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**Allstate Insurance Company:
Building the Capability for IT-enabled Change**

Cyrus F. Gibson

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Author: Cyrus Gibson

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Abstract: Senior managers in the claims organization of Allstate's property-casualty insurance business became increasingly aware of the importance and difficulties of implementing new IT-enabled process change over the period 2002 to 2006. The case describes building the managerial and organizational capability for systems development and deployment. This capability effort involved creating a new partnership between IT and the claims business, with full responsibility for systems evolving to the business side. Leadership of the effort was facilitative and evolutionary. The change in capability was being tested in 2006 as the first releases of a major new program of IT-related change were beginning to be installed.

Keywords: IT capability change, leadership of capability change, IT-enabled business change

6 Pages



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In June 2006, the claims organization of Allstate's property-casualty business was nearing the deployment of "Release 1.0" of the systems for its major, multi-year technology and business transformation program. The claims organization was known as "Picasso" after the initials for Property-Casualty Claim Service Organization, P-CCSO. Responsibility for the program, known as Next Generation Claim Systems or "Next Gen," lay with the Process Development and Mastery (PDM) unit of P-CCSO, headed by vice president Chuck Paul, working in close association with the IT unit, Claims Technology Services (CTS) and with the field claims offices. (See organization chart, Exhibit 1.)

Allstate is the largest publicly-traded personal lines insurer in the United States, and second only to State Farm, a mutual company. P-CCSO's separation of policy sales management from claims, with field organizations for each, was unusual in the industry. After ten years the structure served Allstate well. Compared to competitors, the company did well on three key objectives: customer satisfaction, loss adjustment expense (the expense of processing claims), and management of loss costs. P-CCSO

had established itself as an industry leader in claim management organizations.

Next Gen was designed to enable the achievement of near-term benefits and process improvements in claims handling, but also promised long-term benefits that could give Allstate a significant competitive advantage in all three of the key objectives. As they reflected on the history of the program in P-CCSO, senior managers there noted how the structure and process of relationships between the business and IT had changed and how further work behavior change would be needed throughout P-CCSO, in field offices and home office, from claims processors to senior managers.

The History Leading to "Next Gen"

P-CCSO executives saw a pattern in the use of IT that had led to unintended consequences. In the mid 1990s, P-CCSO undertook a series of fact-based process redesign projects in claims processing, using field-experienced managers knowledgeable in specialist areas such as damage estimation, claims adjudication and medical cost management. IT projects to support these redesigns were initiated in the traditional way by the non-IT business design teams

This case study was prepared by Cyrus F. Gibson of the MIT Sloan Center for Information Systems Research. This case was written for the purposes of class discussion, rather than to illustrate either effective or ineffective handling of a managerial situation. The author would like to acknowledge and thank the executives at Allstate Insurance Company for their participation in the case study.

specifying requirements for functionality and “throwing the requirements over the wall” to IT in CTS.

The result was a disparate collection of applications, providing tools to the field claims end users, that were separated on computer screens and that complicated the infrastructure required to connect them. By necessity, integration occurred through “human integrators,” those end users having to access 50 or more different subsystems to process a claim. Workarounds in the field were created and added complications there. One of the outcomes: training for a new employee in a claims field office could take six to 12 months. In general, the lack of integration between applications and improvements to pieces associated with them ended up burdening the overall process from the end user and customer perspective. In addition, the systems development practice, “over the wall and back and forth” until a particular application was done, was slow and expensive.

In late 2002, Chuck Paul in the PDM office of P-CCSO, and his three direct report specialists (in the property, auto, and casualty claim disciplines), recognized they needed a different approach to process design, to the use of IT and to the relationship between his function and the IT group in CTS.¹ Several developments resulted:

- Paul formed the Decision Making Body (DMB) to address strategic issues, to step back and provide a context for process change, the impact on roles and productivity and the use of technology. Members included Paul, his direct reports, and the head of CTS. The DMB further articulated the three overriding business objectives for P-CCSO:
 1. Be peer group leader in customer satisfaction.
 2. Be in top quartile of the industry in loss adjustment expense.

¹ Paul himself had begun his career in the field, and moved to Chicago at the request of a colleague who had met and worked with him there. George Ruebenson, later to become a senior vice president and head of P-CCSO, asked Paul to take on Process Development and Mastery.

