The Nolan Newsletter

People, Process, Technology

Robert E. Nolan Company
Management Consultants

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Business Unit Responsibility In IT Projects

Regular readers of this publication know that we are big advocates of rigorously defined business requirements for IT projects, along with the systems requirements and cost/benefit analysis. However, there is another necessary element of success in IT projects—business unit working relationship. It is the business unit's active involvement in the project from start to finish.

Typically, at the start of the IT project, the business unit has the opportunity to tell all they can think of in terms of what they need today and, one hopes, what they would like to see in the future. Then, being fairly certain all their business needs have been communicated, the business people go back to attending to business. The IT people start turning the requirements into a "new/revised system." Shortly thereafter, "technical difficulties" with some of the requirements are encountered, because of "the way we (IT) need to do things." These technical difficulties may result in diverging away from the business requirements initially communicated. Unfortunately, the business people are too busy or unable to assess the impact of what these changes really mean to them. In the long run, IT will be blamed, but the business unit's lack of attention and involvement is just as much at fault if the final product disappoints, for whatever reason.

In an effort to avoid this problem, IT strengthens its project development life cycle, often by trying to help business units articulate what they are really incapable of articulating on a complex form. This "solution" often adds more red tape than value.

A more effective solution is dedicating someone who understands both the vision and business drivers. This person will prioritize the technology project appropriately by devoting for example, as much time and attention to it as a business issue. When organizations take this approach, we have seen that issues still arise, but the involvement and resulting working relationship with IT delivers a better result. ▪

Ben DiSylvester
Chairman

The Results Of Activity

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A friend recently told me that his wife had him working on eight different projects around the house. His wife overheard his comment and said, “Yes, but let’s talk results. How many of them have you finished and finished correctly?” I chuckled, but her comment made me think of how true this seems to be.

Too often, people judge or track their performance based on activity rather than results. What is a result? A result is completing the necessary volume of work accurately, on time, and at the right cost. Too many managers, from front-line supervisors to CEOs, sometimes go from one extreme to the other. They either do not track many metrics or get bogged down in time-consuming tracking of the activities in their area of responsibility. The optimum middle ground is determining and tracking the *results* of the work done. For example, this could mean the number of applications or claims processed, the number of customer service requests fulfilled, or the number of payments applied. These are the results, not the number of items completed in each step of the process.

> Too often, people judge or track their performance based on activity rather than results.

Keep in mind that a *result* may have multiple pieces of data required to view the final number. Remember the four components of a result: volume, accuracy, timeliness, and cost. If I have application processing as my area of responsibility, I want to know on a daily or weekly basis how many applications have been processed: the result. This single piece of data can tell me many things if I have a baseline to which to compare it. If the volume is not at the level I expect, there must be an issue with either the quality or the service time standard.

Here is a simple exercise that I ask people to do when they feel they are bogged down in metrics or question how they are managing an area. You are in charge of your area but can only stand at the front door of your company. At the end of the day as your employees file out, you can ask them five questions about the department. What would those five questions be? Those five questions should be the critical components of your area of responsibility and I bet you will be asking those five questions about results. ▪

"I still don't have all the answers, but I'm beginning to ask the right questions."

Bringing Objectivity and Discipline To Your Performance Measurement Systems

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Companies striving for high performance have many of the same goals, especially when it comes to their performance management systems. First, they look to realize the highest possible performance vis à vis their business strategy — they leverage their market position while applying core capabilities and resources. Second, they look for ways to shift their positioning to take advantage of market opportunities. Third, they look to accelerate major change programs to beat competitors to the punch or redefine the competitive landscape. In all three cases, aligned and objective rewards and performance management systems are critical.

Companies rightfully look to their management and measurement systems to achieve organizational alignment and success; most boards and management teams use these systems to influence behaviors. The problem, though, is that many of our management measurement systems remain fundamentally broken, intrinsically limiting, or flawed. For example, we often see companies leaning sharply towards accounting-based or retrospective measures to gauge performance. As a result, many of today's management systems fail to build on the fundamental drivers and successes of current business. Another typical issue is that systems are often siloed, functional, or organization-based and not focused on decision-making. Or, finally, they are simply static, with inadequate feedback and learning that come from measuring.

Take, for example, the insurance company who perceives near-term performance as a win. In fact, erroneous data capture systems, scrupulous sales activities, or immature underwriting skills might be undermining next year's profits. Or the company who rewards today's new business issuance but pays less attention to customer churn (i.e, lapse rates), existing agent / customer account penetration, policy redemptions, and so forth. Or the company who reviews its project performance and says, "Looks like we had a flawed plan. Let's reset the plan."

As a result, many measurement systems are dumbed down into more of a negotiating process than anything else. Management then rethinks the minimum acceptable targets and creates plans that are achievable based on historical versus stretch performance, buy-in to targets begins to wane, negotiations around the minimum standard continue, or senior management starts to manage details instead of the direction of the company. In all cases, measurement systems become unsatisfying at best. Worse, they can produce suboptimal behaviors that are difficult to reverse once they become part of the day-to-day.

