The Nolan Newsletter

People, Process, Technology

Robert E. Nolan Company
Management Consultants

Second Quarter 2007 *Volume 34, Number 2*

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Making Sense of Shifting Priorities

The recently published Nolan survey findings for the Life and Annuity industry reveal what organizations are focusing on in all segments of the financial services industry. The survey responses from senior-level executives clearly indicate a shift from an internal, operational focus to an external, market-driven one. Among other things, many financial service organizations—whether insurance companies, health care organizations, or banks—are seeking to gain a competitive advantage through better products and services.

While this is a market-driven focus, over time, success will depend on how well the internal organization is aligned to deliver on these new strategies. Just putting the new products or services out there will not work very well if the customer is treated in the "old" product or services way. Companies shifting to retirement income services, for example, must understand how to service customers who are actually retired and need to tap their accumulated assets to pay the monthly bills, as well as those who are still in the wealth accumulation stage. Health insurers need to balance good outcomes with benefit costs. Banks have a myriad of products and services to compete in the marketplace but are dealing with fragmented organization structures, which often forces their customers to deal with multiple people in multiple locations to get things done.

Given the above, the shift to market-driven imperatives does not mean an organization can ignore its internal operations. Rather, there need to be effective ways to transform operations by eliminating organizational silos, to better train people, to speed up processes, and then, to deploy the right technology. The internal redesign will better equip the organization to deliver on the strategy, assuming the organization has the right products to work with. That means starting from the marketplace/customer perspective and working inward, assuring new business acquisition processes are smooth and fast, and service processes are designed for the customer's convenience. This transformational approach gives the new strategies a much better chance to work. ▪

Ben DiSylvester

Ben DiSylvester
Chairman

Lights, Camera, Action – Rethinking Business Requirements

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Recent conversations about project successes and failures with top business and IT professionals got me thinking about Akira Kurosawa's masterpiece "Rashomon." The connection isn't as obscure as you might think.

Set in 12th-century Japan, "Rashomon" tells the story of a terrible crime, but with a twist. We see not one but four radically different versions of the same crime, each reflecting the unique perspective of the person relating the story: the criminal, the victim's wife, a psychic possessed by the victim's spirit, and a woodcutter who witnessed the crime. Whose version of the story is true?

Fade to a conference room in a large, successful company. I'm talking with several business leaders about an upcoming project with critical strategic importance. The conversation turns to several past projects that failed to deliver expected results, and they outline the reasons they believe some projects fall short of expectations:

- IT just doesn't seem able to deliver what we need when we need it.
- Our projects take too long, and they deliver less functionality than we want.
- We often settle for "phased" implementations, hoping that phase two of the project will give us what we really wanted in the first place.
- Phase-two projects rarely get done: new projects rise to the top of the priority list, pushing phase-two items down to the bottom, where they typically remain—forever.

Cut to a different conference room at the same company where I'm speaking with key IT staff. Their outline of past project experiences:

- Product/business people never seem to be able to make up their minds about what they want.
- We scramble to deliver what they asked for, yet they still aren't satisfied.

- It seems like their *real* business requirements only come out after we've designed, coded, tested, and implemented a project.

Much like the different versions of the crime in "Rashomon," these comments reflect distinctly different perceptions about the same projects at the same company. But this is where the similarity ends. While "Rashomon" leaves us to ponder the vagaries of truth and human perspective, the reason so many projects fall short of the mark is not so ambiguous.

CIO magazine summed up the problem in its November 15, 2005 issue: "Analysts report that as many as 71 percent of software projects…fail…because of poor requirements management, making it the single biggest reason for project failure."

Well-documented business requirements that specify what must be accomplished are as necessary to a business project as a blueprint is to building a new home. Imagine workers lining up to dig or pour fittings for your new house. Now imagine them doing this without the benefit of detailed specs defining location, depth, and so forth. Doing this to your home can lead to cracked walls. Doing this to a major project can lead to problems that are far more costly.

We all know this—it just makes sense. Nonetheless, many companies undertake large, mission-critical projects without clearly defining the business specifications for what is to be constructed and implemented. This is not to say that companies don't work on business requirements. They work, and work, and work on them. Regrettably, the documents they produce often miss the mark.

Helping people figure out what needs to be done, helping them document it in a way that is easy to understand, and using that document as a blueprint for technical design and construction is at the heart of managing successful projects. And it's the only way to bridge the sometimes enormous—and unnecessary—gaps that can arise between business and IT people working side by side on projects.

The Key: Start at the Beginning and Work Through to the End. Every process has a beginning, middle, and end. Taking the time to elicit and document business requirements, and following the entire cycle from front to back, is a logical way to capture requirements. But taking a front-to-back approach alone won't ensure complete requirements, and here's why. Too often, the people who work on the initial steps of the process are not fully aware of the downstream impacts of their processes and decisions. If the middle and end process requirements are done later by different people, it's highly likely that all the pieces of the puzzle won't fit together. That's one reason requirements seem to change far into the technical design phase: by the time new requirements are identified, significant re-work can be needed. All of which adds time and cost and often turns a project into phase-one now and phase-two later.

