Performance from problem solving

An interview with three leaders at MassMutual

At MassMutual, problem solving leads to higher standards, which in turn mean more problems to solve. The constant cycle is raising performance at every level of the organization.

With more than $600 billion in assets under management as of the third quarter of 2013, Massachusetts Mutual Financial Group—better known as MassMutual—is one of the largest financial-services companies in the United States. Although its namesake life-insurance operation is still its largest single business, MassMutual also offers retirement and asset-management services, particularly through MassMutual Retirement Services and MassMutual affiliates Babson Capital Management, Baring Asset Management, and OppenheimerFunds.

The company has a history of financial strength. In 2012, sales of MassMutual's core whole-life-insurance product notched a seventh consecutive record, while retirement-services sales set a fourth consecutive record. The year ended with the largest dividend in the company's history.

But to strengthen its future, in 2011, MassMutual began adopting lean-management principles as part of the "MassMutual Way." It started with the US insurance business, in a transformation that eventually will reach the entire company. We spoke with Mike Fanning, executive vice president for the US insurance group; Mike Rollings, executive vice president and CFO; and Doug Russell, senior vice president for strategy and corporate development. The three executives emphasized the critical role that more rigorous problem solving has played in the transformation's success.

McKinsey: *How did the transformation begin?*

Doug Russell: For three or four years before this enterprise-wide effort, a number of internal groups started applying ideas such as "lean Six Sigma" and value-stream mapping. The success of those efforts, measured largely in productivity, started to build real grass-roots momentum.

At the same time, the leadership began thinking about where to take the company over the next ten years or so. The ambition centered not just on growing the top line or becoming more efficient but also on better understanding our customers—our distribution partners, policyholders, and participants in our retirement-services business. There was a growing belief that we needed to improve the value we were providing for them and a recognition that it needed to be an enterprise-led effort.

McKinsey: *And yet, by many measures, it seemed that MassMutual was starting from a strong position.*

Mike Fanning: This was a growth transformation—a way that we could build on our position. Coming out of the financial crisis, our ratings and dividends were among the highest in the industry. This was a real chance to create long-term advantages for the entire institution.

Doug Russell: Traditionally, we saw ourselves as a "manufacturing" firm—we manufacture products, which are sold through our strong partnerships with agents and distributors. But given changes in the regulatory and economic environment, along with advances in technology and long-term demographic trends such as the rise of the millennial generation, we knew that we needed to reexamine our assumptions. Looking at how other companies operate gave us the sense that we could fundamentally improve the way we run our business if we could deepen our understanding of our customers' evolving needs.

McKinsey: *Has there been improvement?*

Doug Russell: It's still early days, but we've already seen some highly encouraging results: faster responses to our distribution

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partners, higher placement rates, greater flexibility in accommodating peak demand times, and even tighter management of our cash system. All of that ultimately flows from better understanding what the customer values.

Mike Rollings: We try to view every action from a customer's perspective—would a customer pay us for doing what we're doing right now? If the answer is no, then we need to understand why we are doing it. We can find capacity to do things that we could not have done before and better meet our customers' needs.

McKinsey: *Across the organization, what are some of the most important differences you see between today's MassMutual and the MassMutual of two years ago?*

Mike Fanning: When we first started learning about lean management and visiting companies that were already doing it—some of them for 10 or 20 years—one of the consistent themes was that problem solving was core to their business systems. It was visible at every level of the organization, from people answering customer calls right up to the CEO. Everyone was actively involved in that problem-solving process.

Doug Russell: And that process was essential to improving over time. As a result, we believed that in designing the MassMutual Way, if we didn't put problem solving at its core, all of the tools and all of our work in establishing the other foundational elements would collapse at some point in the future.

McKinsey: *How would you describe problem solving at MassMutual before the transformation started?*

Mike Fanning: It probably wasn't very different from other large companies. When people first saw a problem, there was a sense of urgency to dig in and fix it, but then 3 or 6 or 12 months later the problem would resurface—usually because the first time around, no one spent enough time finding out what the underlying causes actually were.

