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RE-ENGINEERING & HUMAN RESOURCES

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Through lecture and discussion participants will focus on the human side of the re-engineering. Participants will analyze and develop strategies for actual work settings. Emphasized will be how to:

- Involve persons beyond the immediate department/area in the planning process,
- Develop an implementation plan,
- Build trust and understanding,
- Understand resistance and how to overcome it, and
- Recognize re-engineering as affecting strategy and approach long term: it isn't a quick fix.

MR. RICHARD K. WONG: The Committee on Management and Personal Development is charged with planning, implementing, and promoting educational opportunities for actuaries in the area of management and business skills. We sponsored the earlier program, Managing Technical Professionals, and have previously sponsored programs such as Work Force 2000 and Conflict Resolution.

We're pleased to present Jamie Hogg and Kim Wilkes of the Robert E. Nolan Company. Their company specializes in improving performance and service in insurance companies and other financial institutions. Mr. Hogg has his MBA and his juris doctor (JD), and has prior experience with Xerox, Control Data, and Blue Cross and Blue Shield of Maryland. Mr. Wilkes has prior experience with Integon Life. Together, Jamie and Kim have about 20 years of experience with the Robert E. Nolan Company.

MR. JAMES S. HOGG: Let me first talk about the Robert E. Nolan Company. We're in our 22nd year. Kim told me that there is a country singer who says, "I was country before country was popular." We were doing re-engineering before re-engineering was popular. We called it cross-functional analysis. In the 1980s, we worked closely with Paul Revere Life on its total quality process. There was a book written about that called *Commit to Quality* by Pat Townsend, which cites us for some of the cross-functional analysis work we did.

But now it's called re-engineering. Our executive vice president, Dennis Sullivan, is fond of saying, "How can you call it re-engineering when it probably wasn't engineered in the first place?" Nonetheless, that's what we're going to talk about.

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Our Chairman, Bob Nolan, and our President, Ben Di Sylvester, have very close relationships with the Life Office Management Association (LOMA) and the Life Insurance Marketing and Research Association (LIMRA). We had the opportunity to do some re-engineering with LIMRA this last year. Ben Di Sylvester is headed to Singapore next week. He's going to be on the international docket to speak at the LOMA conference in Singapore, and he's often on its executive faculties. Bob Nolan is also very active in the associations and was a Malcolm Baldridge examiner for a few years. So we've been doing this for a while.

Kim and I are managing consultants. We manage multiple projects, and we have re-engineering projects going on right now. We'd like the session to be a lecture and discussion, because we have some real-life stories to share with you. We're not talking about it theoretically; we're actually doing it right now.

Kim is working on a group enrollment process in which the benchmark in the company was 28–30 days to enroll a group. This sounds pretty familiar. Interviewers surveyed the customer base and they said they were conditioned to that. They said the customer perceived it took about 28 days, but the customer would like to see it in three to four weeks. The president of that company said, "I want each group enrolled in three days." And they've done it. That's re-engineering. Going from 28 to 20 is incremental change.

We're going to go over the agenda and review objectives. We like to do that at the beginning; we have our own success measures, and we can see if we met them at the end.

Then Kim and I will switch off a bit, to handle different parts of the main engine room of the re-engineering presentation. We'll use it as a step-by-step overview of the process.

The real focus of this session is the human resources side. If you have ever read anything about re-engineering, you have seen a typical thread: the current state, the optimal state, the green-light white paper, the leap to the ideal, and then shaping from ground zero, the current state up to the optimal state; how do I get as close to that optimal state as possible? If I'm at 28 days, in the example with the group enrollment, and I want to get to 3, what do I have to do to get there?

We put a lot of emphasis on the implementation planning. I could go away for a week and come up with that optimal state and the way to get there, but I don't want it to be a report that sits on somebody's desk. It must be implemented. How are we going to do that? We try to avoid what we call "peace-on-earth" proposals, ones that no one could argue with, but no one would ever have any hope of implementing.

Those implementation factors are human resource driven. We are talking about combining jobs, making jobs larger, knowledge workers. The systems are driving this with client-server technology.

The participative approach is also an objective that Kim will go over. People don't mind change; what they do mind is being changed. Once they participate in it, they have some ownership of it, and now implementation is more ensured. They own it.

The technology issues are really changing this; in particular, the client-server technology. Mr. Gerstner at IBM said that the biggest, single, strategic mistake IBM made in the last three or four years was not moving on the client-server technology. Hewlett-Packard took off with it. That is really driving a lot of the re-engineering. You can now avoid getting down into the guts of the legacy systems. You can raise it all above into a server, bring some data up to the client. That means a bigger job, a more knowledgeable person. Skills assessment is part of that, and the implementation planning must be really tight with near long-term milestones and accountabilities.

We'll wrap up with some questions and answers. Please feel free to make this interactive. Then we'll take a group company through a re-engineering of its point-of-sale process—the group representatives talking to the brokers, getting the specifications. During the new business underwriting process, trying to get actuarial involved with the quote. You will break into smaller groups and you will actually deal with the issues. If this is what management wants, how would you do it?

MR. CRAIG KIM WILKES: We'd like to go over what we think are the objectives and what has been outlined in the program; that is, really look at the human costs associated with re-engineering. How do you get everyone involved in a process like this? Who needs to be involved, at what times, and in what sequence?

How do you develop the different techniques, strategies, and processes to make sure you overcome the objections and resistance? I guess the biggest thing with re-engineering when we go into companies is just that one word, why? Why do we have to do this? So, number one, you must be able to answer that question. Number two, you then have to be able to overcome resistance. We want to talk about different ways of doing that.

Then there is the most critical component: We can design the best processes in the world, but if we don't implement, we haven't done anything but waste a lot of time and money. It's really pitiful to go back to companies and hear people say, "We've done this before." Where is it? "It's there on the shelf." There's good material there, but it was never implemented. Well, it's not good material if it's not implemented. So we want to talk about an effective way to implement a re-engineering process.

Along with that, maybe some of you came with specific objectives that you wanted to get answered. Are there any ones in particular you'd like us to cover?

MR. HOGG: I can't imagine anyone not having a re-engineering effort going on in his or her company right now. If you have some re-engineering efforts, think about what you want those efforts to accomplish.

FROM THE FLOOR: My question would deal with how to handle a particularly recalcitrant individual or a difficult personality type.

MR. HOGG: Would this be at a particular level, or at any level?

FROM THE FLOOR: Particularly at higher levels.

MR. WILKES: I didn't think we had those. Any others?

FROM THE FLOOR: I'd like to hear about how to establish objective measurements.

MR. WILKES: Just as a point of reference, how many of you have some form of re-engineering going on in your company right now? OK, great. So there are many real-world experiences that I hope we can share.

MR. HOGG: How many are skeptical? OK, good. How many think re-engineering is not a word for downsizing?

MR. WILKES: Let's talk about change. Many people are saying, why? Why do we have to change so much? What's in it for me, and what's forcing us to change? I just recently saw a film called "The GEO Paradigm," which says that all of us are facing three major things that are causing us to change. The G is globalization. We're moving into a global market, which is forcing change. There are new customer bases. How do you deal with those customers? The E is empowerment. Like it or not, we are being forced to empower people. That forces us to change, and the further up the organizational chart you are, the harder that change is. The O is orchestration of technology. In the past, or even now, when we used to do processes, we would walk in to help someone re-engineer a process, and the first words out of the person's mouth would be, "We know our systems are bad, so don't come back to us with a lot of recommendations on how to improve our systems." We're to a point now where that's no longer a luxury. Orchestration of technology and improvement is not a luxury, it's a necessity. So orchestration of technology has to be an integral part of the re-engineering process, and that's forcing us to change and look at things in different ways.

Change is so rapid. I was listening to a radio commentator recently who was playing a trivia game with folks. And he said, "Here's the question. What happens 88,000 times a minute, right now?" And people started calling in and saying, "People go to the bathroom; and they sneeze," and all kinds of stuff. Nobody could get it. He said, "OK, I'll narrow it down. It happens in business." Then he said, "And ten years ago, it probably hardly happened at all." Does anyone have any idea what that might be, 88,000 times a minute?

FROM THE FLOOR: Hit the enter key.

MR. WILKES: The first thing I thought about was hitting the enter key. Then I figured that has to be more often than that. Any other ideas?

About 88,000 times a minute, people are sending faxes to others. Ten years ago, it was almost nonexistent. Think about all that takes place there, and the change that's required. Ten years ago, if we were working with a client of the Nolan Company, and the client said, "That would be great, could you send me some information on that?" that would have been no problem. We'd handwrite it out with a #2 pencil,

hand it to a secretary, who would type it. Two or three days later, the client would get it. Everyone would be happy. What's the expectation now? Instantaneous. "Fax it to me." In so many basic components of our business processes, we're going through very radical change.

As Jamie was mentioning, I just finished a project working with a client on its enrollment process. To quote Jack Welch, CEO of General Electric, "If you set a goal already knowing how you're going to achieve it, then the goal is not high enough." When we asked that group how long it takes to enroll now, they said it took 25–30 days. If we had not utilized this approach, they could have cut it in half and really would have felt good about that incremental change. They could have said they have it down to 10, 12 days now, and that's great. It's half of what it used to be.

