The Nolan Newsletter

People, Process, Technology

ROBERT E. NOLAN COMPANY
MANAGEMENT CONSULTANTS

Third Quarter 2005 *Volume 32, Number 3*

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

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

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Table of Contents

Vol. 32 No. 3 *Third Quarter 2005*

ROCKET SHOT HEARD 'ROUND THE WORLD?

On March 11, 2005, an Atlas rocket roared into space. It carried a satellite that will become part of a network designed to provide broadband access to mobile users almost anywhere in the world.

Unrelated to the rocket launch, but around the same time, the city of Philadelphia announced that it intends to make free wireless service available throughout the city. These relatively low-profile events could be the start of accessible technology that will enable companies, like yours, to redesign your business models for even better productivity and customer service.

In the pre-DSL and pre-wireless days, we helped design and deliver health care network services to physicians in a joint venture with a Canadian telecom. We know that a major limiting factor was broadband accessibility. We also know that the current lack of dependable wireless services requires designing process work-arounds, and it also hinders the implementation of faster response for new applications, service and claims across the marketplace.

With increased accessibility to the Internet in the near future, employees and agents will have the same level of dependable connectivity, whether they operate in rural or metropolitan areas.

Keeping in mind the concepts described by Adrian J. Slywotsky in his book, "Value Migration," it isn't so much the technology as it is how companies redesign their business processes. They must be designed to take advantage of these new technologies that provide them an advantage over the competition.

The satellite network and the Philadelphia free wireless service idea are two emerging technological trends that, properly implemented, will enable forward-thinking companies to solidify customer relationships, increase efficiency and effectiveness, and reduce costs and cycle times. ■

Ben DiSylvester
Chairman

ADDRESSING THE CONTINUAL EXPENSE CHALLENGE: *LEAVE NO STONE UNTURNED*

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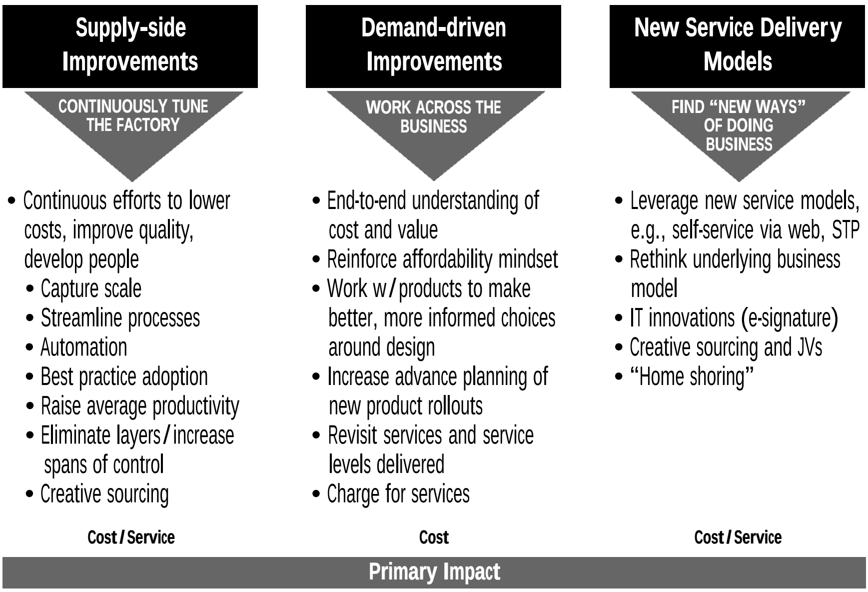
With top-line growth becoming increasingly constrained by a softening rate cycle, erratic investment market results and accelerating competitive intensity, clients are looking more closely at internal opportunities to improve results — namely expense reductions in their core operations and overhead areas. Some continue to chip away at these costs through incremental improvements and the cross-department budget reviews. Others are taking a more serious approach to achieve dramatic (30 – 50 percent) reductions in expense over the next 2 – 4 years.

For those clients in need of significant improvement, it is clear to us that business-as-usual "tuning" of operations and expense will not work. What we have learned is that the next wave of expense improvements requires a more comprehensive way of thinking: managing not only the supply-side cost structure, but fundamentally re-thinking demand-side management as well as implementing new service delivery models. This "no-stone-left-unturned" approach to developing clients' operations and overhead agenda is being adopted by many of our most successful clients (see figure on the next page).

