The Nolan Newsletter

People, Process, Technology

Robert E. Nolan Company
Management Consultants

Fourth Quarter 2005 *Volume 32, Number 4*

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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.

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ARE YOU READY FOR THE PROCESS AGE?

Three groups of management scientists gave us the principles upon which virtually all operational improvement efforts are based today. Frederick Taylor and H.B. Maynard gave us measurement; Frank and Lillian Gilbreth gave us the concept of methods; and Deming, Juran and Feigenbaum enabled us to understand the importance of building quality into our processes.

Take these rather dry subjects and stir them up with a healthy dose of "guru-ism," and soon we have "trends" created by best-selling books: "In Search of Excellence," "Quality is Free," and "Reengineering the Corporation."

Both business and IT people are beginning to understand that it's all about the processes — now with technology capabilities evolving to the point that processes are not only automated, but managed through Internet-based portals, digital workflows, automated decision-making tools and business process management (BPM).

In fact, Michael Hammer, in a recent editorial in *CIO Magazine*, stated, "IT must move from an orientation around technology to one centered on business processes." He even offered up a new title for the CIO: CPO or Chief Process Officer.

From its beginning over 30 years ago, the Robert E. Nolan Company understood that productivity, service and quality were best achieved through process redesign, supported with new technology. We do feel some déjà vu when we hear the title of Chief Process Officer. It reminds us too much of the short-lived titles of the past, Vice President of the Office of the Future, etc.

It will take more than the CIO or a specially appointed officer to understand the importance of process in creating customer value. The entire organization must become single-minded in understanding process improvement. To create true customer value, it's better to avoid creating special titles and simply deliver straight through processing and other redesigned processes that are supported by the right technology. ■

Ben DiSylvester
Chairman

Replacing Systems? Think Comprehensive Solutions

Steve Discher
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The Robert E. Nolan Company has had the pleasure of working with a long list of America's most respected regional insurers. Over the years, many of these mutual and incorporated insurers have asked us to assist in defining and justifying their longer-term strategies — including plans for major automation investments.

Common trends among these regional leaders include:

- Delivery of excellent financial results measured by their combined ratio and related expense ratios
- Solid capital surplus and credit ratings
- A stable insured base built through a strong brand and established distribution channels
- A significant need for renewal of their system and automation environment

Solid financial results for many of these insurers are driven by exceptional loss cost management, highly effective risk selection and pricing, relatively lower cost labor rates, and management's extraordinary attention to details. We also find that headcount and servicing are less of an issue for these regional insurers, regardless of levels of automation.

However, as national and regional competition increases (e.g., growth of large publicly traded insurers such as Progressive, Allstate, GEICO, etc.) and rates continue to soften, managing to a sub-100 combined ratio for some insurers, strictly through traditional levers, is becoming increasingly difficult. The need for streamlined processes and systems in this environment is becoming more pronounced. We often see the need for system and process renewal surface as other symptoms, including:

- Downward servicing trend and market share losses
- Agency or channel complaints
- Project delays intended to fix the problem

- Increasing need to grow headcount disproportional with the scale of the operation

Our clients' reactions to these situations, especially those with dated information technology, often start with a consistent notion that, "We just need to replace our system." We agree, in part, with this in many cases, but often find that the system is only part of the answer. In fact, the solution is a combination of information technology upgrades coupled with process improvements and organization or role refinements.

For example, improving accuracy of data-capture at first notice of loss comes through a combination of improvements in process, training, role redefinition **and** I/T systems — not **just** I/T systems. We strongly believe the concept of a **comprehensive solution** needs to be considered in defining any longer-term automation upgrade plan — whether this covers claims, underwriting, marketing, agency management, etc.

"In replacing any system (especially in today's packaged-software environment), every reputable vendor worth their salt will bring their own implementation approach and detailed planning templates."

In replacing any system (especially in today's packaged-software environment), every reputable vendor worth their salt will bring their own implementation approach and detailed planning templates. These are considered "table stakes" in today's software vendor environment. It is part of the value proposition of bringing in a package vs. custom-developed software. We would suggest using a basic version of these templates as a starting point for planning purposes, but not to develop highly detailed implementation plans until a final vendor is selected.

We find through our experience that the best way to approach early implementation planning starts with answering the following questions:

- What measured business improvements / benefits are expected as part of the overall change and replacement effort (e.g., loss cost improvements, reserving accuracy, agency/insured servicing, LAE reduction or capacity improvements)?
- What system benefits are expected as part of the change (e.g., legacy system costs and capacity improvement, decreasing systems complexity and maintenance costs)?
- What level of change can the business reasonably take on and at what pace (e.g., how much change can be accepted, training needs, other contending projects)?
- What are the critical drivers to realizing these changes (e.g., business process change, role or organization alignment, system replacement, training)?