A comprehensive measurement system must provide the means to define performance expectations and direct management energy towards achieving it. This includes:

- A systematic way to determine true performance potential and to establish the relation between operating performance and financial results
- A disciplined planning process focused on the processes, capabilities, and key decisions that drive operating performance to set meaningful and measurable goals along with effective allocation of resources
- Management decision support tools to help managers assess their situations and develop action plans based on those elements that lead to superior operating performance
- Operational results and feedback management to promote continuous improvement and facilitate real-time adjustment to changing conditions
- Rewards consistent with what managers can influence and designed to stimulate exceptional performance and superior decision-making

Establishing an effective performance management system is no easy task, especially when it calls for shaking up the status quo. Assessing, redefining, and bringing forward industry best practices of high performance management and measurement systems is at the core of the Nolan Company’s operational experience. Please feel free to send us an e-mail or give us a call if a conversation is in order. ▪

Reinvent or Become Irrelevant

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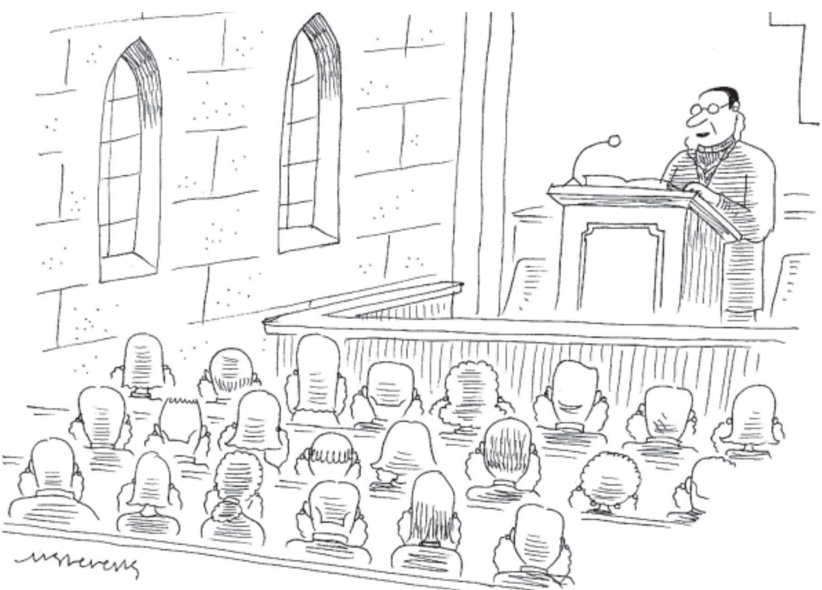
Recently, Tower Records, which operates 89 stores in 20 states in addition to 9 foreign countries, filed for Chapter 11 for the second time in three years. The New York Times reported that "the brick and mortar specialty music retail industry has suffered substantial deterioration recently." Consumers are rapidly moving to music download options like iTunes from Apple Computer and Rapsody. The result in the industry is that while disk sales fell 7.8% in 2005, digital downloads tripled. It is estimated that music downloads will grow another 200% in 2006, prompting one Ars Technica reporter to surmise that "big studios still don't seem to know that a freight train is about to hit them." There is a definite shift in the marketplace. Tower Records countered in mid-2006 with TowerPod.com, but they have far too much invested in physical plant and inventory to withstand the downward spiral of traditional distribution.

> The message to bankers is that technology is causing a major shift in the buying behaviors of music consumers.

What is interesting to me is that the demographic segments that are converting to music downloads are not limited to young, hip, electronically conversant music lovers. I received a wonderful iTunes gift certificate from my daughter and her fiancé for my birthday. The industry might consider my daughter to be just the type of music buyer most likely to convert. A week earlier, however, at a lunch with a client bank, the CIO of the bank and one of our 50-something senior consultants were engrossed in a conversation about how they budget time to organize, review, and purchase songs for their iPods. The conversation expanded to placing expensive Bang & Olufsen stereo systems in mothballs in lieu of new home docking systems for their iPods. I quickly called my music expert friends about the conversion, and it seems like it has all started to take place in the past year in a big way.

The message to bankers is that technology is causing a major shift in the buying behaviors of music consumers. The physical music CD is no longer necessary, and it may soon go the way of the eight-track tape. How much longer will physical plant in banking be considered necessary to consumers? We have seen remote capture in the small business and commercial sector start to take hold, and electronic payments are rapidly advancing. Consumer behavior is influenced by friends, relatives, or other contemporaries, and an avalanche may be in the offing here as well. Banks that are innovating will likely be positioned for the next shift in consumer behavior, but the rest of the 7,500 banks might end up selling off assets like Tower Records. It seems like it is time to reinvent. ▪



"Please select hymn number 637 on your i-pods.

