

Focus on Customers

Insurers must re-evaluate—and often revamp—their corporate visions to focus on what their customers need.

by Lawrence W. Borgen

Almost all insurers promise customer satisfaction. Their corporate vision statements explain it in great detail. Yet most companies underachieve in this vital area, usually for a couple of major reasons.

First, many insurers are blind to what their customers are telling them. They listen but don't comprehend. Some executives get too enamored with their own products and internal capabilities. They're invested

financially and emotionally in their company infrastructure, research and product development. Others get caught up with the teachings of the latest and greatest customer-satisfaction gurus. The result? Carriers deliver what they think the customers want or should have, rather than giving them what they ask for.

Some companies may understand what the customer wants, but they can't or won't deliver it because their organizational structure and way of doing business prevent them from doing so. Many carriers remain inflexible in traditional functional areas, such as underwriting, claims, marketing and loss control. After all, the traditional structure served insurers well for decades and built core competencies in critical bottom-line areas.

Unfortunately, it also created functional silos—derisively called fiefdoms—in some companies. These silos have disrupted communication, teamwork and collaboration and have stifled any meaningful improvements in customer satisfaction. While carriers who implemented periodic change strategies—such as quality initiatives, process redesign and the Balanced Scorecard management strategy—saw some improvements, they were hamstrung by their organizational structures. (The Balanced Scorecard strategy, developed by Robert Kaplan of Harvard Business School and David Norton of the Balanced Scorecard Collaborative, enables organizations to clarify their visions and strategies to improve business performance.)

Increasingly, the solution for many



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insurers is to abandon their functional structures and organize and operate around their customers. Like nearsighted people whose long-term sight solution is laser surgery, insurers that want to fully execute their vision of satisfying customers will need an equivalent remedy—a fundamental change in the way they do business. Carriers taking this corrective approach abandon their inwardly focused, functional structures for organizations that are customer- and employee-oriented. Insurers that have done this find the results to be as exciting and dramatic as the new world that appears before patients who have undergone laser eye surgery.

The new world for the insurance industry includes one-stop processing for insureds and agents, employee empowerment and accountability, dual career paths, multifunctional teams, team-based gain-sharing incentive-compensation programs, mini-business units and profit centers. Managers move from a span-of-control to a span-of-information environment. Freed from daily monitoring, controlling and decision making, they can focus on hiring, coaching, motivating and removing obstacles that hamper employees.

The late Scottish philosopher and writer Thomas Carlyle observed more than a century ago that humanity, by nature, hates change. He wrote: "Seldom will people quit their homes till they have fallen around their ears." Understandably, many executives behave the same and resist major structural changes. Some argue that the shock would be too great for their organizations. Others fondly remember the successes they've had over the years and fear change will mess with what they do best.

The competitive advantages that insurers hold on to so tightly may differ, but management's arguments for maintaining their corporate structures do not. "We're a unique company, and our organization revolves around our competitive advantage," says one chief executive officer. Another points out that, "Our structure fits our strengths, our personnel and the way we do business." Notice the internal emphasis. Appropriate responses to these in-

clude: Are your structure and way of doing business a good fit for your customer? Furthermore, have your employees outgrown the fit?

Ignoring the Danger Signs?

Companies are ignoring internal danger signs. One insurer's growth is stagnant. Premium increases are making up for lost business. Another's customer base and niche market are drying up. Expense ratios are ratcheting up in many carriers due to excess fat and high technology costs.

Customer and employee satisfaction may very well be their biggest worries. Many insureds are paying more, but are they getting more? Insurer employee recruitment lags other sectors. Many are leaving the industry. Employees are increasingly underdeveloped, underutilized and unmotivated. Despite these warnings, many executives refuse to act. Are they, as Carlyle notes, waiting for their homes to fall around their ears?

Perhaps a review of that *Harvard Business Review* classic, "Marketing Myopia," is in order. Author Theodore Levitt lays out the dire circumstances of failing to keep pace with evolving customer needs and changing market conditions. Much has changed since then, but some timeless lessons haven't.

