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OPTIMIZING YOUR EFFORTS—RE-ENGINEERING PROCESS PART I AND PART II

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This session will teach techniques to get the optimal result with the least effort. We will consider how to:

- Look at the whole process, working backwards from the result
- Look at all of the pieces of the job and redesign
- Bring technological tools into the process

MR. JOHN W. HADLEY: Our committee is charged with promoting the development of business, personal and management skills to the actuarial profession. We do this through such vehicles as our series of articles in *The Actuary* under The Complete Actuary logo, and sessions such as this one. We generally sponsor three to four sessions at each Society meeting on topics like Management Disney Style, Effective Listening Skills, Secrets to Better Writing, and Re-engineering.

We have two guest speakers, Elaine Miller and Michael Keane. Elaine is a manager in KPMG Peat Marwick's General Insurance Practice, based in Radnor, Pennsylvania. She specializes in the insurance industry, and consults in the area of insurance company operations and competitive strategy development and implementation. Over the past several years, Elaine has focused her practice on business redesign and organizational effectiveness, which has helped her clients to rethink the way they work and to manage change throughout organizational redesign and technology implementation. She has over 14 years experience in the insurance industry and has worked with both life and property and casualty companies to provide solutions to administrative and expense problems; she has an in-depth understanding of insurance company management issues.

Prior to joining Peat Marwick, Elaine worked nine years in the field of life reinsurance, most recently with Transamerica Occidental Life. She also spent two years as a reinsurance intermediary. She is a cum laude graduate of the Wharton School of the University of Pennsylvania, where she also has performed graduate work in dynamics of organization. She has spoken to various industry groups on the subject of business process redesign, and is a Fellow of the Life Management Institute.

Michael Keane is a senior manager in Peat Marwick's General Insurance Practice based in New York. His experience is in financial services, with particular expertise in the insurance industry where he has consulted to senior executives in the U.S., Canada and Europe on managing their operations resources and on business process

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redesign. His recent work is focused heavily on redesigning work, benchmarking performance and managing organizational change.

He has more than 12 years work experience in Sweden, Norway, France and Belgium and speaks fluent Swedish, Norwegian and French. Prior to joining Peat Marwick, Michael was vice president of operations at Thomas McKinnon Security Inc. and division manager of operations at Salomon Brothers. He received a bachelor of arts degree from St. Peter's College and a master of arts degree from Duke University, where he has also done work toward a Ph.D. He has diplomas in philosophy from Louvain University in Belgium and pedagogics from Oslo University in Norway.

He has also completed graduate courses in organization development and management theory at the National Institute of Business and Economics in Oslo, Norway. Michael is a frequently featured speaker at securities and insurance industry conferences and is a contributor to books and articles on the topics of business process redesign, benchmarking and change management.

MR. MICHAEL KEANE: Our objectives are to (1) discuss theories that underlie business process re-engineering, which is a hot topic for financial services companies, especially insurance companies all over the world; (2) give you some practical applications via a case study; and (3) engender discussion. Elaine and I have done re-engineering engagements with insurance companies, and I have worked with other financial services institutions also. Many of them were in the U.S., a number were in Canada and most recently, I worked with a major company in the U.K. With about 18 re-engineering engagements behind us, we understand the issues and can bring them across to you. We hope you will walk away from this saying, "I've never done this, but if somebody in my organization starts talking about this, I'm going to know what the issues are and I won't feel as though I'm on foreign soil."

How many of you are in organizations now that are doing a re-engineering project, have done re-engineering or are thinking about re-engineering, although you may not be doing it? Just about the whole crowd.

We want to talk about motivators for re-engineering; why do companies in any financial services business do re-engineering?

In my experience you're running across this every day. These are hot buttons that motivate many members of your senior management team. And why? Certainly for the insurance industry there are significant perils out there from an operational point of view.

Customer satisfaction is driving many insurance companies and most of the financial services world. It is certainly driving most of the competitive industrial world that we live in as well as the postindustrial, 21st-century world that we're moving toward. That's a sobering thought.

Why? Notwithstanding the crash of 1987, downsizing and rightsizing, there have been some real competitive agendas emerging.

People now take product quality as a given. People talk about the arrogance of expectations. I assume that what you do for me is going to be done with quality. I'm paying for that as a minimum. I also want you to provide me service with quality. How fast can you turn around my claim? How quickly can you provide me an approved and issued policy contract, so I don't have to wait and so you don't run the risk of my deciding not to take it? How quickly can you respond? If you can't, you're not going to be with the gang.

Because I come from Wall Street, I have seen that some traditionally employed solutions don't work or don't work very long. If you do them once you must do them twice, three, four and five times.

Across-the-board staff cuts, hiring freezes and early retirement all get rid of what people call dead wood. Also, some expertise in the organization is gone. But things don't improve. So managers tend to put in more quality controls and audits, which cost more money and mean more handoffs of documents and items from one person to another. These handoffs increase the possibility of error and increase the time it takes to do something.

If I produce 50 claims an hour versus 30 a year ago, but the extra 20 are all messed up, what have I gained? Traditional solutions are to put in an error control department or automate existing processes. Both give limited effectiveness and short-term results. Most people use technology to automate what they already do. If what you already do should be thought about in a different way, why should you automate it?

Many things that we do in our businesses are done because somebody has always done them. The usefulness of many of the activities and the tasks and the functions we perform probably need to be questioned.

There are changes that are moving us toward re-engineering the work we do. Technology and organizational structures are changing and enabling us to do not only different things, but better things with our time. We tend to restructure around cross-functional teams made possible by computer networks. Cross-functional teams is just a term meaning we're making people work effectively and efficiently across departments. We restructure work around ways that teams using technology or new organizational techniques can work better. Rather than having a department do work on a client, you may have a cross-functional team focus on an account and handle everything from approving and issuing a policy to handling claims, to providing customer service. A major client can then look at a specific team and know that his or her needs are constantly going to be met, rather than having to pick up the phone and play a guessing game about who's going to handle his or her account now.

We know that we have to be much more tightly linked to customers and suppliers. Most of us have to own the customer these days, and we hope the customer wants to own us. Certainly in the financial services industry, where traditionally we have used many clerical people to carry out business functions, we're beginning to rely more on knowledge workers. These are people who have grown up with technology and who understand what technology can do for an organization, for its products, and for its customers. And we're moving away from a clerical landscape of people just pushing paper and producing what we call work. We must view information technology as both a driver and an enabler.

Business process redesign is a management technique to build the enterprise of the future by challenging assumptions. It's really nothing new, but some of the things that it does are probably new and applicable to the world we live in today. It basically combines many old and new approaches: work efficiency, productivity, and performance measurement. It uses a new approach that literally says, let's set targets for how we want to do things in the organization. Let's look at the work cross functionally. Let's not talk about what a department does, but what an entire process does, whether that process stretches across one department, or several, or across the whole enterprise.

It shares many techniques with continuous improvement. One thing we have found is that continuous improvement is an extremely valid program, but it works best once you've made some major radical leaps. And you can continue those leaps if you continually improve what a radical improvement has allowed to happen. If you start with a continuous improvement program, you're fine-tuning some things that you have in place now but that don't always work as well as they should. Business process redesign seeks order of magnitude results. You want to have a five or ten times improvement in what you do. You want to take a six-week approval-and-issue process and reduce it to a week. You want to take a claims operation that may have an error rate of 20–30% and bring that down to practically a zero-error rate.

Business process redesign goes beyond automating and rearranging tasks. In the 1970–80s we used automation to perform our tasks faster. If we did something stupid that took us five hours, we were able to automate it. We were able to do more stupid things much more quickly than before.

We're trying to harness knowledge, in terms of knowledge workers, team work and process. And in all of that there is massive organizational change. The Gartner Group, a technology-in-process research group, has found that 55–60% of business re-engineering projects fail. A major reason is that we don't do well enough at managing the organizational changes that have to result from that.