Strategy Driven

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In the work Nolan consultants do, we're exposed to a wide array of organizational environments. "Strategy" is a word that gets a lot of use in all of them—so much so that I challenge readers to e-mail me if you think you can prove that your organization does not have a strategy. I am not saying a good strategy, an effective strategy, a written strategy, or a pursued strategy—just that there is no strategy. I am willing to bet a lifetime subscription to our quarterly newsletter that there won't be a single winner. Needless to say, if there are winners, their names and companies will not be published in the next newsletter. My point is that strategy is like certain parts of the anatomy: every organization has one. For most businesses, strategies are right up there with websites, logos, and a home office.

So what's the point? Well, after all these years of consulting, I recently had the opportunity to experience a corporate environment that was totally unlike anything I had ever experienced, and I have seen everything from 90-employee mutual insurance companies to global financial service companies with over 20,000 employees. The organization in question was completely and absolutely strategy-driven. Before proceeding further, let me explain that there are degrees to which organizations are strategy-driven, ranging from "it's a poster in the entranceway" to "it strongly influences the way we think and act." But the environment I recently experienced was off the charts. Employees at the lowest level of the organization understood the strategy. It influenced the day-to-day thinking and actions at all levels.

Moving beyond wild-eyed admiration of this organization, it is impressive how efficiently this organization could pursue change efforts. As we conducted our pre-engagement survey, people at each level could cogently explain how successful pursuit of their strategy had created conflicts with their current delivery capabilities. That is a really efficient place to begin any form of improvement effort. Getting employees' minds and hearts around the need to change had been eliminated from the improvement effort. The improvement effort at all levels started with "we have hit some barriers to continued pursuit of our strategy and now we need some help."

How do you get your organization to this wonderful place?

For strategy setters:

- Stop focusing on concentrated "off-site" sessions to set your strategy.
- Start having a long, continuous discussion within your organization about how your organization will be successful and who you want to be.
- Conclude those discussions with a bold, simple set of understandable ideas (free of confusing, multi-syllabic business speak).
- Introduce the strategy to all stakeholders. Don't worry about where they disagree; worry about where they don't understand and solve that.
- Finalize the strategy.

All others:

- Communicate the strategy.
- Ensure that all your actions and decisions align with that strategy.
- Continue to communicate that strategy relentlessly.

And now for the ultimate disclosure: the organization this article is based on is Amerisure Insurance Companies, Farmington Hills, Michigan. Do some research on their performance and see if you would like to have that type of success for your organization. ▪

WHERE HAVE ALL THE SUPERVISORS GONE?

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The title of this article is inspired by a popular protest song of the '60s, an era of involvement, commitment to change, and protest against perceived injustices. Because I intend to protest the loss of supervisors from front-line production units, it seemed like an appropriate reference.

When I entered the business world, the supervisor was first-line management, responsible for training employees, setting a unit's goals and priorities, auditing work (we called it "checking"), and in general being aware of what was going on in the unit. Supervisors did this by being in the unit, keeping their hands in the work, knowing the processes, and, most importantly, keeping tabs on who was doing what and when. The system worked, and so did the supervisor.

Today, the roles of supervisors have not changed, at least not on paper. Ideally, supervisors still set priorities, control workflow, plan, and review the unit's effectiveness. E-mail, voice mail, fax machines, PCs, and a host of other new tools are available to assist them in their efforts.

But something appears to have changed. In many companies, supervisors feel virtually invisible. They seldom appear in their units, and their employees feel lucky if they get to spend a few minutes a week with them. Supervisors no longer participate in training because they don't know the processes, don't believe they have the time, or because the training function has been delegated to someone else. In fact, supervisors appear to have delegated most of their supervisory responsibilities.

Cliché phrases have evolved to typify the modus operandi of today's overscheduled supervisor: "Let me see if I can fit you into my calendar." "Is a week from Tuesday at 2 good for you? I've got 30 minutes open then." "Let's do lunch, I'm booked for the rest of the day."

Are supervisors spending more time in meetings to discuss work than doing actual work? Has "time management" spawned a new organizational monster? In some ways, we may have traded in a disorganized supervisor who got the basic job done for a well-organized manager who has lost sight of what the job is.

> Is there any hope?
> I firmly believe there is,
> and that management
> can reinstate a
> hands-on approach
> among supervisors.

Is there any hope? I firmly believe there is, and that management can reinstate a hands-on approach among supervisors. The answer may sometimes be as easy as asking supervisors to stay in their units. But in most companies, attitudes about one's job are a product of corporate culture, and culture shifts are always a slow process.

To help management, we've developed this list of suggestions:

1. Develop practical supervisory training courses. So often supervisors start their positions with little or no training. As a result, they do what other supervisors do, or imitate their managers, who may not understand the proper role of a supervisor.
2. Set a good example by visiting supervisors in their workspaces. This underscores the importance of status checks and face-to-face communications with employees. Also, make an effort to be around for your supervisors, perhaps by cutting back on the time you spend in meetings: if supervisors find you accessible, they will likely make themselves more accessible to their employees.
3. Be selective about who you invite to meetings. Don't invite supervisors or other personnel whose input won't be essential.
4. Keep meetings short and focused. Allot no more than 30 minutes per meeting, and develop agendas. If invited to a meeting, ask for a copy of the agenda in advance.

