

## Interview with: **F. E. FERGUSON**

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Insurance Company  
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*MIS QUARTERLY: What do you believe the top executives, in general, expect from their information function?*

MR. FERGUSON: One of the most important information functions that I use is direct personal contact with the functional heads of the departments. This allows me not only to get information, but also to judge the people providing the information at the same time. It serves a dual function.

*MIS QUARTERLY: What kind of information do you feel is important in managing this organization from your perspective as Chief Executive Officer?*

MR. FERGUSON: Personnel information is the most important. If we get the right people in the right jobs, everything else is easy. It's also important to know just how the organization fits in the economic society.

In a life insurance company such as Northwestern Mutual Life, we are involved in literally two kinds of businesses: one is strictly insurance and the other is investment. Both are equally important in their own right. These are two very different businesses, which need entirely different kinds of information.

The demographics of the sales side is very important to the insurance business, but not nearly as much to the investment business. The economics of a given industry in the investment business could be very important when a major investment is made. When I say major, that can range up to \$100 million plus in any one investment.

We deal with a myriad of publics and a myriad of sources of information — part of it is generated internally, part of it is generated through trade associations, and part of it is through general economic and business organizations and knowledge.

*MIS QUARTERLY: You're indicating that as a top executive, the information that is important to you is not likely to be computer-generated. You've mentioned some sources of the information that you use in conducting your affairs. Can you expand that list at all as to where you get key information?*

MR. FERGUSON: Some of the information that's important is computer-generated. For example, to create demographics for the sales side of our company, we have a very extensive marketing research operation that uses a lot of computer models. Our planning process which is very important uses computer models for both short and long range planning. The fact is, much of our information is computer-oriented as far as models of the company and general agencies are concerned.

We've probably gone farther in our computerization of the company than any of our major competitors in the industry, and we have been ahead for many years. The information I get from the computer is interesting and vital, but it's far more vital at other levels of the company than it is at mine.

*MIS QUARTERLY: Can you give me a few examples of some of the formalized, computer-generated information that you personally find useful?*

MR. FERGUSON: For example, in our five-year planning process, we use the computer to project what the P&L and balance sheet are going to look like over that five year time span. We also use the computer to see what happens when we juggle some of the items.

*MIS QUARTERLY: Do you, in working with that kind of computer output, suggest the kinds of juggling that you'd like to see tried?*

MR. FERGUSON: Quite often. What would happen if we were to do one thing instead of another? Instead of assuming that we're going to have a five percent inflation rate over the next four years, put in a 7½ percent inflation rate and see what happens to the whole process.

*MIS QUARTERLY: Do you work with a staff individual who then makes these adjustments and essentially conducts an iterative dialogue between you and the computer system?*

MR. FERGUSON: That's right. The Director of Research and Corporate Development does this for me.

*MIS QUARTERLY: Let's talk now about the computer function of your company itself. The information services area impacts upon, and is impacted by, all parts of the company. Do your computer people get directly involved in the planning process, or are they facilitators of the planning process?*

MR. FERGUSON: Both, but they're more facilitators than they are originators. The user departments are the initiators. Our computer operation is not run as a profit center, but rather it is viewed as a service center, with users that specify how they want functions performed. Our computer people are very much involved with the planning process, but far more as facilitators than as originators.

*MIS QUARTERLY: Can you give a brief description of how your planning process works?*

MR. FERGUSON: Once a year, all the top functional heads in the company get together for a three-day session. We leave the building and get away from the day-to-day operations. We usually spend the first half-day looking toward business in the next five to ten years. Sometimes we invite people from the outside who are futurists that lead us in new directions, to try to stretch our imaginations and our minds. The time is devoted to this sort of thinking, with emphasis on "never-never land" the first half-day. Then, we slowly come back to reality. The last day-and-a-half we try to get back to the reality of anything that's come out of the "never-never land" that might fit now in the real world. This is a very important part of our planning process which we do in the Spring.

