Shifting activities from employees to customers: Implications for the design and implementation of regulatory change

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ABSTRACT

Increasingly activities traditionally undertaken by employees are being shifted to customers. The question is: what are the implications of this shift for the design and implementation of change? This paper explores this question in the context of regulatory change. Using insights and learnings from the implementation of Financial Services Reform in Insurance Australia Group (IAG) for employees operating under the NRMA Insurance brand, four key aspects were identified: the impact of the shift needs to be clearly understood; employee and customer change programs need to be aligned; the customer interactions used as a method for facilitating the change; and an iterative approach used for implementation. Recommendations for future research are provided.

Key words: change, regulatory, implementation, employees, customers, success

INTRODUCTION

There is an increasing trend to shift activities from employees to customers across a range of industries (Sheth, Sisodia & Sharma, 2000). This has become more apparent with customers taking greater responsibility for decisions ranging from purchase of travel to choice of superannuation provider. The question is: what are the implications of this shift for the design and implementation change programs? This paper explores this question in the context of regulatory change reviewing the change program to implement Financial Services Reform (FSR) in Insurance Australia Group (IAG) for employees operating under the NRMA Insurance brand. Regulatory change provides an interesting context for change because it is very prescriptive, the government sets the timetable and the change program must be implemented and be successful. The issue of success is a concern when the reported failure rate for change initiatives is as high as 70% (Atkinson, 2005; Balogun & Jenkins, 2003; Beer & Nohria, 2000).

FINANCIAL SERVICES REFORM IN AUSTRALIA

The recent Financial Services Reform (FSR) for general insurers in Australia was introduced with a two year transition period with the regime coming into force from March 2004. Organisations could elect to
go live earlier but if they did they had to comply with the legislation from this earlier opt in date. While FSR was legislation introduced to provide a consistent framework of consumer protection across the general insurance industry it also shifted responsibility for decision-making about the purchase of insurance to the customer. The amount of shifted decision-making varied depending on the FSR advice model used (see Figure 1).

**Figure 1 About Here**

There are four major advice models in the FSR legislation. Under the Spot and Refer model employees refer customers to the insurance provider but must not comment or give advice about the insurance products. The customer decides whether to go to the recommended insurer. Under the Information not Advice model employees must limit comments to factual information and not provide opinions or advice. The customer must make all decisions about the purchase of insurance. For the General Advice employees can provide information and advice about what people generally do but not provide any advice about a customer’s personal circumstances. The customer’s decision can be informed by this general advice but they decide about the purchase of insurance based on their personal circumstances. Under Personal Advice employees can provide information, general and personal advice taking into account a customer’s personal circumstances. The customer must decide whether to act on the advice about the purchase of insurance.

FSR created a step-change in the involvement of customers. Previously customers could, if they wanted, abdicate decision-making about the purchase of insurance to the employee advising them. Now even under the broadest model using personal advice the customer must take responsibility for accepting or declining the advice. FSR also created a step-change for all employees. For those selling insurance products there was a more rigorous framework for behaviours and processes to follow under each of the models. For other employees not involved in selling insurance there was a requirement that they do not
talk about purchasing insurance or insurance products, not even a casual comment to their neighbour over the back fence.

**THE CHALLENGES IN FACILITATING CHANGE IN BEHAVIOURS**

Under FSR there was a need for the behaviour of both the employee and the customer to change and ensure their interaction followed the appropriate FSR advice model. From the change literature we know that it is important to allow people to see and feel the ‘live’ situation and then they will change (Beer Eisenstat & Spector, 1990; Kotter & Cohen, 2002). The change will be less effective if people are provided with information and simply told to change. An iterative learning approach is also important (e.g. Garvin, 2000; Whelan-Berry, Gordan & Hinnings, 2003) designed around the needs of the change recipients (e.g. Balogun & Jenkins, 2003). However using the iterative see – feel – change approach presents a number of problems in the regulatory context when the government sets the rules and the timing. There is limited opportunity for people to see, feel then change. Once the regulations are in force they must be followed. If the regulations are not followed, penalties can apply ranging from fines to loss of license. This also raises the question about whose responsibility it is to educate customers when regulatory change is imposed. With FSR it fell to the organisation.

Therefore it was necessary for the organisation to provide some guidance for operating in the ‘live’ environment. For employees, training programs could be developed to provide information about the ‘new reality’ and role plays or other experiential techniques used to bring it alive. This method while providing valuable familiarisation with the new behaviours would however still leave doubts as to how the real customer interactions would play out. Showing the ‘new reality’ to customers is even more difficult. Getting their attention is the first problem. Most people only read their insurance policy when they need to make a claim. Otherwise customers simply want to know that they are covered by the insurance policy. Customers are unlikely to be interested in a hypothetical situation that has not had an impact on them yet.
In addition, despite the fact that FSR was implemented to provide increased customer protection, customers are likely to be cynical. Regulatory change in general is not seen as providing value. Adding to this, interpretation of the legislation changed during the two-year transition period up to March 2004 that impacted the behaviours and processes to be used. When guidelines are constantly changing it is difficult to ensure employees are doing the right thing. This can create a situation in which customers question the credibility of the organisation and the usefulness of the regulations. Despite these challenges general insurers had to comply with FSR or they would not be able to sell insurance after March 2004.