5. Ask probing questions about the supervisor's unit. "What is the oldest item in your unit? What is your unit's backlog? Who is working on which items today?" Point out the importance of this information in maintaining control.
6. Discuss the problem with your supervisors, but don't call a meeting. Visit them and ask them for solutions. They may provide you with a simple answer to the problem.
7. True, culture change rarely comes quickly. But don't overlook the opportunity to foster positive change through effective leadership by management.

Now, please, as a favor to me, do not call a meeting to discuss this article. ▪

"Keep up the good work, whatever it is, whoever you are."

Training Camps and the Budgeting Process

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Every August, football fans begin to get excited about the upcoming college and NFL seasons. At the same time, business executives begin to dread the annual budgeting process. I got to wondering, why the difference? Both are annual events; as some would say, it is the "same old, same old." What is it about budgeting that doesn't inspire the same eager anticipation in executives that football does in fans? While I remove my tongue from the side of my cheek, let me say that I know the budgeting process is not that exciting. You could say it is like being a Jets fan—great promise but little delivery.

One would think that something that is performed annually and comes under so much scrutiny would be a candidate for improvement and redesign. Why not make something you know you are going to do every year an enjoyable, efficient, value-added management practice?

Today, some of our clients are taking exactly that approach. Now, every management seminar tells you to link your budgeting process to your strategic planning process. Everyone says they do it, but the perspective is usually at 40,000 feet and the approach skips the dreaded details. By thoroughly looking at practices and evaluating them for cost, quality, and importance to the customer, organizations can begin to prioritize needs and focus on improving specific aspects of their operations. Whether it is a staff function or core operation, every part of the organization should be focusing on improvement every day, planning for it every year.

We have helped a number of clients shift their "budgeting process" to an expense management process. Sounds like semantics, right? Well, not exactly. By categorizing a billion-dollar budget into functional areas (including cross-functional processes), an organization can apply a consistent approach to evaluating where and how it spends its money, how effectively the money is being spent, and opportunities to spend less or more wisely. By implementing the framework of a tried-and-true methodology (value analysis), we have helped firms make the budgeting process one that doesn't look at just cutting expenses, but one that constantly evaluates how the client delivers its services. It is a cross between managing expenses and driving continuous improvement.

The power of the approach is that it engages front-line managers, motivating them to see beyond the problem areas to every part of the operation, with a goal of improving, eliminating, or, in some cases, investing in change. Under the approach, managers put some teeth in next year's goals and objectives by improving those "trigger areas" that most influence the outcome of a function or process and move the organization towards better and best-practice performance.

There are challenges to making this approach an effective part of your management practices toolkit. First, it can't be delegated to your budget coordinator. It has to be a team effort that gets managers rallied around next year's goals and objectives and how they are going to be funded (that's the expense management side of the process). You have to be comfortable challenging today's way of doing things. Change does not have to result! You most likely have some well-oiled processes already in place. Being open-minded, critiquing what goes on in your area, and accepting input from outside your area make for an ideal environment.

Look at it this way: you are going to have to put together your budget every year. Someone in finance is going to question how you came up with your numbers and ask you to cut another 5–10%, and someone else is going to cite some industry benchmark that suggests there's room for improvement. Why not incorporate a new way of tying your operational review to your budget review? When you come to the table next year, you will be able to pinpoint areas you have improved, new processes you are investing in, functions and processes you are considering eliminating, and candidates for redesign. Why wait till next year? Why don't you begin thinking expense management now and use the time you've always spent creating next year's budget to incorporate some new principles and some new techniques? I assure you, the benefits will be huge!

Call us: we'd be glad to help. ▪

Coming Soon... the Nolan 2006–2007 Life Industry Survey Results

The results are back from the Robert E. Nolan 2006–2007 life insurance industry survey, and we've completed the analysis. A top-line review of respondents' collective considerations runs a broad gamut, from one executive who states:

> *"The U.S. is a twilight economy. Our aging population will effectively shut down our production capacity. Other, young economies will take up the void. China, South America, etc., are where we should be going. Global is key 5–10 years out."*

to a company president's view that:

> *"Nothing stands out above others—it is a combination of back-office efficiency and better front-end efficiency with customers (self-serve, contact-center-automated management, etc.)."*

With more than 51% of respondents at an EVP level or higher, and almost 80% officers in their companies, strategic considerations are at the forefront of the responses. The balance across functions also ensured a broad look at the industry, with 19% from knowledge and risk management areas such as underwriting and finance, 16% from IT, 18% from marketing, 23% from operations, and 24% at the C-suite level of the company. All in all, the respondents provided an excellent mix across all defining characteristics.