But just imagine the looks on their faces when I said, "And we've got to cut this to three days." We already knew the answer, and that was one of the first things I told them. One woman who was working with me said, "How are we going to do that?" And I used that quote. I said, "I don't know, but we're going to do it. We can get there. So we've really got to stretch." I think we have to realize, when you approach re-engineering, many times you don't know how you're going to do it, but at the same time, if you work for incremental change, you're not going to make much impact.

One of the things we'll talk about is the senior management steering process and how management works with the re-engineering process. The more you can focus the answer out there, the better off you are in knowing what you've really accomplished. I still look back to the group enrollment process and think that we might have said, "Just do it as quickly as you can." And I must believe, if they were at 23 or 25 days, and they got to even 10 or 9 or 8, they would have said, "Boy, we're fast now." But it wasn't fast enough. They got to three days because that vision and that goal was sitting out there, and they wanted to leap to that. So I think the bottom line is, we must expect great performance from people.

Now I went back and I sat down with the president of the company when this process was complete and said, "How did you pick three days? What was the underlying premise for that?" And he said, "Oh, I don't know. I was just hoping that if you could get down to six or seven, or four or five, that would be great. So I figured if I told you to do it in three and we could back off a little bit, then we were really there." So it was a stretch goal that maybe he didn't even think could be done. But the people he empowered to do it saw that as the ultimate goal, and they weren't able to quit until they reached that goal.

If you look at incremental change and the results of incremental change, that might look OK. But when we're looking at stretch goals and the improvement that we're looking for in re-engineering, it's not. It's not enough. We must expect great performance.

THE CHANGING WORKPLACE

I want to talk just a little bit more about the changing workplace. What are we seeing happen? You've probably seen, if not all of these, a lot of these changes being made in your company now. Companies are flatter, leaner, more aggressive.

Typically when we talk about being leaner and flatter, we think about it in terms of saving money. That'll reduce cost. That'll improve productivity. Not only does it do that, but it improves communication. The less levels that you have, the more your communication will improve. Fewer people have to decipher what the other person said. When you were a child, did you ever play the game where you whispered something to a friend, and he or she whispered it to the next person, and that would continue around the room? When we got to the end and asked that child what was told, the response was totally different.

That happens in an organization as things filter down. The two most important people in a company are the president and the first-line employee. The president sets policy, and the employees implement it. Anybody in between is basically communicating information and managing what's taking place. So the flatter you are, the more you're able to communicate. And the closer you are to the customer. When you're insulated with five, six, seven, eight layers between you and the customer, people are interpreting things for you about what the customer is saying. The closer you are to that customer, the more you understand what the customer needs and what's going on out there with the customer.

We're going to be seeing fewer opportunities for advancement as we move forward. Flatter organizations are not going to give us the ability to advance as we have in the past. If you think about what a manager really does in the middle, it's communicating up and down, deciphering information, compiling it in different ways, and packaging it to make things happen. One of the other things that we're seeing is that the orchestration of technologies is taking away the need for a lot of different management or different places. Cornell University did a study during the last year and found that there was a 30% increase in the number of technical jobs that it was studying and a 25% decrease in the number of managers' jobs it was studying. Systems capabilities and technology are taking over, from a management standpoint.

One of the sides of that is understanding how we're going to foster a sense of accomplishment for an employee who can't advance as quickly as he or she has been able to in the past. In the past, we have all gauged ourselves on how quickly we advanced in an organization. It is slowing down. The continued rapid advancement in technology is going to really change the workplace.

There is also instability. No longer can everyone expect lifetime employment in a job. That was a long-term goal for probably most of our workforce in the past. An employee thought that if he or she came in and did a good job and was loyal to the company, one of the guarantees would be lifetime employment as long as the employee chose to stay there. I am seeing, and I'm sure Jamie is as well, with some of my clients, who in the past have been known very much for their retention of employees and bending over backward to find jobs for them if they weren't successful in certain places, that that's gone away. I'm working with a client right now, and the president is saying he probably made a mistake in telling everyone not to worry when we started these initiatives. Because now he sees how much of an impact it's going to have, and he can't guarantee them all employment. So there is going to be instability in the workplace and, along with that, pressure for maximum performance. The competition is what's driving that.

As we're going to more team processing, as impersonal as we're becoming, we do foster more family-type relationships. Companies are buying up companies and getting big. You've probably heard someone say, "we used to have 70 people in the company. The president, Jack, knew all their names, and you could walk in and talk to him and have lunch. It's not like that anymore. We have 2,000, 5,000, 10,000 employees, and it's so impersonal." But what's happening is, with a team environment, employees are now becoming more like a family. As we take companies from functional processing to team processing, employees realize they're dependent on other people. With the old specialized jobs, the employee wasn't dependent on anyone. He or she is now, if he is working as part of a team.

Flexibility and Creativity are Becoming Important

In the past, through specialization, we could separate out someone who was very good technically on a system and keep him or her from having to deal with a customer. But as we move to team processing, as we re-engineer processes so people do a complete job, they must be able to work with a system and know the technicalities of that. They must know the product lines. They must be able to wear a marketing hat. More and more people are getting to a point where they have to be able to talk to a customer. We're blending many different required talents, so flexibility and being able to be creative in the job are very important. We're going to talk a little bit later about "once and done" processing. When customers call in, they don't want to have to be transferred 15 different times. They want someone to acknowledge them as a customer and do what they're asking for. Sometimes you must be creative in the ways you do that. It's becoming more and more important.

Sharing Information

Workplace 2000 listed four things that employees and teams must have to be successful as we move forward. Those are power, information, knowledge, and reward. Too many times in the past, we've held those things back and saw it as a source of power. We've retained and not shared information in order to retain power. But to make teams successful, as you re-engineer processes, the right people must have the power that they need. They must have the information that they need. They must have the knowledge that they need, which requires, in many cases, a lot more training. And a real component of this is the reward. Think about how much more we're asking employees to do today, the more we're empowering them. We must be able to reward them for that.

Constant Feedback on Performance

We can't wait and do it once a year, because we're continually evolving, continually changing. In the next 10–20 years you're going to be seeing more and more pay for skills, pay for performance, so that we have to continually evaluate employees. As they know more and do a better job, we must continually reward them for those things.

I don't know that the perks and status will disappear. There are still going to be perks there, but perks is probably the wrong word. Rather than the senior level of a company all having cars, you're going to find people who need cars getting cars. You're going to find people who need corner offices getting corner offices. That may be a first-line employee who has to have room to do all the various things that he or she does with paper or meetings. You'll find that we're becoming more geared to

results and getting the things that people need to the right places. Many times in the past I have walked in and sat with someone at a high level who has had a massive office. We'll sit at a desk in one little corner. Then I will walk out of the room and see a clerk out there in a little cube who has papers all over the floor and is trying to collate or do something, and he or she doesn't have any room to do it. It will be an evolutionary process, but it is going to happen.

Rewards or Recognition Based on Team Work

We're getting away from one person being able to be that specialist and be accountable. He or she is going to have to work with the team, and the rewards and recognition, if done correctly, should be done at that team level, and not at the individual level. You are going to find that the methods of compensation will change drastically. It's already moving in that direction, and I think it's going to accelerate. People are going to be rewarded more based on performance than they are on tenure and job knowledge.

Less Managerial Control, More Employee Control

The biggest reason for that is that as we move to more consolidated processing, more team processing, there is less of a need for a lot of management. When there are many pieces and there is a lot of specialization, someone has to manage those pieces. When they go away, there's less of a need for it. I was thinking of an analogy; think about someone who plays tennis or golf on a professional basis, you don't see a manager there. The golfer or the tennis player does everything in that sport. But there is a manager of a football team or a baseball team, because there's still specialization there. Different people are doing different things, and that manager has to manage them.

Now, in business, you're going to see more and more employee control, because we're giving them the entire job. We're going to a team or an employee and we're saying that this is your job. These are your customers. Keep them happy. I don't have to manage them if they have the information they need, if they have the power they need to do things, if they have the knowledge they need. Maybe I need to help them get more training, and then they get the rewards for that. They're going to manage themselves. There will be less managerial control, more employee control.

All of these things come into play as we're looking at re-engineering our processes. In many cases, this is a result of some of the re-engineered processes. Are there any questions about that?

FROM THE FLOOR: Yes, I have a comment on the greater sharing of information. It really needs to be a much more effective sharing of information.

MR. WILKES: Right.

FROM THE FLOOR: I can be gone for a week, and when I get back, there'll be several hundred pieces of electronic mail looking for me. That's definitely more information but it certainly isn't useful information, when I need a week to catch up with being away for a week. I think the information overload is a major, major problem. How do you filter the information to get what you need?

