Summary: It is a time of consolidation in the insurance industry. What happens to two organizations that come together? How can value be retained or enhanced? This session considers the issue of an amalgamation through a case study:

- Results from seeking a creative solution to endemic industry issues
- Human issues in organizational change
- Understanding preamalgamation cultures and origins of the amalgamation
- Evolutions of the amalgamation
- Lessons learned.

Mr. Irving R. Burling: For 17 years I had been the chief executive officer (CEO) of Century Companies of America. In the late 1970s and early 1980s, I was trying to change the culture of the organization. When I saw what was happening in the insurance industry, I realized I was not going to be able to get the job done as quickly as was needed. It was at that time I decided I would look for some help, which led me to Dave Whitsett. Dave Whitsett is an industrial psychologist who specializes in organizational change.

Mr. David A. Whitsett: I am going to give you an overview of what we are going to discuss. We are going to tell you a story. It is a story essentially of what two CEO's did over a period of a few years. They put their two companies together in what we think is a very unusual way. Irv's company was Century Companies, a medium-size mutual company in Waverly, Iowa, and Dick Hines' company was called Cuna
Mutual Insurance Society. What they did over a period of a few years was put their companies together in what they called a permanent affiliation.

It is not a merger, and it is a lot more than a joint venture. It is a very unusual and unique structure, and they figured out how to do this. They met at a seminar at Harvard in 1986 by accident, sat next to each other, started talking, and eventually put something together that has the following features: it is a joint marketing arrangement called Plan America. It is a financial integration of the two companies through a reinsurance concept. It is a functional integration of management and the board. It is a creation of three or four communities of interest, with different locations, namely, Southfield, Michigan; Madison, Wisconsin; Pomona, California; and Waverly, Iowa. It is a retention of legal entities of the corporations in their states of domicile. They achieved that in spite of some challenges.

Century Companies was a single-line-rated company that positioned itself as a quick follower in terms of change. Cuna Mutual is a multiple-lines experience-rated company and an innovator in many ways. Century had an arm’s length relationship with their board of directors in which there was a moderate involvement. Cuna Mutual was a very unusual company. It had an extremely close relationship with the board where there was very high involvement.

In organizational size, Cuna Mutual is much bigger—seven times bigger than Century in terms of staffing. There was very little recent growth in the case of Century and a very substantial amount of recent growth in the case of Cuna Mutual. Irv had been the CEO for 12 years at the time this project was initiated, although he had a lot of new senior managers. Dick Hines was a relatively new CEO at Cuna Mutual, with a lot of older, in terms of length of service, senior managers.

Century had an extremely analytical, very process-oriented way of making decisions. Cuna Mutual had a intuitive, rapid, results-oriented style of making decisions. The two were very different.

Cuna Mutual had a high focus on the customer. It marketed to credit unions through the credit union movement. Century Companies had a low focus, and that was part of the problem; it had no market niche. In spite of all those differences, there were some similarities. Irv is going to tell you the story of how the two CEO's brought these two companies together and what the results have been. I will tell you what we think we learned from the project in terms of what challenges were faced, and some of the ways to overcome those challenges.

Mr. Burling: Let me read to you a portion of an article from The New York Times of August 16, 1995. "We have got to prepare for an era when successful insurers will
live on bigger volumes and smaller profit margins,” said the CEO of State Mutual. 
"The agents have been wagging the dog for a long time. The companies have to 
find ways to make the system less costly."

The April issue of The National Underwriter included a comment from Conning: 
"Larger mutuals were the first to combine, but we're waiting for the flood gates to 
open up on the small to smaller mutuals. The reason: survival."

I can remember attending an executive roundtable for the CEO's of insurance 
companies in the early 1980s. At the time, the spike in interest rates had happened. 
There was a very real sense of loss of control over our destiny and that we were 
never going to return to the good old days. In our company, we decided that we 
would first start with a detailed surplus analysis. We took the chief actuary, one of 
the staff actuaries, and a certified public accountant (CPA) and asked them to devote 
their total time for one year to this analysis. We needed to know what kind of 
surplus was needed for catastrophic losses and for the various contingencies. We 
also needed to know what was the amount of working capital we had left to fund 
our growth and how we could finance our future. I said, at that time, that my basic 
job description, in one sentence, was to perpetuate the organization on behalf of 
the policyholders. That had to be no. 1.