Addressing these challenges is not easy. Objectivity, analysis and thorough discussion is critical to reaching a rational conclusion on the size and scope of these "comprehensive solutions." If you or your company are considering these issues, please feel free to contact us. A discussion on the subject might be worthwhile. ■

"This song is very difficult for me, emotionally. Plus, the chords are hard."

Bob Cecchini
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If you have 20 or more people sitting together, and they spend most of their time on the phone, you have a call center — or contact center, as many are now calling it. But for most of our clients, the contact center isn't an isolated entity. It frequently sits adjacent to a transaction processing area; and many, if not most, of the incoming calls are related to those transactions.

This combination of a call center and a transaction processing area is sometimes referred to as a service center. If you manage a service center, you know that the call center presents more complex challenges. But to succeed in delivering effective, low-cost customer service, you must be able to maximize all of your service-center resources.

Take these five key actions to create a high-performance, low-cost service center.

1. **Design the service center organization with one person accountable.** We've seen many service centers where call center and transaction processing responsibilities are split. When accountabilities are split, focus and priorities are also split. Even when the two managers cooperate well, there are daily pressures that naturally put them at cross-purposes. Sharing resources, staff flexibility, and having common goals and objectives are all essential components of a well-run service center. When that service center is designed to be managed by one person, you've taken the first step towards meeting your objectives.

2. **Keep flexibility in mind when you design the service center jobs and hire staff.** Yes, the transaction-processing jobs require keyboarding skills. And yes, the call-center jobs require excellent phone skills. But if you think these skills are hard to find in the same person, I challenge you to rethink your position. Most people not only possess

these diverse skills, but they perform better and enjoy the diversity of switching tasks. So, first design a job that accommodates people who can do both tasks and then look for both skills when you hire new staff. Your call volumes and phone-staff needs vary wildly throughout the week, and you will need some staff flexibility to optimize service center performance.

3. **Maintain a sufficient level of cross-trained staff.** Turnover, training, and learning new skills are a routine part of service center life. You don't have to maintain a 100 percent fully cross-trained and multi-skilled staff, but you do need at least a third or so of your staff to be cross-trained. Also, it's more important that most of your call center staff are trained on most or all of the transactions. For transaction staff, it's only necessary for you to have enough of them cross-trained to help out on the phones when needed. As for the phone staff, from all the service reps I've sat with and all the calls I've heard them handle, I'm convinced that the more they know about transaction processing, the better able they are to service the caller. Cross-trained staff handles calls with more confidence and higher quality, and they help prevent call-backs.

"Here are the basics of WFM: forecast the call volume; convert the call forecast to staff needs; schedule your phone staff to reasonably match call demand; manage in real-time and report performance."

4. **Master workforce management basics with an emphasis on real-time management.** Because the call center is more complex than transaction processing, you will need a WFM (workforce management) function. Here are the basics of WFM: forecast the call volume; convert the call forecast to staff needs; schedule your phone staff to reasonably match call demand; manage in real-time and

report performance. Real-time management means keeping an eye on the call center all the time and rapidly responding to ever-changing conditions. You should always be looking ahead an hour or two to find opportunities to take some people off the phones and reassign them to transaction processing. This allows you to reduce call-handling costs and improve transaction-processing productivity and timeliness.

5. **Understand service center capacity and try to maximize it every day.** Aside from overtime and borrowing staff from other areas, service centers have a finite capacity for handling calls and processing transactions. Daily changes in absenteeism and phone volumes combine to determine the number of phone staff needed, and by subtraction, the remaining capacity for handling transactions. Assuming your WFM efforts can keep the phones correctly staffed throughout the day, you then need to ensure that the remaining available staff process a full day's worth of transactions. Your first objective is to handle the call volume and meet your service goals using the right number of phone staff. Your second objective is to use the remaining staff capacity as effectively and productively as you can.

Feel free to email me if you have questions or comments about these five key actions: bob_cecchini@renolan.com ■

THE ABCs OF PMOs

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Program Management Offices (PMOs) have existed for some time. About half of the Fortune 500 companies use PMO offices to manage their IT projects. In the insurance industry, many offices that exist originated to help manage the multi-project effort to achieve Y2K compliance. Others grew to improve the maturity, stability and reliability of IT development efforts. And others grew as organizations recognized that projects are a key means of realizing organizational strategy.

While many organizations claim to have a PMO, there are many opinions as to what a PMO is. The roles and responsibilities run a continuum, from being a repository for reporting to being the focal point for the management of all strategic projects. While there is no tight definition of a PMO, its main purpose is to ensure that major projects get done on time, within budget and achieve the intended purpose. How an organization goes about this is varied.

While there is no standard implementation of a PMO, they are usually established as a central catalyst for project management. Whether it promotes effective project management, manages the delivery of projects, or spans distance between these poles, an effective PMO can exist only where there is an acceptance for centrally coordinating projects.

