

# *The Nolan Newsletter*

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*People, Process, Technology*



ROBERT E. NOLAN COMPANY  
MANAGEMENT CONSULTANTS

*Third Quarter 2001*

*Volume 28, Number 3*

# ***The Nolan Newsletter***

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***People, Process, Technology***

## ***Table of Contents***

<i>Introduction</i>	Don't Be Fooled, the Rate of Change is Speeding Up. . . . .	1
	What is Six Sigma and What Can It Do for You? (Part 1 of 2) . . . . .	2
<i>Technology</i>	The Underlying Culprit of Technology Implementation Problems . . . . .	5
<i>Technology</i>	Success Factors for Technology Deployment . . . . .	6
<i>Technology</i>	The Technology Dilemma . . . . .	8
<i>Nolan News</i>	Nolan Executives Address Key Issues at Industry Conferences . . . . .	10
	Banking Innovations — Does CRM Qualify? . . . . .	11
<i>Client Spotlight</i>	Allmerica Risk Management Information Systems Assessment . . . . .	13
<i>People</i>	Managing for Better or Worse . . . . .	15
	Knowledge: A Key to Performance . . . . .	17
	Effectiveness and Efficiency are Not the Same . . . . .	19
	Performance Improvement for When the “New Economy” Gets Old . . . . .	20
<i>Process</i>	Technology Will Never Replace Common Sense . . . . .	22

# DON'T BE FOOLED, THE RATE OF CHANGE IS SPEEDING UP

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Was that a sigh of relief we heard late last year when the technology boom came to a screeching halt? Aside from the devastating effect it had on personal investment portfolios, some saw a silver lining. They thought that they could relax now, expecting the rate of technological change to slow to a more comfortable pace. Actually, we are seeing just the opposite.

We are seeing compelling evidence, through actual experience with clients and through interviews and surveys of industry executives, that the rate of change is actually moving at an even more rapid clip than it did last year. Because it is not the stuff of headlines, it isn't attracting much attention.

What's going on today is changing both the rules of competition and the more fundamental principles that guide major strategy decisions in the industry. Hallowed industry brands are being repositioned in the marketplace. Giant competitors are being created through consolidations and convergence. Companies are putting processes and technology into place to capture a good share of the marketplace.

It is clear now that some of the more traditional competitors, along with a few non-traditional ones, are making big changes to become better at delivering products and services to the marketplace. As a general rule, most organizations will need a clear strategy to remain viable and to assure that their products and services add value. They will also need the people, processes and technology to enable that strategy.

I'm hopeful that the ideas presented in the following pages will help this change process go more smoothly for you. ■

A handwritten signature in cursive script that reads "Ben DiSylvester".

Ben DiSylvester  
Chairman

# WHAT IS SIX SIGMA AND WHAT CAN IT DO FOR YOU? (PART 1 OF 2)

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Michael J. Meyer  
Senior Consultant

*With organizations struggling to keep costs down and customer retention up, the concept of Six Sigma quality now appears to be generating interest in the financial sector. Our recent research into this concept is the basis for this two-part article. Part 1 is designed to provide some clarity as to what Six Sigma is. Part 2 will focus on the potential utility of the concept in the industry and for your organization.*

## **Background**

In the 1980s, Dr. Mikel Harry, an engineer and statistician at Motorola, studied how variation could be used to improve performance. He then formalized his Six Sigma philosophies into a system for measurably improving “business quality.”

The Six Sigma approach became the focal point of Motorola’s quality effort and its way of doing business. Motorola’s CEO began to tout the benefits of the methodology and other executives listened. Soon, companies like General Electric, Allied Signal and Texas Instruments came on board. Motorola originally adopted and coined martial arts terms to describe levels of Six Sigma proficiency (Green Belt, Black Belt, Master Black Belt). While these terms are common, they are not universal. They indicate peer recognition, not registration or licensure. There is currently no standard describing the body of knowledge people with these titles must master, nor are there licensing or certifying credentials.

## **Definitions and Themes**

Although definitions vary slightly by source, the most common is, “A disciplined, data-driven approach and methodology for eliminating defects in any process — from manufacturing to transactional and from product to service.”