Based on this surplus study, we looked at a number of options. We looked at 
surplus reinsurance. We looked at different capitalization forms, methods, etc. We 
looked at demutualization, we looked at mergers, but for a variety of reasons, we 
abandoned all of these options. There were some things we could do. We were a 
strong medium-sized mutual insurance company, and we were not going to let the 
financial underpinnings erode. We did some downsizing, about a fourth of the 
staff, which creates tremendous cultural change in a small Midwest community. 
We did some direct recognition in our dividend scale to stop the hemorrhaging. 
We changed our name to attract more business. We added subsidiaries. Over our 
100-year history, we had added a number of things to our balance sheet to 
strengthen it on the conservative side. We also went through the whole balance 
sheet, not to play games with it, but to make sure we knew exactly what we should 
have in our balance sheet and to make sure we had a good fix on our surplus.

We needed to address the endemic problems in the insurance business—
unsuccessfully high distribution costs and insufficient critical mass. Every company 
is facing those same two basic issues. The problem is that the hurdle rate for both 
the amount of business you are writing and the amount of business in force 
continues to increase. The cost of putting the business on the books is increasing 
every year, so it is getting more expensive, but it is a business where sales are 
relatively flat. First, we do not have much of an increase in new business.
Second, regarding critical mass, the cost of administering the business keeps going up, and during the early 1980s, the number of policies in force was actually decreasing. Those were the two basic issues we were trying to address.

As I thought about joint ventures, I could not envision a sustainable program, because such ventures tend to be tied to the personality of the CEO and when he is gone, someone else has a different idea. If you talk to anyone who has been very active in the merger environment, they will tell you less than 50% of mergers tend to obtain their objective. I think it is because they tend to put structure ahead of their strategy. We tried to learn something from that.

When I met with the person who was going to be the future CEO of Cuna Mutual, he said Cuna was interested in a merger. I was not interested in a merger, because I had worked for ten years to try to build a culture which I thought was important to future business success. If we were going to simply merge with a company that had a staff seven times as large as we did, they were going to in effect eat us up and spit us out. That would be the end of the culture I had spent ten years to develop. I said we have to be more creative than that. We eventually came up with a permanent affiliation.

Let me tell you what the five-year results of that affiliation has been. We were struggling to write 30,000 policies a year on our books. In the affiliation, after five years, we were processing one million new applications a year. We went from 30,000 to one million. Our in-force business increased by 30% instead of decreasing. We were able to consolidate business from three locations into the community of interest that Dave talked about so that we could see an improvement in our productivity of $20 million. That was important to us. Finally, our staff, which we had downsized by a fourth, had increased by threefold after five years. The affiliation to us was very much worthwhile.

I would like to talk about the cultures and explain the differences between the two organizations. First of all, Cuna Mutual was born out of the credit union movement, essentially writing term insurance. It was not much of an asset-building business. Century Companies had been around for 100 years and was in the asset accumulation type of business, but it had given up its market niche, which was Lutheran Mutual, back in 1938. The surplus for the two companies was about equal. Assets for Cuna Mutual were about twice those of Century Companies, and revenues in Cuna were about three times those of Century. Cuna Mutual had the largest block of credit insurance in the world. Its in-force business and staffing levels were about seven times as large as that of Century Companies. The customer, in the Cuna Mutual case, was clearly in the credit union. They were built for the credit union members. Century Companies went through that age-old
discussion: Is the customer the agent or the policyholder? Obviously, through this whole transition, we were concerned about a run on the bank and were very concerned about how we would deal with our distribution system. However, clearly, the results of the affiliation have to benefit the policyholder; that was the bottom line.

INTERPERSONAL RELATIONSHIPS
Century had worked very hard as a part of their culture over the years, to build a direct, open, and honest communication process. The Cuna Mutual environment was more political. That is not to say that was necessarily negative, but that was the environment they operated in.

BOARD OF DIRECTORS
The board of Cuna Mutual are members of credit unions throughout the country, so they represent the political environment. They are active in their own credit unions, and active in regional or state organizations, etc. Century Companies had deliberately moved toward a professional director. We recruited to our needs; if we needed marketing, we went to McDonald’s to get the best we could. If we needed a lawyer, we went to the best we could. We built more of an arm's length relationship between the board and management. The Board of Directors for Cuna Mutual for example would meet six times a year and for five days each time. In effect they were dealing with their market. It is similar to the practice of many companies that bring in representatives of their agency advisory system and talk to them about the market and so forth. At Century Companies, we would meet eight times a year in committees or as a board for a couple of hours each time.