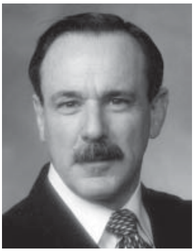
Valuable insights, compiled from active leaders across the industry, address timely issues, including:

- How do companies see themselves doing with regards to goals, strategies, expense management, process improvement, and technology?
- What are the most important industry trends that executives should be monitoring or allocating resources to?
- Are any changes foreseen in the competitive landscape over the next few years?
- With so many opportunities, how should sales and marketing departments focus their energies and allocate their limited resources?
- How important will technology be in the future, and which of the many technological solutions represent the best, most strategic investments?
- Is outsourcing still considered the panacea to operational expense overruns, and what is the role of on- and near-shore versus off-shore?

These and similar strategic issues confronting the industry today are reviewed in the report. A detailed analysis of the responses and their implications—performed by our insurance industry specialists who bring their considerable expertise to bear on the analysis—is also included.

Results of the 2006–2007 Robert E. Nolan life insurance industry survey, "Strategies for a Changing Industry," will be available as a bound report to be mailed to all participants and available free of charge to interested parties. To request a copy, please visit **www.renolan.com/lifesurvey.**

The Mountains You Draw Depend On the Mountains You've Seen



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It was late in the day, and the sun had begun to set. The office had cleared out hours ago and the executive suite was quiet, too. We were with our client, talking about the successes and setbacks their cash-rich company had experienced in its transformation from compliancy to competitiveness in a rapidly changing market.

A key part of their transformation was helping their middle managers move their thinking from an activity focus to a results focus. When we first began to work with them, it was quite clear their culture revolved around what they were doing rather than the results and impacts of what they were doing. When we interviewed executives, we didn't hear what you would expect to hear in a competitive firm. Their conversations frequently involved stories about how busy they were rather than stories that ended in a benefit for their external clients. Activity and effort drove the culture, not results.

Over some months, as the transformation continued, we gained some traction with this issue. We saw that some of the division heads had changed metrics and goals to emphasize results. We were hearing discussions and formal presentations that had the new results emphasis. These division heads had latched onto the new results focus and were trying to drive the culture change down into their organizations. But these division heads were frustrated because the directors and managers seemed to be slow to understand and adopt this part of the transformation. And another group of division heads hadn't yet changed their metrics and conversations.

So there we were as dusk settled over the mountains, exploring with the COO why some parts of the organization were making an effort and having success and other parts weren't. And then our client said the oddest thing: "I guess the mountains you draw depend on the mountains you've seen."

"What do you mean?" we asked.

"Last weekend at our family reunion, I got to draw with crayons with my granddaughters," she said. "We drew mountains. I noticed that my granddaughter from Georgia drew nice, smooth, green mountains but my other granddaughter from Arizona drew sharp, jagged, brownish mountains. It dawned on me that they both had the idea of 'mountain' but because they had seen different mountains, they drew different mountains. Maybe we are doing the same thing with the new metrics… maybe some of our people have only seen green mountains."

And she turned out to be right on the point. We found that those division heads who were having success with the new metrics had more diverse management experience than the other division heads and had worked in firms where results were the name of the game. They were successful because they were doing something familiar.

The other division heads were executives who had spent their entire careers at the company. Their ascension up the ranks of the company had been based on managing and reporting activity. Because these executives didn't have a lot of experience managing for results, it was harder for them to make the change. And nearly all of the middle managers had experience only in that one company. They, too, had seen only one type of mountain.

So what happened? We did what you'd expect. We took the issue back to the division heads and used the mountain analogy. We paired the division heads up so that there was a blend of experiences and then asked them to develop a new plan for each division. We developed a series of sessions for the middle managers to discuss the change and again we used the mountain story as communication technique. And the transformation continued, with the divisions and units making better progress than before.

The COO told us she learned that when people are having trouble with a change, maybe she can learn why by asking them what kind of mountains they had seen. ▪

CHARGE! HERE COMES THE CAVALRY

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When I was a kid, I loved Westerns. In those old movies, just when it looked like curtains for the good guys, the cavalry would come charging in and save the day. I can still hear the familiar bugle call that signaled the charge. And when the fighting was done, the cavalry rode off into the sunset to fight again another day.

In call centers, of course, things are a little less dramatic. It can get pretty chaotic sometimes, but at least nobody's shooting at you! Another difference is that call centers routinely need help from the cavalry when call queues build, and it's usually easy to predict when that help will be needed.

Because of the random nature of call arrival, even the best-run call centers occasionally experience higher-than-expected call volumes. And when that happens in your call center, do you have a bugle call to summon the cavalry? Do you even have a cavalry?

Some call centers take a very passive approach to sending in reinforcements. They use phone lights or message boards to let everyone know when help is needed. Some even keep a back-up group logged into the phones and ready to respond. These call centers are simply hoping that enough people see the signal and come to the rescue. Sometimes it works and sometimes it doesn't.

Other centers take a more active approach. They use a traffic or workforce management analyst to monitor the call center in real time. They have pre-assigned back-up cavalry teams who know it's their job to respond to the bugle call. They are as quick to dismiss the cavalry when they're no longer needed as they are to engage them. Some even rotate cavalry members so they're not using the same people all the time.