MR. WILKES: I think we're going to have to get much better at explaining what we need, and at what level. I've seen, countless times in the past, where someone will say, "I need information on this." And someone else will say, "We've got it; here it is." "No, you don't understand. I'm not going to read that. Give me the highlights, give me the summary." How can we be effective in getting that? With all the information that we do need to look at, how do we filter it?

MR. HOGG: To that point, I read in an article this week that one large company is replacing its e-mail with LOTUS NOTES. It's easy to say you had better copy Jamie in on this; all of a sudden, you're looking at papers you don't need to see. Going to LOTUS NOTES, which is a groupware kind of application, you can use key words that may replace what is now just raw text getting passed electronically. That may be a trend that will make information sharing more effective.

RE-ENGINEERING KEYS

MR. WILKES: Let's look at the re-engineering keys, as we move into the changing workplace. The customer defines requirements. Probably more times than not, when I walk into a company and start looking at service standards or quality, if there haven't been any re-engineering efforts of late, and I ask why the turnaround time is three days. I'll hear, "That's what the customer wants." That's great. Can you show me the survey where you got that information, or who did you talk to get that? In too many cases, the answer is "Well, no, no, we don't have a survey on it." Well, how do you know that? "Well, we just know."

That's not the answer anymore. We can't guess for our customers, because they'll go to someone else who has asked them what they want. We must make sure when we're re-engineering processes that the customer is defining the requirements. Many times in the past, Jamie and I both have done workshops or worked with clients, where we have, in effect, re-engineered processes and never had the customer in the room with us. That's crazy. They must be in the room, or in some fashion giving you the information you need to determine what those requirements should be.

Examine the Process, not the People

You have better success when you put a group of individuals in a room to re-engineer a process, and you say, "Forget organization. Forget titles. Forget current status. Design the process." The re-engineering effort that Jamie was talking about, the group enrollment that I just did, the group had attempted six times in the last seven years to improve its enrollment process. Every single time, they had some good ideas. But it broke down when, during the middle of the process, they started saying, "Who's going to manage this? What division will it report in? Who needs to control this?"

I think one of the critical success factors this time around is that we walked in, we just about fired everyone in the room, and we said, "You now work for the company. You don't work for that division or that department, you don't carry a title or anything else. Design the process. Design the ideal process—the real-world process, and when you're finished, someone else will take that and put the organization around it." It was moved outside the scope of what they were used to dealing with, and with that in mind, all they then could concentrate on was the process. All those

paradigms in the past and all those faces that they put with functions had to go away, because it didn't matter at that point. So it's very important to look at the process and then put the organization and the people around that.

Re-engineering Really Attacks the Fragmentation
You can look at assembly-line processes in the past, but now we're moving more to giving people the responsibility and empowering them to handle that complete function.

Eliminate Re-work
If you've been involved in quality processes, one of the surprising things to many people, shocking in many cases, is the cost of quality. It might be 30–40% of an organization's budget doing rework and inspection and things like that. In reengineering, we look to take out those loops and that excessive checking that goes on. Transportation: how many times do we hand things off?

To me the key phrase is *once and done*. If you have to get my name, and it's got to be keyed, I don't care how many different places it has to go after that, you should never have to key it again. Do it one time and be done with it. You have to link some things up in many cases, and that's where you must be cross-functional, have everyone talking to each other.

From a command and control environment, we're moving to more of an empowered environment. Managers become coaches. Let me use a sports analogy again. Think about a football team. Let's say we took many of our managers and said, "We want you to operate the same way you do in your department, out on the football field. Now you're the manager of that football team." They would be out standing behind the quarterback. When the quarterback backed up to pass, they would be yelling at the blockers, "You block there." And they would yell at the quarterback, "The guy's open down there, throw it to him!" But that's not what a coach does. A coach is the person who has developed the game plan, who has made sure everyone's in the right position, that they have the training that they need and that they know what they're supposed to do, and then he has to stand back and watch all that happen. He can call some time-outs and discuss strategy, but he's counting on each one of those specialists, or each one of those people out there, to do what's expected.

I have a strong concern that many managers are not going to be able to make that transition to being coaches. It's going to be a long, difficult process to let go of that command and control and move to that more empowered organization where they are coaching and not commanding things.

The organizational structure becomes flatter rather than hierarchal. It's a necessity. It's not a luxury anymore; we need to get flat. That's sometimes hard to do. The best approach is just to set a corporate policy, that this is the highest number of levels that we're going to have, and then work to that. I recently worked with a company that, in some places, had 12 levels between the president and the first-line employee. We discussed the need to flatten it, and the client wanted to look at each individual piece. I told him we'd be here for three years defending why things are set up as they are. You need to just make an edict that says it's going to be six levels, or whatever you want to pick, and then restructure. They were very successful with

it, once they had that goal. When it was announced, I saw a lot of people say, "How in the world are we ever going to do that?" But they did it.

Stretch Goals, Aggressive but Realistic

There's a difference between a stretch goal and an impossible one. Even when I was talking about enrollment in three days, I didn't hear a lot of people say, "That's impossible, we can't do it." I just heard, "How? We probably can, but I don't have any idea how we're going to do this." That's very different than people saying, "It's impossible." If you set the stretch goal so far out that everyone firmly believes it's impossible, they might make a lukewarm attempt, but they'll throw their hands up. Then maybe you don't even get halfway. So, even though it's a stretch goal, make it realistic.

Who Gets Involved?

We have talked about the human relations side of it, who gets involved. For a re-engineering effort, there is typically that core team. It must be cross-functional; everyone who's a part of the process has to be involved. Now, as much as possible, it's not so much customer input, meaning, let's go out and ask the customer or we'll bring the customer in one time and talk to the customer, but it's leaning more now toward the customer being a part of the team. In the last three or four re-engineering processes I've worked on, the broker or the agent or sometimes even the policyholders were actually a part of the team. So, it wasn't, "Get their input, we'll let you know what we came up with." They were an integral part of that design.

That's hard to do without senior management support and direction. It can be done at a grassroots level, but it's hard to do. Those stretch goals, and that vision out there, is not there if you don't have that senior management support and direction. *Active* is a key word you should include with this. *Active* senior management direction. *Active* senior management support. It is not telling the team to go away for eight weeks and come back and say, "Here's what we came up with," but it is being involved, hearing what's going on a regular basis.

This is one of the ways we have re-engineered our own processes. Ten years ago we would take a group of people, such as a skunk works, into a room and lock the door. We would tell people "If you don't hear from us for the next eight weeks, you know everything's going OK." At the end of eight weeks, we'd come out of the room and present all our recommendations. Then there would be a very trying time as we worked through them with all the various people in the organization. It's so much more effective now because we're finding that the final report is really a formality. It's a cause for celebration, because the senior management level has been involved and the team has been involved. Sometimes tactical teams go out and solve particular problems for you during the re-engineering process. But everyone's aware of what's going on. Everyone's walking down the same road. If we encounter things along the way, we all deal with them, and then we continue to move forward.

SENIOR MANAGEMENT DIRECTION

One aspect of senior management direction is defining scope. How big is this animal that we're talking about? What boundaries do we put around it? Whenever you read about re-engineering, people say you should start with a clean sheet of paper. You

should go out to the future and work your way back. In the real world, there are always going to be a few constraints around any type of re-engineering process.

We were sitting with a potential client just a couple of weeks ago. I made that comment, and he said, "Oh, we really want to start with a clean sheet of paper." And I said, "That's great." We continued talking and about two minutes later, he said, "You know, I've been thinking about that, and there's only one thing I can think of." So he mentioned that, and we continued. At the end of the conversation, I said, "If my notes are right, there are only four things that are constraints about your process." He said, "No, what are they?" I named them off, and he said, "Yeah, you're right." So, they might be minor, but there will be some constraints. Therefore, we must set a scope.

Another aspect is setting those leap goals. We want to get to three days. We want to get to a service turnaround of two hours or a quality factor of 99.95%. Whatever it might be, hang them out there. In many cases, those are the answers, and if we have the answers, it's easier to get there, and we don't stop before we get there.

Then there's vision. Looking down the road, where are we headed?

And finally, there is the true sense that people are empowered to do things. In some places, I think that's revolutionary. In other places, I think it's going to take a long time. I still hear, "Do we really have to go through this empowerment stuff? Can't we just go tell them?"

There is another side of that, though, if there has really been a command and control in the past. I've often used this analogy: have you ever walked down a road and seen an old dog in the backyard that's chained? You see grass out there, but as far as the dog can go on that chain, there's no grass. He's made a circle around it. I've always thought that if you go over and unleash the dog, one of two things will happen. One is that he will never go past where the chain ended. He'll never step out into the grass, even though the chain's not there, because he's been controlled and commanded for so long. The flip side of that is, when you unleash him, he just goes nuts, runs around the yard until he passes over from a heart attack or faints because of that freedom.

If we have not prepared our employees for that empowerment, that's what'll happen. They might just sit there and continue to do the things they've done in the past. You can tell them they're empowered, but the next day, they're knocking on your door, "I want you to approve this." But you're empowered. "Well, I know that, but just look at it." No, you don't understand, you're empowered. The flip side is, "Oh, great. No controls, no rules, no regulations. We're going to have a good time with this." And that's where the empowerment quickly comes to an end. You have to have the knowledge base to understand what empowerment's all about. Senior management has to give direction in that regard.

