# Doing It Right with Computer Communication: A Case Study of the United Services Automobile Association

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## Executive Summary

Experience and research suggest that communications and information technology can expand the range of opportunities available to decisionmakers. Specifically, the evidence demonstrates that smaller, faster, cheaper, and better computer communication breeds choice by enabling managers to overcome space and time constraints. For a business firm, this can mean more choices about where to locate, how to structure the company, and how to relate to customers and employees. Nevertheless, applying the technology provides no guarantee that a company or government agency will make the *right* decisions from its expanding universe of opportunities.

This is the first of a projected series of case studies on information intensive organizations. It examines a firm that appears to have made the right choices about which technologies to apply and about what to choose from its increased number of opportunities. Specifically, the case study reports on how one financial services company, the United Services Automobile Association, has deployed state-of-the-art communication and information systems that have expanded its choices. Moreover, it examines how USAA has used these systems to make the right choices in the key areas of corporate location and structure, customer and employee relations. Finally, it takes up the challenges that now confront the company as it faces new choices in changing markets.

## Expanding Choice, Choosing Right

A large body of experience and research suggests that the application of communication and information technology expands the range of opportunities available to decisionmakers.[1] This evidence shows that smaller, faster, cheaper, and better computer communication breeds choice by enabling managers to overcome the constraints of space and time. For a business firm, this can mean more choices about where to locate, how to structure the company, and how to relate to customers and employees. Nevertheless, from what we know, applying this technology provides no guarantee that a company or government agency will make the *right* decisions from its expanding universe of opportunities. As a result, there is a lot to learn from the experiences of organizations that have chosen to make extensive use of computer communication.

This case study is part of a wider project on the relationship of computer communication to choice in business and government that may include additional case studies. Specifically, it reports on how one information-intensive financial services company, the United Services Automobile Association (USAA), appears to have made the right choices, both about which technologies to apply and about what to choose from its increased number of opportunities. Moreover, it examines how USAA has used information systems to make the right choices in the key areas of corporate location and structure, customer and employee relations. Finally, it takes up the challenges that now confront the company as it faces new choices in changing markets.

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[1]There is a vast research literature on this subject. Among the leading works are Ron Abler, John S. Adam, and Peter Gould, *Spatial Organization*, Englewood Cliffs, N.J.: Prentice-Hall, 1971; James Beniger, *The Control Revolution*, Cambridge, Mass.: Harvard University Press, 1986; Manuel Castells, *The Informational City: Information Technology, Economic Restructuring, and the Urban-Regional Process*, Oxford: Basil Blackwell, 1989; Alfred D. Chandler, Jr., *The Visible Hand: The Managerial Revolution in American Business*, Cambridge, Mass.: Harvard University Press, 1977; Thomas P. Coakley, *Command and Control for War and Peace*, Washington, D.C.: National Defense University, 1992; Stan Davis, and Bill Davidson, *2020 Vision*, N.Y.: Simon and Schuster, 1991; Peter Drucker, *Post-Capitalist Society*, N.Y.: HarperCollins, 1993; Martin L. Ernst, Anthony G. Oettinger, Anne W. Branscomb, Jerome S. Rubin, and Janet Wikler, *Mastering the Changing Information World*, Norwood, N.J.: Ablex, 1993; Richard O'Brien, *Global Financial Integration: The End of Geography?* N.Y.: Council on Foreign Relations Press, 1992; Allan R. Pred, *Urban Growth and the Circulation of Information: The United States System of Cities, 1790-1840*, Cambridge, Mass.: Harvard Univ. Press, 1973; George Stalk, Jr., and Thomas M. Hout, *Competing Against Time*, N.Y.: The Free Press, 1990. Walter B. Wriston, *The Twilight of Sovereignty: How the Information Revolution Is Transforming Our World*, N.Y.: Scribner, 1992.

**USAA: Successes and Challenges**

United Services Automobile Association is a diversified financial services company with $33 billion in owned and managed assets. Operating one of the most advanced telecommunications systems in the world, USAA communicates with customers, mainly military officers and their families, almost exclusively by telephone and mail. This report looks at how the company makes use of computer communication technology to expand its choices about business location, corporate structure, customer and employee relations. Specifically, the study draws on interviews with senior company executives, other USAA employees, and documentary sources to assess the company's primary strategies. These include making full use of advanced computer communication, centralizing business operations in one primary location, emphasizing telecommunications rather than direct face-to-face connections to customers, and investing heavily in employee training, particularly in computer communication.[2] As one of the largest business users of computer communication, USAA offers lessons in its success, in how the company has succeeded, and in the challenges it now confronts.[3]

The USAA case demonstrates that computer communication technology does not determine where a company locates, whether it centralizes or decentralizes its decisionmaking structure, how it serves customers, and how it treats employees. On the contrary, technology expands opportunities over the range of decision areas, thereby multiplying opportunities to succeed—and to fail. USAA is interesting because it is one of the most successful large business users of computer communication. It also holds interest because of *how* it succeeded: by embracing both technology and a commitment to service, to its customers, its employees, and its community. Finally, USAA is an important example because it faces challenges that many information-intensive companies must confront.

Specifically, I found that the company's decision to invest heavily in information technology significantly influenced its development over the past three decades. In the 1960s,

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[2]On-site interviews were conducted in February 1993 and February 1994.

[3]A 1994 report of the General Accounting Office (GAO) included USAA among five private-sector firms that "consistently apply information technology to improve mission performance." See United States, General Accounting Office, *Improving Mission Performance Through Strategic Information Management and Technology: Learning from Leading Organizations*, GAO/AIMD-94-115, Washington, D.C.: U.S. Government Printing Office, May 1994.

like many firms, USAA faced a choice: it could maintain a pattern of slow, steady technological development or accelerate investment in information resources. But, unlike many firms, as a result of innovative leadership, it chose to accelerate and, by deploying new telecommunications and computer-based image processing systems, dramatically increased productivity and service offerings.

I also found that the deployment of new computer communication technologies expanded the range of alternatives in several key areas, including the location of business sites, corporate structure, customer service, and employee relations. Technology made it possible for USAA to choose to disperse its operations over a wider geographical area. Instead, although it located some offices outside its San Antonio headquarters, USAA chose to expand in that city to take advantage of a long-standing relationship to the local community, because it had the pick of the local labor force and because the San Antonio area provided an attractive location for its personnel. Moreover, remaining in San Antonio eased the transition from an insurance company to a diversified financial services firm.

Technology also provided the opportunity to consider a range of centralized and decentralized organizational structures. USAA chose to concentrate strategic decisionmaking in an executive committee, even as it parceled operational authority among several product divisions. This enabled the company to retain control over critical decision areas as it expanded into new services such as banking, investment services, travel, buying services, and retirement communities.

I also found that the company has been able to retain its strong reputation for excellent customer relations in the face of rapid technological change, because it places personal trust, service, and continuous improvement above other considerations. Although USAA is capable of using its computer and telecommunication systems to sell to third parties information on an enviable customer base, the company chooses not to do so because it values the trust of its members and recognizes the difficulty of retaining that trust in the absence of face-to-face relationships. Technology also offered USAA the option of deepening control and surveillance over its workforce, dividing tasks more narrowly, and reducing its workforce to a semi- and low-skilled (and therefore low-paid) status. Instead, it used technology to empower workers, principally by expanding and diversifying jobs and by investing heavily in education and training.