There is nothing mysterious; there is no witchery, sorcery or rocket science in business process re-engineering. There are folks out there who will tell you that this is a magic pot that you have to boil. It's really not. It's a very common and sensible thing.

This idea of holistic design is relatively new; you must look at the way a process works in a whole organization and follow and improve your process across departments. Departments have always been the fiefdom where people get protective of their turf. This is one of the major pieces of organizational change that we always have to deal with.

There are technology tools available for process flow charting, simulation of what the future world would look like, and activity-based costing. You can figure out in theory what your organization would look like if you invoked new processes that you've designed. You can test in a good laboratory environment.

The difference between process re-engineering and continuous quality programs or total quality management (TQM) programs is that we're looking for these order-of-magnitude changes or what I call step changes. You have a continuous improvement curve, and suddenly you re-engineer, redesign, or rethink your business, and you make a step change.

Let me give you an example of a step change that happened in 1975 and most of us never noticed it until 1980. Merrill Lynch invented the cash management account (CMA). It literally made a step change in its business, and went from taking orders from clients to managing the assets and finances of its clients. Merrill Lynch has about $500 billion of client assets in its CMAs. Its nearest American broker competitor Smith Barney Shearson has about $250 billion.

Another step change example is American Airlines, which was just another airline until it invented the saver system. The saver suddenly put American Airlines in control of the travel business and travel plans of passengers, and in control of the travel work of many travel agencies. That's what we're looking for in process re-engineering.

Process re-engineering looks at the future. The only way you can do process re-engineering is to look not only at the processes, but also at how people are organized to do the work. You must look at work enabled by technology, and at the information that people use in technology and in teams to provide service to customers.

If you're dealing with a re-engineering project that is not considering all of these four key elements, you're going to have to go back in a year or two and literally rethink what you've done. You won't be getting the benefits that you're looking for.
We keep talking about the enterprises of the future—those companies that are going to be relying on knowledge workers to produce value. Who and what are knowledge workers? They are people like ourselves. They're people who have grown up with or have become attuned to what technology can do to improve their work, their decision-making capability and their information capability.

FROM THE FLOOR: I have a question about this knowledge worker concept. If you look at overall demographics, it seems the knowledge in the American education system is going down. The overall level of knowledge in the available work force is deteriorating.

MR. KEANE: Absolutely.

FROM THE FLOOR: Are you saying that everybody should try to hire the minority of well-educated workers and that we should ignore the rest?

MR. KEANE: No.

FROM THE FLOOR: Is there something that can get the badly educated people to become productive knowledge workers?

MR. KEANE: The organizations that we work with and for understand that they cannot function in a competitive environment without people who are numerically and literally adept, computer literate, and who understand the benefits and also the limitations of technology to help them make decisions.

I'll give you an example from a small insurance company in the Midwest where we did a business process re-engineering of their so-called investment area. This particular company is what I call a trader in everything but name. Because of the complexity of derivative instruments, they could no longer deal with paper processing people on the investment operations side. They had to hire or train someone to understand the complexities of derivative instruments and the complexities of dealing with Wall Street. This person would need to understand the complexities of working with technology to put out or to receive information on trading positions. (This would have helped Kidder Peabody, a Wall Street firm, over the past three months.)

They needed to understand the payment streams of an instrument. You can't do that with what I call a clerical person without changing that person's skills. If we want to deal with the complexity of products and services and people that we have in financial services and in insurance, we must have people who do this. They are what we call knowledge workers.

FROM THE FLOOR: But you're saying that either the company is going to have an extraordinary work force or a very small work force. Or a company is going to be able to train people to take on the functions.

MR. KEANE: I think all three are needed to be competitive. You need an extraordinarily devoted and dedicated work force. You need a small work force, because the word downsizing has been on everybody's lips like the Gospel for at least six years and is going to continue. People are talking about taking big organizations like Motorola and making many companies out of all the divisions of Motorola. Small is better. Maybe that will change in 10 or 15 years.

Does that make sense? Is that scary? How many of you have organizations where you know that the people working for you and with you and around you are either going to have to be reskilled or replaced? I must ask the three of you who do not, what are you doing?

What is a business process? It's always focused on a customer, not on our internal prerequisites. It has certain characteristics. A business process always has customers, and it's always driven by an event. What kind of an event? Perhaps an application for a life policy or a claim. It's going to be repetitive. You don't set up a process to issue just one life policy. You know you're going to have many life policies or claims. You're going to need a great deal of management information.

A business process has decision points. The process has inputs, outputs and requirements. If an application comes in, you expect that it will adhere to certain prerequisites for completeness. You expect to issue something from that application. It may be a rejection, counter offer, or completed policy contract. The process crosses functional boundaries. Many people get involved in processing an application. The process has performance measures. How long does it take me to process a life application? If it takes me nine weeks, I don't think that's good. If it takes me four days, that's fine. It generates a product or a service. The underwriting process generates a contract that is in force.

Today, in terms of public relations, if you're not working on your processes, your customers ask, "What's the matter with them?"

People's performance is only as good as the process. If your people aren't performing, maybe your process is fouled up. Maybe the way you've put things together hampers their performance. Business processes are generally not documented. I'm sure you have procedure manuals up the wazoo, but I would defy you to find a document in your organization that literally outlines the business process for approving and issuing a policy contract.

Companies don't systematically improve processes. They systematically improve the work of the department or a section. And they don't generally manage process and process performance. We're going to talk about that.

Processes are also nonpolitical. Beware of the manager who wants to restructure the organization. That's political. He has an axe to grind and wants to plant it in somebody's back. But if I am going to re-engineer and redesign processes, I will be trying to improve the work rather than remove people that I don't like from an organization.

What is a handoff? Michael takes the life application, verifies it and does a credit check, and then hands it off to his supervisor, Elaine. Elaine looks at literally the same things that Michael has looked at, just to make sure that Michael has done them correctly. Then Elaine gives the set of applications to her department manager, who picks out 50 out of 800 applications and looks through them to make sure that they have been done correctly. Now what's the value of that? If you train me right and make the application user- and worker-friendly, you shouldn't have to hand off things. Every time you hand off something you increase the possibility of error and loss. And it takes time for that application to pass through all of those hands.

As an example, consider a life company in North Carolina. About five years ago it took six weeks to approve a life policy issue. When the application got into the building it traveled through interoffice mail and from desk to desk three quarters of a mile before it was finished. What's the value in having paper travel? It's time, and time is money and time is responsiveness.

FROM THE FLOOR: It's essential to have a checking system, no matter how good your procedures. I've seen so many errors over the years. No matter how expert you are, it's easy to make errors. So in the real world, somebody has to look at it again.

MR. KEANE: That's another point of view. Personally it's one that I understand and respect. It's not one that I work well with myself.

Processes help us identify clients down stream, and vendors and suppliers, or third parties up stream; processes help us to link with them both organizationally and with technology. I can link with a supplier. I can link with a vendor. I can link with a favorite customer if I have a big institutional customer in my group business. I can redesign the process so that I link with customers electronically, and let customers update eligibility files so that I don't have to send out and receive papers in my organization to do that.

FROM THE FLOOR: We had a problem where we had to redesign the process based on those people involved in order to do the job properly.

MR. KEANE: Had you retrained the people involved when you put the new procedures in?

FROM THE FLOOR: Yes, they were retrained. The idea was just to make the thing work. And it did not work because those people that you try to retrain are functional illiterates.

MR. KEANE: I don't think you can work with illiterates.

FROM THE FLOOR: I think there's value in looking at your process from the customer's point of view. But from the perspective of our individual life side, everything I've seen says that the relationship with the agent and what the agent does for the customer has absolutely the biggest impact on how the customer will feel about your company. That's what we should talk about.

MR. KEANE: It certainly does; we have found that to be true in a number of re-engineering engagements in which we have looked at the agent/client relationship. If we've been able to push what we call service as far out to the field as possible, and make that an integrated part of the agent's work with the client, it has increased and improved the agent's relationship. It has also significantly improved persistency and profitability by client, and certainly by household. I agree with you, you can't look at the nuts-and-bolts operation in the home office. You have to take a wider perspective than that.

