

Chairman's Corner: Spinning the Straw into Gold

by Valerie Ullman Katz, CPCU, ARM, AIS, AIM, CBCP



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Katz is a past president of the CPCU Society's Philadelphia Chapter. She has an M.B.A., and has taught various insurance classes for the past 15 years. She is married to a wonderful man and has two perfectly beautiful, talented, and intelligent daughters.

Remember the story of Rumpelstiltskin? In it, a young woman's father boasted that she could spin straw into gold. The king locked the daughter into a room and demanded that she spin the straw to gold or in the morning she would die. A magic dwarf, Rumpelstiltskin, appeared and helped her spin the straw to gold, in exchange for her ring. In the morning the king was so pleased with the young woman's performance that he locked her into a larger room with the same demand and consequence. Again Rumpelstiltskin saved the daughter, receiving as payment her necklace. Finally, the king imprisoned the young woman one last time, promising marriage if she completed the task. Again, Rumpelstiltskin appeared and in exchange for his help, the young woman promised her first-born child if the straw was turned into gold. Not a great bargain on her part. (Had she negotiated for the dwarf to take the kid at age 12 or 13, I would have had a bit more respect for her negotiation skills!)

Barring the immediate 63 arguments I can make against the story's portrayal of the historical treatment of women, the story parallels many of our workplaces. The industry professional is given a task, with sometimes no direction, training, or instruction. Somehow the task is completed somewhat successfully (I never heard that the king actually *inspected* the gold). And in reward, the professional is given a larger task, again with sometimes no direction, training, or instruction. We may find fault with the king/manager; after all, providing clear direction and timely follow-up is his or her job. We may choose to complain about his or her style—top down, militaristic, etc. But, he or she *did* get the results he or she

wanted. So perhaps, just perhaps, it's not the leader, but the follower who needs to change to get a better result with less tradeoff.

Consider this: We are all followers at some point during an average workday. We provide reports, make recommendations, and analyze data for someone else's review or use. Every one of us follows the organizational objectives and initiatives. So how can we, as followers, perform well, produce a quality work product, and feel good about our contributions? For as certainly as the unnamed daughter wanted to keep her head, we want to succeed in our professional and personal lives.

What if we all *enjoyed* our jobs as much as we enjoy those great evenings at home when the kids are human and the spouse is attentive? Not every task, because there is always the grunt work or rush projects that take on a life of their own. But, what if we focus on not just getting through the task, but making the task our own? We, as followers, can choose to breathe life into our jobs, freshen up our skill sets, figure out how we impact the overall success of our companies, and approach what we do with different perspectives. Ask questions, talk results. With fresh eyes and a willing mind, we can perform on a higher plane than before and we *can* enjoy it. ■

Establishing a Culture of Continuous Improvement

by Jonathan W. Hensinger, CPCU, ARM, AIS



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Editor's Note: This article is the first in a series about one person's efforts to shift people's thinking and introduce continuous improvement to a mature organization.

I was sitting in a pilot CPCU Society National Leadership Institute course on continuous improvement at the Annual Meeting and Seminars in New Orleans last fall when I had a big idea. It was truly a moment of inspiration. The double espresso I was drinking at the time probably contributed to my feelings of inspiration, but it was a grand moment nonetheless. It occurred to me that the things I was learning in the class could be of significant value to my employer. Solutions to business problems like improving customer service, improving efficiency, and increasing employee commitment all seemed suddenly within easy reach. I saw an opportunity to take the things I was learning in the class and create a continuous improvement program for my employer. The idea came together very quickly (remember the espresso). All I had to do was go back home and sell my idea to my management.

Continuous improvement is the organizational condition achieved through

1. customer orientation
2. process improvement
3. employee involvement

Timing is everything. And fortunately for me, I found myself in the right place at the right time. Challenging market conditions and open-minded management created the right environment for me to win initial support for my idea of creating a continuous improvement program. As a commercial underwriter with State Farm, my plan was to create a program specifically for our underwriting division. When I presented my ideas to management, I was told, **"We always knew we wanted to do something with continuous improvement, we just didn't know where to begin."**

The timing was right for something else too. As a result of the skills and experience I have gained through my role as a volunteer leader with the CPCU Society, I succeeded in getting myself hired into a newly formed organizational development unit. Once hired into this new job, I was promptly given the primary responsibility of creating a continuous improvement program for State Farm's Fire Underwriting Division for the Northeast Zone. This division includes more than 400 employees spread out over three locations. I immediately thought of the expression, "be careful what you wish for, because you just might get it."