3. Be best in class in loss cost management.

- The DMB saw the systems development approach of the past to have been largely tactical, focused on particular problems and solutions. While producing successful systems at this level, “We were winning battles (the individual systems worked) and losing the war (the overall systems network bogged down claim handling efficiency),” as one manager put it. Systems had not been reviewed strategically in terms of P-CCSO’s three business objectives. Nor had they been assessed fully in terms of impact on technological infrastructure, work processes, and people in the field. Together, members of the DMB articulated a new strategic context going forward.
- The DMB came to see that rather than continued design and delivery of particular applications from IT, a new IT-based operating platform was needed. Such a new architecture would enable integration of applications at the desktop and would facilitate task changes in business processes. Plans were drawn up for “C-BIZ,” an investment in technology and change estimated at upwards of \$600 million. However, in late 2002 the project was analyzed and subsequently turned down by an Allstate executive committee. The committee was not comfortable with the “big bang” feel of C-BIZ at that time and saw more attractive uses for the money.
- A move toward partnership between P-CCSO and CTS took place, shifting from a formal over-the-wall and “point-to-point” relationship with IT—where a single executive on the business side had contact with a single executive in IT—to more joint responsibility and collaboration of systems development and deployment. A long-term education program was initiated for both sides, and managers and their counterparts went in pairs and mixed groups to university-sponsored executive education programs, “two by two, like Noah’s Ark...,” as Chuck Paul put it.

- A Project Management Office (PMO) in P-CCSO was created in 2003, headed by Ed Wasinger; it was initially staffed with only himself and one other manager. The PMO was chartered to provide an overview and promote transparency on IT costs and project progress. At the time, there were some 430 IT projects under way. As the education effort for managers on both sides continued and the PMO gained traction in monitoring and introducing metrics and reporting on project status, problems in the management of systems delivery emerged, more visible to members of the DMB.
- A protocol for “change navigation” was created to assess the impact of new systems on the end user in the field. P-CCSO field offices were staffed with more than 16,000 employees. The history of piece-by-piece applications delivered out of home office had resulted in complicating work in the field and, due to lack of coordination, often imposing multiple and simultaneous implementations and work changes. P-CCSO created field-staffed teams to assess the risk of implementation failure due to the factors of technology difficulty, change leadership capability, and user acceptance.

In 2004 the concept emerged for a program of major change that came to be known as Next Gen. Short for Next Generation Claim Systems, the changes affected technology, business processes, and people. The planning for Next Gen coincided with the arrival of the new head of CTS. Mike Jackowski was hired from Accenture for the job. Jackowski had been a key technical leader in the development of a packaged system for claims processing. Not unlike C-BIZ in its massive scope, Next Gen was proposed with key benefits from claims processing and business objectives perspectives, and other enhancements by virtue of its infrastructure improvements. The project was approved. “We believe it is one of the largest undertakings of its type in the history of our industry,” one P-CCSO manager said.

The Situation in 2006

In May 2006, Release 1.0 of Next Gen, providing significant functionality for claims associated with property losses, was undergoing final testing for deployment in June and July. Chuck Paul and his colleagues reflected on the manifestations of the changes in P-CCSO and the advent of Next Gen:

- Business leaders were held responsible for Next Gen implementation and business results, accountable for the costs as well as the benefits. Even though the early work on Next Gen was primarily technical in nature, Chuck Paul held each of his three discipline managers—Kathy Mahne, John Edelen and Christine Sullivan—accountable for the success of the Next Gen releases (primarily delivered by claim discipline: property, auto and casualty). These managers in turn assigned business leaders to the projects within each release. Managers reported that this seamless integration and matrixing of business people and IT people into project teams, while still relatively new and requiring rapid on-the-job learning for many from the business in particular, had already changed the nature of the projects. For example, as P-CCSO managers worked in close concert with their IT counterparts, several project requirements originally specified by P-CCSO were modified. In some instances, the IT counterparts, better grounded in the business of claims, offered modifications that enhanced business functionality.
- The PMO was expanded into the “Delivery Operations” function with 15 full-time staff. It was headed jointly by Jackowski, vice president of CTS who reported to Mike Roche, senior vice president of Protection Technology and member of the DMB, and Mark McGillivray, P-CCSO assistant vice president who reported to Chuck Paul and also served on the DMB. Reporting to the DMB and to CTS, Delivery Ops personnel came from both “the business” and IT. The role of Delivery Ops was to promulgate project management practices to the Next Gen and “run the business” organization (ongoing

operations supported by CTS) as well as to report on program progress.