The examples we're looking at here have looked much at the home office. But I do agree.

FROM THE FLOOR: My understanding of the disadvantage of handoffs was not that it went up a hierarchy, but that it went down an assembly line. Bill fills in line seven and gives it to Joe who fills in line eight and gives it to Linda who fills in line nine.

MR. KEANE: It's both. Why should an assistant vice president be looking at things that a clerk or a knowledge worker should be looking at and doing well. In the organizations of the future, you're not going to have many of those assistant vice presidents.

FROM THE FLOOR: My point is, that's not the bad part about handoffs. The bad part is the assembly line where parallel people do little pieces of the project, and then handoff to each other.

MR. KEANE: I agree with that.

FROM THE FLOOR: We now have all the steps in our application processing automated. We have a ton of handoffs, but they're done electronically. We have experts doing a specific piece of the job. They do their job well, and when they're done, it electronically goes into the queue and the next person looks at it.

MR. KEANE: That's work-flow management, and I think that's good.

FROM THE FLOOR: The primary disadvantage in the type of handoffs that you've been talking about is travel time.

MR. KEANE: What's the offset? What was the cost of putting in your electronic system?

FROM THE FLOOR: We're just a small company. We've had it for about a year now, and the cost has not been fully incurred. We're in the process of upgrading the processing power of the system with a cost of probably in the neighborhood of $1 million total.

MR. KEANE: I think in the long run that's worth it.

FROM THE FLOOR: Why in your definition of process have you restricted yourself to customers?

MR. KEANE: For two reasons. That is where the big hits and improvements can be made, and where you will impress the marketplace. You should be looking outward, rather than inward. And number two, that's where much of the work is being done. By doing that type of work, it gets the organization to think in process terms and of radical improvements. You can then turn that around and look inward and decide that there's another process that might be called managing the information technology function. There's another process that might be called managing the internal corporate financial function. This lets the organization become focused on its own internal needs.

I think if you start off focusing on the internal, number one, you've missed the boat. And number two, you just don't get the payback. The payback comes from looking at the outside.

FROM THE FLOOR: So you're really talking about prioritization?

MR. KEANE: I really am. I don't mean to give any other impression. Frankly, if you start with the internal processes, you never make it outside the company. We have a couple of horror stories that we have seen. What we're trying to do is stop people from navel gazing, if you will.

We just talked about what a business process is and what it does.

Now let's talk about how you structure a business process redesign project engagement. One thing that we feel very strongly about is focusing on the result, on the outcome and the vision. If you try to improve what you have today, you're never going to have the opportunity to create something new.

One of the most important aspects that you should consider is the vision. Many making redesign efforts in the continuous improvement realm have built them from the bottom up. They've taken the current process and said, "How can we make this more streamlined?" What we're talking about today is going a step beyond and really looking at the vision of tomorrow. What do we really want to be? Let's wipe the slate clean and ignore what we have for the moment. Let's talk about where we want to get to and then step back and ask what do we need to build to get to that?

There are some distinct steps. I know that quite a few of you have re-engineering projects underway, and I'd be interested in talking about how this tracks with the projects that you're seeing in your own organization.

The first step is focusing the project. In order to define processes, there are many things that we can look at. How do we prioritize our efforts so that we get the best returns on our efforts?

Next you set strategic objectives for those processes. What do we want the outcome to be? What should this look like when we're finished? Then we can set some improvement targets. How are we going to measure it? How will we know that we have achieved what we set out to achieve?

After that the real work of redesigning begins. Many projects start in the middle; people say, "Let's just go in and fix it." Without the initial steps, you're not going to get where you want to be. Another step often overlooked is mobilization, which is management of change. Re-engineering by definition is going to create change in your organization. How you manage that change depends on how your culture affects the changes that you're making, and how you can operate within that culture. There's no right or wrong answer here. But if you neglect to manage the changes that you're making, your project is doomed to failure.

Each step has some major questions, and primary deliverables i.e., what you should expect out of that step.

Many projects we have seen did not have a clear sponsor, and they fell flat on their face. What we mean by a sponsor is someone who has both the influence and the clout in the organization to see this through to completion. There are going to be certain things that happen throughout the project. There are going to be key decision points where it's a go, no-go situation. Also, you're going to find situations where a process will cross departmental boundaries. You need someone at a high enough level in the organization to say, "I don't care whose department this affects, this is what's going to happen." Without sponsorship, your project will be smaller than what you anticipated, if it happens at all.

What you need to develop in this first stage is the business case for change. Nothing happens without a really hard business case. What do I hope to achieve? What's the problem? How do I quantify that problem? How much is it going to cost to fix it? What are the benefits that we can expect? What are the numbers? What's the motivation for us doing this?

In setting the business direction, we want to make sure that everyone in the organization that's going to be affected knows that this project is happening and has some commitment to making the final outcome be more than just a study that sits on the shelf.

Without a clear direction of what our outcomes should be, there is no way that we can achieve them. And one thing that I heard someone talking about earlier was fragmentation. There are six or eight people who can pay pieces of a claim but no one can pay the whole thing. Our goal should be someone to control that overall claims expense so that we can manage it. Without defining this up front, you'd develop a process that ends up different from what it is today, but no more effective.

You need to get a clear vision of what the process looks like. But where some projects go awry is that you get a 120% view of what happens. You end up with beautiful process maps of what the world looks like, instead of building them to reflect what they should look like tomorrow. In the projects that we've seen that were most successful, you take a snapshot of the way things look now, and then spend your time building the model of tomorrow.

A step that's often overlooked is building the commitment to the change. A business case is developed here—you must understand not only the changes that need to be made in the process, but the changes needed in the people. We must train people to do things differently and build performance measures and reward systems that reward the new behavior.

To assure that this actually happens, you must develop a good implementation plan and be realistic about the targets. You should not cheat yourself by setting too long or too short a time frame. If you set unrealistic expectations by saying, "We're going to implement this thing within six months," and it turns out that it requires technology that's going to take nine months to develop, people will say, "That wasn't real, it's not going to happen. I'm not going to buy into this." On the other hand, if the time frame is too long, you're going to lose interest in the momentum for the change and the organization will deteriorate.

FROM THE FLOOR: If you're going to have to train people as a result of re-engineering, do you train them and then implement the process? Or do you train them and try to do the process at the same time? We found that in implementing something without stretching out that lead time, you almost can't do the training first. But then you get a great deal of friction. You can't win either way.

MS. ELAINE MILLER: There's no right answer to that. It really depends on the type and the degree of change that you're making. If you're now going to have some people in contact with a customer that never have been before, and they're going to need effective phone skills, that's one kind of training. If you're saying, "Now I have somebody who's going to do financial analysis work using a computer tool that they're totally unfamiliar with," that's a different kind of training. It may require different time schedules for that training. There's no right answer, but it's something that you do have to be sensitive to: which step should come first, and how should it be orchestrated?

MR. KEANE: It also depends upon the size of what you're re-engineering. If you're re-engineering a whole division, you're going to phase in the change gradually, process by process, area by area. You don't submit the organization to a really painful change experience where everybody's going to make mistakes because too much is happening at one time.

FROM THE FLOOR: There's a rule in systems development that you should never try to implement a system that's too much bigger than the last one you successfully implemented. Is there any similar rule in terms of re-engineering? Don't take up a company-wide project if you've never before succeeded in a departmental project?

MS. MILLER: Yes, and we'll talk about that during the management of change. How do you phase in this change and how much change can an organization stand? How much can your people stand? How much is your organization able to even assimilate change? If you have never tried any kind of change before, but someone hears about and wants to try re-engineering because they heard about it on a golf course, it's disastrous. You have to consider the capability of the organization to withstand that change.

MR. KEANE: There's much laughter at Elaine's comment. Does that mean that many of you have been involved in re-engineering projects because somebody had a bright idea on the golf course?

