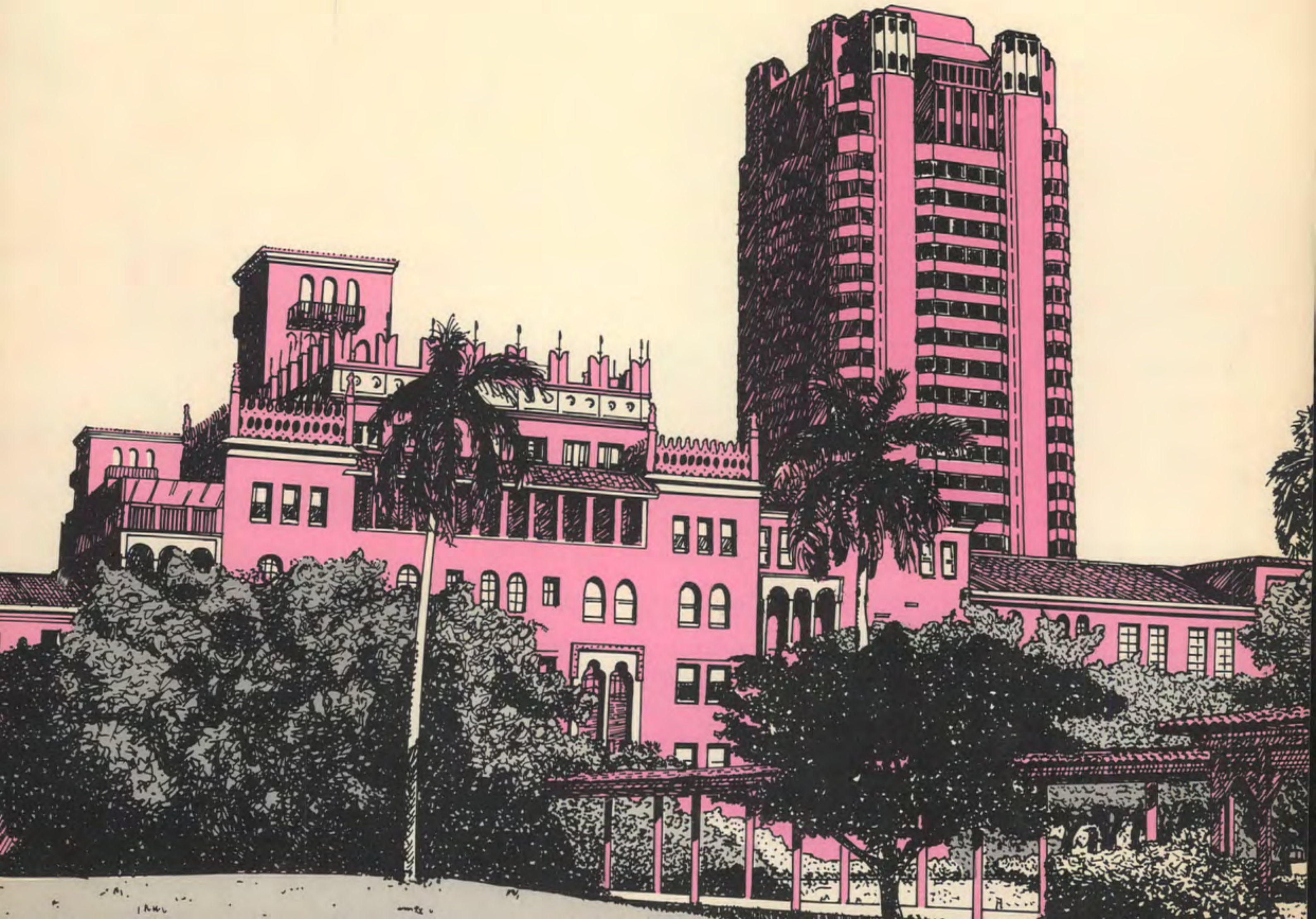
January 1984

TITLE NEWS

Convention Report



TITLE NEWS

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A Message From The President

This is the first message that I have written since becoming president of the Association. I am, of course, honored to have been elected your president, and hope to be able to serve the Association well while at the same time retaining my wife and my secretary.

The year ahead, in addition to being an election year, will be most interesting in that we can expect to see great changes in our financial institutions. While the specifics are not yet clear, it is obvious that Congress intends to continue its deregulation policy and to grant wide insurance powers to the banks and the savings and loans. These changes, of course, will have great effect on the title industry at all levels. The customer mix will change, new competitors will arise, and all of us will be affected by what is occurring on the national scene.

What role should ALTA play in this atmosphere of change? A difficult question but it is clear that, if the industry is to have any say as to its own future, the Association must speak on behalf of a unified industry and should represent substantially all those engaged in the title business. This year the appropriate committees are intensifying the membership drive, and are hoping to increase the membership at least 15 per cent during the coming year. As we all have learned, our industry is represented in every county in the United States by competent, public spirited people, most of whom are well acquainted with their congressmen. This suggests the possibility that the Association can be a potent political force. Our specific Association positions in connection with the deregulation process will vary as new legislation is introduced, but I am hopeful that we as an Association will present a relatively united front. In my view, the interests of the abstracters, the underwriters, the agents, the lawyers, and the underwritten companies are one and the same, although I have heard opinions to the contrary.

As a means toward further unifying our Association, some segments of the industry have suggested that a study be made to determine whether the structure of the Association should be altered to insure that all have a voice in the management of its affairs. The Board of Governors will address this issue at the 1984 Mid-Winter Conference.

A most important function of the Association is its relationship with the agents and abstracters as well as with the regional and state title associations. We will increase our communication with these groups during the year with the hope of being more responsive to their needs. This is not to say that ALTA will interfere in the affairs of the various states, but rather that the ALTA will be available for assistance whenever needed.

As one who has spent his entire life in the title industry, I believe that we perform a valuable and necessary function. It is clear that the industry will undergo many changes during the '80s. Many have already occurred. There is no doubt in my mind, however, that we will respond to the challenges and emerge as a strong, unified industry.

D. P. Kennedy

ALTA Officers, Governors, Section Officials Installed for 1983-84

Newly-installed ALTA officers and governors enjoy a lighter moment during the proceedings as provided by ALTA Past President and Nominating Committee Chairman James L. Boren, Jr., standing at lectern, at the 1983 Annual Convention of the Association. Chairman Boren was installed as chairman, Finance Committee; he is president of Mid-South Title Insurance Corporation, Memphis, Tennessee. Shown from left are Jack Rattikin, Jr., president-elect, who is president of Rattikin Title Company, Fort Worth, Texas; Thomas S. McDonald, immediate past president, who is president, Lawyers Title Group, Inc., Sanford, Fla.; Richard P. Toft, treasurer, who is president of Chicago Title Insurance Company, Chicago, Illinois; Albert R. Riggs, Jr., board of governors member, who is president of SAFECO Title Insurance Company of Maryland, Baltimore, Maryland; Samuel J. Giuliano, Board of Governors member, who is president of USLIFE Title Insurance Company of New York, New York, New York; John R. Duffy, Board of Governors member, who is president of Hayward Land Title Company, Hayward, Wisconsin; D.P. Kennedy, president, who is president of First American Title Insurance Company, Santa Ana, California; J. Herman Dance, Board of Governors member, who is president of Gold Coast Title Company, Boca Raton, Florida; and Roger N. Bell, Board of Governors member as chairman of the Council of Past Presidents, who is president, The Security Abstract & Title Co., Inc., Wichita, Kansas. Not in photograph: Richard A. Johnson, Board of Governors member, who is president of Nebraska Title Company, Lincoln, Nebraska.