There are three over-arching themes to Six Sigma: Customer Focus (outputs must meet customer specs), Data Driven (data analysis shows a difference will be felt by the customer), and

Robust Methodology (processes should be structured around a customer's ideal experience). The objective of Six Sigma is the implementation of a measurement-based strategy that focuses on process improvement and variation reduction through Six Sigma projects. In essence, it defines how a process is performing in a quantitative manner.

### **Calculations**

The basic calculation is the total number of defects (anything outside of customer specifications) divided by the number of chances for a defect. An easy way to think about Six Sigma is that a bell-shaped curve or normal distribution can represent 100 percent of what is being measured. The area under the curve can be broken into segments, each representing a percentage of whatever is being measured, as well as one standard deviation from the mean. The technical definition is therefore to measure current performance and to determine how many sigmas exist that can be measured from the current average until customer satisfaction occurs. Six Sigma quality indicates that there would be only 3.4 defects for every million opportunities, or near perfection.

The concept of Six Sigma is based on the theory of variation, meaning that all things that are measured to a fine enough level of detail will vary. Variation in a process is driven by machines, materials, methods, measurement systems, environment and people. When there is no significant influence by any one of these six factors, the variation produced is considered "normal" or "expected." When one or more of the components have a significant influence, it is considered "abnormal." This distinction allows management to select the best course to correct the cause of the defect(s).

There are two methods for calculating sigma, the Discrete Method and the Continuous Method. The Discrete Method assumes that the customer gives credit to the service or product provider if only some of the customer requirements are met. The Continuous Method is more appropriate for more demanding customers because it assumes all customer requirements must be

met. This method provides a picture of the magnitude of variation, the type of variation, and common or special cause variation, and requires less data collection.

Once the average and standard deviation (sigma) of a process become known, more specific measures of process performance or “capability” are typically applied to compare process performance against customer expectations. These include capability ratio, capability index and capability index compared to some constant, which is the most precise. When applying these formulas, consideration must be given to short-term vs. long-term process performance. A given data sample should be considered short-term due to the variability of performance over time. As a general rule, the larger the sample size and/or number of samples taken, the more accurate the result.

### **Six Sigma Program Implementation and Project Steps**

Typical Six Sigma program implementation steps are not unlike those for a process redesign initiative. Project objectives are established, current process maps and measurements developed, a data collection plan established, project selection criteria created and processes selected for review. A project team would be established (sponsor, leader, technical expert and team members), a project charter developed, and customer needs and requirements identified. More detailed process maps would then be developed, data analyzed to establish baseline project sigma, and process and defect root cause analysis completed, and then a solution would be developed and selected. Implementation, the final step, is critical to ensure that the gains are realized and maintained over the long term.

There are two Six Sigma sub-methodologies at the individual project level. DMAIC (define, measure, analyze, improve, control) focuses on incrementally improving existing processes. DMADV (define, measure, analyze, design, verify) focuses on development of new processes at Six Sigma quality levels, where none exist or where the current process has become obsolete. Part 2, which will appear in the *Fourth Quarter Nolan Newsletter*, will discuss these approaches in more detail. ■



## THE UNDERLYING CULPRIT OF TECHNOLOGY IMPLEMENTATION PROBLEMS

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C. Kim Wilkes  
Senior Vice President

Whether or not corporate managers realize it, they have three things to manage: people, process and technology. Unfortunately, these three ingredients are often handled in a “silo” manner, even to the point of segregating the responsibilities within a functional area. Clearly, managers should be paying attention to these ingredients, but they often don’t have the power or knowledge to control them. Let’s look at two examples:

Example #1: A company spends millions of dollars to install a new imaging and automated workflow system. The contract is signed, and the technologists attempt to bring the organization into the next generation. Too often, the processes that have been in place for years are immediately automated. As a result, not only do poor processes become automated, but the processes are now more difficult, if not impossible, to improve.

Example #2: Managers view the Web as the answer to gathering data, and again, millions of dollars are invested. They wait in eager anticipation of the savings they will reap from the new medium. As they peer closely at the blank screens, they continue to hear the nearby fax machines pumping out more and more paper. What they’ve overlooked is the fact that, in many cases, the fax is still the easiest method of communication and data submission. Again, they studied the process and the technology, but ignored what people will do with it.