> *"Increasingly, however, clients are realizing the value of pulling two other levers to reduce cost and improve service: managing demand and developing new service delivery models."*

To be sure, continuously improving the operation will always be a priority for expense and service management. Process streamlining, desktop automation, best practice adoption, scale capture, raising average employee productivity, etc. will always be on the agenda of expense and operations management. Increasingly, however, clients are realizing the value of pulling

The Robert E. Nolan Company Framework for Operations Excellence



two other levers to reduce cost and improve service: managing demand and developing new service delivery models.

As we presented at this year's LOMA Systems Forum (Operations Excellence: Extracting Value Through Driving Change), companies are looking across their business and turning their attention increasingly to demand-side issues. Understanding the total cost to deliver a product or service, increasing an affordability mindset across the business, and revisiting today's assumptions around "required services" are all examples of managing demand. By clearly understanding the drivers of total cost, business units can make better trade-offs between their business priorities and the costs of the internal services they seek. Some business units need platinum service, while others need just the basics. Today's competitive environment continues to reinforce the adage that one size does not fit all.

New service delivery models are also being explored. These include new technologies that enable straight-through processing, functional and business process outsourcing, offshore processing, operations joint ventures and "home shoring." More and more, no single approach is being applied. Rather, a complement of multiple delivery models is being used to reduce cost while maintaining or improving service. This trend will increase as service providers become more proficient and competitive.

Wrestling with these trade-offs yields creative, customized solutions that reduce costs and improve service. The drive for supply-side cost reductions is alive and well, but changes in demand-side practices and implementation of new service models will account for more than half of all future expense improvements.

"I think you'll be pleased to see how low we've kept our costs."

The Robert E. Nolan Company has supported hundreds of clients in their efforts to improve business operations. The challenge in all cases is how to do this without undermining service-critical functions. Those who can do both will be at a significant advantage.

Let us know if you would like to discuss the challenges you may face in this area or if you'd like to learn more about ways other companies are approaching similar situations. In either case, feel free to contact us.■

MANAGING CALL CENTERS MEANS MORE THAN JUST MANAGING PHONE CALLS

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Anyone who has managed a call center knows how difficult it is just to manage the phone calls. Maintaining service levels and quality, as well as controlling costs, are just a few of the many challenges facing call center managers. But what about all the other stuff — the correspondence, faxes, e-mails and other transactions? And what about those pended phone calls that create additional research and follow-up?

It's not unusual for these transactions to play second fiddle to the demand of incoming phone calls. Staff normally dedicated to processing is asked to take phone calls during busy periods to maintain telephone service levels. And phone staff doesn't have the time to do the research and follow-up work they promised a caller. If you've tried squeezing this work in between phone calls, you know how difficult and ineffective it can be.

So, what's the solution? Well, there's no silver bullet, but here are tips to help you better manage non-phone transactions.

- **Give phone staff some quiet time off the phone.** You probably have a good sense of the time periods when call volumes are below peak; Wednesday and Thursday afternoons and anytime Friday usually experience below-average call volume. Use these time periods to reassign phone staff to other work.

  Start by reassigning two to three people at a time, but after a while you should develop a better sense of how many people can be taken off the phones during below-average time periods and still meet your service levels. Giving someone a solid block of uninterrupted time should increase their transaction processing productivity. Also, be certain to track the amount of time you give each person off the phone and the number of transactions they each process. You want to be sure that the non-phone time was put to good use.

- **Treat transaction timeliness just like telephone service levels.** Most of our clients work hard to meet phone-service goals, but some are not as aggressive in managing transaction timeliness. When transaction timeliness lags, additional phone calls are created. First, you should have reasonable timeliness goals for each transaction type. Eighty percent in two days, 90 percent in a week and 100 percent in four weeks might be an example for a given transaction type.

  Most important, you need to resist the temptation to always sacrifice transaction timeliness for telephone answering timeliness. When pressure mounts, try to strike a balance between the two. Depending on the transaction type, it may be much better to let a few callers wait a little longer in order to reduce the transaction backlog that several of them may be calling about.
- **Monitor percent-pended phone calls.** What percent of your phone calls result in additional research and/or follow-up work after the call? This is an important number for you to know and track. Whatever the percent of pended calls is for your team, you very likely have a large number of people who are below that percentage and a small number of people who are way above it.