Newly-installed ALTA Abstracters and Title Insurance Agents Section officers and Executive Committee members shown at the Convention are, from left, John R. Cathey, chairman, who is president of The Bryan County Abstract Company, Durant, Oklahoma; Charles O. Hon, III, vice chairman, who is president of The Title Guaranty & Trust Co. of Chattanooga, Chattanooga, Tennessee; Roy P. Hill, secretary, who is president and board chairman of The Title Guaranty Company of Wyoming, Inc., Casper, Wyoming; Mike Currier, Section Executive Committee member, who is president of Guaranty Title Company, Carlsbad, New Mexico; A.L. Winczewski, Section Executive Committee member, who is president of Winona County Abstract Co., Inc., Winona, Minnesota; Phillip B. Wert, ALTA Executive Committee member-at-large from the Section, who is manager, Johnson Abstract Company, Kokomo, Indiana; L.K. Orthund, Section Executive Committee member, who is president of Land Title Company of Pierce County, Tacoma, Washington; and Calvin F. Johnson, Section Executive Committee member, who is president of Bureau County Title Company, Inc., Princeton, Illinois.

Newly-installed ALTA Title Insurance and Underwriters Section officers and Executive Committee members shown at the Convention are, from left, Joseph D. Burke, ALTA Executive Committee member-at-large from the Section, who is executive vice president, Commonwealth Land Title Insurance Company, Philadelphia, Pennsylvania; Malcolm S. Morris, Section Executive Committee member, who is vice president—operations, Stewart Title Guaranty Company, Houston, Texas; Richard A. Cecchettini, Section Executive Committee member, who is senior vice president—operations, Title Insurance Company of Minnesota, Minneapolis, Minnesota; Stuart A. Bilton, secretary, who is senior vice president, Chicago Title Insurance Company, Chicago, Illinois; Charles E. Brodeur, vice chairman, who is executive vice president—operations, Lawyers Title Insurance Corporation, Richmond, Virginia; and Gerald L. Ippel, chairman, who is president, Ticor Title Insurance Company, Los Angeles, California. Not in photograph: Warren J. Eljenholm, Section Executive Committee member, who is executive vice president, SAFECO Title Insurance Company, Los Angeles; and David R. Porter, Section Executive Committee member, who is president, Transamerica Title Insurance Company, Los Angeles.

Workshop: Automation In The Local Title Office

TOPIC: Future Office or Future Shock—the Office of the Future Contrasted with the Office of the Present

Herbert N. Morgan
President, Real Title Company, Inc.
Fairfax, Virginia

When I was asked to appear on this panel, I suggested I might not be the one they wanted because I automated my office about five years ago and I still can't turn the system on, much less know how to use it. But, then again, I might be the right one if you want to discuss the problems you will face in deciding whether to automate. I can surely share those with you.

A significant problem is identifying the right person or persons within your organization to handle the programming for start-up and the continuing maintenance of your program. There are people who catch on quickly and there are those who can't learn it. Education does not seem relevant at the level of programming we are dealing with. The ideal is to have a programmer who has many years of settlement experience and knows the business thoroughly and has a natural affinity for the computer and knows the basic program completely. That is not easy. Most who have a lot of experience in computers have not had time to learn settlements and vice-versa.

In order to demonstrate some of those problems, I have a couple of stories that I want to tell you that will illustrate a couple of the problems better than I could describe them otherwise.

There is a story of a big industrial executive who was hunting at a quail reserve down in Warm Springs, Georgia. The custom there was to ride horseback and, when the dogs pointed, you dismount, load your shotgun, flush the birds and shoot.

They had a couple of gentlemen along as wranglers to take care of the horses and the dogs and, after about half a day of this, one executive got tired of dismounting and loading to shoot. He finally asked Solomon, who took care of the horses, "Can you shoot off of this horse," and Solomon answered, "Yes sir." So, a few minutes later, the dogs pointed and, instead of dismounting, the executive just rode up behind the dogs and flushed the birds and fired a couple of times.

With that, the horse threw him about 30 feet into a briar patch. He jumped up and was brushing himself off, and he said to Solomon, "I thought you said I could shoot *off* that horse." Solomon said, "Yes sir, but I didn't say you could shoot *on* him."

Communication also probably is one of the biggest problems that I had as a person who didn't know a floppy disk from a hard disk, a megabyte from a megaton or anything else about computers.

And, when I started communicating with hardware people and software people about the needs for my company, it was like getting a complete education, not only from the vocabulary but about what was going on, in both of those phases of the business, hardware and software.

The other story is about a family that was traveling out in the west. Every member of the family was keeping a diary, and every night the last thing they did before they went to bed would be to write in their diary.

The family had a little boy about five years old, and they told him the day that they were going to the Grand Canyon to please be careful. They wanted to make sure he'd stay away from the edge of the canyon. They didn't want him to get in trouble and repeatedly told him how dangerous it was.

That day when they arrived, sure enough they looked around and, gosh, there he was, right on the edge of the canyon and he scared everybody to death. They pulled him away and the father punished him right severely for getting too close to the edge. It seemed to upset the kid pretty badly.

That night, after the little boy wrote in his diary and went to bed, his father got very curious about what he had written considering the punishment he had received that day. He couldn't wait. He got the diary and opened it and read, "Today, I spit two miles."

And that is a little like dealing with some of the people who illustrate hardware and software for you. They have a different perspective about what a system can accomplish. You have a little problem adjusting once you build your expectations on their representations.

Our company is the first full service title company in Northern Virginia. We do everything from title examination to commitment issuance, policy issuance, settlements, the whole package.

We now do just about 98 per cent of that work on the computer. Another factor that is important as far as our work is concerned, about 70 per cent of it is developer business in new sales; that gives you somewhat of a different approach to your software package than preparing a program for spot sales. The developer business can be done more efficiently on the computer.

But everything that is done in our office now is computerized. Daily bringdowns of the subdivisions of all of our developers are made and the front sheets are brought up to date daily by input into the title program. From that all of the commitments are issued, the case opening is done on the computer. It issues the initial letter which is the first contact for the prospective purchaser and eventually all of the papers, whether it is a VA, FHA or what type case, are printed by the computer itself.

That includes the settlement statement, a balance sheet of the escrow for that particular case, and the writing of all checks.

In addition to the settlement program that we have, we have our full accounting system on the computer.

One great weakness that I would point out in the accounting system is that I can't bring the balances of any individual case escrow into the general ledger and balance the bank accounts. That is a weakness that someone else may want to address here today and, if they do, I will be listening for an answer to that particular weakness.

The problem that I think is important when you decide to automate is how do you go about selecting hardware and how do you go about selecting software? I am not sure that I went about all of it in the right way.

Let me say one other thing that you are going to face when you automate. You are going to face personnel problems. That is what is called computer trauma; I think that invades the office when all of the personnel realize that you are going to computerize the office, and put all of them out of a job. With my experience with other businesses and this one so far, I have not put anybody out of a job but I have probably quadrupled our capacity for handling work. But keeping your personnel happy during the changeover is a problem that you are going to have to deal with, and you should keep it in mind.

