

The Difficulty of Gaining Financial Benefits from IT Solutions

Last year we talked to several insurance companies who have strategic goals that include a statement similar to the following – “We will improve efficiency by implementing new IT (computer) systems or solutions.” In each case we asked about this one dimensional approach to making improvements. Why were they just focused on expense control? Why were they just focused on IT solutions? Were they intentionally excluding other efforts and change activities? Did they think expense improvement was just the job of the IT department?

In almost every case, the answers we received were very down to earth and practical. There usually was a big IT project in the works and senior management was nervous that it might not be completed on time and that it might not accomplish the financial results they needed. Including this statement as part of the company’s strategy was management’s way of giving the project the attention, status and support they felt it needed.

But we also noticed something else. This statement created an unexpected and significantly bad situation within these companies. In many people’s minds, IT became responsible for expense control. This took the pressure off everyone else. People became less interested in the day-to-day hard work of controlling expenses and more interested in finding ways to pass their expense control burden to IT. It became fashionable to buy something as way to control expenses – usually either a new system or an upgrade to an existing system.

As you might expect, the net effect of this approach is often an increase in expenses. This occurs when the following happens. Departments purchase new systems, form project teams and dedicate valuable resources to these teams instead of having them do the work of the department. People are usually enthusiastic about the new projects. As these projects are completed, however, and it is time to attain these expense savings, everyone’s enthusiasm generally wanes. Most employees and managers want to take a wait-and-see attitude before committing to lower staffing levels and other expense reductions. As they wait, what they see is that the streamlined work processes gradually bloat to justify the current staffing levels and the expected savings never materializes. Work is done differently but at a higher cost.

There are several important points or lessons from this situation. First, and most importantly, expense control and fiscal management is everyone’s job. It is not the job of any one department. It is the day in and day out responsibility of every person in the company. It not only involves doing the right things, it also involves not doing unnecessary things and things that do not contribute to your success.

One of the most effective keys to success is involving everyone and allowing teams, departments and individuals to make the changes that will have meaningful results. This first step, *when done right*, can have a huge impact on your bottom line. It is our experience that most insurance companies can reduce their expenses by 10% by involving and empowering rank-and-file employees to make improvements in what they do.

Secondly, the best and longest lasting expense reductions occur when everyone has the goal of improving service and results, not just reducing expenses. This is because doing things better, faster and more meaningfully for your customers always means eliminating inefficiencies, re-

dundancies and waste. Well run companies are like well designed machines. They run quietly, cost less to operate and need little intervention.

Third, management must rigorously require that all large developmental projects, especially IT efforts, be financially cost justified and produce the financial benefits that are expected.

Most IT projects fail to attain quantified financial results that clearly make the effort financially worthwhile. This is because one or more of the following mistakes are made:

- A cost benefit analysis is either never done, is poorly done or done in an incomplete manner. This is the responsibility of senior management. You need this analysis to make the right decision. Without a proper analysis, decisions will tend to be based on power, politics or intuition. Most importantly, there will be no concrete goals supported by facts that will hold business managers accountable for ensuring the effort is worthwhile.
- The project's goals are strategic and general, instead of specific and quantified. Strategic goals are important in identifying broad directions but useless in holding people accountable for financial results. For example, goals to maintain a competitive position, fully utilize current software or upgrades to current software, be able to react faster to the marketplace or to be able to provide new (to be determined) services and products are good strategic reasons for considering IT solutions. But they are not the concrete deliverables you need, will not justify the expense of doing the project and will not get you the business results you need.
- Management responsible for attaining the financial results of the project (department heads accountable for reducing staff, lowering expenses, etc.) are not committed to the project or to attaining the project's financial goals.
- The project's goals do not drive the development of the effort. This occurs when business people (IT's customers) are not properly involved in development and design, the design team does not believe the project's goals must be attained or project management is inexperienced or lacks necessary talent.
- Implementation is done poorly and fails to attain the project's goals. This usually occurs because of a lack of commitment (as mentioned previously) but can also be the result of poor planning and preparation. The best implementation results occur when the new system is introduced with new manual procedures and with the right number of properly trained and prepared staff to produce excellent results from the very start. Staffing models can be a big help in this process in creating these new processes and determining appropriate staffing levels, training needs and preparation time.

The key to ensuring that IT projects produce the business results you need is having committed business people involved in all non-technical aspects of the project. Everyone on the project team must see the need for attaining the benefits from the project and understand that they are accountable for getting them.

It's interesting that one of the last major efforts that Dodson Insurance Group did prior to disappearing a few years ago was to design and introduce a new state of the art claims system. Would this be where you would dedicate your resources if you were fighting to survive?

Please visit our web sight at McDonaldConsultingGroup.com, where you'll find further explanations of these ideas (and other exciting ideas) in our Concepts and Ideas section.