  Call center staff pend phone calls for a variety of reasons. You need to identify the people who pend the most calls and work with those people to reduce their pend rate. You should also establish an inventory target for the average number of pended calls that anyone should have open at any given time. You'll probably find that the folks who pend the most calls also have the greatest backlog. If you can reduce the pended call rate, you can eliminate some work. And if you can resolve the pended call more quickly, you'll reduce the chance of a call-back.

The benefits of these few changes can be significant. We've seen clients who have implemented them reduce call volumes, inventory, overtime and staff turnover. So give them a try. And e-mail me to let me know the result: bob_cecchini@renolan.com.■

Colonial Life & Accident Insurance Company: *Improving Product Development Through Process Innovation*

Colonial Life & Accident Insurance Company is a leader in providing voluntary supplemental benefit products and services for employees and their families at the worksite. Headquartered in Columbia, SC, Colonial has more than two million policies in force and serves more than 45,000 businesses and organizations by offering a broad line of insurance products, including disability, accident, life, cancer, critical illness and hospital confinement.

The Business Issue

Operational efficiency has been a core value at Colonial for many years, driven by the need to process large transaction volumes efficiently and cost effectively. Additionally, delivering quality products to the market quickly is a key driver of growth in the voluntary benefit market. This operating environment demands an effective product development process that is able to quickly convert product concepts into well-designed, customer-focused products and services, and deploy them efficiently to the field sales force.

Colonial's existing product development process was simply taking too long — more than 12 months for "next generation" products and 12 – 24 months for "new" products. Rapid changes in the voluntary insurance market heightened Colonial's need to significantly speed up the process.

Colonial has conducted process improvement initiatives over the years, but was at a turning point when it began looking for new ways to meet the demands of a competitive marketplace.

The Nolan Approach

It was at this crucial point that Colonial engaged the Robert E. Nolan Company to help it take a different approach: one focused on innovation, rather than incremental improvement. Nolan partnered with Colonial to redesign its product development process and help it implement an effective, flexible and repeatable process innovation methodology. Nolan was selected for its 30+ years of experience in assisting financial services organizations with improvement initiatives, and for its collaborative approach to consulting.

Nolan recommended the use of a cross-functional team to look at the entire product development process, from ideation through product launch and assessment, to identify opportunities for increased speed while maintaining or increasing the level of quality.

Methodology

Nolan's approach was to help Colonial formalize a process innovation capability, characterized as having:

- A collaborative, participative approach to build ownership and imbed innovation into the culture
- A customer- and fact-focused approach using assessment of current and desired results
- A focus on stretch goals to stimulate innovative thinking and willingness to overturn traditions
- A customized ability to meet Colonial's needs using mapping and metrics
- An "end to end" process view from Operations to Marketing to Sales to the Customer

As part of this initiative, a cross-functional team was formed, consisting of employees that were at the heart of the product development process. The team was charged with analyzing all of their processes, both core and peripheral, and identifying those that were impeding speed or not adding value to customers. The result would be a product development process capable of providing faster and better products to the market. Additionally, this initiative would drive the development of an environment that embraces process innovation.

Recommendations

With assistance from Nolan, the team identified 17 distinct opportunities for improvement within their respective functional areas, as well as across the enterprise. Most importantly, the team's solution was tailored to Colonial's strong customer orientation and culture that is built on an appreciation for efficiency and optimum effectiveness.

The recommendations for rapid product development focus on communication, between functions in the organization and between product developers and the field. They also provide a greater degree of integration among various functions in the organization. They involve non-Marketing functions early in the product development process and allow these functions (such as Underwriting, Compliance and IT) to significantly influence decision-making; they encourage physical proximity of product development personnel; and they give sufficient authority to project managers to get the job done.

Product concepts are now vetted by a small cross-functional team and design principles are applied to generate exact product specifications. Similar to an architect's blueprint, they provide the detail necessary to begin construction. Construction is followed by Product Launch, in which the product is released to the field sales force.