Doug Russell: In our culture, people thought that if they had a problem they should go to the most senior person on the team to solve it. Also, in any organization, there's a natural tendency for managers to think that the higher they rise in the organization, the more they have to have the answer.

Mike Rollings: The approach would be to step in and do something—to help to fix the problem rather than to stop, step back, ask questions, and coach.

Mike Fanning: We needed a little humility and the willingness to say, "Maybe that's what the problem and answer were 25 years ago, or 20 years ago, or 5 years ago, but it may not be the answer today." We had to recognize that we have a lot of smart people in the organization who really know what they are doing and that we can trust them.

McKinsey: *What was it like to change that mind-set?*

Mike Fanning

Mike Fanning was appointed executive vice president for MassMutual's US insurance group in 2006. He came to MassMutual from MetLife, where he rose through several operational roles, most recently serving as vice president of new individual business. Mr. Fanning holds bachelor's degrees in economics and in organizational behavior and management from Brown University.

Mike Rollings

Mike Rollings has served as executive vice president and CFO of MassMutual since 2006, after serving the company for several years in other financial capacities. Mr. Rollings received his undergraduate degree in finance from Georgetown University and holds a postgraduate degree from the Kellogg School of Management at Northwestern University.

Doug Russell

Doug Russell has been MassMutual's senior vice president for strategy and corporate development since 2009. He joined MassMutual in 2007 as senior vice president, chief operating officer, and CFO of MassMutual's retirement-income business. Earlier in his career, Mr. Russell was an executive at insurers, including Cigna, ING, and Prudential. He holds a bachelor's in economics from Brown University and an MBA from the Tuck School of Business at Dartmouth College.

Mike Fanning: It required a lot of patience. We had to stop thinking, "We have a problem, let's solve it today." Instead, we had to learn how to maintain our sense of urgency while methodically asking, "Do we have the right problem? Can we describe the problem? Have we really reached the root cause?"

Doug Russell: In the early days, it felt like we were moving more slowly in solving problems, but it meant that we were finally solving the correct problems, because we were being more thoughtful about not just what we do but how, and especially why, we do things. Reexamining why we do something is what lets us improve the "what" and the "how."

More important, if done right, problem solving brings the design and execution of solutions closer to the source of the problems. Over time, that is the real power: frontline associates recognize a problem, work on the solution with their management team, then implement all on their own. In the old system, when problems were usually escalated, they either got lost between one management layer and the next and were never reviewed or the recommended action was too superficial and did not actually solve the problem.

McKinsey: *What effect did that evolution have on you as leaders?*

Mike Fanning: I got to a point one day where I realized I had to step out of the way. We were working on the transformation of our new business and underwriting area. Having run a very large underwriting shop earlier in my career, my reaction to some of the ideas was that I would not do things that way.

But you know what? What I think is not the issue. These people are operating the business, they have the right data, and they finished the right process of thinking through the problem and resolving it. What they think is what matters.

Doug Russell: As a leader, you start to set the expectation that people should solve their own problems. The only problems that should be coming to your desk are the ones that require your involvement, either because you are truly the only person who can solve them or—more typically—because you can remove a barrier that the team is running into, such as an out-of-date policy that you can repeal. We must also set the expectation that once problems are solved, we should see benefits in our performance.

McKinsey: *Are people generally willing to identify problems?*

Mike Rollings: We have always worked with employees to address problems and improve. Still, for us it was a change of mind-set to say, "Let's be very comfortable in recognizing that we have problems and that there are places where we can get better." One of the things I have been focusing on and coaching my leaders on is how to create a safe environment for uncovering problems.

Mike Fanning: In large organizations, there's usually a fear of failure. We had to establish a norm that we are always going to have problems—moreover, problems are our opportunities. We celebrate the identification of problems. If, on a whiteboard, we see that all of the boxes are green, that's probably an indication that the system isn't working. There may be problems that we aren't finding, or we need to recalibrate our targets. We keep telling everyone, "Red means things are going well."

Doug Russell: People need to get in the habit of identifying the factors that are inhibiting the team from performing at a higher level. Higher targets therefore almost automatically translate into more problems to solve. In this way, teams learn that solving problems is not the goal; the goal is to help the organization improve.

