The Zone Reorganization: Developing a Strategy for Managing Change

Case F

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"How in the world do you take four offices that have different cultures and consolidate them into one location?"

On May 14, 2003, Christine Brooks, the regional claims manager for a national insurance company, asked herself this question as she drove to an all-day meeting that she had scheduled at the White Plains, New York, office with all forty-six claims managers from the Westchester region. As the regional manager, Christine was in charge of implementing a major zone reorganization, in which the four offices under her responsibility would be consolidated into one location before the end of the year. The firm that she worked for had long been one of the country's most prestigious and most profitable insurance companies, but as a result of industry deregulation and continuing weakness in the economy, corporate management had decided to bolster the competitiveness of the company and undertake a number of cost-cutting moves, one of which included the Westchester zone reorganization. Since the announcement of this change three months earlier, there was a considerable amount of uncertainty in the work environment, and Christine recognized that to facilitate the transition it would be prudent to bring together her managers to develop the most effective strategy for managing the change.

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Case Outline

F-1 The Evolution of the Insurance Industry

The insurance industry in the United States dates back to the early days of the nation, with the charter of a company named the Philadelphia Contributorship for the Insurance of Houses from Loss by Fire. In the early nineteenth century, as the population increased and people left the security of farms to live in the city, more people needed life insurance. The need for financial protection further increased due to factors such as westward expansion, the Civil War, and the outbreak of yellow fever and tuberculosis.

The industry was first regulated in the 1850s due to the insolvencies of many companies. These insurers had set very low rates to gain an edge in an increasingly competitive industry, but the loss of protection for their customers resulted in the establishment of state insurance regulatory bodies. In the 1869 case of *Paul v. Virginia,* the U.S. Supreme Court ruled that insurance is a local transaction and not a matter of interstate commerce, thereby granting regulatory power over insurance exclusively to the individual states and precluding any involvement by the federal government.

Changes in the way people live and work necessitated new coverages. In the late 1800s, disability insurance had become an important source of revenue for insurers. By 1920, most of the states had passed laws concerning workers' compensation as well as legislation requiring motorists to purchase automobile insurance. The public outcry for additional financial protection was a direct outcome of the Great Depression, and in the 1930s, the Social Security Act, Blue Cross (for physician care), and Blue Shield (for hospital care) all came into being; insurance companies also entered the health market to provide coverage. In addition, the Depression resulted in the Glass-Stegall Act of 1933, which constrained the structure and the conduct of the U.S. banking system, by enforcing a separation between retail banks and investment banks.

After World War II, competition among insurers continued to increase. Innovations occurred in all lines of business, companies began to offer package policies, and large life insurance companies entered the property and casualty market. In addition, innovations could be seen in the industry's investment strategies, which it developed to create stronger growth opportunities within the financial sector of the U.S. economy.

F-2 The Financial Services Modernization Act of 1999

A groundswell of support for the structural deregulation of the financial sector increasingly took hold in the 1980s and 1990s. Many people believed that industry turf battles impeded the provision of financial services and that the Depression era legislative and regulatory restrictions on competition and innovation would prevent the growth of the economy in the twenty-first century. With a broader array of financial products to choose from, the strict regulatory separations between banks, securities firms, and insurance companies had created a burden for consumers in deciding what to do with their money. They had to decide how much to place into a savings account in one financial institution, how much to invest in stocks in a second financial institution, and how much to spend on an insurance policy in a third financial institution.

Many people also felt that the thrift failures of the 1980s and the bank failures of the 1990s were caused by the inability of firms to diversify and respond to the changing financial needs of consumers. This, too, served as a catalyst for deregulation, and with the passage of the Gramm-Leach-Bliley Act of 1999, the artificial separation of financial institutions embodied in Glass-Stegall was removed. The segmentation that had existed within the financial sector had created an artificial homogeneity among

banks, among securities firms, and among insurers. This homogeneity prevented economies of scope and, consequently, it limited innovation and the pursuit of strategic opportunities. Deregulation created a brand new ball game in the financial sector, with new competitors and a heightened risk of merger activity.

Clearly, banks were no longer limited in their ability to offer securities or insurance policies to their customers, and securities firms and insurance companies were able to provide full-service banking. Because of deregulation, the various companies in the financial sector could expand into new products and new services.

Christine Brooks's employer was one such firm. The company had grown from relatively modest beginnings as a regional provider to become one of the country's largest insurance companies. After deregulation, the company established new banking operations, which enabled it to offer customers checking accounts, mutual funds, money market accounts, certificates of deposit, credit cards, loans (including home mortgage loans, home equity loans, and home equity lines of credit), and leases. The company even offered customers retirement planning services, which was certainly an indication of how aggressive corporate management had become in its operating strategies given the changed environment in financial services.