The next problem is deciding who you are going to have to select the programs for you, whether you are going to do it yourself or hire a consultant. My advice is that you find an outside consultant who has no interest in selling a particular brand of hardware or a particular software package and have him compare everything for you, unless you have a great deal of experience in it yourself. I have been very fortunate. I have two people who have picked up on it and I think probably are better than a lot of people I have seen who were trained in computers. Yet, I have some people who had some training that I have hired who just could not adapt the program to the work that we do.

I selected WANG hardware. I have a WANG 2200, which is capable of operating 12 CRTs and printers off of the system. I selected it because I am issuing agent for Lawyers Title and, because Lawyers Title used the equipment, I thought some day it might be best that I have the same equipment for interface purposes. So far that hasn't been any benefit nor hinderance. The software package that I selected was from ASC in Ohio.

The primary shortcoming of our hardware that was not told to me when we started involves time or the speed of the calculations and printing. When you print papers or print the settlement statement, for instance, it has to call up different information, make the calculations and select the information that goes into different fields and print the particular form.

When we first started with one or two CRTs and printers, it was great. Everything operated at high speed. We were shooting "off" the horse. Now that I have 12 terminals in operation and all of the terminals are in operation at one time, the required time to accomplish the same work on the machine has increased five fold because the machine can not handle that many inquiries at one time. Now shooting "off" the horse has a different meaning. That is a shortcoming that was not disclosed to me and I did not know enough to ask.

The other particular problem that I have had as far as software is concerned is adjusting the software program you select for the volume of business that you have. As I understand it, a software package has certain parameters, and I have not been able to get the people who have the copyright on my software program to enhance it and enlarge it to the extent that I want it done because I am only one of two or three customers who can use this program in the size that I want it.

Since they don't have a large market for it in the configuration I want, I have a tough time convincing my software people to make the enhancements that I want for my program.

I will tell you that, in summary and evaluation, there is no way that I could have the volume of business or accomplish the volume of business that my company handles without the software and hardware program that I have. I could not accomplish the volume and deliver the service that we are delivering at the fees that we charge, and do it profitably, without the computer. It would require so many people it would just be impossible. So as far as the decision to automate is concerned, I don't think there is any alternative to it.

I have no regrets or reservations about our choice. Even though we have not solved all the problems and we are still only 70 per cent efficient, there are just so many advantages to it that there is no way I would consider going back and doing it all manually.

Paul W. Albright
Senior Applications Specialist
IBM Corporation
Princeton, New Jersey

To elaborate a little bit more about my title experience, and my overall experience, I have been with IBM for 27 years and working with insurance companies since 1965.

I have worked in detailed studies with four of the top ten title underwriting companies, and these detailed studies each lasted for about two and a half to three months.

I have also worked with three other underwriting companies, in other activities for shorter periods of time.

I would like to share some ideas today about where we have been, and where we might be going, particularly in regard to the paperless office.

Much has been written and said about the paperless office, and there have been varying achievements in that environment.

There is a long way to go, and I think that sooner or later we are going to get there. There is no question in my mind, the insurance industry of all the industries we have in our society today, is probably the number one industry that has the greatest need to automate and reduce paper.

With all the insurance customers that we have, I find that the title insurance industry is the number one industry that requires a dramatic reduction of paper because, you are today, and I know that you will agree with this, drowning in paper.

One of the first steps that has been taken in the industry is microfilm and microfiche, but you are still drowning. And then you have done some automation that helped a great deal in the reduction of paper. But that still is only a start. So where am I going, what am I trying to say, what is the answer, what do we really need? I think what we need is the electronic ability to store and retrieve documents. Digitize documents, put them on external storage, and retrieve these documents as required.

I think image when you look at the title industry is really the difference maker. It has been a long known requirement by IBM. We have been studying that area since the 60s. Early in 1970, we did a study with a very large property and casualty company. We actually built hardware to take a document, digitize it, put it on disk storage, retrieve it for later use, but it didn't work out, we had to drop the entire project, there were problems.

Some of the problems were the compression of the document itself. When you start digitizing a document you have many blank spaces, so you need to compress it and make the disk record as small as possible. We had problems in the space required and the time that it took, to actually digitize these documents.

And the cost of storage was high; it takes quite a bit more storage to digitize a document in image technology than it does if you were to key that document directly into the system. So that was a problem. And then of course, the amount of storage required created a problem because of the amount and the cost, making image a lot more prohibitive than it would be otherwise.

And then the computer speeds to go through the compression computation technology that we had available to us at that time caused it to be a rather slow process so, at that time, we dropped the project. One other problem was, once you digitize a document, you will want to retrieve that document. The clarity of that document whether it be on paper or on a CRT screen is very important. If the clarity is not there and you can't read the document, then there is no sense in doing it, and that was also a problem during that time frame.

I would like to just share with you what I think are some of the things that have happened in technology that might make image more acceptable. I think we are getting there.

Just to give you an idea of the data processing industry, and what is happening, in 1946 the first computer was developed, and believe it or not it weighed 30 tons. You did not put the computer on the tenth floor, it had to be in the basement. It was 15,000 square feet in size, it was able to do 300 man days of calculations in one day. Which, in its time, was a dramatic advance forward.

In 1978, our top line computer, which is no longer our top line computer, took up 400 cubic feet. I am mixing cubic feet with square feet, but 400 cubic feet compared to 15,000 square feet is a dramatic reduction in space.

And that computer was capable of doing 5 million instructions per second. We project that, by 1986, which is not too far off, we will have a computer that will be able to process 10 billion calculations per second.

So you see the sizes of new computers are getting smaller, the number of calculations becoming more and more, and the speed getting greater. I'll talk about cost in a minute.

By the year 2000, we anticipate even greater processing speeds. And we project also, with these higher processing speeds, we will be able to do them within one cubic inch of computer space.

When you think about the first one, 15,000 square feet or even in 1978 400 cubic feet, one cubic inch doing a lot more calculations is really a dramatic breakthrough in the technology of the electronics industry.

The cost per 100,000 computations back in 1952 was $1.26. In 1982, that cost was reduced to .003¢ so you can see that the cost of computing has come down dramatically.

Internal memory to a computer, where the program is stored, is talked about in megabytes—each a million characters of storage.

In 1975, a megabyte of storage cost $1.75 million; today, it is less than $15,000. That is one of the reasons that computing starts to become feasible where it was not years ago.

External storage, which is external to the system, where you would store data and keep it there for later retrieval, also has reduced in price. In 1959, the cost of a megabyte of external disk storage was $153. Today, on one of our disk systems, the cost of storing a megabyte of information is down to .86¢. We also have another auxiliary storage device called the 3850, which has gotten that cost down to 8¢.

If you look at some of these figures, you start to realize that some of the problems we had with image are going away.

To give you a better feel for this one device that I was talking about, that has the price down to .08¢, one of those devices has the capacity of storing the data contained on 47,000 reels of magnetic tape.

Another way of looking at it, if you are not familiar with magnetic tape, is that it would store 27 million pages of a newspaper. I hope this gives you some feel for the storage capacity available today, and we are progressing every day.

Here's an interesting comparison: If the auto industry had kept up with the technology of the electronics industry, today's average car would cost about $2.50, and you would get two million miles per gallon of gas, just to give you a feel for our progress. I would like to have a couple of those cars.

This improvement in technology really has brought us back to the image question again. We have reduced costs, we have faster systems, all of which make image a lot more feasible.