Look at areas where there are problems with a new technology or system, whether it’s in not seeing the benefits transpire, implementation issues, quality or service problems. In most cases, the underlying culprit will be the lack of alignment in managing the people, process and technology through the change. Be certain that these three ingredients are working together in order to avoid a large “damage control” investment. ■



## SUCCESS FACTORS FOR TECHNOLOGY DEPLOYMENT

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Ed Fenwick  
Director, Insurance Practice

The successful deployment of a new technology that achieves the expected business result is a beautiful thing to behold. Whether it is the installation of a vendor package or a custom-built application, it is amazing when the new technology delivers the hard dollar savings, service improvement and ROI that were expected when the project was approved and funded. Much of the beauty and amazement may have a lot to do with how rarely this happens.

But it certainly does happen for some organizations. And it happens across an array of technologies — from the replacement of an administrative system to imaging/automated workflow to e-business interfaces in a business process.

A number of factors contribute to these successful technology deployments, and they do vary somewhat by organization. There are some common factors, however, in projects that get the expected results. Here is a list of some of the key factors that we find in almost all successful technology deployments:

- **All of the parties involved in the effort have meaningful interest in the outcome — at all stages.** Both the business and IT sides have, as they say, “skin in the game” – from start to finish. At the highest level, the most common flaw we see in this area is that accountability is passed during the life of the project. The simplest pattern of this fatal responsibility-passing goes like this: from the business side at the funding point to IT during the project and back to the business side at implementation. In successful efforts, all parties share the responsibility for the expected results at all stages of the effort.
- **Expected business results are the overall goal, objective and driver for the project team.** For the project team, on-time and on-budget delivery is important, but only in the context of achieving the

expected business results. We have all heard of the technology disasters that came in on time and on budget, but at the cost of the functionality needed to achieve the expected business results.

- **The project team has members with the responsibility, methodologies and experience to assess the impact on expected business results at each stage of the project's life cycle.** Having a high-level business case at the beginning and a post-installation assessment at the end is not sufficient. The expected benefits can easily get lost in the details of the project. With the right methodologies, the expected business results are assessed at all phases of the project. The following grid provides a summary view of this beginning-through-end approach:

Approval & Funding	Redesign & Requirements Definition	Systems Architecture	Development	Implementation
<ul style="list-style-type: none"> <li>• Establish quantified expectations for business results.</li> <li>• Test and validate expected business results of the proposed goal state.</li> </ul>	<ul style="list-style-type: none"> <li>• Test and validate process redesign against expected business results.</li> <li>• Test and validate business, system and technical requirements against expected business results.</li> </ul>	<ul style="list-style-type: none"> <li>• Validate architecture elements against expected business results.</li> </ul>	<ul style="list-style-type: none"> <li>• Validate release plan against expected business results.</li> <li>• Validate scope definitions and changes against business requirements.</li> </ul>	<ul style="list-style-type: none"> <li>• Establish business results expectations for each release.</li> <li>• Analyze actual business results versus expected and manage corrective action.</li> </ul>

There are no silver bullets in effectively deploying new technologies that achieve the expected hard dollar savings, service improvements and ROI. There are, however, best practices that improve success rates. ■



## THE TECHNOLOGY DILEMMA

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Dennis B. Sullivan  
Chief Executive Officer

Boy, would I hate to be a CIO today! First of all, I'm not quite sure what their mission is. Second, they are in a never-ending, no-win situation. The chairman is complaining about lagging in the technology race because his golfing buddy was just written up in the latest technology journal for the new software he just installed (it's most likely a blind vendor article that's placed to sell more product). The CFO is complaining because, operationally, the ROI targets for the last round of new technology are not being met. The COO is complaining because her budget was cut, *in anticipation of the expected savings*. Finally, the company is faced with a late delivery and a cost overrun.

Wow, everyone is having a bad day! Who's at fault? The technology guy, of course. The CIO knows that the budget was cut and the latest software was too expensive, yet everybody expected miracles. It is like that line in the old country song, "Everybody wanted a dollar song, but they only put a nickel in the juke box."

*"Not getting payback from IT investments is a common theme today."*

Not getting payback from IT investments is a common theme today. From our point of view, technology is only part of the puzzle. The right technology, along with the proper blend of people and process, make up the winning formula. Although the management gurus spent years focusing on people (change management, empowerment, etc.) and the process (reengineering and BPR), we have all too often left these important ingredients out when solving our technology/system problems.