USAA provides a benchmark example of how a company can make use of computer communication to succeed financially and earn near universal admiration for customer service and employee relations. Nevertheless, the company faces several challenges, and how it responds to these will go a long way to determining whether USAA remains successful. In technology USAA faces the challenge of continuing to innovate with new systems without allowing a rigid "systems thinking" to shape its decisionmaking, particularly on information-management issues. The company will also be confronting the limits of its decision to centralize most of its work in the San Antonio headquarters. For example, some units might benefit from closer proximity to major financial centers. USAA also faces a changing customer base, as the ratio of military to nonmilitary members declines. Among other things, it needs to determine the extent to which nonmilitary members change the balance of expectations, for example, by weighing price more heavily than service. Finally, the company faces competitive challenges to its by now traditional policy of investing heavily in a highly skilled workforce from companies that prefer to use the capacity of high technology to make productive use of a low-skilled, low-wage workforce.

**USAA Background**

USAA was established in 1922, when twenty-five Army officers organized an association to provide automobile insurance to military officers who had difficulty obtaining it because of their mobility and risky work.[4] At that time, insurance agents sold policies to people in the local community and were reluctant to insure "outsiders," including mobile military officers. From the start, USAA was organized as a "reciprocal inter-insurance exchange," meaning a business made up of owner members who insure one another and that pays out excess revenues in the form of reduced premiums, subscriber savings accounts, and dividends. Membership was limited, as it still is, to military officers, active, former, and retired, and their dependents. From its founding, USAA was a direct-marketing firm providing its members with insurance through the mail or by telephone from its original headquarters in San Antonio, Texas. The company experienced steady growth in membership and policies until World War II and sharper growth thereafter. By the late 1960s, it was a

[4]The chief source for the history of the company to 1970 is Edward Clare Dunn, *USAA: Life Story of a Business Cooperative*, N.Y.: McGraw-Hill, 1970.

solid property and casualty company managing $200 million in assets, the sixteenth largest insurer of private automobiles in the United States.

At that time, under the new leadership of retired Air Force Brigadier General Robert F. McDermott, USAA made extensive use of computer communication to diversify and grow into a financial services company that now owns and manages assets worth $33 billion, making it the largest direct insurer in the U.S. and, overall, the fifth largest auto insurer and fourth in home insurance sales.[5] In addition to all major forms of insurance, the company now operates in banking, investment management, real estate development, purchasing services, retirement communities, and tourism (see **Figure 1** and **Table 1**).

**Choosing Technology Breeds Choices**

Companies are faced with a growing range of choices about the deployment of computer communication technology. The specific types of choices are likely to vary with the company's history, the nature of its business, and the state of the markets in which it operates. From the beginning, USAA made use of the technologies necessary to operate a major insurance company but did not choose to concentrate resources on becoming an industry leader in the development and application of new technologies. The company could have maintained this pattern of steady but slow technological growth, but it decided to change course in the late 1960s, when it initiated a series of policies that would make it one of the more technology-intensive companies in the world. USAA's decision to invest heavily in computer and communication technology significantly influenced the company's development. But along with the amount it invested in major systems development projects, the company emphasized an important attitude about the use of technology. As its former CEO, Robert McDermott, puts it:

> We're not interested in technology for its own sake, only if we can turn it into better service and more satisfying jobs. ... We don't think of technology as a cost center. It's a strategic weapon. It contributes to service, so cost is not the only or even the primary consideration.[6]

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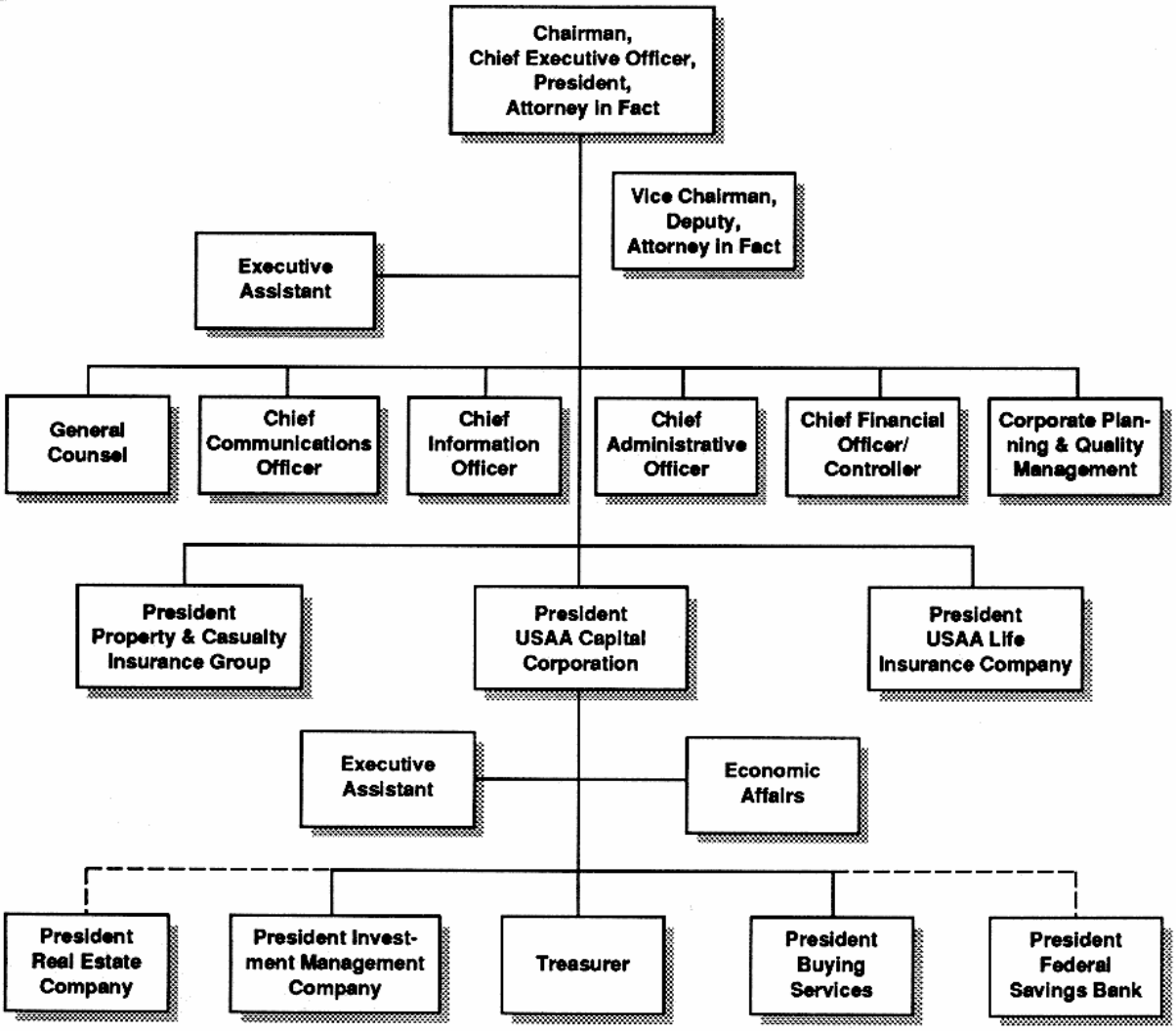
[5]A direct insurer sells directly to the customer, not through its own or independent agents. GEICO, which insures civilian workers in the federal government, is another example of a direct insurer and a major competitor to USAA's insurance units.

[6]Thomas Teal, "Service Comes First: An Interview with USAA's Robert F. McDermott," *Harvard Business Review*, September-October, 1991, 127.




--- Indicates arm's-length relationship with USAA

Source: USAA internal document. Used by permission.

**Figure 1**

**USAA Organizational Structure, February 1, 1994**

Like many growing service companies in the late 1960s, USAA faced the challenge of managing mounting paper files, with fully half unavailable because they were being used, moving between employees, or lost. The company responded with a major commitment to the widespread deployment of communication and information technology to reduce paper, increase the speed of access to files, and generally expand information processing productivity. USAA put into place a series of technology initiatives that expanded the use of electronic processing, transmission, and storage (**Table 2**), including one of the foremost

image-processing document management systems in the world. The company continues to allocate close to 20 percent of its budget to information services.