We can now do things that were impractical to do before. IBM has recognized this, and we have announced a new product, an image product called Scan Master I, and I think that it is rather interesting that we called it Scan Master I.

Whenever you say Scan Master I, it always implies to me that there maybe is a Scan Master 2, 3, 4, 5, or whatever. What this device is, is an input/output terminal. The highlight of this device allows you to take a document and put it in the system, and transmit from one Scan Master to another. If the bond of the paper were the same, they would look identical and you could not tell which was the original, that's the clarity.

It also allows you to go from a Scan Master, digitize it and store it in external storage on a computer, and then have it there for later retrieval. This is an IBM exclusive, I might point out.

It does, as I say, produce a very high quality print, the document can be retrieved on the Scan Master I that it was either entered or any other Scan Master I device in the systems network. So we do have products out there today. Now I am not saying that they are practical for today's use, but you should think about starting to use image. Technology will bring even greater improvements in image products soon.

And I might add that this device is at a low cost. Now we do have a hole in the product line, as I have been talking about hard copy, we do not have a display yet that satisfies the IBM requirements for clarity.

IBM is not going to, however, leave that hole or that gap in their product line for very long. Knowing IBM as I do, that will be fixed. I do not believe that it will be too long, either.

Just looking at the title applications very quickly, where might you use an image device? Well, you can think of image in terms of where you have a county office and satellite offices for closings. When the order comes into the outside closing office, escrow office or whatever you want to call it, you will be able to transmit a copy of the image of the order to the county office to immediately start processing the order.

Escrow and other closing documents can be prepared in the county office, and transmitted out to the closing office. And there is a great potential for reduction of some of the courier costs that you have in that type of environment.

I think an opportunity is there. But I think that opportunity is the small opportunity. The one that excites me is the automated plant. Plant operations have a great need for something to be done, we have to find a better way of doing business.

I foresee in the future, since we have a simple way of posting that document on to an electronic file, having simple retrieval and the examiner receiving the order directly. By knowing the parcel identification number, he could pull up all the documents, at this point on paper but I foresee in the future on a display, and completely have the potential of doing away with the entire search and reproduction of documents process that we have today to get the paper to the examiner, and with a display doing away with the paper. This is the most exciting thing I think of in terms of image and image is going to be something that we will see a lot more of in the future, we are just starting.

Quickly talking about some of the underwriters and directions that they are taking: Their direct operation is their first concern, but they go beyond that.

First, they want to stop the proliferation of non-compatible equipment; they want to tie the equipment together into a tele-processing network, so that they can get production reports, on a timely basis, or a minute-by-minute basis, certainly by the end of the day; they want to have the ability of knowing what the cash bank balances are, and get their cash money that they have earned to the home office in a timely fashion, so that they can deposit that money and start using it for investments. This is very important. Also, order tracking, preliminary report and policy writing, escrow and accounting capabilities are a must.

Their feeling is they must automate in order to survive, and they are committed to that. But they also feel it is very important that, if they invent the wheel, they do not want their agents to have to re-invent the wheel. They are very interested in providing their agents with the technology, the programs and the capability they have developed to supply you with services.

If you have gone out to the floor exhibit and looked at the equipment there, you saw Chicago Title, they are very interested in supplying the agent with an IBM PC to do his business. That is the direction and the feeling of the underwriters that I have talked with. They are willing and will be very happy to help you, because they want to.

James A. Tunis
Assistant Vice President, Director—Data Processing Research and Development
Lincoln National Corporation
Fort Wayne, Indiana

I have a little bit of a problem with the concept of the paperless office, everybody keeps saying that, but in reality I think that is a goal which probably will not be achieved.

That is, we are not talking paperless at all, we are just trying to reduce it a significant amount.

We are a large insurance holding company in Fort Wayne and, for about four years, we have been doing a lot of things that you may have been hearing about in terms of the office of the future, and so on.

How many of you are from offices of more than 50 people? (About 20.) How many of you have computers or word processors in your office? (Most.) How many of you would like to get rid of them? (Two.)

The environment that I am going to be talking about, Lincoln National Corporation, has 2,800 people in three buildings in Fort Wayne. We have affiliates in Chicago, Chicago Title and Trust, a name you have all heard; Indianapolis, American States Property & Casualty; in Hartford; in Canada. We also have about 200 agencies and regional offices around the country.

This is the kind of environment that we were going into four years ago. Today, on what we call our advanced office system, we have more than 1,600 people using the system on more than 1,000 work stations; call them terminals, call them work stations, call them anything you want to, but they are the things that connect us up with the computer.

We have 120 printers/typewriters hooked up to the system, and we have a communications network that ties that together.

What are we doing with it? Well, we are doing a lot of things. And the kinds of things that you are going to see out here on the floor are primarily what I call applications; they do a specific thing, and that is important for your business.

What we are providing with our system is tools for people to build their applications. In other words, we don't tell someone, "Here is something that you can process policies with." We say, "Here are a number of things that you can use in the way that you feel best." We think that people know how to do their job better than we know how to tell them how to do it.

So, what are we doing in our system? Well, one of the main things that we are doing is word processing and about 80 per cent of our users, and that includes executives and managers, use the word processing.

An amazing number of managers do their own typing as well. As we will see, they have actually become familiar enough with keyboarding and so on. There has been absolutely no forcing of that but, if they are comfortable, let them do it.

Electronic mail. That is something that is very hard to relate to if you are working in a small office because electronic mail is, in essence, a matter of typing in a message into one of these terminals and then having it appear in an orderly fashion at someone else's terminal. It is a substitute for the internal memo, if you will. Those of you in big offices may be able to begin to appreciate that, those of you in small offices just don't have that huge paper problem that big companies and big offices do.

Office administration. By that we mean the filing of documents, the printing of documents, ordering supplies, etc., just the things that it takes to keep an office going.

Notice on the chart that almost everyone uses electronic mail. About two-thirds of the people use the office administration tools.

Personal computing. By that we mean setting up files of records. Maybe somebody wants to keep an inventory of whatever is in their area. We schedule our corporate aircraft using this system. We also order supplies, and a number of other things which people need to do.

And, finally, a new term, we always have to come up with a new term every year, I think that's a requirement of the industry, and decision support is one of the terms. Decision support systems help us make better, quicker decisions with less risk. This is where we get into some computer graphics, and what we call financial modeling, so we can project in the future, and that sort of thing. A relatively small number of people use this, compared to the other tools. I thought you might be interested in how many people on our system use the various parts of the system.

We have had an automated office system about four years now, and have been using it. What are the reactions of the people? How does it affect different people's jobs when you go to fairly total automation?

Let's talk about the secretarial reaction. Secretaries relate very directly to typing even though their jobs may involve a lot more than just typing. Generally, we find nationally and at Lincoln that secretaries only type to about 20 to 25 per cent of the time. Yet they perceive that they are typing a lot more than that so they focus very much on: Does this system help me get my typing done?; Is it hard to do?; Am I comfortable with it?, and so on. Secretaries have been offered a lot of personal growth in this system. It has given them a chance to expand their knowledge and what they can do in the office. We have always known the secretaries run the office anyway: but now they can run it even better.

The secretaries are the most demanding on us technicrats on giving them a good system. They don't get fazed by any fancy talk of megabytes or anything else. They want it to work, and they want it to be there whenever they want it. We found them the most demanding in terms of offering them good service. The other thing that we found with secretaries is, larger span of support. One secretary with an automated office system can support several professionals or managers, somewhere around 20 to 30 per cent more than without such a system.