BUSINESS PROCESS RE-ENGINEERING

We'd like to go through the specific steps of a re-engineering process with you. Jamie's going to start that, but before we do, does anyone have any questions?

FROM THE FLOOR: You had said you move toward getting everybody involved. But I have a preconception that re-engineering is at least somewhat synonymous with downsizing. The idea of having everybody involved and some people losing jobs seems kind of inconsistent.

MR. HOGG: We're going to talk about that right now. Mr. Hammer has a great line. He said, "It's a journey, and on this journey, we're going to carry our wounded and shoot our deserters." You do get involvement. We'll talk about the human aspects of this as we roll forward.

We find that the right way to do re-engineering is as a growth strategy. You're doing this for customer reasons. You're doing this to delight the customer so you'll grow. If you grow and you control your expenses, profitability will be the result, and there will be higher return on equity. You control the expenses by identifying capacity that can accept that growth. Beyond that there are some planned, careful, human resource things that you have to work on. Jack Welch called it a corporate restructuring fund. We'll see what they did.

Re-engineering also shines a big high-velocity flashlight on performance. It's very hard to hide poor performance in a larger job setting. A popular phrase now in human resource circles is performance contracts. As Kim said, we'll give you the training and give you the new job. Now it's up to you to perform, and we'll watch your performance, because now we can see the result much more clearly.

I'd like to do a check-back on our objectives. Number one is the question just asked, the human costs associated with the process. We've also gone through how to include representatives from all affected areas and develop techniques and strategies to overcome objections. Fourth is to learn and understand how to develop an effective plan to implement re-engineering. As we go through this you really should have an answer to that one. We can talk about dealing with difficult personalities at high levels in the planning phase. Then, finally, is establishing the objective measures. We absolutely, positively, have to have that. I think of this in terms of four phases; we're going to go through those four phases in a little bit of detail.

Phase One, Planning

There is an old axiom—plan your work, work your plan. Kim talked about the need for senior management direction. There are really a couple of teams you have to have in place here. They used to be called steering committees. We like to refer to them as executive teams. They set and monitor the direction, they fund the process, and they give you the resources to make it happen. They have to be actively involved. I use the phrase, do you have it in your head? That means conceptually, I agree with this, I can't argue with it. Then, do you have it in your gut or your heart? Are you passionate about it? That passion will come from the senior level. If the senior level is passionate about it, then it'll come at the resource level, the associate level.

There are some things that need to be done up front with that executive group. We will have about two sessions with the senior group at the start, for about two hours each. We'll establish a charter for the core re-engineering team. On the charter, we like to include the answers to the who, what, when, where, why questions. What is

your vision for this? What is, as Hammer calls it in his book, your commitment for action? Why are you doing this? What is your vision? Why are you going to carve out time and people, potentially invite in a consulting group? Why are you going to do this? It truly is a genie out of a bottle. Once they drop the flag, they have to let it go.

The second thing we ask them is, what's the scope? What's included, what isn't? What do you really want this group to address? What are you trying to accomplish? How will we know in 3 months, 6 months, 12 months, or 18 months whether we've been successful? What objective measures are we going to come back and hold ourselves up to as success criteria? We really work that group.

The charter will come out of that, and it's something that you can hold up. We've just had a client who had everybody in the company sign that charter. It should be very visible, communicated. It becomes the guiding principles for the re-engineering team.

About 6–12 months ago, the core re-engineering team was always made up of middle management. Now I'm seeing the best people. And I had a paradigm shift. We always thought we had to have the middle managers because they could make the decisions. But now clients are saying that middle management is the reason it looks like this. So let's not even put them in these workshops. Let's have the best people in there.

When one innovative client communicated in its newsletter that it was going to embark on this re-engineering journey, it put a want ad in the back of the communication. "Wanted: innovative, thinking people who are not afraid to abolish their jobs and are willing to take a risk." More than 200 people signed up. We spent almost three days sorting through them to get the best people. You can't facilitate a group of 200, although we did some innovative things on that project. We had two core teams that we brought together and then broke up. Overall, about 25 people were involved. Typically, you want your team workable in the 10, 12, or 15 range. What do you do with the other people? Are they disappointed? Yes they are disappointed. Are there some things that they can be doing as ancillary to the core team? Yes. We call those tactical teams. They are support teams to the core teams, used when you might need to get information on some piece. We work with a core team that's cross-functional, and we use all those other people, plus more, to help with the planning and implementation.

The charter is setting the goals, determining the success factors, developing the guiding principles. In developing a communication plan, it's like real estate; location, location, location. Communicate, communicate, communicate. You can't do it enough. You can't do it in enough ways. Be innovative about it, have some fun with it. Communicate informally as well as formally. We encourage everyone involved at the front line with the re-engineering effort to go back and share ideas; there is no secret here.

You also need to finalize scheduling and logistics. You have a workshop environment where people are meeting regularly and doing work. How much time do you spend on the planning? We did that very cumbersome one in about a week to two weeks,

max. You don't want re-engineering to take very long. You don't want it to take a year. It just loses itself. It has to have an urgency to it.

FROM THE FLOOR: Your comment on management driving communications triggered a thought. How does the rank and file know that top management has a passion for this?

MR. HOGG: It starts out with the traditional questions and answers from the president in the monthly magazine. Then there is some supportive communication around that. You might want to start your own re-engineering letter or a re-engineering corner in your regular publications. We find the best way to do it is to have key senior managers attend brown-bag lunches. Director-level groups or manager-level groups within an organization usually meet regularly. Attend those meetings; talk about it. Get out among everyone. Really spend time talking about it.

We'll talk about the leap to the ideal when you have your white paper. We had, in one instance, the re-engineering team come up with its optimal design. Then, separately, we had the management team come up with its optimal design. They didn't share any ideas, yet they were almost like overheads that you could lay on top of one another. When that happened, everything clicked. It went from here to here. Because now they saw they were all on the same page.

FROM THE FLOOR: I have a question on the time frame. You said it shouldn't take a year. We have all our teams set up, and we have our meetings planned up to six or eight months in advance. We're finding that it really is taking us a long time to look at all the issues. Are we approaching something the wrong way? It seems to me that it's a very long-term thing.

MR. HOGG: Let's clarify it. These next steps, from step one through step four, planning it to the implementation planning, should be in the range of about 14, 16, or 18 weeks.

I was a DOS-proficient person. My 13-year-old daughter is fairly computer proficient. When there was a DOS problem, she'd say, "Oh, dad? Could you help me? I'm stuck." "Fine. I'll fix that for you right away, Melissa." For Christmas she got a Compaq system with WINDOWS. Now it's, "Melissa, I'm stuck." That took three weeks only for that change. I'm struggling through WINDOWS. Don't believe what Bill Gates tells you. It isn't easy if you've been doing DOS since 1980. It's a paradigm shift, and Melissa's there with her manual on her lap. She calls the 800 Compaq number when she has a problem and she talks to those people. She just whips right through that material.

Change is very rapid. If you wait 24 or 36 months, that's a lifetime today. So we like to spend about 14 or 16 weeks with the real re-engineering steps we're talking about now and then set up a phased implementation over a maximum of about 18–24 months.

In the charter, you should have the executive group say, number one, I don't want all-encompassing systems solutions. That's one that I almost demand in the charter. Orchestrate technology certainly, but I don't want an all-encompassing solution. If

you do, you failed. Orchestrating technology can be effaced. For instance, for a client server, maybe in the first three to six months we can get the work-station environment set up with multisession capability into the existing legacy systems with some mouse capability and maybe some screens. Then build toward some repository and get the client-server environment up and running in about 18 months.

Phase two is current state, getting everybody on the same page. This is where you're doing a lot of your process mapping, identifying your customer requirements. Many clients ask, "Why do we want to start with current state? That encumbers us. Let's immediately go to the ideal state." Well, you must know where you are before you jump there, so we call this space ground zero. This is where the tactical teams can really help with the process mapping. Process mapping is an operative buzzword today. You don't want the desktop work flows. You want process maps. You want something that says, what's the name of this process? What are the inputs? What do you do with this? What are the systems involved, the actually processing systems and the legacy systems that you feed downstream? What are the outputs? Then what happens to it? Well, it goes here. What happens there? Well, it could go back to here. In fact, it could go back a couple times. What happens if it goes here? It goes through system A. What happens when it goes through that system? There are two possibilities: you could get this report, or it could feed this system. You just build that map.