So now I have an exciting new job. I get to create a continuous improvement program and bring it to life. From the very beginning, I knew that the Insurance Institute of America's course, AIS 25—Delivering Insurance Services, would be the backbone of my program. The course does a wonderful job of presenting the concepts that are fundamental to continuous improvement. With my AIS 25 textbook in hand, I sat down and started planning. It wasn't long, however, before I realized I had to start working on something else too. I had to start generating support for **creating change** in my organization, which would be required to make my program work.

To put this another way, I figured out that there are two distinct parts to my job. The first part is to create training and systems that bring the tools and techniques of continuous improvement to life. That's the easy part. The other part, and clearly the more challenging part, involves creating a culture change within my organization. My vision is to establish a culture of continuous improvement. "Establish" means to not just create, but to create and make permanent. This type of culture change does not happen overnight. And in a mature organization like mine, resistance to change can come from many sources. When I look ahead to what it will take for me to succeed with my initiative, I believe that my success will depend 20 percent on my knowledge of continuous improvement and 80 percent on my ability to lead change.

One of my favorite books right now is *Leading Change*, written by Harvard Business School Professor John Kotter. The book provides a roadmap for creating culture change within an organization and making it stick. Having never led a major change effort, I have to trust that Professor Kotter will steer me in the right direction. I was encouraged recently when I met a professional change consultant who told me Kotter's book was **"one of the better books out there"** on leading change. I will soon find out if he was right or not. I am counting on the combination of Kotter's book *Leading Change*, the concepts of AIS 25, and the things I have learned from the Total Quality Section to provide me with the knowledge and tools I need to establish a culture of continuous improvement for my organization.

As with any great endeavor, there is both risk and opportunity ahead. The upside for my organization is record improvements in efficiency, customer satisfaction, and employee commitment. The downside is another program that people will completely forget about in six months. Only time will tell whether I have found the winning combination or not. Wish me luck. ■



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TQ Quotes

"If you're doing something the same way you have been doing it for 10 years, the chances are you are doing it wrong."

—Charles F. Kettering

Total Quality: An Antidote to Corporate Misconduct?

by James R. Jones, CPCU, AIS, AIC



■ **James R. Jones, CPCU, AIS, AIC**, is the executive director of the Katie School of Insurance and Financial Services, Illinois State University.

A seemingly endless series of revelations of corporate misconduct from companies such as Enron, WorldCom, Adelphia, Arthur Andersen, Tyco, Conesco, Halliburton, Global Crossing, and Near North have flooded the headlines and scandalized the business world. The hardships caused by these companies and others have led to recommended reforms from legislators, regulators, and the investment community. Many of the recommended reforms center on financial reporting, corporate governance, and tougher criminal enforcement. The extent to which these reforms will have an effect on business practices in the long run are still being debated.

Though it has not received much attention, one underemphasized approach to help improve corporate ethics is through better awareness and utilization of total quality (TQ) concepts and practices. Total quality has the potential to serve a dual purpose of improving businesses' ethical practices while at the same time improving customer service,

employee morale, and business results. Furthermore, implementing a TQ approach could be less onerous, and much less costly, than many other suggested remedies. The time is right to at least explore the relationship between the principles and practices of total quality and corporate ethics and examine how the tools of total quality might also be employed to address corporate ethics and executive misconduct.

Intuitively, most people understand that unethical business practices and quality don't go together. What may be less obvious is why this is so, and specifically what is it about total quality principles and practices that might help organizations deal with unethical practices. The answer may be found in looking at four main areas of total quality:

1. TQ Core Organizational Values
2. TQ Leadership Characteristics
3. TQ Focus on Efficiency and Data
4. The Application of TQ Tools

The TQ Values Effect

Arguably the core values that are fostered by TQ organizations may act as an antiseptic to corporate misconduct by killing the germs of unethical behavior before they have a chance to grow. Consider, for example, the organizational values promoted and evaluated in the Baldrige National Quality Program, which is a program that guides many TQ organizations. This program identifies the following set of interrelated core values and concepts:¹