What about the professionals in the group? This is a group that really got excited about all this. They are the easiest group to train. In general, they are the most tolerant of little problems, where the secretaries and executives are not. But the professionals want more and more things. They want new things to try. "Bring in some new stuff. Let's get it going." So they are the ones who push us on the system. That has been our experience there.

What about management? Well, it is very hard to predict, their attitudes have been absolutely all over the place. Middle and upper management: some of them are excited about it; and some of them hate it. It is very difficult to predict.

We found that a manager in a large office can manage about 20 per cent more subordinates and more responsibility (span of control) due to the better communications, and better computer information.

Management uses electronic mail very heavily, no big surprise there. Those of you in big offices know that it is the managers who are exchanging the memos. The surprising thing has been that management has gone very heavily into the use of word processing. We have been very surprised, once again, at the number of people who are willing to sit down and type. Well, we tried to have a beginning typing course. Okay, nobody came to that. Then we had an executive keyboarding course offered, and we got good attendance. So, I guess it is all how you look at it.

How do the executives feel about it, because we do have almost all our executives on the system. Our chief executive officer, Ian Rolland, has a terminal in his office and a terminal in his living room at home, which he uses quite heavily. Again, the executive reaction was widely varied. For example, we had a vice president in charge of resistance to change, who in general did not like it at all. But we are finding about 95 per cent of our execs think that it is a good idea and at least think it is okay for someone else to use, okay, not necessarily for them.

About 70 per cent use the system for notes and so on. Just little short answers. For instance, I will send them a three-page document, and they will send me back a yes or no. Some do their own typing, most check their own electronic mail in-trays and so on. They do not use the personal computing. They do not have time to sit down and do programming or even to use fairly simple kinds of packages. They want someone else to do that for them and they will look at the reports that come out of that package. This is a fairly interesting phenomenon because we have a couple of top executives that, if any executives would use personal computing these people would, and they don't. They just don't have the time.

Did we save any money? Yes! In terms of job elimination and containment, we didn't have to add people, saving about $300,000 a year. Did we throw people in the street with this? No! We were able to use normal attrition to take care of the job elimination. We have saved about a $125,000 a year, for things that happened (because we had the system). If we hadn't had the system, we wouldn't have made this big pension sale. If we didn't have the system, we wouldn't have discovered this potential for serendipity. These are anecdotal things that we found out about. We also feel the number is really probably three or four times the $125,000 per year. We discovered another $300,000 a year in potential elimination, but because of the ways we do business and some other issues, we have not eliminated those positions.

Executive time savings. Most of the top executives who use the system, and really I only polled four of them on this, say, well, 12 to 15 per cent time savings—12 per cent of a president of a company. You can't hire executives from Kelly services, you know. The time saving is a valuable resource.

Secretarial time savings. We use 10 per cent. Most of the secretaries say 20 to 30 per cent time savings but we were very conservative. That saved us $270,000 a year.

Managerial time savings, at 5 per cent, is worth $950,000 a year. Very interesting, those of you in large offices.

We look at automating the clerical jobs. Yet the biggest single saving is in managerial time. And, finally, and here is another one that hits the managerial area, this increased span of control that allows us both to reduce the number of managers and also make them more effective. In total, come out with, conservatively, $3 million a year, savings. Our annual budget for this system is $1.6 million. So $1.4 million is the kind of pay back that we are looking at for the system.

Finally, what can you do to make it easier? We have looked at this very hard. We have been relatively successful and we have asked why were we successful. These are the critical elements that we have come up with.

First of all, we had solid management support. In our case, we were lucky enough to get it from the very top of the organization. Sometimes you won't be all that lucky, but you have got to have good, solid management support or no one will go with the system.

If you don't have pro-change attitudes in the environment, you may have anti-change attitudes. You need to somehow build an attitude of gee, let's be positive about change.

You have to do planning, planning, planning, planning, and you have to be flexible with your plans. You have to figure out what you are going to do, and then you are going to get surprised. You are going to have to change those plans. So you have to do that planning, you have to have goals, and you have to move on them. You have to accept some risk. You are going to spend here, the upside is very, very high.

But it's very soft, it is very hard to say it is going to save me this many dollars. You are going to have to say, I'm going to risk this $50,000 or $100,000, or, as we started out, about $400,000.

You have to get the people who are going to use the system involved in the system from the beginning. You have to let them feel it. They have to feel a part of things, part of the decision process, or they are not going to feel ownership when those things are put in front of them.

I believe you have to give people different things to use. You just don't give them a word processor, you give them personal computing, you give them modeling, and they choose the tools they want. You don't choose for them.

And, finally, you have to have patience. In the early going, you are going to come into some rugged situations.

So that wraps it up. I think, in summary, I would say there are very important things this system has done for us at Lincoln.

I think the first thing is, it has greatly improved the way we do our job. It is more enjoyable, things happen quicker, and it is much less frustrating. Secondly, we have saved a lot of money, as you can see. We are talking about something like a $1½ million or more savings a year. Finally, the system has allowed me to come down here to Boca Raton and address your very fine convention.

TOPIC: The Automated Title Plant—When Do You Know You Are Ready for One? When Does the Transition from Manual to Automated Plant Take Place?

Stanley E. Dunin
President, Title Data, Inc.
Auburn, California

One thing I found difficult in preparing for this session is trying to summarize in a few minutes what one has been doing for 15 years. I have the fear that many important things will get missed.

What I plan to do is look briefly at the development of automation of title plants, the advantages of automating, who should consider doing it, that is, what size and type of operation is a likely candidate, then cover the main elements of selecting and installing a title plant system.

Let me begin by taking a very quick look at the history of automation within the title insurance industry. That should give us some perspective on the current systems and methods and permit us to make a more informed guess of future direction of this area.

In the 1940s, the first automated title plants started with IBM cards. Each posting was put on one card. These cards were then either mechanically or manually sorted and filed for each subdivision or section. Names were usually coded to a phonetic system, Soundex, because that was easy to manipulate on the early computers. That technology pretty much died out in the early 1970s. There are still a few plants that use cards. But the problems of changing technology, the bulkiness of the cards themselves, the difficulty of searching, and the fact that really only one person could search the title plant at a time, all made this method obsolete.

The next stage was to take all those cards and produce a paper listing. From there, it was an easy step to produce a similar such listing on microfilm or microfiche. These fiche are compact, easily reproduced. In fact, you can provide one set for each examiner. Moreover, such plants permit several companies to share the cost of maintaining the title plant without having to have a single plant site from which all companies must do their searching. That technology started in the late 1960s and early 1970s and is still going on today but is generally decreasing in popularity.

The next development was to put all those cards on a computer and, rather than having to search from a listing or fiche, to retrieve the chain of title directly on a screen. You punch in your request, for instance, the name of the subdivision, the lot and the block, and you receive on the screen basically what you would see on the fiche but only for the legal description being searched. The search is much quicker and more accurate. Once again this change was possible because of the improvement in technology. This online retrieval technology started in the 70s principally in the largest counties and today has been spread throughout the industry to even very small counties. This method is definitely on the rise and it is what I suggest that you should be looking at today.