In the early Fall, probably the first of October, we begin our budgeting process and our short-range, short-term planning for the next calendar year, following our goals which have been partially established by a three- and a five-year moving strategic plan. These plans aren't cast in bronze, but they serve as our operating plan that goes to the lowest level of management for approval and works up management by levels. By the middle of December, all management levels are in agreement.

*MIS QUARTERLY: Where does the computer become involved in the planning process to facilitate it?*

MR. FERGUSON: It serves a myriad of functions in the budgeting process. It is particularly important in assisting in the formulation of the assumptions our economists put together on inflation rates and how these are going to influence our budgeting process for the coming year. We do that on a one-year, three-year, and five-year basis. This is all done using computer models because we hold everything else constant and vary the inflation rate. Now that's a fairly new phenomenon in the insurance business in the last six or seven years. It's had such a dramatic influence that it has changed our planning process almost entirely because we now develop a most-likely plan. We always come out on a one, three, and five year basis. That's all done through computer models.

*MIS QUARTERLY: In the planning process, when do you ask for assumptions to be changed or some test to be run?*

MR. FERGUSON: Invariably, that's done in late December and during January, because we present our one-, three-, and five-year plans at the February Board Meeting. The strategic planning is done at the end of the planning process in the early part of the year.

*MIS QUARTERLY: If very significant events transpire in the environment, do you change your one-year operating plan?*

MR. FERGUSON: We do make changes in the operating plan. A good example of this was in 1974: we had an 800 million dollar common stock account, and the Dow Jones fell from September to December, so we changed our plan considerably.

*MIS QUARTERLY: Do you see your ability to make these revisions as necessary because of your level of computerization? I presume you would not have been able to make these adjustments if your systems were strictly manual.*

MR. FERGUSON: Right. That 1974 experience was a wonderful example of a plan change, because we were able to work all the way back through to what our dividend position ought to be. That all has to be done each year in the months of September and October for the following year. This is the way Northwestern Mutual Life has to work. Fifteen years ago, it would have been impossible to have made the changes we made four years ago.

*MIS QUARTERLY: Do you think that part of your apparent success today, and favorable attitude toward the computer, is caused by the fact that you have been using the computer for a long time?*

MR. FERGUSON: We first put everything we could on cards in 1957. Now we've got everything online. Our computer has been our production line for twenty years. A life insurance company is an ideal application, because we deal with so many individual statistics and items. Yes, we're very comfortable with our systems.

For example, today we have 320 fewer people in the home office operation that we had in 1970, and we are doing nearly four times the business. We have been able to keep our unit costs on a constant basis; in fact, these are even somewhat lower than in 1970 and 1971, in spite of the tremendous pressures from inflation. The only way we have been able to do this is through the use of the computer. Our planning process has helped us, but the computer is our real production line.

*MIS QUARTERLY: To whom does your top computer executive report?*

MR. FERGUSON: He reports to an executive vice president of operations and administration.

*MIS QUARTERLY: What criteria or methods do you use in evaluating the performance of the information services function and its lead executive?*

MR. FERGUSON: That has been changed dramatically by some of the software applications we have for managing our user-oriented information systems and databases. We know very quickly if the user is happy.

*MIS QUARTERLY: Rather than say, as some companies do, that performance is measured in terms of a percent of assets, you rest heavily on how satisfied the people in the organization are with the computer function?*

MR. FERGUSON: That's right.

*MIS QUARTERLY: If you were looking for the ideal person to head up the information systems function in a corporation, what kind of person would you look for?*

MR. FERGUSON: I'd want a manager — a person who knows how to handle people. Technicians I can get readily. It's the skills of managing people that are significant at the very top level.

