

Chairman's Corner: Responding to the Voice of Our Customer

by Jonathan W. Hensinger, CPCU, ARM, AIS



■ **Jonathan W. Hensinger, CPCU, ARM, AIS**, works for State Farm Insurance in Concordville, Pennsylvania. His current responsibilities include leading a continuous improvement initiative for all of Fire Underwriting for State Farm's Northeast Zone. Hensinger is the chairman of the Total Quality Section Committee and the president-elect of the CPCU Society's Philadelphia Chapter. He has worked for State Farm for 14 years and has experience in underwriting and claims. You may contact him at Jon.Hensinger.c3io@StateFarm.com.

In March 2005, the Total Quality Section Committee administered an electronic section member survey. We compiled our survey results anonymously through FreeOnlineSurveys.com. We asked our section members their opinions about our newsletter, our web site, and how we could serve them better. The objective of this survey was to find ways to improve the value of TQ Section membership. Thank you to everyone who participated in the survey.

Here is how our section members responded to our survey questions:

How would you rate the value of the TQ Section newsletter?

- Excellent23%
- Good65%
- Average12%
- Poor0%
- A disaster0%

Some of the suggestions we received for making the TQ Section newsletter more useful included: provide articles that are more technical and less anecdotal, and provide more case studies.

How many times have you visited the TQ Section web site in the last year?

- Never6%
- Once29%
- Twice29%
- Three times24%
- Four or more times . . .12%

How useful is the TQ Section web site to you?

- Extremely useful0%
- Very useful6%
- Useful56%
- Not very useful38%
- Not useful at all0%

The three most useful areas of the TQ Section web site (according to our members) were:

- Online access to TQ Section newsletters (you have to log in to view)
- Total Quality Links
- Educational Resources

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Here is how our section members are accessing our web site:

- Fifty percent access it from the "Sections" page of the CPCU Society's web site
- Thirty-eight percent access it from a link within an e-mail they receive
- Twelve percent type our web site address into their browser

Some of the suggestions we received for making the TQ Section web site more useful included: more educational resources, more content (not just links), more technical tips, add Deming's 14 points, add some of Deming's quotes, and add an index of all newsletter articles in archives.

When we asked for other suggestions for the TQ Section Committee, here is some of what we were told:

- Having a book review section would be very useful.
- Take a "hot issue" and see how each person is thinking, for example you could show a claim, and describe how an underwriter would approach it, as compared to the adjuster and agent.
- Add an area on words and phrases that break down relationships. Give alternatives that preserve relationships and provide quality.
- Need to add more value for \$30 membership—too much competition for just four newsletters.
- Keep up the good work.

To help us better understand the needs of our section members, we asked participants what their involvement is with quality in the insurance industry. Responses included:

- corporate learning and development
- COO of an insurance company
- claim audit management

- full-time quality professional for a multi-company insurance group
- marketing at an independent agency
- project management
- strategic planning and operations (which includes quality control/service)
- IT
- claims audit
- customer service
- educator

So what are we doing with this information? We are acting on it. During our April 16 Total Quality Section Committee meeting, our committee stepped back, reflected on the survey results, and discussed our direction for the future. We agreed upon two strategic objectives: create learning opportunities for our members, and increase the visibility of the section. Based on these objectives, we developed action plans, reevaluated our committee structure, and reorganized in a way that best supports our strategic objectives.

In response to your feedback, our newsletter and web site will evolve. Expect fewer anecdotal and more technical newsletter articles. Look for more case studies. We will include regular book reviews in our newsletter and an expanded collection of book reviews on our web site. We've already added Deming's 14 points, and more Deming quotes to our web site. We remain committed to producing four newsletters a year.

Finally, when we reflected on the broad professional diversity of our membership, we realized that maximizing the value of Total Quality Section membership requires that we draw upon more than just the talents and experience of the section committee. We have a remarkable assortment of professional backgrounds in our membership. If we want to realize the full potential value of

TQ Section membership, we need to find a way to draw upon the broad experiences of our section members. For those of you with knowledge to share, please consider writing an article for our section newsletter. It is by sharing our collective knowledge and expertise that we can all fully realize the value of TQ Section membership.

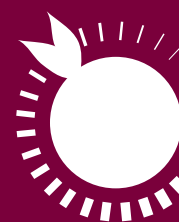
If you have any additional suggestions for improving the value of TQ Section membership, please contact me or any member of the section committee. A complete listing of section committee members with contact information can be found on our web site:

www.totalquality.cpcusociety.org.

Thank you for being a member of the Total Quality Section. We appreciate having you as a customer! ■

Visit www.cpcusociety.org to register for the CPCU Society's Annual Meeting and Seminars and to get details on the Total Quality's Section seminar, "Maximize the Value of Generational Differences in Your Workforce."

This seminar, featuring James R. Jones, CPCU, is scheduled for Tuesday, October 25, 1:30 - 3:30 p.m.