- open and honest leadership
- customer-driven excellence
- loyal employees and partners
- focus on the future
- management by fact
- public responsibility and citizenship

Part of the formal assessment for Baldrige Award applicants contemplates the integration of these values into the organization. These are not just "feel-good" values but are values that are consistently found in high-performing organizations focused on quality goods and services. Studies have shown that the Baldrige award recipients soundly outperform the Standard and Poor's 500.² Organizations supporting these values benefit from:

- reduced litigation
- protection of brand image
- improved customer satisfaction
- reduced absenteeism and employee turnover

Examining the individual components and antecedents of these organizational values may make it easier to understand how total quality prevents, or at least, mitigates corporate misconduct.

The Leadership Character Effect

Total quality firms are characterized by senior management that "creates an environment for empowerment, innovation, organizational agility, and organizational and employee learning." Creating such an environment means management must rely on the knowledge, skills, creativity, and motivation of its employees and partners. This kind of environment is achieved by open communication, recognition of employee contributions, and commitment to long-term employee and customer satisfaction.

To better explain how corporate misconduct works against creating such an empowered, customer-driven, and employee-focused environment, consider the characteristics demonstrated by the people who have become the poster children for corporate misconduct: Jeffrey Skilling of Enron, Bernie Ebbers of WorldCom, Dennis Kozlowski of Tyco, and John Rigas of Adelphia. Regardless of whether they receive criminal



convictions, it is apparent that their leadership characteristics do not facilitate total quality organizations. Such leaders are so preoccupied with personal success and achievement that they have little time to stop and ask if their actions were ethical. They become increasingly deceitful and reliant upon shortcuts to success, shortcuts that eventually cause them to drift into ethical shabbiness.

The truth for these kinds of leaders is that their projects, goals, and tasks are more important to them than their employees or their customers. They typically leave behind “a trail of bodies” after initial praise for their leadership turns to frustration and hostility. The people they work with often comment, “They are miserable to work for, but they get things done.” Their reputation for “getting things done” may have gotten them to their position but they eventually destroy people, processes, and relationships with their win-lose mentality and focus on short-term profits.

Their leadership stands in contrast to the characteristics of high-performing TQ leadership. Total quality leaders understand that employee motivation and customer satisfaction rely on much more than quarterly profit goals. The following quote summarizes one important finding in Jim Collins’ book, *Good to Great*:

Enduring great companies don’t exist merely to deliver returns to shareholders. In a truly great company, profits and cash flow become like blood and water to a healthy body: They are absolutely essential for life, but they are not the very point of life.³

Leaders in high-performing, ethical organizations understand that quality and values precede profits. Part of this means focusing on corporate social responsibilities. In addition to engendering passion in the workplace, corporate social responsibility (which is given distinct mention in total quality assessments) and good citizenship help organizations protect their reputation. Such a reputation (brand image) permits them to attract and retain top talent, good customers, and investors. Unethical leaders often fail to protect the organization’s reputation by taking risks with public health, safety, and the environment.

■ **Leaders in high-performing, ethical organizations understand that quality and values precede profits.**

An organization that has high customer satisfaction and loyalty produces quality products and services. This comes from anticipating customer needs by being empathetic, open, accepting of feedback, and being willing to quickly correct defects. Such a customer focus does not happen in an organization whose leadership allows (or encourages) employees to conceal defects, use dishonest advertising, and take advantage of customers by price gouging.

The Effect of an Efficiency Focus

Efficiency is another key concept of total quality because it leads to delivering goods and services to customers at lower prices. Improved efficiencies and customer service also come from process improvements, and processes only improve if employees and their ideas are respected. If rewards go only to employees who agree with senior management and the status quo then change is unlikely to occur and cynicism sets in. Change only comes from employees empowered to challenge the status quo and communicate upward, their ideas. Another flaw of unethical leaders is

that they don’t like to share power or hear ideas that contradict their own.

Obviously, efficiency does not improve where executives lavish themselves (and others) with expensive trips and entertainment. Dennis Kozlowski’s “Toga party” is probably the most recent, famous example but this overconsumption by executives has been a problem at many underperforming companies.