> ...by the time new requirements are identified, significant re-work can be needed.

The solution is simple: Pair a cross-functional team of business experts with their IT counterparts. Ask the entire group to start at the beginning and work their way through to the end of the life cycle, capturing, documenting, and validating clear requirements. The requirements should be ones that everyone understands, are easy to turn into technical specifications and test plans, and so on. This once-and-done approach dramatically reduces project risk by eliminating guesswork, accelerates speed to market, and significantly improves the quality of results. It is also the only proven way to make sure that business and IT are on the same page.

But persuading an organization to commit the full complement of experts needed to define requirements up front can be a challenge. Of course, if poor project requirements result in problems and gaps in the long run, the inevitable re-work will involve far more people, time, and money.

Come to think of it, Kurosawa may have had the right idea after all. It's all in how you view the situation. Take the time to get the requirements right, or be prepared to spend more time later fixing your cracked walls. ▪

Keys to Growth in Today's Soft Market

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Softening rates, well-established expectations for positive underwriting results, and that other thing…growth. The conundrum facing many of our clients today: how to create growth in the trough of a soft market. We all saw it coming, but now what to do?

Do you find your company simply reacting to today's market—or do you have a game plan? Here at Nolan, we've helped many of our clients better position themselves to address today's market challenges of falling rates and slow growth. Although the problems are varied and complex, our experience has identified five key lessons that apply consistently to those of you rethinking your growth strategies.

Key #1: Don't relax the underwriting discipline that has taken years to establish. The first key has nothing to do with growth. It's holding the line on what you already have. I can't think of a single Nolan client who has not figured out the underwriting discipline needed to write a profitable business. Sure, there are some who have more sophisticated underwriting engines, some more automated than others, some more expensive than others, but all are at the top of their game when it comes to risk selection and underwriting. Yet the temptation to relax underwriting discipline in order to bring more volume on the book is strong. Resist the temptation. It has taken years of training, design, and investment to get where you are today. You'll be glad you did next year and beyond.

Key #2: Don't give up on established markets and don't become too exuberant about new ones. Growth, or the lack thereof, keeps many a senior executive awake at night. As such, it keeps us awake, too. In helping clients search out and think through growth options, we've often found there's no better place to look than in your own back yard. Even so, some will be tempted to look in adjoining markets, new products, breakthrough delivery technologies, and so on. Sure, take a few risks, but don't overlook your established markets and channels. The grass may look greener in that other market, but part of the reason might be that you don't know a great deal about it. Delving into new markets requires extremely careful consideration, especially given today's conditions.

Key #3: Work today's channel and existing relationships over and over. Whether you are the insurer who sells through your career agency, independent agency, MGA, wholesaler, or direct, you wouldn't be where you are today without the channel partners, brand, and relationships that have taken years, often decades, to establish. Assuming you sell through human beings, find out what's on your channel partner's minds as far as where the business is going and how more business can be captured (or less of it lost). Yes, understanding the end consumer is critical. Yet one important thing we've done over the past few years is to clear up the debate for many on who is the primary customer. Most often, it is your channel partner. And for many of our clients, it's their #1 customer. Regardless, define who is your customer and find out what you need to do for them to get your fair share of the market while keeping them enthusiastic and committed to selling (or buying), and then do it.

> Betting that technology will solve your growth problem, especially in the short term, is risky.

Key #4: Beware of technologists who make big promises especially around creating growth. Those who have been around know that major technology investments take years to create a sizable impact. Before making a major technology investment, particularly for growth's sake, recall the last technology project that came in on time, on budget, and delivered the benefits promised. Technology as an enabler remains a critical component of long-term business strategy. Betting that technology will solve your growth problem, especially in the short term, is risky. Very risky.

Key #5: Take a few (very few) calculated and measured risks. We know sticking to your knitting and focusing exclusively on current capabilities is not an optimal approach to growth. An acquisition or merger may be in your future. A break-out channel partnership perhaps. Or maybe even an innovative expansion of product features or service delivery. That said, resource constraints and lead times need to be considered. All of these opportunities take time to create growth. Don't underestimate the total time, effort, and focus needed to deliver on these strategies, then realize the corresponding growth. Choose a few and do them very well rather than fragment your resources and try to do too much.

Whether your plan is to hold or grow in these challenging times, we wish you the best of luck and hope these lessons of experience prove to be of some value. We look forward to helping our clients achieve improved service, good fortune, and growth today and well into the future. ▪

Imitation is the Sincerest Form of Flattery, Even in Banking–But Does It Lead to Success?