Get Your Career In Gear

RIMS Annual Conference Report—April 18, 2005

by James R. Jones, CPCU, AIC, ARM, AIS



■ **James R. Jones, CPCU, AIC, ARM, AIS**, is director of the Katie School of Insurance and Financial Services, Illinois State University, responsible for ensuring that students have a world-class educational experience that prepares them for careers in the industry. Previously, Jones was director of claims education and director of Center for Performance Improvement and Innovation at the AICPCU/IIA. Jones has edited and written books on various areas of claims, and published articles in the *CPCU Journal*, *National Underwriter*, *Claims* magazine, *Claims Quarterly*, and *Total Quality Quarterly* newsletter. Jones holds a B.A. in finance and accounting from the University of Missouri-Columbia and an M.B.A. from St. Louis University.

The Risk and Insurance Management Society's Annual Conference in Philadelphia was perhaps one of the more acrimonious in years with risk managers taking the industry to task for ethical and quality lapses. The conference featured a number of presenters admonishing the brokers and insurers and highlighting their need to improve quality and ethics in dealing with commercial insureds. The most strident and energizing speaker on the subject was the CEO of a brokerage firm, Joe Plumeri, chairman and chief executive officer of Willis Group Holdings. Plumeri railed against the poor quality and inefficiencies in the system. Some examples he cited included:

- Taking up to nine months for policies to be issued to a commercial policyholder.

- Delaying claim payments for months.
- Not getting paid what was owed.
- Not providing the most appropriate policy terms.
- Not being innovative in finding solutions to policyholder needs.
- Not being transparent in communicating what policyholders are getting for the compensation paid to brokers.

He suggested that the industry had allowed "tradition to become our jailer," thwarting innovation and maintaining the status quo. He argued that the industry did not respond appropriately to previous warnings. He cited the Quality Insurance Congress work conducted by RIMS and the Katie School of Insurance in the late 1990s, which identified numerous quality and customer service gaps. Instead, he complained, responded by saying that the graders were too hard (the highest grade given was a "C" and many companies got "Ds.")

He urged the industry to take another healthy examination of our processes, service, and products that could lead to breakthroughs in the way we do business. He used the Philadelphia setting to illustrate some points by describing some of the laggards from the American Revolution era and comparing them to current industry laggards especially in claims and process times. He cited the example of Martin Van Buren, who in a letter to President Jackson, stated that the railroad was a bad idea. Van Buren argued that trains terrorized people and livestock and traveled at breakneck speeds of up to 15 miles per hour, which jeopardized the lives and limbs of people because humans were not made to travel that fast.

The following are Plumeri's suggestions on what needed to be done to change the industry to improve quality and make it more responsive to clients.

1. We must first realize how important this industry is to our economy. The industry covers \$43 trillion in assets of the Fortune 5,000 companies,

provides risk and safety solutions, and facilitates investment. In short it is the lubricant for the economic engine that drives the United States economy. He referred to the insurance industry as the "DNA of capitalism" and people working in the industry should be filled with self-esteem and bring a visceral passion to work every day not just at the time of sale or renewal.

2. We must be much more transparent. We must be open in communicating to policyholders what value they are getting. We must deliver what we promise. He said that right now the value added is just a "black box" poorly understood by customers. This lack of transparency in showing customers what they get for their money leads to the commoditization of insurance. He commented that price is only issue in the absence of value. He also urged agents and brokers to tell policyholders exactly what they make from them, and then work hard to prove to them that they are earning that amount. Brokers and agents must be 100 percent clear who they represent. They can no longer represent both sides. Brokers need to let companies know that they represent their clients, and agents need to let insureds know that represent the company. (Author's note: This last issue is being addressed by an NAIC draft of a model act for insurance departments states. It is a controversial position and one that is supported by larger brokers but opposed by smaller independent agents.)
3. We must innovate. We should no longer accept that we can't do things because of legacy systems that are too old to meet the known needs of the industry. We need to reinvest in technology and people, and look for new ways to add value.

Plumeri quoted Winston Churchill and said that we are at a crossroads and this should be our defining moment in history in showcasing our integrity and ability to work together. ■

Inside-Out Leadership

by Demmie Hicks, Maureen H. Hunter, Ph.D., and Hamid Mirsalimi, Ph.D.

■ **Demmie Hicks** is a business strategist and consultant serving her clients at the board level. She is president and CEO of DBH Consulting, a firm specializing in growth strategies and organizational development for the insurance industry. She also founded A Woman's Initiative, a learning community unique in its mission to support the personal and professional needs of women business owners, executives, and practitioners.

■ **Maureen H. Hunter, Ph.D.**, is a founding principal and consultant with DBH Consulting. She has spent the past 25 years working with organizations that strive to enhance their effectiveness and their capacity to fully engage their people. She works primarily with Fortune 100 companies, and has an interest in supporting start-up businesses and non-profits.

■ **Hamid Mirsalimi, Ph.D.**, is a founding principal and consultant with DBH Consulting. He is also on the faculty at the Georgia School of Professional Psychology at Argosy University, where he teaches a variety of courses including group psychotherapy, psychodynamic psychotherapy, and research and evaluation. Mirsalimi also practices privately in Atlanta where he engages in psychotherapy, executive coaching, and consultation work. He has more than 10 years of teaching experience in the area of human growth and development.

■ **DBH Consulting** is a firm specializing in growth strategies and organizational development including: leadership development (with a specialty in leadership development for women), perpetuation planning, and executive coaching.

Are you a “doing” leader or a “being” leader?

