RECORD, Volume 26, No. 2*

San Diego Spring Meeting
June 22–23, 2000

Session 69TS
Using Futurism Techniques in Planning

Track: Futurism, Management and Personal Development

Instructors: ALBERT E. EASTON
TIMOTHY J. TONGSON

Summary: Strategic planning can be an arduous task that often leads to a fancy notebook that embellishes a CEO's coffee table or collects dust on a bookcase. As cycle time for the planning process is shortened, it is still imperative to include what we know about the future and determine how it will be different from the present.

This session provides a brief overview of futurism techniques which apply in the planning process, such as environmental scans or Delphi studies. A case study approach is used to provide attendees with a hands-on learning process.

Mr. Albert E. Easton: My part of the presentation is based primarily on the study note called "Applied Futurism, an Introduction for Actuaries." I'm sure you can buy a copy of this study note from the Society. It is part of the pre-reading material for part seven**.**

I want to start out by giving you background on what Futurism is and where it came from. You'll hear several terms that are used to describe Futurism. "Future studies" is one and that is just another name for Futurism. It's a general intellectual side of the futurism discipline. We will be talking about applied Futurism. It's the practical application of futurist techniques—techniques that have been developed by people who call themselves futurists.

Here's a little history of futurism. Futurism began in the mid-1940s as an outgrowth of some techniques that were used in planning during the great push that went on for World War II. Futurism got its foundations in the period from 1945 to 1965 and then really began to flower in the late 1960s and early 1970s, which is when the Futurism section of the SOA got its start. However, it didn't start as a section, it started as a committee. Those were the days when, for example, The Club of Rome was predicting a run-out of energy, and futurism techniques were really starting to get widely publicized and used.

Note: The chart(s) referred to in the text can be found at the end of the manuscript.

Then in the late 1970s or early 1980s, it turned out that, by golly, we didn't run out of energy. (Some of the assumptions that The Club of Rome had used were wrong; therefore the results of their study were wrong.) That led to a retrenchment, and from 1985 to the present, we've been recovering from the rejection of futurist techniques that arose in those days.

There was a shift in methodology as we went through those periods. In the early period, there was mostly quantitative analysis and numerical kinds of things. Computers came into general use in the late 1960s and early 1970s, and that's when we got the real involved quantitative analysis and the wrong answers. We began to realize that sometimes, if you use the wrong assumptions or if your model is wrong, you don't get the right answers. In the present era, futurism has become both a science and an art. As I describe some of the techniques that are being used nowadays, you'll see how this can work.

Futurism, as we use the term today, involves an analysis of systems, and a system could be almost anything. For example, let's say that the system you're interested in is the U.S. Social Security system. In that case, the domain of observation is going to be the Social Security system and all of the things that are peripheral to it. I'm sure the pension system would be an example of a peripheral system to the Social Security system. The economic system would certainly be an important aspect of it. Analysis of the stock market could have some effect on the Social Security system. You expand it out to beyond that, and then there are going to be a lot of things that fall outside the domain of observation, like things that you don't need to analyze. Social Security is a very pervasive system. I'm not sure what type of things you wouldn't need to analyze. For example, I'm not sure that foreign policy would be particularly relevant to the Social Security system.

We analyze the course of events in two ways. One is as a trend. A trend tends to be very useful in the short term, whatever the short term is. The trend is or can be made up of events, or there might be individual events that completely change a trend. You have to do your analysis by looking at the trends. That would include short term, long term, or both. You must also be aware that there can be individual events, not part of the trend, that significantly influence the direction of the trend. Finally, you need to try to be aware of what those events might be.

Uncertainty is an aspect of the future, and it's why we have a problem with scientific techniques. They don't always work, in practice. An example of a scientific technique that most of you are familiar with is the actuarial concept of a closed population. A closed population can be used to give you an idea of how a population will change and to calculate so-called expectations of life.

We all know that, in reality, there are no closed populations. Populations are open. There's migration in and out. There are all kinds of things you need to keep track of. An expectation of life really is an expectation of people who are no longer alive. We base our life expectancy on the deaths that have taken place in the past. The actual life expectancy of somebody now aged 45 is not the life expectancy that is calculated in the U.S. life table. Someone who is currently 45 will be subjected to

very different kinds of technology and events during his lifetime from what the people on whom the age-45 life expectancy in the U.S. life table is based.

We need to deal head-on with uncertainty. An important aspect of this is that we can choose what the future will be. In the planning that you do, you need to think not only about what the likely outcomes are, but also which of the likely outcomes or possible outcomes you would like to have take place. Then you can consider what are the things you can do now and what are the things you need to watch that will help you reach the desirable outcome.

In futurism, utility is emphasized over precision. Futurists are not really interested, as actuaries are, in calculating precisely what the reserve needs to be for a particular set of circumstances. They're more interested in having a useful forecast that they can try to work with, and try to make come out the way they want it to come out.

Futurism focuses on some different ways in which systems can change. Determinism is the old paradigm. Newton's Laws, for example, let you know that if a number of actions take place, then there will be certain predictable outcomes. It's useful for some very simple closed systems. From there, we can move to a situation where there are just a few possibilities, like in a horse race. when Finally, there are systems that are based on total randomness, or at least they're completely unpredictable. The long-term prediction of the weather really falls into this category because there are so many possible effects on weather. We've never really been able to predict the weather.