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There is debate over imitation. Is it in fact flattery or thievery? Several years ago, there was a fascinating art exhibition, Millet/Van Gogh, which presented 21 direct "copies" of Jean-François Millet's art by Van Gogh and dozens of other early studies described by Van Gogh as his "translations" of the identical scenes. It was amazing to see just how many works attributed to Van Gogh were inspired by Millet's compositions. In this case, Van Gogh enjoys more recognition today, while in his lifetime Millet was more widely recognized and had greater commercial success. Van Gogh ended his life penniless and required his brother's assistance.

Again, is imitation flattery or is it a theft of someone else's creativity—and does it matter? This axiom is present in music, sports, fashion, and business. Successful innovation breeds imitation.

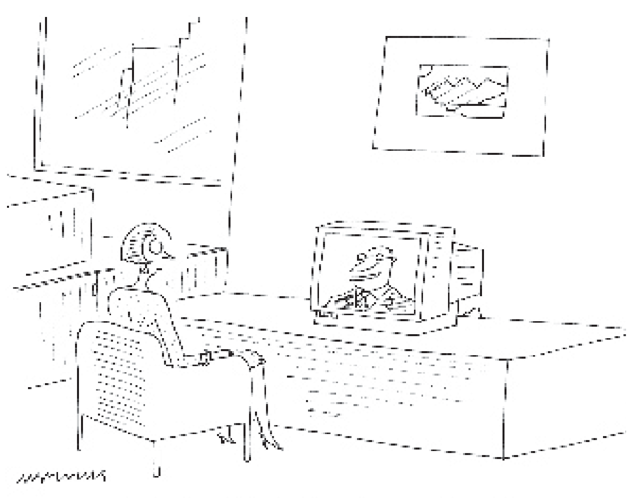
In football, the "West Coast offense" was the rage after the San Francisco 49ers started their run of five Super Bowls with this inventive approach; head coach Bill Walsh was suddenly labeled the genius behind that innovation. In golf, when Callaway first introduced a large format club head, "Big Bertha," for its drivers in the early '90s, it shifted the market to a more forgiving metal-based format. Their innovations are being copied by their competitors to this day. But who has been the big winner—Callaway or the other manufacturers? In music delivery, once the iPod became successful for Apple, other competitors, including Microsoft (with Zune), jumped in to capture some of the market. Apple still owns the lion's share of that market, despite heavy competition. In fashion, the top designers expect that knock-off artists will copy their latest fashions and, in fact, expect this to expand the appeal of their new fashion designs into a wider industry trend.

> Is imitation flattery or is it a theft of someone else's creativity–and does it matter?

In banking, the market is so homogenous that innovators can get market share, but the issue is always a question of value for the imitators. The more visible imitations in banking include no-fee checking designed to grow deposits, Sunday banking (and expanded weekday hours) hoped to increase and retain retail customers, and, of course, technology innovations, including remote capture targeted at capturing business deposit account customers.

Many banks take a wait-and-see approach with each of these. They have learned that it is not always just the product that attracts the customers and resulting profits. It is often a combination of product innovation with excellent marketing, or sales execution, or cross-training, or process innovations that make financial differences. This is why, when we assist our clients in designing new processes, we involve marketing, technology, compliance, human resources, accounting, customers, and any functional touch point to better understand how the innovations and new design will be complete and seamless for all.

The most successful practices involve imitation with tailored design—much like Van Gogh changing the color palette of Millet's paintings—only with a better result. ▪



"Welcome to First Interactive National Bank!"

2007 Efficiency Ratio Performance Benchmarking Study

Do you know how your line-of-business efficiency and productivity compare to peers of similar asset size? Do you have a structured process in place for identifying, quantifying, and prioritizing departments and lines of business that have the greatest opportunity for immediate cost and profit improvements? Now you can! Since 1992, the Robert E. Nolan Company has conducted an annual Efficiency Ratio Performance Benchmarking Study with banks, thrifts, and credit unions with assets over $1 billion. The study is a unique survey of income, expense, staffing levels, and productivity by line of business.

Take Steps to Improve Efficiency and Effectiveness

Each participant receives a valuable detailed executive summary and research report containing more than 1,100 performance ratios. The efficiency and effectiveness of each ratio is rated, and industry comparisons are made between benchmark (top quartile), median, and average performers in each business area. This information is routinely used by participants to:

- Target improvement initiatives to reduce expenses and increase revenue
- Identify improvements in customer service
- Analyze employee productivity by department
- Pinpoint performance gaps in business processes and technology

Walk Through the Online Demo

Browse the free online demo to get a feel for the results that participants receive. You can view a sample executive summary, read the survey methodology, and browse line-of-business charts.

Pre-registration for the 2007 study is underway. To register your institution, please visit www.bankbenchmarks.com. Registration in the study is free. Alternatively, if you don't have the resources to participate, give us a call at 972-248-3727 to learn how you may be eligible to purchase the 2007 Study Results CD for $1,500.

