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

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

NOLAN

In Memory

CAROL DISYLVESTER

It is with great sadness we report that Carol DiSylvester, former Nolan employee and wife of Nolan Chairman Ben DiSylvester, passed away after a brief illness on August 7, 2002 in California.

Many *Nolan Newsletter* readers will remember Carol for her longtime role as editor of this publication. Readers often complimented the quotes and humorous workplace cartoons that Carol would instinctively find and place in *The Nolan Newsletter*. They were one of her signature contributions.

Many of our readers came to know Carol personally while attending Nolan conferences and other industry events over the years. Carol retired from Nolan in 1995 after 18 years of service, though she remained an important contributor to the firm for many years thereafter.

A generous and caring person, Carol enjoyed helping people in need, traveling around the world, relaxing at her home in Dana Point, California and making everyone she came in contact with feel better for having met her.

The Nolan Newsletter

People, Process, Technology

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HELPING YOU NAVIGATE THE BUDGETING PROCESS

A budget is a lot like a large ocean liner. Once it is set on course, momentum builds. However, along the way, obstacles, waves or subtle currents will move the liner off course. Adjustments need to be made to avoid an unpleasant result and to assure the liner reaches its intended destination safely.

As you go through the umpteenth version of your budget, it sometimes is hard to keep the ultimate organizational destination uppermost in mind. Further, a properly implemented budgeting process, though sometimes an educated guess, makes it easier to handle the unexpected and perhaps brings some order out of potential chaos in the market-place or internal operations. One thing we know as a certainty: Whether your organization is in growth mode, expense control mode or both, the budgeting process is more than coming up with numbers that are "acceptable."

How will the operation support achieving the revenue projections? How will you get to the expected expense level when service demands don't always move in the same direction as revenues? Do you have the brighter prospects of making sure your budget is constructed to best meet the demands of high growth?

It is with these questions in mind, and many others, that the staff of the Robert E. Nolan Company decided to write most of the articles for this edition of *The Nolan Newsletter* around the theme of the budgeting process. The articles examine the budgeting process from the strategic, operational, human and practical points of view. We hope the articles will provide some insight to help make this fundamental management process even more effective. That is, assuring the ocean liner, which is your company, reaches its intended destination successfully.

Dennis Sullivan
Chief Executive Officer

BUDGETS: DEAD WEIGHT OR DYNAMIC PLAN – THE LEADER'S CHOICE

Jim Dunham
Senior Consultant

The words "it's not in the budget" can be accurate, but they can also act as a defense mechanism or as ice water thrown in the face of good ideas. I have heard those words spoken so often by managers who don't want to deal with people thinking outside the box. Managers also use it as a control tool to exert their power over the organization. Often they don't want to stick their neck out for anything, and managing the details is a way to avoid action. It's easy for poor managers to hide behind the line items and successfully shield themselves from tough decisions by adhering to a document built more than a year earlier. They are able to do this and receive accolades from their senior manager for "meeting budget." I have also seen many excited and motivated associates create a flame with an idea, only to have it stamped out by the brutal use of a document in a binder that becomes the albatross of many organizations.

A budget represents a financial plan for a period of time (usually a year) that is the capitalization of both the strategic and business plans for an organization. It takes form in an operating budget and a capital budget. Working within the boundaries of a budget is essential to the financial health of an organization. A company will go through a lot of work to develop this financial plan each year. It starts with strategic thinking, then moves to operational planning and finally into funding for the operational plans. In both the operating plan and the budget, the organization usually has monthly reporting that is based on the plan or budget versus the actual. It's at this point that the budget becomes the dead weight that can drown it or the dynamic plan that an organization needs to survive in the marketplace today. It's the leader's choice.

A good leader will not develop a budget in seclusion, or have it done by the budget staff with input only as necessary from line management and their associates. They will involve the entire organization. There are few items in a budget that are "top secret," but in many organizations the budget represents a book on a shelf maintained by a chosen few. It should represent the allocation of financial resources to the whole organization, with a direct link to the tasks that are planned. By that very nature it should be an open document that is discussed and shared with all the stakeholders, which includes the front line associates. How can someone tell everyone to "stay within budget and manage expenses" when the biggest part of the organization doesn't know what that means? If we involve our associates in the budget process and explain it to them with detail, there's likely to be a more significant level of effort to judiciously use financial resources. In fact, there's a much greater acceptance of accountability and responsibility within the organization for the outcomes, both financial and operational. If we don't involve them and constantly remind them "it's not in the budget," they stop caring about what's in the budget, creativeness dries up, and they go home and manage their personal budgets with good long-term results. When an organization uses the line items as if they are written in stone with no opportunity to reallocate or move them from one line to another, it has handcuffed itself. This is just as if it has put a business plan in place and refuses to change despite signals from the marketplace.