The next improvement in plant posting and searching will be automatic document retrieval. With this method, rather than getting a reference to each document in the chain of title, you will get a picture of the deed or mortgage right on the screen. And, with the press of a button, you will get a hard copy of that picture. This technology addresses the remaining problem with all of these methods of automation, namely the manual retrieval of the document. So that is where I think that plant automation is going at this time. In fact, in Los Angeles County, one of the title companies is developing a system now which should be operational within a couple of years which will be capable of direct document retrieval.

Next we want to look at the kind of automation systems in use today. There are basically three kinds which we can categorize by the type of computer system and the size of the county being maintained. For counties above 500,000 population, the systems tend to be mainframe computers, typically IBM. Examples are Lawyers Title Search system, SAFECO Title, HW Systems (now TRW). Each of these systems has between 10 to 20 counties on one computer, 100-plus searching terminals, and millions of title plant records. A title company using one of these systems usually has one or more terminals in its office to perform the searching function. Posting is done by a centralized group, which usually will do all the posting for several counties out of one location. Cost to one title company for use of the system is in the area of $3,000 to $6,000 per month.

The next group of systems is the minicomputer. These systems are used in counties of 100,000 to 2 million population. Most such systems are used for servicing 1 to 10 counties per system. Examples are Chicago Title/Opticom III, Informata/LANDEX, Stewart Title/Land Data, Safeco/Orion, Title Data/TITON, each of which has several installations around the country. As you can see, the providers of these systems are both title companies and independent service companies. These systems started in the mid-1970s and continue to be installed. The price of these systems, which is generally in the area of $100,000 to $250,000, permits the systems to be owned and operated by an individual company or a joint title plant group.

The last category and the newest is represented by the microcomputer. This type of system is generally in counties of 50,000 to 200,000 population. Examples of these systems are the PSG/Alpha Micro, Sulcus/Commodore, Stewart Title/IBM DataMaster, Title Data/Genesis, Radio Shack, and others. Most of these systems were introduced within the last two years so there hasn't been any track record established for any of them. Prices range from $25,000 to $75,000, the range accounting for the amount of storage, number of terminals, and capabilities of the programs. Almost all of these systems are owned and operated by a single title company for one county. The current capacity of these microcomputers does not make it practical to support multiple title companies on one system. Also, the programs or software tend to be more limited than with the minicomputer systems.

Now that we have defined the types of systems used and their historical evolution, let's look at why people do choose to automate. What are the advantages? There are three main ones: Cost savings, accuracy, source of additional revenue.

First, cost savings. A plant system affects two major labor costs of a title company, posting and searching. In posting, one can expect about a 50 per cent saving over most manual lot books. In searching, the improvement is a dramatic 80 per cent in compiling the chain of title. However, there is little effect on the retrieval of the documents or the examination of title since that function changes little with the systems today. Other savings come from less storage room and a more current plant which can save in searching of the most current recordings at the court house.

Next, accuracy. An automated title plant should be as good as the top hand posted lot book title plants, but only if all of the following procedures are implemented. One, detailed subdivision lot and block edits are built into the system. Two, the daily posting is automatically checked for completeness. And, three, there is a program for keying and verifying all entries into the plant. If these steps are all followed, an accuracy of better than half a per cent can be achieved.

Finally, the plant can be a source of additional revenue. This is usually done by either providing the title plant to another title company for a fee or by selling specialized reports from the plant to companies in related industries, such as lenders, appraisers, others. Statistical information which is very difficult to extract from a manual plant, can be obtained easily from an automated title plant.

Let me balance these advantages with one observation. When you first switch to an automated plant, there will be very little information in the title plant, so that you will in effect be doing two searches, one in the computer for that portion which is automated, and the rest on your current manual plant. So, in effect, besides the front end costs of a switch, there is very little, if any, search saving for the first couple of years. For this reason, some companies choose to convert a portion of their existing title plant to the computer. Most normally, this would be the general index matters since these are searched the most intensively.

When should you consider switching to automation? While there are no hard and fast rules, here are some criteria that we have observed that work, which will assist you in making that decision.

County population over 50,000
Recording volume over 50 title documents per day
Order volume over 50 orders per month
You can get a competitor to share costs
More than one person needed to post
Difficult to get good quality posters
County has a good growth record
You have opportunities to sell information from the title plant

These are organized in decreasing sequence of importance. If your operation does not meet at least two or three of these rules, I would suggest continuing with your present method. Chances are it's working fine and the advantages of automation will not be sufficient to recover the investment in the change. In some of the smaller counties, you can have one person do all of the functions of posting and searching. That person will have an intimate knowledge of how everything is organized and can usually prepare a chain more efficiently manually than can be done with a computer. But as you get into bigger counties, population over 100,000, then the plant function requires several people. Often in these cases, two or more title companies will agree to share the cost of maintaining a title plant, but will continue to have their own employees do all the searching. This approach obviously cuts your plant costs. If you automate the plant, then each of you can have your own terminal located in your office for searching and can keep your operation pretty much separate from your competitors. And I know you prefer that. I wouldn't be surprised if there are over 200 joint title plants around the country today.

Assuming your operation does meet the above criteria and you have an interest in proceeding, we need to look at what such a system consists of and how you would go about selecting and installing it.

The major components of a title system are: posting and editing, online plant search, pending orders, general options such as reports, and system management. My view of a title plant is that it is a filing system. So the criteria of "goodness" should be the same. The system should permit easy retrieval of filed information by many people, should be compact, and have appropriate security and backup provisions. I have prepared a four-page checklist of the major features of a title system and, rather than spending the time here covering this material, I suggest anyone interested pick up a copy after this presentation. (Anyone reading this is invited to get a copy of this list by calling the TDI Denver office (800) 525-8526).

This checklist does not represent any one system. In fact, I don't know of any system, including the TDI TITON system, which does all of the things listed. But it will help you in making an informed decision when you are evaluating a prospective system.

Next, let's remove some of the mystery about this subject by considering the steps to be undertaken in converting to automation. There are two phases, planning and implementation.

In the planning phase, the most important task is to select the right person to head up the project. This person must be given enough time from day to day responsibilities so this project can be his or her number one priority. Generally, this will be either the plant manager or the chief title officer. During this phase, you will solicit bids from vendors, budget and schedule the conversion, and select the system for your operation. You should be able to finish this phase in three to four months.

The typical implementation schedule would look like this:

Task	**Month**
Order equipment	0
Compile and prepare basic edits	1
Manuscript subdivision edits	1-4
Facility preparation (if any)	2
Training of system operator	3
Installation of system	4
Load and check out application programs, basic edits, and county custom features	
Train posting personnel	4-5
Run parallel cycle—minimum one-week	
Train search personnel	5
Discontinue manual posting	5-6
Start online production	

The two most important steps are the manuscripting of the subdivision edits and the running of a parallel cycle of at least several days. The first task ensures the quality of the title plant, the second should unearth all the little quirks and peculiarities of a county which you probably forgot to tell the programmer because "they hardly ever happen."

So, as you can see from this typical schedule, the process of automating will take you about 4 months in the planning phase and another 6 months in the implementation phase, or close to one year in all.

The last topic to be covered deals with selecting a system and a vendor. I am assuming you will prefer to buy an existing system rather than try to develop one of your own. With the number of systems now available, there seems to be very little reason to invest the time to learn the computer technology, or alternately to pay a programmer to learn your business. The few title people who expect to write their own and then sell it to other companies usually find they are not equipped to become sales representatives and to reorganize their companies to provide the ongoing support that system sales require.