Visit www.BankBenchmarks.com.

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In the past year, the impact of retiring baby boomers has started to become real for a number of our clients. Social statisticians may soon produce some metrics that give measure to the severity of retirement-caused talent gaps, but executives at many firms will tell you it is happening now and it is severe.

Interestingly, as we look across the insurance organizations with which we are intimately familiar, we see that this gap is very often the largest in Information Technology functions. Rapidly fleeing to retirement are the senior and mid-level IT managers. A common characteristic of these retirees is a strong and fundamental understanding of the business. Most of them started, and spent a fair amount of their career, on the business side of insurance. They often made the transition to IT as part of a major automation initiative they led from the business side. Once in IT, their understanding of the business was key to continued success. They could translate business needs as they shaped the company's IT agenda.

> Rapidly fleeing to retirement are the senior and mid-level IT managers.

As these IT executives retire, organizations are finding that there is often no in-house second string to step up and replace them. Behind these retiring business-savvy executives are often individuals with specific and strong IT skills, but the broad business understanding and perspective is lacking. As our IT environments have become more complex, they have required higher degrees of specialization. This became an increasingly large barrier for movement between business functional silos and IT organizations. External recruiting to replace them is not much of an option either. One CIO recently expressed frustration that this is such a pervasive problem in the industry that "you can't even hire this type of person away from other insurance companies. If you manage to find them, they are not willing to move; they are getting ready to retire themselves."

There are steps you can take to reduce your organization's exposure to this specific type of talent gap:

- Do an assessment to see if you have this type of gap opening up in your organization. The sooner you have a handle on this, the more you can do to close a gap before it becomes a problem.
- Create movement in your Program or Project Management function. Some stability is needed, but this is the key area for getting people movement between IT and business functions.
- Challenge your IT organization to encourage some of their people to move to key roles on the business side.

The often-heard statement, "People are our most important asset," used to be the second largest lie of commerce, right behind "The check is in the mail." The restructuring of workforces, as baby boomers march out the door, will make many organizations realize the true importance of employees as assets and the need to plan ahead. ▪

"Last month, I reached mandatory retirement age.
I am still here. Anybody want to make something of it?"

Managing Cost of Care Improves Insured Result and Business Profitability

Client Spotlight

Our client, a top-twenty, multi-line mutual insurance company, distributes to mainstream America through an extensive network of exclusive independent agencies. The company's goal is to satisfy both the agents' need for a broad product portfolio and clients' need for a variety of coverages by offering a wide range of products from auto and home to life and health.

Objective

One of the company's long-standing lines—health—was identified as having a number of opportunities where performance could be improved. As a result, we were asked to review the areas of opportunity and develop an action plan that would result in the quickest, most significant improvements. Success would be measured in part by the impact on financial results for the product line, which incorporated administrative and underwriting expenses along with improving the overall cost of health care. Financial improvements needed to be delivered while maintaining or improving the results for the insured.

Current Environment

Over the past several years, business volume and profit pressures challenged the business. Operationally, line staff expenses had reduced but not to the same extent as business volume, leaving the cost-of-care expenses as the primary opportunity for improving the client's combined ratio. Since the products offered were individual indemnity, claims adjudication focused on review of covered conditions, pre-existing investigations, medical necessity, and satisfaction of deductibles.

Engagement Scope

After a detailed analysis of contributing functions across products, we determined that one significant and rapid improvement to financial performance could be made by careful integration of medical management practices into the claims adjudication and payment processes. Having identified the opportunity and associated benefits, the scope of engagement was defined to include:

- the Medical Services area, staffed by a focused team of medically experienced personnel, including RNs;
- the Claims Adjudication staff; and

- the Claims contact center, which addressed initial calls and queries on coverage and benefits.

Working in close partnership with the line directors as well as compliance, a plan was developed and implemented with the support of Nolan consultants, which included a Medical Director working on-site with the project team. Examples of the changes implemented include:

- creating a pre-notification intake process for the claims contact center to use in attempting to identify unnecessary or excessive treatments;
- training on evidence-based guidelines to use in working with providers in defining appropriate medical care expectations;
- instituting concurrent review and discharge planning processes to ensure that the level and extent of care provided met industry standards;
- defining a series of medical management reports such as daily inpatient census as well as standard utilization measures such as admits per 1000, days per 1000, observed stays per 100, and average length of stay to provide key decision and feedback data; and
- instilling higher scrutiny of medical costs using code review, drug costs based on average wholesale price tables, and Medicare fee schedules.

Project Results

The proposed practices were quickly documented and implemented in mini-training sessions for the claims adjusters, contact center, and medical services staff. Starting with process improvements that reduced the level of unnecessary referrals to the medical services staff by more than half, capacity was created to focus on more value-adding clinical issues. Implementation was almost immediate, resulting in measurable and documented cost-of-care savings starting on the very first day. Concurrent with improvements in the appropriateness of care provided to policyholders (which enhances their quality of life), cost-of-care expenses were reduced and were conservatively estimated to favorably impact the combined ratio by several points, bringing this organization yet closer to its overall improvement goal. ▪

Spring Cleaning...It Helps to Prepare!

