

BUDGET SEASON – IS IT EVER OVER?

Which iteration of your budget are you working on? Some companies are on version 5 or 6 right now, 3 is about average. Executives at this time of year sometimes wonder if sound comes out when they open their mouth – middle managers just don't seem to get the message. We know of more than one insurance company that continues to “budget” into the new year.

One of the large and continuous difficulties senior executives in the insurance industry face each year is the discontinuity between what the organization perceives as an appropriate expense level and the level that is actually needed to be competitive and to meet financial goals.

In many companies, the process needed to get to the finally acceptable numbers is arduous, painful and frequently fails to get necessary results without disrupting business plans. “Requiring” budget reductions can also cause undesirable results. Inexperienced or overzealous managers may eliminate the wrong things. Even good managers can eliminate positions and programs that over the long term should be funded.

This conflict between what senior management knows is needed and what managers and employees believe are necessary and appropriate expenses does not have to occur. These conflicts may be a symptom that more fundamental disconnects are present. One or more of the following may be limiting results:

- The goals and success measures are not properly established, communicated and/or accepted by each of the organizational entities in the company.
- Work processes may be inefficient and incapable of supporting the cost structure. This is likely to be true for a company that has implemented significant new technology.
- The organizational structure may be impeding the core business processes. Changing markets, new products, technology, changes in business mix and strategy are among the factors that can make an organizational structure ineffective.
- Employees may not understand, accept or feel accountable for what should be their contribution to the success of the company. This has to do with success measurement, the way work is done, the way jobs are designed and the way the structure is put together. But it also has to do with career paths, compensation, performance evaluation, how learning works in the culture, accountability and empowerment. Most companies are full of intelligent, energetic hard working people. Most managers and employees, unfortunately, are not focused on the things that will use their talents to create the most benefit for the company.

The benefits of looking at these fundamentals go far beyond just controlling expenses. The realignment of these critical areas in a company can have a positive effect on customer satisfaction, retention, sales and real growth.

Our management consulting firm was formed to help insurance companies work on these issues. Give me a call if you'd like to hear how we do this.