

# [Conseco inc. case analysis](https://assignbuster.com/conseco-inc-case-analysis/)

[](https://assignbuster.com/)[Business](https://assignbuster.com/essay-subjects/business/), [Management](https://assignbuster.com/essay-subjects/business/management/)

Conseco Inc. is a diverse financial organization providing services in insurance, risk management, investments, consumerfinanceand lending services markets. The company's customers are primarily middle income individuals and families and senior citizens. Conseco was incorporated in 1979 as a life insurance holding company and quickly devoted its efforts to rapid acquisition of other financial companies throughout the industry. The company was often characterized as entrepreneurial due to a history of growth through acquisition.

The company grew to $95 billion in assets, 13 million customers and 14, 500 employees by the year 2001. One of the riskiest acquisitions Conseco made was that of Green Tree Financial Corporation, which ultimately tripled the cash management departments wire transfer volume. The Cash Management department will be the focus of the analysis and recommendation set forth by the authors of this paper. During the rapid growth period of Conseco, the board of directors hired former CEO of General Electric Capital Corporation, Gary Wendt.

Theleadershipprovided by Mr. Wendt to the organizational structure was to strategically push decision making andaccountabilitydown to the business units. Hisphilosophy, to first re-define the business units and then for the business units each to become committed to process excellence meanwhile he tied the officer's compensation to those specifically designedgoals. This philosophy had a favorable effect on the employees because they could clearly identify their portion of contribution to the corporate goals.

The corporate vision became easily adapted by the Cash Management division as they provided services for many of the daily business function as a centralized function. The primary responsibilities of the Cash Management Department was for managing cash activity, including consolidation of cash, funding accounts, settlement of trade activity and investing of excess funds. Robert McNutt was the proactive department manager for cash management. When Green Tree financial was acquired the department consisted of a well educated cohesive group of professional.

The acquisition tripled the work load for the department as a consequence created many problems in the manual wire transfer system currently in place. The manual wire transfer process flow required the associated to process a batch of wire transfers and prepare them to transmit utilizing the faxed authorization document. The wire transfer requests came into the department from remote facilities throughout the country. Once the document was received it had to be verified, authorized, and checked to validate funding, review for proper authorization.

This process was tedious and monotonous especially considering there were between 200 to 500 wire transfers per day. There were several problem dealing with this volume of information daily: when faxes were received and illegible, a phone call needed to be made to verify the information, verification of authorization was done by matching a listing of over 200 people (a list that changed daily), wires over a certain monetary limit required an officers signature, and the final process required that photocopies of all transfer be forwarded to the St. Paul office via overnight delivery.

McNutt was aware the process needed to be streamlined and was fearful he might loose valuable personnel if the tedious job was not changed. The solution to the labor intensive problem was a vision to build a Web-Based cash management system that would address the entire problem the department faced. The idea was met with approval at the corporate headquarters in Carmel, Indiana. After McNutt received authorization from his immediate supervisor and a concurrent sign off from the internal auditor he was able to pursue the development of the Web-Based solution.

Many advantages were apparent to management especially the fact that Conseco Finance general ledger interface could be integrated into the new system. He had full support from the accounting department and the treasury unit with in the organization and eventually chose to use an in-house division named Codelinks to create the system. It took the team a total of eight months to develop the system most importantly because Codelinks was located in India.

The development of the program had a few of its own problems beyond the fact of the software programs were in a remote location; there was not any dedicated staff for the project, the individuals that assisted with the project still preformed their daily tasked and as a consequence the project lost focus from time to time. Despite the constraints the method of development succeeded in producing a product that was user friendly in a window based data system and all input on screen prints changes was completed via the internet, input was given from each of the key departments and program changes incorporated.

The new program streamlines the wire transfer process and eliminated mistakes, phone calls, authorization problems, photocopies and overnight deliveries. Codelinks believed the product was so well constructed that marketing the product in the future had been planned. The streamlined system also saved the companymoneyan estimated $60, 000 annually as well as eliminating one and a half positions in McNutt's group. Read also under what circumstances should a company's management team give serious consideration

Formal training on the new system was not planned because they agreed the menu driven system would not require training and Codelinks had prepared a user manual as part of the contract for the program. The Web-Based wire transfer project supported the organizational goals for improvement of process controls. It also saved the company money and the business unit had successfully integrated their system within the financial divisions of the corporation based on their own decision making abilities, again which supported the company goals.