The individual I met at Harvard was going to be the CEO, so he was new to the job. He had been a consultant with the organization for 30 years. He knew it very well and he was well known, but he was new in a management position and I had been the CEO for about 12 years. The other difference was that I had been going through downsizing and changing the organization, continually working on the weakest link. This resulted in a younger management group. The senior officers under myself were all under age 45.

The decision style at Cuna Mutual was more political and more quick to respond to the market. At Century Companies, because we were so careful to not lose control of our finances, we had developed a system that was focused on the process. We made sure that whatever project we were working on fit into the total strategy of the organization and everyone was aware of the discipline. We went through a detailed analysis. Our best people ran this pro-active management system to try to make sure that we applied the resources that were critical to the future of the organization. We were much more process-oriented, much more analytical versus
political. While the CEO of Cuna Mutual was a teacher in the business of insurance, I think of him as an excellent marketing individual. I am an actuary, so there was a marketing individual running one company and an actuary running the other.

PERFORMANCE EXPECTATIONS
Century Companies had done a lot in terms of climate performance for the total organization, in terms of expectations of individuals, departments, and so forth. We had done attitude surveys about every other year. These disciplines had not occurred at the Cuna Mutual.

Let me talk about the evolution of the affiliation. We felt we needed to keep the board up to speed on the process, so we formed an ad hoc board committee. I picked people from the board who had been through dramatic organizational changes. For example, one was from Navistar, one was from ITW, etc. They could be very supportive and helpful and have some good ideas about what had to be done. They were to meet on a regular basis with me. Cuna Mutual also named an ad hoc committee, and the two of them would meet and solve the differences when we were having any troubles or difficulties. We had the boards involved, and in turn, when the issues had to go back to the full board, the ad hoc committee members became our partners rather than our adversaries.

DISTRIBUTION SYSTEM
The key linchpin between the organizations was the distribution system. That was the long-term strategic issue. I was trying to cut distribution costs. It is so easy to put other issues before that because it is easier to say we will merge the investment functions or we will merge the legal department. Our focus was on the distribution system and that took most of our attention.

We design-built the affiliation. The concept behind this was that we were not going to wait until we had all of the answers before we went ahead on the affiliation. We had a general concept and said we will work out the details as we go along. It is an important concept, because the folks who worked on this would say how do we make this work rather than saying I ran up against a stone wall, I do not think this will work. I can remember talking to one of our field managers who came into our office, and the question was asked, “Irv, this is fine, this sounds good, but what is your back-up plan?” I said, “Dave, there is no back-up plan, this must work for the sake of the policyholders.” That had a tremendous impact on the productivity of the organization and in making it happen.
DUE DILIGENCE
We went through an exhaustive due diligence in both companies. We hired outside experts to look over our shoulder to make sure that, from the actuarial, legal, and accounting points of view that we were following the letter of the law, that we were truly trying to perpetuate the organization on behalf of the policyholders.

We were very fortunate in terms of staff networking. We picked a convenient location between the two home offices in Wisconsin and Iowa and the staff would frequently get together and discuss mutual problems and interests. We orchestrated some of those ourselves to make sure that certain things would happen, but at the same time, departments would get together in this location and talk about their issues and how we could help each other.

State approvals and policyholder approvals were necessary. One of the things we had going for us at the time is that Iowa was interested in broadening their employment base. Iowa was an insurance state, and I could demonstrate that we were going to improve the employment rate in insurance in at least Waverly, Iowa. Therefore they looked with favor on what we were trying to accomplish.

In this integration, the distribution system was the critical issue for us. That was the strategic linchpin for us. We tried to improve productivity substantially on this one. We could not find a similar situation any place in the U.S., but we found one in England and one in Australia where they were producing in a sponsored market just like we were involved in, seven sales a week. We believed seven was too much so we shot for four sales a week, because we wanted to be more needs-driven than transaction-driven. We also visited with our own career system to see if we could give the names of individuals to be called on. Then the people wouldn’t have to develop their own leads. We need to know what they would be willing to give up in commissions. That dictated a substantial cut in our distribution costs.

CRITICAL MASS
We combined some business that was in Madison, some business in Southfield, Michigan and brought it all to Waverly, Iowa, which caused a substantial increase and improvement of the productivity of our in-force business.