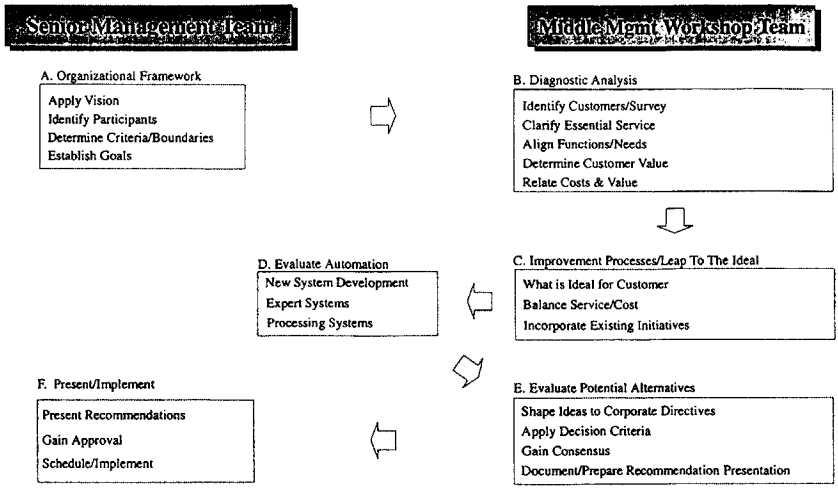
Now, what about box B on Chart 1, the diagnostic analysis? We might call this a drill down. We need to get some more information on these pieces. We might invite a tactical team to go off and do some of that drill down. That gets them involved in the process. How long do you want to do this? You want to only spend about a week or two weeks on this phase of it. We hope that there's a lot already done. Many companies have this material, and you can borrow from it. Don't recreate any wheels. Work with any internal group that has the information you need.

What clients are demanding of consultants today is skills transition. They don't want to be wedded to a consultant for three or four years. They would like the consultant to get them started on it. They'll typically hook us up with some really good people in the organization and work with us through one or more of these efforts, take the methodologies, and then continue it on their own.

The three boxes C, D, and E are really critical. This is where you will be leaping to the ideal, evaluating automation, and shaping your ideas. You've gone from ground 0 to 60,000 feet. To get from where I am to something close to that 60,000 feet, I must start shaping some things. Then how am I going to implement it? The whole process from boxes A through E should take about 14 to 16 weeks, depending on the scope. We like to carve it up. You don't want to take on too much. To use group as an example again, to go from point of sale all the way through issue into customer service, in-force billing, that might be too much. You want to take something you can actually handle. You don't want to get so big that you won't get anything done.

FROM THE FLOOR: Do the people on the teams work on this process full-time?

CHART 1
BUSINESS PROCESS REDESIGN WORKSHOP PROCESS



MR. HOGG: You need a few key members. There's usually a core-core team—the consultant and a couple of people you're working with shoulder to shoulder. That is absolutely full time. The core team members working on the re-engineering effort typically spend about 70–80% of their time during that 13–14 week period. That's not a straight line where you say, "On Mondays you have your time, and then I have you for the rest of the week." You have to schedule it out. You can't keep people in a workshop session more than about four hours. They start to shut down. So you structure over a period of time, meeting two or three times a week. Once they have that schedule, you're asking them to continue to do their own work at the same time they're being asked to do this. You'll find that initially they say they don't have time. To compromise, lay out a nice schedule for them, with some give and take. What you'll find is, once they get caught up in the excitement of this, they make time for it. Then for implementation planning, those core team members often become the sponsors of the actual project. They're not actually doing it, they're sponsoring it.

Phase 2 is the mapping phase, what we call information research. The customer really is the one driving this. Technology is an enabler of this. That's a key word. You're not doing this for technology reasons, you're doing this for customer reasons, and technology will enable you to get there. You need to understand what those customers want. Who gives you this input? What's their state? Are they happy, sad, or whatever? What are they getting on the outside? Then set the process up in the middle of it. Get some costs, so you can prioritize. You don't want to spend a lot of time attacking processes that don't have a huge impact in terms of costs for your customer. Get at the hand-offs and the bottlenecks and map those against how the customer feels.

Many times companies will make a mistake and decide to survey their customers. If they're existing customers, they're probably pretty happy. Instead try to get a cross-section. Ask the sales group what they think, ask the brokers what they think, ask the policyholders what they think, and maybe ask agents. Then compare those, so we'll have similar questions, but a different range of answers. How about our customers that we lost? How about those that didn't select us? Build a nice database. That'll really be helpful for you.

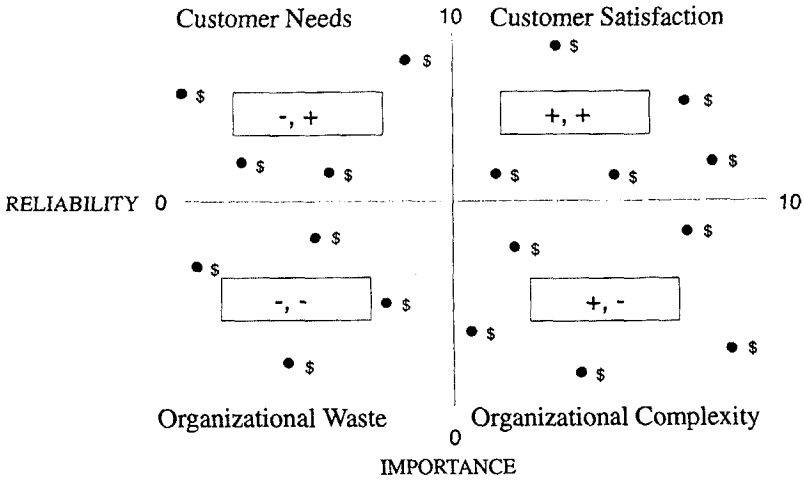
We use a third-party survey company in Minneapolis called Compendium, which is an excellent company. You can put the questions together from some boiler plates and make some modifications to them. Compendium will format them for you. It gives you a statistically valid sample—if you want to get this many responses, this is how you're going to have to send them out. They'll compile all the data and send them to you. It is relatively inexpensive. We surveyed that group of customers in about a four to five week period. You're trying to get treetop looks at this, not to drill down real low. You can also do it through focus groups or questionnaires. Interviews can be very helpful. Talk to some brokers on the group side; how do you measure success on the delivery of the group package? Are there summary plan descriptions? Is it first bill, then commission check? That's good information to know. That's how they're measuring us. The best approach, nine times out of ten, is through focus groups and questionnaires.

We have talked about the service/quality value grid (Chart 2). This is a nice way to show your results. What we're typically asking them is how are we doing? How do you perceive we're doing, in terms of importance to you? How well are we doing it, in terms of reliability? If you can get kind of a gap analysis on relative importance to the customer and how well we do it, then you can plot it. If we're doing a very good job in reliability, and it's very important to the customer, then we have a satisfied customer. In the customer satisfaction area we might have a real competitive advantage to delight them and really differentiate ourselves in the industry. The upper left quadrant is very important; we're not doing a very good job there. Those are customer needs, so we certainly want to zero in on those problems. In the lower left quadrant, it's not very important and we're not doing a very good job of it, so why do it?

Re-engineering is not a quick fix. There is a tail on it. But there are quick-hit opportunities. Quick hit is relative; you can get some things done quickly without waiting on systems, a three-month implementation or less. The grid helps you zero in on taking the monies that you spend down in the lower right quadrant, where we're doing a great job but the customer doesn't care about it, and focusing those energies so we can move more to the upper right quadrant.

Going back to that mapping for a second, they have some nifty equipment now where you can take your 8.5-by-11-inch paper of your mapped process, feed it into a machine, and butcher-block paper rolls out in a continuous stream. So you can actually get your whole process mapped from your 8.5-by-11s to a butcher-block paper and just tack it up on the wall. Different colors can be for the different interactions. It dazzles the workshop participants and the executives when they come in. No wonder it takes us 30 days. No wonder it costs us $2 million.

CHART 2
SERVICE/QUALITY VALUE GRID



Phase 3—Redesign Analysis
Everybody loves this phase. You spent a week or two planning. You spent two or three weeks compiling. You're about four to five weeks into this. Oh, boy, white paper, green light. *This is what I've been waiting for.* You've got the customer requirements. You've got your process and job-design map. You know what the structure is. You have an idea of what the system technology and capabilities are. You know what your market and competition are doing. And you have your own current performance, so now you just leap to the ideal.

Kim is probably the best person at getting from right to left brain thinking. He's my mentor for that. One interesting thing to do is to get everybody in the group to make a paper airplane and see which airplane will go the farthest. If we did that now, everybody would make a paper airplane the way his or her paradigm taught them to make it. Then the facilitator can take a piece of paper, just crumble it up into a ball, and throw it across the room. "Who said it had to look like that paradigm?" It gets everybody thinking, boy, we don't have to think within the four structures of this piece of paper. We really can think differently. You have to set the stage for some of that left-brain thinking.

Then you say, don't get too excited about this. We're going to 60,000 feet. How will we get there? That's a pretty long journey, and they spend some time analyzing and shaping. This is the engine room of the process, this phase right here. You'll want people to meet on a regular basis, in a workshop setting, three to four hours, with some breaks. Some clients like to make them sweat, no doughnuts, no coffee, no Cokes. No windows in the room, more of a war-room atmosphere. You're going

to do this for four, five, or six weeks. Out of that, you're going to have—I don't even call them recommendations anymore. They're projects. These are the things we have to do to get as close as we can to that 60,000-foot level.