Critical, chaotic, and complex systems can show best what's called the "football." Chart 1 shows the four types of systems. A fixed system, like the motion of the planets, is very predictable and regular. Then there are some systems that are periodic. Those of you who work in health insurance know about the periodicity of premium trends. I think this is true in some other kinds of nonlife insurance. That is, there are regular fluctuations in claims and premiums that you can predict. Right on the border between chaotic systems, which are completely unpredictable, and periodic systems, there's a useful area called complex systems, which we cannot predict in a scientific mathematical way, but we can do a good job of working at. Futurism is very interested in working with complex systems, and in the kind of planning that you do, as a practical matter, there might be a number of things that fall into complex system area.

Chart 2 is the methodology that we use. The methodology really looks very simple. This is what you would do in any case, but sometimes you need to have an organized set of procedures just so you make sure you proceed as you should, and don't skip any of them. You start out by assessing where you are right now. There are various ways to do that. Then you project what the alternative futures might be.

Next, you decide which of those futures you would like to aim for, and maybe which won't be too bad. Develop a plan to get there, implement the plan, and

evaluate the results. You need to do this not once, but on a continuous basis. You need to be continually evaluating the results, assessing the current state, and thinking about where it's going. Planning is not the kind of thing that you do once. Then put the plan aside, and a year later, take it out and evaluate the results. To make it really useful, you need to be thinking about what you hoped would be the results and how close you're coming on almost a daily basis.

I want to say one more thing about choosing what the desirable future state might be. You're going to start out with the current state, and things are going to change. The further you get from the present time, the more different possibilities there are, and you need to asses which of these paths you want to follow, and try to find whether you're going down that path or not. You want to decide which of the long-term alternative futures you would like to aim for and maybe a couple that are close to it.

You might have the impression that there's a continuous flow from breakdown scenarios, through business as usual, to transformation. It may not be that way. As you assess the intermediate states, one of the intermediate states might not lead to business as usual, but could lead to either breakdown or transformation. If business as usual is what you want, then you sure don't want to ever get into that intermediate state. You need to assess what all the possibilities are, and to think about which one you would like to have.

I'm going to be showing you some of the tools that futurism makes available. Time is obviously limited here; I can only give you a brief introduction to the tools, but if you find some of them more interesting, the study note goes into a lot more detail. In particular, some of them are mathematical, and I don't think it's feasible to give mathematical detail in a session like this.

Cross-impact analysis. Table 1 is an example based on something that an actuarial student may think of. He knows that there are three things he would like to see happen. One is that he'll pass the exam; the second is that he'll get a raise; and a third is that he'll get a promotion. He estimates the probabilities. He also estimates the probabilities that if one happens, the other will happen. For example, what's the chance that if he passes the exam, he will also get a raise? He calculates the probabilities between those things and that results in a matrix.

TABLE 1
Tools-Cross Impact Analysis

		$P(E_1 * E_n)$	$P(E_2 * E_n)$	$P(E_3 * E_n)$
E_1 Pass Exam	.50	na	.20	.60
E_2 Pass Exam	.10	.20	na	.15
E_3 Pass Exam	.50	.90	.95	na

This technique can be useful to assess alternative futures, but it's highly dependent on your ability to estimate these probabilities. He figures he has a 50/50 chance of passing the exam, and yet he thinks that he has a 50% chance of getting a

promotion independent of whether he passes the exam or not. If he passes the exam, he also stands to get a promotion.

Decision modeling. The decision criteria are the things that the decider will use. For example, it could be the cost of a particular procedure. The benefits, and the decision weights are how much importance one will place on that particular outcome in deciding whether or not to proceed with a particular decision. You've all probably used this technique; even I have. When you have to make a big decision, such as whether to take a new job or stay at your current job, you list all the advantages and disadvantages of your present job. Then you don't just count them. You have to assign a weight to each one. This is the kind of thing a decision maker could use in deciding which of the alternatives to take.

The Delphi Technique. How many here are members of the Futurism Section? That's interesting that only one of you is. In 1999, the Futurism Section, just for fun, did what we called a Delphi study, and it got reported in various places. We asked for opinions on various things, all of which can have a numerical outcome.

In the Delphi Study that we used, for example, we asked people questions like: "What do you think will be the percentage of the gross national product that is used for health benefits?" We tabulated the results of all who responded. We tabulated not just the mean, but also all the various answers. We asked people the same question, telling them what the response had been the first time out. The idea was that if we asked a question that wasn't your particular area of expertise, you would possibly be guided by what the results from the first time were.

We only did two rounds of responses. We asked the same questions again the second time, because there really wasn't more time, and we were really doing this just for fun anyway. In a real Delphi Technique, you probably would use three or four rounds of responses. We also did it by mail because it wouldn't be feasible to bring all the members of Futurism together to one place to do it, but it's most useful if you can have interaction and discussion among the people who are responding to the Delphi Study. Then, you can finally get to what you think is the opinion of the group as a whole.

Environmental scanning**:** You get as much data as is available about the current states of various things. The American Council of Life Insurance (ACLI), a few years ago, used to provide something called trend impact analysis. Trend impact analysis had interesting things considering that it was presented by a life insurance organization. They had demographic and social trends, and what they called "straws in the wind." Straws in the wind are unusual events that might have an effect on the market for life insurance or might have an effect on society as a whole. Therefore, in a kind of indirect way, they affect the market for life insurance. Environmental scanning means collecting as much data that's relevant to the system you're working with as is available.

