The Nolan Newsletter

People, Process, Technology

NOLAN

ROBERT E. NOLAN COMPANY
MANAGEMENT CONSULTANTS

Fourth Quarter 2003 Volume 30, Number 4

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Process Documentation is Essential for Success

Executives and managers have long been on a quest to document their operations. Often this documentation is described as a "cookbook" that enables an organization to take someone off the street and work the process with minimal guidance.

We have seen a few companies get close to this documentation goal. The problem was that by the time most of the processes were documented, the cookbook was already out of date. In addition, the format of the documentation was always questionable. Should it be presented in process flow charts or "play script" procedure format? And then there was the age-old issue of the policy aspect of processes—known today as the business rules governing how or why things are done versus the rote procedures themselves.

The key is to document processes in such a way that is accessible and usable throughout the organization for many purposes. The process documentation can be used to improve processes, educate others in the organization on what is done by whom and how, and enable the technology team to use the information to understand the business requirements and business rules and, therefore, properly automate those processes.

One possible answer is to use the repository approach to document processes. This includes integrating into the processes not just a picture of the flow, but appropriate volumes, business rules and use cases—all in an integrated tool enabling those who need the information to simply "click" their way to the appropriate level of detail. At this point they can learn, approve, modify or otherwise use the information to keep it viable and helpful for years to come. Thus the investment in time and money to create the documentation continues to pay dividends, rather than quickly losing value.

The process repository also assures that automation projects have the necessary information regarding business rules. While many forward-thinking organizations realize that processes should rule and technology should support, not everyone understands or agrees with this approach. Rather, they still advocate that the technology should rule and processes should be modified to take advantage of the technology's features.

Perhaps this is a chicken and egg debate. However, we think it is also a misunderstanding of what processes really are. If we use the definition of processes offered by Michael Hammer in his book "The Agenda," then we should have an even greater appreciation of processes and how important they are to document and redesign. The definition of process that's offered by Hammer is "an organized group of related activities that together create a result of value to customers." This definition should cause you to ask two questions. First, do you have useful and dynamic (versus static) documentation of core processes that will support continuous improvement through the use of modeling tools? And second, is it worth the risk of potentially destroying the customer value created by the organization's processes by allowing those processes to be changed to meet the technology features versus the needs of the customer?

"The key is to document processes in such a way that it is accessible and usable throughout the organization for many purposes."

Either way, properly designed and documented processes are quickly becoming the basis of success for many improvement initiatives—whether those initiatives involve purely manual redesign efforts or automation efforts that should be supporting the business's requirements and protecting and enhancing customer value.■

Ben DiSylvester

Ben DiSylvester
Chairman

How to Improve Your Process for Developing Business Requirements

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There is little debate and a high level of agreement these days that new technology and old processes will not yield the desired business results. Here's the question we are hearing increasingly: Should we implement the technology around existing processes, learn and understand what the technology can do, and then redesign the processes and adapt the technology? In other words, where is the proper home for process redesign in the technology implementation life cycle?

The "install now, redesign later" approach is often fostered by technology vendors. They propose this approach for several reasons. They want to get to the "installed" state ASAP, book the revenue and move on. Their sales and marketing are often built around the theme of "our solution is plug-n-play with built-in industry best practices templates."

The fundamental problem with the "install now, redesign later" approach is that it's almost certainly going to kill any economic benefit of implementing the technology. Going through two development cycles—one to get it installed now and one later to adapt the redesigned processes—is an almost certain ROI killer for most technology initiatives.

While this approach is often fatal to an acceptable ROI, there is often plenty of support for it from within the organization. Management teams often fight the budget wars for several years to get funding for a given technology. As a result, they want the shortest path to implementation once the green light is given to proceed.

An even bigger motivation for this approach has its roots in the inefficient and ineffective process that most organizations have for implementing technology. The process generally yields poorly developed requirements which yield poorly developed solutions—with the result being delayed implementation and poor business results. Adding redesign to that faulty process can seem to be a needless risk.

The solution and the proper home for process redesign can be found in your organization's requirements development process. Improving this process is critical to optimizing the benefits of any technology initiative. Here are some key aspects of a business requirements process that can efficiently and effectively incorporate process redesign:

- Business requirements definition starts with defined business processes, both the as-is and the to-be.
- Standard tools and methodologies are used to define both the business processes and the requirements. The methodologies and tools need to be model-oriented; words alone cannot properly convey the proper detail and context of any process or requirement.
- Costs, benefits and other key operating metrics are attached to the business processes and the requirements are managed closely at each stage of the technology initiative, not just at the beginning and end.
- User-acceptance testing is derived from the business requirements and is thoroughly tested.