**Table 1**

**USAA Services**

| Insurance |
|---|
| Transportation: auto, motorcycle, trailer, motorhome, boat, aviation<br>Fire and Flood<br>Homeowner<br>Rental<br>General Liability<br>Business: retail, office buildings<br>Life and Health |
| **Investments** |
| Funds: gold and precious metals, specialty, money market, international, balanced portfolio, tax-exempt money market and bond, growth, income<br>Discount brokerage<br>Individual retirement annuities<br>Real estate syndications<br>Section 403 (b)s |
| **Banking** |
| Auto pricing and purchasing extended warranty<br>Auto and consumer loans<br>Certificates of deposit<br>Checking and savings accounts<br>Credit cards<br>IRAs<br>Mortgage loans |
| **Buying Services** |
| Discounts on jewelry, appliances, electronics<br>Long-distance telephone<br>Road & Travel (an auto club-type service)<br>Cruises and tours |
| **Retirement Communities** |

Source: Adapted from a USAA document. Used by permission.

As a result of these initiatives, company labor productivity has increased dramatically. In 1952, the ratio of employees to written policies was 1 to 290. By 1985, this had grown to

1 for every 1,003 policies and these are considerably more varied and complex. By 1993, USAA's headquarters was one of the largest computer communication business sites in the U.S., processing fourteen million electronic transactions a day, including 342,000 telephone calls.

USAA provides toll-free service to customers and offers an automated voice-response system available at all times. Telephone is used for 90 percent of its incoming business, and mail makes up the rest. In 1993, the company's "800" numbers handled forty million service calls. USAA is now the largest single site user of telecommunications and is in the top thirty of all business users. In addition to providing the hub for its customer network, the San Antonio headquarters is the center of a telecommunications network comprising Regional Service Offices (RSOs) located in Tampa, Sacramento, Colorado Springs, Norfolk, Tulsa,[7] Reston (Virginia), West Point, Seattle, and overseas, in London and Frankfurt. USAA has made use of new telecommunications services to better manage its delivery of its own services. For example, the company has organized field trials of a workforce management program called Cybernetics that provides near instant information on the workload balance among customer service representatives to improve response time. This arose in response to growing difficulties in meeting the company's objective of responding to 80 percent of its calls within twenty seconds. In addition, it is testing an intelligent queuing system that provides a member with information, based on assessments of past experience and current levels of calls and staffing, on about how long it will take to answer that member's call.

USAA's goal of a "paperless" environment led to the development of its image-processing system. The system scans and digitizes incoming mail for on-line viewing through high-resolution terminals. The company pursued image processing with the goal of reducing the time it takes to respond to customers from twelve days in the paper mail era down to one or two days. In the 1970s, USAA assessed a range of document management possibilities, in the course of which the company improved paper handling procedures so well that it rejected two attempts to use microfilm and switched the bulk of its contact with customers from mail to toll-free telephone. This slowed the growth in mail volume, but not enough to discourage consideration of image systems, as they began to emerge from laboratories in the early 1980s. USAA incorporated image systems into its 1980 Long Range Systems Plan, testing them

[7]The office in Tulsa is scheduled to close in 1995 and relocate to San Antonio.

principally on filing correspondence and mortgage documents in the Property & Casualty company.

**Table 2**

**Five-Year R&D Plan: 1990–1995**

| Technologies Under Investigation | | |
|---|---|---|
| Customer access methods<br>Voice/data integration<br>Intelligent workstations<br>IS development methodologies<br>Optical storage systems<br>Audio recording | Database machines<br>Hardware/software ergonomics<br>Productivity enhancements<br>Knowledge-based systems<br>Voice recognition/voice synthesis | Electronic data interchange<br>Nueral network computing<br>5th generation languages<br>Video technologies<br>Voice analysis<br>Portable radio linked computing |
| **Planned Projects** | | |
| **User Support:**<br>Image system for claim processing<br>Claims audio recording<br>Telephone computer integration<br>Voice analysis<br>Telephone monitoring/ reporting<br>Knowledge-based systems<br>Electronic data interchange<br>5th generation languages<br>Radio linked computing | **Customer Support:**<br>Customer access<br>Personal access devices<br>Voice recognition<br>Video to members<br>Smart cards | **I/T Support:**<br>Data storage on optical disk<br>Data driven design<br>Intelligent workstation<br>Knowledge-based system development environment<br>Keyless workstation<br>Machine-readable image |

I/T = Information Technology

Source: Joyce Elam and John Sviokla, *The Image Processing Project at USAA*, Harvard Business School, Report 9-190-155, March 17, 1992, p. 11.

In the fall of 1982, USAA began full-time research on image systems, including work on the organizational changes needed to prepare the company for smooth implementation when image processing became commercially viable. From 1984 through 1987, the company operated two prototype systems, one from 3M and one from File Net. In 1985 USAA initiated an Automated Insurance Environment (AIE) program that reduced the amount of

paper filing and computer keying for service reps. AIE replaced some paper with screened information and is credited with changing paper-based work routines, including the necessity of locating a paper file before responding to a customer question or request. Though AIE helped the company to improve document management, it was image processing that made a significant reduction in the amount of paper processed and stored. Early in 1987, USAA concluded that image processing was ready, solicited information and specifications from nine vendors, and, in July 1987, selected IBM to install the first image system with more than a thousand terminals. By the end of 1988, the largest image system in the world was up and running at USAA, with about 175 terminals processing mail for 16 percent of customers.[8] Within a year, image systems processed all ten thousand letters, amounting to about 25,000 pages received each day at the Property & Casualty Insurance Group division. By March 1990 no paper mail had to be delivered to work locations, completing the initial installation plan. Two months later, a second installation increased the number of users to 2,500, including personnel at Regional Service Offices in Tampa, Sacramento, Colorado Springs, and Norfolk. This means that no incoming mail, including the thirty thousand pieces a day arriving into the San Antonio office, ever has to leave the mail room. During 1993, image users requested file information over sixteen million times, up 27 percent over 1992. Documents stored were up over 40 percent from the previous year with a total document count approaching eighty million. The availability of optical files, in lieu of the Policy Service paper files, has resulted in a current floor space savings of 39,000 square feet of prime office space.

By 1995, the company anticipates storing a total of 120 million documents with over one billion pages on greater than 3 terabytes (3 million megabytes) of optical disc storage, with an additional 3 terabytes of backup storage on optical disc. USAA is implementing Image Support within its bank and investment companies. It is also looking at several new applications such as adding color photographs, faxes, and oral statements to the optical libraries.

In an interview with *The Harvard Business Review*, retired CEO McDermott cut through the language of technology and systems to offer a simple lesson on the wider value of image processing:

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[8]IBM announced its ImagePlus product, based on the USAA design.

> Suppose Colonel Smith has sent us a letter asking for a change in his homeowners insurance, and he calls and wants to know if we've received it. The service representative says, "Yes, sir, I've got it right here." "You do?" he says. "Yes," the rep says, "I have it right in front of me. What can I do for you."
>
> The colonel's impressed. We received his letter only that morning, but it's already been imaged, so it's instantly available to every service representative in the building.
>
> Now let's say Colonel Smith calls back the next day with some additional information we've asked him for and talks to a different service rep who *also* has his letter "right here in front of me." Now the colonel's impressed and amazed.
>
> Let's say that the service rep, who has not only Colonel Smith's letter but his entire file available on the screen, goes on to explain how the change Smith wants to make in his homeowner's coverage may reduce his need for umbrella liability and thus lower the cost of that policy. Now the colonel's impressed and amazed and very pleased. And so are we, because the whole transaction's taken five minutes.[9]

This has taken the company a long way from the early 1980s, when a member could not be given service until the paper file was located and delivered to the desk of a customer service representative.