Much emphasis is placed on action in today's leadership environment—goals, directives, analysis, decision-making, action plans, tactical maneuvers. A lot of “doing.” But this is not the entire story of leadership!

Leaders who cling to this “doing” model may have a hard time anchoring themselves firmly enough to withstand the tempest of change and other external circumstances that pelt leaders on a daily basis: If one's leadership style is rooted solely in action, the ride—for the leader and the team—will likely be quite bumpy.

Great leaders emerge not through “doing,” but through who they are as people—their “being.” You have likely experienced this with someone you admire. They are centered, focused, and unflappable. They draw people in, they create strong alliances, they motivate through their very presence. They seem to exude leadership qualities without even trying! You may have noticed that great leadership begins inside a person and flows outward to others. Leadership built on a solid core of “being” will stand firmly rooted, no matter what external forces exist. Action-oriented leaders manage well. But “being” leaders inspire others to greatness.

Will you merely manage? Or inspire?

One way that we enhance our being is to practice self-knowledge. Before we can influence others, we must understand what motivates them. But first we must understand ourselves.

Great leaders have a keen awareness of:

- Their core values and beliefs.
- The impact they have on others.
- How their communication style influences others.
- Their use of personal power, relational power, and hierarchical power.
- How their presence draws others in.
- The power of their internal dialogue.

- The source of their unique personal strengths.
- What it takes to maintain life balance.
- Their ability to make choices.
- Great leaders possess the ability to observe their own behavior, are aware of their own actions, and are well-connected to their own thoughts and feelings.

Self-awareness takes practice. If you stop for just a minute and look quietly inward, asking yourself what you are aware of right here and now, you may not notice much at first. But you will notice something, a physical sensation, a distant sound, a murmur of feeling within. If you practice this often, you will eventually begin to notice a great deal more, and will become increasingly aware of your thoughts, feelings, and sensations. You may even start to notice that this heightened awareness creates choice.

In general, people tend to make good choices in life only when they are aware of what choices are available to them. Individuals are often unaware of their choices, often pushed and pulled by forces that make them think, feel, and behave the way that they do. To the extent that people are not happy with who they are, or with their lives, or to the extent that they desire to more fully love their lives, they owe it to themselves to explore and become more aware. Only then may they become more fully aware of the bounty of choices that they have in life, and choose what is right for them in awareness.

So take stock in your own leadership style. Are you following the “doing” model, focusing only on a set of external behaviors and techniques? Ideally, you have tapped into your inner core—your essence—to fully understand who you are, what choices are available to you, and what value your “being” contributes to those around you. The key to effective leadership comes from the inside out. ■

Leadership Clarity in Uncertain Times

by Dave Gonzales, CPCU



■ **Dave Gonzales, CPCU**, senior vice president of the Great Western Zone, joined State Farm in 1980. A native of Colorado, Gonzales received his bachelor's and master's degrees from the University of Northern Colorado, Greeley. He earned his CPCU designation in 1987.

Editor's Note: This article is taken from the keynote presentation, "The Journey of Leadership," given by Dave Gonzales, CPCU, at the CPCU Society's Leadership Summit in Phoenix, AZ, on April 14, 2005.

The challenges of today's business environment continue to change.

Ten years ago, I could have talked about the impact of the Internet or direct marketers on the insurance industry. Six years ago, we might have discussed Y2K or the complexities of tort reform. Today, our industry is dealing with legislative challenges to the use of credit in underwriting and marketing regulations like the "do not call" lists.

Rapidly changing technology and increasing consolidations are changing the face of our business. But even as the issues change, especially as the issues change, organizations must have effective leaders.

Regardless of the specific obstacles we face, leadership is the fundamental force behind any successful change.

No doubt about it, a highly skilled workforce is important. Cutting-edge technology is also critical. But you can't effectively leverage those valuable resources without leadership.

The interesting part about leadership is, although it's a constant factor, it is not static. Leadership changes with the pressures *and* the opportunities of the advancing environment. Whether you are an agent, an underwriter, or hold another position in the industry, each of you will have a personal impact on the future of business in America and globally.

But, it all starts with how we impact our immediate environment. To do our jobs well we must have knowledge of economics, statistics, resource allocation, marketing, organizational behavior, and the list goes on. And, more important than any of these, to be successful in any organization, we must employ effective leadership strategies.

So, what can we expect from those in leadership positions today and in the future? One thing is for sure, organizations today are vastly different from their predecessors and will be infinitely different in the future.

This change is not limited only to the pressures of competition, technology, or organizational structure. Change will affect process *and* philosophy as well as perception.

What do I mean by that? Well, let's take a look at the changing perceptions of corporate America.

Over the course of the past few years, we've seen public confidence in corporate America erode. What impact does the perception of ethical corporate behavior have on the business leaders of today and tomorrow? Clearly, integrity and ethical standards are the building blocks for any leader and respected organization. Only a few years ago, Enron was still reputed to be one of America's most admired companies. Enron was, on the surface, doing everything we could ask of a corporation. It spent three years on the list of the 100 Best Companies to Work for in America, and received six environmental awards in 2000 alone. Enron CEO, Kenneth Lay, gave speeches at conferences like these about ethics and corporate leadership.