There must also be a base level of project management maturity for a PMO to be effective. Building a PMO in an organization that lacks a project management process or an understanding of how to manage projects will yield the same result. To be successful, a minimum level of infrastructure, awareness, education and skill is required.

Again, these services range from pure support to absolute control. More importantly, the nature of the services and how they are provided will vary from company to company. The following are common offerings of PMOs:

Reporting. In basic form, the PMO is a central clearinghouse of project status information for the rest of the organization. (If this is the primary role of the PMO, they will become known as the Project Police and add little value.)

Training. In many organizations, the PMO also serves as the central focus for defining the project management training curriculum.

Process Development & Deployment. The need for process is paramount in promoting consistency in project management practices. Processes may range from formal methodologies to practice guides.

Tool Selection. The selection of project management tools will have as great an impact on how projects are managed as the projects they support.

Mentoring & Coaching. Sitting between support and control is the mentoring and coaching of project managers, team members and stakeholders.

Audits. The PMO may take a role in evaluating internal projects through an internal audit function. This role can range from evaluating the success of projects in delivering outcomes to evaluating project management effectiveness, the relevance and value of the methodology and tools used, and compliance with internal and external standards and requirements.

Resource Management. For some, the PMO also serves as resource manager, monitoring assignment and availability of project managers and team members. It also serves as a clearinghouse of information to support the planning and scheduling of projects based upon existing resource commitments.

Project Management. In some companies, the PMO is where projects are managed. Rather than a support role, the PMO is fully responsible and accountable for managing projects and is where all project managers report and are managed.

Clearly, the roles that a PMO might play span a broad range. A PMO will not, and cannot be, all things to all people. The role that the PMO plays in your organization must respond to the demands and expectations placed on it, in order to deliver value. First define these expectations, and then identify the services and capabilities that must be delivered as a result. Only then can the PMO play the role it needs to, however it is defined.■

Client Spotlight: Improving Operational Effectiveness

A leader in life, annuity and investment products for individuals and employers recently asked for our assistance in delivering rapid process improvements for their annuity client services area. Nolan engaged in a three-month effort that resulted in savings in excess of $2 million on a $10 million budget.

The need for change

Over the past four years, our client had undergone several reorganizations, finally consolidating several disparate operations and acquired businesses. Significant process improvements were then implemented to adjust for changing sales volumes, intensified expense pressures and growing market competitiveness. These efforts delivered more efficient services, but the rate of change and impact were both too gradual to meet business needs.

> *"The immediate goals were to eliminate $2 million in expenses and transition to a client-centric service model in support of a new service strategy being implemented company-wide."*

Given our client's urgent need for accelerated and dramatic improvement in terms of expense reduction, combined with distribution pressures to transition from a functional to a customer-oriented organization, the decision was made to partner with the Robert E. Nolan Company to accomplish these objectives. The immediate goals were to eliminate $2 million in expenses and transition to a client-centric service model in support of a new service strategy being implemented company-wide.

The project was set to focus on the high-potential customer-facing areas and the surrounding transaction processing teams. The project followed a sequence of deliverables, each building upon the prior one:

- Selection and role definition for the Core Team and Steering Committee
- Establish goals to achieve the $2 million target reduction in expenses

- Identification, quantification and mapping of key services and transactions, creating a common foundation of knowledge for group members
- Redesign of processes and transactions, striving for innovative, out-of-the-box ideas that would accomplish the stated objectives
- Organization, consolidation and evaluation of the redesign and improvement ideas, resulting in a list of quantifiable, actionable and achievable recommendations
- Creation of an implementation plan outlining the steps necessary to accomplish each recommendation, noting responsible parties and measurable milestones

The workshop process was scheduled for completion in a 12-week timeframe, with the 13-member team jointly presenting the finalized implementation plan. With the Core Team containing representatives from all of the potentially affected areas, organizational buy-in to the recommendations was assured.

Summary findings

The process improvement ideas generated during the workshop redesign sessions showed a number of commonalities:

- Transactional specialization, backlogs and limited training, were creating handoffs, delays, duplication of effort and even a few extraneous units — all adding to the expense structure and detracting from service quality.
- Misalignment of staff and processes, in part the result of incremental and segmented organizational growth, was causing inefficiencies and clouding ownership — in effect, erasing individual accountability for completing a service transaction in totality.
- Focus on benign call center, without counterbalancing focus on off-phone transactions (often found to be the source of the calls) was resulting in “over servicing” of the phones and failure in completing customer service requests.
- Resource mis-utilization (a direct result of being limited to single job grades for entire functions with minimal service

request segregation) was resulting in higher compensated staff servicing the simplest to the most complex requests indiscriminately.