IMPLEMENTING FSR IN IAG

IAG is the largest general insurance group in Australia and New Zealand employing over 11,000 people. For over 1,800 employees operating under the NRMA Insurance brand, IAG chose to use the Information not Advice model. Under this model, employees must limit comments to customers to factual information and not provide opinions or advice. This model was chosen after a customer needs analysis showed this to be the preferred model for NRMA Insurance customers. The ‘go live’ date chosen by IAG was 28 July, 2003. Preparation for the implementation started well ahead of time. Three months prior to ‘go live’ it was decided to institute an FSR change program targeted at employees. In designing the change approach different contexts were examined, consideration given to the influence of history and process, links established to organisational outcomes (e.g. Pettigrew, 2000; Pettigrew, Woodman & Cameron, 2001), and the areas of resistance identified and addressed (e.g. Hackman, 1999; Mento, Jones & Dirndorfer, 2002; Atkinson, 2005).

Building onto the NRMA Insurance brand ‘help’ the change program was themed ‘right help’ to encourage employee engagement (e.g. Kotter & Cohen, 2002; Lewin, 1951). Activities for the change program included training, pre ‘go live’ trials and post ‘go live’ refresher programs (Hackman, 2004). It was recognized that employees could be scripted but customers could not, so extra effort was put towards
supporting employees in building confidence and skills in customer interactions. Leaders and managers were also engaged to support employees and role model the right behaviours (e.g. Garvin, 2000; Goleman Boyatzis & Mckee, 2002). Changing interpretations of the legislation made this training difficult with new guidelines issued a number of times.

While timelines, processes and behaviours were mandated there was scope for local initiatives which are considered important for success (e.g. Beer et al, 1990; Nielsen & Pedersen, 2003). Several initiatives were implemented. For instance, the call centre in Perth initiated a program called ‘FSR Information Not Advice – Keep it simple: Don’t Panic’ to encourage employees to be more confident. Many branch managers also ran regular sessions with employees to develop new ways of dealing with customers who insisted on getting advice. These activities were targeted at the specific customer base that these branches served. This was particularly important in country locations where communities are very close and it was found that customers wanted advice about decisions.

This FSR change program was assessed both during the implementation pre and post ‘go live’ as well as 18 months later in January 2005. Initial assessments were based on feedback from refresher training and indicated that the implementation had been successful. The metrics also supported this positive view. Mistakes in customer interactions, after an initial and expected spike, reduced to a minimal level. Coaching for those making mistakes also proved effective and monitoring found a generally high level of compliance with processes. The latter assessment in 2005 supported these initial findings. This assessment included interviews with 116 employees representing a 7.5% sample of employees involved in selling channels including call centres, branches, country service centres and sales support. This sample was stratified hierarchically to ensure the interviews were representative. This assessment found that 100% of employees interviewed understood the behaviours they were to use under the Information not Advice model and were generally using the appropriate behaviours with the expected amount of human error. Therefore from an employee perspective the change program was considered a success. The
change program was designed to be iterative so that employees could build up skills and confidence. In fact work is still going on today with new refreshers planned to maintain momentum.

What was interesting in this latter assessment were insights into the perspective of the customer and the importance of the customer interaction. The question in the interviews that provided these insights was: ‘What was the most difficult aspect for you personally when FSR was introduced?’ It would seem while many employees and customers appeared to have made the transition to the new mode of interacting it was not the same for all. Furthermore, while the majority of employees reported few problems with following the Information not Advice model, just over 50% of interviewees requested assistance with wording, especially how to avoid providing advice in complex situations and/or how to respond to customers asking or demanding advice. This particularly applied to longer serving employees and those interacting face to face with customers in branches and country service centres. Some employees spoke about feeling rude when they could not help and provide the advice the customer wanted. For example, as one employee asked: “Could we please educate the customers about FSR so they would understand that we cannot give advice?” The refresher programs being rolled out during 2005 are being designed to support employees in handling these customer interactions. However, these responses also focused attention on involving the customer in the change program, particularly on using the customer interaction more actively and its potential to serve as a vehicle for educating customers.

LEARNINGS FROM THE IAG IMPLEMENTATION

There were a number of aspects of the FSR change program that contributed to its success. There was clarity about the shift in activities and what behaviours needed to change, both for employees and customers. A dedicated change program for employees using an iterative approach was implemented. Adopting an advice model that the majority preferred reduced the complexity for customers. It was recognised that many employees were also customers so they could represent the customer view and
provide feedback. In addition, many employees were related to or knew customers, especially in the smaller communities, so they could explain what was being implemented and why, taking on the role of promoting the FSR change (e.g. Gremler, Gwinner & Brown, 2001). In this way a training program for employees could also be seen in part as a training program for customers.