Futures Wheel: This is another important way of assessing the current state. You take the subject that you're concerned about, such as the Social Security system,

and you think about what the impacts on it will be. How many people will be working? How long will they live? What kind of migration in and out will we have? These are primary impacts. There's a diagram in the study note itself that goes onto secondary impacts, and each of the primary impacts has a bunch of things that impact it. For example, how many people will be working? What will the birth rate be, and what will the death rate be, and how will the economy be functioning? By doing this you get a better sense of what things might have an impact on the system that you're working with, and how remote their effect might be.

Gaming and Simulation: To actuaries, I think modeling should be a familiar way of predicting the future. We all do it, whether working in pension funds, health insurance, or life insurance. I've worked in all three, and all of them use some kind of modeling. The Monte Carlo model is one that is more feasible now that we have computers. I think you're probably all familiar with that technique too, where you calculate various probabilities, you run 1,000 trials, or as many as you need, and you see what the range of possibilities are, given that your model is an accurate one.

Genius Forecasting: A very simple, but effective technique. I guess the trick to this one is the first step. Find somebody who really knows the area that you're working with. It can be an overlooked technique, and it's worth keeping in mind.

Relevance Trees: This technique is very similar to some of the other techniques that I've already talked about. The futures wheel is very similar, and it's a basic way of assessing the future state. There's more detail on relevance trees in the study note.

Scenarios: This is a technique that is being used very frequently nowadays. It originated as a futurist technique. There are a bunch of possible kinds of scenarios that you might want to use in assessing the future. A surprise-free scenario is pretty much business as usual five years or 10 years from now, or whatever your time-horizon is. An optimistic scenario is things are going to get better and better. Another would be a pessimistic one, and then a wild card; something strange is going to happen. It could be something like there's going to be an epidemic or a cure for cancer. It can be wildly pessimistic or wildly optimistic, but you really want to look at all the scenarios.

You play out the scenario, and think about what life might be like under that scenario. You need somebody who's pretty articulate to use the scenarios in planning. You need somebody who can write, in a few paragraphs, what the alternative future states are that are implied in the scenario.

System Dynamics: This is a mathematical technique where you use modeling to get from one population to another. It should be a very familiar kind of technique to actuaries.

Trend Impact Analysis: We've noticed that most trends, as they build up, tend to have a large impact for a few years; then the impact decreases. This is true of

many kinds of trends, and you need to assess what the possibility for the times of the first impact of the trend might be. You also try to assess what the time horizon is for each of these possible states.

Visioning is one of the newest tools, and it's also one of the most effective. A vision needs to create an image in the minds of those who are using it. It needs to be compelling and motivating. The wording of a vision is very important, and it's really a leadership technique almost as much as a planning technique. The leader needs to convey his vision to the people who are involved in the project. For example, the vision of Federal Express was "absolutely, positively overnight." It was compelling, motivating, and it worked.

I flew here on Southwest Airlines. Their motto is "friendly, low cost, on time." That's the vision. It has been very successful with it. This was my first time on Southwest Airlines because it just started flying out of Albany. It was more friendly than most airlines are, but frankly that doesn't matter a lot to me. It was low-cost, and that matters. It was on time the first leg of the flight, late on the second leg, but what impressed me was that Southwest cared. It was not on time, but it cared. Here was an airline actually caring that its flight was late, and the people were apologetic. As soon as we got everybody seated, that plane shot out of the jetway, got to the runway as quickly as possible and it took off. I was impressed that Southwest was concerned about being on time. I've never had the impression that most of the airlines I fly are concerned about being on time.

You have to be careful with visioning, because it needs to be motivating. To be the largest or the most profitable are not the kinds of thing that motivate people. You may wind up as the most profitable because you're "absolutely, positively, overnight," but being the most profitable is not really a good vision to convey to people.

I'm going to introduce to you Tim Tongson, who will take you through some planning exercises, and then we can talk about how well these techniques were used in the planning that was done, and whether they might have been used, or whether they were properly used.

Tim is a consulting actuary in the Minneapolis office of Milliman and Robertson (M&R). He has over 20 years experience in the life insurance industry, having held positions in business unit operations and corporate financial management. Prior to joining M&R, Tim was vice president and corporate actuary at Allianz Life Insurance Company. He had responsibility for financial management reporting, product development, and risk analysis. His specific area of concentration is the actuarial analysis of life company operations, which includes a lot of strategic planning. He currently serves as a member of the Actuarial Standards Board Life Committee and the American Academy of Actuaries task force on banking and financial services, which he chairs. He is president of The Twin Cities Actuarial Club.

Mr. Timothy J. Tongson: We're going to move from the theoretical to the practical. I'd like to talk about some general concepts of strategic planning. I'll try to tie in some of the things Al just talked about regarding a futurism technique.

Strategic planning is really the process of developing a framework that will guide the choices for the organization and will determine the nature and direction of the organization. Generally speaking, strategic planning is used in a variety of different techniques. It's used for organizations in total. It can be used for various departments and lines of business, and individuals can use it. I assume everyone here has gone through the actuarial exam process, or is going through it, and there's a strategic plan you can employ there. You're going to be a lot more successful if you do employ a strategic plan.