- Surplus staff serving limited or archaic purposes within the context of the current organization and its needs (likely from changes in direction and prior rapid reorganizations, found throughout the organization) was perpetuating inefficiencies associated with validating the roles played.

Recommendations

After 12 weeks, the Core Team brought its sponsor and the Steering Committee a series of implementation plans supporting 14 distinct recommendations. These recommendations were set to knock $2.2 million in annualized savings off a $10 million budget in less than one year.

Key aspects of the 14 recommendations included:

- Eliminating specialized, handoff-oriented units by placing responsibility for completing a transaction with the original person receiving the request
- Adjusting service standards, coverage hours and off-phone time management to reflect a combination of optimized resource utilization and customer service expectations
- Consolidating similar transaction processing units so that all like transactions are processed in the same area, under a common once-and-done framework
- Implementing a transaction and call tier structure that aligned simpler calls and requests with lower-cost resources while focusing experienced staff on more complex requests
- Restructuring the training process and supporting curriculum to expeditiously put new staff in productive, but limited roles, then following up with recurring and subject-matter-specific training modules
- Redefining managers' jobs to focus on staff development, service monitoring, quality checking and problem resolution while removing and centralizing some non-core, administrative activities

The team also produced 12 ancillary recommendations that involved other areas or focused on unmeasured organizational improvements. While no financial value was associated with these recommendations, an additional $1 million or so to the bottom line over time is estimated.

The future

In the four-month project, the Core Team successfully defined a set of recommendations that would generate over $2.2 million in expense savings over the next six to nine months. An organizational structure that focused on first-call resolution and once-and-done processing was developed to position the service area for growth, while ensuring efficient and effective customer service. Job tiers and career paths were outlined that benefited employees by providing growth opportunities associated with rewards, while better matching the cost of resources with the complexity of the transaction.

One of the senior leaders of the steering committee asked the team if the process they had undergone was one they had learned from and would be able to duplicate on their own in the future. Every member of the Core Team answered in the affirmative, many vigorously. The combination of meaningful change, measurable benefits and knowledge transfer came together to deliver bottom-line results. ■

NOLAN LAUNCHES ITS NEXT LIFE & ANNUITY INDUSTRY SURVEY

The life and annuity industry continues to be challenged — especially for growth at the bottom line. Modest domestic growth rates, continual pressure on investment spreads, mandates for financial transparency, outsourcing, offshoring, the mobile workforce, the Internet, new products, globalization, and the entry of non-traditional competitors into the marketplace are just some of the factors affecting the industry and how insurers compete. Long-term profitable growth, for most players in this industry, remains elusive.

As management consultants to the insurance industry for the past 32 years, the Robert E. Nolan Company is again conducting a survey to better understand, articulate, and compare the issues that insurers face. These surveys are valuable for participants and for the industry because the results often shed new light on the future and on the factors that will shape it.

In order to achieve a coherent perspective from the survey results, we are seeking the point of view of insurance executives — as a leader in the life and annuity industry, we value your input and would like you to participate in this survey. As with every Nolan survey, individual and company responses are entirely confidential. Once the survey results are compiled, we will translate the findings into a published report to be distributed in early 2006. In exchange for your insights, Nolan will host a free, interactive webinar exclusively for survey participants. This platform will allow for questions and discussion about the survey findings and how they translate into predicted ramifications.

> To participate, request a hardcopy version by contacting Kyle Standefer at **kyle_standefer@renolan.com** or 972–248–3727 or simply visit **www.renolan.com/lifesurvey**.

I hope you will find the time to complete the brief survey. It should take less than 15 minutes. We are confident that the insights and information gained in return for your time will be worthwhile. To participate, request a hardcopy version by contacting Kyle Standefer at **kyle_standefer@renolan.com** or 972–248–3727 or simply visit **www.renolan.com/lifesurvey**. ■

2005 Efficiency Ratio Benchmarking Study: System Survey Results

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This is the third year that the Robert E. Nolan Company has included a Systems Survey in our Annual Efficiency Ratio Benchmarking Study. Bank, thrift and credit union participants in our Study were invited to respond to this System Survey.

Nineteen Efficiency Ratio Benchmarking Study participants responded to the System Survey. The respondents represented a cross section of all participants in the 2005 Study.

Below is a profile of the System Survey respondents:

- Total assets ranged between $1 billion and $125 billion
- Total bank efficiency ratios ranged between 48.1% and 102.2%
- Average asset size was $15.9 billion
- Average efficiency ratio was 67.0%
- Average information system efficiency ratio (Total IS Expense/Total Bank Revenue) was 4.1%, ranging from 1.4% to 15.4%
- Of the 19 respondents, seven outsourced their core systems and 12 ran their core systems in house

"Since 1998, Nolan has studied the relationship of the level of expenses and deployment of information systems on total bank efficiency ratios."