Interestingly, conspicuous executive consumption in underperforming companies was another research finding featured in the Collins book, *Good to Great*. In the insurance industry, the Pennsylvania Insurance Commissioner blamed the executives of Reliance Insurance Company for causing the failure of the 180-year old company, charging them with draining cash from the company to support their “lavish lifestyle.” Efficiency, a cornerstone of TQ, is not compatible with lavish executive spending.

The Application of Total Quality Tools to Ethics

One factor enabling executives to spend lavishly is poor process controls and documentation. Lack of controls and documentation permit waste. The same process mapping, process control, and process improvement tools that are used to prevent service problems and reduce waste can also help to detect and prevent executive malfeasance. An organizational focus on continuous process improvement that is transparent and has accountability makes excessive consumption less likely to occur. It is interesting that so much of Sarbanes–Oxley’s focus is on creating transparency and accountability of the processes that feed data into financial reports. The law implicitly recognizes that TQ tools such as process mapping, control, and documentation help ensure that working systems support the numbers. This focus is appropriate because unethical business practices do not thrive in the light of well-documented processes and reliable measurements. Instead they thrive in the

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darkness of unexamined processes, poor measurements, and inadequate data. Thus the entire TQ discipline related to process control and improvement has relevance to corporate ethics.

Another helpful TQ tool is the Ishikawa (or Fishbone Diagram). It can be employed to help get to the bottom of ethical problems in the same way it helps to get to the bottom of service and product defects. Organizations using such a tool often find that the root cause of ethical problems consist of issues such as conflicting objectives, poor hiring practices, poorly constructed rewards, inconsistent enforcement of rules, or inadequate corporate governance structures.

Every organization has some level of ethical problems. Determining where to start to correct the problems is sometimes difficult. The traditional quality tool of the Pareto (or 80-20 Rule) can support prioritization. For example, recent research has shown that most material fraud originates at top levels in organizations; however most audit and compliance systems are focused on lower-level employees.⁴ By refocusing on the smaller number of large problems, audit and compliance systems can be improved to have a greater impact on ethical behavior.

Implementing corporate ethics can be a lot like implementing quality initiatives. They are often met by stubborn resistance from people wishing to maintain the status quo. The Force Field Diagram has been a longstanding tool for identifying obstacles to reaching a goal and identifying possible causes and solutions to overcoming obstacles. By constructing a Force Field Diagram, an organization can determine the driving forces for changing corporate conduct and the restraining forces preventing their implementation. Armed with this information, organizations can then develop ways to promote the driving forces and inhibit the restraining forces.

Conclusion

At the very least a convincing argument can be made that total quality is an effective antidote to unethical business practices, and some of the tools and approaches used in total quality and continuous improvement programs have direct application to solving business ethics problems.

Given that the insurance industry relies so heavily on trust, fulfilling commitments, building relationships, and keeping costs down, the need to better explore the TQ approach is critical. By adopting and implementing total quality principles and tools, organizations can benefit from increased customer and employee satisfaction, reduced costs, and better strategies. It can also reap the additional reward of reducing the likelihood of corporate misconduct and ethical lapses. ■

Endnotes

1. Baldrige National Quality Program, Criteria for Performance Excellence, 2002, www.quality.nist.gov.
2. http://www.nist.gov/public_affairs/factsheet/baldfaqs.htm.
3. Collins, Jim, *Good to Great: Why Some Companies Make the Leap and Others Don't*, 2002.
4. "Defrauding The Public Interest: A Critical Examination of Reengineered Audit Processes and The Likelihood of Detecting Fraud," Bryant College, University of Connecticut, University of Melbourne School of Business, Critical Perspectives on Accounting (2002).

TQ Quotes

"Better is the enemy of good."

—Francois Marie Arouet de Voltaire

The Root Causes of E&O Claims

by James R. Jones, CPCU, AIS, AIC

Editor's Note: The author for this article is James R. Jones, CPCU, AIS, AIC, who is the director of the Katie School of Insurance and Financial Services at Illinois State University.

Acknowledgement is also given to Curtis M. Pearsall, CPCU, vice president, Agent's Errors & Omissions Department at Utica National Insurance Company, for his technical support on E&O claims information.