If you've been using one of the more passive approaches and would like to implement a more active approach, here are some things to consider.

<u>Manage in real time</u> – Even if your center isn't big enough for a full-time analyst, use team leaders or other senior staff for this role. It doesn't take a lot of time to keep an eye on a small center.

<u>Have a plan</u> – Name the cavalry members and train them to handle calls. Develop plans for quickly engaging and then releasing the cavalry. Implement daily planning to forecast how badly the cavalry is likely to be needed every day and communicate the plan.

> These call centers are simply hoping that enough people see the signal and come to the rescue.

<u>Adjust the budget</u> – Cavalry members have other jobs, and when they're helping the call center, they're not doing those jobs. So, make sure the budget reflects the fact that x% of the other job is earmarked as call-center work.

<u>Monitor performance</u> – If you're successful, you should meet your service level goals more often. Measure the percent of 30-minute intervals in which you hit your service goal.

<u>Be flexible</u> – Don't be afraid to experiment or to change what's not working. There are lots of different approaches that can work effectively.

With a more active approach in place, the next time you're watching one of those old Westerns and hear that familiar rally (Dut-dah-dut-dah-dut-dah-dut-dah-daaaaaaah! Charge!), you'll be able to enjoy the movie and not even think about your call center.▪

It's the Process

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Data shows that more than 90% of existing companies don't have the sales and service integration to support e-commerce. Another problem: to install an effective enterprise-wide support system, you are actually trying to connect the functional departments to a database already operating on old legacy systems—trying, in effect, to use a technology solution to integrate processes across boundaries without fixing the process. This leads to the high cost and failures we hear about in the installation of these systems.

I feel there is a systematic way to develop your strategy and it focuses on process, people/organization, and technology. It's like a three-legged stool where the dependencies are significant.

Processes

One of my favorite definitions of "process" was offered in the book, "Improving Performance," by Rummler and Brache (Jossey-Bass, 1995). They considered processes to be:

> *…a series of steps designed to produce a product or service. Some processes may be contained wholly within a function. However, most processes (such as order fulfillment) are cross-functional, spanning the "white space" between the boxes on the organization chart.*

I like this definition because it conveys the broad scope that is always present in core business processes and because of its reference to the "white space." I firmly believe that the majority of technology investment to date has been made with far too little attention paid to the white space.

People/Organization

If an organization is honest with itself, it will notice that processes significant to customers are often prisoner to internal turf wars. The single point of contact for the customer, like a call center, can be a source of finger-pointing and boundary squabbles on the inside. In *The Horizontal Organization* (Oxford University Press, 1999), Frank Ostroff accurately describes the problems in vertical organizations this way:

> *Movement in a vertical organization is either downward or upward. Because separate departments performing separate functions do all the work, the system naturally involves multiple hand-offs that devour time and ineluctably focus inward on corporate politics and each department's goals rather than outward on the production of products and services with value that continually satisfies and wins customers.*

Good process redesign usually points out the breakdowns for the customer in the organization in the "white spaces" and defines ways to fix them.

Technology

Before computers, one person was responsible for maintaining a list of each group's eligible employees and their benefits. That person would prepare bills, send them to the group, receive payment back, make any changes to the eligibility list, reconcile the payment, and send out another bill. This was true customer focus—one-stop shopping at its best.

Of course, volumes, complexity of benefit design, managed care, and other developments have moved us away from manual processes. Computers now enable multiple people to access common data and have facilitated the fragmentation of well-designed jobs. Now, member data entry is separate from account billing and reconciliation, and in many companies, claim processing is separate from customer service. Claims processors don't talk to customers, and customer service staff don't know how to process the claims that customers call about.

Today, many organizations lead with technology solutions as the change agent, then watch as disaster strikes or costs skyrocket. Like organizational decisions, technology decisions should be driven by the best processes in your organization, not by a default technology solution which will immortalize broken processes.

Conclusion

The longevity of an organization is in direct relationship to the decisions made by key management. The pace of today's changes doesn't allow for a years-long adaptation. But there is a light at the end of the tunnel if an organization focuses on core processes, integrates the flows across boundaries, does away with the organizational boundaries, and begins a planned conversion to today's e-business through its process enterprise. Functional organizations won't disappear, but functional dominance *has* to end.

> The longevity of an organization is in direct relationship to the decisions made by key management.

It's the process and whoever has the best processes will win. ▪

IASA/Nolan Survey Results Now Available

The Insurance Accounting and Systems Association (IASA) and The Robert E. Nolan Company are conducting a series of brief surveys to explore the use and effectiveness of information technology in the insurance industry. The first survey in the series is called "IT as a Business Enabler" and the results are now available. The results reveal the top-priority projects for both business and IT, and which initiatives have met with the most (and least) success. Visit www.renolan.com/IASA to view a summary of the results and to request a copy of the full results report. ▪

Who Brought the Peanuts?

