

Michigan's Process Structure Increases Efficiencies

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Executive Summary

The state of Michigan's Department of Management and Budget is comprised of four administrative divisions devoted to providing cost effective business services to state government. One of these administrations, the Workforce Development and Retirement Administration (WDRA), has adopted a private sector model that has experienced great success. WDRA abandoned the traditional bureaucratic organizational structure common in public organizations to become a "process enterprise." As a result, though staffing has been cut by as much as 25 percent and workloads have doubled, its administrative costs are half that of peer systems nationwide and retiree satisfaction ratings are consistently in the 90-95 percent range.

About WDRA

WDRA administers retirement benefits to Michigan's state and public school employees, judges, and state police. These four retirement systems, each with its own legislated rules, policies, and plans, comprise one of the most complex retirement systems in the nation. With 550,000 customers, it is also the nineteenth largest public pension system in the U.S.

Greatly simplified, "retirement administration" means WDRA does the following:

- Advocates for a variety of plans that meet the needs of our broad customer base.
- Collects and manages retirement contributions from employers and employees.
- Maintains service, wage, and contribution records throughout a member's career.
- Provides member education at each life stage to ensure a more secure financial future.
- Determines end-of-career retirement, disability, survivor, and health care eligibility.
- Processed and delivers payments throughout their retired years.

An imperative for change

In the late 1990s, WDRA operated as four separate retirement systems with four separate staffs. Each bureaucratic "silo" toiled under traditional top-down management hierarchies and function-based organizational structures. The four systems competed for resources. Workloads were uneven. Tools were outdated. Customer data was scattered. Procedures were undocumented. Senior leaders were at odds.

Needless to say, WDRA's reputation was dismal. Members struggled to get answers to their questions, and retirees commonly waited up to six months to receive their first pension payment. Customer calls were routinely lost in voice mail or not returned. Complaints were frequent, and demoralized staff accepted the status quo, believing the situation hopeless. In 1997, the Michigan legislature passed the largest early retirement program in the state's history. Though WDRA was able to rally with heroic efforts, borrowed staff, and self-directed teams—it emerged with an awareness that it was ill prepared to meet future demands. Radical change was needed to survive upcoming budget and staff cuts, along with an anticipated 20 percent per year workload increase as baby boomers reached retirement age.

Clearly, new technology was needed, and a tempting way to begin solving problems. Instead, WDRA senior leaders wisely realized that people and processes had to change *before* bringing in new technology. They sought a model to make these core organizational improvements, and asked, Can we apply private sector solutions to change our culture and improve performance?

At the time, private sector businesses facing a competitive global economy were seeking ways to lower costs and increase capacity. Those that focused on reengineering business processes were finding huge gains in efficiency while improving service and quality. WDRA decided that becoming a process-based organization could take it to its goal of being an innovative, flexible, customer-focused organization with a proven success record. It is one of the few public sector organizations to reorganize to a process structure, and dramatic improvements are the result.

A process primer

In simple terms.

In simple terms, a *process* is a set of activities that produces products and services for customers. A *process-based* business organizes its work around outcomes (products and services) rather than tasks (functions).

WDRA reorganized its work around these core customer-focused processes: benefit plan design, employer reporting, customer accounts, customer education, and benefit processing. Finance and process support teams provide services like document management and technology assistance to keep the business running.

In real terms.

In real terms, being process-based meant that WDRA's four systems would be dismantled, its existing management structure would be dissolved, and staff roles would shift and expand.

- For WDRA as a whole, merging the four systems meant a change in identity and a renewed focus on customer service.
- For management, being process-based meant a leaner management team with changed roles and responsibilities. WDRA's top executives now focus on organizational direction and serve as coaches to process leaders. Within each process, a *business process owner* who is accountable for business planning, process improvement, and performance measurement pairs with a *business process leader* who manages day-to-day work.
- For staff, being process-based meant radical changes and broadened roles. Someone once responsible for issuing refunds in the school employee's system might now be part of WDRA benefit processing, taking care of all things related to a customer's record regardless of system. Someone once responsible for processing address changes for state employees might now work in the customer accounts section, helping any customer who phones or visits. Someone once responsible for calculating state police disability payments might now process benefits for all WDRA customers.

In theoretical terms.

In theory, a process-based organization will lead to the following:

- Decisions are made at the lowest level of accountability, by the people closest to the business.
- Decisions are quicker and better informed.
- Staff understand their role in the mission and success of the organization, and the part they play in meeting customer needs.
- Staff take ownership in setting and achieving goals.
- Less supervision is required.
- Innovation and creative solutions are fostered because everyone tries to make the process work better.

- Efficiencies are gained with fewer handoffs, less duplication, and reduced cycle times.
- Costs are reduced; capacity and quality increased.
- The agency becomes more nimble, ready to meet changing customer demands.
- A cohesive team spirit develops and organizational culture is strengthened.
- What is best for the customer is paramount to everyone in the organization.

Quantitative Results

After reengineering to a process enterprise, WDRA has become an innovative, flexible, customer-focused organization with a proven record of success. Whether judged by the change in reputation, formal customer rankings, or measurements of timeliness and quality, service improvements have been dramatic. In spite of its size and complexity, the most recent independent benchmarking reports show WDRA is providing service comparable to its peer systems, but at 50 percent of the cost.