For one, standing pat may be disastrous, and incremental change may not be enough. Many insurers consider themselves progressive firms that work to implement change strategies. They were the first to implement quality initiatives. They have re-engineered, restructured, laid off and are now instituting Balanced Scorecard initiatives. While most insurers improved their operations through these initiatives, it was only marginally. Why? Their functional structures chained them in.

Consider the example of an insured who asks for a single contact from XYZ Insurance. The agent greets the request with, "Love to do that, but I am afraid we can't." Then in trudges the underwriter, loss control officer and, eventually, the adjuster. Each has his or her own mission and boss to answer to. Meanwhile, the agent tries to play

conductor and politician. Sometimes it works, but more often than not miscommunication, confusion and delays test customer patience. Unfortunately, functional areas routinely become entrenched, and it becomes difficult for senior management to fundamentally change them.

Of course, any executive contemplating such major structural change is going head-to-head with traditional insurance thinking. Insurance companies' organizational structures have deep historical roots. When asked why their organizations are constructed the way they are, executives offer standard responses. "That's the way insurance companies should be run," says one.

When pressed to elaborate, CEOs cite horror stories about how ill-fated collaborations of marketing and underwriting or marketing and claims led to poor risks being put on the book or excessive claim adjustments.

Customers Dictate Structure

But customers should dictate structure. Functional setups still work for some carriers. If the customer wants functional expertise, then that's what should be delivered. On the other hand, if the customer isn't being adequately served, then major changes are in order. Many leaders would be wise to follow the immortal words of Ronald Reagan to Mikhail Gorbachev: "Tear down that wall!" That is, the one holding up the functional organization. The next step is to organize around customers using multifunctional teams. Companies now know employees are quite capable of making decisions, teaming up to find customer solutions and doing the right thing for the organization. They just need to be given a proper framework and an incentive for their efforts.

The new structure a company develops will be dictated by the unique nature of its customer base. But there will be some common characteristics. The structure is much flatter than the typical functional hierarchy, with wider spans of control. In this new environment, decision making is pushed down to lower levels. There are fewer managers, and their roles

change. They spend more time hiring, developing and assessing talent. More time is available for communicating and removing obstacles.

Heart of the New Organization

Does this naturally happen out of loyalty and a good work ethic? Yes, it does. People want to do quality work and get satisfaction from a job well done. But usually, people respond even better to good, old-fashioned greenbacks. Insurers who insert team-based gain-sharing incentive programs and pay their employees a portion of any additional profit they produce generally see outstanding results. Gain-sharing programs are usually based on a formula of sales, expenses and underwriting profits, and pay out quarterly to provide short-term motivation. Adjustments can be made for long-tail liability lines of business.

Team members will naturally drive their efforts and behavior toward customer satisfaction and bottom-line

profitability. An ownership mentality permeates the team. People cross-train each other to minimize service interruptions. They focus on insureds' needs and wants and find faster, better and cheaper ways to fulfill them. Employees start watching expenses. Training and tools tend to be requested when the benefit outweighs the cost. Team members who don't pull their weight aren't tolerated.

The result? Everyone wins. Customers get what they want. Employees are happier, more productive and better compensated. Profitability increases, and the company's prospects look brighter long-term. Liberated from functional silos, organizational structure grows and evolves naturally with changing customer needs and market conditions. Innovation flourishes and gets driven up and down the organization. Personal agendas diminish. Fiefdoms aren't tolerated. True managers thrive in this new environment, and technical and pro-

fessional employees are respected more for their efforts.

Fundamental change of this nature is obviously a daunting task. The best way to start is by doing an operational review. This is a thorough and objective analysis of the entire company's operations. Some organizations can do it internally, but most need outside help and expertise to get it done. There are several reasons for this. Outsiders have the critical advantage of having seen the structures and inside workings of many insurers and are experienced in making objective evaluations of a company's operations. They then can make unbiased recommendations for structural changes. These proposals are created in concert with senior management and implemented with the help of employee teams. Since much can go wrong in the transition, follow-up and monitoring services are highly advised so the company can concentrate on its business operations. **ER**