Each step in the product development process is followed by a formal decision point to move forward to the next step, terminate the project or return to the previous step to revise conceptual or design work. The development process is carefully staged to permit assessment of the work to date, validate assumptions and avoid problems before additional resources are committed. The decision points, in effect, mitigate risk and help ensure faster and more successful product launches.

The Results

Nolan helped Colonial design a new product development process capable of delivering multiple products concurrently, as well as next generation products in three months, versus the previous 12 months — and new products in nine months, versus the previous one to two years. Some of the recommendations coming out of the workshop have already been implemented, while others are being implemented during the next few months. Among these are a number of changes designed to improve workflow and eliminate unnecessary or non-value added work and increase speed to market.■

One Economist We Can Agree With

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Steven Levitt was the winner of the prestigious John Bates Clark Medal in 2003. The medal is presented by the American Economic Association every two years to the best economist under 40 years of age. Past winners include Milton Friedman and Paul Samuelson, just to put the honor in perspective.

Levitt is a different kind of economist in that he studies the behavioral and societal riddles of everyday life. His new book, “Freakonomics,” maps out just how interesting and controversial his studies are. For example, he concludes that crime is lower in 2005 than it was in 1990 because of *Roe vs. Wade*.

He also says that real estate agents do not work in the best interest of their clients. This conclusion is based on detailed analysis of the time, on average, an agent takes to sell his or her own property vs. the time an agent spends on an average customer’s property and the percentage of the appraised market value realized on this same comparison. Real estate agents spend on average nine more days and receive over three percent more of the appraised market value on the sale of their own property. This disparity hinges on incentives, he explains.

In this new best seller, Levitt presents his fundamentals, and I found that they not only apply to solving societal problems, but also to specific business problems. *Incentives* are the cornerstone of modern life. Understanding them is the key to just about any riddle. *Conventional wisdom* is often wrong. What appears logical on the surface can be deceiving and difficult to look through. *Knowing what to measure and how to measure it* makes a complicated problem much less complicated. There is nothing like the sheer power of numbers to scrub away layers of confusion and contradiction. And *“experts” use their own information* to serve their own agenda.

What is intriguing about his approach is that it resonates with our way of viewing a process or operational problem. We recognize that you get what you measure and reward (incentives). We do not take what is on the surface as a given (conventional wisdom). We recognize that you must measure what matters (process productivity, net sales gain, campaign hit rates, booked-to approved rates, cost of net new business gained, etc.). And that you have to get underneath the experts' "facts" to validate the truth of any problematic condition. This is all part of how we conduct the diagnostic phase of any redesign project.

Levitt's approach seems to connect with the purity of consultative analysis. We all strive for the same truth. Also, deep firsthand knowledge of the industry helps us as consultants to *know what to measure and how to measure it*, and our experience with hundreds of banks provides a source of understanding as to how various *incentives* change the behaviors of both banking associates and customers.

At the heart of it, this economist solves societal problems much like our firm helps our clients solve their business problems.■

"Sit down, Brad—I've got some character-building news for you."

FUNDS TRANSFER PRICING IN A BLINK

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In Malcolm Gladwell's best-seller "BLINK: The Power of Thinking Without Thinking," he describes those situations when in the first two seconds of receiving information our brains have an unconscious decision-making ability that is extremely accurate, but that we often ignore.

According to Gladwell, rather than making judgments in a "blink," we would rather rely on detailed thought to make decisions. Bankers who are worried about whether they may be lacking this inherent quick and accurate decision-making ability should make a devoted effort to notice if there are any instances when in a "blink" their judgment is at least as accurate as if they analyzed the issue exhaustively.

Every March, the Robert E. Nolan Company invites banks, thrifts and credit unions to participate in our annual Efficiency Ratio Benchmarking Study. Our study focuses on efficiency and productivity at the line-of-business level of an organization. At this level it is easier to discover specific opportunities for improvement. One of the requirements for participating in our study, and one that many bankers use to help them gauge the profitability of their business at the functional level, is Funds Transfer Pricing (FTP).

FTP is an internal accounting approach that has been around for years. Books have been written about FTP, financial manager discussion boards that include participants from around the world chat about FTP, a plethora of industry articles are available discussing alternative theories for implementing FTP, and banking organizations spend hours meeting and educating their managers about FTP. Ironically, FTP — a tool bankers created to help bankers simplify their operations so that they can make more money — may have become one of the most complex and expensive tools they have! Why does FTP have to be complex?