There are a lot of different ways you can look at strategic planning. From my experience, which is a culmination of actual on-the-job experience and reading various articles or books on the subject, I've kind of categorized it into four different phases. We'll talk about some case studies. Then I'll wrap up with a summary of some of the key points.

First, let's talk about the four phases. There's a pre-planning stage and the actual strategy development. Both of these have a lot to do with what Al has covered already on the futurism side. There's the detailed planning, and then there's the implementation. Those four phases comprise the strategic planning process.

Let's talk first about the preplanning phase, and this is really the foundation of building a solid and strong strategic plan. Al wrapped up his presentation with the visioning part, but let me go through it again. This is the process where you examine and articulate the values, purpose, vision, and goals of the organization or the entity that you're developing the strategic plan for. Again, it applies to a variety of different areas. Let's talk about each of these individually.

Let's look first at the values. Generally speaking, you'll see these values expressed as key words or brief statements that speak to the culture of the organization. You might see things like hard work, integrity, community, and so on.

The next item is purpose. Al had a good example with Federal Express. A company's purpose is why it exists. What is it about? What is it trying to do? Another good one I've seen is Disney. Their motto is simply stated: "to make people happy." The shorter, briefer, and more concise you can make it, the better it is.

The next item is vision and goals. I like to look at these two together because I talk about them as the envisioned future. What do you want to accomplish. How far do you really want to go with that? Here's an example. Perhaps you want to be a dominant player in the term market. How do you measure that? You might say, "I want to be in the top five," or "I want to produce 50 billion of new production within five years." Together those generally take you out maybe three to five years to help chart your future.

At the conclusion of this preplanning phase hopefully you've articulated, in a very clear and concise manner, what your organization is about and what you want it to accomplish. As Al said, it should be compelling and motivating. I also used *energizing* and *inspirational* as some key words. Generally speaking, that's going to happen when people read those items. They think about it in terms of, are they adding value to some broader purpose?

A bad example is, a vision or purpose that says, "Maximize shareholder wealth." That generally is not very inspiring to me personally. In practice, I've found it to be very difficult going through this process. It might sound easy, but I think that if you start to think through, and actually put words to these points, you find it's quite a challenge. Actually, there's a great article on this in the September 1996 *Harvard Business Review*. Read it if you want some great ideas about developing a vision statement.

I've got an example here from Reliastar, an insurance company. It is Its values, integrity, initiative, accountability, partnerships, and cooperation are fairly common. You'll see those in a number of companies' value statements. "Serving customers the way they want to be served" is unique. Hopefully, reading those values gives you kind of a feel for what that organization is like, and what its culture might be like, because again, that's going to define its culture. That's going to define the types of people that are attracted to the company.

The purpose statement, "To build financially secure futures," is very short, and to the point. It hopefully provides some motivational elements there, because it's a value-added type of a statement. The vision is "To be a lifetime partner delivering integrated financial solutions." Interesting thing about this now, as you look at it is, it really pulls together values and its purpose, in terms of their vision, what it wants to be. I think this is very well done.

Let's go to the next phase of strategy development, and then I'll get into the case studies. The strategy development phase is really based on what Al has talked about. Things like the complex system area, the environmental scanning, and three items: assessing core competencies, identifying internal and external influences, and identifying unique competitive advantages. Those are really about making that assessment of the internal strengths and weaknesses, what externally is affecting your organization today and in the future. You'll look at things like your managerial talent. What is it like today? What do you need to do to have a leading edge management team?

What about your administration, financial targets strong capitalization, and your ratings? On the external side, who are your competitors? Why are they successful? What sort of economic items affect your company? Of course, demographics are going to affect us also. Generally speaking, although you can do it individually, depending on the complexity of the situation and the size of the organization, you're going to have more people involved in that process. Generally speaking, more ideas will come out of that.

The next step is to define concepts and objectives. That's really the strategy right there. You're trying to pull all of this together. You have an opportunity and an issue. You have a restructuring, and you're trying to pull this all together and define a strategy with its objectives that's going to level all of that. The next thing is you want to make sure that fits with your vision. You've just gone through that process to form the base or foundation for your plan; hopefully, this strategy you've developed now fits with your vision, and that's going to basically simplify management's buy-in to the process.

The next phase is developing detailed plans. All this really means is identify specific tactics or actions that need to be accomplished to succeed. You link timetables to those tactics, identify the key participants and the roles that they play, and identify exposure areas and controls. Too often this step has been underestimated or overlooked along the way. I think you get down to this point and you basically say, "I know what has to be done, and I know who is going to do it. Let's go." But you don't really think about the weak links in the process that might impede your success or cause failure. You may overlook the controls or backup systems that you need to put into place. Generally, you do a better job if you do not rush through the process.

Once you have things down on paper, describing what you're going to do and who's going to do it, you want to get moving. There's just that tendency to do that. You've got a balance to maintain action and analysis. Unfortunately, you don't know whether or not you did enough of that until after the fact. Too often, when you look at it retrospectively, you find out that you could have done more. The last phase in the planning process is implementation. This is where the rubber meets the road. You can do a great job up until this point, but if you don't implement or execute, it's all for naught. The keys in this step are: (1) designate a leader who has clearly defined responsibilities; (2) use strong communication; (3) possess good technical skills, depending on the project at hand; and gain the energy and drive to move it forward. Jim Benson talked about leadership and actuaries and my experience has been that that is really a key to success or failure for projects.