There are all kinds of techniques. We call it "leap to the ideal." There usually are some existing initiatives going on. You don't want to toss those summarily. See if you can bring them in, incorporate some of the good work that's already been done.

FROM THE FLOOR: Does the end of this phase include recommendations about how the existing projects will continue to be done while we're doing this?

MR. HOGG: Yes. Many times they'll be laid out as almost the quick-hit projects. Some of the existing projects will go away, because they got superseded by the major project change.

FROM THE FLOOR: I'm talking about changing procedures that are currently on the boards; I'm talking about getting projects done, developing a new insurance product.

MR. HOGG: Ah, yes, your current work in process. That's the balancing act. You're going to still have to focus on that, as well as commit time on this. Applications are still going to come in. Policies still have to be issued, and booklets still have to be cut. We've had workshop participants say, "I went back to my process as it exists today, and I got depressed because I know where I can take it." But they still have to live with that for a while.

FROM THE FLOOR: It sounds like working double time.

MR. HOGG: During this period, yes. I'm not going to say it isn't. But somebody said the cemetery is filled with indispensable people. You do need to give up some of that which you think can't be done unless you're there, and you'll find that things still go on, and people absorb what you need to give up. But there is still a work-in-process docket, definitely.

All of this is important in terms of gaining consensus, and there are human resource issues here, too. I did a re-engineering last fall in which a management group absolutely dismantled its whole area. Some of it went other places, some of it went away. I described it as sitting on a tree limb. They're not trimming off limbs over on this side with a saw, they're trimming the limb off right where they're sitting. You have to give them some sense of why they need to continue to saw. Is there a safety net down there? What's in this for them? You really have to gain consensus, and try to make it, as difficult as it is, a winning process. In that instance, that management team was so good at doing that; they carried their wounded, as Hammer would say. Those people are in a different area right now, doing similar things. Typically, an organization's not going to get rid of people like that. It is going to get rid of the people who are deserting and protecting and don't want to face change.

As a summary, Kim's going to do the implementation planning, which is critical. If you stopped here, you'd have a report that sits on a desk with dust on it four years from now. "Yes, the Nolan Company was here, yes, Hammer was here. It was

exciting for a while, but nothing much happened." Implementation planning is key. You've done your planning. You've gotten through your current state. You have something up on the wall that looks like 60,000 feet and projects to get you there. You're about 10–12 weeks into this process now. You'll probably spend about another three to four weeks doing some solid implementation planning (Phase 4).

MR. WILKES: In most re-engineering efforts, at this point you find you've developed what I would consider conceptual-type recommendations. Here is a specific of what we want to do, but we don't have the methods and procedures yet. In some cases we have to form a tactical team to define how that's going to take place. We leap to the ideal, we work back from the future, we have something that's workable. We've got it approved, and we're planning implementation, but there's some of it that we still have to go out and investigate, to determine the actual methods and procedures that we will use to do this. There are many pluses in that, because if you get something approved, you must figure out some way to do it.

When you get into the implementation planning stage, and even before that, there are two words you should use from the very beginning—*honest* and *open* communication. Number one, why are you re-engineering? It's for different reasons. But be honest about it. For a client I worked with last year the bottom line was that the parent said it had to cut $10 million out of its budget in the next three years. At first glance, that's a cost-reduction effort. That's how it attempted to approach it to begin with. Everybody tell me what would happen if we took 10% out of our budgets. The problem with that is that you hurt a lot of people, and the people who are doing the best job for you are the ones who get hurt the most. So from the very beginning they said, "We must reduce our budget $10 million, but if we re-engineer our processes correctly, the $10 million will be a by-product of that." We don't want to attack this from just the standpoint of reducing cost. When we went to the people, we said, "There's bad news and good news. The bad news is, we have to cut $10 million out of the budget. The good news is, you get to help." They became involved. No one was given any promises about what would happen. The goal was that, in the next 13 weeks, we would review every single process in the company, we'd re-engineer it, come up with a master plan, and then start on implementation. The one promise they made was that by January 1, there would be a new company, and they would know then who would be a part of it. So everything was up in the air, and that's a very different way to approach it. But they were honest and open, and people were willing to take that risk and go in and look at the processes.

A first step in implementation planning is to document and present the findings. I would actually replace the word *findings* with *results*, if people are really empowered. If there is communication along the way, the documentation is a necessity, but you're presenting results. In a workshop environment, if you make this final, massive presentation, that's the end. Here are the ideas we came up with, everybody applauds, and now I'm going back to my job. You can't give the workshop a sense that eight weeks from now they'll be done, because they're not. The easy part's over. It's the implementation that's the most critical. That's where we were talking about double time and doing work. The people on the core team have to be empowered and have the responsibility to reach out and draw other people in at that time to help them get things implemented.

You need to put key dates on the implementation findings. I talked earlier about the enrollment process where we had to take it from 25 to 3 days. The other part that I didn't tell you was that the president in the first meeting said, "Three days, and I want the first pilot in place July 1." So we had that first key date out there, and everything we did worked off of that key date. That built our critical path for us. It's really important to put those key dates out there.

Quantify service and cost improvements. I am still amazed when I go into companies where I see massive change taking place, and I ask to see the cost/benefit analysis. Where is it? "We don't have anything." Why are you doing this? "Well, it sounds good." People really need training to appreciate cost/benefit and how that analysis is done, to make sure that what they are recommending is really in the best interests of what they are doing.

Assign project sponsors, that's a key. When you come up with a re-engineering effort, within that one workshop, you may have 50 major things that need to take place. No one person should be the sponsor for that whole thing. Different components of it might have different sponsors. I listened to a video last week by Rosabeth Moss Kanter, who wrote *The Change Masters*. One of her points was that everything looks like a failure in the middle. As I listened to her talk, I thought she'd been following me around for the last couple of years on assignments. It's in the middle of this, as you move out with implementation, that you get all these people who come up and say, "Whoa, wait a minute. It sounded good when it was an idea, but we're actually doing this now. I don't know if I like that or not." You also have the people who perhaps had thought, "Oh, this is going to be great, because when it's over, it's going to report to me." But it didn't. So now it's not a good idea.

If you look at personality styles, you have the drivers, the analyticals, the expressives, and the amiable-type people. With that last group, if you say to them, "We really want to do this, what do you think?" they'll say, "Well, it's a good idea. OK, if that's what you want to do." And what you thought you heard was, yes. But what you really heard was, "Don't screw it up, because if you do, I didn't tell you to do it." When you're in the middle of it and things aren't tracking just exactly right, they're the people who are saying, "Boy, I really hate to hear that you've got problems over there. I told you not to do that." What do you mean, you told me not to do that? You told me to go ahead. "I said, yeah, if that's what you wanted to do." Those are the kinds of things that start happening in the middle, and it's where those sponsors can really help out a lot.

Then you need to project key target dates or milestones, so you can tell where you are. You need to do this with senior management direction. In too many cases, senior management leaves the loop during implementation, but this is where they still need to be actively involved. They still need to find out what's going on with implementation, where we are in the process, and what they can do to help us cut through red tape.

There are several areas that you have to be concerned with. Number one are those systems changes. You're not going to be able to walk into the systems department and tell them you've got these things that need to be done and expect them to say, "That's great, because we've got five programmers over there just chomping at the

bit to do something." Priorities have to change. You have to evaluate where this fits in. You must manage the time frames.

If you drastically re-engineer something, it can really impact what the organizational structure should be. So you have to go back and re-engineer your organizational structure.

In looking at the resources involved, you must consider the interim processing routines that are going to take place. If you go from functional processing to team processing, you might need an interim step. Depending on what you've agreed to with employees, it might be a promise that they won't lose their jobs as new processes are developed. They'll be put in a pool to do special projects, and then retrained until they can be reassigned. There are different kinds of things that you could do, but you must manage them. If you don't think about it beforehand, people are going to become very discouraged. Many of the keepers, those team players whom you really want, are going to see a mess, and they're not going to wait around to see if it works out. They're gone. You'll wind up with the people whom you wanted to get rid of to begin with.

During a re-engineering process, in almost every case you would want to form a personnel team as a subteam of the core team to be responsible for determining your plan with respect to resources. How are we going to handle these people? Do we have a policy?

The other piece is the policy and procedure changes. You're not going to solve all of your procedural problems within that core team in the workshop environment. It's not a good use of time. Rather you need to draw more people in, form tactical teams, and empower those teams. "OK, we've redesigned this process. Here's a piece of it. Go design the methods for it." Or, "We have to change some forms. We need to change a screen." You need to have a plan, so you can control the various pieces that are going on. Where you can pilot changes, it's a good idea to do so. To pilot it in one place helps to test it.

Make sure that you're communicating what's going on. The larger your area, the more likely that everyone was not involved. We don't want to just thrust it on them. We want to sell it to the organization, have a good roll-out plan. We have to deal on the hard side as well as what I would call the warm and fuzzy side. Get as much interaction as you can. That doesn't just happen; you have to develop a plan for it. In anything you read about re-engineering, the implementation is where it breaks down. And the biggest reason for that is not that we couldn't do it, we just didn't plan it out. We thought that once we had good ideas, everybody would accept it and we could put it in place.