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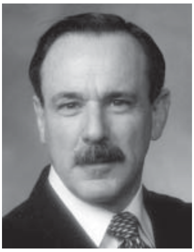
Every year it starts. It is sometimes in August or maybe early September, but it starts. “It” is the budget review process. Managers and supervisors all across the business landscape get their budget review marching orders from Finance, and they are off to prepare next year’s budget. Typically, the process runs through the end of the year, involves multiple revisions, and is looked upon as a merely administrative exercise. It also comes during a very busy time of the year—baseball playoffs and the beginning of football season.

More of today’s leading companies are moving to integrate the budgeting process into a twelve-month evaluation where the strategic plan is used to set financial goals, and the budget process is used to capture business decisions that will help satisfy the annual financial target. Integrating the budget process into a continuous business process review gives front-line supervisors and managers a way to link their department goals to an overall company strategy. You need to start early in the year with your reviews. Think of it as spring cleaning!

By linking an ongoing process review to the budget review process, you will turn a year-end chore into a routine part of your normal day. The other benefit of making your budget review process an ongoing effort is that it allows you to measure each active project in terms of the expected impact on both current and future budgets. With many companies embracing the BPM (Business Process Management) approach, it makes good business sense to tie it to your budgeting process. By developing unit cost data, end-to-end process cost, and functional cost, it becomes clear to everyone that there needs to be a measurable impact on cost from each improvement effort.

Today’s business leaders are competing with outsourcing vendors who are promoting a low-cost option for many back office, and even some middle office, services. A comprehensive and integrated process and cost review of every function is just good business practice. Beginning that effort now allows for a little spring cleaning and a jump-start on next September’s budget review cycle. Get on board and start the review today. ▪

How Many Piano Tuners Are There in Chicago?



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At the risk of sounding like a former president who talked to his eleven-year-old daughter about nuclear disarmament, this article begins with a phone conversation with my daughter. Lauren, a Stanford pre-med student, called me when I was working on a problem for a client.

"Whatcha doin'?" she began.

"Trying to figure out how many undiagnosed diabetics there are in the U.S."

"Oh, piano tuners."

"No, diabetics," I said.

"No, I mean you're doing the piano tuner problem."

"What piano tuner problem?"

"Dad, Fermi was famous for doing amazingly accurate estimates from very simple parameters. Like the time he estimated how many piano tuners there are in Chicago. So, Dr. Springer calls making a quick estimate 'piano tuning.' I heard about it in a bioengineering class where we had to do a problem set of estimates. Estimates are neat."

Estimates *are* neat. I guess I'm lucky they are, because I live in a world of estimates. How long will it take? If we follow that recommendation, what do we get in savings? If that standard of care changes, what does it do to staffing? How many ambulance runs are there in the U.S. each day?

Here are some things to think about when making an estimate:

Don't guess if you don't have to. Don't make an estimate when you can have a fact. Here is where the Internet helps a lot: a three-second search just might find the phone number of the Chicago Piano Tuners Association. Be creative about finding and using published resources.

If you can't find a fact, find an expert. And when you find one, ask two questions: Do you know how many piano tuners there are in Chicago? The expert may know or be prompted by the question to venture a guess. If he or she ventures a guess, ask how they made the guess. If they don't offer a number, follow with this question: "If you had to estimate how many piano tuners there are in Chicago, how would you go about it?" If the expert isn't getting too far with this estimating business, you might not have a real expert, but you might still be able to salvage the situation by asking "Do you know anybody that knows about piano tuning in Chicago?"

Work from big numbers to small numbers. I may not be able to find a local resource or an expert, but I might be able to find a national resource who tells me that there are 48,000 members of Piano Tuners of America. With 300 million Americans, that is about one tuner for every 6,250 citizens. If there are 2,800,000 people in Chicago, we might estimate about 450 piano tuners in the Windy City.

Make an initial guess, then figure out how to refine it. For example, our initial estimate of 450 tuners doesn't include part-time tuners and doesn't reflect that some tuners don't belong to the PTA. So we are getting comfortable that our estimate is on the low side. What to do? Think about what you have to do to tune a piano; you might be able to tune one a night if you were moonlighting or two for each weekend day. So we play around with those numbers a bit and estimate that not more than 5 percent of total piano tuning can be done in these times. Now we tack on 5 percent and have a new estimate of 475.

Get a second opinion. At this point, you can benefit from getting a second set of eyes on the problem. Find an expert, knowledgeable person, or at least someone who will listen to you, and take them through your estimate. Now lead with an open-ended question such as "What do you think?" Then ask "Do you think it is high or low?" "Why?" "Can you think of any way to improve it?"