An organization that has a business requirements development process with the above characteristics can easily answer the question of when to redesign business processes. They do it as part of the development effort with no additional risk, delays or costs.

If you would like to know more about how your organization can improve its process for developing business requirements, send me an e-mail: ed_fenwick@renolan.com ■

DON'T FALL INTO THE "WHO YOU KNOW" TRAP!

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Have you ever noticed how there are always some people in every organization that get things done?

They know how to navigate the politics, where to go and who to talk with to get the necessary information to make good, sound decisions. We often attribute their success to the fact that they have contacts in all parts of the organization and have built good relationships with the right people. I contend that this merely signifies an ineffective organization.

I will admit that superstars are in every organization, but when problem solving depends on who you know, there's a problem. Who you know can't be a solution! Think about it for a minute. You're a new employee with a company and are heading up a project team. If your success depends on who you know, then you're in big trouble.

On a recent project, our consultant was faced with determining the current problem resolution process for a core segment of customers and found no real systematic approach to providing customer feedback and developing solutions. After a few preliminary weeks of investigative work, she realized "who you know" was the process. And by the way, the process was broken, provided inconsistent service and was unrepeatable. It was a continuing problem that needed fixing.

There was an opportunity to seek out the one real superstar in the area and begin to map his key contact points in the organization. This was the beginning of developing a problem resolution process that built bridges and contact points between departments in the organization instead of people. You see, the problem with solutions involving individuals is that people leave companies, get new assignments and change responsibilities. When that happens, the solution chain is broken. If the contacts are with part of the organization, you can document the process and build expertise within individuals.

Building personal relationships within an organization is a key skill, which needs to be recognized and developed. Find the superstars who get things done and analyze their approach, evaluate their methods and understand how their key contacts help solve problems. Document the process, identify the key information needed and tap into that group of people who have access to the needed information. Believe me, a systematic approach to problem resolution will always beat the "who you know" approach.■

"I need some short-term economic stimulus."

Breaking Down the Bank Efficiency Ratio

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Banks with the best overall efficiency ratios are significantly better performers in mortgage lending, commercial lending and retail banking than their average peers. Though highly efficient in these key areas and somewhat better in others, top-performing banks are less efficient in areas such as consumer lending, mortgage servicing and managed trust. These findings are a product of the recently published Robert E. Nolan Company 2003 Efficiency Ratio Benchmarking Study, based on 2002 data.

The Nolan Efficiency Ratio Benchmarking Study is the only one of its kind in the banking industry. Each year since 1995, banks, thrifts and credit unions with assets over $1 billion have been invited to participate in the study by submitting expense, income, staffing and volume data covering the entire bank. Nolan classifies the data into 14 general functional areas such as Administration, Commercial Lending and Retail Banking, as well as 80 lines of business that segment these general areas.

The study provides an analysis of efficiency and productivity at a much more granular level than other banking industry peer group studies. Nolan generates 1,100 measures to examine the impact of each line of business on overall bank efficiency. By calculating the efficiency ratio and examining certain productivity measures for each line of business, the study pinpoints participant gaps in performance that, if narrowed, will result in significant bottom-line improvement. Participants use the study results to prioritize their improvement initiatives by narrowing their scope to the areas identified by the study that offer the best potential increase in profitability.

The conclusions mentioned above were derived from the study's pool of data collected from participating banking organizations ranging in asset size from $4 billion to $86 billion. They point to the need for banks to continuously examine performance and implement improvement initiatives even if the total bank efficiency ratio (operating expense divided by the sum of net interest income and non-interest income) ranks high compared to peers. They also lead to further conclusions revealing that certain lines of business, no matter how efficient, have little impact on overall bank performance and should be assigned lower priority when scouting areas to improve operations.

To examine the gaps in performance between highly efficient and average performing banks, Nolan developed an index to describe the relative importance of performance that each of the 80 lines of business contributes to total bank efficiency. The Nolan ER Index works like this:

- A line of business with a Nolan ER Index value of 100 means that the efficiency ratio gap (calculated as the difference between the expense to total bank revenue ratios) between average and top tier performance is the same as for overall bank efficiency.
- A Nolan ER Index value above 100 indicates that the performance gap is wider or that the high-performing banks are doing an even better job for a line of business than they are doing overall.
- If the Nolan ER Index value is between zero and 100 the top performers are better than average, but the gap is less than the total bank efficiency ratio gap.
- A negative Nolan ER Index value means that the highly efficient banks for a line of business are less efficient overall than an average bank. In other words, the efficiency of a function that has a negative Nolan ER Index value has little or no bearing on the total bank efficiency ratio.