How is this different than cost reduction? Jamie uses a good phrase, that cost reduction is the anorexic way to do it. It's thin, but it's not healthy. In re-engineering with strategic changes, the end result is that we are permanently eliminating expenses, we are permanently eliminating doing things that we don't need to do. At the same time, we are maintaining or improving our service and quality levels, and we're more customer focused. Whereas, cost reduction is actually an activity; it's really not a result. After cost reduction takes place, somewhere down the road, there

comes a pressure to increase staff and expenses. Why? Probably because quality is suffering, service is suffering, there are backlogs. In other words, something's still wrong.

RE-ENGINEERING RESULTS

First is significant quality and service improvement. Then you've redesigned the customer delivery process based on what the customers are asking for and what they expect. If you've redesigned your customer delivery process, and you look back and you don't find anywhere where you reached out and touched a customer, you haven't done it yet. There's still probably a lot of room for improvement. And finally there is significant cost reduction. I really believe this is a by-product.

FROM THE FLOOR: Why does it always seem to happen that way?

MR. WILKES: Because if you reach to improve quality, and especially to improve service time, you have to look at all the various components that are slowing it down: The hand-offs, the make-readies, and the put-aways. If we ask, how can we do this as quickly as possible and be perfect every single time, we're going to look at speed and technology. When we are eliminating pieces of the work and coming up with a streamlined process, that's what has to happen. Because we work in an environment where we don't get rid of materials and things like that, the end result is people in 99% of the cases.

MR. HOGG: There are two ways to handle that. One is, if you have a growth strategy, that cost reduction can be a way of increasing capacity and decreasing unit cost. The other is that there's an increase in the knowledge worker as opposed to the lug-nut tightener who passes it off. Now you have a person doing the whole job. The more of those you have, the less you need of those layers to paste it all together and report up and down. So the cost reduction is a combination of rework and hand-offs being eliminated, together with a flatter organization. And the service delivery doesn't get negatively impacted.

Whereas, with cost reduction, what do you do? You have to submit a budget to your boss. So you decide to take 10% off. You're never going to attack your job. There are implications to that, and that's what we want to talk about now.

I have a couple of Jack Welch quotes, from a terrific book, *Control Your Destiny or Someone Else Will*, by Noel M. Tichy. "You're either the best at what you do, or you don't do it for very long." "Companies can't guarantee job security, only satisfied customers can." In the book, Welch's emphasis is on productivity improvement. He gives the example: If you're improving your productivity by 2% a year and inflation's at 3%, you start the next year one point behind. So what do you do? You drive to improve profitability. You say, well, if I'm going to improve profitability, I'll raise prices. You raise prices, the other person's reducing prices, and you lose market share and profitability. And you get in a downward spiral.

Instead you should focus on productivity, which Welch says is the clearest measure of efficiency and a rich source of earnings. If your productivity in that same scenario goes up 4%, 5%, 6% a year, and inflation was 2% or 3%, you have a black gap, not a red one, to work with. Now you can increase your market share by reducing

prices. That's the whole focus. If you control productivity, you will control your own destiny. Welch also says that revenue growth, the balance of the productivity side, is the clearest measure of customer satisfaction. And that's why re-engineering has to be a growth strategy.

Let's review the baseline of what we've discussed. We've talked about four phases: planning, current state, leap to the ideal and shaping, and implementation planning. Shaping is the cost-benefit analysis—you've got all these ideas up there. Which ones make the most sense? You must do a disciplined cost analysis with an economic rationale for the change. You don't want change for change's sake. You have to understand the customer requirements, you have to have a vision and strategy for growth, you have to have commitment and leadership throughout the organization. You have to make a case for action and change.

Hammer talks about the three types of companies: the ones that have hit a wall, that are basically in a death spiral; the ones that can see the wall coming; and the ones where there's no wall, but say if they do it, they can build a wall behind them. You really have to have a commitment for this, know why you are doing it. A good way to think of it is, where am I? Probably a lot of companies are in that middle group; they see the wall coming. Being stuck in the middle is where you do lose your competitive advantage. At one end of the spectrum is the Lexus—who cares what it costs, it's got that value added to me—versus the price-sensitive Cavalier. If you're stuck in the middle, where you don't know where you are strategically, you're going to lose. You have to make your decision about where you want to be, the type of product offering, and how you're going to position it. The way to differentiate, if you're on the Cavalier side, is to have the best price and the best service related to it.

Then, finally, you have the cross-functional redesign team, and you have communication.

We're in a property-casualty company now where we're setting up teaming in the processing area. The company does not want the mail person to give it to a technician, who gives it to an underwriter, who gives it to a rater, who gives it back to a technician. It wants to have rater-tech positions. It means you need more rater-tech positions because they're taking on more, and you need less underwriters. If you're going to have rater-technicians now, you have to do a skills assessment. How important is this task? If you remember the old Management 101, it's really just a skills matrix. This is what's required. These are my people. How good are they at it? Subjectively, on a one to five scale, are they a one at it? Are they really terrible? Or are they a five, excellent and can train others? Have the supervisor or the manager assess the people and have them assess themselves. That gives you a guide for your training.

Have some performance measures. The president of the company is going to get direction either from the board or the policyholders. They might say they want profit and they want that to be a function of growth and expense control. There are three measures. Revenue growth is the clearest measure of customer satisfaction. Efficiency or expense control is the clearest measure of improved productivity and efficiency. And there is return on equity. You can cascade "revenue growth" down

and say that's really a measure of quality, speed, and accuracy, once and done. Efficiency is really a measure of productivity and unit cost or expense ratio. So now I can measure that team on speed, accuracy, unit-cost productivity, and customer satisfaction. Perhaps survey those customers on a semiannual basis. You develop a performance contract, with some piece of it being profitability. If you can get the janitor thinking about that, you've got a different kind of organization. Companies are now tying their compensation to those kinds of performance contracts.

Here are the clear rules for downsizing. Be honest and open. Don't say something that you're not going to do. Let's go through some possible ways to handle the downsizing. Companies want a win-win. They like natural attrition or using the capacity for growth. Those are the easiest ways to do it. Are you going to get the kinds of significant cost reduction you need from those two alone? Probably not. You may have to have carefully managed early retirement; you're seeing that in some companies now. There are voluntary severance programs. There are full-time to part-time transfers.

To have redeployment within the organization, you must have training, and you must fund that training. Going back to the question on how you get work done while you do this, when one organization went to teaming, it picked an all-star team, its best and brightest employees. That became the pilot team, and then that team helped the next team get to teaming and did some of its work for them. So that first team floated in the roll-out process and helped each team go through its learning curve by taking on some of the work and not negating some of the service issues. But you have to have training before you even go to that.

Those are some strategies we're seeing. The one that's not on the list is performance issues. They are not necessarily tied to compensation, but rather, "This is what we're expecting of you, and you're accountable now for an end result." Be open and honest about that. There are going to be some casualties, and you have to manage them.

There are a couple of change curves (Charts 3, 4). Chart 3 is originally from O.D. Resources, Inc. They talk about phases. Most people go through a positive change curve. The first time my daughter went on a roller coaster I asked if she wanted to go on a roller coaster. "Sure." Why do I have to keep pushing you up in line? Skeptical, apprehensive, having denial, not sure—this is very normal. Once people understand that this is normal, whether it's personal or business, there's an upswing where you get lower acceptance of change. Just like a roller coaster, click, click, click, click, click, click, it gets real scary up at the top. Then you start the down slope. Some will passively agree. "I can't get out now because this bar is holding me in, and if I jumped off, I'd be killed instantly, so I'll just ride it out." "As soon as this consultant leaves, my life will get back to normal."

Active agreement is, "I can't get out, but I'd better understand it, because it's going to affect me. Let me learn about it, let me ask questions, let me receive communication on it. Talk to me, please. Make me feel better about this." They will reach their phase five acceptance commitment very quickly.