We learned about participation and customer input during the Quality era, but we hesitate to fully engage operations experts in systems design. Too often, I hear systems vendors say, "Don't worry about that piece of the process, the software will

eliminate it.” Guess what? They are right about 70 percent of the time (which is actually pretty good) and the other 30 percent brings the administration area to its knees. Overall costs go up, budgets are exceeded and the salesperson who sold the company on “the Solution” is long gone.

I’m convinced that there are many half-implemented, unimplemented or under-leveraged software solutions operating today in financial and administrative areas.

Here are three ways to help change today’s situation:

1. Engage your very best operations people in the requirements definition phase of any project. This is where many companies skimp on time and commitment.
2. Blend the new, young and creative IT talent with these experts so that both learn something.
3. Squeeze every ounce of functionality out of your current technology/software solution before implementing the new, latest, greatest “silver bullet solution.” Unless you have a mammoth surplus and can invest in new R&D solutions, make sure you are investing in a proven winner.

Don’t blame the technology. Today’s business challenge is to be able to fully implement and leverage the right technology. Integration and implementation of new software requires the technology skills of the top IT folks and the business acumen of your most knowledgeable and experienced operations people. The three-year business analyst should be the apprentice, not the lead. Develop their industry skills and they will leverage their IT talents once they understand the business.

Involve the *right people!* They will deliver you to the Promised Land, on time and on budget. Furthermore, you’ll get what you expect because they will own the solution! ■

## NOLAN EXECUTIVES ADDRESS KEY ISSUES AT INDUSTRY CONFERENCES

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Nolan CEO Dennis Sullivan and Nolan President Bob Grasing recently spoke at two high-profile industry conferences. On June 5, Dennis Sullivan was a keynote speaker at IASA's Annual Educational Conference and Business Show in San Antonio, Texas. This event is the largest educational forum exclusively for insurance, financial and technology professionals. Dennis, along with the other keynote speakers, former Speaker of the House Newt Gingrich and brothers David and Tom Gardner (a.k.a. the Motley Fools), gave valuable presentations.

Dennis' speech was titled, "Achieving Measurably Better Business Results: the Right Blend of People, Process and Technology." He conveyed to the more than 1,200 attendees that now, more than ever, technology executives are called upon to solve business problems and create measurable business value rather than to just "implement technology."

Dennis offered study results and real-world examples that highlight what many in the industry are struggling with: technology that often fails to meet expectations in terms of functionality, cost and implementation time. He took the audience through a humorous vignette that paralleled an actual system implementation project and a family trip to a Florida vacation destination — namely, both begin as great ideas, and both have challenges along the way. The Summer 2001 edition of IASA's the *Interpreter* features an article by Dennis that includes many of the ideas offered in the conference presentation.

On June 6, Bob Grasing spoke at BAI's 20th Annual Commercial Loan Operations Conference in Palm Beach, Florida. Bob spoke on the topic of "Measuring Operational Efficiency." He discussed topics such as benchmarks for improving efficiency, identification of measures impacting commercial lending, the impact of efficiency on customer satisfaction, and improving loan support and delivery.

Nolan would like to congratulate the teams at both IASA and BAI who did an outstanding job in making the conferences smashing successes. We eagerly await next year's conferences. ■

## BANKING INNOVATIONS — DOES CRM QUALIFY?



Rob Keene  
Director, Banking Practice

Regulation and technological improvements are responsible for the vast majority of innovations in banking over the past quarter century. The introduction of personal computers and the proliferation of ATMs in the 1970s captured bank management's attention. The regulatory changes in the 1980s fueled much of the industry's growth, then downsizing as bankers focused on amassing market presence which resulted in significant merger activity. Recent technological improvements are at the root of bankers' focus as well as a target for their significant investment dollars today. In fact, according to recent projections, bankers and their financial service company brethren will spend almost \$7 billion this year on CRM and increase that by 14 percent each year for the next several years.

Looking at this CRM phenomenon in light of the drivers of banking innovation since the 1970s, one might wonder if CRM itself is the innovation, or (conversely) the technology, once again.