Allocate the resources you need. Whether it's dollars, people, or equipment, execute the plan you've put into place, and then monitor the results. It's kind of that circular process again, that Al was talking about. I'd like to talk about some case studies.

I deliberately selected a number of case studies to keep it at a fairly high level, as opposed to going through one rather in depth, because I wanted to be able to illustrate how strategic planning can be used in a variety of different circumstances. I wanted to illustrate the points that I brought up here in a lot of different ways. Regarding the preplanning phase that I talked about, decide on the values, the purpose, the vision, and what has been done already. The strategies that develop out of these case studies fit with that stage.

Let me give you some background on the first case study. This is a large diversified life insurer. It is seeking growth through acquisitions. Many companies have been in this situation, but they, of course, want to focus on certain core segments. It identified certain noncore segments in its internal and external analysis that it has gone through. It identified what it is good at, and what its strengths and weaknesses are. The segments that are noncore basically lack the supporting investment strategy to generate the return they need. Perhaps it had limited future growth potential. It might be producing subparticipating financial performance. An additional consideration brought into play is that the market conditions are strong if you're a seller.

It went through this process, identified some noncore segments, and it developed a fairly simple strategy, which says that it is going to divest noncore segments if the administrative and economic objectives can be met. It then uses that capital that it acquired in the sale to acquire the core segment that it is interested in.

Let's move into the detailed planning process. I like to think of the statement, "Begin with the end in mind." I've found that to work well for myself. I like to think about what is it that I want, and when do I want to be there. It wanted to close the transaction by the end of the year, but it decided to allow one month of cushion. It said, "We're going to try to get this done by December 1. We'll close the transaction by December 1." To make that happen, negotiate the definitive agreement by November 15. To do that we have to have the finalist selected by November 1. To do that we have to have due diligence complete by October 15, and so on working down to the present when you might have just gotten management approval to proceed.

It takes a little bit of work to put this together. What I've found is that you know where you are today, you know where you want to be, and you know when you want to be there. You go through the process of identifying the various steps. You have to move some things around, and you'll be modifying the dates a little bit. Generally speaking, you can put a pretty good plan together that way. Depending on the complexity of the project and the size of it, each one of these steps might also have a detailed plan supporting it.

A project leader was designated in the implementation phase, and he put a team together to support the leader dedicated to divesting the noncore segments. They agreed to regular communication updates with the senior management team. Even though a project team was dedicated to scheduled changes and handling diversions, like most special projects, you're taking people off of their current assignment, and usually you can't afford to just say they're completely dedicated to this assignment. You are going to have diversions that come up with this group. You'll also have other things come up that you didn't anticipate that would affect your schedule.

What's the key? I like to think of the "three c's" that pertain to how you handle this: creativity, communication, and cushion. Building a little bit of cushion into your schedule doesn't hurt. In this case, the transaction actually closed three weeks

late, but it still closed within the bigger target goal of getting it done by the end of the year. By and large, it was really a success. Everything got done in the time that it needed to be.

What were some of the important lessons from this? This was considered a really successful transaction, because it was done in time, and the administrative and economic objectives were accomplished, so I think we could go back and say: "Hey, the investment in the planning process really paid off." There was a lot of time devoted to the planning, and it went pretty much as scheduled. In retrospect, the investment in planning really paid off, but the key is that the objectives were clearly defined. We knew what we needed to get accomplished. We had a dedicated project team and communication was the glue that really held this thing together. I think there are numerous examples of the importance of that. Again, depending on the length of time or the complexity, you might have to do more or less with communication.

I'm going to go on to the second case study. Here's some background on this. You have a product manufacturer, and it outsources administration and distribution. It has some experience with the long-term-care market, and like a lot of companies, it identifies long-term care as an area that it wants to grow strategically.

Going through its strategy development phase, it does an internal and external assessment, and identifies some key items. It recognizes that it has strong ratings. It is strongly capitalized. The demographics and the need for long-term care are there, so this is definitely a growing market, and it will continue to be that way for many years. It says that its core competency is one of being an innovative product manufacturer. Pulling those key items together, a strategy was formulated that basically said, we need to find a long-term-care distribution specialist and form a specialty marketing company. This partnership will help us to build equity, align risks, rewards, and business.

In the detailed planning process after the distributor was identified, the roles and commitments of each party were defined. Various business product and marketing plans were developed. The corporation bought into the concept as a good strategic fit, and then various timetables were established to implement the project.

Then came the implementation phase. What happened? The process started, the office was set up, employees were hired, officers were elected, and shortly after that, expenses started to come in. Salaries, equipment, and other set-up types of expenses were quite a bit higher than anticipated and projected. What compounded the problem of higher expenses was that sales of the new products was slow.

Remember that the commission stream paid to the distributor really represented the revenue stream for this company. There was higher-than-expected expenses and lower-than-expected revenue. Basically, you've got a higher-than-expected negative cash flow. It was higher than was anticipated in this case. Contributing to

the entire process was that operational procedures in the approval process were also weak. In retrospect, I can say that one of the key issues here was that business, marketing, operational, and product plans were all fairly high level and maybe too high level.

