guide the creative dialog and reach consensus on implementable solutions.

The project teams analyzed the work process and designed what would be most effective from a customer's point of view. In the consumer and small business loan stream, they identified a need to streamline the processing of loans by enhancing the web application so that customers could apply online. They recommended that the information should interface to their Baker Hill system and forward the required information for credit decisioning. The speed of processing and accuracy of information were both significantly improved. Proposed revisions would increase the effectiveness of these processes: the score for auto-approval, the requirement for debt service coverage, the loan limit for requiring personal financials, and the overall loan limits. They recommended streamlining the closing through booking process for B2B loans, home equity loans, and consumer loans and they shortened the application.

During their analytical process they realized that some of the product offerings were underutilized, (not providing value to the bank or the customer base). Recommendations were made to consolidate products.

The retail team also made a wide number of recommendations regarding streamlining the processing of a variety of activities including: debit card applications, online account opening, customer check ordering, eFunds handling, and signature card requirements. Significant changes were proposed to automate and standardize the handling of overdraft collection.

Project Results

The project teams' recommendations (guided by Nolan) were endorsed by management and implementation activities were initiated to capture the improvements. Those positive impacts included:

- Increased small business volume and revenue of 50 percent due to the streamlined process for handling;
- Improved fee income through the specific changes to rules and process for overdraft collections (over $1.7 million in additional revenue);
- Reduced branch staff due to the improved processes and better tools to identify staffing and scheduling needs (the equivalent of 8.4 staff members reduced); and
- Automating manual branch processes which reduced customer service time, improved accuracy, and made processing easier on branch personnel.

This participative improvement process between Nolan and the bank teams never waivered from the bank's commitment to deliver better customer service; the projects still resulted in an improved bottom line with implementation exceeding cost by over 10 to 1. Enterprise Bank continues to review core processes and delivery channels to advance their growth and customer objectives.

Don't Ignore the Small Projects

Jim Strebler
Senior Consultant
jim_strebler@renolan.com

I'm amazed by how many requests for small system fixes I find in companies. I'm talking about things like requests for repairs to make something work the way it is supposed to, and installations of processing capabilities that were meant to be included in Phase I of a major project but were postponed to Phase II… and Phase II was never completed. The reality is that these small-project requests seldom get appropriate attention.

The reason they don't get much attention or priority is simple: they are "nit" problems. Things like a system that incorrectly translates data or codes it and spews unusable documents. Or, a system that doesn't produce data in a format that's needed within the organization, necessitating a manual build of an Excel or Access table. In one client organization where the PCs had not been networked, workers printed out the faxes they wanted to send and then gave the paper versions to another department to fax. These types of problems are varied but have two things in common: they are small in scope, and workers have found ways to handle them ("workarounds").

Why should you care about these projects when there are so many big IT projects linked to corporate strategic initiatives? The answer is that when the small projects are added up, the cumulative costs of not doing them can be significant. What are the costs? To name a few, they are unnecessary work hours related to extra processing or accommodating workarounds; preventable processing errors that translate into rework and potentially dissatisfied or lost customers; the extra time it takes to deliver timely outputs; and, last but not least, workers' frustration at having to perform extra processing steps or to redo transactions.

Every company has these small projects. What's amazing is that they don't get fixed quickly. If the problems were with our own home, they would not wait long for repair—even if a major remodel of another part of the home was underway. We would not, for example, try to get by with a TV remote that didn't work, wouldn't go long without changing a broken light switch, and wouldn't wait months to have a water heater repaired. But at the office, the workarounds are somehow acceptable.

Considering all this, what does a company do about it? There are easy steps to take to see if this issue plagues your operations:

1. Find out if you have a problem. Assign someone to compile a list of the small projects that have been requested. Review the log, then ask the workers to add any requests for projects that are not on the list.

2. Evaluate the costs for each workaround by getting two pieces of information: the time that each transaction or occurrence of the problem adds (you might ask, “How long would it take if you didn’t have to do that?”) and the total number of transactions or occurrences of the problem. Next, calculate the cost by multiplying the transactions (per year) by the time per occurrence. Multiply that by the cost of a worker and you have your cost for that workaround processing. Be sure to include the cost of benefits in the worker costs (typically, 22–35 percent of the worker’s salary per year).

After these two steps, you will see how much those workarounds are costing you. If the cost seems significant, it’s time to look for fixes. Pick the workarounds that carry the highest cost and have IT do a quick estimate of what it will take to fix each. Compare the cost of your workers to the IT hours and decide if it’s worth it. The higher the payback, the more priority should be given to eliminating that workaround. Continue until all significant problem areas have been evaluated.

