

This article first appeared in [The National Underwriter](#) on July 21, 2003. It is currently published on our website.

Changing Strategies in Hard Markets

By

Lawrence W. Borgen CPCU, Senior Management Consultant and
R. A. McDonald CLU, FLMI, President
McDonald Consulting Group

If you are contemplating fundamental changes in the structure and way your company operates, the current industry environment presents an ideal backdrop for successful implementation. Today's hard times and hard markets provide surprisingly good opportunities for change, but insurers differ in their reactions.

Why act now? First and foremost, your major weakness/es haven't gone away, even though the hard market has rejuvenated bottom lines and renewed hopes. The Achilles heel differs in firms. Poor customer service, outdated products, dying markets, high expenses, lackluster growth, and mounting employee troubles are among issues that threaten. Unfortunately, many companies are treating these ills as if they are in remission. Improved financials are welcome for sure, but may be creating false hopes. The patient had better be on guard. When (not if) the soft market returns, these potentially terminal problems will fester.

Another incentive to pull the trigger now is because your competitors won't. They've been whipsawed for years by the soft market, and prefer to bask in their brighter, hard market balance sheets. They're also fretting about the lagging economy, terrorism and natural disasters. This malaise creates opportunity for you to either catch up or widen the gap.

Fundamental changes during these times will also be less jolting to an organization. Improved financials give you the cushion and patience you need to see the process through. Soft market cycles foster price wars, short-term outlooks, and less room for error. Need more rationale? The current employer's market bolsters a CEO's leverage to execute their vision. The truth is, a well thought out change strategy excites your better performers and weeds out the weak.

Unfortunately, some leaders can't or won't change during times like

this. Most are hamstrung by a 'if it ain't broke, don't fix it,' mentality. "Why change when things are finally looking better?" Skeptics point out that underwriting has been tightened, price increases have been obtained and profitability has improved. Some wait for the economy to turn, and terrorism to diminish while others brace for a Summer of more fires, and storms.

But history reveals the dangers of standing pat. How are companies responding to change in the current industry environment? They generally fit into four different categories: 'The Do Nothing' Insurers, 'The Do Something' Insurers, 'The Do Too Much' Insurers, and the 'Do It Right' Insurers.

The 'Do Nothing' Insurers

"Life is a progress, not a station." ...Ralph Waldo Emerson

The 'do nothing' companies are treating change like the plague

these days. They cling to traditional structure, standard practices and controls, and rely on such competitive advantages as superior expense controls, favorable state underwriting results, a specific niche expertise, or an outstanding sales force.

The dilemma facing these firms is that competition has grown significantly tougher. Growth has stagnated. Employee potential is untapped and morale is poor. Other problems simmer, but since surplus is strong for some and results have improved, management feels vindicated by their 'steady course' philosophy. Their leaders can't grasp what's happening. They see healthy vines. Others see root rot.

The 'Do Something' Insurers

"It doesn't work to leap a twenty-foot chasm in two ten-foot jumps."...Old American Proverb

The 'do something' carriers fashion themselves as innovators and change agents, but don't walk the talk, especially during these turbulent times. They are generally well run, and innovate enough to compete but are risk averse. They consider changes, but only implement them after studying their cost and benefits in agonizing detail. Their organization tests and analyzes. Then they tweak. Major changes become incremental improvements. They monitor and implement proven competitor enhancements, but continue to play catch-up.

The 'do something' insurers structure and culture locks them

into this careful approach. Their results are often impressive but not spectacular. Detractors would say these companies underachieve and thus undermine their chances for long-term success.

The 'Do Too Much' Insurers

"There is a certain relief in change, even though it be from bad to worse! ...Washington Irving

The 'do too much' companies don't embrace change, they grope it. Their bold leaders love innovation, but often fall short on forethought and execution. Change comes in waves, in good times and bad, soft markets or hard. Exhausted employees are left to mutter: "Oh, oh, here we go again." The newest and hottest trends rule. Sadly, employees go through the motions and never invest in a change strategy because they think another one is on its heels.

Overconfidence dominates. Some ditch the 'stick to your knitting,' advice of Tom Peter's classic book "Searching For Excellence". They forge new markets, but often forget who "brung" them to the dance. Others latch onto legitimate change methodologies, but either can't implement them properly or don't have the patience to persevere. A few companies embark on change strategies without outside help and fail. They lack the objectivity, expertise and industry perspective a consultant can provide.

The 'do too much' insurers sometimes hit a homerun, but more often fail, and their management

teams are gutted. Some must seek a white knight, while others are consumed by a carnivorous acquirer.

The 'Do It Right' Insurers

"We must become the change we want to be."...Mahatma Gandhi

The 'do it right insurers' understand the industry is changing dramatically and new business strategies are necessary to survive and flourish. Their leaders realize old business practices may not mesh with new competitive challenges, customer expectations, employee needs and new technologies. Seeing these harsh realities, the 'do it right' insurers opt to fundamentally change their structure and operation.

They start by discarding traditional functional org charts in favor of market or customer focused alternatives. Using their best and brightest employees, and usually a consultant, they next identify the ideal structure that meets their stakeholders' needs. Their 'design team' than identifies enablers that will make this structure work. The building blocks are customer focused teams, one stop processing, dual career paths, profit center management, an ownership culture, a results-based team incentive compensation program (gainsharing), lower spans of control, and employee authority and accountability.

Emphasis is placed on customer satisfaction, internal efficiency and bottom-line results. A key ingredient is gainsharing, a program that earns employees short-

term bonuses for additional bottom line results. The incentives motivate employees to take an entrepreneurial, business owner's mentality. Gainsharing bonuses are funded from quarterly improvements in revenues, underwriting results, efficiencies and customer quality.

An open information environment is created and workers are educated on insurance company finance. The organization naturally

evolves into profit centers that focus on customer needs.

Traditional functional areas such as underwriting, claims and marketing are broken down, but technical expertise remains valued and nurtured. Managers recruit, coach and remove obstacles. Front-line employees meet customer needs, make decisions and ensure that work is done efficiently. Senior managers chuck minutiae and concentrate their

efforts on the firm's core success measures and strategic issues.

Employees revel in their new found freedom and responsibilities. Recruiting talent becomes significantly easier for the 'do it right' insurers as many love the dynamic environment. Given this choice, many people don't have a 'hard time' making this decision in any market environment. So what are you waiting for? Time's a wasting.

McDonald Consulting Group, Inc.

Formed more than 10 years ago to help insurance companies do what they do . . . only better.

Specialists in creating the infrastructure insurance companies need to be most effective and efficient.

Experts in helping companies create the goals, direction, success measures, work processes, organization structure, management tools, incentive plans, and more.

Using quick, effective and customized approaches and methodologies that produce very cost justified results.

Because our management consultants are all industry experts and partner level consultants.

We measure our success by the results our clients attain.

7701 France Avenue South - Suite 200 - Edina, MN 55435 - Ph:952.841.6357 - McDonaldConsultingGroup.Com