MS. MILLER: Many hands going up on that.

FROM THE FLOOR: What about the tension between re-engineering and existing business? The people you want on re-engineering projects are usually the best people. But managers are saying, "No, you can't take that person."

MR. KEANE: We found a truth in every organization that we work with. We call it the scream effect. If you have people on a re-engineering team and their bosses are screaming that they cannot lose them, you've got the right people. They will always be overextended and stretched. If you have people allocated to your re-engineering team that supervisors and managers are happy to be rid of, you've got the wrong team. It's not a question of a delicate balance. There are stars and emerging stars. Every organization has them, and they get pulled into every important project. Those are the people you want. You can't make any progress with people that managers are happy to part with.

MS. MILLER: We find that the people involved on the re-engineering teams usually end up with major promotions at the end. This is because it's a high-visibility and high-risk position. When you're the one that's instigating the change and these kinds of recommendations, there's high risk of failure, and there is no way you can hide on these teams. So if you are fortunate enough to be involved on these committees yourself, then go with our blessings and caution.

FROM THE FLOOR: Can there be a conflict of interest? Couldn't somebody design a process so that a promotion will be inevitable?

MS. MILLER: I guess that could happen.

FROM THE FLOOR: I'm just making a comment. The potential is there, I've never personally seen it happen. But I could imagine it happening in certain situations. I guess the answer to that is that you're developing a team, not just individuals, and a team will have a balance of interests. There's no way one person can control it, unless he or she has a strong personality. This is an advantage of having external independent people on the team.

MS. MILLER: Is there a case where it's a political situation and someone has engineered this re-engineering project so that they can gain political visibility? That has happened, certainly.

FROM THE FLOOR: In our company we had people trying to re-engineer the wrong process. They started by re-engineering what you referred to as internal processes without taking any measures of customer satisfaction. But when the process goes down to the technical level, people look at this from the point of view of knowing how the process works. They say this isn't that important. And yet there are lots of things that are important.

MS. MILLER: We could tell you war stories about things that didn't work, because they started in the wrong place or at the wrong level. This gets back to two points that we made. First the definition of process: understanding that you have a process and not a subprocess, making sure that you're starting at the right level with the right sponsorship. If you start at the wrong level with the wrong process, you're going to end up with minor change. It may also conflict, by the way, with other projects that are started independently, which is the argument for having a fairly high-level sponsor within your organization who can oversee and coordinate. Make sure that you are prioritizing your processes, and that those processes fit in with a larger strategic objective.

FROM THE FLOOR: Of course, the high-level sponsor can also be wrong.

MS. MILLER: Well again, that's why you need an outside party to help you.

FROM THE FLOOR: In your experience, has successful re-engineering more likely come from the top-down approach?

MS. MILLER: It is absolutely top down.

FROM THE FLOOR: In our organization we are having trouble defining the process owner, because we have a very strong geographic or regional map, and a very strong line of business or product management. And the structure is like a matrix. It's really hard to define who the single process owner is. Is it the region? Or is it the product manager?

MS. MILLER: The question here revolves around where does the process originate—Who owns that process? That's a very important concept of making sure that you have a process owner. That process owner can be defined, and sometimes assigned. You may have to arbitrarily choose a process owner.

But let's get to the question of whether it should be a top-down or bottom-up approach. By bottom up, we mean it can start at the departmental level. By top down we mean starting at the very senior executive ranks.

Our experience is that if you start from the departmental level and go bottom up, all you're ever going to get is incremental change. You will never get the quantum leap order of magnitude change that you want in a true redesign effort. So I would argue strongly and at length that a top-down approach is absolutely necessary for major change in an organization. And that should be at the highest level possible in the organization. You need an arbitrator when you run into situations of conflict. Does this process belong to this person? Does it belong to that person? You need someone who can arbitrate and say, "This is the way it's going to be."

FROM THE FLOOR: In our company we've had a total quality program going on now for over a year; everybody in the organization has gone through a formal training process. We've been urged to look at our processes and re-engineer them, using all these tools that we've been given. What has happened is that we're getting a flurry of customer satisfaction questionnaires. You are somebody's customer no matter who you are, or where you are. You're a customer within the organization, and we're getting questionnaires asking how happy we are with things that we're not even aware of. It seems like we're getting re-engineered in 100 places at the same time. And yet it's been very hard to notice any dramatic improvement.

MS. MILLER: Would you characterize these efforts as bottom up?

FROM THE FLOOR: We've been encouraged to, on the principle that people doing the job know best how to fix it. Clearly what you are saying is that maybe that's wrong.

MS. MILLER: Yes.

FROM THE FLOOR: So right now we're in a frustrating phase because there's no clear indication that any one particular process is being re-engineered and has priority over any other.

MS. MILLER: Priority is the key here. The problem with some of these continuous-improvement and TQM programs is that they start from the bottom up, and they focus on incremental change: work simplification, work improvement, process improvement, quality management, call it what you will. Unless you can coordinate those activities, you will reach a state of confusion and frustration in an organization.

I can't say that anything that you're doing is wrong. We use some of the same techniques in re-engineering. We use committees and workshops of individuals who are actually performing the work to help us redesign that work. But it's done in an organized, prioritized way.

FROM THE FLOOR: Is there a correct number of people for a redesign project?

MS. MILLER: Between three and no more than a dozen. I like to say no more than nine. It gets unwieldy with more than that. Some people may not be constant on the team. You may have a core team of three or four, and then bring in experts and technical experts as you need them. But if you get more than a dozen people you've got an unmanageable group.

FROM THE FLOOR: It's my experience that no matter what size team you have, just a few people do all the work.

MS. MILLER: That gets back to who you choose to be on the team.

FROM THE FLOOR: That may be, but it does not ordinarily work that way. A few people do most of the work.

MS. MILLER: So you would argue for a small team. I tend toward small teams myself. It depends on the culture of the organization and the size of the process that you're re-engineering.

FROM THE FLOOR: The advantage with a big team is that small teams don't have all the people involved in the process represented.

MS. MILLER: That's where you would draw people in as you need them, and as you get to a specific point in your process design. You'd say, "We need somebody that knows about this particular thing. Let's bring them in."

MR. KEANE: Let's have a quick review. A business process is a set of logically related tasks performed to achieve a defined business outcome, such as approving and issuing a life insurance policy. It has customers and it's event driven. It may be caused by the receipt of an application. It's repetitive. It has decision points. If I have a life insurance application from a green beret sky diver, I'm going to look at that differently than the application from a college teacher with a family of five.

It has inputs, outputs and requirements. There have to be certain things on the application. There are certain outputs from processing the application such as a declination, approval or a counter offer. And there will be requirements on how those things will be processed and produced.

It should cross functional boundaries i.e., units of the organization. It can have its performance measured. How long does it take to approve and issue a policy contract? What does it cost us to process an application versus what it might have cost us a year ago? It generates a product or a service to a customer, such as an in-force life policy.

Why do people want to build better processes today? Why is process re-engineering the absolute hot topic? Because processes produce an organization's products and services and they're critical to seizing and maintaining a competitive edge. Motorola is a worldwide electronic and radio organization. It has identified 11 key processes that drive the whole Motorola organization worldwide. And it has allocated responsibility or ownership for each one of those key processes to a specific area and person in the Motorola organization. American Express has done the same thing.

Processes are the vehicles for meeting customer expectations and achieving goals and targets. It's the business process of approving and issuing a life contract that is the result of the customer's expectation of getting life coverage when he or she submits an application. The organization internally can measure the performance of its people by the performance of the process. If the process is convoluted or poorly designed, peoples' performance will be affected accordingly.

Processes are, in general, not documented. You don't know what your process looks like today, and you don't know what you can do to improve it. Three years from now you won't know what you could have done to improve what you designed today. People in radical-thinking organizations are beginning to manage process performance, to set targets and goals for business processes and to manage their businesses accordingly.