Summary of Findings

Historical Perspective

Since 1998, Nolan has studied the relationship of the level of expenses and deployment of information systems on total bank efficiency ratios. From 1998 through 2002, Nolan noted a consistent inverse relationship between the IS Total Efficiency Ratio (IS Total ER) and the Total Bank Efficiency Ratio (TB ER).

That is, the greater the percentage of IS expense to total bank income, the greater likelihood of a lower TB ER. Such a conclusion supported reasoning that banking organizations spending relatively more on IS tended to gain efficiency by effectively offsetting the cost of technology with expense reductions in other areas and with income enhancements.

Starting with Nolan's 2003 Study (data for 2002), we began finding a change in this trend. No longer was there a negative correlation between IS ER and TB ER. In fact, the trend was to no correlation at all.

The conclusions were somewhat surprising since efficient banks (as determined by a low total bank efficiency ratio) were as likely to spend less on technology as less efficient banks. This led us to conclude that, among the respondents to the 2003 Study, it was not the system selected or the total expense of maintaining systems that was driving TB ER, but the effectiveness of the deployment of systems.

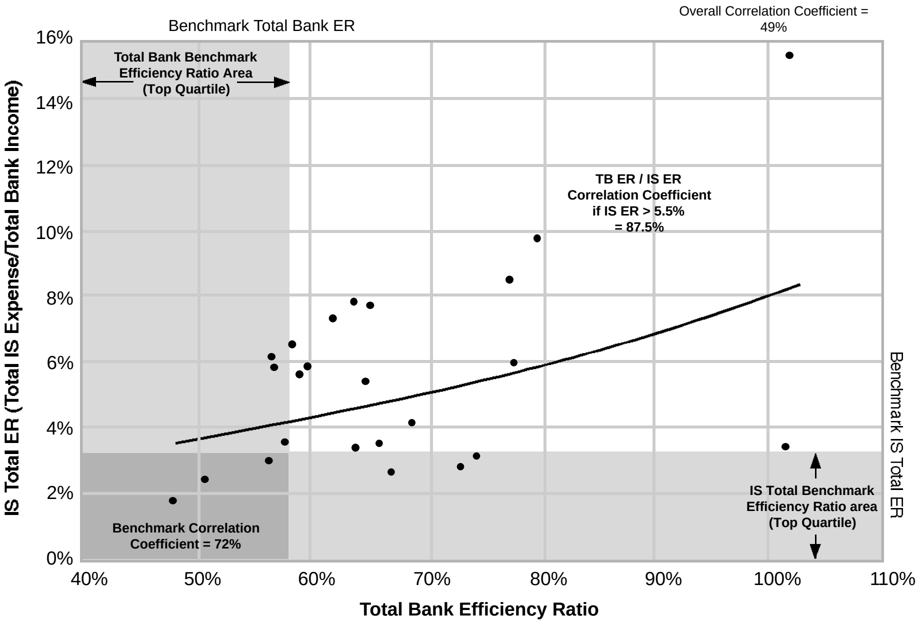
Last year, Nolan's 2004 Study (data for 2003) showed a shift towards a greater incidence of direct correlation between IS ER and TB ER — the opposite of our conclusions prior to 2002. While correlations between these statistics were not strong enough for us to conclude with certainty that higher relative expenditures on technology were leading to less overall efficiency, the data did indicate a shift in that direction. (The reverse was also true, where a shift to lower technology expense was indicative of higher overall efficiency.) We also learned in 2004 that asset size had little effect on these correlations.

Current Perspective

This year we are seeing a continuation of the trend established since 2002 and now believe that there is a strong direct correlation between TB ER and IS ER, especially if an organization either has a low TB ER or spends more than 5.5% of their income on IS.

The following chart is provided to explain our current perspective:

Information Systems Total Efficiency Ratio



The chart depicts the relationship between total bank efficiency, as measured by the Total Bank Efficiency Ratio (horizontal axis) and information systems efficiency, as measured by the Information Systems Total Efficiency Ratio (vertical axis), for a sample of 24 participants from the 2005 Nolan Efficiency Ratio Benchmarking Study. The sample includes 12 participants in each of the $6 billion-and-over assets ($34.6 billion average) and under $6 billion assets ($2.5 billion average) categories.

Points in the shaded area to the left of the vertical axis (Benchmark Total Bank ER) represent the top-quartile TB ERs, and points below the horizontal axis are the top-quartile participants based on the IS ER. Points within the more heavily shaded area located in the bottom left corner of the chart are the participants that were in both groups — both highly efficient overall and with a low IS ER. As you can see, half of the most efficient banks overall (lowest TB ER) were also in the low IS ER group. One other low TB ER member is just slightly above the line for the top-quartile IS ER.