Three significantly high-performance areas for top tier banks are:

- Mortgage Lending (Nolan ER Index = 156)
- Commercial Lending (Nolan ER Index = 125)
- Retail Banking (Nolan ER Index = 138)

These areas are segmented into multiple lines of business within the study. Examining performance on a line of business basis revealed some interesting conclusions.

First, mortgage loan origination, or the loan production line of business, is the area that not only drives mortgage lending efficiency but significantly and positively impacts overall bank efficiency. With a Nolan ER Index value of 100, the efficiency of mortgage origination for the banks with the best overall efficiency ratios more than offsets below-average performance in the mortgage servicing function. As indicated by a Nolan ER Index value of -175, mortgage servicing is significantly less important in maintaining a high level of overall bank efficiency—a nice break for the top tier banks.

Commercial lending, segmented into administration and market-type loan origination lines of business, also ranks as a highly important component of overall bank efficiency. The Nolan study identified commercial real estate lending (Nolan ER Index = 156) as a highly important and efficient line of business for the high-performing banks that, like mortgage loan origination, positively impacts the total bank efficiency ratio. Corporate lending and lease financing are also important areas of efficiency for the best performers with indices of 31 and 13, respectively. Conversely, the small business and middle market commercial lending segments are generally areas that need to improve for the high overall performers, though improvement, due to negative indices (-56 and -63, respectively), may not have much impact on overall efficiency unless there is a significant shift in any number of variables (net interest margin, cost structure, production volumes, etc.).

The retail banking area is comprised of retail banking administration, branches and deposit operations. The focus here is on the generation and operational support for retail and commercial deposits. The study concluded that highly efficient banks perform very well in deposit operations and that like mortgage origination and commercial real estate lending, deposit operations efficiency plays a major role in the overall bank efficiency ratio. Interestingly, the branches, though large in terms of overall expense and revenue, rank very low in their relative importance to the total bank efficiency ratio. With a Nolan ER Index value of -88 the retail banking branch line of business, like small business and middle market lending, would require significant variable shifts to single-handedly improve the overall bank ER.

Consumer lending and managed trust are two areas, along with the previously mentioned mortgage loan servicing line of business, where the most efficient banks overall are not to be found in the top tier.

Highly efficient consumer lenders tend to be less efficient banks overall, though consumer direct lending, the loan production arm of consumer lending, does carry a positive Nolan ER Index value (19). The other three consumer lending segments, consumer loan administration, indirect lending and consumer loan operations, all have negative indices.

Managed trust (our study differentiates managed and custodial trust functions) has a Nolan ER Index value of -31. Although certain managed trust segments have positive index values, the three most significant segments based on total expense and revenue—personal trust, corporate trust and trust operations—all rank low in terms of their importance on the overall bank efficiency ratio.

Nolan is committed to developing research such as this to help our clients simplify the landscape of improvement opportunities. Breaking down the bank efficiency ratio is an effective way to prioritize those opportunities so that the value of the improvements may be realized faster.

If you would like to view a free demonstration of the Nolan 2003 Efficiency Ratio Benchmarking Study, visit **www.bankbenchmarks.com** and click on the "**Try the Demo**" link. ■

BPM Part II

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In last quarter's edition of *The Nolan Newsletter* I wrote about the emergence of business process management (BPM), and I am continuing with that topic here as promised. In short, BPM is a process-centric approach to managing and automating a company's business processes. It comprises both management practices and supporting technology.

The fundamentals of BPM have been around a long time. Among them are process design and renewal, measurement, control, process integration and appropriate automation. Only recently, however, have these elements coalesced into a named category. This is in part because an overall management maturity is developing, born out of experience, in which the importance of process stewardship is at least acknowledged, if not fully understood.

Most company leaders have come to realize that process excellence is a competitive differentiator that materially affects costs, customer satisfaction, agility and, ultimately, profitability. The philosophy of BPM holds that business processes should be actively managed with respect to both design and execution. In other words, the mission of attaining an excellent business process is itself an ongoing process requiring specific competencies that oftentimes companies do not possess internally. These include process design, measurement design, staff modeling, critical analysis and change management, among others. If these aren't among your strengths, seek outside expertise to help you navigate the BPM waters. BPM is not a one-time project or a slam-dunk technology.