Finally, departments and organizational units are not processes. Underwriting is a process, but it involves people other than just underwriters. Processes are usually cross functional; they are cross departmental; and they outlast the people. Don't confuse what a process is and what it produces with an organizational unit or a department that does some of the work.

In the work that we have done with clients, we have found that there are three key types of so-called re-engineering. Functional improvement is incremental improvement and change that people should be doing in your organization anyway. It's a kind of continuous quality improvement. You don't need specialists for that. This is what good managers who have survived the downsizing will be doing with their knowledge workers who are created after the downsizing.

The second type is process redesign. "Let's not throw out the process of underwriting and create something else. Let's take what we have and make it better." This provides a great deal of incremental improvement. When you start getting a couple of departments to work together, you get more than just incremental improvement.

This third type is literally rethinking the business. When Michael Hammer talks about re-engineering in *Re-engineering the Corporation*, he talks about rethinking the business. Another source would be Tom Davenport's *Process Innovation*. Jim Champy who co-authored *Re-engineering the Corporation* with Mike Hammer, is coming out with a new book in September called *Re-engineering Management.*

It might not be an underwriting process when you're finished. It might be something else. You may push underwriting out to the customer. You may push trade processing in the securities business out to the customer. In the insurance business, you might take your whole investment operations department, which takes the trades your portfolio managers do, and pushes them out to a third party to process. Usually the design phase of this process lasts about 6–18 months. In order to make it happen, you're talking about a three- to five-year program.

Harley Davidson is a good example of a type III re-engineering. People do type three because either they're so good at what they do that it's easy, or they're so bad at what they do, and they're on a burning platform ready to die, that they have to do something drastic (Chart 1).

CHART 1
TYPES OF REDESIGN INITIATIVES

Type I

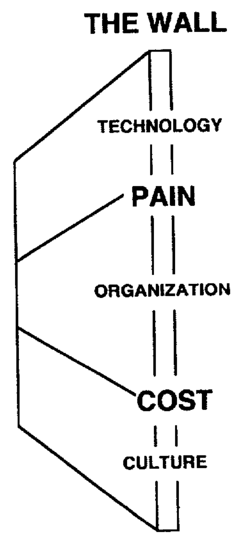
FUNCTIONAL IMPROVEMENT

- Department / Division orientation
- Focus on reducing unnecessary tasks (better, faster and smarter)
- 3 – 6 month duration
- Incremental improvement

Type II

PROCESS REDESIGN

- Some cross functional participation
- Focus on redesigning existing business processes
- 6 – 12 month duration
- Incremental improvement



Type III

BUSINESS RETHINKING

- "Out-of-Box" objectives
- Focus on re-engineering the business process itself
- Focus on the customer
- 6 – 18 month duration
- Dramatic breakthrough in performance
  - Costs
  - Quality
  - Cycle time

We put a wall here because we have found with many clients that there is an obstacle to doing type III versus type II design initiatives. That obstacle is a wall of pain for the organization itself; it can only sustain so much change at a given time. It's an obstacle of pain for your clients because, as you're going through these operational systems and processing changes, it is going to affect your clients. You must either have them along with you or make a convincing case that the benefits are going to eventually outweigh the pain that your changes are going to cause them. It costs a great deal to do it, because you're going to be changing your culture. You're going to be changing the way people look at their work. You're going to be changing the organizational structure. You may not have departments anymore. If you do, they may be symbolic. You'll be working in cross-functional teams and doing team-based work.

You're probably going to pay a good deal of money to reinvent your technology to support the new work done by people with new skills in the new organization. If people are going to work as teams, they must have the kind of technology that supports their work as teams. They can't work with stand-alone PCs and dumb terminals off a mainframe. They will need shareware, groupware, intelligent work stations and connectivity with each other and perhaps with clients.

When people re-engineer and expect great degrees of change, they have to make sure that the degree of involvement of people in the organization is very high. If your expectations about change are low, if you're in type one, if you're doing some incremental quality management change in your department, you don't need much involvement of your people. You can be very directive with them and say, "This is how we're going to do it."

If you're looking for substantive change across the organization, if you're looking to rethink your business and conduct your business differently, you are honor bound to make the degree of involvement of the people in your organization from the foot soldiers right up to executives, otherwise you will fail. You'll get the process right and you may get the technology right, but you will have made a mistake with the people. You will have lost your credibility, and you'll start losing them.

Darryl Connor at OD Resources (ODR) in Atlanta has an interesting book, *Managing At The Speed of Change.* Darryl Connor literally worked the then Soviet Union's 11 million member department of construction into a re-engineering phase.

So the needs for buyins, support and commitment become increasingly critical in your organization with rising levels of change. You need to spend a great deal of time creating and sustaining that buyin.

The best way to make sure that significant change occurs is by cascading the recommendations for change as far out in the organization as we can. Ask people to look at the changes affecting their own jobs that are being recommended by the re-engineering team. People may say, "Change is going to affect my job so much I may not have a job," but at least you're being honest and up front with people. Many re-engineering projects have not done that.

When you let people know the extent of change and how it is going to affect them, you give them the possibility of creating alternatives for their own lives and work. Somebody has called that giving the turkey the opportunity to vote for Thanksgiving, but that's only if you want to be cynical. You've got to cascade these things throughout your organization or you will hit another wall. A wall where people will give you lip service, but won't institute the changes that you as executives want to have happen.

MS. MILLER: Part of managing the change is setting the right goals at the outset of your project.

We may be able to understand what the cost is to buy services. There are so many third-party administrators that we can probably price the various aspects of services in our organizations. What we're missing is the baseline. When we go in and do re-engineering projects, many times we'll say, "What are the costs to do this now in your organization?" And we hear, "We don't know; we don't measure that." Companies might have good financial measures, but might not break down the components that are really necessary to understand the process profitability or the unprofitable areas of the process.

So we not only need to set some measures for where we want to take this in the future, but we also need to set some baseline measures.

As you get involved in your own re-engineering project you need to measure two things: the result matrix for your benchmark comparisons and your project performance. We need to set some business case measures, so that we can identify and quantify the changes that we're recommending. If you overlook this you won't get the buyin that you need.

How well do we perform our key business processes? Do we know what our rate of claims payment is? Do we know what our error rates are? Do we know how many applications we process in a day? Do we know how many handoffs we have? Do we know what our customers think? I'm not saying that we need to send out 8,000 customer surveys, but we do need to have certain key measures so that we know what the strategic outcome we expect is, and how to measure that from a customer viewpoint.

Do we understand our organization's capacity to tolerate change? How much change can we tolerate? And how much can we learn as an organization on an ongoing basis to institute continuous improvement?

If you have a balanced set of performance measures that address all four of these components, you're going to have a much more effective process outcome.

FROM THE FLOOR: You were talking about just taking a snapshot of your current process and focusing on the future. Now you're talking about the need to benchmark and have a good understanding of where you are. How do you strike a balance and avoid spending so much time benchmarking where you are that you do not get to the real re-engineering?

MS. MILLER: You must choose the appropriate performance measures. In some sense you have to know the outcome before you know what to measure. This comes from focusing the project up front and by knowing that these six key measures are the things that we want to drive to.

For instance, we know that at the end of this re-engineering effort, we want to reduce the amount of time it takes to process an application to three days. In order to reach that goal, we need to know how many days it is taking.

FROM THE FLOOR: Is it important to state the goal the way that you did? You stated it as no more than three days, as opposed to reduce it by half. Shouldn't you be stating it in terms of where you are today?

MS. MILLER: It's fine to say I want to reduce it by half if I know that it now takes six days.

FROM THE FLOOR: You have to be sensitive to the financials of the process. You can't re-engineer to make the process take only three days if it costs you too much or you'll price yourself out of the market.

MS. MILLER: You need to have a fairly well-developed performance measure that says it will take three days, and it will cost X dollars per policy. You have to understand the cost and the benefits and whether it's worth doing.

FROM THE FLOOR: Can you just set up the measure as what you want to do? Starting out you may set some goals like that and then down the road find that you can't get it out in three days without spending $500 per application. Or do you start down multiple paths and investigate them?