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Working as a consultant places me squarely in the world of project work. Unlike operations, project work has—*should* have—a defined purpose, a start, an end, a measurable goal, assigned responsibility, and a sponsor with the power to accomplish the project's goal. The project will have a leader and a team of folks who may or may not have worked together in the past, and these people will occupy different roles and levels in the organization. (Projects are usually characterized as cross-functional, bridging departments and positions.) Nearly all of you will have worked on projects structured like this, and you may have formed your own project team to address a problem or to perform an implementation.

How the members of a team interact is a key to the success of the project. Like the cultures of countries, the interactions on a team are governed by a code of behavior—the kind of real-world rules you learned your first few days on the job. They range from dress code (do men wear jackets all day, only in meetings, or never?), whom you address by first name or last name, to the more serious issues like how candidly you speak, and how much risk you take. Like a visitor to a foreign land, I get the opportunity to see a project group's dynamics with the distanced objectivity of an outsider. There's a recurring behavior I've seen at several very different organizations—one I like to call "who brought the peanuts?"

What am I talking about? Bear with me as I tease this out a little further. One of my favorite movie quotes, from "Men in Black," is "A person is smart, people are dumb." This line gets at the heart of the self-defeating behaviors that sometimes paralyze groups. The members of the group, each with their various roles and agendas, get together and talk and talk, but they manage to talk around *the* issue. The issue is as big as an elephant standing in the room, but no one will address it, no one will identify it. The team ignores the elephant completely, and they will have to feed it if it hangs around much longer. So who brought the peanuts?

If you get the members alone afterward, while they might not agree on all the details, they all knew the issue was there. They recognized the elephant in the room. Sound familiar?

Why do smart people do this, and what can be done to help groups avoid this problem?

> ...they are largely immune from the consequences that may follow when addressing unpopular topics.

Facilitators brought in from outside the company have the advantage that they are largely immune from the consequences that may follow when addressing unpopular topics. In internally facilitated meetings, it falls to the facilitator to steer the discussion to the root cause of the problem. A good tool is using the "five whys" approach, the facilitator can move the group step by step to identify and confront the elephant.. In meetings that do not have the benefit of a facilitator, the task becomes more challenging. It falls to the group leader to assess the risk, identify the issue, and make the call. In most cases, it is risk avoidance that drives the *ignoring of the elephant* in the first place; that risk can be real or only perceived. The members of the group might fear retaliation: the rationale may go "If I don't talk about this then they won't (fill in the blank)."

Discussing the root issue with the project sponsor can often help. The sponsor can de-energize the issue so the group can handle it. The sponsor can do this directly with the team or outside the team meeting setting. Unfortunately, if the sponsor and team do not address it, the best possible outcome will be an accommodation. The elephant will have a long visit and eat a lot of peanuts. ▪

The Value of "Why?" (aka, The Tale of the Turkey Wing)

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Process redesign and process improvement are two of the most powerful tools available to executives for enhancing service levels, quality, or effectiveness. Even the best of companies hang onto entrenched processes that serve long-gone purposes. By facilitating workshops across a multitude of companies, challenging top-performing teams to explain the rationale behind their processes, Nolan has helped them discover that often either the root need has disappeared, eliminating the process entirely, or a much more effective approach is available. The net result is significant opportunity to measurably improve the current situation, which translates into strengthened competitiveness, less expensive processing, faster turnaround times, or better quality.

Recently, at a meeting to review the progress of a large process redesign project, one of the sponsoring executives shared some feedback from their process redesign team. With the project staffed by experienced, tenured people, the depth of knowledge about not only what was in place today but what had been tried and discarded in the past was extensive. Even so, as this executive told the story, some of the top staff on the project seemed a bit frustrated by the workshop facilitator's persistent habit of challenging the current state with that simple yet wonderfully powerful three-letter word, "why." The issue, it seems, was that "why" was being asked three or more times for every process, every step, challenging long-held beliefs. The facilitator's refusal to end the discussion after the first explanation was provoking some deeper thought and bringing under scrutiny some well-ensconced yet inexplicable processes. For the employees who had loyally followed these procedures for years, it was disconcerting to realize that they did not have a clear sense of the underlying reasons—or if there was a reason, to realize that change over time had entirely eliminated the underlying need. Being competent staff with a high degree of pride in their work, discovering that a process no longer had a valid business reason was both uplifting in the opportunity presented and frustrating in the mere fact of its existence.

How was this frustration handled as key staff came forward for support and “operational absolution” from the perceived sin of process perpetuation? Being a creative leader with a deep pocket of life lessons, this particular executive coached the staff with a great parable, one that made the point in a humorous yet memorable way. It was the parable of the turkey wings.