USAA operates an Advanced Technology Center responsible for continuous technological innovation involving a systematic planning process. The Center works on technologies not currently part of the company's business operation, putting systems through a set of research and development stages. Among its current leading projects are direct access technologies, computer-telephone integration, geographical information systems, artificial intelligence, fuzzy logic, chaotic systems, and ergonomics.

Direct access technologies comprise a family of systems that could permit members to check account balances, pay bills, obtain policy information, or buy mutual funds directly from an enhanced telephone or personal computer. The Center, in partnership with other units of the company, is testing various configurations of hardware and software. For example, focus groups are comparing the value of touch-sensitive screened telephones versus keyboard-

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[9]Teal, "Service Comes First," 120.

based computers and weighing the value of video access to a customer service representative or claims adjuster.[10]

New workstation designs aim to replace the majority of dumb terminals in use by customer service representatives. These would automate dialing, integrate intelligent queuing and answering, and permit data to move automatically with a telephone call transferred through the business.

Geographical information systems are being pursued, because precise identification of member and supplier location permits more proactive planning rather than simply responding to calls from members with claims. This promises to speed up the process of claims identification in catastrophes, such as the recent California earthquakes. It would also automatically determine critical insurance considerations, such as whether a property is located in a flood plain. The Center is studying chaotic or nonlinear systems, because they might provide alternatives to linear models that are unable to offer much help in forecasting natural disasters, such as the two major hurricanes which, between 1989 and 1992, substantially increased member claims. Finally, the ergonomics laboratory develops and tests new workstation equipment for safety and health considerations.

As with most such advanced research efforts, for a variety of technical and nontechnical reasons, many of the products and processes that the Center takes up never make it into operation. For example, voice-recognition systems were dropped, because they would only be needed for that decreasing fraction of members who lack touchtone telephones. Nevertheless, the Center represents a central commitment to technological planning. It is currently at work on an Information Technology Strategic Plan to keep the company ahead in the development of those communication and information resources that can expand the company's decisionmaking horizon.

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[10]Focus sessions suggest that customers are not very eager actually to see the rep or claims agent but like the idea of eyeing a policy document, viewing a potential purchase, or presenting a damaged object for a claims adjustor to observe.

**Workplace Location and Business Structure: Bustin' Out All Over**

Companies have to be located somewhere, but there is evidence that computer communication expands their options for ranging over physical and electronic space.[11] Similarly, companies have to choose a specific form of organization, but computer communication tends to expand the spectrum of alternatives between, for example, centralized and decentralized structures.[12] The USAA case suggests that the connections among technology, location, and structure are complex but fluid. Information-intensive companies with extensive facilities to take advantage of communication resources expand their opportunities to choose from a range of alternatives and are not constrained to select particular paths.

Traditional recommendations favoring location near major transportation centers are less relevant for companies that emphasize computer communication and that are chiefly in the business of moving information.[13] Consequently, USAA's history of decisions to emphasize computer communication, and the nature of the financial services business, remove many of the constraints on where it can choose to locate.

Since it substitutes telecommunications for field agents and computer storage for warehousing paper records, USAA could choose almost any location for its headquarters. Abundant computer communication resources permit the company to focus on factors other than transportation and communication.[14] According to Dunn's history of the company,

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[11]Stanley D. Brunn and Thomas R. Leinback, eds., *Collapsing Space & Time: Geographic Aspects of Communication & Information*, London: Harper Collins Academic, 1991; Manuel Castells, *The Informational City: Information Technology, Economic Restructuring, and the Urban-Regional Process*, Oxford: Basil Blackwell, 1989; Nancy Ettinger and Bradley Clay, "Spatial Divisions of Corporate Services Occupations in the United States, 1983-88," *Growth and Change*, **22** (Winter 1991), 36-53; Philip Fine, "Telecom Gives Faltering Towns New Life: Firms Find that Distance Is No Barrier to Running Back-Office Operations," *The Globe and Mail Report on Telecommunication*, September 8, 1992, C8; Thomas W. Malone and John F. Rockart, "Computers, Networks and the Corporation," *Scientific American*, **265**, 3 (September 1991), 128-136.

[12]Chandler, *The Visible Hand*; Stephen H. Lawrence, *Centralization and Decentralization: The Compunications Connection*, Cambridge, Mass.: Harvard University, Program on Information Resources Policy, Incidental Paper, July 1983, I-83-2.

[13]For an overview of approaches to corporate location, see Keith Chapman and David Walker, *Industrial Location: Principles and Policies*, Oxford: Basil Blackwell, 1987.

[14]Business observers increasingly recognize that communication abundance frees firms to focus on other factors. As an executive with one consulting company specializing in location decisions put it, "because most major cities and many smaller ones can now provide state-of-the art telecommunications facilities, managers can take a harder look at other location factors such as labor availability, wage rates, occupancy costs, and other competition for the labor force." Richard J. Maturi, "Telecommunications: A Far-Reaching Capability," *Area Development*, June

confirmed in interviews with company executives, the initial decision to locate in San Antonio was influenced by the presence of a large military officer contingent and the chance occurrence that a group of San Antonio-based officers decided to create the company. USAA also chose to locate its Regional Service Offices in places containing large numbers of military officers. Nevertheless, since the company deals with customers through the mail and over the telephone, it does not need to be physically near military personnel. It chooses to concentrate on other considerations, including the value of its ties to the local community, a good climate, relatively low living costs, and a region that is large enough to support many of the amenities of large cities with fewer of their social problems. Hence, when it decided to move from a location in downtown San Antonio, USAA did not leave the city but relocated to a 286-acre site, twelve miles northwest of downtown, an "edge city" location increasingly popular for corporate facilities.[15] This location provides relatively low-cost space near the highways that move its employees to and from their suburban homes.

In addition to these considerations, USAA executives cite the company's strong ties to the local community. The company has always enjoyed a good relationship with San Antonio. Nevertheless, as part of his effort to change USAA, former company head Robert McDermott personally took charge of an effort to sink deeper roots into the local community. Shortly after taking over as CEO in 1969, he initiated an affirmative action campaign to expand the number of employees from local minority communities. In 1973 he was named the head of the Greater San Antonio Chamber of Commerce. He also took the lead in coordinating a regional economic plan by founding, in 1974, the San Antonio Economic Development Foundation and, six years later, United San Antonio. McDermott also chaired the Texas Research and Technology Foundation, which spearheaded the growth of biomedical research companies in the state.[16] USAA followed McDermott's lead by investing its financial resources locally, including building the Fiesta Texas theme park, which opened outside San Antonio in 1992. It also invests personnel resources in the community, perhaps best exemplified by a mentor program in which over 850 company employees volunteer to work with at-risk students in the local public schools.

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1991, 22-23.

[15]Joel Garreau, *Edge Cities*, N.Y.: Doubleday, 1988.

[16]Joyce Elam and J.E.P. Morrison, "United Services Automobile Association," Case Report 9-188-102, rev. January 1989, Boston, Mass.: Harvard Business School, 1989, 2.

In addition to strong community ties, company executives emphasize the value of being the major private employer in a city with few competitors in its class. This enables USAA to choose from the best that the local workforce has to offer and, further, diminishes the probability of losing employees to the local competition. Moreover, centralization in the headquarters location makes it easier for the company to retain a strong corporate culture built on its military traditions of trust and integrity. Finally, centralization permits USAA to benefit from what economic geographers call "agglomeration economies." This refers to the additional benefits of concentrating complementary production processes in the same area, in this case by bringing together expertise across several product lines and a well-trained workforce to produce a range of service products. People and processes draw on one another for mutual benefit, not unlike the way different service companies gain from proximity in large cities.[17] USAA is unique in that it aims to contain agglomeration economies within the business and, for the most part, under one roof.