The company's flagship insurance operations were divided among different zones across the country. At the end of 2002, these zones contained a total of 820 offices that performed the primary function of processing claims on the insurance policies that the company had underwritten. Insurance was clearly the foundation of the company, and it was from this base that corporate management wanted to transform the firm to improve its position as one of the leading firms in the newly deregulated financial marketplace.

F-3 The Economic Downturn

The downturn that began in the technology sector in 2000 soon spread to other sectors of the economy, and by 2001 the United States was mired in a recession following ten years of growth. The recession hit the financial sector hard. Despite increased premium revenues, Christine Brooks was aware of corporate management's uneasiness caused by a substantial after tax net operating loss in 2001. Although the overall weakness in the market had driven a decline in the company's stock portfolio that caused it to suffer a loss by its noninsurance affiliates, the lion's share of the loss came from substantial underwriting losses related to insurance.

The stagnant economy in 2002 helped contribute to another difficult year in the company. Premiums paid by policyholders were insufficient to cover the cost of claims and operating expenses. Lower interest rates hurt investment income, and it was insufficient for covering insurance underwriting losses. This forced the company to raise auto insurance rates for the first time in several years as a means of absorbing some of its losses. Due to the huge underwriting losses and the continued reduction in the value of the company's stock portfolio, there was a significant decline in total assets.

F-4 The Announcement from Corporate Management

The economy was well into its third consecutive troublesome year in early 2003, when the mandate came down from corporate management that the insurance company's zones would be reorganized. As for the Westchester region, this would entail a business restructuring from four separate claims offices to a single claims office. Although the employees in the four locations all reported to Christine, over the years

each of the offices had developed its own unique identity and a distinctive corporate culture, and the managers were very concerned about how their staffs would adjust to the consolidation.

The smallest of the four offices was the Chappaqua claims office, which had 75 employees. The employees in this office consisted of claims representatives and their managers, as well as support staff. These job functions were identical in all four offices. Geographically, Chappaqua was the furthest north in Westchester, and of the four offices, it occupied the only building that the company owned. Corporate management had recently begun to look for a buyer for the building, which had sixty thousand square feet of office space.

The office that was furthest south was called the Fordham claims office. It was located in a building on Fordham Road in the Bronx, across the street from Fordham University. The company leased thirty thousand square feet of office space to house a staff of 125 employees.

The New Rochelle claims office also had 125 employees. It was located in a busy commercial area, where the company leased forty thousand square feet of office space. Although the leases for the New Rochelle and the Fordham offices were not scheduled to expire at the same time, corporate management was confident that the company could make arrangements with the landlords to terminate the leases early.

Corporate management had decided that the Westchester region would be housed in the White Plains claims office. There were 300 employees in the White Plains office, which was a growing industrial corridor in Westchester County. The company had a long-term lease on eighty thousand square feet of office space in White Plains, and the corporate office determined that it was the optimal location for the Westchester region. Christine Brooks's office was in the White Plains office.

F-5 The Manager Survey

Following the announcement of the zone reorganization, Christine created a brief survey that she distributed to all of her managers to be completed and returned one week prior to the May 14 meeting. She hoped that the survey, which protected the anonymity of the managers, would be a catalyst for generating a lively discussion surrounding the issues of the business transformation and for developing the action plan that she would propose to corporate management.

The results of the survey revealed several key findings. Almost all of the managers indicated that they were either very satisfied or somewhat satisfied with their jobs. Moreover, a high percentage of the managers assessed the level of job satisfaction among their employees as either very satisfied or somewhat satisfied. Notwithstanding this apparent vote of confidence, the managers were decidedly split on other, more specific questions. While a majority of them rated their work environment as positive, the percentage was clearly less than the percentages indicated for job satisfaction, with more than a quarter of the managers expressing negative or mixed opinions. A third of the managers indicated that they felt that there was high turnover in their staffs and a little more than half of them felt that the compensation and benefits were competitive. Although the managers indicated by a margin of almost three to one that corporate management had an appropriate plan for change, there were nearly as many managers who believed that the company had not effectively managed that change as there were who did believe it.

The survey results to these questions are shown in Exhibit 1. The number of managers who responded to each option is shown along with the percentage. Forty-six managers responded to the survey. The percentages might not total 100 due to rounding.

EXHIBIT 1 Selected Survey Results*

1. How would you assess your overall level of satisfaction with your job?

Very satisfied	21	46%
Somewhat satisfied	24	52%
Somewhat dissatisfied	1	2%
Very dissatisfied	0	0%
	46	100%

2. How would you assess the overall level of satisfaction of your staff with their jobs?

Very satisfied	7	15%
Somewhat satisfied	32	70%
Somewhat dissatisfied	5	11%
Very dissatisfied	1	2%
No response	1	2%
	46	100%

3. Do you feel that your work environment is a positive one?

Yes	33	72%
No	9	20%
Undecided/Mixed	4	9%
	46	101%

4. Do you feel that you have had high turnover among your staff?

Yes	15	33%
No	30	65%
No response	1	2%
	46	100%

5. Do you feel that the company's compensation and benefits are competitive?

Yes	25	54%
No	13	28%
Undecided/Mixed	8	17%
	46	99%

6. Do you feel that the company has an appropriate plan of action for the future?

Yes	30	65%
No	10	22%
Undecided/Mixed	6	13%
	46	100%

7. Do you feel that the company has effectively managed change?

Yes	24	52%
No	19	41%
Undecided/Mixed	3	7%
	46	100%

* The manager survey included other questions, most of which dealt with demographic information, that are not shown here.