For their first Thanksgiving as a married couple, a husband and wife were sharing the meal with two generations of maternal parents: the wife’s parents and grandparents were all at the table. It was a fine time to celebrate in the tradition that had long been cherished by the wife’s family. Carving the turkey, the husband noticed that both its wings were missing, nowhere to be seen. As servings were being doled out, he asked his new wife why the wings had been removed from the turkey (that’s one). She replied that she always removed them before cooking the turkey; just as her mother had done before her for as far back as she could remember. Turning to his new mother-in-law, the husband asked why she’d removed the wings (that’s two). The answer was the same—she had always removed the wings before cooking, just as her mother had done before her for as far back as she could remember. It had always been done that way. Now, a sensible spouse might have yielded to the inner voice that counseled, “You’re part of the family now; just deal with it.” Unfortunately, this particular husband was a change-management consultant. He looked at his wife’s grandmother, who at this point was looking a bit sheepish, and asked her why the wings were removed from the turkey before cooking (and that’s three). After clearing her throat, she replied that back when she prepared the bird, her roasting pan was too small, so removing the wings was the only way to get the bird to fit.

"*What I don't get is why once we fly south we don't just stay there.*"

What a great way to make the point about long-standing yet obsolete processes that once served an important purpose. And that the only way to discover these buried legacies is to aggressively challenge the underlying assumptions. A culture that reinvestigates, revalidates, and redesigns is one that is constantly improving—one that will remain at the forefront of its industry.

Do you have processes that are "pulling the wings" off your ability to compete? Are you losing your edge in an increasingly competitive marketplace due to unchallenged or inadequately challenged traditions? No matter how progressive your organization, there probably exist wingless birds to be found and larger roasting pans to be used. Take advantage of facilitated probing to peel back the layers of logic and get to the root of your processes. Then, make the changes necessary to differentiate yourself in today's competitive environment. The solution begins with asking "why." ▪

Using Staffing Models to Achieve Project Benefits

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Most organizations make a significant investment—significant in both actual dollars and opportunity costs—when they conduct studies to improve operational effectiveness. The detailed analysis and implementation necessary to develop improved processes and technologies is always expensive. For this investment to make business sense, benefits equal to or exceeding the cost of the effort must be achieved. In reality, most organizations set benefit goals that are several times the cost of these projects. Given this, it is surprising that many companies do not have effective ways to measure the impact of proposed or implemented changes.

Since human resources make up a large percent of the operating expenses for most financial services companies, understanding how changes affect staffing requirements is critical to identifying and achieving a return on investment from improvement projects. A straightforward but effective tool to measure these impacts is the staffing model.

Staffing models can be used for a variety of purposes. They are used to project future staff requirements. Their flexibility also supports creating and analyzing "what if" scenarios to measure the impact of alternative improvement options. Post implementation, staffing models are also a cost-effective way to measure staffing requirements and productivity on an as-needed basis.

Several components are required to develop accurate staffing models. They are:

- The jobs or job families included in the model
- The key transactions or activities for each job family (the 80/20 rule applies here)
- The projected work volume (new work received per day, week, or month)
- Time estimates
    - The time to complete one transaction or activity
    - Time estimates can be developed using:

    - Current performance standards, actual or modified
    - Historical records
    - Experienced, well-trained staff members
    - AOC (the Nolan Company's engineered standard development system)
- Staffing allowances
    - Added to the model as activities (i.e., training, meetings, miscellaneous activities)
    - Adjustments to time estimates (i.e., personal time, vacations, sick leave, and group performance)
    - Overall allowances for supervision/management, clerical support, and other staffing not included in the model as job families

This information is loaded into a spreadsheet using formulas to convert the data into staff requirements. The expected staff level generated by the model can then be compared to baseline staffing, and from that, benefits can be calculated.

Flexibility makes a staffing model a powerful tool. Once set up, it is easy to modify and update the model, whether to run alternate scenarios or to fine-tune it as more accurate information becomes available. Any of the key components can be manipulated to reflect the expected environment. The model can also be modified to reflect special situations, such as geographic, regulatory, or other exceptions. A particular benefit of using staffing models is the ability to project well in advance what impacts a change may have on required staffing.

A staffing model does not reduce staff or achieve effective staffing on its own. Rather, it is a tool that can be used to objectively consider the impact of change on organizations and staff requirements. Each organization must decide for itself how it will achieve its staffing goals. However, all organizations owe it to themselves to understand the impact of changes on staffing requirements and to develop strategies to achieve effective staffing levels in order to realize the benefits of improvement projects. ▪

Nolan Events

PCI Information Technology Conference
October 2, 2006

Nolan Senior Vice President, Rod Travers, will speak on Business Continuity at this event in Rancho Mirage, California. Please visit www.pciaa.net for full details.

A.M. Best's E-fusion Conference
October 23, 2006

Nolan Senior Consultant, Mike Bondura, will serve on a Wireless Technology panel at this event in Boston, Massachusetts. Visit www.ambest.com for details.

ISOTech Insurance Technology Conference
November 14, 2006

Tim Lauer, Nolan Senior Consultant, and Kathy Huskey, Director Federal Employee Program, BCBS Arizona, will present the session "Moving Beyond the Call Center: How to Maximize Resources in a Service Center Environment" at this conference in Orlando, Florida. Visit www.iso.com for more details.

LOMA Emerging Technology Conference
February 7-9, 2007

The Nolan Company will be a contributing sponsor at this conference held in San Antonio, Texas. Visit www.loma.org for more details.

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