At the same time, as we now know, the foundation was built on sifting sand. The breach of trust represented by the scandals at Enron, WorldCom, Adelphia, and others is now a pressing concern of each and every one of us in the business world. No doubt about it, the corporate scandals of the past few years have tainted the perception of business leadership. There remains a distrust of big business creating a challenge for business leaders.

But embedded in those challenges is opportunity. We have the opportunity to see what we're made of as leaders, to discover what it takes to focus and lead in uncertain times. We have to ask ourselves, do we have leadership clarity? Or is our vision of the future clouded by looming external pressures? If we find out we're not up to it will we recognize the opportunity to improve?

To begin let's look at the basics of leadership. What is leadership?

Formally, leadership is an interactive process that influences, motivates, and elicits human efforts in the pursuit of group goals or interests. Informally, a leader is someone who has followers,

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regardless of style or personality. Without followers, there can be no leaders.

Despite the multitude of leadership definitions, several components are consistently central to leadership:

- Leadership is a process . . . it's something people do, not something people are born with.
- Leadership involves influence . . . the ability to persuade others is central to its practice.
- Leadership occurs within a group context . . . the values, rules, principles, and history of an organization shape its leadership.
- Leadership involves goal attainment . . . leaders help people and groups get things done.
- Leadership is fundamentally about helping others cope with change.

Regardless of how different the future organizational environment becomes, certain components of leadership will continue to be central to effectively leading others.

I want to focus on three areas of leadership. These are the areas of leadership that are constant and oftentimes determine a leader's success.



■ **Dave Gonzales, CPCU, provided the NLI attendees with a powerful message of how and why leadership is an essential component of every successful organization.**

They are:

- A leader's **view of the world**.
- His or her **approach to the process of work**.
- And, his or her **use of communication**.

A leader's **view of the world** is really just a description for a set of beliefs he or she uses to interpret what is going on around him or her. This isn't to say that all leaders think alike nor do they see the world in the same way—leaders are often very different from each other, but they share some essential personality traits.

Leaders, foremost, have passion and integrity. They are optimistic and determined. Leaders are willing to take responsibility and action. And, ultimately, leaders are good decision-makers. To be a leader you must have passion for your work and for leading people. This passion provides the energy and focus needed to drive an organization and serve as an example to others. And you can't be a good example to others if you lack integrity. Integrity is about staying true to your values and principles and staying the course even under the most intense pressure.

Effective leaders are loyal, dependable, and trustworthy. They always work to hold themselves to a higher standard of behavior . . . both personally and professionally. While no human being is perfect, all leaders will struggle at times to make the right decisions; it's the honesty and consistency of a leader's behavior that inspires others.

In my experience, trust is the very foundation of leadership. People will forgive the occasional mistake based on ability, and we all make those mistakes, but they will never trust a leader who slips in character.

Optimism is an absolute. Through optimism leaders inspire others, showing resilience in difficult circumstances and bouncing back from setbacks or failures.

It's more than bouncing back really—it's seeing the learning opportunity in a setback or the valuable experience in failure. If leaders are optimistic, they must also be determined. The desire to get the job done goes a long way. Leaders are self-motivated and have initiative, persistence, and drive. As a result, leaders thrive on working to achieve something important and being able to influence the outcomes. However, they don't sacrifice high personal standards in the process. And when the job is done, leaders still push for continuing improvements.

■ **Willingness to take responsibility is closely linked to a leader's ultimate performance . . . action!**

Michael Dell, founder and CEO of Dell Computer, says the key to success is to never rest and always find ways to improve. He believes, as a leader, his job is to keep raising the bar for the industry and himself. It is this drive and determination that are so valuable when building an enterprise.

Outstanding leaders are future oriented. They love to dream about what could be and to involve others in their dreams. These qualities are even more important in times of great distress, because those are the conditions that expand a leader's capacity to lead. Through determination, leaders focus and bring clarity to people when they most need sound direction.

Effective leaders take responsibility for their own actions, and for the actions of those they lead. We've all come to know this as "walking the talk." Leaders must say what they'll do . . . and do what they say. Modeling and rewarding this behavior will go a long way in encouraging others to take responsibility for their actions as well.

Willingness to take responsibility is closely linked to a leader's ultimate performance . . . action!

One of my favorite leadership books is *Execution* by Larry Bossidy, a retired CEO from Honeywell. In it, Bossidy outlines the importance of **executing** by acting with speed and precision to carry out business strategies. Leaders now and in the future have to take action. Whether it involves a simple decision or turning around a losing operation, effective leaders act. You can have the greatest ideas in the world, but if you can't carry them out they remain ideas. Sometimes those ideas will be risky and the execution of them a long shot. But action and risk are necessary because doing something, even if it does not work, is better than doing nothing.

The next important element is . . . a leader's approach to work itself.

Obviously, leadership is no job for a slacker. But besides a solid work ethic, leaders value being experts in their field, focus on results, and reward others. My team often hears me say, "you must know the business of the business!" It's not enough to have the soft skills you have to have the knowledge too. Expertise is still important. Some experts predict we may be evolving into a workforce of generalists. But, expertise will remain vital to a leader's success. Without it, leaders lack credibility. Expertise is the combination of knowledge and skill in any given subject. That could be economics, line production, labor relations, retail, technology—it doesn't matter what field—as long as the leader understands it. At its core leadership is about achieving goals and doing it consistently. Leaders must focus on results. This goes back to the idea of execution and being able to deliver what's been promised.