Within the heavily shaded area we show a correlation coefficient of 72%. This statistic measures the “closeness” of changes in the relationship between TB ER and IS ER among the top-quartile TB ER participants. A 72% correlation shows a strong tie between the two measures, indicating that if you are a top-quartile performer in overall bank efficiency, you are very likely to spend a smaller percentage of your total income on information systems — a direct or positive correlation (meaning the reverse is also true). To dispel the notion that asset size matters, among the top-quartile IS ER participants, the correlation coefficients are expectedly negative. However, they are only mildly so at 44%, meaning that being bigger is not, by itself, very predictive of IS efficiency.

> *“The effective design of work processes that are powered by automation and coupled with appropriate management (reporting, staffing, scheduling) are crucial to banks at this time. Properly designed processes help banks identify automation needs and provide the blueprint for capturing the benefits promised and expected from technology.”*

For all participants in the sample, the correlation coefficient between TB ER and IS ER was 49% — not a strong relationship. However, if you focus on the distribution of points above the trend line (IS ER > 5.5%), there is a very strong 87.5% positive correlation between TB ER and IS ER. *This means that if your bank spends more than 5.5% of income on information systems, it is highly likely that your TB ER is heavily and directly influenced by the amount you spend on IS.*

Conclusions

There are strong direct correlations between total bank efficiency and the percent of income spent on information systems for two groups of banking organizations: (1) top-quartile total bank efficiency performers and (2) organizations that spend more than 5.5% of income on information systems.

If you are in either group, it is very likely that your total bank efficiency ratio will vary directly with the percent of income devoted to information systems. If you are in the first group (highly efficient banks overall), spending a smaller portion of income on IS probably helped put you in this top-performing group. If you are in the second group that spends a greater share of income on information systems, straying too far above the 5.5% level puts your total bank efficiency ratio in peril.

Return on investment for information systems may have peaked prior to 2002 and may now be contributing to less overall bank efficiency, as technology costs escalate without offsetting cost reductions or income increases in other areas. With the increase in reliance on technology in our day-to-day lives during a time when net interest margins have declined, the impact of information systems expenditure levels have begun having a direct effect on total bank efficiency.

The effective design of work processes that are powered by automation and coupled with appropriate management (reporting, staffing, scheduling) are crucial to banks at this time. Properly designed processes help banks identify automation needs and provide the blueprint for capturing the benefits promised and expected from technology.

The Robert E. Nolan Company has been assisting banking and other financial services organizations to realize the benefits of properly aligned people, processes and technology for over 30 years. Please email me if you have any questions or wish to discuss any of our findings: rob_keene@renolan.com ■

Two Differing Arguments for Tackling Focused Improvement

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There are two ways that a management team can tackle identified improvement opportunities, and there are arguments for each approach. One is to harvest the "low-hanging fruit" before tackling the more strategic improvement opportunities gained through process redesign, systems integration, organizational design and policy review. This go-slow approach starts with the premise that several of the improvement opportunities are obvious and easy. Executive management can organize small teams to handle this "cleanup," while they take the necessary time to plan the larger initiative.

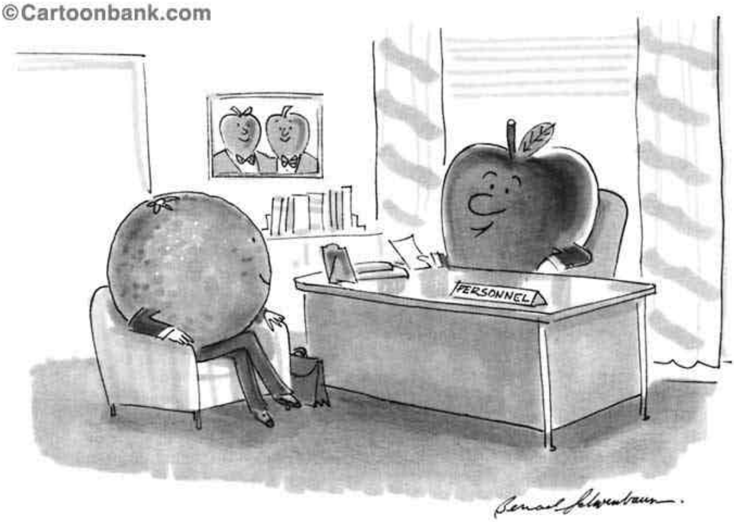
The argument for organizing a major initiative at first is in the belief that starting small only delays the improvements to customers and shareholders alike and adds calendar time to the process. One industry senior executive likens going after the low-hanging fruit as "comparable to cleaning the windows of a house that needs to be repaired, reshingled and repainted."