McKinsey: *What does problem solving at MassMutual look like now?*

Mike Fanning: Problem identification mainly operates through our huddle meetings, which happen at every tier, right up to tier six—the CEO and leadership team. If a problem can't be resolved at a lower tier, typically because it requires coordination among different teams or internal units, it gets passed up to the next tier. For example, there was a problem regarding space-allocation policies in the US insurance group. That had to come to me because we needed a consistent standard across the business.

Doug Russell: The huddles also helped us find time for designing and executing solutions. With the huddle cycle, we could eliminate weekly staff meetings entirely—freeing about eight hours per person per month—and many one-on-one meetings as well. And while the huddles still took time, the total they required was substantially lower.

McKinsey: *How does an organization as large as MassMutual do that at scale?*

Doug Russell: One of our objectives this year is to make sure that we have an effective problem-solving culture throughout the company—that we see a common set of practices regardless of what business or level of the organization we are in. We therefore built problem solving into our definitions of what managers and leaders do. To borrow lean-management terminology, problem solving is now part of the role expectations of leaders, so a large part of their time is spent observing and coaching managers on how they do problem solving.

McKinsey: *As senior executives, how do you know that you are working on the right problems?*

Mike Fanning: Fewer problems are bubbling up to the senior-executive team, which is a good sign that solutions are happening at the local level. We are also pushing fewer problems down the organization from above. Recently, a couple of senior executives heard anecdotes suggesting that there may be problems with our competitive intelligence. We went through our standard problem-solving process and concluded that in fact there was no problem: we could find no factual basis for the concerns. So, rather than take a lot of employees' time to come to the same conclusion, we took the issue off the list.

McKinsey: *What changes do you see among the executive team?*

Mike Fanning: Fundamentally, the changes we needed to make were much more at the leadership level than at the front line—our own behaviors and practices, not those of people working directly with our customers. It was tough to let go, but in the end we wanted our legacy to be an organization that can solve problems and operate on its own.

Mike Rollings: You cannot say, "This is great and we want everyone to do it—but it is not relevant for me." You've got to be in it. When people see that you take problem solving seriously as part of your everyday work, it makes a difference.

Doug Russell: Our CEO now leads a weekly huddle as well, which allows the leadership team

to discuss issues that might have arisen just a day or two earlier. The informality means that an executive can raise a problem without feeling that he or she must think through every possible implication first.

McKinsey: *How would you describe the impact so far?*

Mike Rollings: As CFO, I like to measure return on investment (ROI), and in this context, both the short- and long-term ROI are compelling. But the value is much more than dollars and cents. This is about cultural change that lets us change the way we serve our customers.

Mike Fanning: And although we are still in early days, customers seem to be responding. Historically, we knew what percentage of our applications would end up underwritten, delivered, and paid for by the customer. And we knew that if we shortened our turnaround times for applications, we could raise that figure. It has now increased by about 10 percent. In 2012, we grew our core business by over 20 percent. And we did not have to add a single person to the organization.

Doug Russell: Our employees are more engaged as well, partly because rather than reviewing performance data in the aggregate and in arrears, we see it at the individual level in real time. Employees now understand the impact they are having for our customers, which strengthens alignment around our purpose: helping people protect those they love.

Mike Fanning: The percentage of employees saying that they are proud to work at MassMutual jumped from the mid-70s to the mid-80s; our goal is to reach 90 percent. I'm seeing the emergence of a real ownership culture, where people want not just to work but to have a career. People understand the customer better. They don't wait for someone to tell them what to do: if compliance says that our process is x, but the customer wants y, they figure out how to provide what the customer values in a compliant way.

We started 162 years ago with one policyholder and one agent. Getting closer to the customer again is highly satisfying.

McKinsey: *What lessons would you offer to others just starting out?*

Mike Rollings: There are very few people who just naturally are great problem solvers. Almost everything about problem solving is a learned characteristic. You need to train, practice, get better at it—that is the virtuous cycle that lets an organization continuously improve. ○