...when the small projects are added up, the cumulative costs of not doing them can be significant.

By paying attention to these smaller projects and problem fixes, you can get multiple benefits in worker productivity, service levels, and customer satisfaction. It is well worth the time to decide which problems should be fixed and to get them done. You’ll thank yourself for taking the time. ▪

At the Intersection of BPM and AWF

Don Himes
Senior Consultant
don_himes@renolan.com

In completing a recent project for a leading life insurer, we were in the familiar position of stressing the extent to which Business Process Management (BPM) strategies and techniques are more than just Automated Work Flow (AWF) "on steroids." The project objective was to improve the business requirements process for AWF applications. The client realized that their current practice for gathering business requirements followed a traditional text-based approach, and that this method was neither efficient nor effective in handling AWF initiatives.

The client wanted to introduce a standardized graphical notation for drawing business processes in a workflow that would be readily understood by all stakeholders, including the business managers who own the processes, the business analysts who create and refine requirements, and the technical developers responsible for implementing the automated processes. The Business Process Management Notation (BPMN) standard was acknowledged to have the potential to meet this objective.

The goal of the project became the development of an agreed-upon methodology across all stakeholders for documenting business processes—one that has a comprehensive view and that uses available tools for all future workflow projects.

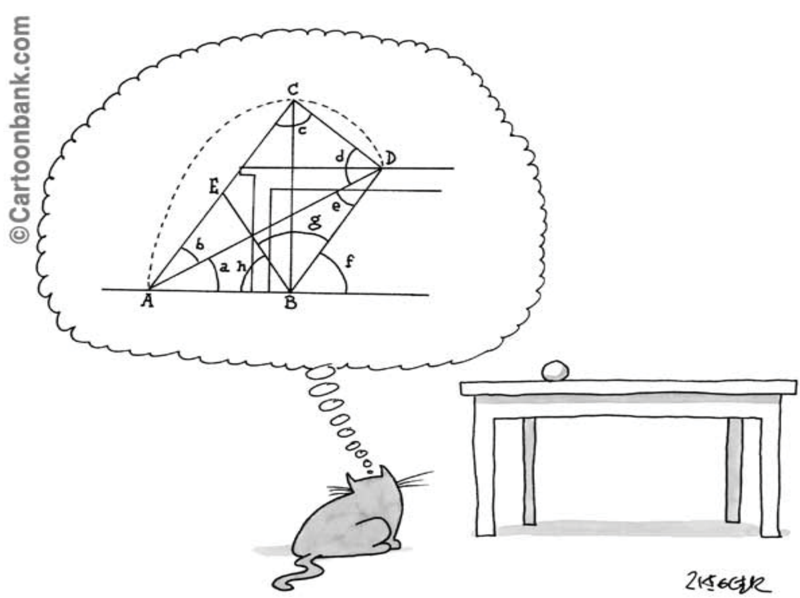
Our first step in tackling the project was to establish ten principles that would serve as guidelines for the development of the methodology. We then developed client-specific Visio templates, using a publicly available BPMN Visio stencil coupled with Nolan's proven method for cross-functional process mapping that has been evolved and enhanced over many years. We led the client team through the charting of two different processes, including reviews with all stakeholders. The goal was to demonstrate the effectiveness of the approach and to build adoption for the technique among the client's team. Refinements were introduced along the way, and a detailed how-to manual for building Business Process Diagrams was developed for use by current and future team members.

As a result, client business analysts are able to set up, draw, and store Business Process Diagrams for multi-step processes and sub-processes, using the detailed guide that was the primary deliverable of the project. The business owners are receptive to the methodology, saying, "The chart is much better than forty pages of documentation." The IT developers welcome the process. Their comment: "This is great, because we are typically unable to see the end-to-end process, and we have to eke out who is involved and what are their needs."

For all of these communities, a prototype repository was established on an intranet so that business analysts and IT personnel can have easy access and reuse key work products for future applications.

As we often advise our clients, the adage "a picture is worth a thousand words" definitely applies when developing process models and requirements. A graphical approach to capturing business requirements adds value in terms of speed, clarity of communication, and simplicity for the business community (process owners) and the IT developers. Furthermore, the use of readily available standards and tools, such as BPMN and Visio, keeps costs and complexity low while speeding the overall development life cycle. Using proven business process management techniques does not require replacing an existing AWF system with an expensive BPM system.