Company officials also maintain that decisions about location are linked to issues of corporate structure and management. Partly as a result of its investments in computer communication, USAA was able to take advantage of the opportunity to expand beyond its traditional insurance lines of business. According to these officials, the San Antonio headquarters provided a single roof under which all executives could meet and ease this complex transition. They recognize that with their computer communication resources, the company could have chosen to move to a larger or smaller city. Moreover, because its communication and information costs are practically distance-insensitive, USAA could choose from a range of centralized and decentralized corporate structures. For example, it could base one or more of its business lines outside San Antonio, in one of its Regional Service Offices, for example. Moreover, the company could select from a range of organizational forms including those that accentuate differences among product lines (Property & Casualty, Real Estate, Financial Services, etc.) or among business functions (processing, marketing, accounting, information services, etc.). Finally, USAA is in a position to choose from among a wide range of information processing and telecommunications structures that would center

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[17]For an analysis of agglomeration economies across the services sector in urban centers, see Saskia Sassen, *The Global City: New York, London, Tokyo*, Princeton, N.J.: Princeton University Press, 1991; and Nigel Thrift, "The Fixers: The Urban Geography of International Commercial Capital," in *Global Restructuring and Territorial Development*, edited by J. Henderson and M. Castells, London: Sage, 1987, 203-233.

this activity in one system, with all network roads leading to its headquarters, or it could decide on forms of distributed processing over decentralized networks.

USAA responded to this range of corporate structure options in several ways. Some of its responses resemble the pattern that business historian Alfred Chandler observed in successful American firms such as Du Pont, General Motors (GM), and Sears. According to him, these companies were able to survive furious external competition in the first half of this century by developing a number of product-line divisions (e.g., Chevrolet, Pontiac, Buick, and Oldsmobile within GM) that strengthened themselves by competing against one another within the corporation. Furthermore, these companies made use of new communication and information systems to centralize strategic decisionmaking over their divisions within a small executive committee.[18] USAA appears to have followed this pattern by developing several product-line divisions (which it refers to as "companies") that answer to the USAA board. In recognition of its importance to the company, and after unsuccessful efforts to situate information services within each of the product lines, USAA departed from the product-line pattern by establishing a separate, centralized Information Services (IS) unit. IS is not only an independent unit in the company, it also retains centralized control over information systems within the San Antonio headquarters site.[19] Company executives maintain that by centralizing information systems USAA gains greater control and security. Recognizing that centralization can lead to the catastrophic loss of data, the company keeps elaborate backup systems with everything it does written somewhere else on tape or disk almost simultaneously. According to company estimates, if the headquarters building computer site were completely destroyed, it would take only two to eleven days to get back into operation.

USAA maintains a number of Regional Service Offices, particularly in locations with large concentrations of members. This makes it possible for those members who wish to do so to come to a local office for in-person service. The company does not encourage such activity and provides RSOs with limited staff. These offices also serve as coordination centers in the

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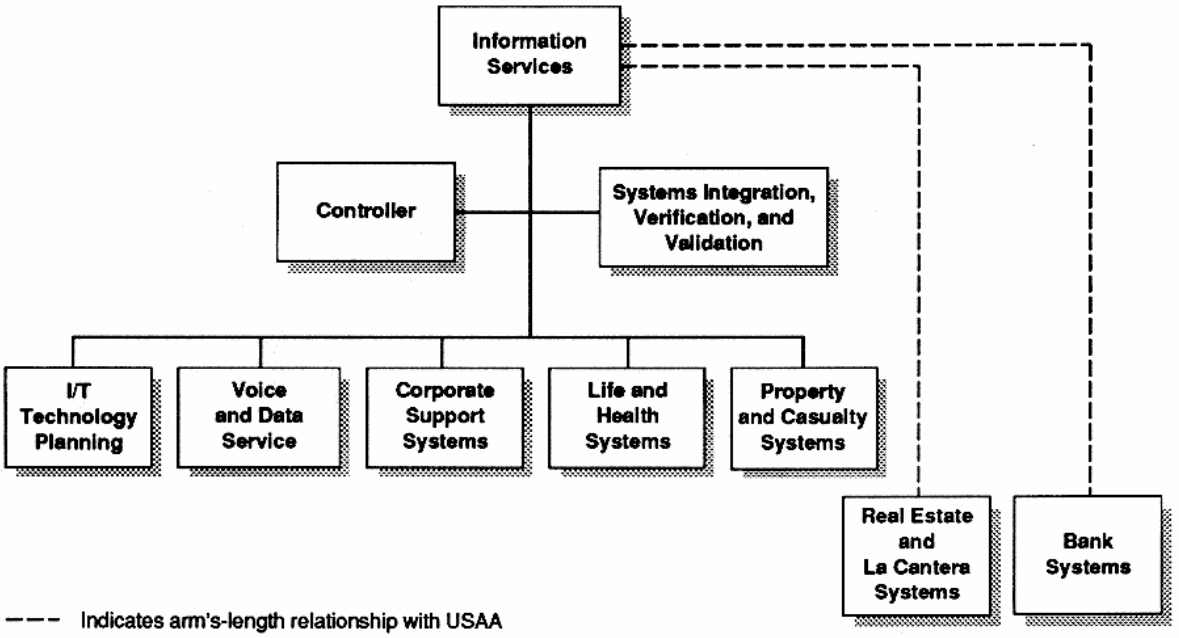
[18]Chandler, *The Visible Hand.*

[19]Figure 2 describes the structure of Information Services until February 1994. With the retirement of the President of IS, Donald Lasher, the company created the position of Chief Information Officer (Figure 1), now filled by Staser Holcomb, formerly Chief Financial Officer. Holcomb, like Lasher, will continue to report directly to the Chairman of the company, Robert Herres. This restructuring continues the policy of centralizing information services, placing them in the upper tier of reporting relationships.




Source: Information Services Division of USAA. Used by permission.

**Figure 2**

**Organizational Structure of Information Services (IS)**

event of a local catastrophe such as a hurricane or earthquake. In these occurrences, the company sends a team of adjusters and other service personnel from San Antonio and other regions to meet customers needs. Moreover, the RSOs serve as backup sites to carry on business in the event of telecommunications and related problems in the San Antonio location. In one case, a two-and-a-half-hour shutdown in incoming telecommunications traffic led to rerouting of calls to provide partial service out of RSOs. Regional offices also provide a hedge against the potential for regulatory and tax policy changes, initiated by the state of Texas, to affect the entire company. Finally, the regional offices make it possible for the company to operate effectively on a business day that takes advantage of four time zones. Notwithstanding this dispersal of business activity, company executives leave little doubt that they value centralization. In fact, three of the company's major regional offices, serving the Great Lakes, the Northeast, and Overseas, are actually located in the San Antonio headquarters site. The Great Lakes Region, begun by current USAA CEO Robert T. Herres, is one of the most important for the company, because it serves as the test bed for new services and business practices.

**Customer Service: Building Trust Electronically**

USAA serves about 2.7 million customers, principally active, former, and retired military officers who are members with ownership rights in the company and their spouses, children, and grandchildren, who are associate members with no ownership rights.[20] The company has been singled out for passing on to its customers the savings brought about by replacing an agency or broker relationship with telephone- and mail-based marketing and customer service.[21] Nevertheless, company executives acknowledge that one of the greatest challenges facing a service company that deals with customers at a distance is figuring out how to build a relationship of *personal trust* with customers that have no face-to-face contact with company representatives. There are several indications that the company succeeds reasonably well at doing this. In 1988, *Consumer Reports* ranked USAA second in overall customer satisfaction among all auto insurance companies and in 1993 rated the firm second among the top twenty-four providers of homeowners insurance.[22] USAA insurance divisions were all ranked in the top categories of "excellent" and "superior" by the insurance rating agency A.M. Best. Most observers acknowledge that the company is particularly advantaged by its customer base, comprising chiefly of active, former, and retired military officers and their families.[23] Customers are well educated and relatively affluent: in 1993, 45 percent of members held graduate degrees, the median family income was almost twice the national average, and most own personal computers. When in 1983 the company's bank, USAA Federal Savings, sent out a notice to members announcing a preapproved credit card offer, over 50 percent responded, well above the industry average of less than 10 percent. Ten years later, the bank stood fifth in cardholder sales volume and was the tenth largest issuer of MasterCards (see **Table 3**).