What were the lessons learned in this situation? It really was a great concept. The parties feel that the concept was a good one, and it was a good strategic fit. Unfortunately, the implementation was poor, and the oversight in the implementation was poor. One of the reasons for that was defocused leadership. In this particular case, there were a number of individuals who had accountability for making this happen. Again, my personal experience is if you can get one person who really has that responsibility, you're better off. Everything really rises and falls on leadership. If your leadership is not focused, there is a potential problem.

Expectations were not clearly identified, and operational controls weren't there. As I tried to emphasize in phase three of the planning process: don't rush the process, spend enough time planning, make sure you do enough analysis, and don't move into action too quickly.

Unfortunately, not all of that was done in this case. There could have been more detailed procedures put into place. There could have been a better peer review of the process going into this and an attempt to find those weak links. What was missing that could cause this to happen? You need to ask some of those questions, even when you think you've got a great idea.

I have one other word of caution. I'd like to elaborate a little bit more about the approval process and why that could've been stronger. Essentially, the insurance company or the product manufacturer had delegated quite a bit of responsibility to the distributor, and so the distributor was acting rather independently. There should have been a closer link in an approval process that the product manufacturer had in overseeing what the distributor was doing, to make sure that they were synchronized.

Do you need to tie the strategic planning process to implementation? They are different. I call them phases. I tie them together because, in my opinion, they are linked, and there's overlap in the process. Generally speaking, you don't have completely separate people involved in one phase and then the other, or you might have some people that were involved and then bring in some new people along the way. My experience is that if you have overlap, that's a good linkage. It helps in the process. I'm sure there are circumstances that are quite successful where they've been separated. You can design or pick an implementation team provided you have very strong leadership, clear direction, and clear expectations.

Let's discuss the last case study. Let's say you wanted to build a professional actuarial department because you've just restructured the organization, or you just want improved services. Oftentimes, the actuarial management team is technically strong, but they might have limited managerial experience. That's not uncommon.

First is the strategy development phase. In this case, go through the assessment of strengths and weaknesses of the management team. What are the issues that are currently confronting the department or the organization? Then try to identify the specific success measures needed to be a professional actuarial department. I like to keep things simple. Jack Welch once said, "Give me three measures to be successful, and I'll pick customer satisfaction, employee satisfaction, and cash flow." I'd put a financial target in there. He said basically, "If you give me these three, and if I can be successful at these three, I'll be successful."

If you know your customers, and you know how to keep them satisfied, that's great. If you know how to keep your employees happy, they'll get the work done. The last is a financial target; in this case study, it would probably be the budget. But, you could have ROE, you could have cash flow, you could have surplus. You could have a lot of different financial targets. Generally, if you can identify and articulate what they are in these three categories, you're going to be very far ahead. In this case, the strategy was to articulate a new vision and develop a new structure aligned with the success measures. It is a pretty simple and straightforward strategy.

Tying back into the preplanning stage, here's the vision that came out. This is the vision statement for the actuarial department: "Accurate and timely evaluation of the financial implications of future contingent events to facilitate management of risks." If you think about what we do, what we're about, and what we're supposed to do, this kind of ties that in. It's intended to tie in to our values as actuaries.

In this case, that was put into place, and then various structures were tested. Different organizational alignments were put in place, or I should say, put down on paper and thought through. How well will this work? How would we handle this circumstance? Maybe this one would work better if we structured it this way?

For the leadership team or the senior actuarial managers, a leadership development plan was designed recognizing that they were going to be leading a fairly sizable group of actuaries. We wanted to make sure that they had strong leadership skills. Finally, the project was prioritized and scheduled, working closely with the customers in each of the business units.

In the implementation phase, it was agreed to continually articulate the vision, and this is really the role of the leader. People forget pretty rapidly what you're about unless you repeat it. I read that vision statement two times. I don't know if it meant any more the second time I read it or not, but my experience is that in practice you've got to keep going back to that, and it just doesn't hurt.

The more you repeat it, the more it's going to get embedded in your thought process, and your actions, and the decisions that you make. Good leaders will repeat it over and over again. They will look for and take those opportunities to articulate the vision. Visioning was an important part of this. There were some key words, if you think back to that vision statement, that weren't happening with this

group. Going back to them served as a reminder. We said, "Hey, this is what you're about; this is what we're supposed to be doing."

The leadership training program was implemented. The project plan that was developed with the customers was put into place. It was agreed that progress and delays would be communicated as soon as possible. There is a common complaint about actuaries that they don't communicate enough, or that they don't communicate very well. What might have seemed like over communication to us probably was about the right amount of communication for the customers.

Last are the performance items that I talked about. Those would be monitored on a regular basis and then communicated to the management team and the customers.

What are the lessons out of this case study? The only one I wanted to illustrate is that strategic planning is not something that's just done for an organization at the corporate level. It can be applied to a variety of different circumstances. We have a department that's trying to get some new direction, and they've used a strategic planning process to get there.

Just to wrap up, here is a summary of key points. First, in my opinion, the best strategic plans are linked to the values, purpose, and vision of the organization. That's going to form the foundation. If you take the time to go through the process, to really think through what's important to you, your organization, what are you about, what you want to be, and how you want to get there, you're going to develop better strategic plans. Next, remember that each phase of the planning process is vital to success, and implementation might not be strategic planning per se, but it's obviously no less important to it's success.

Finally, leadership is an essential factor in all aspects of strategic planning, in my opinion. The general session speaker, Jim Benson, talked about the need for actuaries to develop as leaders. If you have the opportunity or if you're aware of it, you have a lot of opportunity as a leader in various projects along the way. Think about some of these concepts.