Every company has its own systems, standards, and competencies that influence how processes and requirements are developed—some are more effective than others. We work extensively in the realm of process management, and I would welcome hearing about your experiences and your questions on this topic by emailing me at don_himes@renolan.com. ▪



The Hunt for Easter Eggs

Clay Ricord
Senior Consultant
clay_ricord@renolan.com

If you are a computer enthusiast or know one, you know that software often comes with “Easter eggs”— extra treats that the software developer hid somewhere in the program. With the right combination of key strokes or actions on the screen, the user can find a software reward of some kind. This is often a video or game within a game—a special functionality that you could use only if you discovered it. But these were not limited to games: the 1997 version of Microsoft Office contained an Easter egg, a demo of “Flight Simulator” which was a popular game of its time.

These are fun activities both for the users and the developers, but it seems that for many companies, the supposedly obvious features of products that they have bought are as hidden to them as any complex Easter egg is to the average consumer. This happens in both large and small organizations, but for different reasons. This is, of course, something that no organization would want to admit to. There was a detailed and rigorous process involved in the selection and purchase of that software product. A detailed RFP was processed, and careful review and elaborate scoring of the results took many hours of the staff’s time. A final ROI calculation was then made to justify the purchase. Also, there was the proof of concept, the model office, and the installation.

The idea that there would be features and capabilities in the software that are licensed and ready to be used but challenging to unlock is, well, not so good. But two strong forces are at work against the full utilization of tools. First, organizations very quickly move back to a steady state after a change. The day-to-day pressure to get work done, to add value to a process, and to get on with the work that is coming into the department is very great. After all, that is why the department is there—to select the risk, issue the policy, adjudicate the claim, and so on. Unless there is something to disrupt that steady state (a pain point), they are not necessarily continuing to seek changes. Then there is the question of how to be aware of the tools already in the tool box.

The other force is inertia (in this case, moving from the current knowledge state). While on assignments, it’s not unusual for me to hear, “I didn’t know our product could do that.” This gap in expertise about the products is very understandable. How many applications does your organization use? How many are current within their versions' updates? How many have a subject matter expert (SME) reviewing their changes and features? For the most part, the applications and tools available to the insurance market today are very powerful and rich in feature sets. They are also very flexible in how they interact with the user and the user's processes; a new version may bring new functionality and changes that make unused features a real benefit to the organization. When the SME is aware of the capabilities of the new version, he or she must be able to compare it to the business area's needs and the business area's future needs.

> *The goal should be to fully use the available tools that will best enable the organization to be successful in the marketplace.*

What can your organization do to better leverage the capabilities of your application investments? Start by asking yourselves the following questions:

1. Are there identified SMEs assigned to understand the changes and features in the application?
2. Do you know which features you use and which you do not?
3. Is there an improvement process in place that the business uses to identify opportunities?
4. Is there a process for the business and SME to communicate in an organized manner?

Of course, the goal is not to try to use every feature of the products in-house, because some features don't fit and others don't improve the process or outcome. The goal should be to fully use the available tools that will best enable the organization to be successful in the marketplace. Take a look, and you might be pleasantly surprised to find a hidden Easter egg that will help your organization. ▪

The Behavioral Benefit That May Go Unmeasured, but Not Unnoticed

Bob Grasing
President
bob_grasing@renolan.com

Nolan executives routinely follow up with clients to see how implementation has gone and to ensure that the identified improvements have been realized. Two of our clients I met recently talked about how pleased they were with an unexpected benefit that each characterized as a change in behavior and culture. We often note in our proposals that our participative approach might result in behavioral change, but this is not always valued as tangible and measurable when weighed against stated objectives of lower unit cost, lower cycle times, lower error rates, and increased income.

What is interesting, and most gratifying, is that our clients are as delighted with this result as they are with the tangible and measurable improvements we helped them achieve. During a project update early in my management career, I recall having a CEO tell me that a side benefit from the redesign was that he saw "different people eating lunch and conversing," and another executive at a super-regional bank said that it was the first time that people in the different divisions cooperated in a redesign effort.

Positive behavioral change is not easy to accomplish in a company, even when it is intended. It takes a change to create a new environment that helps people imagine the possibilities. The power of behavioral change can transform a company or a society when instituted effectively. Recently, the Los Angeles Philharmonic hired Gustavo Dudamel to be their next music director as of the 2009 season. This 27-year-old "rock star classical music conductor" is a product of Venezuela's "El Sistema" ("The System"), a program instituted to rescue young people in extremely impoverished circumstances from the crime and drug influences that they would likely be drawn to. El Sistema was established in 1975, and today they have more than 200 youth orchestras in Venezuela involving 250,000 children; the program's stated objective is participation of at least 500,000 by 2015. It is a remarkable life example of how taking people out of their current environment—giving them a new view of what the world offers—can change lives.