MS. MILLER: We always talk about setting stretch goals at the beginning. You can always compromise backwards. But if you don't set your goal far enough on the horizon, you have no chance of reaching it. If reality tells you that you have to move it back later, that's acceptable, based on measured reality.

FROM THE FLOOR: You have to benchmark if you want to be successful.

MS. MILLER: You can measure yourself or you can measure your competitors. You may want to measure somebody in your industry, and you may want to measure someone outside of your industry completely. You may determine that there's nobody in the industry that has a measure that is a target for you; perhaps nobody does it as competently as you would like to do it. You may want to look at a Lands' End or a Federal Express or someone like that when it comes to tracking applications. Maybe you want to look at Federal Express' way of tracking packages.

There are many models that you can look at. One thing that we find within the insurance industry is that we tend to be insular, and we don't consider models outside of our industry. We recommend that you don't close your mind to alternatives outside of this industry.

MR. KEANE: If you want to look at examples of customer service you probably do not want to look at the insurance industry. You may want to look at Companies like Lands' End, Federal Express or L.L. Bean, which other industries also look to as an example of good customer service.

MS. MILLER: The insurance industry has very good measures for growth and profit, but not for service and operations and customer satisfaction. I think some of us are stabbing at customer service and customer satisfaction. I think that's something that we all need to work on.

MR. HADLEY: For the process of issuing a policy through underwriting, we talked about the completion ratio. How many applications result in issued policies in a specific time frame? We started with just how many result in a policy. But the danger is that doesn't get at the true delivery of how long it takes and the cost to issue. For claims we talked about the turnaround time of the claims payment from initial contact or the claim event to payment—costs to resolution.

MS. MILLER: How would you balance that against doing a thorough investigation?

MR. HADLEY: You need some measure of appropriateness of payment; perhaps you can look at the percentage of contested claims. Maybe you can do some benchmarking against other companies. You also can look at the success of contest i.e., the percentage of contests that stand up in the end.

Our third issue had been compensation to the agents or brokers. We talked about the speed of payment. We didn't talk about whether to start at the initial contact or when the application comes in the door. We might want to compare the speed of payment to the broker to the quality of the agent or broker's business. We also should consider the relationship of this measure for one distribution system versus another, or one product line versus another.

FROM THE FLOOR: Our first was focus groups: we were talking about bringing ideas in from the outside, and it's a little hard to measure that.

MS. MILLER: You have the front-end piece of defining the measure that has to go back out to the customer.

FROM THE FLOOR: The second was the time to development. How long does it take from the initial idea until you have a product on the street?

MS. MILLER: Speed to market?

MR. KEANE: The product development cycle.

FROM THE FLOOR: It depends on the complexity of the product.

MS. MILLER: That's an important measure if you want to be able to react to a changing marketplace.

FROM THE FLOOR: The third was number of sales or market share. Some of this has nothing to do with customer satisfaction. There's no doubt that the customer can get it from another company. I'd go to somebody else if I was looking at it from the customer's standpoint.

At this point the customer might be marketing.

MR. KEANE: I think you have to hope that if you're developing products, you're developing products that the market wants.

FROM THE FLOOR: Some of that segues into what we spend our time on. We in the life insurance industry have a hard time knowing who our customers are. It also involves pensions where your customer could be a retiree or the corporation who puts up the pension plan. So before you measure customer satisfaction, you must find out who your customer is.

MS. MILLER: Critical point. This gets back to the old agent versus policyholder question.

FROM THE FLOOR: We reviewed the claims process and the first benchmark is the length of time from claims notice to the date of payment. There are various ways in which you can manage that issue depending on what sort of business you are writing and when. This is part of identifying who your customer is.

MR. KEANE: Do you mean what your customer wants?

FROM THE FLOOR: No, who your customer is. If I am a broker in the London market, I have terms of trade that cycle and that I negotiate from time to time. That is my first customer as I look at it. That is different from a life insurance company in the United States, which must pay any late payment with interest. So you've got to balance these two items to determine the terms of trade.

In the middle you have the property and casualty companies, which are dealing directly with brokers, agents or whatever. They have a different approach. First, you may know about the claim before it actually happens. And then you can set your processes up to manage the claims as they come in.

You must decide what these processes are and how you handle customer satisfaction for them. Then you get to the moral issue of speed of settlement of a claim. Also there's what you pay at 100% or 90% or whatever. Managing that issue in any process is very hard. I can target my objectives to pay all claims in three weeks. That's not a very good objective, if I pay only 90% of what the policyholder really wanted. So I have to be very careful to maintain the balance in that process. Benchmarking is difficult. All I have to do is one dollar better, one day better than my competitor.

MS. MILLER: It does vary drastically by line of business. We do business on both property/casualty and life. And it's quite different in terms of a worker's company claim as opposed to a life insurance claim. So that point is well taken.

The dilemma of setting the right performance measures is very difficult. You must understand exactly what you want to measure and where the value is going to come out of this measure. We have typically seen companies benchmark what they think they want to do, and then as you start asking some of these questions you realize they're measuring the wrong things.

FROM THE FLOOR: There is good information available in some areas. If your customer is your life agent, you've got LIMRA and access to studies and all kinds of in-force information for all kinds of companies and products.

MS. MILLER: There is some information out there that's starting to improve. There have been some companies that have been developing benchmarking data and there are many sources that you can go to that didn't exist three or four years ago. But unless you know exactly what it is you want to try to get, you may end up with information overload and wonderful matrix charts that tell you absolutely nothing.

FROM THE FLOOR: When you decide to pay claims in two days and they only check claims at the end of two weeks, no one cares; you can spend time doing something that isn't noticed.

MS. MILLER: Important point.

FROM THE FLOOR: We pay claims to a checking account. Not all agents like this. They want to deliver checks people can see.

MS. MILLER: He uses it as a marketing opportunity, too. And that gets back to who is your customer? Who do you want to keep happy?

FROM THE FLOOR: He could still deliver the checkbook.

MS. MILLER: Yes.

FROM THE FLOOR: We had one performance measure that's not controversial: the amount of errors and rework. That's also true with policy issues. We looked at policy change, both the internal and external kind. How complex and difficult is it for the policyholder to initiate a change? If he calls up to make a change, how long does he have to wait? How long does it take for him to fill out a form?

MS. MILLER: That's a good one. *The Wall Street Journal* had a little blurb on wait time for 800 numbers for various service and consumer products companies. The variance is drastic from no wait time, to five minutes to call in to get a coupon. Determining the kind of service level your customer expects is the key point before you set up the measure.

FROM THE FLOOR: Regarding the number of client contacts needed, the idea would be to help them get down to one contact.

MS. MILLER: Before a sale is made?

FROM THE FLOOR: Before a policy change. People don't have to call me back or send anything in.

MS. MILLER: We want to handle a problem at the first point of contact in 90% of the cases. That's something that can really be facilitated by technology. We keep visiting the knowledge worker concept.

FROM THE FLOOR: You mentioned the 800 numbers. When you call the Internal Revenue Service (IRS) you get into a black hole. You cannot escape sometimes with the different paths that you can take. You can get lost in there and never get your answer. You finally hang up.

MS. MILLER: Do you think they plan it that way?

FROM THE FLOOR: How about work in process?

MS. MILLER: Work in process as a performance measure? How would you measure that?

FROM THE FLOOR: By the number of cases in the process.

MS. MILLER: And how do you count them?

FROM THE FLOOR: We count everything when it comes in and everything when it goes out and take the difference.

MS. MILLER: I'm playing devil's advocate. One of our clients wanted to measure that and it turned out that it took them longer to count it than it did to actually perform the activity that was waiting to be done. Another client was using scanners and it was very easy to count work in process. If you're going to imaging, you can use bar codes. They actually had bar codes on door frames. As you walked past they would count your file. You can get very elaborate on this, but the cost benefit trade off has to be considered.