This leads me to another reason for the coalescence of BPM. The maturity and adoption of newer technology standards, such as XML and web services, have enabled easier and more functional integration among disparate technologies. It is now easier than ever to "digitize" a process. Enterprising technology vendors have recognized this and have developed process-centric automation systems that address the technology element of the prototypical BPM model. Companies including Metastorm, Fuego, Clear, Lombardi, IBM, FileNet, Pegasystems, Microsoft, Intalio and others offer such systems.

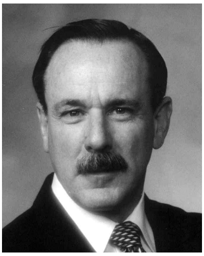
The key to success with BPM technology is to ensure that it supports the process rather than constraining the process to fit the technology (a painful lesson learned by those who plunged head first into first-generation CRM). It's a tricky balance that requires macro-process analysis and design to achieve optimum payback.

OK, OK—the premise of BPM sounds great. Now, what about the benefits? The good news is, when you get it right, the payback can come quickly and the improvements are sustainable. The tenets of BPM require your company to focus on process effectiveness versus one-off fixes or technology-oriented problem solving. Thus the improvement process itself becomes institutionalized, and it systematically involves both business and IT stakeholders—the latter being a major benefit all its own.

Perhaps the most obvious benefit of BPM is more effective integration of technology and process. This invariably results in lower processing costs and greater capacity without added staff. (What if you could reduce the cost of your business processes so much that they could compete with going offshore? It may sound crazy, but the potential is there for certain kinds of routine, yet under-automated, processes.) Less obvious, but just as important in the benefit category, is process consistency which increases accuracy and reduces leakage. You can thus depend on your processes to execute the same way every time, and you can validate that by using the data that is automatically gathered as the process is orchestrated by BPM technology. There are countless other situation-specific benefits that can be achieved.

The bottom line is that the management practices and technology comprising BPM are a platform for building and managing optimized business processes throughout a company. This is an important management approach that warrants a close look.■

BLINKING RED LIGHTS AND SERVICE PROBLEMS



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Last week my daughter had a bad oil experience with her car. She is young and is still learning lessons of life like "blinking red lights have meaning" and "pay now or pay later." Dad, of course, is funding this education.

Larry the tow truck driver told me: Most people change their oil at the wrong time. Most people change their oil only when they need to do something else, like add antifreeze, rotate their tires or get ready for a long trip. Oil changing is part of some other activity.

(Yes, I know that the readers who are shade tree mechanics and enjoy collecting or restoring cars will flood me with e-mail about this comment. I recognize that for them changing oil is a near-erotic experience, like opening a nice bottle of red wine. But most people change oil because they have to do something else. That's what Larry said, and he knows a lot about oil changes and human behavior.)

I got to thinking about changing oil and how it's similar to the problems that our clients face in their service operations. Many of our clients think about service in the same terms as my daughter does. They don't see the blinking red light, or they defer paying attention to their service operation until it is part of some other activity or problem. For example, executives of an HMO may have a service problem that is festering but don't act on it until they have to deal with a somewhat related budget or systems issue.

Why executives tend to defer dealing with service issues is a puzzle to me. Perhaps they lack the metric of a blinking red light. Or perhaps their management practices don't let them see the light. Service operations nearly always have a lower priority for expense and capital budgets, so perhaps the executives need good timing to include their service problems into a systems fix or change. This might be like not changing your oil because you are waiting to put on your snow tires. (Note to Sunbelt readers:

Snow tires are an annual ritual for some.)

Yesterday I was talking with the COO of a Midwestern HMO that has been growing membership at nine percent compound for the past five years and has been modestly profitable until this year. Their market growth has been driven by an aggressive pricing policy. His blinking red light is that his cost of member services has grown at a compound rate of 23 percent over the same five years.

This growth has been driven by the member growth and the "need" to support a dysfunctional provider contracting and claims operation. He doesn't realize that his company is seen in the market as being low priced and a deliverer of poor service. Now that he has a profit problem he is starting to see that he has a service problem too. This is like realigning your wheels and changing your oil at the same time.

If he had seen the blinking light last year, would he have the profit problem this year? Maybe not, but I suspect he might have. Or he might have a smaller problem. Now he has to deal with an earnings problem *and* a service problem.

"Do you have a blinking red light? Have you cut any wires lately? The time to take care of your service organization is before you need to."