CHART 3
POSITIVE CHANGE CURVE

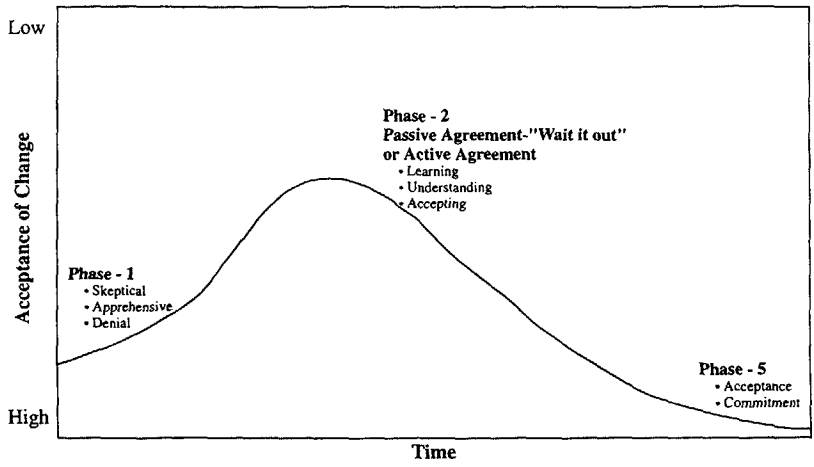


CHART 4
NEGATIVE CHANGE CURVE

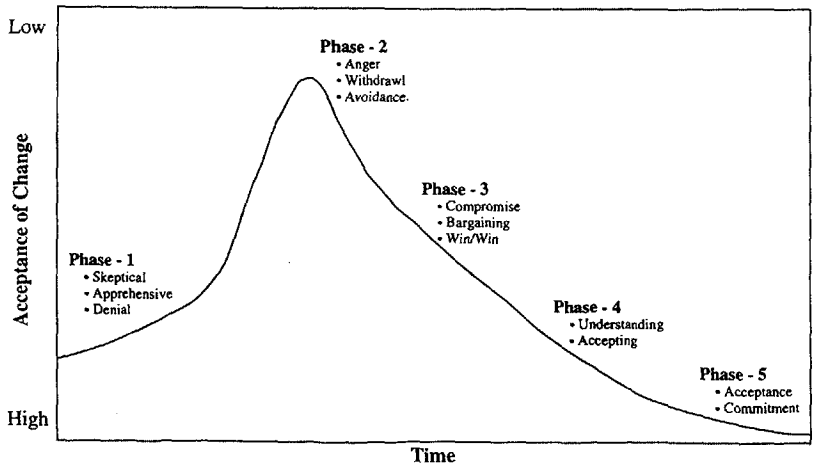


Chart 4 is the negative change curve. You need to understand how to deal with this. It's got a real high spike. "I am so angry about this change, I am going to get somebody back for it. It's not right that they're doing this to me." People who follow this curve personalize the change. They'll withdraw, they'll avoid it, if you're lucky. If you're not lucky, they'll toss grenades at it, shoot you as you walk down the corridors, try to get back at you for making their lives miserable. There is a way to deal with it. Some will just leave. But, for the majority, you want to make it a Steven Covey win-win situation. Covey's win-win quadrant is high confidence in your own abilities, high consideration for others. Get in that far quadrant. That's a capable person who's angry, an important person who we want on this team. How can we have high consideration for him and help him through this change? We'll compromise, we'll bargain, and we'll try to strike a win-win situation. If we can do that, then the person will get to a point of saying, "OK, talk to me about it, help me out." Then he or she will get to commitment. I would say that seven to eight out of ten are on the positive curve, two to three are on the negative.

FROM THE FLOOR: Does bargaining and compromise water down the effectiveness of the re-engineering?

MR. HOGG: No. You have to be careful. Some things are not negotiable. But you can maybe adjust the way you're going about the implementation planning, get them more involved. You can make some subtle changes here and get a win-win. It's better to have a win-win than to have no involvement, if you really want that person to be involved. In some cases, you might say to the person, "This is not going to work. Maybe you should think about finding something else." You have a human resource team who will help you.

How can you smooth the transition curve? Chart 5 uses three phases instead of the four, but we can match them to the four phases. Phase 1 on this chart is really the planning phase. Phase 2 is the level setting, the current state, and getting to the optimal state. Then Phase 3 is the implementation planning. It's hard to say that you're going to involve everybody when you have a core team, but by involving that core team and encouraging that team to communicate back and bring in as many people as possible during the process, you really do get cross-functional involvement.

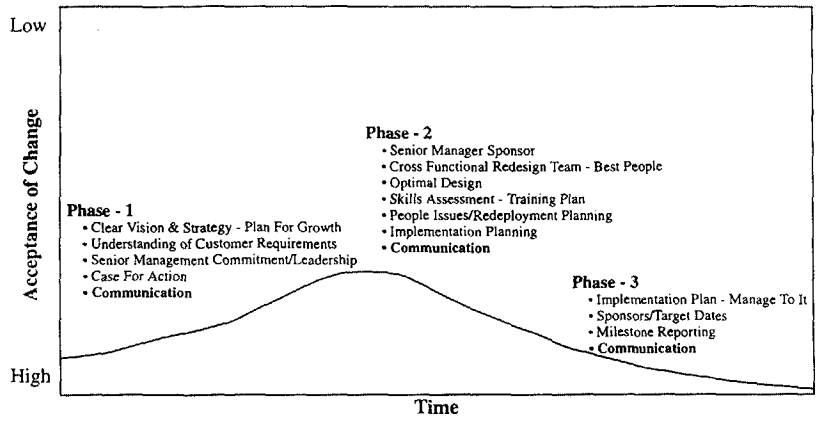
FROM THE FLOOR: Is there a place for incrementalism after all of this radical process has taken place?

MR. HOGG: What we have been saying for many years now is that, yes, you need to cross-functionally redesign, re-engineer, whatever you want to call it. But you need to have a continuous improvement focus. Once you've gone through that trauma, people will have a sense of participating in it within their own team now. Or looking at their own process, how can they continually improve it? Then you're talking about quality teams, ad hoc problem solving and customer action teams that are always looking to continuous improvement.

FROM THE FLOOR: It seems that the world does keep changing. Do you have to go back in five years and re-engineer again, or, once you've done this, are you finished?

CHART 5
MANAGING CHANGE

"Smoothing The Transition Curve"



MR. WILKES: I don't know if you're ever finished.

MR. HOGG: I think two things primarily drive this. At a client office in Syracuse, I was sitting with an issue underwriter in a group life operation. He was a graduate of the University of Syracuse, who started in the mail room, three or four months earlier, just to get a job. There are a lot of skilled, knowledgeable workers out there who aren't satisfied with entering some header information onto a screen and passing it on. So I think your worker base is ready and ahead of the curve on this, and technology is coming along. You have computers that are more powerful than the ones five years ago that were in an environmentally controlled room. So the technology is pulling it now as is the knowledge worker. If we have another paradigm shift like that, maybe we have to do it again. But I think we're OK for a while.

FROM THE FLOOR: Do you think that college students are learning how to fit themselves into this kind of a work environment when they graduate, as opposed to the previous work environment?

MR. HOGG: I think it's a different work environment. I'm not a human resources specialist, but I'm very impressed with the people who are coming into the workforce, plus I'm very impressed with some of the ones who have been there for a while, who just say, "This is nuts. Can I have some training to get better at this? I really want to do some more."

MR. WILKES: One of the major problems you're going to run into is that in the past we've had an expectation that we can get in, do a good job, and keep advancing.

It's not going to happen. It's going to be slower. Kids in this day and age want it right now; they don't want to wait. Also, they'll say, "I've got to work on a team? Do you mean I have to rely on other people?" It's a very different mind-set. I think there's going to be an evolutionary process, and maybe it's going to be revolutionary to them, but they're going to have to adapt to the new style. Maybe what dad or mom told them about the things you need to do to be successful in the business world have disappeared.

MR. HOGG: There's a good article in *Fortune*, April 4, 1994, called "A Manager's Career in the New Economy." It talks about the need to not only be a specialist now, but also to be a generalist. It gives you the compass points for a new manager, which I think is an excellent visual on what we're seeing now. There's no longer the need for a manager who just coordinates. The manager, as well as the employee, has to have some value-added specialty as part of the team. It's going to be interesting, from a human resource perspective.

You need to understand that you don't want this to drag on forever to get to where you want to move forward. It's a 13 to 14 week process. But there can be a longer tail for the implementation. The important thing is, there are no switches here that you flip at the end of it.

I hope we talked enough for you about the human costs associated with this process. If you're alert to them and understand that it's the people who make it work, you'll involve them through a cross-functional representation.

When we did the point-of-sale-through-issue project, we started with group representatives from the field sales offices on our core team. We had their sales and support people. We had new business underwriters, renewal underwriters, issue underwriters, issue specialists, actuaries, staff marketers, and finance people. Having actuarial in there was helpful. You can imagine a group sales representative wanting to just be able to give a quote right off the standard industry classification (SIC) code. "What else do I need besides the SIC code and the in-force premium? Hey, I can do that." But having an actuary there saying, "Whoa, time out! Could you give us a little bit more information to get to the quote? How about the number of lives? How many are female and how many are male? How many are over 65? Could you give us an average age? Maybe we don't need the full census, but could you give us something that's pretty close to a census on the quote before we go in?" Having that kind of time-out made us think about this. We had an actuary come in and talk to us about it. He did a terrific analysis on how level the curve was on the group size that we were talking about.

You have to have that cross representation. If you involve them, they will come. If you involve them, you will get over the issues. How do you handle the recalcitrant senior people? The president just kind of makes it clear. You're not going to do this without that senior person. There are some laggards around that executive committee, but they realize the train's leaving so they had better get on it.

For more information, see *RSA*, Vol. 20, No.1, "Optimizing your Efforts—Re-engineering Process Part I and II," p. 199.