Refine your estimate by honing in on one factor. You might be able to get a better estimate of the Chicago population, for example. You might be able to find out how many part-time tuners there are in the U.S. that haven't found the PTA. Pick the part of the estimate that you can refine the most in the shortest amount of time.

Test your estimate with other experts and non-experts. Listen to their reactions and solicit ideas as to how they would improve your guess. Don't be surprised if you talk to 12 people and you get one great idea that will improve it. Keep an open mind or at least be able to fake it.

Expect the number to wiggle around a bit at first. Fairly soon, it will settle around a number or a narrow range of values. Once the estimate is falling into a tight range, you can start to use it.

As you begin to use the estimate, be able to explain how you arrived at it. Have a simple statement about how the estimate was made, and expect to be asked whether it underestimates or overestimates.

If you are using the estimate in an important decision, sometimes it is useful to work backward from the decision to see how good the estimate needs to be. Do this by asking, "By how much would the estimate have to be off in order to make me reach a different decision?" If little differences in the estimate would make you change your mind about your decision, you will need to spend more time improving the estimate. If the accuracy of the estimate doesn't seem to have much impact on your decision process, then you are ready to decide.

> Expect the number to wiggle around a bit at first.

Don't expect perfection, but do spend a bit of effort on "perfecting" your guess. I know a health plan executive in Michigan who talks a lot about "perfecting the data." What he means is work with your data and estimates to improve them. As you do, you will get better at making estimates. He thinks, and I agree, that estimating is an executive muscle. The more you use it, the better it gets.

Learn from others. Listen to other executives and managers talk about how they make estimates. If you find someone who has a logical process, common sense, and a track record, get their phone number and talk to them the next time you are making an estimate.

Over time, you can really improve your skills in making and using estimates. You might even establish a reputation as an expert in the obscure art of estimating. If so, when someone asks you, "Hey Charlie, what do you think next quarter's volumes will be?", you can smile and say "Oh, piano tuning…" ▪

A Call to Action

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Recently, while browsing through some old executive training materials from a Fortune 100 company, I came across courses that had been used to train management on techniques of effective leadership. As I reflected on the applicability of the various techniques, my eyes wandered casually over to the packaging or, more specifically, its name: Leadership in Action. What a great phrase to express actionable lessons for succeeding as a leader.

Being a little bored at the time (it was the weekend) and faced with an overactive imagination fresh from some implementation challenges, I mentally morphed the well-designed name into a representation of what, at least to me, seemed to be a growing issue in today's organizations. It was a simple transition—say it fast, take out one space, and there you go: Leadership *Inaction*.

After the chuckle brought on by the wordplay, the reality of how more organizations have found a way to neutralize the effectiveness of their leaders sunk in. Whether in the arena of corporate ethics, strategy setting, or even at the operational level of individual and team management, numerous examples of "leadership inaction" came to mind, many of them attributable not to mistakes of action but failures to act, such as:

- Unaddressed and long-standing personnel problems that suck the motivation out of other employees
- Dormant or dying product lines ignored despite their drain on resources
- Arduous project approval processes that act as constraining filters instead of enablers
- Rapidly growing staff functions that count, price, design, consult, file, or audit business lines that are unable to cut operational expenses enough to cover the more expensive staff roles
- De-layered organizations with an overabundance of management meetings, leaving front-line staff effectively on their own

- Antiquated transactional systems left in place while the appeal of custom-developed web portal, e-commerce, and self-service solutions are pursued

These are only a few examples that came to mind as I contemplated the debilitating conditions that many businesses inadvertently internalize today. *How many do you recognize?*

One of the many challenges we face as leaders is to identify this cultural leadership inaction that contaminates our effectiveness, and then to take action to eradicate all traces of it. Consider supply and demand curves from economics, where equilibrium is achieved by sliding along the curves until they cross, until a significant economic event causes an entire curve to shift position. Similarly, leadership has reached a sub-optimal point in its effectiveness, requiring a shift to the next level in order to enable continued growth and profitability. Make no mistake: the deterioration in leadership effectiveness is costing our industry every day.

Today's leaders are more informed, competent, motivated, and technologically supported than any preceding generation, making this needed transition neither an issue of ability nor incentive. What is needed are wake-up calls, yanking the covers off these organizational encumbrances, putting them under the blinding light of day so that action can take the place of inaction and strategic intent replace habit.

Finding these covers can be as simple as taking a fresh, unbiased look at exactly where your profits are coming from, what the underlying value propositions are, and how opportunity costs are being allocated. Once the encumbrances are identified, the process of correction is relatively easy—even fun. Rest assured, you will have the minds and hearts of your front-line staff supporting the removal of these burdens, enabling your company to re-engage in focused and profitable endeavors.