Much is being written about CRM. Bankers at all points of the CRM spectrum are looking for a way to quantify their return on investment — either what it actually is or, if just starting out, what it should be and over what period of time should the value be realized. Ironically, the answer to this question may lie in a simple review of a few known quantities generated from historical innovation.

Look, for example, at ATMs. What drove many bankers to invest in ATMs was the promise of reduced branch cost, since customers would use them instead of a branch to transact business. But what was discovered is that the financial impact of ATMs is a marginal increase in fee income substantially offset by the cost of significant increases in the number of customer transactions. The value proposition, however, was a significant increase in that intangible called customer satisfaction. The increase in customer satisfaction has translated to loyalty that

resulted in higher customer retention and growing franchise value.

Guess what? Internet banking, a product of the 1990s, shows similar characteristics. Again, bankers invested believing that the Internet was a lower-cost delivery channel and a way to increase sales. Studies have now shown, however, that the primary value of offering Internet banking services lies in the increased retention of highly valued customer segments. Again, the intangible called customer satisfaction drives the value proposition.

Now we explore CRM. CRM is not another ATM or Internet bank. It is not a checking account, a stock or a mortgage. In fact, CRM is not anything a customer should even know about! You will never sell your customer your CRM, will you? So, one can conclude that CRM is not tangible. If it's intangible, can it be expected to produce a tangible return? Probably not, or at least not with any direct financial value exclusively linked back to the investment in CRM.

Is CRM another innovation, or the result of innovation? I think both. CRM is primarily driven by the innovation of technology, but unlike other technological innovations, CRM has power to help bankers quickly and directly improve customer satisfaction. CRM is an added dimension to ensure that what the customer expects is consistent with what the bank is prepared to deliver. One expert in bank CRM initiatives recently said that CRM is an approach that is less focused on providing the right services to the customer than attracting customers who are the right fit for what the bank has to offer. Further, the primary value of CRM is its potential as a customer retention tool. People are starting to measure CRM in terms of increased customer satisfaction rather than ROI.

So how much of a return can you expect from your CRM investment, and when can you expect it? Refer to your reasons for continuing to offer ATM and Internet banking services. The answer for CRM is the same. ■

## **ALLMERICA RISK MANAGEMENT INFORMATION SYSTEMS ASSESSMENT**

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In today's rapidly changing and competitive environment, organizations are faced with the ongoing challenge of growing the top line while assuring bottom-line profitability. Key elements in achieving these objectives are the creation and execution of a well-defined business strategy. Effective execution requires that the organization have the right people, processes and technology to support their business strategy and enable timely delivery of expected results.

Allmerica Financial Corporation is headquartered in Worcester, Massachusetts. The organization writes over \$3 billion in annuity, life, and property and casualty products. The organization's P&C division had recently redefined its business strategy. This strategy was heavily dependent on the implementation and utilization of emerging technologies for marketing, distribution and product administration. It also required rapid IT development cycles to meet aggressive business requirements.

ATS (Allmerica Technology Services) provides information technology support to the Risk Management business community and its customers. The Robert E. Nolan Company was selected to work with key members of the ATS organization and a cross section of Allmerica's Risk Management user community. They were to evaluate the current ATS environment in relation to the business strategy, identify gaps in support that would affect delivery of the business strategy and develop a strategic plan to address any gaps identified. The assessment was to cover ATS' plans through the next five years, with a primary focus on the next three years.

The Robert E. Nolan Company designed and developed databases to track and analyze information relating to the number of applications, languages and platforms, and the associated people and skill sets.

A steering committee comprised of members of Allmerica's business and technology divisions was formed to validate business strategy, confirm process goals, review

progress and approve recommendations. The steering committee confirmed that the key enablers of the business strategy would be people, process and technology. This set the stage for the analysis process and provided a central focus for the recommendations that would ultimately be developed.

**Technology.** The Allmerica-Nolan team completed an inventory of existing technology and defined the inventory of technology that would enable business strategy delivery. Based on this information, they performed a gap analysis between the current and desired state and developed recommendations to address the gaps identified.

**People.** A skills evaluation of all existing IT and business support staff was performed and the results were compared to the required skills, traits and experience to support required technologies and effectively deliver the business strategy. A plan was developed to address all identified gaps.