In either case, eventually you need an understanding of what the potential is for improvement and where the focus of the initiative should start. The use of unbiased comparative data is critical to identifying key business performance gaps, and Nolan's Annual Efficiency Ratio Performance Benchmarking Study provides the necessary starting point of facts and directional guidance for targeting a major improvement initiative.

Our study pinpoints performance gaps and the range of improvement opportunities for both income and expense. These details allow a management team the opportunities to prioritize the greatest opportunities first. These straightforward tools provide a clear starting point for fixing business problems that may otherwise appear to be overwhelming.

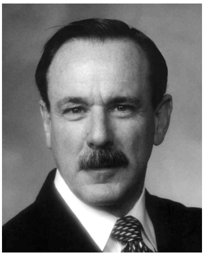
Comprehensive organizational introspection often requires help from a trusted advisor. Some companies initially resist the help and try it on their own. What is often missing with an internal approach is industry perspective, objectivity, a proven methodology and directional tools. Our clients view our teaming as capitalizing on the knowledge and experience of an unbiased specialist paired with functional business stats to significantly improve their overall change effort.

An argument can be made for either approach, but unbiased industry data and a proven approach will make all the difference when you finally tackle fundamental improvement plans. We look forward to providing that knowledge.■



"As an orange, how much experience have you had working with apples?"

What I Learned from a Man Standing in the River Waving a Stick at the Fish



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You might recall that I'm writing a three-part series of articles about Dr. W. Edwards Deming's concept of "scientific management." The last edition of the *Nolan Newsletter* had an article about "variation." This article is about the other key part of what Dr. Deming meant when he said, "Practice scientific management: Use experiments."

As a boy, I remember my father standing in a river in eastern Oregon, waving a stick at fish. After a while he would come back to camp with a nice mess of trout, and we'd have a fine lunch. I was so young that I thought you caught fish by waving a stick! Only later, after he was gone, did I realize my father was a master fly fisherman. And I learned too that there is a lot more to catching the wily native trout than simply waving a stick.

For my father, fly fishing was an art, science and ritual of craft and control. If you see the movie "A River Runs Through It," you'll get an idea of how serious fly fishing was in the Smith family. My father fished in the summer, but he thought about fishing all year. He read about it. He had books about bugs. He had a little box that we kept his fly tying materials in. And he received fly tying catalogs in the mail.

My father worked hard to teach me to fly fish. This process nearly ended an otherwise great father-son relationship. "If you stand too close to the creek you will fall in." I did. "Be careful about what's behind you so you don't snag your fly on the brush." Future archeologists will find hundreds of abandoned fish hooks along Oregon creeks. The most memorable thing I learned when fly fishing is a painful, but effective, technique of using a pair of pliers to extract a fish hook.

The key to my father's mastery was his method. He never knew of Dr. Deming, but they both practiced Deming's second principle of scientific management. He experimented.

When we went to fish the Cycan Marsh in late June, my father's plan was to use the black midge. Based on his experience, the black midge had a good chance of being successful. When we arrived at the creek, he quietly walked up to it, and sat down, and watched the water and bugs for a few minutes. Here and there, fish were jumping for black bugs. So he fished his plan. A dozen casts in each little pool. Each cast a thing of beauty. If he caught something, great; if not, he moved on to the next pool. After five pools he stopped and thought about what was happening. He had fished five pools but hadn't caught anything. There were black bugs on the water and fish were jumping, but not at his fly.

He went down to water level to see exactly what fly the fish were jumping at. After a close look at the river, he decided to try a smaller version of the black midge. In the next hour he caught a fish from four of the five pools. And we had a fine lunch.

When Dr. Deming talked about experiments, he talked in terms my father would understand: Plan – Do – Check – Act. My dad had a plan based on his experience and actual data. He did the plan, but it didn't work like he thought. So he checked his results and changed what he was doing. Then he acted in full confidence that his experiment would produce good fishing and a fine lunch.

Plan – Do – Check – Act. It sounds so simple when we hear it in business school or a seminar. In reality, executives find that their managers don't understand this simple idea. In American business there is tremendous pressure to do the big thing and make the big move, such as new product launches, new processes and procedures, and my personal favorite disaster-in-waiting — the large system conversion.

About 25 years ago, I was assigned to a direct marketing firm owned by a life insurance company. I learned under a master direct marketer, Dick Leahy. Every mailing was seen as an experiment, with the results carefully recorded. If we had an idea we would try it on a few thousand offerings and record the result. Does a white paper and white envelope yield better results than a white paper and blue envelope? Let's see. If the result was better than the basic mailing, we mail it again with twice the quantity. Do it again. Again. Double up. Let's use it as the base mailing next month. It was a great environment that was all about experimenting and learning. Our competitors never understood why our response rates were so impressive. It was an environment that Dr. Deming or my dad would have understood.