With that in mind, and with an affirming nod to "The Re-Emerging *Need for Speed*" discussed in our first-quarter newsletter of 2007, let me close with a quote from Shakespeare: "Better three hours too soon than a minute too late." ▪

Don't Forget the "People" in People, Process, and Technology

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The Nolan Company has always espoused three key factors that a company must take into account when embarking on a redesign effort: Process, Technology, and People. For any major redesign or reengineering effort to be successful, a company must be prepared to analyze and address potential improvements in all three areas. Key **process** issues need to be identified and addressed in order to select and implement appropriate technology solutions. **Technology** should support the defined business processes and practices. The goal is to ensure that systems are designed so that a company can take full advantage of the technology while supporting the business strategy.

Any modification to process or technology impacts **people**. Jobs change, often the organizational structure is impacted, and metrics and measures need to be defined to capture the expected benefits for service and productivity. Often training is required to prepare employees for the process and technology changes.

Over the years, my experience as a consultant has allowed me to participate in numerous redesign projects for various clients. If I were to focus on an area in which I feel many companies fall short, it would be the "people" aspects of the project. Nolan's participative workshops engage people in the redesign process and allow team members to craft recommendations to improve processes or to outline potential gaps in technology's support of the business strategy. This approach also gives the team an opportunity to assess the impact that the proposed future state will have on roles and responsibilities, to identify training that will be needed to support the changes and to put in place metrics and measures that track the outcome of change.

My experience has been that companies tend to focus on the implementation of the process and the technology recommendations that come out of the workshops, with well-meaning intentions to follow through on addressing the consequences to staff. But during the planning process, somehow—and I would suggest that it is because it usually comes toward the end of the project—by the time the implementation team has turned its attention to the "people" aspects of the project, the staff has already begun to feel the impact.

There are several steps a company can take to avoid these pitfalls:

1. Clearly define the roles and responsibilities of any position impacted by the future state and work with Human Resources to evaluate how the proposed changes would affect current job design.
2. Complete a skills assessment of all employees impacted by the redesign. Use this assessment to identify skills/knowledge gaps and develop training plans to address those gaps. Preparing the staff in advance of any roll-out is time well spent; the effort can minimize employee frustration and maximize the anticipated benefits.
3. Identify anticipated changes to the organizational structure and put a plan in place to implement the new structure. This plan should align with the implementation of the proposed process and/or technology changes.
4. Define your measurements for success.
    a. What are your baseline metrics?
    b. How will you measure the impact of change against the baseline?
    c. If jobs or the structure of the organization are going to change, what are the expected results?
    d. Will the mix (professional, technical, clerical) of the staff change significantly?
    e. Do you need to work with Human Resources on changes to pay scales or broad-banding?
    f. How do you assess your training needs and prepare (train) employees for their new roles within the organization?

People, Process, and Technology—a change to any leg of the triangle requires an analysis of the impact on the other two. As you embark on your redesign effort, don't forget the people! Their ability to perform effectively in the new environment and management's ability to measure the impact of change will be tied directly to the success of your project. ▪

Quality Healthcare: What Is It and How Do We Know?

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As insurers, employers, and employees, we tend to focus on the cost of healthcare. But given the data on the quality of care delivered in the United States, should we also be giving at least equal time to the quality side of the equation? What is quality healthcare and is your insurer providing you, your employees, and their families high-quality care? Quality healthcare is defined by the Institute of Medicine (IOM) as the degree to which health services for individuals and populations increase the likelihood of desired health outcomes and are consistent with current professional knowledge.

Figures from Centers for Medicare and Medicaid Services (CMS) show that in 2005, the United States spent 16 percent of its GNP on healthcare—the highest percentage among all advanced industrialized countries. However, the United States ranks lower than other countries on many healthcare quality measures. The IOM has estimated that nearly 100,000 patients die annually in hospitals due to medical errors. Donald Berwick, MD, CEO for the Institute for Healthcare Improvement, says that quality problems exist in all forms of healthcare delivery, with 90 percent of the errors being systemic in nature.

Redesigning care processes based on best practices and using evidence-based guidelines are two of the most cited actions that will improve healthcare in the United States. We have a long way to go: currently, only 20 percent of medical practices follow evidence-based guidelines. More people die from medical errors per year than breast cancer, AIDS, or motor vehicle accidents, and there is considerable lag between the discovery of more effective forms of treatment and their incorporation into routine patient care. Two recent articles in *The New England Journal of Medicine* demonstrate that only 55 percent of adult patients receive the recommended care. This level of performance is equally dismal for all disease types whether for screening, diagnosis, or therapy.

How do health insurers measure the quality of the care delivered by their physician and institutional network providers? Some seek and gain accreditation of independent organizations such as the National Committee for Quality Assurance (NCQA) or the Joint Commission on Accreditation of Healthcare Organizations (JCAHO). NCQA produces reports using the Health Plan Employer Data and Information Set (HEDIS) to document the level of health plan performance quality.