**Processes.** The team also examined existing technology development processes and identified the modifications that would be required to support reduced implementation timeframes. They also evaluated how to maximize teamwork between the business and technology communities and meet the organization's evolving strategic requirements.

Allmerica's redesigned technology strategy supports faster delivery of new applications and reduces traditional implementation and maintenance costs. It capitalizes on existing technologies and utilizes new technologies to provide added functionality. The strategy also promotes effective selection and management of vendor business partners and the effective transfer of knowledge to internal support staff.

Recommendations to increase productivity and enhance internal employee skill sets will reduce reliance on outside vendor resources and create significant savings over the next five years. The maximization of current technology and the strategic investment in new technologies will result in additional savings.

Allmerica has a sound business strategy with an IT plan that will support effective, timely delivery of that strategy and assure achievement of expected business results. ■



## MANAGING FOR BETTER OR WORSE

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Jim Dunham  
Senior Consultant

“For better or worse” is often used in association with wedding vows and means that we are in the relationship for the good times as well as the bad. The same must be said for our business careers. The insurance industry has its “up and down rate cycles” and the regulatory environment causes additional impacts that influence financial and operational corporate performance to suffer or to do well.

With our economy in an unprecedented expansion mode for the last several years, it was easy as a manager to get lulled into complacency. But now the economy is sluggish at best. There is talk of a looming recession. Capital and other key indicators are down. The flexibility we had disappears, the loose budgets become tight and, yes, managers lose their jobs for failure to make growth and revenue targets that were set during the better times.

This is a time when good companies and managers can actually shine. You should be doing some things for better or worse. You can still be, and should be, effective and positive. The following are four tenets you should embrace in order to manage for the good and bad times:

1. **Be realistic.** You need to know your organization and its capabilities and the markets you're in. You must also set goals aggressively. However, you must always be reviewing conditions and making strategic changes when necessary. It is bad management to stay with a goal just because you “own” it. It is good management to admit changing conditions and make adjustments. The key to this is to set realistic goals and objectives and to be able to recognize change and alter expectations based on the conditions. It's not bad management to change course; it is bad to stay the course for the sake of egos or bad judgment.
2. **Look at your people.** People are your greatest asset and their skills and knowledge will carry you a very long way.

In good or bad times you must hire and train well and depend on the collective intellect of your employees. Always evaluate performance and be honest and open. The only way to keep good people is to let them know what is expected and help them get there. Finally, in bad times, education and training are considered first prey to the budget axe. Contrary to practice, bad times are great times to enhance skill levels. Giving your people better skills that allow them to perform more functions will cause your net costs to fall.

3. **Improve productivity.** This is usually the first memo circulated during a downturn: “We must look for ways to become more productive.” It should, in fact, be the mantra for any organization all the time. Process flows need to be continually reevaluated and changed based on market conditions or organizational fluctuations. Every part of the organization, whether staff or line operation, should be measured and required to improve productivity every year by three percent. A constant emphasis here will provide a buffer against the storm of lean times and extra profits during the better times.
4. **Invest in technology.** Money is much tighter in a downturn, but failure to think about the future can lead to rendering a company unable to capitalize on the good times. The most important issue is to keep up the technology change because it supports your people, productivity and organization. The speed of business doesn't slow down with the economy, just the cash — so you must continue to invest in technology to keep your company moving forward. ■

## KNOWLEDGE: A KEY TO PERFORMANCE

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Clay Ricord  
Senior Consultant

You are familiar with the three prime spheres that affect organizational performance: people, process and technology. In today's world, there is virtually no problem or solution that does not touch all three. Every process touches technology (even what used to be considered "unique" operations), we are far from removing people from the processes (very large call centers now support Web "solutions") and the delivery of service operations can rarely be done in a single step (even though we consultants keep trying to attain that goal).

Less discussed is something that is often missing. It's one of the "operators" that is needed for "people+process+technology" to equal performance. It's *knowledge*. This is not some abstract concept, but very practical "on the front line" knowledge. It's the knowledge of the process, the product, the customer, the procedure, the culture and the technology. Let's look at just two of the factors affecting knowledge in today's organizations.