I recently read in *The New York Times Magazine* about another program that changed the culture of crime in Chicago. One year ago, there was an average of five shootings per day in that city. A program called "Cease Fire" was developed to train ex-gang members still connected on the street to intercede when disputes smolder. They have one objective in mind—to prevent shootings. The trained and connected staff members, called “Interrupters,” talk to the gangs’ leaders. The early result from this new initiative, in six of the seven neighborhoods where the program exists, has been a reduction in shootings by between 16 and 27 percent. There is still violence in Chicago, but this program is showing early hope. It is now being instituted in Baltimore with excellent early results there, as well.

Behavior change requires a process of intervention in society or in business to become effective. There needs to be a different path than the one historically provided. One client mentioned that their executive committee had recently accepted a proposal from a “coalition of departments” that worked together and solicited ideas from a wide variety of disciplines in the company. Prior to developing a recommendation, the coalition used the input to test the viability of their ideas. The client said that this cooperative approach would never have happened prior to our redesign process. While this business result is unmeasured, the behavioral change is certainly not going unnoticed. ▪

“I think it’s time we established new guidelines for corporate behavior.”

It's Budget Time Again

Kim Wilkes
Senior Vice President
kim_wilkes@renolan.com

Many companies are coming to the conclusion that traditional planning and budgeting just don't work. A recent survey suggested that 80 percent of companies are dissatisfied with their current processes, and financial directors ranked budgetary reform as their top priority. Another survey suggested that up to three-quarters of all plans are never executed—and planning is nothing without execution. Among the top problems associated with traditional approaches to planning and budgeting is the fact that these processes are rarely viewed as strategically focused and are often misaligned with strategy. If corporate strategy fails to drive the planning and budgeting process, all of the effort is just "huffing and puffing."

How can something as important as a company's budget not tie directly back to the strategy? In most companies, budgets are built from the department level up instead of from the senior management level down. In constructing budgets, the tendency is to build up the expense assumptions first. What can happen in this approach, however, is that departments may develop undue protection for those expenses and try to construct income projections that will fit the expenses. Thus, the income assumptions are built to generate enough income to cover projected expenses, rather than reflect what is realistically possible.

As they start working on their budgets, how many front-line managers have a clear understanding of their company's strategic plan? Do they understand the need for strategic alignment, which includes aligning all parts of the organization in a common direction as required by customers and the marketplace, future trends in the industry, and the goals of the company's stockholders? Have they seen the company's plans for marketing, operations, technology, and human resources? Unless this strategy is understood by all employees involved in the planning and budgeting process, "gaming" is encouraged between superiors and subordinates during target setting.

The company must be strategically aligned, with all areas planning and budgeting for common goals; otherwise, the process will continue to be viewed as adding little value, especially given the considerable amount of management time required. Conversely, there are three common attributes among the companies that view planning and budgeting as valuable tools: 1) strategically aligned, 2) driven by senior management, and 3) trusting. We'll leave #3 for a future discussion. ▪

Negotiation: Not "What Can You Do for Me?"

Jack Sizer, M.D.
Senior Consultant
jack_sizer@renolan.com

Recently, while developing a negotiation unit for a health insurance client, we were prompted to think about what makes an effective negotiation program. We were also reminded of the elements critical to the success of such a program.

Why and What?

For health insurers, negotiation of financial terms is an integral part of day-to-day medical management operations. The number of services that either require or lend themselves to individual negotiations, however, depends on various factors. The need for individual negotiation is largely created by benefit plans and provider contracts that are: vague, include perverse incentives, lack payment benchmarks, feature discount-off-charges reimbursement agreements, and lack a hold harmless clause. A provider network which is marginal for numbers and distribution of providers, results in a significant number of services being provided outside of the network structure. It is another major contributor to the need for negotiation.

Out-of-network inpatient hospital confinements, air ambulance transport, unique durable medical equipment (DME) requests, and itemized provider bills are prime targets for review and negotiation. A review of itemized bills frequently reveals errors and/or inappropriate charges, such as duplicate charges for hardware or hospital services, physician charges above allowable reimbursement levels, drug charges exceeding the average wholesale price (AWP), and DME charges in excess of a discounted Medicare reimbursement schedule.