Errors and omissions (E&O) claims are a growing problem for insurance agents. A host of issues such as changing customer expectations, more litigiousness, more complex product offerings, 24/7 customer service operations, and the ubiquitous use of e-mails all may have some bearing on this problem. In examining the root causes of E&O claims, it can be helpful to apply a tried-and-true tool of total quality, the root cause analysis (RCA). The root cause analysis has been an effective tool in identifying why defects occur, which in turn helps in preventing recurrence. E&O claims can be viewed as a service defect. The underlying root causes can reasonably be identified and allow for changes to be made. The process involves data collection, cause charting, root cause identification, and recommendations for implementing changes.

After collecting data on E&O claims, simple root cause charting can be accomplished through a Fishbone (or Ishikawa) Diagram. Figure 1 illustrates how this tool might be applied to an E&O claim. Normally, this diagram is constructed during a brainstorming session and additional sub-lines under each of the major categories are often included.

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Figure 1
Sample Fishbone Diagram of an E&O Claim

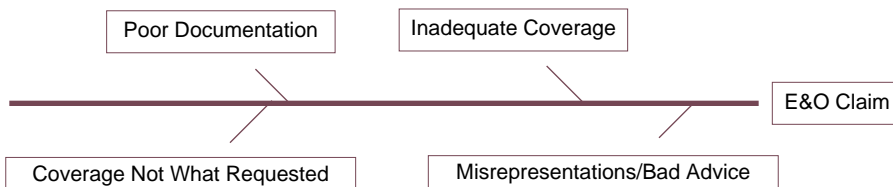


Table 1
Table of Root Cause Summary Tools

Causal Factor #1	Path to Cause	Recommendations
Description: Inadequate amount of coverage	<ul style="list-style-type: none"> • Unwillingness of insured to pay more premium • Poor exposure analysis by insured or agent • Poor communication between agent and insured • Inadequate training/knowledge 	Explain to insured financial consequences of inadequate coverage through real-life examples. Use a checklist to identify exposures. Follow up conversations with insured (preferably in writing). Take courses and attend seminars. Evaluate need for more comprehensive policies such as umbrella policies, or consider stand-alone ATV or watercraft policies rather than endorsements. Don't make assumptions about what insured can and cannot afford. Leave decision with the insured.
Causal Factor # 2 Description: Coverage not what was requested	Path to Cause <ul style="list-style-type: none"> • Poor handoff between agent and CSR • Incomplete submission • Errors in application • Failure by carrier to place coverages requested 	Recommendations Provide proper training and instructions for CSRs. Review coverages from carrier to check for accuracy and proper endorsements, coverage limits, and coinsurance percentages required.
Causal Factor # 3 Description: Inadequate documentation	Path to Cause <ul style="list-style-type: none"> • Poor record keeping • Inconsistent procedures • Failure to request information for Certificate of Insurance • Understaffing 	Recommendations Verify coverage before issuing certificates of insurance. Record all conversations about the need for certain coverages. Keep record of all e-mails. Use automation to automatically record transactions and hard-code dates. Staff properly to ensure that documentation is given proper amount of time. Get rejections of coverages in writing.
Causal Factor # 4 Description: Making misrepresentation to insured or giving bad advice	Path to Cause <ul style="list-style-type: none"> • Uncertain binding authority • Inadequate training of CSR • Carrier recommended is not financially sound • Agent doesn't understand products • Agent tells the insured what he or she wants to hear 	Recommendations Clarify binding authority and procedures. Verify financial strength of carrier. Agent should tell insured about important exclusions or coinsurance penalties, etc. Make sure personnel are properly trained.

The Root Causes of E&O Claims

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E&O claims have a number of related common causes such as poor communication, poor training, understaffing, and late-reporting of claims to E&O carriers. A more in-depth analysis can bring to light some specific causes for these kinds of claims. Table 1 summarizes the four problems identified,

the root cause of the problem (also known as path to cause), and the recommendations for addressing the problem and underlying cause. These two figures together can form the basis of a brief overview that could help prevent E&O claims in the future. ■

TQ Quotes

"Two men cut wood all day long. One worked straight through, without stopping to rest. At the end of the day he had a sizable pile of logs. The other would chop for 50 minutes and then take a 10-minute break. At the end of the day he had a much larger pile. 'How could you chop more?' asked the man who'd worked continuously. His friend replied, 'When I stopped for rest, I also sharpened my ax.'"

—Unknown

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