Briefs

Insurers: How to Win the Web Finance Wars

Insurers hear from their policyholders when major life events happen — births, illnesses, new houses, new cars, retirements. Banks and brokerages, by contrast, interact with customers far more frequently. As a result, bankers and brokers — many of whom now sell insurance — are getting their marketing messages in front of customers more often than are insurers. How can executives in a low-transaction industry such as insurance raise Web site visibility and win back customers when high-transaction competitors have greater access to them?

Internet statistics show how far insurers trail other financial-services providers in visibility. According to the fourth-annual Booz-Allen & Hamilton eInsurance survey, in mid-2000 the top 10 insurance sites attracted 5 million unique monthly visitors — far fewer than the 10 million and 18 million for the top 10 brokerage and banking sites, respectively. The report, which included Web site tracking by Nielsen//NetRatings Inc., also showed that visitors spent an average of 13 minutes on insurance sites, compared with 22 minutes on bank sites and 36 minutes on brokerage sites.

Insurers should be concerned because other financial institutions are adding insurance to their product portfolios — 300 banks entered the market in 2000. Without a useful Web presence, insurers risk frustrating customers who go online to do research, get price quotes, and track claims, but then cannot meet those goals. These customers may be receptive to competing offers when they visit a bank branch or log on to their brokerage account.

The eInsurance survey suggested three strategies for insurers to get in the game:

• **Give customers more reasons to visit your site.** Upgrade your Web site with the features needed to manage policies. Survey respondents conceded they are not delivering what customers expect in such areas as problem resolution, online account access, and access to service reps. Insurers plan to add these and other tools, but huge gaps remain between what they offer and what customers want. Although 91 percent of respondents said that customers want online account views, fewer than 50 percent of insurance sites offer this service. Customer support is also lagging. In a test of 50 insurance sites, more than half did not respond to an e-mailed question within one day; 28 percent did not respond at all — performance well below leading financial players' performance. Merrill Lynch & Company Inc., in contrast, responded in *one hour*.

• **Expand beyond your core products.** If high-transaction competitors can market your product, consider expanding your product line to match their value proposition. Open space on your site to mutual funds and credit cards from other companies. For instance, Nationwide Mutual Insurance Company offers 401(k) services and group pensions, and Prudential Insurance Company's Web site markets insurance, investment, and even real-estate services. Almost 20 percent of the survey respondents have formed partnerships to add non-insurance products from other companies.

• **Ally with high-traffic financial sites.** Alliances can put insurers on sites run by banks, brokerages, account aggregators, and comparison-shopping marketplaces such as InsWeb. These companies want to market insurance, but they don't

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want to own and operate an insurance company. Hence, an alliance to distribute another company's products appeals to them. Wells Fargo & Company, for example, offers auto insurance from American International Group. Insurers like the approach, too; 59 percent of executive respondents have formed partnerships to expand distribution. For example, State Farm Insurance sponsors parts of Yahoo's finance section. However, insurers without alliance experience could find this approach challenging — only 30 percent of respondents said they have the skills needed to manage partnerships well.

Our study suggests these strategies work. An analysis of 100 insurance carriers found that feature-rich sites from Allstate, Geico, Nationwide, and Progressive were leaders in both innovation and site traffic. Furthermore, sites of Nationwide and Prudential — companies marketing many financial products — attracted three times the number of monthly per-person visits generated by sites focused on insurance. With more tools and more products, low-transaction companies can start attracting more traffic.

Gil Irwin, Paul Lockmiller, and Larry Altman

Software's New Net-Based Business Model

The software industry's economic model makes no sense. First, applications are built on proprietary standards, which prevent separate programs from working together and make upgrades costly. Second, applications are sold through indirect channels and direct sales forces, an approach that boosts marketing expenses and doesn't use the Internet as a low-cost distribution channel. The model is a serious obstacle to innovation — of every dollar paid for software, 50 to 60 cents covers the vendor's sales and marketing costs, whereas only about 15 cents goes into R&D to create better products.

The Internet is shaking up this model. Through digital delivery, software developers will *activate* new application features on customers' servers, rather than require customers to replace an old version with a new one across multiple IT systems. Developers can sell software as a service, greatly lowering the costs of software distribution and increasing operating efficiency. No longer burdened with installation duties, customers can focus on how to use new features to transform their operations.

The ease of updates will force software developers to become more innovative. Currently, major software companies run on 18-month cycles, bogged down because new versions of software must be separately customized for each customer. With the Internet-enabled model, software makers could upgrade applications at any time and deliver them immediately. Software companies that move in this direction will become incredibly competitive because the innovations will drive their success.

Consider the long-term effects of this model. As higher-quality software allows companies to become more virtual, they will be freed from cumbersome business processes. The costly departments that oversee order management, purchasing, finance, and human resources won't be needed to process transactions. They *will* be needed to analyze business, but they will need fewer (but smarter and more experienced) people.