In its simplest form, FTP is simple arithmetic: a tool that allows the matching of funding cost with revenue generated by using those funds at the place in the organization where a funding activity occurs. Those lines of business that gather deposits and borrow funds are "paid" for any of the funds that they supply to the asset-generating lines of business, like loans and investments. This "funds transfer price" is interest expense plus a reasonable margin. Without FTP, banking organizations cannot analyze the impact of net interest income on the bottom line at the line-of-business level, the level Nolan is seeking to benchmark in our annual study.

> *"In its simplest form, FTP is simple arithmetic: a tool that allows the matching of funding cost with revenue generated by using those funds at the place in the organization where a funding activity occurs."*

It is anyone's guess what the most complex form of FTP may be, but calculus, not simple arithmetic, enters into the picture. Some bankers transfer price based on concepts like FTP rate index curves, equity transfer, liquidity premiums, adjusted swap curves, and mismatch centers born out of detailed analysis and internal debate between managers. While these more interesting concepts to some certainly add to the pool of thought about FTP, do they add any value over a simple FTP model? Where did all of this thought come from? It certainly took more than two seconds of unconscious thought to turn a simple concept like FTP into a complex theoretical model!

In a "blink" bankers understand funding cost, net interest margin and profit. No detailed, comprehensive thinking is required. Allocating the results of these simple concepts is what FTP is all about. So, take a look at your FTP model and ask, "Can I understand it…in a blink?" If not, go back to the drawing board…but not for too long. ■

No Parking

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Recently I visited a nearby lunch spot, and I had trouble finding a parking place. This is a relatively new phenomenon because, as recently as last year, the parking lot was never more than half full.

But now the economy is getting better and spending is picking up. People are shopping and eating out a little more than they were a year ago. And interestingly enough, the same is true of IT spending. "Intent to spend" indexes are trending upward, and long-delayed contracts are being dusted off. Finally, all those pending projects will get funded! Well, maybe.

If your company is like many others, you have a backlog of pending IT projects and maintenance requests. Oftentimes, managing that backlog can be more challenging than one might expect. With the projected up-tick in IT spending, managing that backlog is going to get even tougher.

With new systems on the horizon, it gets easier to say, "We aren't going to make that mod right now; the new system will take care of it." Problem is, the new system is 18 months away, and whether it will address the specific matter in question hasn't really been determined. Furthermore, when IT gets money, it necessarily spends some of that money on itself (e.g., infrastructure, networks, security — essential things, but they are of little interest to demanding business-side stakeholders).

To complicate matters, when word gets out that IT finally has some bucks, even more new projects and requests find their way into the backlog, fueled by a renewed sense that "they might actually get done" this time around.

Before you know it, there's no room left in the IT projects "parking lot." Worse yet, there is no tolerance for a full parking lot because, ostensibly, the purse strings are loosened and the expectation is that things should finally be getting done. And yes, I am probably oversimplifying a dynamic that is much more complex than a parking lot metaphor. But the fact remains that many companies just don't get enough of the right things done in IT.

Here is a simple model that may help you triage your IT projects.

- Categorize IT initiatives into buckets, such as:
  - Large projects (multi-person-year efforts with enterprise impact)
  - Small-medium projects (departmental impact; 3 – 6 month completion timeframe)
  - Maintenance and "break/fix" (no further triage here — just do them)
- Assess the impact on the customer. Does it improve service, reduce turnaround time or improve quality? Does it address an issue about which customers or agents routinely complain?
- Assess the impact on your competitiveness. Does it reduce costs, enable an innovative service or product, or enhance revenue?
- Is the business-side stepping up with detailed requirements, funding and an engaged sponsor?

First complete those projects that most improve the customer experience, enhance your competitiveness, have business-side "skin in the game" and can be finished soon. A simple weighting system will help you sort that out. Take the bottom third of the projects out of the parking lot and put them in the "junkyard."

Yes, my suggested model is very simple. But as a triage mechanism — even just a discussion framework — you will find it helpful. After that, you'll need a portfolio management and IT governance model that gets at all the maddening details that are intentionally omitted from my broad-brush model. We've done extensive work designing such governance models and would be glad to share our knowledge and experience with you.