The work force has been taught that skills, not loyalty, are valued. That affects the time we can expect people to spend acquiring personal knowledge of the organization, its products, its customers and processes. We will continue to have fewer and fewer long-term experts to share the knowledge of the organization.

A second force affecting knowledge transfer is the amount of information that's swamping all of us. Whether it's e-mails, bulletins, voice mails, manual updates or announcements, the amount of information we are sifting through is legendary — and its value is questionable.

Here is a quick illustration of how knowledge-related problems affect the performance level of an organization. Recently, Nolan was working with a client team to improve the performance in an accounts receivable area. Our goals were to improve productivity and reduce the past due ratio. This firm

has procedures, though not totally current, and had moved to a new system three years before.

There were four teams in this department that generally performed the same tasks. We quickly found that there was uneven knowledge across the teams, and even within the same team. Very practical issues of system fixes, workarounds and product features varied across individuals. Issues of “philosophy” in collection practices and application of contact terms varied greatly across teams. This was true even though all teams had the same goals.

Answers to the questions below will help the process redesign team determine the best solution for knowledge management.

### **People**

- Are there known knowledge owners?
- Are there expectations for gaining knowledge?
- Does the culture support knowledge sharing?
- Is the focus on the team or the individual?
- Who (which position) is involved?

### **Knowledge Use**

- Is its use frequent or infrequent?
- Is its use high-impact or low-impact?
- Is its use simple or complicated?
- Is its use event-driven or time-driven?
- Is it low-risk or high-risk?

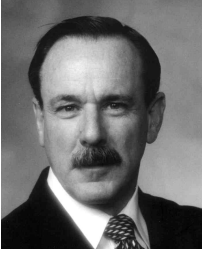
### **Technology**

- Is this best supported by point in time?
- Is this foundation knowledge (i.e., values and philosophy)?
- Is this tactical (i.e., workarounds and complaint trends)?
- What resources are available at the desk level?
- What is the expected “shelf life”?

The new process should reflect system tools, people exchanges, team involvement, best practices, lessons learned exchanges and desk level tools. Managing this as part of a redesign project is an integral part of the Nolan process. ■

# EFFECTIVENESS AND EFFICIENCY ARE NOT THE SAME

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Merit Smith  
Vice President  
Director, Health Care Practice

Effectiveness is the ability to produce the essential purpose of the process or organization. Efficiency is the ability of the process or organization to produce the desired result with the minimal use of resources. One asks, “Did you get your job done?” The other asks, “How much did you sweat?” Efficiency and effectiveness are related and often we find that our clients aren’t clear about which issue they face.

Think about a customer service unit. The essential purpose of the unit is to assist the organization’s customers in making the appropriate use of the product and service. This purpose is done largely by answering phone inquiries, letters, faxes or e-mails. If your customers’ questions are going unanswered, you have an effectiveness problem. If the CFO is worried about excessive staffing in the customer service unit, or if performance measures like phone queues are a problem, the issue is probably efficiency-related.

We use a series of diagnostics in our work with clients to help identify the key issue: effectiveness, efficiency or a combination of the two. Then we focus first on effectiveness. If a unit or process isn’t effective, its efficiency is a moot question. Resources used in an ineffective process are wasted. A novice manager or inexperienced consultant will work on improving the efficiency of a process that’s not achieving its essential purpose. This is an easy mistake to make: inefficiency is often clearly seen, and it often hides underlying effectiveness problems.

Executives don’t generally think about these topics. These problems become a priority either during the budget process or when the level of service failure is so high that it can’t be ignored.

When you encounter a management problem that occurs repeatedly, it’s likely an unresolved effectiveness or efficiency issue. The first step in resolving it might just involve understanding the difference between effectiveness and efficiency. ■

## PERFORMANCE IMPROVEMENT FOR WHEN THE “NEW ECONOMY” GETS OLD

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Robert E. Grasing  
President

Nine years ago in the heat of the presidential debates, the Clinton catch phrase was “It’s the economy, stupid.” It seems this phrase applies once again. Many businesses are feeling the pressure of retooling to build their growth engine with technology and new delivery channels — right at a time when buyers are becoming cautious. The result is a fully or partially built infrastructure that cannot pay for itself in a flat economy. The financial markets have responded with lower share prices, which erodes capital and further inhibits management’s ability to react. Where does that leave us in trying to find the best approach to positively impact corporate performance in 2001?