I know him well enough to think that his first instinct will be to lay off service staff and change their management. This response will cause short-term improvement but will not solve the service problem (which, as my readers know, isn't in the service organization but is really in the provider contracting and claims operation.) His reaction is the equivalent of cutting the wire to that irritating red light. "There, done. Now let's drive on down the road." For a few more miles…

Do you have a blinking red light? Have you cut any wires lately? The time to take care of your service organization is before you need to. Otherwise you might be standing by the road late at night waiting for Larry and his tow truck.■

THANK YOU

As we come to the close of our 30th year, the partners and staff of the Robert E. Nolan Company would like to offer our most sincere thanks to our clients, for allowing us the pleasure and honor of serving them. We look forward to continuing to foster strong relationships for the next 30 years and beyond.

Many of our client companies have changed their names at some point during the past 30 years due to mergers, acquisitions and restructuring. We fondly remember them all, and the people we were fortunate to work with at each company. The following tribute is a listing of clients, current and former, to whom we devote our thanks.

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AIG Insurance Company
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Liberty National Life Insurance Co.
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Principal Mutual Life Insurance Co.
Protective Life Insurance Company
Provident Indemnity Life Insurance
Provident Mutual Life Insurance
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Puritan Life Insurance Company
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Reliance Standard Life Insurance
Republic National Life Insurance
Security American Financial
Security Benefit Group
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BC/BS of Iowa
BC/BS of Kansas
BC/BS of Kansas City
BC/BS of Kentucky
BC/BS of Maine
BC/BS of Michigan
BC/BS of Mississippi
BC/BS of Montana
BC/BS of North Carolina
BC/BS of North Dakota
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ConnectiCare
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HealthCare Oklahoma
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Health Net Management, Inc.
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Hospital Service Plan of NJ
Independence Blue Cross
Innovative Health Solutions
MedPlans 2000
MPlan
Medaphis Physician Services
MetroPlus Health Plan
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Principal Health Care
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Bank of Oklahoma
BankAtlantic
BankEast
Berkeley Federal Savings
Bristol Financial Services
Canadian Imperial Bank
Carteret Savings Bank
Centerbank
Centerre Bank
Central National Bank
Central Savings Bank
The Chase Manhattan Bank
Citizens Commercial Savings Bank
Citizens National of Pennsylvania
Colonial Bank & Trust Company
Commonwealth Bancshares
Compass Bancshares
Connecticut Savings Bank
D & N Savings Bank
Delaware Trust Company
Denver National Bank
Dominion Bankshares
Eastern Bank
ESL Federal Credit Union
Equitable Trust Company
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First of America Bank, MI
First of America Bank, Wayne
First Bank of Minneapolis
First Bank of St. Paul
First Bank System
First Citizens Bank
First City National Bank
First Federal of Colorado
First Federal S&L Association
First Fidelity Bank
First Indiana Bank
First Interstate Bank of Santa Fe
First National Bank of Atlanta
First National Bank of Birmingham
First National Bank of PA
First National Bank of Tulsa
First Nationwide Bank
First Security Bank
Firstar Bank Madison, N.A.
Fleet National Bank
Franklin Bank, N.A.
Glendale Federal S&L
Guarantee Federal S&L
Guaranty Trust Company
Gulf Bank of Kuwait
HSBC Bank USA
Hamburg Savings Bank
Home Savings of America, FSB
Howard Savings Bank
The Huntington National Bank

Independence Community Bank
KeyCorp
Keystone Financial, Inc.
Liberty Bank for Savings
Lincoln Financial Corporation
M & T Bank
Maryland National Bank
MBNA Bank America, N.A.
Mechanics Savings Bank
Mellon Bank
Midfirst Bank
Morgan Stanley
NBD Grand Rapids Bank
National Bank of Commerce
National Bank of North America
National Cooperative Bank
National Trust Company
Northwestern National Bank
Old Kent Financial Corp.
Old National Bank
Old Stone Bank
PNC Bank
Park National Bank
Peoples Heritage Bank
Peoples Trust Bank
Pittsburgh National Bank
Puget Sound Bank
Redlands Federal Bank
Rhode Island Hospital Trust
Royal Bank of Canada
S & T Bank
San Diego Trust & Savings Bank
Security Bank
Shawmut Bank
Shawmut Community Banks
Society Bank
Sovran Bank
State Street Bank & Trust Co.
Suburban Trust Company
Sumitomo Trust & Banking Co.
Sun East Federal Credit Union
Sunburst Bank
Teachers Credit Union
Toronto Dominion Bank
Trustmark
Union Bank
Union Warren Savings Bank
United Carolina Bancshares
Vermont National Bank
Washington Mutual Savings Bank
Wells Fargo Bank
Westco Savings Bank
Winters National Bank
Worcester County National Bank