Using the Internet to handle business transactions is bound to happen because the cost savings are so compelling. It costs $1 for an accounting department to physically produce and mail an invoice to a

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customer, who pays with a handwritten check. If the bill is presented and paid electronically through direct payment, the cost falls 90 percent, to 10 cents. That type of impact makes Web-driven innovation more logical than ever.

Ray Lane

Time to Unbalance Your Scorecard

Twenty years ago, managers were frustrated because financial measures were the only way to assess their operations. The Balanced Scorecard (BSC) answered their complaints. This performance measurement tool, which includes financial and non-financial metrics, provides a more nuanced, more strategically useful, view of performance.

In the last several years, however, corporations have loaded down the BSC with too many metrics. It's time BSC users worried less about balancing the scorecard and more about enhancing its impact.

The American Productivity & Quality Center recently found there are, on average, 10 measures per scorecard, and in several cases twice as many. And here's the problem: Managers cannot actively monitor 10, and certainly not more than 10, measures simultaneously. Indeed, the benefit of a scorecard decreases as its complexity (and the number of metrics) increases.

The BSC usually is divided into four basic categories: financial, customer, internal, and learning and growth. Trying to apply a scorecard in a perfectly balanced way undermines its purpose — to provide management with a better way to target resources to improve operating performance in the most critical areas. There is but one sure cure: Focus the scorecard on the few vital measures that can really make a strategic difference.

How many measures can an organization use effectively? The answer is surprisingly few. The Japanese auto-parts manufacturer Hoyo Seiki Company Ltd., a winner of the Deming Application Prize in 1985, needed only three high-level, multi-year measures — customer satisfaction, employee satisfaction, and revenue growth rate — when it used *hoshin kanri*, a management tool that was a precursor of the BSC. My former employer, Analog Devices Inc., a $2.5 billion semiconductor company that manufactures high-performance integrated circuits used in signal-processing applications, focused on just two measures in its scorecard: customer satisfaction (delivery performance and product defect levels) and new product development (time-to-market and the number of new product rollouts). Of course, management also monitored key financials: revenue, revenue growth rate, profit, and return on assets.

There are two ways to improve overloaded BSCs. One is to reduce the total number of measures monitored, keeping only those measures that, when improved, deliver the greatest strategic impact. The other is unbalancing the scorecard, so to speak, by giving financial measures a more limited role, because they are less actionable.

Sure, production managers can cut costs this quarter by head count or inventory reductions, but only improvements in value creation processes — yield, cycle time, and quality — lead to long-term cost reductions. In addition, managers should consider deleting control measures that lack a strategic imperative (e.g., delivery performance that has exceeded customer expectations) and long-term measures that are too future-oriented to encourage imme-

diate action (e.g., a 10x improvement in five years).

You can tell a scorecard isn't working when the things you measure don't improve steadily. For a typical process, the gap between current and potential performance should close by 50 percent every nine months. A significantly slower rate is a sure sign of metrics overload, or an ineffective change program.

When it's time to revisit a scorecard's design, use impact, rather than balance, to guide the overhaul. What's left will be a less balanced scorecard, but a more strategically useful one, dominated by internally oriented performance measures focused on processes ripe for immediate improvement.

Arthur M. Schneiderman

Don't Reengineer. Realign

Alignment creates organizational elements that lead managers to make decisions that improve performance.

When companies began posting poor earnings results last spring, they moved to lay off employees and cut costs. Besides such firms as the Xerox and Whirlpool corporations, high-tech leaders like the Dell Computer Corporation and Cisco Systems Inc. joined the trend. Indeed, nearly half of the 804 executives at U.S. firms surveyed in April by the American Management Association said their companies would not meet revenue targets set at the beginning of the year, and 64 percent had already cut jobs and imposed hiring freezes.

Executives who take this reactive approach will soon discover that announcing a layoff is easy. The hard part is deciding which positions (and people) to eliminate. Harder still is getting work done effectively after those people are gone.

In the early 1990s, the solution of choice was reengineering, a tool that promised to "radically transform" work processes and deliver "quantum improvements" in performance. This method was popularized by the 1993 book *Reengineering the Corporation: A Manifesto for Business Revolution*, by Michael Hammer and James Champy. Unfortunately, the promise of reengineering did not match the results. Once the pressure for change dissipated, excised costs and personnel usually returned, leaving organizations inefficient and overstaffed — again.

Despite its record, reengineering is still around, in practice if not in name. Unless executives select a different approach to change, many of them will be forced to rely on the concepts of reengineering as the only way they know to make an organization run with fewer resources.

Managers can break out of this rut with an organizational model we call "strategic alignment." Unlike reengineering, this new model does not impose rigid processes on organizations. Instead, it creates a corporate environment in which organizational elements, such as structure, processes, objectives, measures, and incentives, lead managers to make decisions that improve financial and operating performance. Strategic alignment impels managers to work out the tensions that often result in redundant staff and underperformance.