Here are a few steps you may consider to quickly get back on track from a profitability standpoint:

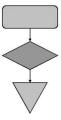
- **Strategy** – The enterprise strategy needs to be reassessed in light of the new reality. This calls for development of best case/worst case scenarios for sales in each sector and their corresponding impacts on profitability. The reassessed marketplace strategy gives us opportunities to make adjustments in information technology, process measurement and staffing.
- **Information Technology** – The new growth patterns will give us a likelihood of realizing a return on the technology investments we are currently in the process of installing or considering. We will need to reassess resources that are currently assigned to building sales and growth capabilities, which under the new scenario, will not reach the marketplace in 2001 or possibly even 2002.
- **Measure Processes** – Business processes should be benchmarked and reviewed against customers and industry peers to determine gaps. This holds the greatest

opportunity to make substantive impacts. Like most organizations, you are likely good at some segments of business, but are lacking effectiveness in others. A gap analysis could direct you to the areas where the best potential for improvements may be realized in the shortest amount of time. It will be a matter of examining value in light of new conditions. You also may have a negative gap due to the investments in technology or expected channel shift. Every cost and element of a process must be evaluated to determine its effectiveness.

- **Staff** – In most organizations, the staff represents roughly 50 percent or more of all costs. Considering that organizations likely organize for growth, it will be necessary to determine the appropriate levels in line with the new projections. Fortunately, many service transaction staff pools have a high rate of turnover and can be adjusted quickly. In the new business pools turnover is typically much lower, and plans will need to be made for redeployment into areas where there is a professional need. Staffing models can be developed to match your scenario planning.

*“Achieving profitability always gets back to examining people, process and technology.”*

Achieving profitability always gets back to examining people, process and technology. The vision of where the economy is going in view of your strategy will present a practical approach to realize profitability given the “New Economy” with which we are faced. ■



## TECHNOLOGY WILL NEVER REPLACE COMMON SENSE

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We are led to believe by the media that technology is the answer for almost anything. It allows people to communicate 24/7, the Internet provides us with so much information on just about any subject, blah, blah, blah — you know the rest. Although technology keeps improving at breakneck speed, it will never totally replace good, old-fashioned common sense.

Let me tell you why I believe this. On Tuesday at 6:30 p.m., a package was picked up by a well-known overnight courier service at Nolan's office. It was to be delivered to me in Indiana on Thursday. Unfortunately, the sender had given the courier service my post office address (which they can't deliver to)

instead of my street address. This overnight courier service had logged the package's address nine separate times on their state of the art tracking system — and still did not figure out that they wouldn't be able to deliver it.

On Thursday, I arrived home at 6:00 p.m., and the package had not been delivered. I logged into their tracking system via the Internet and found that they tried to deliver it at 3:30 p.m., but realized the package had an incorrect address. I then called customer service and listened through seven prompts for the "live body" selection. The representative was

very nice and explained to me the situation regarding the post office address. I gave her my street address and she said that the new address was in the computer and the package would be on tomorrow's truck without a problem. (A day late, but still in time.)

Friday came and the package still had not arrived. When I got home at 4:15 p.m., I called customer service again. After seven prompts and three representatives, I finally spoke with Alicia, who looked into the computer system and saw the

*"Although technology keeps improving at breakneck speed, it will never totally replace good, old-fashioned common sense."*

corrected address. She said that she couldn't understand why it wasn't delivered, but that she would contact the driver and call me back.

At 6:00 p.m., there was still no word from Alicia, but my package arrived. YEAH! The package address still read P.O. Box 321 — not my street address. I'm not sure when or if the package would have arrived if I had not called every day.

The package had my phone number and the sender's phone number on it, but we were never notified. When the package was first scanned on Tuesday at 6:30 p.m., why couldn't the technology have detected a post office address and alerted the courier service that someone needed to call for an accurate address? Instead the technology tracked it for two days, through 14 stops, until it posted on the tracking system that the address was incorrect. The bottom line: Technology can't fix a bad process, but a little common sense could definitely make a difference. ■

*“When the package was first scanned on Tuesday at 6:30 p.m., why couldn't the technology have detected a post office address and alerted the courier service that someone needed to call for an accurate address?”*