If you ask most senior executives whether a budget is static or dynamic, the overwhelming majority will go with the latter. However, when many organizations issue their budget documents, the manager getting the documents views them as static — not subject to change for any reason. Usually they have incentive plans that are based on the bottom line, but they manage every little line instead of the bottom. What happens when a new service, product, technology or process is needed to meet the demands of a changing market or customer base? In many cases our managers say, "No money, it's not in the budget, wait until next year's budget," and the opportunity slips by and the organization starts to slide down. A good leader will know the budget in detail and will have many others familiar with it. They understand they have a fiduciary responsibility to the bottom line, but they know they need to respond. They will look at ways to increase productivity and they will analyze the return on investment to see if it makes sense. If it does, they will work within the allocated capital to make things happen.

When everyone is part of the solution, the final outcomes will provide good results. In today's rapidly changing marketplace that is being driven by consumer choice and satisfaction, managers who use the budget as a dead weight have to be replaced. What's needed in their place are leaders who use the budget as a dynamic plan that can be worked within the total financial plan to provide better results. ■

NOLAN SPEAKING ENGAGEMENTS

Sept. 18 – 20, 2002: LOMA Emerging Technology Conference
Nolan was proud to be a Silver Sponsor of this premier insurance and technology event. Senior Vice President Rod Travers discussed how insurance companies can evaluate, select, justify, assimilate and operationalize emerging technology.

Sept. 22 – 25, 2002: FISERV Client Conference
Insurance Practice Director Ed Fenwick discussed the results from Nolan's study, "The Future of the Life Insurance Industry" to the FISERV audience in Baltimore, MD.

Dec. 9 – 11, 2002: Implementing Regulatory Compliance for HIPAA through Technology
Nolan Vice President of Health Care Merit Smith will identify early warning signs for HIPAA project risks, discuss key strategies for mitigating risks to your HIPAA plan and show examples of how to manage the "Politics of Project Risk."

PLANNING FOR QUALITY: AT WHAT COST?

Robert Grasing
President

Recently I was reading an essay entitled "What I Believe," written in 1925 by Bertrand Russell who later won the Noble Prize for Literature (1950). In reading the essay I found one of his thoughts analogous to a current problem we see regarding quality initiatives in banks.

In a section of his work described as "The Good Life," he outlined the only reasonable path to this objective (primarily regarding children, but covering all types of relationships) as "inspired by love" and "guided by knowledge." Russell defined his meaning of love in this regard as holding two properties: delight in the relationship and benevolence toward the prospect of making the desires of the relationship realized.

One of his observations was that often we want to do the best for our children but are not properly knowledgeable as to the appropriate path to achieve the desired end. He cites examples regarding health, education and social issues over the years to support this idea. His premise was that desire and well wishes alone, if not directed by appropriate knowledge, are inadequate. How does this relate to a current problem we see with quality?

Organizations with well-intentioned desires to do the best for their customers often establish a corporate quality initiative without the proper knowledge regarding the extent of change required to achieve the objective. We see some organizations with a corporate mission to "be the best quality bank" in their marketplace establish training programs to help their staff understand what great quality is. They then continue to train all newly hired employees in the precepts and establish workplace teams to root out the causes of poor quality. On the surface this seems appropriate. The well-intentioned management team often establishes an appropriate budget to support the training year after year. Quality becomes a mantra of management, and measures are put in place to monitor the progress.

Then why do we find those same companies waiving fees for unprofitable customers on the premise of making them satisfied in order to retain them? The reason is that we don't arm our staff with the knowledge required to make the right decision for the right customers. We also see work units establishing quality checkers at various points in their new business processes to help reduce error rates that result in an intolerable slowdown of the overall application process from the customers' point of view.

> *"When you prepare your budgets for 2003, ask yourself if the quality initiative you intend to implement or continue to fund is process-comprehensive and realizes true, continuous improvement from your customers' point of view."*

Many quality initiatives laud the virtues of empowering individuals to make decisions on behalf of the customer. If those decisions, however, are made without complete knowledge of the true impacts throughout the process then the result may be (in Russell's terms), inadequate.