Critical Success Factors

One word sums it up: people. Namely, those who will be reviewing bills, analyzing requests for DME, reviewing claim charges, and subsequently performing the direct negotiation. These people are, by any measure, the most important element of any negotiation program. Lacking people who have the right attitude and temperament and who are receptive to coaching and mentoring makes the rest of it hardly matter. A broad knowledge of health care benefits, claim payment policy, and medical management is required. Negotiators must be analytic, persistent, willing to give and take during the negotiation process, able to process information quickly so as to respond effectively to information received, and able to not take insults personally. These are the attributes that allow one to not only effectively engage in, but to succeed in, the negotiation process.

Goals and Benchmarks

The ultimate goal is to achieve an agreement for a reimbursement level that meets an industry benchmark. Examples of such benchmarks are Medicare's Resource-Based Relative Value Scale (RBRVS) fee schedule and DME reimbursement, or a manufacturer's wholesale price for implantable devices. Web sites such as Vimo.com can provide hospital inpatient charge benchmarks. Using such benchmarks conveys a level of knowledge to the other party and sets expectations; in some instances, it establishes the level of insurer liability. Asking for or accepting a percentage discount from some mythical fee will not result in reimbursement that has appropriate relevance to the value of the good or service. It leads only to a false sense of accomplishment on the part of the negotiator.

Nuts and Bolts

The techniques and operational aspects of the negotiation process are critical. First, it is important to realize that providers recognize and understand both the present value of money and the fact that a large receivable that becomes the primary responsibility of the insured may be difficult to collect, resulting in a significant delay in receiving payment.

When analyzing the case to be negotiated, identify the points of leverage that can be used to your advantage. Likewise, it is just as important to anticipate the leverage the other party is likely to apply and be prepared to rebut or negate its effect.

The initial provider contact may not be empowered with the latitude and authority to conclude a satisfactory agreement. In that instance, request the name and phone number of a person who can actually negotiate and consummate an agreement. Developing a database of these secondary provider contacts will facilitate future negotiations with the same provider organization.

When negotiations stall, or it becomes apparent that a favorable agreement is not in the offing, it might be necessary to defer to a higher authority. A different negotiator who brings a change in dynamic and technique may be able to salvage a favorable agreement.

During the negotiation, it is helpful to stress that you wish to reach an agreement in which the insured, the provider, and the insurer all gain. Make it clear that upon reaching such an agreement, payment will be quickly delivered. The goal is to achieve high-quality, cost-effective care for the insured within the constraints of your liability while avoiding an undue financial burden for the insured.

Negotiation is both an art and a science.

Negotiation is both an art and a science. It is not just asking, "What can you do for me?" (The answer to that approach is usually "not much.") By reducing the overall cost of care, the approach described has resulted, and will continue to result, in superior savings.

We would be pleased to help create such a unit that exemplifies the art and science of negotiation and generates significant savings for your company. ▪

Nolan Events

Texas Chapter IASA Summer Conference
July 24-25, 2008: San Antonio, TX

Nolan Senior Consultant Steve Murphy will be presenting an overview on contact center trends, management practices, success stories, and practical suggestions for evolving customer service capabilities. Steve's presentation is on Thursday, July 24 at 11:00 a.m. held at the Westin La Cantera Resort in San Antonio, Texas. For the full conference agenda, go to *www.iasa.org*.

ISOTech 2008
November 9-11, 2008: Las Vegas, NV

Nolan Senior Vice President Rod Travers will moderate a compliance session at this annual conference to be held at the Rio All-Suite Hotel in Las Vegas, Nevada. For further conference information, go to *www.iso.com*.

IASA - The Executive EDGE
December 7-9, 2008: Grapevine, TX

Nolan Senior Vice President Rod Travers will facilitate a CIO Roundtable session at this event to be held in Grapevine, Texas. For more information about this event, go to *www.iasa.org*.

NOLAN BATS GO UNDEFEATED

The Phoenix Little League team is one of many community groups the Nolan Company supports. This team of future business-leaders-in-waiting—the Nolan Bats—ended its inaugural season undefeated with 14 wins and no losses or ties. The Bats' coach, Ernie James, kept the team of seven and eight year olds focused on hitting and fielding, which they did very well.

There was a strong effort by Nolan management to get "process improvement training" incorporated in the team's practices. Fortunately, the push was resisted by the coach, players, parents, and league. Everyone else was in favor, but come to think of it, there wasn't anyone else. One Nolan senior manager was overheard saying, "They're never too young to start thinking about functional analysis!"

Congratulations Nolan Bats on a season well played! ▪