Other Clients

AIM Fund Services, Inc.
Access Credit Card Co. (England)
Accosa (Mexico)
Ace Electric
Acordia of Louisville, Inc.
ActMedia, Inc.
Advanta Mortgage Corp., USA
American Capital Companies
American Express
American Express (Canada)
AmEx International (Tokyo)
Anderson Clayton Foods
Arkansas Power & Light Company
ARCO International Oil & Gas Co.
ARMCO Steel
Automobile Club of Michigan
Automobile Club of Missouri
Avco Financial Services, Inc.
BFDS, Inc.
Baxter Travenol Laboratories
BWD Automotive Corporation
Bradlees/Stop & Shop
Burson-Marsteller
Cable Vision of New Milford
CDI Corporation
Charles Schwab Company
Chase Insurance Agency, Ops
Citicorp Homeowners
Citicorp Person-to-Person
City of New York
Colorado Financial Svcs. Assn.
Commercial Credit Company
Commonwealth Mortgage Co.
Consumers Power Company
Crane & Company, Inc.
Depository Trust Company
DST Systems, Inc.
Echlin, Inc.
Edward Weck, Inc.
Epitope, Inc.
Excel Communications, Inc.
Factory Mutual Engineering
Fenwall Laboratories
Foremost Financial Corporation
GCA/Precision Scientific
General Electric Capital Corp.
General Telephone Electronics
Holland & Knight, LLP
Holstein Association
Hyland Therapeutics
IDS Financial Services
INDICORP
JC Penney Financial
J. I. Kislak Mortgage
JMA Consultants (Tokyo)
Johnson & Higgins
Kissell Mortgage Company
Kohler Company
LIMRA International
LOMA
MBNA Information Services
MECA Software
Medical Data Services
Montgomery Ward Company
National Insurance Services, Inc.
Nationwide Financial Services
Northwest Pipeline
Oklahoma Fixture Company
Oregon Bar Association
POSC
Pacific Power & Light Company
Pelican Building Centers
Pfizer Company
Public Service of New Mexico
Pueringer Distributing Company
Ruan Transport
Sallie Mae (SLMA)
Schering-Plough Corporation
Scibal Insurance Group
Sears Mortgage Corporation
Square D Company
Tupperware
USA Funds
Union Electric
United Parcel Service
Washington Gas & Light Co.
Wilsonart Plastics
Wisconsin Public Service Co.
The Wood Company
Yale University

"THE NOLAN WAY!" WAY!

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I am amused by the current youth lingo in which teenagers act surprised when they are informed about some bit of gossip by saying, "No way!" They typically get an affirmative response of "Way!"

It makes me wonder if such simple language can communicate Nolan's approach to achieving results on a client's project. Successfully marketing a consulting firm is tricky since words used to describe methodology, style, techniques, results or competitive advantage are often read and copied by competitors.

We discussed this battle in vagary with a well-known public relations executive from Chicago at a conference of the Association for Management Consulting Firms, and he made an interesting suggestion. He recognized that Nolan has many positive attributes: expert and seasoned professionals; deep industry knowledge; a comprehensive understanding of technology and its impact on business effectiveness; a participative approach to solutions; a detailed and well-documented methodology; a balanced examination of alternatives; a sensitivity to each client's customer needs; a results-driven and no excuses mentality. He said these attributes could be summed up in what we internally preach as "The Nolan Way." We thought about this and responded, "No way!" to which he confirmed, "Way!" He summed up the idea with the question, "How could a competitor counter a consulting firm's culture of being rich in knowledge, concern, capability and results?"

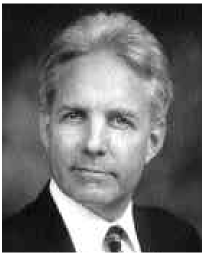
The leadership in Nolan's banking, financial services, insurance and health care practices each wants to focus on marketing the Nolan attributes that the executive management in each of these industries cares most about today. This unfortunately can result in enterprise marketing that looks more like a vanilla umbrella.

The difficulty to differentiate in words hit home recently when I was visiting a new executive of a bank client in Birmingham, Alabama. She asked me what made our firm stand out from our competitors, and for the first time in ages my enumeration of the list of attributes left me thinking that there is no way to differentiate even with an enthusiastic recital of meaningful words. It most often takes a discussion with past clients to fully understand and appreciate just what The Nolan Way stands for.