I'd appreciate hearing about some of the more unique projects that have been stuck in your IT parking lot for a while, as well as some of the recent additions. Please drop me a note: rod_travers@renolan.com.■

Six Simple Rules for Technology Selection

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A common question we often hear from clients is, "Can Nolan recommend software for particular applications?" Due to the nature of our work with insurers and banks, and based on our industry interactions with systems vendors, our clients naturally expect us to readily answer that question. While it is true that the nature of our business results in unique insights, the answer to the question is usually, "It depends."

Recommending software is dependent on a number of factors. It depends on technical issues, such as each client's IT architecture, platform, existing systems and other new systems being considered, as well as IT's ability to support purchased applications. It depends on how the company is organized, the number of locations that will be impacted, the type of distribution channels, the size of the company and the available budget. Most importantly, it depends on process.

The bottom line is that process requirements must drive technology. We have all heard or read stories about expensive systems that were never completed or fully installed. Many times systems initiatives are terminated due to failure of the new technology's ability to meet the business need better than the system being replaced.

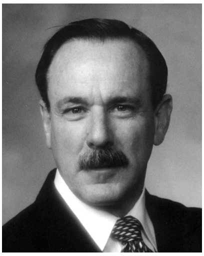
Here are six simple rules for helping you to select the right technology.

1. **Have process come first!** Define the process to which the technology will be applied. Conduct a detailed design exercise to eliminate unnecessary activities and requirements from the process. Simplify. Simplify. Simplify.
2. **Define requirements.** As a part of the process design, define the business functionality required of the technology. Prioritize these functionalities based on how they impact the effectiveness of the new process.

3. **Research.** Conduct research to discover and learn about the vendors who could potentially fill your company's technology need.
4. **Request proposals.** Prepare a straightforward Request for Proposal (RFP) that describes the technology need. Be sure to include the defined business functionality from step two.
5. **Screen and score.** Use an objective scoring technique to evaluate the vendors' responses to your proposal. Do not rely on vendor hype or presentations alone to make your important decision.
6. **Make selection.** Select the vendor who best meets both the business functionality needs and the IT capabilities of the organization.

Taking this approach ensures that the selected technologies support the two components on which the organization depends — improved processes and effectiveness. ■

"All I'm saying is now is the time to develop the technology to deflect an asteroid."



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When I met the Dalai Lama he was wearing an orange blanket. I talked with him for a few minutes, and the experience was so unusual that I can't remember what we talked about.

The word I would use to describe him is "jolly." He had a twinkle in his eye and a rolling, booming laugh. You could not help but feel his humor. He knew some important things, and he enjoyed talking with people about them. But just because he was talking about things he knew were important was no reason he couldn't laugh.

When I met Dr. W. Edwards Deming, he was wearing a business suit. I asked him during a seminar to autograph some books during a break. I don't think anyone would describe Dr. Deming as jolly, but he seemed to me to be a warm individual who enjoyed talking, one on one, about things that he knew were important.

I asked Dr. Deming a classic rookie question: "Where should I start?"

He said, "Reading the books might do the trick."

"Oh, I've read them," I replied.

"Understanding what you've read could be useful," he said, smiling, and I knew he didn't mean it in a dismissive way. He was enjoying the conversation.

I then asked, "What I really mean is which of your principles is the best one to start on?"

He answered, "Now that you've rethought your question maybe you should take a look at 'scientific management.' There's a lot to it." And that was our conversation.

One way or another, in the 18 years since that conversation I've been involved in thinking about scientific management. I've read a lot about it, I've talked to a lot of smart people about it, I've tried to practice it myself and I've worked with clients as they practice it.

I’ve come to a point in which I have a fairly clear idea of what Dr. Deming meant when he talked about scientific management.

I think scientific management comes down to two simple ideas that are powerful tools for solving service, cost and quality problems. The first idea is understanding variation. Any process will display variation. Some of the variation is normal and natural, the healthy operation of the interaction of dozens of factors within a process. The normal level of variation that we can expect from a process falls in a predictable range. Let me provide an example.

“Any process will display variation. Some of the variation is normal and natural, the healthy operation of the interaction of dozens of factors within a process. The normal level of variation that we can expect from a process falls in a predictable range.”