F-6 The Strategy Meeting

The managers had a good idea of what to expect at the meeting, and everyone appeared to be in good spirits as they entered the White Plains conference room at 9:00 a.m. Christine wanted the day to go well; coffee and muffins were provided in the morning, and at noon, deli sandwiches were brought in. Six round tables had been set up around the room, and when everyone had settled in, Christine began her opening remarks.

> We should use the survey as a tool to guide our discussion, but I encourage you to talk about any issues that you feel are important as they relate to managing your staffs through this change.

Christine indicated that she was pleased with the fact that the responses to the questions on job satisfaction had been so favorable. After some brief comments on these first two questions, Christine noted that the responses to the other questions in the survey were more diverse, and she actively solicited feedback on each of them, one at a time.

For the question dealing with the work environment, those managers who felt it was positive commented that the company's strong history formed a good framework for undertaking change. There was a vocal minority, however, who commented that as the company had grown, its family-oriented work environment had disappeared. These managers felt that communication of new processes had deteriorated. They expressed the helpless feeling that as first-line managers, they had little control over their circumstances. One manager commented that shortly after the staff learns a new procedure, it changes. The managers repeated more than once their unhappiness with the requirement that they reinterview for their positions in connection with the zone reorganization. Christine reminded them that this requirement was a corporate mandate and she promised to get clarification from her superiors.

Regarding turnover, some of the managers noted that the tightness in the job market was helping to minimize this problem, but others also commented that their employees genuinely liked working in the company. Others accurately stated that much of the staff consisted of long-term employees who had already been through several changes at the company. One of the managers suggested that the real issue with turnover was at the first-line manager level. Christine took note of this. Those managers who were experiencing turnover in their ranks indicated the following reasons: low morale in the claims environment, limited growth opportunities (which reflected the significant tenure of much of the staff and which helped in part to create the morale problem), and the inability or unwillingness of staff to relocate to White Plains.

When the conversation turned to compensation and benefits, several managers commented that the compensation system tended to be competitive for tenured staff, but not for newer staff. After some managers indicated their own wish lists for benefits that they wanted, the bulk of the discussion on compensation linked to the issue of turnover. Christine addressed the fact that another insurance company had recently moved into the next office building in White Plains and had poached staff. In fact, one of Christine's managers had left for this competitor and had recruited his entire staff.

In connection with corporate management's plan for change, some of the managers acknowledged that continued success in the financial sector was dependent on the company's expansion into banking products, while others expressed concerns about losing sight of the core property and casualty business. Some managers revisited their earlier comments on communication, and they blamed corporate management for all of the uncertainty that was plaguing their staffs. When it was noted that mixed messages and a lack of honesty were commonplace throughout the organization, Christine told the managers that they were having their meeting so that they could make the transition as easy as possible for their employees.

The discussion on change naturally led to the final question on change management. Some managers felt that the company was doing what it needed to do to facilitate change, but other managers continued to complain about disorganization and poor communication. This second group indicated that the company had undertaken too many changes too quickly and that rapid growth had negatively affected the company's efficiency and its financial strength. After one manager said that it seemed as though corporate management made changes just for the sake of change and that the company was making the wrong decision to house everyone in one location, Christine interrupted. She reminded the managers again that the change was going to happen; it was up to everyone in the room to help manage the change as seamlessly as possible.

F-7 The Decision Point

Christine took a deep breath and smiled reassuringly.

> From my perspective, we can manage the zone reorganization in one of two ways. One choice is that we can move the three offices all at once. We would probably do it over a weekend and hopefully have everyone up and running on Monday morning. I know that facilities can make this happen if we decide to manage the change this way. A lot of the feedback that you've provided indicates that our employees are being affected by a lot of uncertainty right now. It may be a shock if we move everyone over a weekend, but it would be a brief shock.
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> The other choice is to manage this transition in a piecemeal fashion. Many of you were critical of the organization doing things too quickly. If we move one office first, we may learn some things to make the second and third moves easier. But then again, if we take too long to complete this transition, we may continue to lose staff, particularly if the economy picks up.
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> I want to get back to corporate with a recommendation. I think they'll be amenable to either of these options. The key for me, though, is to manage the change in the way that you feel would be best for your people.