Members see themselves as part of a community of people who depend on mutual trust. As Retired Vice Admiral M. Staser Holcomb, former head of the Property & Casualty Life Insurance Group, now Chief Information Officer, put it:

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[20]In 1993, of 2.5 million customers, 1,513,000 are regular members, 835,000 are associate members, and 152,000 are considered involuntary, i.e., customers the company is required to insure because of state regulations.

[21]Thomas H. Davenport, *Process Innovation: Reengineering Work through Information Technology*, Boston, Mass.: Harvard Business School Press, 1993, 3.

[22]"Homeowners Insurance," *Consumer Reports*, **58**, 10 (October 1993), 630-631.

[23]State regulations differ on the question of who a company may or must serve. Consequently, in some locations, USAA is allowed or required to serve a wider customer base.

> The relationship between USAA and its policy holder is based on trust. We operate on the basis that an officer's word is his bond and the officer puts his trust in us to provide quality products and services.[24]

**Table 3**

**USAA Ranking Among All MasterCard Issuers (Third Quarter, 1993)**

| | Standard MasterCard (Rank) | Gold MasterCard (Rank) |
|---|---|---|
| **Sales Volumes** | 5th | 7th |
| **Total Outstanding Balance** | 7th | 12th |
| **Active Accounts** | 9th | 11th |
| **Total Accounts** | 10th | 12th |

Source: USAA internal document. Used by permission.

According to Wilson C. Cooney, the company's Senior Vice-President for Property & Casualty Plans & Marketing, USAA customers see themselves as part of the company community whether it comes to paying bills or responding to surveys. For example, four times a year USAA sends a performance evaluation survey to twenty-six thousand of its members and receives responses from over half the sample, substantially higher than the average rate for customer surveys (about 30 percent). But it is not just the characteristics of members that attract such a high response rate. The company *maintains* its members' trust by declining to view their responses as a revenue-generating commodity. Rather than sell data on a member base that is the envy of telemarketers, USAA assures its members that none of the information gathered in surveys leaves the company. In return, the assurance of mutual trust saves the company the cost of checking what members have to say on their application forms and claims reports. The issue of trust is central to the company's strategic planning. The declining number of military personnel means that an increasing percentage of USAA customers will have only a distant connection to the culture that provided the company with

[24]Elam and Morrison, "United Services Automobile Association," 2.

its foundation of trust and integrity. According to company executives, new members appreciate USAA's reputation for service, but care more than earlier generations of customers that the company compete on price as well.

USAA is beginning to take advantage of its extensive member database and expanding service offerings to shift from the traditional industry focus on individual transactions to what it calls needs-based service. This starts from the view that all transactions are related within the life cycle of a member and the member's family. Customarily, the member would initiate a transaction, such as a call to buy auto insurance, and would have to make additional calls to apply for an auto loan, extended warranty protection, etc. The needs-based approach provides a service representative with intelligent systems that, in addition to triggering a call to a member at the time of a key event, also offer information on the implications of the event for the member and his or her family, giving the service representative an opportunity to direct the customer to someone who can sell additional services. Under this system, with one phone call, a customer could receive information on the price of a car, purchase it (perhaps with extended warranty coverage) with a preapproved USAA loan, buy auto and credit insurance, and receive approval to have loan and insurance payments deducted from a USAA bank account. The company has considered the possibility of permitting one customer service representative to handle several of these transactions, so that a member is not passed along to numerous employees. However, both the degree of complexity, in what amounts to mastering several different service industry products, and legal-regulatory constraints on having employees in one division actually sell the services of another have led the company to concentrate on anticipating the range of customer needs and on identifying company personnel able to meet them. For example, when the son or daughter of a member turns seventeen, the member services department sends out a package of "College Bound" material that includes options on checking and savings accounts, credit cards, insurance, computers available through Buying Services, and a discounted long distance service sold through a joint USAA–Sprint offering. When the potential customer calls, a service representative is trained to respond to a request in his or her area of expertise *and* to pass on the customer to reps who can help provide other services.[25]

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[25]Living up to its nondisclosure policy, the company did not allow Sprint to buy its membership list. Rather, the service is marketed through USAA. Marketing people with USAA maintain that this serves Sprint well, because it is the USAA logo, not an appeal from Sprint, that actually sells the service.

**Employee Relations: Training for Choice**

Investment in technology also expands the options for how USAA treats its workforce. Widespread deployment of communication and information systems gives the company tools to run a tightly controlled workplace along rigidly bureaucratic lines. For example, it could maintain a narrow division of labor that would have each employee work on small, repetitive jobs and it could make use of the technology to measure and monitor work performance with precise indices of calls taken, keystrokes entered, etc. In fact, USAA tended to operate a tightly controlled workplace until McDermott took over in 1969. At that time, the company was showing the effects of less than ideal employee relations. Annual turnover reached 42 percent, and the average employee stayed with the company for less than a year. Today, the turnover rate has dropped to about 6 percent, the best in the industry, and most workers see themselves making a career with USAA. The company now receives thirty-five thousand job applications a year for about a thousand positions and is recognized as a leader in employee relations. For example, Levering and Moskowitz rate USAA one of the ten best U.S. companies to work for, singling out job security, career advancement opportunities, as well as its location and facilities for special attention.[26] Much of this was brought about because the company decided that, rather than choose to use technology to eliminate workers and intensify the pattern of narrowly defined jobs, close surveillance, and rigid control, it would use technology, including communication and information systems, to reorganize jobs and the work process to increase job satisfaction, employee stability, and long-term productivity. For example, USAA is a leader in flexible work scheduling, with most of its employees on a four-day, thirty-eight-hour week. Not everything about the company's employee policies is at the top of the industry. Salaries are about average, and not everyone is happy with an open workspace environment that minimizes physical privacy, nor with a dress code that rules out jeans and sandals. Nevertheless, USAA's overall system of incentives has managed to retain a well trained and satisfied workforce.

The company's headquarters facility is one of its major attractions. Ten thousand of its 15,400 employees work in this massive building occupying 3.2 million square feet of office space and 1.8 million in parking facilities half a mile long. The structure itself is the largest privately occupied building in the U.S. and second only to the Pentagon among all facilities.

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[26]Robert Levering and Milton Moskowitz, *The 100 Best Companies to Work for in America*, NY: Doubleday, 1993. USAA reappeared among the top ten best in Levering and Moskowitz' 1994 edition.

It was constructed with an emphasis on natural light, with large windows looking out onto forested surroundings. There are five employee cafeterias, ranging in price and style, two medical clinics, two fitness centers, and, in the outdoor campus-like setting, a five-mile jogging trail, an exercise area, six tennis courts, most lighted for evening play, two baseball diamonds, a soccer field, basketball courts, picnic areas, and several small lakes.

Beyond the workplace environment, USAA's strategy of job retention, expansion and training are central to its approach to employees. Company officials attribute much of the general worker support for technology to its job security philosophy. USAA has never laid off workers because of technology, using attrition and transfers within the company to reorganize positions. Job expansion also plays a significant role in employee satisfaction. Following traditional practice, a 1968 auto insurance application would go through fifty-five separate steps on the way to completion. Traditional work organization also called for assigning one person to each step in the process, so that some people would spend the entire day stapling pieces of paper or removing staples, opening envelopes or sealing them. In the 1960s, employees were issued pencils one at a time. When you thought yours was used up, you would take it to the "pencil lady" who measured it and, if she decided it was too short, issued you another. It is not difficult to make the leap from a forty-hour week of stapling and the "pencil lady" to an annual turnover rate of over 40 percent.