When you prepare your budgets for 2003, ask yourself if the quality initiative you intend to implement or continue to fund is process-comprehensive and realizes true, continuous improvement from your customers' point of view. It takes both desire and knowledge to realize true success in design and delivery. With success, your customers can feel that banking with your bank affords them a piece of "the good life."■

GETTING CREATIVE WITH IT BUDGETS

Rod Travers
Senior Vice President, Technology

Just about every CIO and IT leader is facing the same challenge these days: IT budgets are down and will probably stay that way for the next 12 – 24 months. At the same time, customers are expecting better service on the web, fellow employees are asking for on-target functionality, and CEOs are demanding tangible business benefits from IT. The intersection of these competing realities is “do more with less.” There is of course no single answer to this paradox, and what works for one company may not work for another. But here are some suggestions that may help your company strike a balance with its IT budget:

- **Curtail habitual upgrades, especially at the desktop.** Does every desktop in your organization need the latest version of Office? We are already at the saturation point for feature sets. Skip an upgrade cycle.
- **Consider using offshore support for selected projects.** This one’s not for everyone, but “routine” projects such as data conversion and legacy system maintenance are often candidates for offshore outsourcing and the cost savings can be substantial. This allows your internal staff to focus on high-touch, high-impact projects that require firsthand internal knowledge and experience.
- **Conduct an integrated IT/business process review.** This is a formal process, usually involving a facilitated workshop, to objectively identify and implement streamlining opportunities and associated savings. For example, remember that clunky old reports system that churns out dozens of virtual green bar reports every week? You may find that no one uses those reports any more — they use the data mart instead. And how about that departmental data-capture tool that is now redundant but has hung around anyway? Or perhaps that paper-intensive exceptions process in the new business unit — the one with the standalone document

tracking system? Perhaps if that exception process was redesigned and the right automation was applied, the effort would pay for itself and save dollars for both the IT and the new-business departments.

- Identify untapped functionality in your existing systems. This is another benefit of an IT/business process review. The most fertile ground for this is CRM systems. These systems often have far more functionality than most companies use, and some of that functionality is just what users are seeking. But the users aren't aware it's there.
- Consider using open source systems. I am not a big fan of open source because it has pitfalls such as training, support and reliability that can make it seem much the same as commercial software. Yet there are times when it may make sense for some companies. For example, you can put up a new web server for almost no cost by using Linux, Apache and a recycled desktop computer. Not what you'd use for mission-critical transaction processing, but it would certainly work well for an internal web server or a "development box" used for testing.
- Buy day-old bread. By this I mean consider buying used hardware or equipment that is "last month's model." Who cares whether your Cisco switch came new from Cisco or used from an Enron auction? And brand new equipment can sometimes be purchased at fire-sale prices when a vendor introduces newer models. Laptops are a good example of this.

These are just a few ideas. There are of course many more being put into practice every day. The key to any of these is to understand the consequences in very concrete terms. If you think it's a good idea, dig deeper so that you know it is. Use disciplined analysis to validate your ideas. Most importantly, go after these things proactively. Maybe you can even achieve a budget surplus, even in these most challenging of times. ■

BUDGETING TO ACHIEVE EXPECTED SAVINGS

A Mid-size Life Insurance Company

Implementing enhanced business practices into an organization and making them sustainable is always a challenge. That challenge is often intensified when technology is involved. Yet this kind of project is among the most satisfying because of the upside benefits that can be generated. We conducted just such an initiative with a multi-million-dollar life insurance company. In this case, the challenge was to create a bulletproof process to monitor and track savings achieved through process improvement and technology-related initiatives. The solution was to piggyback on the existing budgeting process.

A team consisting of client personnel and a Nolan consultant was formed to analyze the current environment and to define the business factors that were driving the need for change. The core issue was that improvement initiatives, whether they were technology-driven or business-driven, were not delivering measurable results. Although a cost/benefit analysis process was in place to justify such initiatives, lower costs and improved service were seldom achieved.

The team sought a way to build a mainstream results tracking process that would become a part of everyday life at the company. Their solution was to create expense management accounts for each department that would be improved or materially changed by any proposed redesign or technology effort. At the time, those collective areas were projecting several million dollars in savings from plans that included enhanced business processes, position redesign and technology improvements. The expense management accounts provided a convenient mechanism to proactively manage savings projections *and* results. As this client found, controlling expenses using the existing budget process can be broken down into steps.

First, the corporate budget officer meets with the appropriate department heads to reach an agreement on when the projected savings will be achieved. These estimates are directly and formally linked to the implementation of process and technology enhancements. As such, the estimates are typically developed by cross-functional teams that may include system vendors, IT staff, project management office personnel and business process change agents. The estimates are similar to service level agreements, and the participants are held accountable for delivering their piece of the pie.