FROM THE FLOOR: We had an actual example of this where we measured the claims on everyone's desks at the end of the week. Every Friday night they actually posted the claims to themselves to get a better score.

MS. MILLER: Another point of caution here: there's a way around every measure.

MR. KEANE: If you focus on the result to the customer, you have a moment of truth. If the customer is not happy with the results, then you haven't succeeded, no matter how good your measure says you are doing.

It would be nice to think that we could work in a world of insurance or even financial services. This doesn't work, especially in the international market. Our customers are more accustomed to other levels of service and responsiveness than we are. An 800 number to the IRS will get you into a black hole every time. However, an 800 number to Lands' End or Federal Express will get you an answer.

FROM THE FLOOR: Could you talk about the different view of things you get when you are fully automated? I'm with a company that is currently switching everything to imaging processes on workstations. There isn't anything that we do in the future that we can't measure, at least in theory. Are you working with companies that are so automated that they could measure anything and everything? How does that affect the usefulness of this process when compared to where most of us are?

MR. KEANE: I haven't seen a company that is fully automated. I don't think there could be one. There are always at least executive decisions that can't be automated.

FROM THE FLOOR: Have you seen any situations where every step that's measurable goes through the computer? It makes sense to me that you can do some very important things. But I'm not able to try it yet.

MS. MILLER: Another point of caution here is the "I've got a hammer; this must be a nail" syndrome. Given the tools to measure everything, the tendency is to want to measure everything. Choosing the right thing to measure is critical. Before you know whether you can measure everything, you're going to end up with stacks of reports on your desks of all the different things that will tell you absolutely nothing.

FROM THE FLOOR: One of the biggest stumbling blocks of the integrated, automated office is that the data you are trying to automate is often defined and used in different contexts. I wonder if you've run into situations where as soon as you try to automate this premium or claim information, it is not useful to anyone else. If you automate it, you more quickly get bad data, as opposed to saying, "I need more useful information to make decisions."

MS. MILLER: One thing that we've cautioned our clients about when we look at managing the information in a company is to look at what information you really need to run your business. Not data, not reports, but what information do you need to run your business? That's a question that most of us have not asked ourselves in a long time. As a result, we have many different formats of the same kind of information that are going in so many different directions that no one can track them.

FROM THE FLOOR: An example of a fully automated company is Mrs. Fields cookies. Mrs. Fields took out all the middle managers and she got a computer that can report every transaction in every store. The computer tells the people when to start the oven and tells them what to do. The people that actually run the store think it's a nuisance. They don't really pay much attention to the computers unless they have to.

MS. MILLER: What we'd like to do now is work on a real-life case study.

MR. KEANE: We've recently been working with a merged company, helping them to redesign some key business processes. We discovered that because this merged company had a number of different personalities and businesses and points of view, there are many organizational issues to deal with. (The Case Study follows this session as an Appendix.)

We'd like you to identify the three to five key business issues that this executive group needs to deal with. Why three to five? Because I believe things exist in groups of threes or fives. That will allow you to take many disparate issues and say, "We have to roll these up to a higher level issue, because we are executives. We can't get stuck in the nitty gritty."

We'd like you to identify the three top business processes that you would want to re-engineer first. Once you've identified those, what are the process performance targets you're going to set for each? There should be one or two targets for each process. It may have to do with cycle time. It may have to do with cost. It may have to do with quality. It may have to do with response time.

Who should be on your re-engineering team? What's a reasonable number of people and what are the traits or characteristics of those people? Lastly, what will those people deliver?

On February 23–24, 1994, we had this particular set of issues and discussions with the client. In fact, a year after the merger they were starting on these issues. So this is very real.

FROM THE FLOOR: What's the target market? Are we trying to give insurance customers better service or financial customers new products? How do we reconcile the corporate cultures? We need a new system strategy. There is a question of international competition. What about distribution channels—who's going to be licensed with whom? What would the new organization structure look like? Have they picked their top management team, do they have the best of both companies?

MR. KEANE: I don't know if they have the best of both companies now. How about the top three processes?

FROM THE FLOOR: What was their strategy for the merger?

MR. KEANE: Very good. It's not good to assume that they had a strategy doing this. In fact, that strategy could be developed more.

FROM THE FLOOR: The sales process. Product and operations administration and administrative systems. Competition. How do the companies bring their products together? Human resources and redeployment of personnel.

MR. KEANE: Absolutely. Managing the human resources is one area that many companies like to forget. They want it to go away or take care of itself, but it never does.

FROM THE FLOOR: Integration of benefit programs.

MR. HADLEY: Financial reporting. This is dramatically different in the two companies. It needs to be reconciled in a better system for the combined organization.

FROM THE FLOOR: Planning of the strategy.

MR. KEANE: You have identified a very high level process, which I think is appropriate. They did not. We had to work to raise them up. Some key issues of the acquisition and the merger had not really been sorted out. They were only in the heads of some key executives.

What about some performance targets? They are going to be a little bit more difficult to arrive at when you hit processes at that high level.

FROM THE FLOOR: How does experience match pricing, a measure of the experience as it unfolds? Presumably the whole purpose of the merger was to get a larger market combined.

FROM THE FLOOR: I question the term merger. The Danica name is presumably worth something and was one of the reasons why Banner bought them. You don't want a merger or that name value will be lost.

MR. KEANE: Something the company did not want to do for the foreseeable future is lose the cache of that name.

FROM THE FLOOR: Look at penetration of cross marketing. There has been success in selling life insurance products to the financial market and financial products to the life market.

MR. KEANE: In some cases they were worried they would be cannibalizing each other's businesses without a careful strategy.

FROM THE FLOOR: Retention of key people and stock price. Ratings.

MR. HADLEY: Speed of delivery of new products to market.

MR. KEANE: As you can tell from the case, the acquirer had a reputation for speed. The acquirer basically took its time, and really didn't have the infrastructure to make effective delivery and support of new products occur within a reasonable time. Who should be on the re-engineering team?

FROM THE FLOOR: An outside consulting group?

MR. KEANE: Actually it wouldn't even be on the team, but it would be in the background if it does things correctly.

FROM THE FLOOR: You need someone who's experienced with the change process. These companies are both facing major change for the first time. It's an ideal outsourcing situation. Seek an outside expert who can smooth out some of the bumps.

MR. KEANE: They can face the political issue without worrying they're going to lose their jobs if they say something controversial. That is often a reason people use consultants. We take the heat on a lot of stuff.

FROM THE FLOOR: You should not have a strong senior manager on the team.

MR. KEANE: Why not?

FROM THE FLOOR: An overbearing personality that others will look at to guide the process should be avoided at all costs.

MR. KEANE: So what is the reverse of that?

FROM THE FLOOR: Young, intelligent, aggressive, assertive climbers. People who the department will scream about losing.

MR. KEANE: Exactly. They may be from various levels and parts of the organization.

FROM THE FLOOR: Am I hearing high performers, team oriented, not overbearing?

MR. KEANE: Yes, people who work well within a team.

FROM THE FLOOR: They shouldn't be senior people, but don't need to be junior people. Senior people bring in the intimidation factor. Team members must have the respect of senior management and of their peers.

How does that work? Some day that senior manager can either go in another direction or torpedo the proposal.

MR. KEANE: You want that person involved in the process. But if you have that person as a key part of the team, then the agenda will be driven by that person. The process becomes a political agenda of one person rather than the strategic agenda of both organizations becoming one.

FROM THE FLOOR: Describe how the senior officers have input.

MS. MILLER: Through the steering group concept. They have a core team to do the work, and they have technical experts that go into the support team as necessary. Then you have a series of senior officers that serve as arbitrators to resolve complex cross-departmental or cross-functional issues that arise at the core team level.

FROM THE FLOOR: How large a team, and how many from each company should you have? I say pull as many as possible from the Banner side without stepping on too many toes over at the Danica side.