USAA could have continued on this course by using technology to deepen the division of labor, bringing in piece-rate pay, and extremes of electronic performance monitoring that would likely make workers miss the "pencil lady." Instead, the company decided to use the technology to change course, broadening jobs so that, in McDermott's words, "people in the company would not feel that they were merely like workers on an assembly line, to let people know they were part of a very intricate pattern of delivering good service to customers."[27] Now workers are expected to cover a wide range of tasks, permitting many client services to be completed in one phone call. Davenport cites the example of USAA's "empowered customer service representatives" as a "best practice" benchmark for firms attempting to innovate their order management process.[28]

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[27]Ibid., 458.

[28]Davenport, *Process Innovation*, 125.

Job expansion extends to employee involvement in performance monitoring. Firms that operate in a technology-intensive environment are prone to use their systems to measure and monitor whatever the technology makes cost effective. As a result, they produce detailed data on calls taken, keystrokes entered, length of time at a workstation, etc., which become the primary measures of individual performance and the benchmarks for incentive systems. Information technologies make such performance monitoring relatively easy to implement, inexpensive to operate, and attractive, because they provide easy-to-interpret, quantitative results, such as the average length of time it takes to complete a telephone transaction or the number of keystrokes entered in a work hour. But they can be costly in other ways. Employees tend to resent what they see as excessive reliance on quantitative measures that they have had no role in developing or implementing. In some companies, this has escalated from a few disgruntled employees to serious problems including complex strategies to defeat the system (e.g., use the space bar to increase your keystroke count), hostile union negotiations over electronic monitoring, and even calls for legislation to restrict it.[29]

Though it carries out individual and group performance monitoring, USAA has managed to avoid many of the problems. The company makes use of a monthly report that covers the quality and quantity of work, timely service delivery, use of resources, and customer satisfaction. The goal of the report is not to produce a static inventory of numbers that can be keyed to pay raises. In fact, the results are not used in salary decisions. Instead, they determine how well an individual or group is improving and whether more attention, including more training, is required. Moreover, workers themselves have developed the performance grading formulas, established the relative difficulty of tasks performed, and agreed on how to weigh each score according to the experience level of each employee. A representative group of employees decides which dimensions of the job need to be tracked, based on an assessment of its significance and the ability to gather data and analyze the results. They literally vote on which performance measures to include and the relative weight of each in the system. Workers pass on their recommendations to managers who adjust and implement them with the workforce. Though the company uses quantitative measures, such as

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[29]Shoshana Zuboff, *In the Age of the Smart Machine*, N.Y.: Basic Books, 1988. U.S. Congress, Office of Technology Assessment (OTA), *The Electronic Supervisor: New Technologies/New Tensions*, OTA-CIT-333, Washington, D.C.: U.S. Government Printing Office, 1987.

the number of calls taken and business transactions handled, these are part of an overall set of performance measures that give greater weight to qualitative measures.[30]

Job expansion, including employee participation in decisionmaking, in a technology-intensive environment requires extensive training, a major feature of work at USAA. In 1993, the company spent more than twice the industry average on training, $31.9 million or 4.44 percent of expenses, employing 239 full-time instructors for its 128 classrooms.[31] In addition, USAA provides close to $2.8 million a year in tuition reimbursements for employees pursuing college degrees. About 2,100 are enrolled in one or more of the 130 college classes sponsored by six area schools offered in classrooms at the company's headquarters. The average customer-contact employee receives training over an initial twenty-six month period. Before service representatives begin to answer telephones, they receive a minimum of sixteen weeks of training and job simulations. New hires in Information Services, mainly with computer science degrees, go through an eleven-week period of intensive training, taking up about 410 hours, and receive another forty-eight hours over the remainder of the first year. For most positions at USAA, there is a well defined career path that includes significant amounts of training beyond the initial job-specific, or "pipeline," classes for all new hires. The majority of employees attend at least one training session each year, and many participate in several. In addition to this training, USAA provides all employees with incentives to continue their education, whether professional or general academic. While these educational opportunities are strictly voluntary and done on the employee's own time, the company encourages employees to participate by prepaying required fees like college tuition and professional exam registration. From business degrees to designations in insurance, USAA tries to make it as painless as possible for employees to return to school. The company looks for successful completion, and those not making the minimum grades must pay back fees to the company. Overall, 30 percent of the workforce continues with its education, about three times the norm in business. One of the significant side benefits of extensive training is a workforce equipped to participate in, rather than just feel the impact of, technological change.

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[30]Tom Ehrenfeld, "Merit Evaluation and the Family of Measures," *Harvard Business Review*, September-October 1991, 122.

[31]This places USAA among the leaders in American industry. Motorola, which has been singled out as a training benchmark spends 4 percent of expenditures on training. The average for all U.S. industry is 1.2 percent. See "Motorola: Training for the Millennium," *Business Week*, March 28, 1994, 158-164.

USAA workers are directly involved in planning, developing, and testing new systems, and these are not implemented until workers agree on their performance benefits.

USAA makes good on its training programs by promoting close to one-third of its employees every year, containing the organizational churn brought about by a dynamic and technology-intensive environment within the company. Aided by an automated career-path planning system that notifies employees of the training and skill requirements needed for advancement, the company operates an extensive job-listing and counseling program to help smooth the movement of its workforce throughout the company.[32] In essence, the company recognizes that organizational churn, including high employee turnover, is a necessary consequence of contemporary business, particularly in the services industry. However, unlike many companies, USAA manages these consequences by providing the tools, in training and promotion, that contain the process of continuous change within the company. Though employees are constantly moving on, there is a greater likelihood at USAA than elsewhere that moving on means staying with the company.

**New Choices**

USAA demonstrates that computer communication expands opportunities over the range of business decisions. Rather than determine a particular course of action, the application of technology enlarges the universe of choice. Part of the reason for USAA's success is that its executives not only recognize this, they see it as an opportunity to apply more effectively and efficiently the central values of the firm, which amount to providing the best possible service to its members, employees, and to the community. Rather than take the approach of organizing the firm around one or another conception of what technology requires, e.g., the elimination of hierarchy or detailed, electronic surveillance of employees, USAA has succeeded because it makes use of technology to expand opportunities. Operating in a highly competitive and dynamic set of businesses, USAA faces numerous challenges. This report concludes by addressing these in each of its major thematic areas, with the aim not of making recommendations but of identifying challenges and options.

