

STRATEGIC RESTRUCTURING

Kaiser Permanente targets internal services for strategic restructuring effort

By Bernard Tyson

For many years, Kaiser Permanente dominated the healthcare maintenance services market. We were highly profitable, and when an occasional problem arose, we were usually able to solve it by adding resources. It was a strategic approach not without drawbacks, but as "king of the hill" there was little impetus to change.

Then, with the arrival of the '90s, came a dramatic upheaval in the health care services industry. Suddenly, there was a variety of new players and new competitive forces. These, in turn, were creating significant pricing pressures. We were suddenly being forced to take a hard look at any and all inefficiencies.

Throwing resources at the problem wasn't working

We were a proud, successful organization that had dominated our competition in the previous decade, but now faced a new financial challenge. We could no longer justify operational inefficiencies simply because we were winning or throw resources at a problem to fix it. We knew there would have to be major organizational changes and substantial cost cutting, and no matter how well justified, some members of the team weren't going to like it.

While unsettling, we knew these changes presented us with a unique opportunity to enhance our image and become a better overall organization. We knew we faced sweeping organizational changes and we also knew we were not structured to achieve our strategic goals. Kaiser was changing from a centralized organization to a decentralized but highly integrated organizational model. In the process, we wanted to avoid the classic "command and control" battle where employees mistakenly assume the research is actually being done in an effort to achieve a corporate level centralization.

We brought in outside consultant for objective help

We thought it would be a good idea to bring in an outside consultant with an objective perspective and called in The Amherst Group Limited, a Greenwich, Conn.-based

consulting firm known for helping organizations become more efficient. We knew we wanted to change things, but we weren't sure of the magnitude of the issues we faced or exactly what needed to be done.

We were unaware of the real internal costs

The first thing we discussed with them was the concept of Shared Internal Services, and how we might explore what human resources internal services were costing us and what our internal customers were saying about the services they were receiving. They pointed out that what we had, essentially, were eight different operating units that were all acting independently, not taking advantage of the synergies inherent in the organization. However, we had reason to believe that customer needs in each of the units were relatively similar, and so began to consider whether there wasn't some leverage or sharing that could take place that would be beneficial to everyone.

The first step was to get a sense of what the status quo was with a detailed, data gathering effort called a base case development (see sidebar) that assessed both the cost or resources that were consumed by HR services and the customer perspective on what was working and not working. This was a comprehensive analysis, including both internal HR department costs and costs for other departments within the organization for HR services. It encompassed both the staff time and the nonstaff costs associated with providing HR services.

The numbers were startling

We were surprised to find a whole lot more resources than were anticipated came from outside the HR department. The rigorous data gathering surveyed all the people who were doing HR work and had the HR staff identify those people outside the department who spent more than 5% of their time in HR-related work. Our field personnel probably had a sense that there was a lot of HR-related work being done in their specific areas outside of the HR department, but there was little overall organizational awareness that this was the case. No one seemed surprised when they saw their own individual results of the data gathering, but many of us were sur-

prised when we saw the big picture and how pervasive it was.

The numbers were startling. HR was spending approximately \$42 million annually to service the needs of some 30,000 employees in our Northern California region. Despite this expenditure, when people were asked whether they agreed or strongly agreed with the statement that HR was meeting their needs, only 31% responded positively. These results were a real eye-opener.

Base case data made Kaiser question value

The base case data caused us to question what we were getting for our money and which HR expenditures made the most sense. It also prompted us to look for ways to take better care of the internal customers who serviced Kaiser's external customers. A new environment was obviously called for, one that sought more creative solutions to cutting internal costs while enhancing internal services.

After the base case data on HR expenditures and internal customer satisfaction was developed, Amherst held a three-day, offsite challenge and opportunity session with 30 representative members of the HR department, other units that performed HR services, and their customers. The session had the benefit of bringing people up to speed on what the data showed and the extent of the opportunity for improvement. It helped establish a "change is needed, change is going to happen" atmosphere, and gave those attending a chance to participate in assessing the root causes and to offer suggestions for sources of improvement.