We need to find a way to simply respond to these inquiries by saying that what makes us stand apart from our competitors is The Nolan Way—to which we can anticipate a response of "No way!" and then can simply confirm "Way!"■

"Never, ever, think outside the box."

Project Management: It's What's Up Front that Counts



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In the book "The Goal: A Process of Ongoing Improvement" by Eliyahu M. Goldratt and Jeff Cox, the hero discovers that his scout troop can complete a hike only as fast as the slowest scout. The protagonist then goes on to apply that learning to identifying and eliminating manufacturing bottlenecks. (I highly recommend the book—the lessons apply to service industries!)

What the hero of the book learned also applies to project management. The problem is we usually don't identify (or we misidentify) the slowest scout.

For many, the phrase "project management" brings to mind project plans, duration, resources, dependencies and a host of technical concepts related to measuring progress and results. Many people blame a lack of on-time project performance on not having the proper tools. In working with clients, however, we find that projects fail more for reasons that have to do with not investing up front in setting the stage for success.

Three sequential elements are necessary for managing projects successfully, as depicted in the chart below. First, the project's mission and scope need to be defined and understood. Second, the project team must be organized and truly empowered to accomplish its mission. These first two elements, Mission & Scope and Organization & Empowerment, must be executed well so that the project can succeed. Lastly, appropriate tools and methods must be employed.

Mission & Scope

Three factors need to be satisfied for this first element to be in place. Often, this element receives little attention because of the presumption that the need for the project is obvious and, consequently, key individuals will support it. Nothing could be further from the truth.

First, the key executives whose organizations will be touched must agree with and commit to the project's mission and scope. This does not mean, necessarily, that they have a vote, but only that they are on board. Achieving this may require the personal intervention of the CEO. Absent this agreement and commitment, the project team will operate without real authority, and their work may not be acknowledged as having relevance. Further, the team may not have access to the resources necessary to perform critical tasks.

The project sponsor, key executives and the project team must share a complete understanding of the project deliverables. Also, the preliminary work must be performed to ensure that the sponsor and project manager comprehend the tasks to be accomplished and the resources required. These two factors must be in place before the project team can be brought together. Often this can be done during an implementation planning phase, during which more robust cost/benefit analyses are necessary to validate earlier approval decisions.

"There is no expedient to which a man will not resort in order to avoid the real labor of thinking."

...Sir Joshua Reynolds

As with the next element, establishing the Mission & Scope requires work and thought, both of which tend, as Sir Joshua Reynolds points out, to get shortchanged in life.

Organization & Empowerment

The objective of the organization phase of the project is to ensure that each individual team member understands and accepts his/her role and set of responsibilities, and each understands the mission and scope of the project. During the on-boarding process, most project managers usually provide the team members with sufficient background regarding the need for the project, its objectives and its deliverables. In this critical formative period, however, emphasis also must be given to team governance.

In working with teams, the first few meetings ought to be used to address topics such as rights and obligations of team members and how the team should communicate internally and externally. In thinking about communications, the team should recognize that several audiences may exist with distinctly different needs and expectations. The project sponsor needs and expects a different stream of communications than the general employee population.

Other governance matters deal with how decisions of the team will be made, whether and in what form to permit individual dissent, and how to deal with team members who do not behave in accordance with the team's own guidelines and rules. The project sponsor and manager can and should set boundaries around which decisions the team can make and which are to be made by others. The point is to be clear about decision making. In the end, each team member ideally has the same behavioral mindset and expectations as other team members.

The team also needs to be empowered, but in very specific ways. In a model that I use, team members can be expected to meet performance goals only in the event that the following conditions exist:

1. **Authority:** The team collectively, and each member individually, has the authority to perform the tasks required to achieve the team's mission. In this sense, authority also means that each team member and his/her direct supervisor understands the priority of assigned tasks in relation to other work responsibilities. Authority also means that the team members have the right to negotiate and re-negotiate

priorities with the project manager and the team member's direct supervisor to avoid conflicts. Establishing and maintaining appropriate priorities for project tasks is the key to making resources available to achieve timely results.