• **Avoid systems thinking.** USAA has succeeded in part because it has made good choices about *technology*, from the strategic decision to pursue a technology-intensive course,

[32]The only restriction is that workers cannot use the system to change positions more than once a year.

to the choice of specific applications, such as image systems. Decisions about the relationship of old to new applications will always test the ability of executives to determine relative value and appropriate timing. These are very real challenges, but they are not the sort to raise fundamental questions about the direction of the company. A more central challenge facing the company is its ability to retain the view that technology is an enabling and not a determining force. The reason this may prove to be particularly challenging is that the very success of the company, since beginning to invest heavily in computer communication systems, makes it easier to think that the systems themselves are principally responsible for its success. This might lead USAA to permit what business analyst Thomas Davenport calls "systems thinking" to exercise an increasing influence on its decisionmaking. In his recent assessment of corporate approaches to information management, Davenport has criticized the application of what are termed "information architecture models" (also known as business systems planning and strategic data planning), because they were "invented to specify computer systems and databases unambiguously" so that "information environments could be designed for the entire organization, without reference to particular individuals."[33] According to his research, few companies succeed with such models because most proceed without any concern for how people actually *use* information. USAA has recently begun to organize its own Information Technology Strategic Plan, which, company officials maintain, will guide USAA policy over the next several years. However, the company faces the challenge of avoiding overconfidence arising from its own success in computer communications. It also needs to address Davenport's concerns about the gaps between most models and the real world of information handling. Moreover, many of USAA's competitors across its lines of business have provided a good market for many of the management tools that USAA, out of concern for compromising its core values, has tended to reject. These include, for example, sophisticated time-management applications that provide a wealth of information about employees but risk creating a more rigid work process and increasing

[33]Thomas H. Davenport, "Saving Its Soul: Human Centered Information Management," *Harvard Business Review*, March-April 1994, 119-131.

employee stress.[34] As the number of such products grow and as its competitors introduce them, USAA will feel greater pressure to follow their lead.[35]

• **Where is the best location, location, location?** This study also demonstrates that computer communication expanded the possible *locations* for USAA to carry out its various businesses. Among the options available, it chose to continue the process of centralizing operations in the San Antonio headquarters, taking advantage of agglomeration economies that eased expansion into new lines of financial services. But this very expansion raises concerns about whether it should maintain the strategy of centralization. For example, company executives acknowledge that the absence of daily, face-to-face contact with leaders in financial services, such as major New York brokerage houses, may disadvantage the company. It is the case, as *The Wall Street Journal, Texas Journal* reports, that the USAA Investment Management Company "has grappled with its share of laggard funds." Notwithstanding a reputation for service and low expense ratios, which ease pressures for high returns, the *Journal* reported that USAA's gold and aggressive growth offerings all trailed their respective benchmark indexes by double-digit percentage points for the last five years and that over the past ten years the company's growth fund trailed the benchmark by seventy percentage points. According to the president of the company's mutual fund arm, "With 20/20 hindsight we can say that we were invested in the wrong stocks, in the wrong industries."[36] It would also involve 20/20 hindsight to conclude that, with a base in New York or another financial center, the company would necessarily improve performance by attracting more top traders and by increasing opportunities for in-person contacts. Nevertheless, it is part of a greater challenge likely to face the company in the coming years: the tradeoff between agglomeration economies (and other less tangible benefits of the San Antonio location) and the gains from dispersing operations, particularly its newer businesses, to take advantage of what other locales have to offer.

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[34]The company recognized the need to strike a balance when it rejected, as too rigid for the USAA workplace culture, an automated work scheduling system offered by a large telecommunications company and selected instead a more flexible system designed by a small, relatively new firm.

[35]Thomas P. Coakley reminds us that the U.S. Marine Corps' manual *Warfighting* provides some of the best advice on this subject: "A military decision is not merely a mathematical computation. Decision making requires both the intuitive skill to recognize and analyze the essence of a given problem and the creative ability to devise a practical solution. This ability is the product of experience, education, intelligence, boldness, perception, and character" (cited in Coakley, *Command and Control for War and Peace*, Washington, D.C.: National Defense University, 1991).

[36]*The Wall Street Journal, Texas Journal*, Wednesday, January 26, 1994, T4.

• **New businesses, old regulations.** USAA made use of computer communication to move into new lines of business that are organized as separate units. The company's traditional insurance businesses report directly to the CEO and President of USAA. Its newer lines report to the CEO through the president of a subsidiary, the USAA Capital Corporation. Further, two of these newer businesses, the real estate and bank companies, maintain an arm's-length relationship to USAA Capital (**Figure 1**). USAA faces the *structural* challenge of realizing the efficiencies that computer communication helps to bring about by integrating its various lines of business, as it addresses a legal-regulatory system that requires the company to keep them apart. Specifically, although technology has made it easier for one service representative to sell a car, insure it, provide a loan, and offer advice on mutual funds, federal and state law require that separate units handle banking, investment management, buying services and insurance. As a result, a service representative in insurance must transfer a customer who also wants to purchase a mutual fund or a retirement home to sales people in other parts of the company. Although computer communication has expanded business opportunities, USAA faces the challenge of coping with a legal system, established before the time of integrated financial services companies, that constrains the company's organizational options. USAA is nevertheless at an advantage, because its investment in computer communication enables the company to remain nimble enough to change its organizational structure in response to expected changes in the legal-regulatory environment.

• **Maintain customer trust, but at what price?** My inquiry confirms previous assessments that give USAA high marks for *customer service*. Computer communication has played an important role by expanding the company's product line and by increasing the efficiency and effectiveness of its service delivery. USAA has also done well here, because it has resisted business pressure to sell information about its members and otherwise treat like a commodity the data that it can now more easily gather and package than before. This has enabled the company to maintain its members' trust and protect the high value of its reputation. Nevertheless, USAA operates in markets that are growing increasingly competitive, diversified and technology-intensive. As a result, the company will feel the pressure to modify its policy and will have to weigh any change against the likely cost to its reputation.

USAA also confronts the challenge of dealing with a changing *customer base*. Company executives differ in their assessments of just how significant a change is likely. Most agree

that declining military spending and the company's own expansion will diminish the proportion of military officers in its customer base. USAA will increasingly be serving the descendants of military officers, as well as the officers themselves. However difficult to measure, this will have some impact on customer expectations, particularly leading to relatively greater concern for price over USAA's traditional strength, customer service. According to those company officials who maintain this position, customers with weaker military ties are not likely to see USAA as an extension of that community, for which service is a central value. In addition, they are more apt to view the company as just another business and to value price over loyalty. USAA faces the challenge of rethinking its customer community and the balance it aims to achieve between service and price competition. The company's investment in technology can improve how it faces this challenge because computer communication enables USAA to operate efficiently on price as well as service. Moreover, by expanding its service offerings USAA is creating a set of related products that give it the opportunity to meet most of its customers financial services needs. Within the constraints of regulatory requirements, USAA can reconfigure its mission. The company that was once limited to providing insurance to the military community can now offer a complete package of financial services, along with discount jewelry and telephone service, to a wider market.

• **Training for what?** Computer communication has given USAA the opportunity to deploy a wide range of *employee relations* strategies. In general, the company could have deepened its traditional tendency to rely on a low skilled, low wage workforce, accepting high turnover for low labor costs. Instead, it reversed position and deployed new technologies to increase employee skill levels and job responsibilities, principally through an industry-leading education and training program. USAA now faces the challenge of maintaining this strategy in the face of increasing costs, tightening competition, and a restrictive legal-regulatory environment. The company supported continuous training partly because it hoped to turn service reps into sales managers equipped to handle "one-stop shopping" for the range of USAA products. The company now recognizes that the costs of training and maintaining skill levels adequate to sell, for example, insurance, credit cards, mutual funds, etc., may be too high. More important, for the foreseeable future regulatory barriers preventing this form of integrated business across financial products are likely to continue. Company executives now expect that USAA will continue to offer "one-call shopping," permitting a customer to buy a

range of services with one call but requiring a sales rep to pass the customer to counterparts in different USAA divisions. With the likelihood of creating the "universal" sales representative diminished, the company has less incentive to expand training programs that, in Zuboff's terms, "informate" rather than automate the jobs of its largest employee category.[37] As a result, USAA faces the difficult question of determining the limits of its industry-leading training program.

In conclusion, USAA has demonstrated that an information-intensive company can use computer communication to "get it right" for customers, employees, and its bottom line. Admittedly, it faces difficult choices, but this is nothing new for a firm that started out providing car insurance for a handful of military officers and, partly because it recognized that choice is the mark of success, has risen to the leadership ranks of the financial services industry.

[37]Zuboff, *In the Age of the Smart Machine*.

## Acronyms

| | |
|---|---|
| AIE | Automated Insurance Environment |
| RSO | Regional Service Office |
| IS | Information Services |
| USAA | United Services Automobile Association |

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