MR. KEANE: Let me tell you what we did. We started with what we called a program board of 25 people, and we found that was much too unwieldy. We scaled it down to a group of ten comprising the steering group board of directors with some real stakes in making this happen. Under them was what we called a program management team of about three to four people, who each led a subteam in their own area of responsibility. If you start working with too many people you have too many agendas. The very first agenda is how do you schedule all these meetings with all these people?

FROM THE FLOOR: Can I also suggest that you weight the subcommittees by the strength of the company in that area. For the human resource subcommittee, two thirds should come from Danica, while for systems subcommittee two-thirds should come from Banner.

MR. KEANE: You're absolutely right.

MR. HADLEY: I think there's a real danger though that when you're weighted strongly one way or the other it sends a strong message to the other side that they're the ones the axe is going to fall on. And there's a temptation in the case study to say, "Danica is poorly run and it's a dinosaur; therefore, most of the people should come from the Banner side." But if they do that it sends a very strong signal to the Danica side that they are going to be re-engineered and they're going to lose their jobs in the process. However, you have to pick carefully who you get from Danica to participate. You want those people who really know the insurance side of the business to be very heavily involved in this. On the Banner side you're looking for their style, but they don't know the processes.

FROM THE FLOOR: A lot depends on how you send the message. If the message you want to send is that we're getting rid of all the mainframes, then it may make sense to heavily load that team.

MR. KEANE: Or the message may be, let's recognize who has strengths and let's play to those strengths.

FROM THE FLOOR: On the life insurance side, you want to bring as many people in from the Danica side as you can. I think the Danica people you pick had better feel comfortable that their jobs are not in jeopardy. If any of them fear their job is in jeopardy, they're not going to work out well.

APPENDIX
CASE STUDY

Situation

- Banner Financial Company is a financial services provider (investments, banking products, mortgages) with a reputation for aggressive marketing of its products and a history of looking for the next logical market to enter.

  Its strategy of becoming a "one-stop shopping center" for financial products recently led it to buy an old-line insurance company, Danica Life, whose traditional products had staying power, and whose distribution channel is regarded as highly attractive for Banner's current and anticipated range of products.

- Danica Life was ripe for acquisition, having insufficient resources to offer a greater range of financial products to its traditionally loyal customers. It was missing out on many opportunities to sell a wider range of instruments to its fairly captive client base.

  Banner was an innovative launcher of products and services and an assertive seller that needed to expand beyond its traditional client base and move into other lucrative markets.

Both organizations limit their initiatives to the domestic market, and while recognized abroad, neither one is a "player" in international or global markets.

- Regulatory changes will cause significant threats to the new organization. Stronger domestic companies and international financial services organizations are planning to enter the markets covered by Banner and Danica, and with greater financial and management resources, they have a very good chance of eating away at Banner's and Danica's target markets.

Organization

- The Danica way is to function as a family type of organization, with relatively stable roles and steady and anticipated progression through the ranks as one became more known in the company and more adept at the stable type of work done in the company. A Danica employee was an employee for life and part of the security of the job drew on the fact that roles and responsibilities were predictable and not often subject to change.

- Most employees has worked only for Danica or for other local insurance companies. A great degree of mutual loyalty existed between employees and the company. Skills required for the work were fixed and understood and restricted to the key tasks at hand.

- Investments were not regularly made in developing leadership, management, communication or technical skills beyond "on the job" training. Work styles were "9 to 5" and a structured atmosphere prevailed.

- Banner's organization has been characterized in the industry as "rough and tumble," constantly looking for the bottom line result, aggressively developing products that suit the marketplace, learning how to launch and support them as cheaply as possible, taking responsibility to "kill" a product offering that didn't work or which outlived its usefulness, to redeploy, restructure, or eliminate units and individuals who were not directly and measurably contributing to the bottom line.

- Numerous employees of Banner have had experience in other financial services companies and other industries as well, and they tend to try different and nontraditional approaches in the financial marketplace situations. Business teams are formed based on need and disbanded as projects are completed or larger priorities surface.

Business Processes

- Banner had basic knowledge of the life insurance business, in terms of markets, products, services, etc., but never really had a grasp of the end-to-end business processes that a life company performed to prospect, market, propose, sell, approve and issue a policy contract and then service it during its lifetime. Its understanding of customers' expectations about service and satisfaction were based on its experience in selling and servicing other financial products.

- Danica had been selling life policies for 130 years. As one authority on the life insurance business has said of life companies in general, "you could take an employee from a turn-of-the-century company and place him or her in an insurance company in 1994, and outside of phones, computers, faxes, and ways of dressing, the employee would notice little difference in the way things are done." This applied in large degree to Danica. Its key business processes were production and department driven so as to provide managers with ways of measuring work in progress, employee error and production rates, and to provide senior management with periodic progress and status reports.

Systems

- Banner's banking and overall financial services systems were fairly up to date and on flexible distributed environments. Much of the software it used was either purchased or rapidly developed with the idea that a throw-away system with short shelf life probably served a better role in a rapidly changing and pressured business atmosphere than the "perfect" mainframe system, released after four to five years of development, testing, and user acceptance. There was no brand loyalty as to vendor and alliances, and contract concessions were always aggressively negotiated and implemented.

- Banner's line-of-business representatives were generally very comfortable with various types of desktop and personal technology, and used both local area networks (LANs), PCs, and laptops to analyze and provide business solutions and "what-if" scenarios for their clients' products and performance. Tracking trends, identifying new market or product possibilities, and sharing this information electronically as well as using technology to provide sleek and slick "slice-and-dice" reporting were old hat to Banner. Whether information technology (IT) expenditures to provide this support were reasonable for the benefits provided was not known, but business-line satisfaction was relatively high, and the skills of the IT support group were regularly updated and re-aligned with the needs of the business lines.

- Danica's systems were mainframe-based and many of the applications in the systems portfolio were due for a sunset review. Lines of business were dissatisfied with the state of systems at Danica. Applications development was slow and cumbersome and most often the system that was implemented did not provide what the business line user expected. The level of skill in modern development techniques and the quality of business justification were low. This caused friction and lack of trust between systems and lines of business.

  Danica's systems were being implemented without sufficient testing since users were hardly involved in acceptance testing. There was significant business line and customer inconvenience caused by the systems. Consequently, manual work-arounds, control steps, errors and rework were common, as were considerable numbers of departmentally-installed stand-alone PCs, individual LANs and other independent solutions to attempt to make up for the lack of appropriate systems support.

Problems arise as Banner expects Danica's imperfect systems to support products and innovations in the life business that Danica and Banner will launch as they move closer together to form one entity.

Summary
Indeed, it is organizational problems that seem to plague both entities: different cultures, different products and markets, and different levels of aggressiveness and focus. A certain degree of victimization affects the Danica employees who believe the Banner group regards them as second-rate, out of touch with modern methods and markets, and they seem to be waiting for the axe to fall, separating them from their jobs as Banner learns the business and decides to centralize operations and systems for both entities and staff them with chosen Banner employees.

Objective
To develop competitive advantage, the two organizations must:

- Iron out the key difficulties preventing them from functioning as one effective organization

- Eliminate the redundancies, work-arounds, inefficient manual processes that characterize their life business

- Decide on how to build the systems of the future to support new products, markets, customer demands, and most of all, to support a restructured, unified work organization and the right types of streamlined, efficient business processes that are customer-focused, add value, and whose efficiency and results can be measured, monitored, and reported.

Workshop Exercise
- You are a member of an executive committee of the combined firm, which has been formed to re-engineer the key business processes with a view to making them customer focused and more efficient and effective.

- Your team should address the problems caused by the different cultures of the two organizations, the inherent remaining tensions caused by the acquisition, and the need for melding into one cohesive organization in order to move beyond the survival stage.

- Additionally, you should comment on the ways in which the one "end-state" organization will change job descriptions, traditional management and staff roles, and conventional concepts of hierarchy in the merged firm, and how the company would go about facilitating those changes.

- Your team should also recommend how you would strengthen, modernize, and create business focus in the Information Technology area so that the lines of business, customers, products, and management needs can be optimally supported by technology.