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HEDIS is a set of standardized performance measures designed to ensure that purchasers and consumers have the information they need to reliably compare performance of managed healthcare plans. The performance measures in HEDIS are related to many significant public health issues, such as cancer, heart disease, smoking, asthma, and diabetes. HEDIS also includes a standardized survey of consumers' experiences that evaluates plan performance in areas such as customer service, access to care, and claims processing.

Why should all of this matter to health insurers and employers? Health insurance premiums continue to increase, and as documented by the Kaiser Family Foundation survey, health insurance premiums rose 86 percent between 2000 and 2006, with no similar documented improvement in the quality of healthcare. During the same period, the Consumer Price Index rose 18 percent and workers' earnings by 20 percent.

Quality does have value, and high-quality healthcare is both more efficient and less costly. The cost of low-quality healthcare to employers, besides premium increases, include increased absenteeism, lower productivity, higher disability, and in some instances, loss of an employee due to a catastrophic illness. The employee may experience lost income, lost household functioning, and temporary or permanent physical and emotional disability due to preventable adverse events. For health insurers, it can mean either reducing plan benefits to maintain a competitive premium or loss of market share due to higher premiums.

What steps can employers take to improve the quality of care received by employees and their families? Do you have benchmarks in your health insurer agreements that specify the expected level of quality your employees will receive, or do you trust to luck?

During the benefit design phase, emphasis should be placed on preventive health and screening programs. When evaluating a health insurer, it is important to review any accreditations (such as NCQA or JCAHO) along with any performance scores (such as HEDIS). Negotiate a financial incentive/penalty for your employee group based on quality performance measures, and in the same way you would implement a business process, develop a tool to audit the insurer's performance against the agreed-upon measures.

What steps can health insurers take to improve the quality and cost of care delivered by their physician and institutional providers? They can be more stringent in the credentialing and ongoing oversight of their providers while striving to provide consistent, high-quality care through the use of evidence-based guidelines and plans of care. They should seek and obtain accreditation from a recognized sanctioning organization and produce measurable quality performance scores that knowledgeable employers and employees will be seeking.

As always, the Nolan Company wishes you success and is ready to support you as you evaluate your healthcare programs and think through any healthcare issues. ▪

Information Technology: Enabler or Obstacle?

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The dialogue and debate around collaboration between IT and business units could fill volumes, yet are we really any closer to achieving the level of effectiveness clearly desired by both IT and business units?

A survey entitled "IT as a Business Enabler" conducted in 2006 by the Insurance Accounting and Systems Association (IASA) and the Robert E. Nolan Company provided some room for optimism but also gave voice to some lingering concerns. Seventy-five mostly C-level officers in the insurance industry shared their opinions and insights by responding to the survey.

While 88 percent of respondents rated the importance of IT as a business enabler as "very important" or "critical," 38% rated the actual performance of IT as a business enabler in their company as "fair" or "poor."

In addition to web services for customers and agents, internal workflow improvements and processing efficiencies are top areas where the respondents see the greatest potential for future positive contributions from IT. Interestingly, 33 percent of respondents report this area as one of their greatest successes to date, while 25 percent are on the other end of the spectrum, reporting this area as one of their least successful to date.

As Business Process Management continues to grow both as a management discipline and as a technology offering, can we expect to see the gap narrow between IT's importance and IT's performance? We think so, but only when considered in the proper perspective. View BPM holistically as best business practices applied through technology, rather than too narrowly (and optimistically) as a software solution you can buy off the shelf for plug-and-play process and technology improvements.

The next survey in the IASA/Nolan series, "Business Process Management," will be distributed soon. Watch these pages for the results and analysis, or visit www.renolan.com/IASA. ▪

Nolan Events

2007 NAMIC Personal Lines Marketing & Underwriting Seminar
April 18-20, 2007

Nolan Senior Vice President Steve Discher will speak on the topic of "Underwriting Process Efficiency" on April 19, 2007 at 9:45-11:00 a.m. at this seminar held in Savannah, Georgia.

ACORD LOMA Insurance Systems Forum
May 20-22, 2007

The Nolan Company is proud to partner with ACORD LOMA to sponsor the keynote address to be given by William Shatner at the ACORD LOMA Insurance Systems Forum which will be held at the Walt Disney World Dolphin Hotel in Lake Buena Vista, Florida on May 20-22. Nolan will co-present with Nationwide Insurance at the session "Underwriting Innovation: A Long-Term Success Story." Nolan will also present an interactive session titled "Shifting Priorities in the Life and Annuity Business: An Industry Report."

Visit www.renolan.com/events for more details.

IASA Annual Conference
June 3-6, 2007

The Nolan Company is honored to partner with IASA to sponsor the keynote address to be given by General Colin L. Powell, USA (Ret.) at this conference held in Minneapolis, Minnesota. Nolan will also co-present in two sessions and moderate the IT Town Hall.

Visit www.renolan.com/iasa for more details.

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