FINANCIAL INTEGRATION
We did a 50% reinsurance arrangement between the two organizations, which helped tie the two together. We had some units that we consolidated, such as investments and legal. We went through a very disciplined program to determine who leads what function. This was an objective, not political process, because it
was a process that we intended to use throughout the organization. It meant that for any staff or management position, we could develop a career opportunity for individuals, whether it was Waverly, Iowa, Southfield, Michigan, or Madison, Wisconsin. That would be an important part of the glue that would make this affiliation permanent. In addition to consolidating some departments, there was simply cooperation in terms of human resources and information systems. In some situations, it was simply a matter of keeping similar functions, such as service units, informed as to the manner in which we intended to operate.

**BOARD AND STAFF INTEGRATION**

I had worked on Board integration for a long time because I was not sure just what kind of a situation we might face the future. I had a seven-year plan so that I did not have to face the issue of which one of the board members is not going to be needed in the affiliation. It took that kind of long-term plan, because what usually stops these kind of efforts is either a board or a CEO. One of the interesting things that was the hardest thing to sell, but I think our folks eventually understood it, was that Cuna Mutual had the market. Obviously they were not going to want to give up control of that market. We agree that they should have six members on our board and we would have five. I had worked with our board long enough to know that was not that tough of a sale.

As far as the CEO’s are concerned, we had come up with a different kind of concept. We called it deputy CEO, so I was the deputy CEO at Cuna Mutual and my counterpart was the deputy CEO at Century. Together we worked through this process, and it worked very well. With the results we had, and with what is happening, it was worth all the blood, sweat, and tears.

**Mr. Whitsett:** What did we learn? The most important thing we learned is that if you keep strategy ahead of structure when you bring organizations together, you are going to be a lot better off. We studied a lot of other attempts to bring organizations together, and most of them get real focused on structural questions like who is going to run this, and who is going to run that, and where is this going to sit, and who is going to report to who. Irv was very good at keeping everybody focused and not jumping to those issues, because that is not really the issue. There is a strategic issue here, and a reason we are doing this. Cuna Mutual wanted Century Companies individual marketing expertise and Century Companies wanted Cuna Mutual’s niche and mass of business, which was the main point. That meant that the strategy was a distribution strategy, not an internal structural issue. What we learned is we had to keep pushing off those structural questions, or at least when they came up, we had to keep asking what would be the right way to do this based on the strategic issues here, rather than asking what is the quickest way to decide
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who sits here, who sits there, or whether this function goes to Madison or elsewhere.

The second thing we learned as we went along is that we needed some way to get through integration issues. For example, the strategy that Irv worked out was a two-level strategy. The issue came up about human resources and how we are going to address the question of human resources in the two organizational settings. They talked about three ways of doing this. One, we could say the human resources function in Waverly (Century Companies) will essentially report to the human resources function in Madison (Cuna Mutual's), or vice versa. Or there could be some kind of shared responsibility. The first question is what is the best way to do these things. The second question was to identify the people in each of the two organizations functions, whether they were from legal, investments, human resources, or whatever, who would be best to run this operation and that was a very careful assessment process, looking at a lot of data and so on. There was a strategy worked out for how to do that.

Third, we learned that some kind of a plan had to be put in place to keep the organization focused on the strategy as opposed to the structure, and that was hard to do. Basically what happened was that Irv kept having to raise the question over and over again. The plan was Irv kept talking. Irv kept asking, strategically, where is this taking us, what is going on here? We needed to do a better job than we did, but Irv saved us by raising the strategy question over and over again.

We learned two things about cultural integration. One of them was the differences in the corporate cultures that both Irv and I have touched on. These cultures were much greater than I think anybody realized early on. At first they thought Cuna and Century are both Midwestern mutual insurance companies, so they must be the same. We were not the same. We were much less the same than we thought at first. One of the things is to understand the difference in corporate cultures and then define what we were trying to do. What kind of a corporate culture did we want? What pieces of each of the organization's cultures did we want to preserve? What pieces did we want to integrate in some way, and what did we want to try to preserve, to make it more similar, etc. Then we developed a method to work through the differences in culture. We had a mechanism that was supposed to do that and it was based in part on the ad hoc committee that Irv talked about. There was a similar ad hoc committee made up of management people from each of the two companies, which periodically was supposed to get together and resolve differences to work out this integration. Looking back we see that they did not meet with the regularity they probably should have met; therefore, some issues of cultural integration dragged out longer than they should have. If we had it to do over, we
would have those groups meeting on a regular basis and addressing issues on a more regular basis.