A prospective vendor should be looked at in three areas. Software, or the programs, hardware, and the vendor's company.

In software, the major areas are:

Have the programs been proved?
Do the programs contain the options you need?
Can you customize the programs for your operation?
Is the vendor committed to continue to develop and enhance the programs?
Can you add more applications when you need them?
Will you be able to communicate with other computer systems?

This last point is raised because, increasingly, computer systems are being used to transmit and receive data and, even if that feature is not not needed now, you probably will find it useful in a couple of years.

In hardware, the major points are:

Will you have sufficient plant record storage for your plant for the next 3 to 5 years?

Can you add additional terminals as you need them without costly equipment upgrades?

Is the manufacturer well-known with a reliable service record?

Is there a variety of components available for the system, such as terminals and printers?

Can you rely on dependable maintenance in your area?

In evaluating the vendor's company the major points are;

Financial and technical strength

Commitment to services to the title insurance industry

Installed system base should be at least 5 or 6 systems

Ability of the company to provide ongoing system support through consulting, good documentation, program upgrades and enhancements

Well, hopefully, this has shed some light on what title plant automation is today, who should consider it, and how to go about doing it. Certainly, many companies are going this way, and the number of counties today in which someone has an automated title plant is probably close to 400. So you will have plenty of others from whom you can get advice on this important topic.

Connie Wimer
President, Iowa Title Company
Des Moines, Iowa

In planning my remarks, I started from the negative point of view, i.e., what people should *not* be considering automating their plants. I came up with about four characteristics that, if they fit, you definitely should make a negative decision.

One characteristic would be if your county is less than 25,000 people; a second if you anticipate no growth in your county or in your particular operation; third, if you have no competition; and, fourth, if you are 75 years of age or older. I think you should forget computerization under those circumstances.

If all of those characteristics don't fit you, you probably *ought* to be looking very seriously at computerizing. Before I start, I thought I would give you a very brief background of our plant, so you will know the kinds of decisions that we made.

I have been in the title business for not quite seven years, and we have been computerized for four and one-half of those seven years; frankly, that was one of the best decisions that we made: it has worked extremely well for us.

We do have two plants, one in an adjoining, smaller county, which originally showed signs of a lot of growth but that has dropped off because of the economy in the last few years. That plant is not currently computerized. It was set up through Title Data and their computer, and it has worked very effectively for us. We decided to manually post in that plant, so we have one plant computerized and one that is not.

Our Des Moines operation has an IBM System 34, with all of the upgrades that are possible. We anticipate that we have about two years growth left, on the System 34, so we're shopping. I have listed some considerations that I think you should think about when you are making your decision.

The first one is, will it save time? Considering the size of your operation, I think the answer, if you are 50,000 population or over, there is no question, it will save time, and therefore money.

We are in a very labor-intensive field as you all know and to computerize is almost surely going to save you a great deal of time. We enter all information twice for verification, and it still takes much less time than to post manually.

Will it prevent errors, and, again, therefore save money. We believe very strongly, because of verification by the computer and by two people entering the same information, that it has prevented a great many errors. And of course in researching your indices I think it will also prevent errors.

Will it generate additional income? This is an area to which I didn't give a lot of thought before we made the decision to computerize. It was a delightful surprise to me that we were able to offer a lot of services and develop income that we had not had before.

We publish a monthly mortgage report that is very highly read. We provide amortization schedules. We have a number of appraisers and lenders who are interested for various reasons in the information in our data base, and we constantly have phone calls from people wanting to know if we can retrieve certain information for them.

Another question to consider is, will it generate accounting and management reports? We have all of our accounting on our computer at this time. Also, I am, on a daily basis, able to estimate what our profit or loss will be for the month, because of management reports it generates.

It generates all kinds of useful information, such as our share of the market, based on who is filing what mortgages and deeds.

Next, will it provide a better backup of records? For us that has certainly been the case. We keep in the bank vault a complete copy of everything that is on the computer, and each day we take off premises what has been merged that day. Literally, we could buy the same hardware and be up and running within a day or two, at the most.

We have microfilmed all of our old tract books also, so we could have hard copies made of our older records.

There are two negatives that I would warn you to think about when you are making this decision. Of course, the obvious one is initial cost of the hardware and software. It is very easy for you to get exact quotes on these costs.

But the second one has to do with hidden costs, and that was one of my great concerns in making the decision. Once you have made the decision you can afford the original investment, what hidden costs or onging costs might there be?

Of course you have to consider the training costs and that is an important factor in your decision regarding companies. Also the original data entry is very, very costly. We had two shifts of people working for about four or five months to do the original data entry, but, when the computer was delivered, we had all of our judgments entered. We used the computer the first day that it was installed, and that feels good, too.

Maintenance is something that you will want to consider carefully. Down time is always a concern, and, therefore, maintenance is very important and those costs can vary tremendously.

The last item to think about would be upgrading your equipment. If there is not that ability to upgrade, it is going to be very costly because you will have to replace it within a relatively short period of time.

TOPIC: Underwriters, Agents and the Automation Link—the Role of Automation in Forms Preparation, Policy Reporting, Etc.

Dieter M. Bailly
Vice President—Information Systems
First American Title Insurance Company
Santa Ana, California

The theme of my presentation is the type of automation assistance I believe the underwriter should provide to the agent. The primary business of the underwriter is insuring titles, and its responsibility to its agents is to provide title services and support in connection with the issuance of the title policy.

The aim of every underwriter is strong, efficient and profitable agents. Providing automation services can result in achieving this aim, as well as a more error-free product.

However, it is the extent of the services to be provided that must be examined. Basically, the underwriter has three alternatives.

The first is to provide full services including hardware, in-house developed application software, training and ongoing support.

The second alternative is to provide the agent technical assistance in selecting and acquiring automated services from third parties.

And, the third alternative is to do nothing for them.

Each of the above-mentioned alternatives has merit and advantages and disadvantages to both the agent and the underwriter, and there will be instances where each can apply. I will discuss all three.

There is tremendous pressure today to automate our industry because of the high labor intensity, in many instances over 60 per cent of the total operating cost of the various agents and underwriters, and automation is a tool that is supposed to lower these costs.

Since most agencies have neither the technical talent nor the time to adequately begin a systematic study of existing automated systems which fits the personality of the company, it is natural to look to the underwriter for a solution.

Today, there are dozens of companies that are offering systems to the title industry; the primary question is, which system is best?

With an underwriter's system as the only alternative offered, there can be an avoidance of a computer evaluation and selection study to determine which is best.

However, the selection and acquisition of automated systems represents one of the most important tasks that an organization's management should perform. Because, based upon experience, the greater the effort put into the selection process, the greater the chance for success.

The basic steps in this process begin with a feasibility study—is it feasible from an organization, economic, technical and cost standpoint to automate your organization?

The detailed analysis performed as part of this study includes: (1) definition of your objectives—what should be automated? (2) identification of your requirements—what areas, what kind of volume do you plan to process, how long do you want to store your data, etc.? (3) cost benefits of automating.

You may ask yourself why a feasibility study. Because one of the dreams of any business wanting to automate is to get what we want, without knowing what we want, so we must define our needs first to determine the right alternative.