Hopefully, this broad overview gives you a feel for some of the concepts and considerations of strategic planning and implementation. You should be able to see that it's as much an art as it is a science, and there's a level of skill that's developed the more you do it. The more you look for opportunities, the better you're going to get at it. Sometimes the best learning takes place when you have not succeeded, and if you look at it that way, you'll learn a lot too. There are also a lot of good books and articles available if you want to learn more.

Mr. Easton: I'd like to relate something to your last case study. Tim, I ran an actuarial department for 16 years, and I did not use any strategic planning. I think I could've done a much better job if I had. In the department that I ran, we tended to be reactive rather than proactive, and I'm sure we wasted a lot of time because of it.

Mr. Douglas M. Landry: Looking at the methodology in the first part of this presentation, there is a quote: "Develop plan, implement plan, evaluate results, assess current state." Looking at case study number two, Tim, it's probably inevitable that you were going to get off course somewhere. Was there no chance that this situation could be corrected? Was the implementation so bad that they couldn't go to the next step and project alternative future states?

Mr. Tongson: No, that's not the case. It's just that the expectations and anticipated results did not materialize as expected. It caused quite a bit of diversion and rethinking of the strategy in the process. I didn't elaborate on that part, but it really caused the management team to revisit that strategy to see whether or not it really was appropriate. When it did confirm that the strategy was still good, it was clear that the approach that was taken had to be modified.

Mr. Thomas D. Hull: I have a practical question for you, Tim. When developing a vision statement, I find that one of the biggest problems is that you want to get enough people involved to get buy-in from an influential group. At the same time, keeping it short and simple in that case is very difficult, because everyone says, "What about this customer?" or "You haven't put anything in about the shareholder," or things like that. Do you have any practical suggestions, or is that just the nature of the beast?

Mr. Tongson: I like to get a lot of input into the process. I'm a firm believer that I don't have all the answers, but you can develop a much better vision because of that. Also, as you pointed out, if you involve people who are affected, you're going to get better buy-in into the process. That's a constant challenge though. How do you compress that into something that's very short, brief, and meaningful? That's just a challenge I would have to say, where leadership skills, the art of persuasion and negotiation, and a lot of the management development things that we need to learn as good business people, come into play to help in that process. There is no easy answer to that one.

Mr. Easton: I want to add a little to the discussion of vision statements. The shorter, the more clearly stated, the better. I felt that the vision statement you used was almost a little too complicated. You really need to have no more than ten to fifteen words in your vision statement.

Mr. Tongson: That's a good point because when that one was developed, there was a lot of input into that vision statement, and it was a compromise type of a scenario where we didn't capture everything, but we tried to capture what other people felt was really important.

Mr. Joseph B. Krekelberg: Tim, could you give us some insight on where to find the best place in the strategic planning process to assess the cost and benefits of implementing the strategy? For instance, you might make it all the way to step three and then find out it cost $50 million to build a system to implement a strategy.

Mr. Tongson: Generally speaking, in the strategy development phase you're going through the assessment phase. You're looking at what you're good at, strengths and weaknesses, and so on. Supposedly you've identified an opportunity, or you've got a problem to fix. Pulling all those factors together generally requires you to start making some financial analysis, financial projections, or cost benefit analysis. What will happen is that you'll have a number of options, or potentially, a number of different strategies, and you'll have a cost-benefit or a payoff attached to each one. That also becomes part of the decision-making process. It's really in the strategy development phase.

Mr. Stuart Klugman: The Futurism Study Note is required reading for the course seven pretest, and as we get feedback on it, one item that either gets a chuckle or some wonderment from the students is Genius Forecasting. Their response is: "They're kidding, right?" I'm wondering if you could supply a few more words, or maybe an example or something. We on the course seven committee need to inform the students that it is serious, and this is something that they might actually want to use someday.

Mr. Paul D. Laporte: One of the first things Bill Clinton did when he was first elected was to pull together a bunch of experts in sessions that were held between November, when he was elected, and January. Each of the experts was, in a sense, a genius in some area. I think that that was a very good example of genius forecasting. He got a group together to discuss certain topical areas, and moderated the sessions. A certain expert or genius in an area talked about something, and then President Clinton encapsulated in probably 45 seconds what that person said. Then, he called up someone else. Health care was one of the areas. Unfortunately, I don't think he carried that area through to conclusion.

Mr. Tongson: In the actuarial area, I can think of several people who are really world-class experts. For example, if I wanted to do a demutualization, there's a person who I think could give the best information because he has been involved in more demutualizations than anyone else I know. I would talk to him first, and I might or might not do what he says, but I'd at least know that I was getting the best advice I could on the subject.

Mr. Laporte: The words *genius* and *expert* might mean different things to different people. It sounds like you're really talking about an expert rather than a genius in general. When you say genius forecasting, is that really what is meant?

Mr. Tongson: I think that "expert" is really what's intended

Mr. Klugman: As actuaries we've seen some visioning and an image put forth in the last year-and-a-half called "the big tent." I'm not asking you to comment on whether or not you like what's being proposed, but, from a futurism perspective or from an imaging perspective, do you think leadership has used this concept effectively? Is this a good example of using visioning, or could they have done it better?