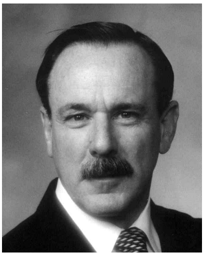
Once the timeframes and improvement projections are agreed upon, the budget officer is then accountable for removing money from each department's budget based on when the savings are scheduled to occur. If the expected savings are not achieved by the target date, then the budgets will show a negative variance. Such variances then trigger a management and mitigation process involving the department head and steering committee. In some cases, recognition and reward programs are tied to goal attainment.

A well-designed control process must accommodate factors and circumstances that require special consideration. In this case, the project team identified a list of items that could reasonably be expected to impact the tracking process. A reconciliation method was developed for dealing with each of these. These items include:

- The impact of special projects on projected savings
- Expense reductions not related to the technology or improvement process
- Expense increases resulting from growth
- Transfer of capacity staff and the corresponding budget to another department
- Tracking of incremental implementation costs

This project resulted in more effective management of improvement initiatives. Also, as the new management practices began to take root, the organization became more collaborative as individuals and groups were motivated to deliver accurate estimates and then follow through on delivery. Projects began coming in on time and within budget. Technology spending became more predictable and more focused on business outcomes. And management was much more aware of the people and the projects that were making a difference. ■

THE LOGIC OF SIZING A SERVICE OPERATION



Merit Smith
Vice President
Director, Health Care Practice

Fall is in the air, and it's budget time. It's the season for "management dialogs" about staffing the service operation. You know the ones we're talking about:

- The executive says: "I'm concerned that given the staff you are projecting we will not be able to achieve next year's huge-bonus-paying financial plan."
- The hapless service director says: "We're projecting a 6 percent growth in transactions. You've cut my first round budget increase from 3 percent to 2 percent. What more do you want? As it is, we are going to be arguing about unplanned overtime in March… Let's get real."

They don't really say these things, but they do think them. And lacking logic for determining staff size, they make decisions about staffing that are the managerial equivalent of a crapshoot. This article will not solve all your budgeting and staffing problems. But it will give you a way of thinking through the questions you should ask as you build next year's staff budget. Because some readers think in terms of numbers and some get concepts best via graphics, we'll give you the logic in words, numbers and pictures.

How many people do we need to run the service center? The service center's total staffing should equal its fixed staff plus its variable (or transaction-related) staff.

The size of the fixed staff is determined by management decisions about levels and layers, spans of control and how we design jobs for managers and executives. The fixed staff is the staff needed if we wanted to have the service center, but it didn't have any transaction or volume flowing through it. Increases in volume have little impact on how large the fixed staff is.

What do we mean by "management decisions about levels and layers, spans of control and design of jobs"? These management decisions are really the result of organizational culture and philosophy.

What about the variable or transaction related staff? How many should we have? Variable jobs are driven by two factors: transaction volumes and transactional efficiency. The size of the variable staff should be driven by the number of services they will deliver multiplied by the time needed for each transaction.

The transaction volume is the number of services we must deliver. A key measure for volume is “the submission rate of transactions per source of transactions.” For example, if we get 50 written inquires per 1,000 contracts per month, we have a submission rate of .05/contract month. Smart organizations know the submission rates for their major types of transactions and use the submission rates in their budgeting. Submission rates are stable and predictable over long periods of time but show a lot of seasonality. (See page 16.)

Volume is driven by a number of factors: the size and growth rate of the market we serve, our market share, the demographics and the type of products we are servicing.

Many organizations overlook differences in the transaction volumes created by differences in products. For example, in health care, 1,000 HMO members will generate many more phone calls than 1,000 PPO members will. New customers unfamiliar with your products and processes may generate more transactions and higher rework rates than customers who have been with you for a number of years.

Transactional efficiency is measured by the number of minutes needed to service each transaction. For example, we know that it takes the staff 20 minutes to deal with a written inquiry. Smart organizations know two things about minutes “per thing”: how long it takes today and how long it should take. Good record-keeping and expense records tell us what is happening today. Several things influence transactional efficiency. The key influencers are:

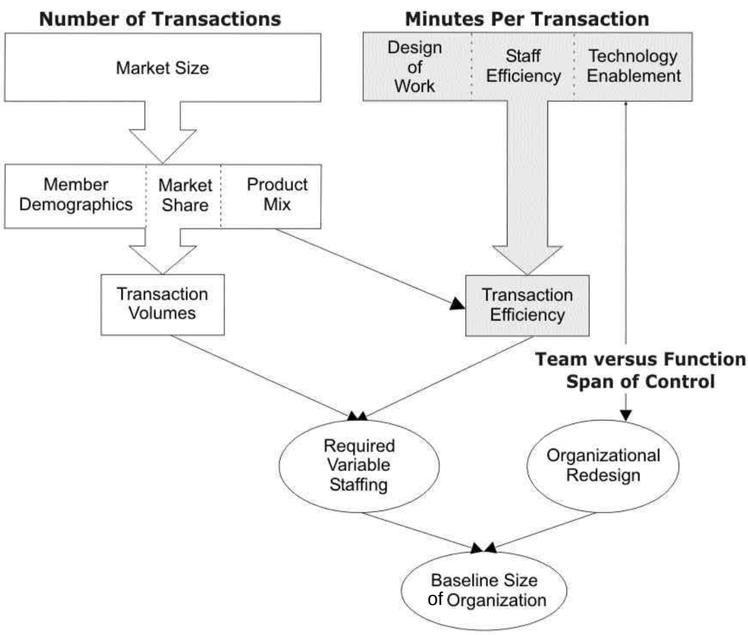
- **Design of Work.** There are two meanings to this phrase. The first is how processes and work activity are designed and structured. A work process can be designed in ways that fragment and divide work, creating inefficient hand-offs and other non-value adding activities. The second meaning is about how we design our conditions of work. How many hours out of a typical staff member's year are available to provide service? A typical worker may have only about 1,200 hours per year to deliver service. Knowing the hours available per year is a key part of staff budgeting.

- **Staff Efficiency.** The hours that are available for service have to be adjusted for staff efficiency. These adjustments are needed because people work in different ways and have different levels of productivity and skill. Fatigue and delay are also a factor. A rough rule of thumb is that about 85 percent of available time is used in productive service.
- **Technology.** Economics 101 told us that we can substitute capital (i.e., technology) for labor (staff). Work processes that are designed with intense use of technology can use less staff. A less technology-supported process may require more staff.

So let's put all this together in a simple formula. Let's use one transaction type. The total staff is equal to the fixed staff and the variable staff. The variable staff is equal to the transactions multiplied by the time per transaction, and then divided by available hours per year. Using about all the high school algebra I can muster, here is an equation: $Y = a + b(x/c)$

Y is total staff; a is fixed staff; b is the time per transaction; x is the number of transactions; c is the number of hours our staff is available for service.

On the next page is a diagram that gives you a picture of the logic we've been discussing.



Let's do a simple exercise to tie some of these concepts together. Here are some assumptions and data. The question is "How many people do we need to support the correspondence function in the service center?" Here we go.

- Our corporate policy is that we will have one supervisor or team leader for every eight service staff.
- Our HR policy lets a typical staff member work xxxx hours per year. We think they are highly effective. In fact, we think they are productive 90 percent of the time.
- We have 250,000 clients. The submission rate for written correspondence is .045 per contract per month.
- Written correspondence is a complex transaction. It takes us 25 minutes to service a written inquiry.

How many staff members do we need? How many team leaders? Check yourself against the diagram above.

Side Bar 1: Beyond Logic – Scars and Grey Hair

Now that you have the logic, here are nuggets of experience that might help you.

- Spend time on the facts and assumptions used in your budgets. Know what is known and what is assumed.
- Encourage your staff to talk about their assumptions: "What's driving your thinking about that?" and "How did we settle on that assumption?" Talking about assumptions and how they were made leads an organization to sharpen its thinking. Over a period of time they will be able to find facts that are better than the assumptions they have been using. As they do this, your entire budget process becomes more fact-based, and your life will become easier.
- Focus on the critical few transaction types. In most service centers there are three or four transactions or services that account for 80 percent of staffing. Invest time and money in understanding these transactions. Once you understand them, work to reduce the effort needed to service them.
- If you are concerned about fixed staff positions and costs, focus on:
  - Your assumptions and beliefs about organization design and structure.
  - Your management practices and expectations for managers and supervisors.
- If you are concerned about variable staffing positions and costs, focus on:
  - Redesigning products and services to reduce submission rates.
  - Redesigning existing processes without changes in technology to increase transactional efficiency (minutes per transaction).
  - Redesigning process with new technology.
  - Fixing processes that are in place before you invest in new technology. The savings you get from fixing the

present processes may be able to fund the new technology. If it doesn't, at least it will make it easier to implement the new technology.