When we consider the project as a whole there were not really any dramatic changes but more simply process improvements. The advantages of the system are numerous: the system became more reliable, the menu-based system required all the necessary data on the form before it could be transferred, phone calls were eliminated, automatic download to the Bank of New York could be preformed, spot reviews could be conducted for quality assurance purposes, division and branches had instant access to information, photocopies were eliminated, overnight shipments were eliminated and St.

Paul Division had access for information on the general ledger days earlier. There are some disadvantages to consider however, if the system went down was there a back up plan? When they cut over to the new system, could they really afford to be without trainers and a support team? Will the system work with out error or conflict? Was there a way for Codelinks to add a data acquisition system to the program for back-up purposes? Careful consideration of these issues will be addressed in the analysis portion of thecase study.

Analysis The corporatecultureof Conseco changed with the arrival of former GE head-honcho Gary Wendt in June of 2000 (ironically, Wendt would quit in October of the same year - www. cfo. com). Wendt's goal was to refocus the company and give more decision making power to newly defined strategic business units. It was under Wendt that Conseco corporate was restructured to only include the Cash Management, Capital Management, Legal, and Corporate Finance groups (Thompson and Strickland C-665).

The dramatic cultural changes came about because Wendt felt that after so many years of debt-financed acquisition, the company needed to alter its strategy of growth through acquisition and recommit itself to internal and external process excellence. These changes resulted in a more flattened organization. A organization in which employees at all levels were educated in the goals of their specific business unit and where year-end bonus compensation was tied to the meeting of business unit goals (Thompson ; Strickland C-665).

The managers of the SBU's were given the freedom to make strategic business decisions. This very freedom is what allowed Robert McNutt to pursue the creation and implementation of an unbudgeted web-based cash management system, though it could be argued that the decision to go forward with the new system was not truly an option. The textbook makes clear that McNutt's team was short of staff and was overworked (Thompson ; Strickland C-661 ; C-662). That fact being stated, the Cash Management team had to come up with a way to automate the wire-transfer system or they were " sunk" (a key success factor).

Also, McNutt was under " top-heavy" pressure to make sure that whatever systems he put in place complied with the corporate objectives of cost-cutting and process streamlining. The strategy that was implemented by Cash Management group was to streamline their processes. The objectives for the project were simply to eliminate the cumbersome and tedious manual processes, and evolve into the new system. Implementation of the strategy to achieve this objective appeared to be well thought out and widely accepted within the centralized corporate structure.

As stated above the other key factor was the monetary compensation tied into the success of controlling overhead costs. This focused low-cost strategy was starkly different than Conseco's previous two decades of pursuing broad differentiation through continuous acquisition. Even thoughtechnologybased systems have a way of decentralizing organizations, in this instance the web-based technology by its very nature connected the wire transfer users within the system, providing instant feedback for one another.

The execution of the strategy proved to be beneficial in many aspects nonetheless, it is the collective opinion of the authors as to whether the long term strategy accommodated the last task of the strategic plan, monitor and evaluate the implementation. It appears management may have been inexperienced at the inherent problems of switching from a manual system to a Web-Based system and the tremendous support that is often required for the long term success of such a project. Several driving forces made themselves evident throughout the case study.

For example, corporate goals needed to be satisfied at every business unit which, in turn, affected each worker within the business unit. The skilled and educated workforce within the cash management group not only were a precious commodity, but were a hard working cohesive team willing to go beyond just their normal workload to contribute to the success of the Web-Based system. An additional driving force was the opportunity to streamline the process for wire transfers whereby they could meet the corporate goals for cutting overhead cost.

This business unit was forced to advance technology or loose human resources, become overburdened with work and loose monetary compensation in the form of year-end bonuses at the same time. In order to further the Conseco analysis in terms of quality management, the 1992 Baldrige Award Criteria has been applied to the Cash Management group to evaluate seven key aspects of the organization. Effective use of the tool allows for continuous process improvement.