2. **Skills:** A usual consideration for the composition of the team is the set of functional skills necessary for the team to accomplish its mission. Normally overlooked, however, is the need to ensure that each team member has the requisite skills to be successful in his/her role as a team member. For example, if team members are to interview people in the organization, they need to know how to do so effectively. Also, individuals representing functional areas should not be presumed to be knowledgeable about all aspects of the function. As an example of this, a representative from IT should not be presumed to know how to manage a software vendor selection process.
3. **Information:** Two kinds of information are required for the team to be truly empowered. The first, and more obvious, is data relevant to targeted analysis, hypothesis testing, conclusions and recommendations. Being able to obtain this data is one reason for assuring the agreement and commitment to the project by all relevant managers. The project manager may have to intervene, with the help of the executive project sponsor, should this data not be forthcoming because of dysfunctional behavior on the part of one or more managers.

   The second kind of information relates to understanding how each member is performing within his/her assigned role and responsibilities on the project. Project managers should actively provide one-on-one feedback to team members and, as necessary, coach the team member regarding how to be successful. Sometimes, individuals need to leave the team. The point is that team members should have the information to know how they are performing and have the opportunity to adjust to meet expectations.

4. **A stake in the outcome:** Project teams have serious responsibilities. Not coincidentally, members usually ascribe significant career risk to being a member. The greater the potential impact of the project, usually the higher the perceived risk. Further, my belief is that participating on teams is duty above and beyond the call. So a question, if unspoken, of many team members is "What do we win if we win?" As a result, the team and each member should be held accountable for results, good or bad. Rewards should be meaningful, in terms of both the value of a successful project and the contribution of each team member to its success. "Atta boys" and paper hats are fine, but much more is required for thoughtful recognition. Because, however, of the risk (and additional work) that each member usually assumes in accepting a team role, I lean toward public rewards and private consequences, with the latter being determined in the light of substantive barriers to success, individual contribution and effort, and the opportunity to provide constructive professional feedback that helps each member learn from the experience.

"Rewards should be meaningful, in terms of both the value of a successful project and the contribution of each team member to its success. 'Atta boys' and paper hats are fine, but much more is required for thoughtful recognition."

Tools & Methods

Much has been written about tools and methods for managing projects efficiently and effectively. Some very powerful, if not overly user-friendly, software packages are available to help plan, assign resources and track progress. This is critical to managing for results. In addition, however, there must be a process in place for gathering data on project progress, identifying and removing barriers to progress, and taking corrective action. Normally, project meetings are useful for this purpose. I have found, however, that many project teams need to adopt a more effective meeting behavior that provides focus on productive discussion with a bias for decision making and taking appropriate action. Facilitation of these meetings often is helpful in sustaining focus and making effective use of time. Documentation of project meetings should be both concise and avoid memorializing dialogue. Typical meeting documentation would include:

- Decisions Made/Agreements Reached
- Next Steps
- Issues

Another area in which many teams need to make greater effort is in managing communications, both within the team and with external individuals and general audiences. As discussed under governance, the team should make conscious and informed decisions regarding what to communicate, to whom and when. This includes the project sponsor along with employees at large. Making communications a standard agenda item for project meetings has been used effectively by many project teams on which I have served. Lastly, effective communications means all team members observing team rules, the violation of which should be considered an egregious breach of duty.

Tools & Methods are important to the efficient conduct of any project. However, in the project team's march toward progress, the "slowest scout" usually is hiding in Mission & Scope or Organization & Empowerment. As the old saw goes, "It's a poor carpenter who blames his tools." ■

NOLAN MEDIA AND EVENTS

AITP Information Executive

Nolan Chairman Ben DiSylvester's article "Be Careful Not to Block Your Organization's Success" is scheduled to appear in the online newsletter of the Association for Information Technology Professionals.

IASA's the Interpreter

An upcoming issue will feature Nolan CEO Dennis Sullivan's interview with Zurich North America Middle Market President and CEO Donald J. Hurzeler.

***PIA Magazine*, October issue**

The article "The Exclusive Agent—Surviving in our New Economy," by Nolan Senior Vice President Kim Wilkes, appears in this issue.

***Claims Magazine*, October issue**

The article "Measuring First Line Claim Performance" by Nolan Senior Consultant Larry Wood is scheduled to appear in this issue.

October 26 – 28, 2003: techDEC, *Technology Decisions* Exposition & Conference

Our client, American Express Assurance Company, will speak about changing the claims process to achieve results. The session will explore Amex's new workflow and how it can accommodate future changes within the company, including new technology, new employee skill sets and integration to new processes.

November 2 – 4, 2003: ISOTech, Technology Showcase

Developing business requirements and improving business processes are vexing challenges for IT and business executives alike. Enabling those requirements to effectively support IT initiatives is another distinct challenge. Join Nolan and Doreen Evans Associates to experience a proven system that delivers comprehensive requirements and process improvements that enable truly successful IT projects.