Kaiser discovered high internal fragmentation

We discovered that our organization had the highest fragmentation of any client on which Amherst had collected that kind of data. In our case, it appeared to be a side effect of the fact that people were just pitching in to get done whatever needed getting done. While the spirit of this was admirable, it had resulted in everybody having their finger in everything at one time or another. This undoubtedly was a root cause of cost problems because of the intrinsic ineffectiveness of being fragmented. It was also a likely candidate for customer satisfaction problems, particularly in the areas of turnaround time and the quality of work provided. When no one has clear responsibility, it's easy for things to drop through the cracks. Since HR was already decentralized, there wasn't much sharing of these roles across organizational units, so each little thing had to be done in many places.

An example was recruiting. Nearly every member of the HR staff indicated they spent some amount of time in recruitment activity. Because we did not have many

recruiting specialists, virtually everyone had to be involved in it to some extent.

Another indicator that the potential for savings was high occurred when we discovered we were spending more money on developing training programs than delivering them. Intuitively, one would have to say that number is out of whack. Amherst told us that our development-to-delivery training ratio was actually worse than the pre-existing ratio of any of their other clients, and that we ought to be able to do at least as well as their other clients were doing before they converted to shared services! Even our training people were surprised at the numbers. They knew they were essentially reinventing the wheel, in that they had to customize each training program before delivering it, but they had no idea the data would show it was a cost even higher than that of delivering the program.

New design teams in operation

Four design teams are now up and running, each composed of a diversified group of service providers and customers, particularly customers linked to each service as key stakeholders. They are moving forward in four areas: training and education plans, compensation and benefits, workers' compensation, and recruitment and selection. The anticipated annual savings in HR shared services, based on benchmark sources, are \$1.2 million in recruitment,

\$1.1 million in compensation and benefits and \$2.3 million in training! The staffing model being completed by these teams will disclose where the biggest initial savings hit can be realized as the program rolls into 1996.

Amherst tells me that decentralized companies or those that are in the process of decentralization often experience a knee-jerk reaction to the idea of shared services or of sharing anything. The typical response is likely to be "Oh, this is centralization; therefore, it must have sinister implications. I'm going to lose any input I had and everything will be dictated to me; I won't have any say in terms of what services I get."

Shared services provide cost and service advantages

But in reality, shared services provide a way to have both the cost and service advantage of doing things in a more coordinated fashion and the input or control advantage of having it decentralized. It is addressed by determining how the shared services group reports to the organization. Ideally, shared services should not report directly through a centralized source, but rather to some kind of customer board so there is a direct means for internal customers to let their preferences or needs be known to the service unit.

The results of gathering and analyzing the base case

data and moving forward with a shared services model is that it will permit us to move forward rapidly in aligning our organizational structure to meet out changing strategic goals. We have gained agreement from the majority of our people on what needs to be done and what they can expect from the changes.

We have reorganized our customer service areas, moving decision-making further out. We are streamlining support staff functions and increasing customer focus throughout the company. We believe that as employees become more attuned to the needs of those they serve internally, the company as a whole will become more sensitive to the need to fulfill the expectations of others. Ultimately, this will carry over to more concern for the expectations of external customers.

The program with Amherst has provided our HR leadership with a roadmap for moving forward in terms of

organizational implications and for learning how to make the changes work. We are now beginning to look at applying this idea to other areas of the organization.

The advice I would give to other HR executives looking to deliver effective support services to internal customers is to think back on how your HR organization was created over time. Is it the product of a series of patchwork programs and throwing resources at problems as they occurred? If so, looking at it now and where you need to go in future, you will probably start to see fragmentation in terms of how resources are being used to carry out system-wide HR needs. When Amherst stepped in and did the research and data collection for us, high fragmentation instantly surfaced. High fragmentation leads to high costs, the fallout of which is inefficiency, duplication of efforts and redundancy. That for me was an eye opener. ■