We had several issues that had to do with communication that we learned a lot about. They had the most carefully worked out, orchestrated communications plan at Century Companies. They knew all the constituencies that needed to know where we were in this affiliation process. They knew where they sat, at what time of day and on what day they should know, so that people were not surprised by somebody who works for them knowing information before they did. When do the communities need to know, when do the press groups need to know, and what do they need to know? The communications plan was when all that was going to happen. The second one says do not delay implementation or the process of implementation any longer than is necessary. One of the things we found is that when people hear about it and nothing happens for a long time, you create problems for yourself.

Do not oversell the change. This particularly had to do with how it was presented to the career field system of Century Companies. There was a concern that some of the career people would be upset about this and therefore they were given a more optimistic picture of how easy it would be in terms of lead generation than it turned out to be. If we had that to do over again, we would not do that. What we were trying to do was keep them happy. Nobody was lying to them; we were just taking the best scenario and we probably should have been taking something less than the best scenario, because I think we would have been happier longer if we would have done that. We oversold that aspect.

Do not withhold information longer than necessary. Tell all you can as soon as you can. We found that is not as simple to do as it sounds. For example, Irv told you that it became clear to him that the only way this affiliation was going to work out because of Cuna Mutual's concern with its market was if Cuna Mutual understood that the ultimate result of this was going to be they would have more members of the board than Century would. At what point do you tell your people that is the case? At what point do your people in your organization need to know that is going to be the case? At what point can you give them that information without causing them to panic about it, but soon enough they will understand its implications? That is the thing I am talking about. You tell all you can as soon as you can, but the issue of how soon you share information in terms of keeping people on board with things and the need to know issues is a very complex one. It is a very challenging issue.

Do not make promises you cannot keep. People get panicky when this kind of thing happens, and some of them came to Irv because he had been the CEO for so
long and said, “Tell me where I am going to land; how is it going to come out for me in this case.” Irv wanted to say I will take care of you, but he held off saying that because he knew he could not deliver on that. Sometimes people were really upset because they had been here 30 years, and wanted Irv to say he was going to take care of them. Irv would have to say, “I do not know how this is going to turn out, we are going to do the best we can.” That is hard.

It turned out that everything Irv said and everything Dick Hines said was interpreted by people as having great significance, and people were really worried. They wanted Irv to be really happy during all this. Everybody was walking around with their antennas out about eight feet. Everything he said became a big issue. What he learned is he could not say anything casually. Anything he said was going to be given a great deal more importance than he actually intended it to have.

Then there were the issues that had to do with the transformation or the change itself. What did we learn about the change process itself? We learned that somebody has to be in charge of it. Somebody has to be the transformation director. We are thinking in this case of the affiliation as a special case of large-scale organizational change. We think this will be necessary no matter what the change was. Somebody has to be in charge of the transformation, not a group, not a committee, but a single person. It must be a transformation director. Senior management should keep their hands on the process during the change process. I have already touched on that. Irv had to keep his hands in there all the time; he had to be visible all the time and so did Dick Hines. They had to be walking around, people had to know what they were doing, they had to keep delivering the message. They could not turn it over to some other group of people.

Clarify the role of the consultant. There was actually more than one consultant. One of the things that Irv knows how to do is to use consultants. Many people do not use consultants very well. My role was third-party facilitator of meetings. I do not know nearly enough about the actuarial issues or the financial issues. I was there because I am a psychologist. I was there because there was a lot of anxiety involved in this. Irv used me and he never got confused about what I could add to the job.

Do not use the most extreme example of your culture as your cultural change agent. The vice president who ran the investment operation at Century was the most extreme example of the Century culture and by extreme example we mean the most direct, confrontational person in the Century culture. That person was the first person to move from Waverly to Madison along with the investment operations. When it was decided the investment operations would be consolidated, it was decided it would happen in Madison, Wisconsin. This individual ran the
investment operation in Waverly and he was asked to play two roles essentially. One, go there and do the best job you can integrating the investment functions, and two, go there and give people direct comments. Tell them exactly what you think.

As we look back on it now, we see that he was not the right person to do this. He was the right person to help with the investment functions, but he was not the right person to send up there and be the cultural change agent in the sense of trying to take what was one good feature of one culture and integrate it into another. He was too different from the people he was asked to help.