Here are some of its measured successes:

MEASUREMENT	BASELINE (TRADITIONAL STRUCTURE)	6 YEARS LATER (PROCESS-BASED STRUCTURE)
Customer satisfaction Active Retired	Unmeasured	82.9% 93.1%
Employee satisfaction	57.2%	92.6%
Business capacity/efficiency	Base year measurement	250% of base
Date of 1st pension payment	Up to 6 months after retirement date	90% within 60 days of retirement date
Date health insurance initiated	Up to 3 months after retirement date	92.9% initiated by retirement date
Telephone response rate: calls resolved on first contact	Inconsistent; largely unmeasured	93.5% resolved
Written response rate	Inconsistent (up to a year)	86.9% in 10 days
Disability application processing	7-9 months Inconsistent, incomplete medical evaluations	3-5 months Only 44.8% of applicants now need medical evaluations Single resource for consistent evaluations
1099 delivery	Mailed by 1/30 Thousands of calls requesting 1099s between 1/10 – 1/31	Mailed by 1/13; Calls negligible
Pension data entry	9 data entry points	Single data entry point \$300,000 saved
Access to member files	24 hours—if file not already checked out	Immediate and online Multiple users permitted

Qualitative Results

The benefits for the state of Michigan, WDRA, its managers, and its employees are clear. It is also apparent that customers gain with far better service that continues to improve. And taxpayers welcome the reduced costs of administering public retirement programs.

Perhaps the most exciting benefit is how flexible the organization has become in addressing unexpected policy changes or service demands by increasing capacity and quality, even with fewer employees and a growing number of customers.

When the legislature passed a second early retirement in 2002, a one-month application window and immediate effect required fast decisions, nimble shifting of resources, and “can-do” attitudes. A process-based structure allowed WDRA to process six times its annual volume in six months, with high quality that far exceeded customer expectations. On top of that, the agency managed to keep all other business current – an extraordinary achievement that would have been unlikely if driven by a top-down approach.

The Journey

How did WDRA get there?

How do you get a bureaucracy of 175+ people with defined turfs and rigid walls to let go, to flatten, to embrace radical change? How do you dismantle four separate sovereignties to become one customer-focused organization? How do you pare more than 24 distinct functions into a half dozen efficiently operating processes?

First, WDRA tapped the expertise of consultants with proven success stories to help define its path. It researched best-in-class practices for administering pensions. The actual process reengineering began with mapping the “as-is” (how the business currently functioned), and then mapping radically new, efficient workflows for completing core business tasks. All tasks fell into a pared-down group of key processes: plan design, employer reporting, customer accounts, customer education, benefit processing, finance, and process support.

Next, “owners” were assigned to each of the new processes to implement reengineered improvements. The process owners worked together to reallocate resources and staff, and to keep the business functioning during the transition. They also developed metrics that would monitor progress, keep the focus on customer needs, and ensure continuous improvement.

The journey was not easy, and leaders had to remain passionate and unwavering in their commitment to the reorganization plan. Other lessons learned by WDRA:

- Involve the entire organization every step of the way. When everyone agrees on and shares the vision, they’ll be inspired to continue when times get rough.
- Implement “quick hits.” When ways to streamline workflows and eliminate steps that don’t add value are found, don’t wait to start doing things the new way. It takes time to become fully process-based; early successes will fuel determination.
- Establish clear measurements of process performance. Outcomes that are measured in terms of value to the customer will identify opportunities for improvement and help workers know how their work fits with agency goals. Graphic representations that show progress also help keep people focused on the vision.
- Invest in people. Staff skills, knowledge, and tools must be cutting edge, or the business won’t be cutting edge. Encourage creative innovation, and recognize accomplishments.

- Insist on pragmatic strategic and business planning processes. At WDRA, each process develops its own business plan, which in turn feeds the organizational business plan.
- Relentless persistence. Change isn't easy, especially in a bureaucracy. But perseverance will pay off with solid, measurable results.

Costs.

The costs for WDRA to become process-based were minimal.

- **Staff development.** WDRA trained staff to perform tasks across processes. Leaders also conducted seminars to help staff understand how a process enterprise works, and the roles that staff play in achieving the mission and vision.
- **Consultation.** WDRA invested in change management experts to help the organization adapt to changes, and in organizational development firms to help guide the transition.

Obstacles.

These hurdles had to be overcome as WDRA moved to become process-based:

- Budget limits resulted in a 25 percent reduction in staff by 2002.
- Workload increased by 100 percent and continues to rise as baby boomers retire.
- The comfortable apron strings of the traditional bureaucracy regularly pulled us backward as we struggled against sameness.

Today

When WDRA began its process enterprise journey, it gathered everyone on staff to help craft its new vision: *fast, easy access to complete and accurate information and exceptional service*. Everyone on staff today can recite that vision, and it would be hard to find anyone who doesn't remain enthusiastically committed to it.

By many standards, WDRA has reached its vision. Each process has success stories. But the culture has changed—employees have “we can do better” attitudes. They are continually improving processes, providing ever better service, and increasing their own job satisfaction. Maybe one day WDRA will revisit its vision, but in the meantime the agency has undertaken another round of reengineering to take advantage of new technologies and tools. After only a few weeks of effort staff found more ways to streamline workflows, including the merge of two customer-facing processes into one, improving service and efficiencies even further.

The approach can be adapted by almost any public sector organization. It is particularly beneficial to those that provide direct services to customers (e.g., motor vehicle registration, pension administration, unemployment compensation). Today's citizens have high expectations for government, and do not accept tight budgets as an excuse for less-than-exceptional service. This model lets us do more with less.

WDRA's progress has brought attention from its peer agencies throughout Michigan government, and more than a dozen retirement systems from the U.S. and beyond.