Leaders spend more time looking at the outcome than they do on examining the process or output. Processes are a manager's arena. Leaders spend time concentrating on the results that impact the organization and others.

Speaking of others—effective leaders like to work with people—and they enjoy rewarding solid individual and

team performance. To a leader, results and rewards are intimately linked. If leaders don't hold themselves and others accountable, if they don't reward top performance, and if they make decisions based on factors other than results, they lack credibility and will destroy trust among those they lead.

■ ***Communication is more than talking to people. It is the vehicle through which leadership is most clearly conveyed, followed, and remembered.***

Now that we've looked at the tenets of a leader's **view of the world** and the leader's **attitude toward work**, let's look at another essential part to effective leadership . . . **use of communication**.

Leaders must communicate effectively—it's central to the leadership process. Everything a leader does—motivating, persuading, achieving goals, and conveying credibility—is a function of sending messages to their constituents and those outside the organization.

Communication is more than talking to people. It is the vehicle through which leadership is most clearly conveyed, followed, and remembered.

Through communication leaders do three things. First, they place the focus on others. Second, they create a vision. And, third, that vision, when effectively communicated, symbolically sets the culture and climate for an organization. Placing the focus on others creates a sense of importance among followers, a belief that their leader is concerned and attentive to their needs. Which in turn creates the foundation for loyalty.

An organization's vision is critical and it must be communicated from the top. A clearly communicated vision directs the organization's goals, strategies, decisions, and activities. It also provides a backdrop

against which the organization can measure performance.

An articulated vision also provides a way to align members of the organization. Alignment and a clear sense of purpose unify and inspire employees to become self-motivated and improve their contribution to the organization. Leaders appreciate the importance of organizational culture and climate as predictors of success. Members look to leaders to learn the current culture and climate. Therefore, the very nature of leaders positions them to be role models, mentors, and coaches.

Leadership is clearly different from management, but not for the reasons most people think. Leadership is not mystical and has nothing to do with charisma or other exotic personality traits. Nor is leadership necessarily better than management or the replacement for it. Instead, leadership and management should be considered two distinctive and complementary systems of action.

Let's look at a few differences based on our earlier criteria—**world view . . . process of work . . . use of communication**.

We defined a leader's **world view** as the set of beliefs through which they influence an organization. These beliefs, optimism, passion, integrity, and responsibility are not exclusive to leaders. However, it's how they're applied that makes the difference.

As I mentioned earlier, leadership is about coping with change. By contrast, management is about coping with complexity. For example, companies **manage** complexity by planning and budgeting, setting targets and goals, and establishing detailed steps for achieving those targets.

Leading an organization through constructive change begins by setting the direction, developing a vision for

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the future, and establishing strategies for producing the changes needed to achieve that vision.

By the same token, managers and leaders **approach work** differently.

Management develops capacity by organizing and staffing. They create the organizational structure and set of jobs to accomplish the plan. Those responsibilities might include staffing, delegating responsibilities, and devising systems to monitor implementation.

The equivalent *leadership* activity is aligning people. This means establishing the new direction to those who can be counted on to act as champions for change and help to build understanding of the vision throughout the organization.

Lastly, the difference between managers and leaders is their **use of communication**.

Communication from management involves controlled problem solving. This is usually accomplished by monitoring results through reports, meetings, and other tools—all designed to identify deviations, establish plans, and organize solutions to achieve the organizational vision.

For leaders, **communication** is based on motivating and inspiring others, keeping people moving in the right direction despite obstacles to change. This requires focus on the essential elements we covered earlier. Placing the focus on others, creating vision, and symbolically setting culture and climate.

Clearly, leadership and management each have its own function and characteristic activities. Both are necessary for success in an increasingly complex and volatile business environment. Today, many corporations are over-managed and under-led. To be competitive in the future, successful companies will actively seek out people with leadership potential

and expose them to career experiences that will develop that potential.

Ask yourself . . . Will that be you? Do you have the potential to be a leader or are you fulfilling that potential in your current leadership position?

I believe future leaders will be different from today's leaders in very significant ways. Future leaders will not only recognize the changes around them, they will strive to create benefit and added value from those changes. Future leaders will **view the world** with emotional intelligence. Based on theories explored by Daniel Goleman in his book *Emotional Intelligence*, this concept involves the "softer side" of leadership.

Emotional intelligence is based on the premise that each individual has varying capacities in physical ability, intelligence, and emotional ability. Emotional intelligence generally involves four fundamental capabilities—self-awareness, self-management, social awareness, and social skill. Through examination of these capabilities leaders of the future will perform with high levels of emotional intelligence. They will know their weaknesses, be highly disciplined, and will empathize and appreciate the needs of others and their organization.

Future leaders will combine these attributes with very tangible behaviors that allow them to be socially aware while continuing to motivate others toward established goals.

Future leaders will appreciate that the environment has fundamentally changed the model for **approaching work**.

These leaders will recognize the implications of information technology. They will think globally, manage information overload, make use of diversity, and focus on making others successful. As organizations move away from command and control structures, success will be a function of how well

leaders apply their understanding of the changing environment of the workplace.