Have a technique for counterparts in the organization to become acquainted. What we found is that it was helpful if people who had the same jobs in the two organizations got together early, even before they would need to. We created some meetings in which they could come together. We suggested others set up meetings. The information systems people got together, human resources people got together and we helped in different parts of the organization. That did not help everywhere, but in many places it did help.

Human resources people need to be on the high-level transition team. Oftentimes when organizations come together, this does not happen; it happens later on. Many issues get decided, and a lot of people get slotted in places without really looking at the talents and competencies they have relative to the jobs they are going to be asked to do. We think human resources people should be on the high-level transition team.

The last group of lessons are called additional issues, because we did not think they fit in the other categories. Irv started on the integration process with his board seven years before this took place. He started helping them understand the issues in the industry and he discussed terms of number of people on the board several years earlier.

We know there are a lot of companies in the industry who realize that their critical mass is not enough to sustain themselves in the long term, but what we think they are looking at is too narrow. What we think they are saying is if we get together with another company or a couple of other companies, we can get big enough to get through this. Irv's perspective, and I think he is right, is that would not have been enough for them. The problem was distribution costs. If you hook up with other organizations that have the same distribution cost problems that you do, you have not solved the problem. Economies of scale are not going to get it done. Revenue growth and cost issues and distribution cost issues have to be looked at too.
Integrate the CEO positions carefully. Irv and Dick Hines had a real good plan, a long term plan for that, but it became rough in different places. Their styles were different. They each had different pushes and pulls in that. We discovered that it worked out, but it was a longer term process than we hoped it would be.

Even if CEO’s do not own the company personally, they achieved their position in part because they have big egos. Those egos do not help when you are trying to put the companies together. Those things get in the way, and the more that can be kept under control, the more easily the integration can take place.

Maintain your spirit of good will. Since I was the psychologist, maybe it was easier for me to see this than it was for others. I am sensitive to subtle indications of hostility in people and whenever organizations come together, there are many ways in which that shows up. It is a “we/they” thing. They do it one way; we did it another way and sometimes it is not so simple. We started talking about helping people maintain their spirit of good will and that means a real simple thing to Irv and me. Start out on the assumption that the other person is trying to do the right thing. When they do something that makes you mad, or when they do something that frustrates you, do not jump to the conclusion that they got up and said whose life can I make miserable. Neither Irv nor I believe that many people do that. People do make trouble for each other. Keep in mind that they did not mean to make trouble. You can talk about how something came out a certain way, rather than wondering why someone is trying to make your life miserable.

The last one is Irv's personal idea. He thinks it is an important thing and I agree. What he means by a transparent organization is an organization in which information flows as freely as possible; in which there are as few secrets as possible; in which feedback is given as openly as possible; in which people get straight information about how other people think they are doing and their ways in which they can help. That is always important, but what we discovered is that, in a case of a large scale organizational change or when organizations come together, it’s even more important because there is so much potential for misunderstanding, even more than there would be otherwise. That is what we learned, and that is what he did.

**From the Floor:** I was wondering if you could outline what regulatory approvals were necessary for this affiliation, and if you could briefly contrast this affiliation with an outright merger?

**Mr. Burling:** We had to go through both Iowa and Wisconsin, and we worked with them through the whole process. We did not show up on the doorstep and say, “Here is what we want to do.” We had to go through the process including a
hearing in the department. We also had to have policyholders approval. We are both mutual companies. We sent out a detailed description, including objectives, of what we were trying to accomplish in the process.

Those are the approvals we had to have. How does it differ from a merger? I think of it this way: we did not lose our name, and we had a rating that at the time was important in the marketplace. In effect we did not lose our identity. That, to me, is the essential difference between a merger and an affiliation.

A merger could happen some day. I do not think, in this case, because of the way it has evolved, that there will ever be a merger as such. I might be wrong about that, but to me it is not important. At some time in the future it may happen, but it would be a nonevent. Maybe it will be for tax reasons or some other reasons. I think that is why it happens so often in mergers. This is a big deal, big event and everyone gets uptight about it.

Mr. Richard R. Greer: I might preface this by saying that I have been involved in an integration exercise for the last couple of years. I will reinforce your references to cultural differences and the need to identify them and so forth. I think that is extremely important. What I would like to ask is for some practical lessons on how you go about changing culture once you have identified these differences.