- “Crazy Tuesday” was the all-day meeting led by Jackowski and McGillivray in which projects and teams presented reports and discussed issues. Participants were in all cases from both the business and IT, and as one manager observed, “If you didn’t know the players, you couldn’t tell from the conversations where they were from...,” indicating a new mutual involvement and level of understanding of the two groups about development and implementation.
- Systems releases for Next Gen were not defined by the technology-driven schedule for the many adaptations and changes to the pre-packaged code, but by considerations of change navigation or the impact on people and risk of implementation failure. For example, it was determined that Release 1.0, affecting property claims, would go before 2.0 for auto and casualty claims because the property business was about a fourth the size of the auto and casualty business.
- Business managers experienced improvement in business-IT relationships and in the control and effectiveness of project management and delivery. Results of a survey of eight senior managers in P-CCSO and CTS, comparing five characteristics of effectiveness of business-IT in 2003 with 2006, are shown in Exhibit 2. No individual indicated that any of the characteristics had deteriorated.

Lessons Learned, and Looking Ahead

Managers in P-CCSO described the history and manifestations of change in the management of and collaboration with IT in terms reflecting the formal, informal and personal factors. Several commented on the leadership dimension. As one put it:

“For project success, it is not the right governance, not the right structure, but the right people that is critical. You should not begin a project without 100 percent confidence in the people.”

The change in responsibilities for individuals and the relationships between P-CCSO and CTS was described as iterative, moving from one established practice to another, rather than being pre-determined by role definition or being improvisational and continuously changing. Facing a massive new undertaking like Next Gen, the leaders’ approach had been to find the right people, then encourage individuals to learn, relationships to develop, and ownership for responsibilities to evolve. As Chuck Paul put it:

“I might have accelerated the degree of accountability for Next Gen by as much as three to six months by defining the roles and telling managers that it was their job to partner with CTS and deliver on project deployment. But they had to come to that conclusion and believe it for themselves. It took longer, but the formal role and performance appraisal has followed their coming to it, not preceded it.”

Several saw the evolution of the partnership between P-CCSO and CTS as a significant change for Allstate management and culture. Field-based and field-oriented, the traditional style was hierarchical and very operations oriented. In P-CCSO home office the changes had deliberately blurred accountabilities, had put pairs in places where individuals typically stood and had introduced a project orientation. Some saw this as a new way of doing business that could be disseminated to competitive advantage. Chuck Paul quoted his boss George Ruebenson as saying, “Culture is what happens when you are not around,” and envisioned a future culture with more local responsibility for decision making. At the same time, he wanted to specify the context and boundaries for local vs. central decision making.

Paul and the DMB saw that the real value of Next Gen lay not in the benefits in infrastructure costs and enhancements at the desktop. Rather, they saw Next Gen as “just the foundation for the ability to respond flexibly and quickly in the field to changes in conditions—with a constant eye to gains in those three objectives: customer satisfaction, loss adjustment expense, and loss cost management.” To do that, people in the

field would have to take on more local decision making, but make decisions through consistent processes and practices.

The prospect of sustaining changes in the home office and disseminating new ways of operating in the culture was by no means assured. While managers at senior levels saw the benefit of the new collaboration and partnership between the business and CTS, it had taken a long time and was “painful” to take on accountability without the direct control and experience in others’ areas. Some were thought to yearn for a return to the more comfortable old approach. One manager pointed out that while the middle ranks and field were keenly interested in the new style and had heard about it, the mindset had not changed there yet. He went on to describe an incident in which

an individual was not held accountable for a joint responsibility and for not providing a warning in advance under the guidelines for transparency. “The problem cost us a lot of money, but people noticed nothing happened.”

As he looked ahead, Chuck Paul noted how much change was still to come and considered the importance of navigation through that change:

“Change never just happens; change is led, which means that as leaders we have to be integrated in the project and program work and have pure ownership in making it succeed. A lot of employees will be looking for that leadership, because while much of this work will be challenging, many also consider it an imperative that’s long overdue.”