Side Bar 2: Seasonality

If you have a good idea about the baseline staffing for your organization, you're not done. Baseline staffing tells you the average-sized staff you need to meet your average demand for service. But staffing to meet average demand will result in substandard and unnecessarily expensive service.

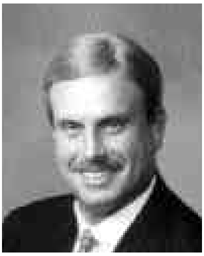
Why? In the industries Nolan serves, the demand for service is subject to significant seasonal variation. If you staff based solely on average demand, in peak periods you will be unable to deliver acceptable service. Unacceptable service will result in backlogs, increased call volumes, increased error rates and rework. These symptoms drive increased temporary and overtime staffing and higher cost of service.

But economic reality is that you can't staff to your peak demand. So what do you do? You adjust your baseline staffing to reflect some part of peak demand, and you use other tactics to balance service supply-demand. There are a variety of operational and technology approaches to this problem. Helping clients understand and use these tactics is the "bread and butter" of Nolan consulting. Using these tactics begins with a clear understanding of your specific problems of seasonality.

If you aren't yet using "seasonal adjustment factors" in planning your staffing, it's likely that your staffing either will be too large and expensive or will result in seasonally unacceptable levels of service. Understanding seasonality is important to balancing service demand and service delivery while achieving optimal cost.

If you would like to learn more about simple seasonal adjustment techniques, drop us a line at **seasonality@renolan.com**. We'll send you a simple spreadsheet model and more information about using it to understand and manage seasonality in your business.■

Aligning Your Budget with Your Strategy is Crucial



C. Kim Wilkes
Senior Vice President

Many companies are realizing that traditional planning and budgeting just doesn't work. A recent survey suggested that 80 percent of companies are dissatisfied with their current processes. In addition, financial directors ranked budgetary reform as their top priority. Among the top problems associated with traditional approaches to planning and budgeting are that they are rarely viewed as strategically focused and they are often misaligned with strategy.

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 starting at the senior management level and building down. In constructing budgets, the tendency is to build up the expense assumptions first. What can happen with 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 possible.

As they work 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 that includes aligning all parts of the organization in a common direction as required by customers, the marketplace, future trends in the industry and the goals of the company's stockholders? Have they seen the company's marketing plan, operations plan, technology plan and human resources plan? Unless this strategy is understood by all involved in the process, "gaming" is encouraged between superiors and subordinates during target setting.

Unless a company is strategically aligned and all areas are planning and budgeting for common goals, then the process will be viewed as adding little value. ■

FOCUS ON THE RESULT, NOT THE TECHNOLOGY

Ed Fenwick
Director, Insurance Practice

A recent global survey of financial services companies identified that most technology implementations deliver their greatest value in years four through seven — not in years one through three. This finding rings true with most operations executives who have been through multiple technology implementations.

The survey results offer hope that sooner or later improved business results may materialize from a technology initiative. Yet the time lags involved are another indication of the lack of a process for implementing technology into business operations. There is little doubt that the ROI forecasts on which these initiatives were funded had benefit streams heavily loaded into years one through three. In fact, it is likely that few would have been funded using the actual benefit stream experience (since most benefits appear in years four through seven).

Possessing the organizational competencies needed to implement technology in a way that achieves expected benefits in a timely fashion has become a competitive advantage. Competencies that we often see lacking in companies are as follows:

- **Focus on the business results:** Don't let the technology become the focus of the effort. Keep the expected business result first and foremost at all phases of the project life cycle — from charter through implementation. In addition, ensure that the project team deals equally with the "mighty three" of success: people, process and technology.
- **"Future-State" process defined by business requirements:** More often than not, business requirements for new technology reflect the way things are done today — not the way things should be tomorrow for enabling better, faster and more efficient service. An objective future-state

model requires detailed process mapping and fine-tuned operational cost models. Without these tools it is nearly impossible to determine if the new business requirements will yield the expected benefits.