*MIS QUARTERLY: I'm familiar with one large insurance company in the Minneapolis-St. Paul area that replaced their information systems executive with one of their user/managers who had about twenty-five years experience in the insurance business. He knew very little about the*

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*computer business and had been a complaining user for a number of years. I understand he has worked out beautifully. He's a good manager, and he's learned enough so he can be conversant in the computer area. Is this the kind of person you're talking about?*

MR. FERGUSON: I removed a technician from that lead position some years ago because he wasn't an effective manager. It was one of the first really nasty jobs I had as an executive officer. He was always wanting to re-invent the wheel. That was fine, but it was costing us too much money to constantly re-invent the wheel. I don't care whether the manager came from mortgage operations, the actuarial department, or any other area. As long as the person is a good manager, he can do a good job running any function.

*MIS QUARTERLY: How are the priorities set within your company for allocation of resources to the information systems function? That is, how do you decide how much to spend on it?*

MR. FERGUSON: We look at how it impacts the rest of our company. It depends on what the users' needs are, and then a screening of those needs.

*MIS QUARTERLY: Are users asked to pay for the development of the systems they request?*

MR. FERGUSON: Right. However, we make investments in systems for future needs, as well. We have just completed the installation of a nation-wide network of intelligent terminals. We think it's the first such network in the life insurance industry and maybe the insurance industry.

There are a number of networks of non-intelligent terminals around the country. We've just completed the installation of this network in all our general agencies. There is no way we can pay for this system of terminals for the functions that we are now doing; the benefits are limited at this point. The cost of this system is all budgeted in corporate overhead expense, because we are convinced that it is going to become very useful. Now that we have it, we can develop it as new needs are recognized. We think that it has

tremendous possibilities, but we don't think we'll have enough functions on it to make it pay for itself until 1981.

*MIS QUARTERLY: Is the primary benefit from the system to reduce clerical cost, assist in better management of the agency, get more premiums in force, or what?*

MR. FERGUSON: We see the primary benefit of this type of system as higher productivity of the agent. An agent doesn't really work until he's face to face with a prospect. If we can do as much paperwork as possible for him, he's free to spend more time with clients. That's the most productive time he spends. That's the ultimate goal of this system.

*MIS QUARTERLY: Some companies have gone to the chart-room, information-room, or decision-room concept. Do you think it would be useful for your company?*

MR. FERGUSON: We've rejected the idea. We don't see any great benefits from it. If you have a group of customers that you want to frequently impress by a lot of the magic from the computer, I think then it's a good idea. I don't think it's useful when it comes to information.

*MIS QUARTERLY: As you look to the 1980's, can you think of any major problems that face your company, or companies in general, with which the computer or information systems might help?*

MR. FERGUSON: Inflation and government are overpowering in everything we do these days. I'm firmly convinced that the Federal Government is the main source of most of our inflation, and I wish they'd leave us alone and leave inflation alone. When ERISA came along, it cost us over a million dollars to convert our data processing systems to conform with the rules and regulations of that law. Every action government takes often causes a massive reaction back through a complicated data processing system.

*MIS QUARTERLY: As an insurance company, a lot of what you maintain in databases is personal information. Have you examined the potential impact of changes in privacy legislation?*

MR. FERGUSON: I think some of it is very good, and I think some of it is dangerously bad, because it's going to put every single person in exactly the same slot if the government has it's own way. It will leave very little individuality for men and women. There are good things about it. Loose information and misinformation are serious problems. Privacy legislation is with us and it's going to become more onerous.

*MIS QUARTERLY: I suspect incurring the cost of compliance is also a significant factor.*

MR. FERGUSON: Right, it is a big factor. It's hardest on small businesses. I don't know what little businesses do. Many of them go out of

business, or have to sell out to larger companies because they need the equipment to support the technology needed to be able to keep up with the regulatory changes.

*MIS QUARTERLY: What you're saying is that some of the government actions are forcing an increase in the size and complexity of the business organizations that we have?*

MR. FERGUSON: It is ironic that many government actions are taken for the wrong reason and cause a result that they protest they don't want. They claim they want to save the family farm, they want to save the small business, yet the changes they require make it almost impossible for the small business to continue to exist.