Exhibit 1
Allstate Insurance Company
Organizational Chart

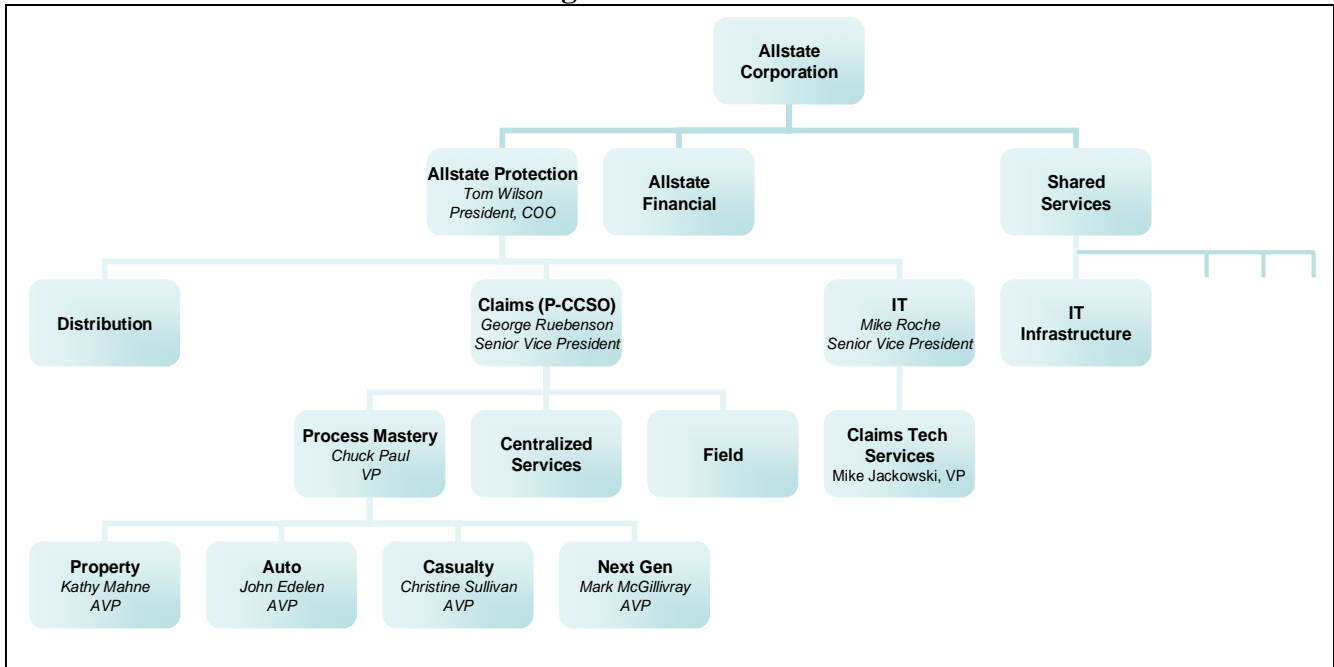


Exhibit 2
Allstate Insurance Company
Past and Current Perceptions on Management and IT Capability

Characteristic	P-CCSO 2003*	P-CCSO 2006*
1. Top management and IT (involvement, support)	-1.0	4.2
2. IT and Business Planning	-0.2	5.2
3. Organizational Politics/Turbulence	-0.2	3.6
4. User satisfaction with IT	-0.6	2.1
5. IT practices in the business	-1.8	3.4
Averages for six respondents		
*Scoring: from -8 (very poor) to +8 (excellent)		

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CONTACT INFORMATION

Center for Information Systems Research
MIT Sloan School of Management
3 Cambridge Center, NE20-336
Cambridge, MA 02142
Telephone: 617/253-2348
Facsimile: 617/253-4424
<http://web.mit.edu/cisr/www>

Peter Weill, Director	pweill@mit.edu
David Fitzgerald, Asst. to the Director	dfitz@mit.edu
Jeanne Ross, Principal Res. Scientist	jross@mit.edu
George Westerman, Res. Scientist	georgew@mit.edu
Nils Fonstad, Research Scientist	nilsfonstad@mit.edu
Jack Rockart, Sr. Lecturer Emeritus	jrockart@mit.edu
Chuck Gibson, Sr. Lecturer	cgibson@mit.edu
Chris Foglia, Center Manager	cfoglia@mit.edu
Administrative Assistant	cisr-aa@mit.edu

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