- **Shorter development cycles:** In many organizations it is now standard practice to avoid the extended development cycles of the past that often went well beyond 16 months from funding to implementation. Most organizations are striving for development cycles on major initiatives that promise to deliver meaningful results in less than a year. Our experience and research shows that the most successful major technology initiatives delivered measurable results in less than six months from the funding decision. Shorter development cycles are critical in holding organizational attention and commitment, minimizing the difficulty of integration with other change efforts, stabilizing business requirements and maintaining key resource commitments.
- **Results-based decision making:** Most project teams lack the tools and methodologies to focus decision-making on expected business results. Whether it is on finalizing functional business requirements, planning releases or negotiating compromises, without the right tools and methodologies, project teams default to "what can be done in the time allotted" and this rarely produces the expected results.
- **Continuous cost/benefit analysis — from start to finish:** With the increased emphasis on ROI for technology initiatives these days, it is rare to see a major technology effort funded without some form of high-level strategic cost/benefit analysis. It is also much more common to find a post-implementation review to determine if the desired results have been achieved. Unfortunately, far too many of those reviews report lackluster results — often to the surprise of the project team and company leaders. What is lacking is a cost/benefit mechanism that is embedded into the development process. This tool helps a project team accommodate and validate the inevitable changes that arise

during the course of a project. It maintains a coupling between requirements, expenses and results. It also eliminates those unwelcome end-of-project surprises.

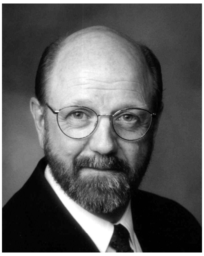
- **Results management:** Project management for major technology initiatives in the financial services industry has improved significantly over the past five years. The IT side, through better tools and project management disciplines, has brought much of the improvement to the table. The need for on-time, on-budget delivery of technology has driven much of this improvement. The problems we continue to see in project management of major technology initiatives center around ownership, involvement and leadership from the business side.
- **Ownership:** Ultimate ownership, throughout the development process, must rest with the positions that will ultimately be accountable for the expected business results. The Senior VP of Operations cannot transfer this ownership to a project manager or team during the development process and then pick it up post-implementation and be happy with the results. Yet time and time again we see technology projects structured so participants can "cover their tails" rather than take ownership. The business-side stakeholder(s) must step up to the plate and take ownership and be accountable for the only results that matter — the business results.
- **Involvement:** Even well-managed technology projects suffer from a lack of involvement by key business personnel. Often the project team does not have an effective framework and methodology for keeping the ultimate business participants effectively engaged during the development process. Project update sessions tend to be technology-focused and consist mostly of project plan reviews. A better method is to conduct two kinds of team meetings with different attendee groups. One meeting is primarily business-oriented, but includes high-level coverage of key technology issues. The other is primarily technology-oriented, but includes a summary of key

business topics. This structure enables the team to address critical aspects of the project using the most appropriate subject matter experts. Although the tendency is to make such meetings a forum for routine schedule reviews, the primary purpose should be for communicating business impacts, benefit risk factors, technical issues, and people and process implications and opportunities.

- **Leadership:** A leader is someone who can transform a vision into reality. While the project team needs tools and methodologies to keep management involved, management has an obligation to engage with the project team to provide the leadership and guidance needed to achieve the best possible outcome. Our experience has been that IT departments have evolved fairly effective methods for managing projects, perhaps because this is mostly an objective task. However, true "vision to reality" leadership is subjective and is often inadequate in major technology initiatives. Short-term, inwardly focused results reflect this inadequacy. The bottom line for both business and technology leaders is to remain high profile and to communicate the vision continuously so that it permeates the everyday decisions and actions that collectively determine the outcome of a project.

Getting measurable, sustainable business results from technology is among the biggest challenges facing our industry. This has been especially true over the past five years as technology costs have skyrocketed and the competitive landscape has shifted rapidly. Yet very little has changed about how most companies adopt and implement technology. Now the current economic climate demands reform. All the hiding places and excuses are gone. Market-leading companies have seen the light and identified a new essential competency: the ability to quickly and reliably get expected business results from technology. To join that group of market leaders, consider the points mentioned above and take steps now to fundamentally change the way your company manages business technology initiatives. ■

WHICH CAME FIRST, THE BUDGET OR THE PLAN?



Hayden C. Jones
Managing Consultant

Have you ever taken a vacation without planning it? If you have, you probably ran out of money, socks or underwear well before you ran out of vacation. Or you missed doing and seeing many things that would have been included had you developed a plan and budgeted appropriately. Most people try to avoid these complications on a vacation, so they plan and then develop a budget. If the budget becomes too large they modify the vacation plan.

Ironically, many companies go from year to year without planning. Oh, they create a budget and they call it planning, but the two are separate functions requiring independent thought and decisions. If more companies planned their next year's activities as well as most people plan their vacations, there would be major improvement in expense management.

Developing a plan and a budget can be a simple process, but it requires sequencing and decision making.