Encourage your managers and supervisors to try things. Is there a different way to do that? Could we try that on some of them? What happened? Show me your data, please. I want to understand what you learned. If you have a manager that tries something that is outrageously stupid, encourage the trying, see if they learn something. Deal with the stupid part later. If they are learning, they will understand the stupid part on their own.

Teach the magic of Plan – Do – Check – Act. It's a lot easier to learn than fly fishing.■

Nolan Events

ACE-SCLA Annual Claims Exposition & Conference
Nolan is a Silver-level sponsor of this event. The conference will take place in Orlando, Florida at the Gaylord Palms Resort on October 6 – 8, 2005. Nolan Chairman Ben DiSylvester will be attending the conference. For more information, visit http://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, 2005 in St. Paul de Vence, France. Ben will discuss operational excellence in today's environment. Visit the events page at www.unisys.com for more information.

Doing a Great Job: A Lost Art?

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Anyone who has ever traveled or dined out with me at one of my many favorite fast-food establishments knows that I'm either trying to redesign the order-taking process or suggesting a better scheduling model. They need the help, right? I mean, how can a pizza place tell every caller it will be 20 minutes when they have limited oven space and an unlimited number of requests for pizza? Finding someone at Dunkin' Donuts who actually knows how to make an iced coffee without having large chunks of sugar sticking to the ice would be a miracle. The sugar needs to be dissolved first with a touch of hot coffee — everyone knows that. Yes, I can be irritating, and I have high standards, but, as customers, shouldn't we expect high standards?

Today it seems people care more about what they are getting paid, what benefits they receive, when they get their next raise and when they are eligible for that next promotion. Pride in doing your job and doing it well seems secondary to a new generation of worker.

A recent *Wall Street Journal* article estimated that the average worker in this country spends between 2.3 and 2.7 hours during a work day on something not related to their job. It is no wonder we are getting fewer and fewer people who actually become experts in their jobs. I'm talking from the entry-level employee to the CEO.

Working at your craft, becoming the best at your job, and being recognized as the best, seem like priorities of the past. What happened to being the best mail clerk, the best claims representative or the best Dunkin' Donuts counter person?

There are many reasons for this apparent malaise. There is little separation between the superstar and the also-ran. Merit raises, all too often, look the same for everyone. Performance management systems have little clout, and we fail to manage the poor performers and ultimately let them slide by. Technology has taken the thinking part of many jobs and reduced it to punching a few keys, reading a pop-up screen or sending out a form letter. All valid points, but to me they are just excuses.

Not managing poor performance is a lack of good supervisory training and skills. It's a difficult job and takes work and practice. If technology has simplified a job, then expand the job and increase the span of decision making for the employee. Employees should expect to learn new skills regularly and want to expand their contribution.

"Personal performance is about having pride and being dedicated to your job. We all need a kick in the backside once in a while, and I think as a workforce we need that kick."

Personal performance is about having pride and being dedicated to your job. We all need a kick in the backside once in a while, and I think as a workforce we need that kick. Jobs are being outsourced, and we cry foul! Instead, we should focus on the work and the jobs we have, make them better, faster and cheaper to perform. Be the best at whatever job you have and take pride in your personal performance and development. Try it! It's better than wasting 2.5 hours a day.

By the way, I walked into a Dunkin' Donuts last week and ordered a medium French vanilla iced coffee. And before I could instruct the young man on how to make it, he scooped two sugars in the cup, poured in some hot coffee to melt the sugar, added cream and ice, and then added the brewed iced coffee. He then shook the container completely and served it with a smile. I said, "You are one of a dying breed — you actually know how to do this job."

Any job, no matter how elementary, is worth doing right! ■

Cutting Ends Off the Roast

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I was reminded of an old joke the other day that still holds true in this age of rapid technology advancement.

Two sisters were preparing a roast the way their mother had taught them. As one sister cut off the ends of the roast before placing it in the pan, the other sister said, "I wonder why mom taught us to cut off the ends before cooking it?" The other sister replied that it must have something to do with enhancing the flavor.

The next time the sisters were with their mom, they asked her why she cut off the ends of the roast. Their mom replied that her mother always did that and she followed suit. She also said that it must have something to do with enhancing the flavor.

At the next family gathering, the sisters and their mom asked the grandmother why she cut off the ends. With a chuckle, the grandmother said, "Our butcher always gave me a deal on large roasts, and I never had a pan big enough to cook the whole thing… so I cut the ends off to make it fit."

Too many times, methods and procedures are passed down through companies with little thought as to why something is done in a particular way. The more they are handed down from employee to employee or department to department, the more chance there is to continue processes that are inefficient or obsolete. Once these manual processes are automated, we many times lose the opportunity to eliminate or improve them since they become invisible to the eye.

Much like a family recipe for roast, bottom-line and basic processes that are being prepped for automation should be thoroughly questioned and reviewed before technology is applied. ■