So what could have been done better? The assessment of the change program points towards targeting the customer more directly. There were a number of initiatives using the employee as the conduit to engage and influence customers both built into the change program and opportunistically. However, possibly more could have been done by implementing a change program for the customer in tandem with the employee program. Also, more use could have been made of the customer interaction consciously and consistently facilitating the co-creation of value (e.g. Prahalad & Ramaswamy, 2004; Vargo & Lusch, 2004). This would be particularly necessary if the close connection between employee and customer as with NRMA Insurance did not exist. The advantages of using the customer interaction in this way has been well documented in the services literature (e.g. Gombeski, Krauss, Taylor, Colihan, Wilson & D’Antonio, 2004; Gremler et al, 2001)

The idea of linking the employee and customer change programs challenges the usual practice of designing and implementing change. Employee change programs are typically seen as the province of line management in conjunction with Human Resources (HR) or Organisation Development (OD) and have an internal focus. Change programs for customers are externally focused and generally the province of Marketing and Sales who often speak of ‘owning the customer’. Much has been written about aligning all internal teams (not only HR/OD and Marketing) in change programs to achieve the outcome for customers (e.g. Blaha & Johnson, 2004; Day, 1999; Kotter & Cohan, 2002; Moss Kanter, Stein & Jick, 1992). There is also a strong literature based on numerous case studies about ensuring employees have the appropriate customer orientation, particularly frontline employees (e.g. Day, 1999; Peccei & Rosenthal, 2000; Nielsen & Pedersen, 2003) and employees promoting the change in their interactions
with customers (e.g. Gremler et al, 2001). Considering customers is also addressed in the literature about
stakeholder management (e.g. Clement, 2005). However little is said about connecting and aligning
change programs for customers with those for employees in regulatory change. Yet insights from this
FSR change program indicate that linking the two could be beneficial.

APPLICATION TO OTHER TYPES OF CHANGE

So are there learnings from this regulatory change program that can be applied to other types of change?
In fact, the FSR regulatory change program has a number of similarities with other types of non-regulatory
change. Both regulatory and non-regulatory change programs typically have a ‘go live’ date. The picture
of the new reality is only known in theory and people are not sure precisely how it will work out in the
‘live’ situation. Both types of change program involve employees and customers with the success of the
change often depending on their interaction. History and context will always need to be considered and
potentially used to support the change initiatives. Therefore the approach used to implement FSR in IAG
for NRMA Insurance could be applied to other change programs.

There are however some important differences. In regulatory change the organisation, employees, and
customers are required to change, although there may be some limited choice for customers such as with
FSR advice models. The issue is to encourage people to do more than the minimum to comply. In other
types of change while employees may be required to change customers are invited to engage in the new
behaviours. The change program does not have to run to a government timetable and can be stopped or
reversed. Although people may be expected to be 100% correct at ‘go live’ there are no legal penalties if
the processes and behaviours are not followed. Organisations may have to work harder to engage the
customer in the first place compared to implementing regulatory change that is mandatory. Therefore a
different approach may be required in elements of the design and implementation for other types of
change.
CONCLUSION

This paper explored the implication of shifting activities from employees to customers for the design and implementation of regulatory change programs. A review of the implementation of FSR in IAG for employees operating under the NRMA Insurance brand established that this change program was successful. The close relationship between many employees and customers made this an effective approach. However, for other regulatory change there may be more need to include consideration of the customer in the change design and implementation. Based on insights and learnings from the implementation of FSR in IAG four key aspects were identified. Firstly, the impact of the shift on the changed roles of the employee and customer needs to be clearly understood. Secondly, employee and customer change programs would benefit from being aligned. Thirdly, the customer interactions can be used as an additional method for facilitating the change. Fourthly, it is important to adopt an iterative approach to implementation allowing for employees and customers to see, feel and engage with the change as well as develop skills and experience in using the new behaviours. Future research could explore other regulatory change in financial services or other industry sectors. Consideration could be given to how programs need to be augmented for non-regulatory change investigating the differences depending on whether employees and customers are invited or required to change. The dynamics of shifting activities from employees to internal customers who are also employees could be investigated as well. In addition, research could be extended to consider change programs in other industries and different cultural contexts.
FIGURE 1
The Shift in Decision-making Responsibility under the Financial Services Reform in Australia

<table>
<thead>
<tr>
<th>Customer takes more responsibility for decision making</th>
<th>Spot &amp; refer</th>
<th>Information not advice</th>
<th>General Advice</th>
<th>Personal Advice</th>
<th>Employee provides more assistance with decision making</th>
</tr>
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