The logic of strategic alignment becomes clear when it is contrasted with reengineering, which is based on the century-old theory that variation is waste. At its heart, reengineering seeks to root out variation by routinizing, and if possible automating, core business processes. This approach makes sense when applied to clerical, easily measured work, like insurance

claims processing. But reengineering's bias toward static rules means it cannot accommodate the dynamic thinking and actions of humans in a knowledge economy. What's more, reengineering underestimates personal motivation as an influence on individuals' decisions.

Strategic alignment avoids these traps through two simple premises:

- **Managers are rational actors.** They make decisions based on the incentives, constraints, and information in their environment. To improve performance, companies must change the factors that influence managers' behavior.
- **Organizations are complex, dynamic systems.** The factors influencing managers' behavior constantly interact. If factors are misaligned, the result can be excessive internal conflict and unintended consequences.

Unfortunately, most executives struggle with their organizational design. The complexity is daunting, with thousands of design decisions to be made across organizational units. Realignment requires senior managers to see the big picture and push for deep-rooted changes.

Realigning an organization is arduous, but the payoff can be substantial. For example, we recently worked with a consumer packaged-goods company that never hit its profit targets despite waves of overhead reductions. The root cause was a tension that arose because the company was simultaneously managed along brand and channel dimensions. Managers from both sides had added staff to corporate headquarters in a misguided attempt to reconcile the two competing views of the business.

To address the problem, the company created an organizational model that, first, acknowledged this inherent complexity, and, second, deployed mechanisms to manage the trade-offs between brands and channels. A common profitability metric encouraged sales and marketing managers to work out their clashes directly, without constant intervention by middle managers. Indeed, these middle managers lost much of their organizational purpose once they were no longer needed to second-guess other managers. As a result, the retooled organization eliminated most of this layer of management, further enhancing efficiency and lowering head count.

Alignment does not micro-manage employees, demanding they use the one best way to do things. Instead, its system-wide, iterative approach balances competing forces so the right decisions are made naturally and logically. As circumstances change — through acquisitions, new technologies, or shifts in strategy, for example — the system rebalances. Getting the alignment right will provide benefits beyond the reach of reengineering.

Jeffrey W. Bennett and
Steven B. Hedlund

The Americans Are Coming — to Europe's B-Schools

In the last two years, the London Business School has recruited more than 30 new full-time faculty members from the United States. Of those, more than 90 percent are U.S. trained. This Americanization of European business schools has also caught on, in recent years, at the U.K.'s Cambridge, Cranfield, Oxford, and Imperial business schools, as well as at France's INSEAD, Switzerland's IMD, and Germany's Mainz.

European business schools are also attracting more top American MBA students aspiring to careers as global executives, and U.S. companies are looking to European schools for research and executive education.

Some Europeans may swallow hard as more Americans cross the Atlantic. But most recognize that Europe now participates in a global economy in which the influence of American management styles — specifically, a focus on results and systematic problem-solving — is shaping the competitive environment. These changes in the composition of European business-school faculty simply represent a straightforward answer to a forward-looking question: What's the best way to learn American methods? Through America-trained teachers.

More imported teaching resources means that the character of the leading European business schools is changing inexorably, and for the better. It's a fusion of the best academic styles of the United States with the academic strengths of the rest of the world. The American focus on rigorous research — the kind of study that leads to publication in prominent journals, which, in turn, leads to academic promotion and tenure — is foreign to a European community of business scholars inclined to be less systematic and ideological than their American colleagues. Indeed, the

inherent variety within European universities can lead to a scholarly approach that's more pragmatic and less bound by beliefs in one right way to do things. (It's no coincidence such creative global thought leaders as Gary Hamel, Sumantra Ghoshal, and Charles Handy developed their work in Europe.)

The new European focus on rigor, pragmatism, and creativity — coupled with the continent's de facto multiculturalism — is beginning to intrigue some U.S. companies. Lucent Technologies Inc., for one, saw the wisdom of choosing two European schools, INSEAD and LBS, to lead the effort outside the U.S. when it created a global research program to examine the impact of mobile technologies. INSEAD and IMD are also capitalizing on the fusion of European and American teaching and research strengths to attract U.S. and European companies to their executive education programs.

The proportion of American students in European programs has become another measure of global stature. At the London Business School, 23 percent of the MBA student body is from North America — a figure that outnumbers the British. The proximity of continental Europe also means students can undertake field study and projects in multiple countries with ease. Globally renowned American business leaders — among them Michael Dell, Tim Koogle, and Bill Gates — drop by to speak with students.

Ten years ago, the faculties of business schools in Europe were almost all European, and most often locally trained. European academics who traveled west across the Atlantic to teach at America's most prestigious universities included Austrian-born Peter Drucker, the strategist Igor Ansoff from Vladivostock, the Romanian quality champion Joseph Juran, and Ted Levitt, the German-born marketing thought leader.

For the next generation of business-school students and faculty in Europe, it appears the migration to the east from the United States will continue. And faculties will include not just Americans, but young non-American faculty who are U.S. trained. It's a natural progression for business academics who know they can't be global thought leaders, or serve their customers well, unless they maintain a significant presence in both North America and Europe.

George Yip and Chris Voss