My cousin Laura lives in Dublin, and she takes the Number Four bus to work every morning. It arrives at her doorstep between 8:03 and 8:05. Traffic might be a bit heavy or light. The bus driver may get stopped at a traffic signal, or the weather can affect the speed of the bus. Typically, however, the bus arrives between 8:03 and 8:05.

The arrival has a process characteristic that is the interaction of the design of the process (route and bus), the operation of the process and the operating environment (traffic, weather). It all works together so that on average the bus arrives between 8:03 and 8:05. There is some fluctuation (variation), but it is normal and can be anticipated. But it can’t be managed in any real sense, other than by changing the design of the process or, perhaps, how the driver drives.

The normal bus arrival represents process and its characteristic performance and variation. Understanding the nature of variation is the starting point of understanding scientific management.

An important lesson of riding the Number Four is that if you are part of the system, you can’t really influence the performance of the system. You are truly along for the ride. You can’t reduce the traffic, change the weather or change how the driver drives. In fact, trying to reduce normal variation, other than by thoughtful redesign, will only increase variation. (More about that "thoughtful" part later.) Rookie managers (and unthoughtful executives) try to manage normal variation — and they only make things worse.

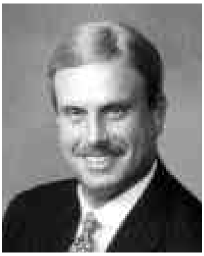
One day Number Four was six minutes late and chaos reigned. What happened? The card reader that riders use when they got on the bus malfunctioned and they had to use cash. Riders had to dig into their pockets for coins, causing a bit of a slow line at each stop. This slowed the bus along the entire route. Everyone involved with that bus on that day knew that there was some "special cause" variation involved in their daily commute.

What is important about special cause variation is that it is unusual and explainable and can be fixed by specific action. The driver could provide insight about how to reduce the special cause variation in his process, and management intervention into the system is needed.

Merit's Take Away Points: Systems naturally have variation. Some is normal, and you shouldn't even think about trying to improve it. Some variation is unusual and requires intervention. The skillful executive needs to know the difference between the two types of variation and have the personal discipline to not overact to natural things.

The second key part of scientific management deals with how to change a process in a safe and thoughtful way. I'll write about this part in the 4th Quarter *Nolan Newsletter*. ■

UNVOICED CONCERNS OF THE EXPERIENCED WORKER



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Intensifying marketplace competition and burgeoning technology continue to put pressure on organizations, executive leadership teams and their employees. As companies embrace changes, managers must look closely at the behavioral responses of their employees, especially the experienced workers.

When new technology emerges, it still has to be both adopted and adapted. This process can happen rapidly or slowly, eagerly or reluctantly, and competently or clumsily. Ultimately, organizations and people encompass change depending on their habits, style and culture. We know that if change is to accelerate in the workplace, both culture and context must change too.

Some employees — especially those who have not encountered much change — might ask, "Where is this change leading us? What lies ahead? What must I do to cope?"

Managers should be acutely aware of the two ulterior concerns that can affect the attitude of their senior, experienced workers during change. By listening to these concerns, managers have the ability to ease the transitions. Here are the stories of Mark, John and Angela.

Mark wonders, "Will I be able to perform the new job after doing it the same way for so many years?" Mark has been employed at Company A for 18 years. He has become very proficient at his duties and is proud of his abilities. But Mark recently learned that his job is about to completely change, and he is terrified and insecure. It is doubtful that he will communicate his fear to his manager.

Whether a change is as simple as moving from a typewriter to a keyboard (yes, many companies still have typewriters around), from green screens to Windows®, or paper to an image on a screen, in general, people don't like change. Additionally, the more experience one has, the more one may doubt his or her ability to make the transition.

John thinks, “After so many years on the job I have amassed seniority. This change takes it all away.” For John, mastering his job has been like earning a badge of honor. He has been working at his job for many years and he finds a certain security in the large paper files he expertly processes. He is proud to help with the training of Angela, the new employee who is fresh out of college and finds working with technology second nature. The company installs a new system that eliminates paper-pushing and automates many mundane functions. John and Angela are now on an equal footing, and much of the training and experience John could provide Angela has disappeared. What do you think John’s attitude is, or Angela’s? It turns out that John dislikes the change and becomes highly critical, while Angela welcomes it with open arms.