Mr. Whitsett: I am going to make an admission to you. I am still learning about this. I am reading a book right now. I am not selling books, but this is by two people name Cotter and Heskit, both from a Harvard school. They talk about corporate culture and performance and they have the best information I have seen recently. This is directed towards answering your question about how to change culture. Let me tell you what they also say. They discuss a study of over 200 corporations. Northwestern and Prudential were mentioned, but most of the study is not on insurance. They say that the answer to your question is much more difficult than they thought it was even at the beginning of this study. My answer is cultures exist on two levels. The surface one is not hard to change. The surface one is what language do people use, what words do they use, what kinds of computer systems do they use, and how do they dress. We used to think that was hard stuff to change. That is not hard to change compared to the real problem, which is the second level of culture which is what is the underlying value system that exists in the organization. These authors conclude, and I conclude too, you cannot change intentionally. Change evolves over a period of time, but you can intervene. I said you must understand the differences between the cultures and then work out the kind of culture you want. The implication is if the differences and the value systems of the two cultures are so fundamental that you do not think
they are going to integrate, you better not move ahead because you cannot change them fast enough to get the two organizations to integrate.

**Mr. Burling:** I will give you a perspective of how we changed culture before we got into this affiliation. We did not do as well in the affiliation of saying what is the culture that we want. At Century we had written down things that we were shooting for and we would take regular annual audits to determine how we were doing and whether we were reaching our objective. The way those were generated was our senior staff would say this is how we function, and this is how we would like to function in the future. I could see the same thing between companies saying this is how we function now, and this is how we want to do it in the future. We did not do that. We should have done that. That worked in the organization. It is a long, tedious process, but it does work.

**Mr. Whitsett:** I just want to reinforce one point about the fundamental values being different. Maybe it is too idealistic to say that if you realize soon enough that your objective is not going to work, you should not go ahead with it. I believe it is futile to go ahead if the fundamental values that underlay the old organization are different. Many affiliations do not work, because the organizations are put together for surface reasons or what are good, financial or structural reasons, but they do not address the question of whether they are similar enough to coexist.

**Mr. Burling:** I think the one thing is we both had good but very distinct cultures. I was concerned that a strict merger was going to chew us up and we’d lose everything we had accomplished in the last ten years. I do not think that has happened. I think the way it has evolved is the best of both organizations has become the culture of the future.

**Mr. Whitsett:** Basic values were not different though, Irv. Basic values at Cuna Mutual and Century were not different. There were a lot of differences in the way decisions were made, but fundamentally there were not. Both of these companies were concerned with delivering value to their customers and with being high integrity organizations. If that had been different, it would not be integratable. If that kind of thing is different, I do not think it is ever going to work out. They had a different decision-making style. Irv had this proactive approach in place where there was very careful allocation of resources. No project was undertaken unless it passed through all these hurdles. Cuna Mutual was not like that. Cuna Mutual had all kinds of projects going on because somebody in the customer group wanted it. That was very different, but it is not a fundamental value system difference, it is a different way of deciding things. They are working on that and they are getting very close and they are each taking the best of what they do. Cuna Mutual needed to be
less of a seat-of-the-pants company. Century needed to be more responsive and faster. They are both getting closer to those goals.

**From the Floor:** In my company, the group culture was merged into our individual insurance area. That is why I was interested in this session. This is not a merger or affiliation of two separate companies, but in some ways it might as well be. I wanted maybe another example of what the underlying values are, because I do not think any culture would think that it did not have a lot of integrity or it was not working for customers.

**Mr. Whitsett:** Let's suppose I happen to be working with a couple of companies like this right now. Let's suppose that one company had a very different set of values about how to deal with its own employees than the other company did. Let's suppose, for example, that one company fundamentally felt that its employees should not have a significant amount to say about how the company is run. They are extremely centralized in terms of decision-making, and the other company had a decentralized decision making strategy. If that is fundamentally the way they operate, then I do not think they can be integrated.

Let me tell you the difference. I am not talking about a management style here. Management style changes when top management changes. Value systems stay the same even when top management changes. If the historical value system of the company says we run the company from the middle and do not involve people in participative ways, and the other company has a highly developed participative approach and shares decision making, the two companies cannot integrate. They couldn’t survive. Again, I am not talking about the style of a particular person; I am talking about the basic value system of the organization.