Lastly, future leaders will have an even greater appreciation for the role of **communication** in leadership than they do today. They will use communications to influence without authority to create clarity, facilitate change, foster upward communication and collaboration, and to build partnerships and influential relationships. Leaders will in turn leverage these relationships within their organizations to inform and improve their own decision-making processes.

Today, organizations function in a dramatically different environment from 20 years ago. And the environment 20 years from now will be equally different. In the midst of this uncertainty, there is one thing that will remain constant—change.

The environment of change and the pace of change are what I often call the changing at the speed of business. This environment requires a new breed of leader. These changes will influence leadership. The notion of the strong, single leader at the top who figures everything out is no longer workable. The world is just too complex.

The leader of the future will be equally different from the leader of today. We can't know exactly how, but we know future leaders will leverage a combination of traditional and new leadership skills.

I recognize leadership is not simply a position in an organization. In my world I work with a team of executives. I also rely on a network of trusted associates at different levels of the organization to inform me and to be champions of change. For me, leadership comes down to influence and potential.

Regardless of where you are in the organizational structure, each of you can exercise your potential and influence. ■

The Standard

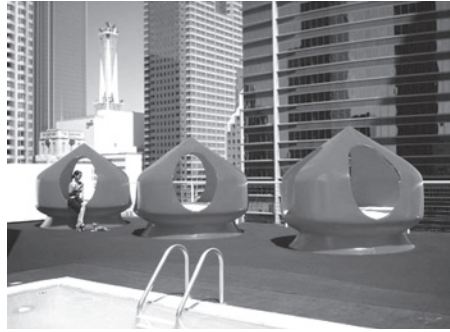
by Jonathan W. Hensinger, CPCU, ARM, AIS

No, there is nothing wrong with your publication. Upside-down is how the Standard Hotel chooses to display its name. If you are at all familiar with its locations in Los Angeles or Miami Beach, you already know this. For everyone else, I can tell you that the upside-down text serves as an advanced notice of the unique *customer experience* that these hotels provide. It was during a recent visit to the Standard Hotel in downtown Los Angeles that I gained a new-found appreciation for how a business can leverage customer expectations to delight customers.

I was in Los Angeles attending the CPCU Society's Annual Meeting and Seminars when I made plans to get together with a friend of mine who lives in L.A. My friend recommended we meet at the rooftop bar of the Standard Hotel in downtown L.A. Having never heard of the Standard before, I had no idea what to expect. "Rooftop" sounded nice, especially in a part of the country that is notoriously warm and sunny. So off I went to meet my friend at the Standard.

As I entered the hotel, I had very basic customer expectations. I expected the bar to be on the roof, I expected to be able to order a beverage when I got there, and I expected to receive the drink that I ordered. These basic expectations are called *implicit expectations*—these refer to basic requirements that I, as a customer, took for granted. Once I entered the hotel, however, I sensed that this was going to be an unusual experience. The décor was funky. Low-sitting, sofa-like furniture in the lobby, unusual art work projected on the walls, and crimson blankets (like movers use) hanging on the interior walls of the elevator all combined to make for a unique first impression.

Upon reaching the roof, the elevator doors opened to a panoramic view of the L.A. skyline. I met my friend and we moved to a table—we passed on the outdoor sofas with coffee tables. A



■ *Waterbed cabanas at the Standard Hotel in Los Angeles.*

waitress dressed as a cheerleader then came to take our order. As I expected, I was offered a choice of beverages. By offering me this choice, the hotel satisfied my *explicit expectations*—these refer to options that customers are aware of and can select. By this point, all of my implicit and explicit expectations had been met.

Beyond implicit and explicit expectations, comes a third level of expectations called *latent expectations*—these refer to features that customers did not know existed or were unaware of wanting. While satisfying implicit and explicit expectations results in satisfied customers, it is in meeting latent expectations that results in delighted and loyal customers.

After placing our drink order, my friend encouraged me to explore the rooftop. I was told there were some things I had to see for myself. As I began my self-guided tour, my appreciation for the modern décor and city view continued. As I climbed a short set of steps leading up to the pool area, I discovered something I wasn't expecting—in front of me were three "waterbed cabanas." These were large circular waterbeds covered by red fiberglass canopies. As I walked by, all three cabanas were in use by groups of people who were lounging on them with their drinks. The waterbed cabana was a feature I did not know existed or was aware of wanting. I didn't know anyone needed a waterbed cabana. Yet

there they were. Had a waterbed cabana been available at the time, I would have suggested that our party (which consisted of five people) move into one. When I returned to my table, my friend further explained that after dark the hotel projects a movie onto the side of a neighboring building for the benefit of the rooftop patrons. Once again, I had no idea that this feature existed or that I wanted it.

In the end, I would describe my customer experience at the Standard Hotel as one of delight. I was satisfied when my explicit and implicit expectations were met. I was able to order a beverage when I wanted one, and I had a choice of beverages. But what really made the difference for me were my latent expectations being met. Prior to my visit, I had no idea that I wanted ultra modern art and décor, waterbed cabanas, or movies projected on a neighboring building. Apparently I like these features. By the end of my visit to the Standard, I found myself wishing I was staying there instead of the hotel I was in. So how does this type of customer experience impact the bottom line for a business? Not only am I retelling this story to the readers of the TQ Section newsletter, the next time I am in L.A., I'm staying at the Standard Hotel.