Managers, whose largest task is to manage people, carry the biggest responsibility for implementing change. They must remain aware of employee attitudes and concerns, and they must seek to allay fears where it is possible. The employees have a lot at stake: gain or loss of a job, the progress or collapse of a career, greater job satisfaction or intolerable strain.

> *“Managers, whose largest task is to manage people, carry the biggest responsibility for implementing change. They must remain aware of employee attitudes and concerns, and they must seek to allay fears where it is possible.”*

Modern managers can help ease fear by spending time with the experienced employees that are facing change. They can openly discuss concerns associated with change, and work to keep all communication lines open. It is important to remember that contrary to the popular adage, you can teach an old dog new tricks. ■

TAKING OWNERSHIP: WHAT MAKES IT SO DIFFICULT?

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We are in the consulting business. Getting people to take ownership and act on recommendations is probably the most difficult challenge for external consultants. However, during a recent engagement, I shared my frustration with an operations vice president about how difficult it was to get his front-line managers to take ownership of an important project and drive to get results. His response to me was, "Dennis, welcome to my world!"

At first, I was a little surprised by his response, but then I realized that the higher in the organization you go, the less hands-on involvement you have on many important projects. So the challenge becomes being able to *influence people* to take action. Making them feel ownership in the success of the project is not always as easy as one might think.

> *"Unfortunately, some in the middle-management ranks make decisions in which the result is not the needed one, and they change the project destination to meet some other desire."*

The days of directing people to follow orders are long gone. An autocratic style of management can result in people not making decisions on their own and doing exactly what they are told. This can be disastrous! We need smart and creative front-line managers who can react to situations and make adjustments in a plan, but also get to the desired destination.

Leaders in organizations are struggling to find these action-oriented front-line managers, and they seem to be few and far between. There are many people who will do exactly what we say, but like an old supervisor of mine used to tell me: "Dennis, don't always do what I tell you to, just get to where we BOTH know where we are going." That may sound a little silly, but his point was that he knew what he needed to get done, but couldn't give me every step in the process to get there, and he relied on me to make those mid-course corrections. Unfortunately, some in the middle-management ranks make decisions in which the result is not the needed one, and they change the project destination to meet some other desire.

I'm convinced that joint ownership of a project ensures great results. Working with managers to communicate where we are trying to go with a suggested plan on how to get there requires strong middle managers to execute and deliver. I've seen too many cases of middle managers not agreeing with a certain desired project and, rather than working up front to reshape the goals, they selectively follow directions — ensuring the failure of the project.

Strong leaders will not tolerate this behavior, but some leaders don't invest the time in developing creative, action-oriented middle managers who will help them accomplish company goals. Agreeing that the end goal may not always be shared, but once the decisions are made to move in a certain direction, middle managers (our future leaders) need to accept decisions, take ownership and execute the plan. Mid-stream modifications will come up, but good communication back to the top can help achieve the needed results.

How much time do you spend with key middle managers to help them hone their leadership and execution skills? The more time you spend developing their skills, the better you will be able to determine who is on the team and who is just filling a slot in your organization. These are tough decisions, but that is why you get those big bucks! ■

SAVE THE DATES!

IASA Texas Chapter Meeting
Nolan Senior Vice President of Technology Rod Travers will give a presentation on outsourcing to the Texas Chapter of the Insurance Accounting and Systems Association (IASA). The Texas Chapter meeting will be held July 28 – 29 at the Barton Creek Resort in Austin, Texas. Visit www.iasa.org for more details.

ACE•SCLA Annual Claims Exposition & Conference
This year, the National Underwriter Company has decided to merge the TechDEC Conference with the ACE•SCLA Conference where the focus will be claims technology solutions. Please join us at this event to be held October 6 – 8 in Orlando, FL. Nolan is proud to be a silver sponsor of this event. To register, visit www.ace-scla.com.

UNISYS Global Insurance Conference
Nolan Chairman Ben DiSylvester will be the keynote speaker at this event to be held October 24 – 26 in the south of France. He will discuss achieving operational excellence in today's environment. For more information about this event, please visit www.unisys.com.

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