First, the plan:

1. Decide what you **must do** to meet customer demands in the next year. This usually includes services you performed this year and new initiatives driven by product changes, legislation, corporate policies or competition.
2. Determine what you would **like to do** beyond meeting customer demands. This requires the planner to differentiate between the must do's and those initiatives that are not required but may be an investment in the future. These can range from research and development to improving the company benefits package. If not done, they will not impact the customer, the employees or the company's bottom line.
3. **Document** the plan. Just as you might develop an itinerary for a vacation, documenting the plan provides guidance for the next year.

Second, the budget:

1. Determine **the cost of must do's**. Be sure to start from zero dollars and build the costs. Don't just add X percent to last year's budget and assume it is correct.
2. Determine the **cost of things you would like to do**. Follow the same procedure. Assume you are starting with no money in a budget and you must determine exactly what each item will cost. This will be of great assistance in the decision-making process to follow.
3. Add **contingency funds** based on realistic need for non-budgeted services. We all know there will be surprises. Functions may be required that could not be anticipated but must be completed without going over budget. It is important to document why and for what type of activities you are adding a contingency fund.
4. **Develop budget**. Using the plan, identify the cost of each element of the plan to be used in evaluation and decision-making to follow.

Third, make decisions on plan and budget:

1. If the budget is **too high**, determine which items in the plan and their associated costs will be eliminated or modified in order to bring the budget into alignment with expense goals.
2. If the budget is **too low**…I can't believe I wrote that.
3. **Finalize** the plan and the budget. Now everyone knows what is planned for next year and what will be spent to implement the plan.

This isn't new. It's called zero-based budgeting, and it works. Just like planning a vacation, it requires some thought, some intuition, some investigation and some decision-making. Proper planning and budgeting permits management to lead the organization into the new year. And just like in a well-planned vacation, everyone is looking forward to the coming events. ■

BUDGETING: GRASS ROOTS OR TOP DOWN?

Dennis Sullivan
Chief Executive Officer

We're at the time of year when many of you are in the middle of management's biggest nightmare: preparing the budget! Where do we start? Let me give you my view of The Budget.

First, there's a myriad of approaches to budgeting, but most fall into one of two categories. There's the kind where you are given a percentage increase or decrease from last year to work with. The second is where you're asked to build your budget from the ground up given the best available business forecasts. In either event, I like to subscribe to the approach where we take the opportunity to look at each segment of our operation and critically review performance, new enhancements from last year and projected improvement for this year. This lets front-line managers fully engage in a self-assessment of how work is done, where they're improving and where they need support. It's not quite zero-based budgeting, but it does require us to challenge ourselves about each part of the operation.

Once we made those adjustments, we apply our current metrics, take next year's forecast and develop our budget. This approach makes two assumptions: you have metrics, and you have a method of forecasting. If neither exists, put them on the schedule to develop before next year. I like the grass-roots approach because it challenges front-line managers to assess their current business tools: metrics, methods, procedures and forecasts. You may only have one or two of these tools, but each year you will be reminded of the need to have all four.

It also gives senior managers an opportunity to begin building the case for resource-needs in a systematic way with "facts and figures." If there's a resource cap (budgets can't exceed two percent or must remain flat), then it forces managers to look for improvement opportunities. It pushes managers to more effectively drive performance evaluations, and it requires them to think about HOW they are getting work done. It forces creativity! It forces collaboration between support areas. It forces TEAMWORK!

A top-down directive of budget limits can initiate many of the same actions but too often it's handled further up the organizational-responsibility ladder, and less evaluation and analysis is required. If my budget has to remain flat, the easy answer is to leave everything the same, except for minor changes to account for modest salary increases. I'm not saying it has to be this way. I'm saying this is what I see happen.

The biggest risk is that your top management asks for a grass-roots approach and then comes back and says you are 20 percent over finance's budget requirement. It's like they knew the answer, but wanted to see if you could come up with the same one by doing an in-depth build-from-the-ground-up budget process. This kind of approach does no good. People get frustrated, lose confidence in the senior group and begin saying, "Just TELL me what the number is, and I'll adjust this year's budget to meet the needs."

The grass-roots process is so critical for three reasons: 1) it forces managers and supervisors to begin working regularly with metrics and forecasts; 2) it stimulates creative solutions to complex problems. (Supervisors start asking themselves questions like, "Is it a process issue, a technology issue or a people issue?"); and 3) it begins to engage middle managers in process and technology solutions instead of transaction-productivity solutions. It begins to force managers to think about the business, not just the people they manage or how many transactions they can do in an hour.

I'd like to hear about your approach to budgeting. What are your challenges? How does your company creatively engage managers in the budgeting process? This can be the most interactive management process you engage in and the most productive. I'd love to hear from you.

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