A photo tour of the Standard Downtown L.A. and all the features described in this article are available at www.standardhotel.com. ■

Optimizing Technology through Total Quality Principles

by James R. Jones, CPCU, AIC, ARM, AIS

The Katie School of Insurance at Illinois State University has recently completed a multi-year study examining the effect of technology on workers compensation claims. The study, sponsored by CS Stars, included Fortune 1000 companies, insurance carriers with more than \$10 million in workers compensation premium, and third-party administrators (TPAs). Overall 108 organizations participated in the study. The study began in July 2003 with extensive, structured interviews of people in all of the target segments, at all levels in the organization. From these interviews a pilot survey was developed, and finally a national survey was conducted early this year.

This research demonstrated that companies on the forefront of implementing new technologies could have a substantial competitive advantage in loss and administrative costs, and ultimately gain larger overall profitability. Respondents' benefits from claims technology resulted in increases in productivity from 5 to 40 percent and reductions in loss costs from 2 to 20 percent. Although these results are noteworthy, it is perhaps more interesting and important to examine why some organizations got much higher returns on investment (ROI) in technology than others by applying total quality principles.

Technology Needs Total Quality in Addressing Barriers and Obstacles

An important additional finding from the total quality perspective was that technology alone (especially for more technologically sophisticated companies) did not yield high returns. In fact, once technological sophistication reached a certain level in organizations results became more tied to addressing non-technology issues including organizational and process changes such as redesigning legacy claim processes, developing and improving the capabilities

of claim personnel, better tracking of the performance drivers leading to results (i.e. return-to-work,) as well as adopting newer technologies that assist claim personnel with decision-making. Without addressing these kinds of broad organizational during the implementation of technology, the measurable benefits from increased technology (beyond a certain point) were more uncertain.

Some companies experienced lower ROI on their technology because of one of the following performance obstacles:

- Effective measurement tools were not in place to get desired results.
- Not enough focus was placed on addressing organizational and process changes needed to get the desired benefits.
- Human resource alignment and development were often overlooked.

Fortunately, specific examples of how to overcome these obstacles were found in the high-performing organizations. The following strategies describe how they did it.

Strategy 1: High-Performing Organizations Measure What Counts

Following the adage, "what gets measured gets done," the lack of measurements hurt organizations. One example of this lack of measurement is with return-to-work improvements. Nearly all organizations rated "getting workers back to work" as one of the top drivers needed to improve results. Remarkably, of those organizations measuring results (and that leaves out a number of organizations) just barely more than half of the organizations measured their improvement in return-to-work results. For those companies measuring improvement in return to work, more than one in five reported improvements exceeding 16 percent. High-performing companies measure and

trend data on key drivers of performance such as return to work.

Strategy 2: High Performing Organizations Addressed Human Resource Issues

All participants voiced human resource issues as a concern across all functions and at every level. Concerns included the following:

1. employee turnover (supervisors, adjustors, and medical bill reviewers)
2. attracting and retaining qualified personnel to handle workers compensation claims
3. training adjustors to handle multiple jurisdictions
4. knowledge transfer of best practices

The following were mentioned as ways to deal with this issue. These actions were seen as ways of either reducing adjustor turnover, or mitigating the adverse impact of adjustor turnover.

Best Practices in Dealing with Human Resource Issues

- Create a system to pull routine or non-value-added jobs away from adjustors.
- Provide better adjustor training to make adjustors feel more comfortable with their claim decisions.
- Provide technology (through flexible, customized exception reports) to step in and help the supervisor "babysit" the file because the lack of adjustor talent and/or experience is so pervasive.
- Develop adjustor scorecards indicating information such as benchmarks on time, lack of activity, reserve adequacy, age of claim, status of investigation, subrogation status, and three-point contact used by supervisors to monitor individual adjustor performance.
- Provide online portals that provide medical, legal, and regulatory reference

sources to deal with a lack of adjustor experience stemming from adjustor turnover. These sources were seen as helpful in making file transitions when adjustors leave, and help get inexperienced adjustors up to speed with issues earlier.

- Attract and retain top quality adjustors (many companies seemed to be more skeptical about their ability to accomplish this).
- One TPA stated that it reduced claim age by 10 percent and unnecessary claim adjustor time by 20 percent through use of an automated adjustor scorecard.

Strategy 3: High Performers Addressed Process Issues

The category with the greatest number of complaints, concerns, problems, and potential solutions was related to operational and administrative costs. Participants recognized that unnecessary expenses and activities plagued their processes. The following lists some examples.

Examples of Operational and Process Issues

1. Time lost by adjustors in responding to questions related to the status of the claim. This relates to the numerous questions that could have been answered through limited online access to the claim file, or better communication early on in the claim process.
2. Time spent auditing medical bills, sending bills to be audited, and adjudicating differences in fees that could be automated.
3. The time lost related to paper files such as tracking files, waiting for files, and sending files. (This seemed to be expressed more by carriers than by TPA interviewees.)
4. The inability of the various claims systems supporting all the claims processes—intake, care management, medical bill processing—in working together seamlessly.