Mr. Tongson: I'm not sure I can be independent because I do like the proposal, but I think it's a wonderful use of visioning. Two very short words convey exactly what the whole concept encompasses. If the name of the concept had been "involve people with expertise other than classic actuarial training," I don't think that would've been nearly as compelling as the two words *big tent*.

CHART 1

The Four System Types

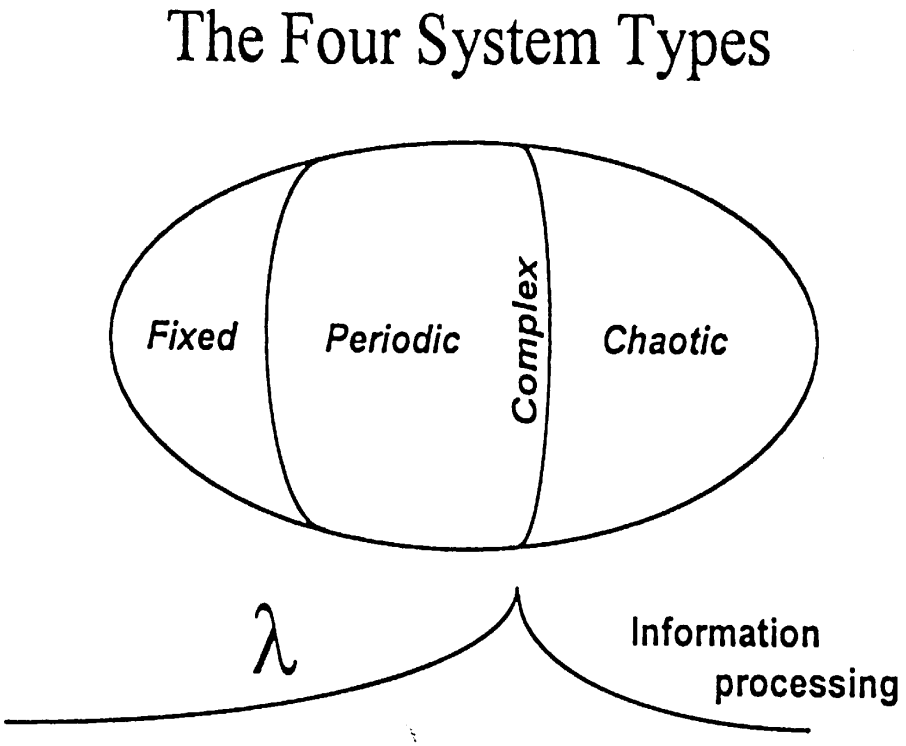

CHART 2

Methodology

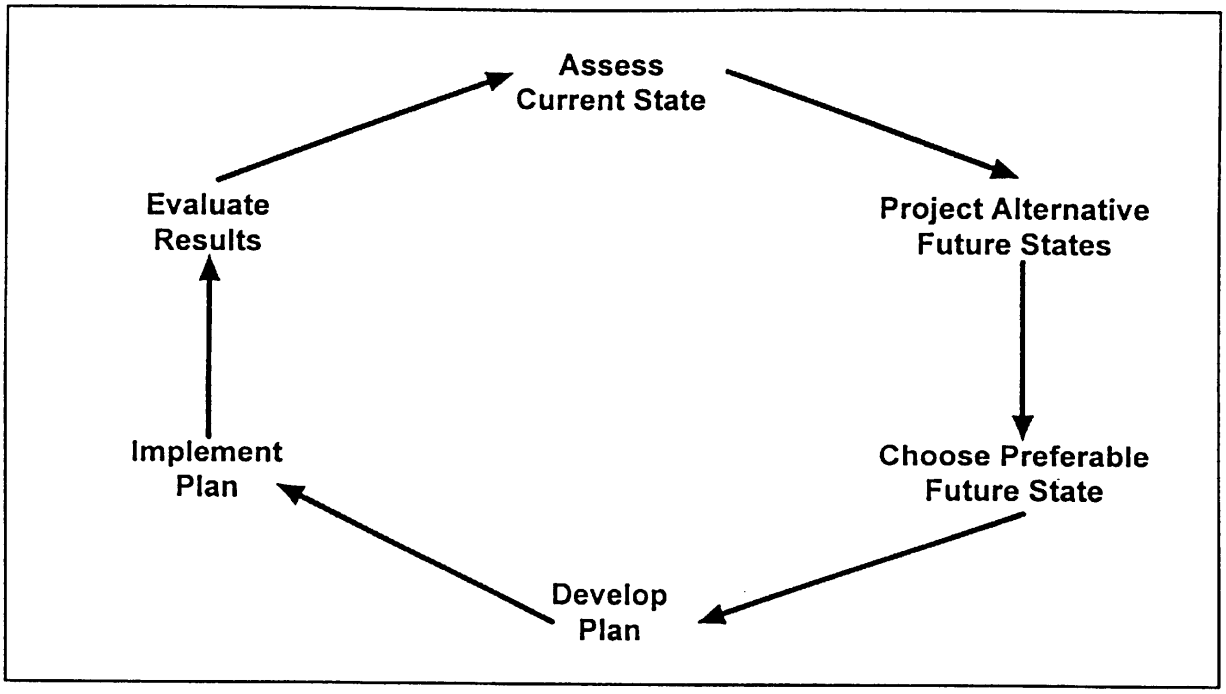

Figure VI.1

Applied Futurism Methodology