Fortunately, interviewees provided a number of examples of how they solved operational and administrative cost problems. Most fell into the category of using technology to improve processes, improve customer interface, or deal with human resource issues.

Examples of How Companies Dealt with Operational and Process Issues

- Document imaging and “the paperless claim file.” The most highly touted benefit of electronic files was the efficiency of file sharing and file reviews. Several interviewees mentioned this as a “best practice” for their company. Interviewees from those organizations that already have electronic claim files did not seem to mention this and considered this benefit more of a “given.”
- The use of automation in the medical bill review process. Automation was used extensively in the assignment and turnaround of medical bills, which were reviewed manually by a centralized medical bill review unit. Other interviewees stated that they had taken the next step and had eliminated manual reviews for most bills by having the system check the bill and “adjudicate” it. (A reference to “straight-through-processing.”) Turnaround time for these completely automated bills could be as little as three days depending on how many bills were in the queue (and how many were hung up because they could not be matched to a file or else had coding inconsistencies). The technology and process are applied to all invoices—but only 5 percent in one organization and 70 percent in another instance pass through the edits that enable the automated processing—the rest required some form of manual intervention. The results varied because of differences in the carriers’ confidence in the predictive accuracy of their data and criteria and/or management philosophy.
- Providing user-friendly access to claim file information seemed to be the most popular solution for reducing unnecessary adjustor time on calls. Two interviewees estimated between 10 and 20 percent savings on adjustor

time due to online claim file access.

- The use of an expert system or rules-based engine was seen as a solution by several interviewees as a way to help make the claim process both more efficient and also more effective in controlling loss costs.
- Exception reports were seen as helpful in identifying which files needed to be reviewed. This kind of report streamlined the claim audit process and reduced the number of files required for audit.

Strategy 4: High Performers Shared Their “Best Practices” Internally

Given all the variables and factors that can influence loss costs, return-to-work results, and even administrative costs, it was thought that finding a statistically significant correlation between any one technology and these results would be remarkable. Surprisingly, nine technologies did show such correlations and some of the correlations were quite strong. The strongest correlation to a wide variety of business results was an “electronic best practices library.” It showed improvements in claim audit productivity, return-to-work, and settlement times. This correlation between performance and the electronic best practices library shows the value of transferring knowledge throughout the organization, a value that advocates of total quality have long touted. Such transfer of knowledge helped to ensure that technology would be implemented to its fullest potential.

The following were cited as general workers compensation claims technology “best practices” that their companies had implemented. These are only the highlights; the organizations had more detailed explanations of the “how-to” that they shared internally within their own organizations.

- One large carrier has doubled productivity of claims handled through an automated assignment of claims that applied the right resource (clerical, technical, nurse, etc) to each claim.

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- One TPA reduced average loss dollar payment 2.5 percent by improving its claims process for lost-time cases and then automating the process.
- A carrier stated that it has had the most success with implementing technology when it rolls out changes quickly and with senior management leading the charge. Allowing implementation to take more than six months draws out the transition pain for too long.
- One carrier and a TPA reduced medical bill review time from 30 days to 10 days through use of electronic, automated submission to a central bill review unit. One carrier stated that it was able to save \$25 per bill, which gave it a total savings of \$7 million annually.
- The "paperless file" has reduced claim-review processes by 70 percent at some companies, and all companies with such technology report considerable savings through reduced travel and review time while improving audit quality (as system helps to target claims needing most attention).
- One risk manager noted that technology and exception reports helped his company to save an estimated several hundred thousand dollars by identifying a trend in eye injuries early on. This allowed the company to put in training immediately that prevented other similar injuries.
- Outsourcing incident reporting to an outside firm increased timeliness of reporting by 25 to 35 percent for one company.

In summary, technology has tremendous potential, but it is much more than just "plug and play." High-performing organizations combined total quality concepts to technology implementation in order to leverage their technology to its fullest. ■

About the Researchers

The study contact person is James R. Jones, CPCU, executive director of the Katie School at Illinois State University, (309) 438-7754. Primary researchers on the project were Jim Jones and Michael Williams, Ph.D., an Illinois State University professor. The Katie School at Illinois State University provides top talent to the industry through its leading undergraduate program. It also adds value to the industry by providing top-flight, industry-focused research and professional education.

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TQ Editor

Sandy Jones, CPCU, CLU, ChFC
State Farm Insurance Companies
Phone: (707) 588-6199
e-Mail: Sandy.Jones.CCOJ@StateFarm.com

TQ Co-Editor

Shari E. Spung, CPCU
University of Washington
Phone: (206) 616-3455
Fax: (206) 545-6091
e-Mail: sspung@u.washington.edu

Total Quality Section Chairman

Jonathan W. Hensinger, CPCU, ARM, AIS
State Farm Group
Phone: (610) 358-8439
e-Mail: jon.hensinger.c3io@statefarm.com

Sections Manager

John Kelly, CPCU, AIS
CPCU Society

Managing Editor

Michele A. Ianetti, AIT
CPCU Society

Production Editor/Design

Joan Satchell
CPCU Society

CPCU Society
720 Providence Road
Malvern, PA 19355-0709
(800) 932-CPCU
www.cpcusociety.org

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www.cpcusociety.org

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