The next step in the selection process is preparing a request for proposal. Now this is really comprised of three areas, one being a requirement definition: What the company needs, how it will be utilized, and any requirements unique to the company. Then, a statement of what is required from the vendor—in essence, the proposed solution to your requirements. This includes the hardware the vendor is proposing, the kind of software he is proposing, the features of that software, and all the various costs associated with implementing that hardware and software in your organization. This includes rental, lease, or purchase and the one-time hidden cost. Also, the cost of shipping, training, insurance, utilities, supplies, and any kind of special environment cost such as for air conditioning, electrical and cabling.

In addition, you should ask the vendor to provide you with the estimated processing time of the system, any maintenance costs, and the ability to upgrade the computer and software. Because, in the future, you are going to need to upgrade.

In my three years experience in the title industry, with virtually every computer that we have installed, we have outgrown the size of that computer within one year. If you don't have a machine that you can upgrade to a larger model, you've just got a white elephant.

After you have prepared a request for a proposal, you must evaluate the responses. An evaluation should be based upon your criteria, and not those thrust upon you by the vendor. You should not let the claims and demonstrations convince you that the system does all it is supposed to do. Your needs must be specifically defined, and then determine if the system proposed by the vendor measures up to them.

The acquisition of automated systems is not like buying a pair of shoes that don't quite fit, and being told by a salesman they will feel better once worn and broken in. An automated system which doesn't quite fit can drive the ultimate cost of that system to over a hundred times its original cost.

The next step is the selection of the alternative which best satisfies the requirements.

The final step is implementation, an area that many people seem to forget.

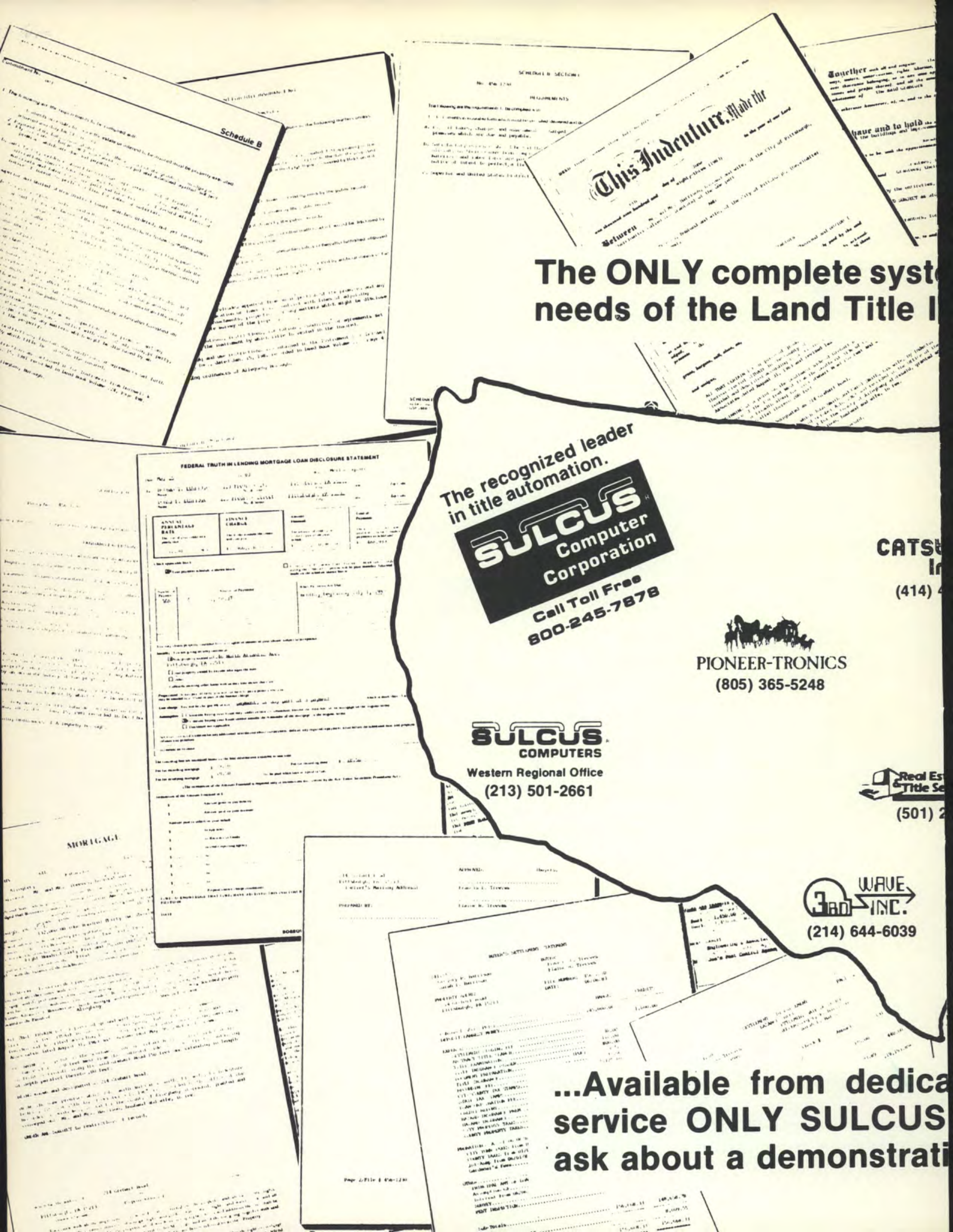
Implementation requires site planning—what kind of wiring, special air conditioning, protection against electrical storms, interruption of electricity you may need. In addition, what about personnel planning and training? Who is going to run the computer? Who is going to be responsible for entering the data, and who is going to be responsible for training?

How is conversion to be accomplished, and what is the impact of the conversion on day-to-day processing? How do you convert if all your people are busy on current activities?

The final step is parallel processing, which is necessary to make sure that the systems are meeting your requirements.

From an agency viewpoint, the full support alternative from the underwriter offers the best solution because (1) it provides a greater "security blanket," and (2) little or no effort is necessary to perform the aforementioned task. However, these tasks are necessary.

From an underwriter's viewpoint, it may secure a captive account because the systems installed may not work with any other under-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Title Se
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3RD WAVE INC.
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...Available from dedica
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writers' forms. But these may not be advantageous in the long run.

The "security blanket" perceived may be false security because the underwriter is not always in a position to offer and provide adequate service and support to potentially every city, county and state within the country with varying regulatory requirements.

An underwriter based in one part of the country cannot adequately support another without a large staff and large support fees. It must be remembered, the underwriter is also in business to make a profit. In addition, the internal development costs for the underwriter-developed software may be higher, because of its greater overhead, than for a smaller, well-financed company; and the underwriter must recover some of these costs.

This leads me to the subject of cost. That is, what is a fair price for the services offered by the underwriter? And who pays for the ongoing support?

For example, if it takes 100 hours to resolve a problem, or to add a new feature to a system for a single agent, should the cost be billed entirely to that agent, or prorated in some way to all users of that system?

In First American's experience during the past two years, there appears to be a tendency for the agent to assume support will be free—forever. Why? Maybe because of the recent recession; maybe because the agent feels that he is paying enough in premiums, or maybe he feels the support fees are too high. I do not have an answer.

When we have asked for payments for these services, we have been ignored. For example, an agent of ours on the east coast installed a computer that we offered along with software services. They had no organization to adequately support the ongoing operation of that computer. They also had high turnover, and First American was asked to retrain their employees. After retraining seven employees, we felt it was time for us to be paid for any additional training. When proposed to the agent, they refused to pay for any training and asked us to repurchase the computer or they would find another underwriter. Buying the computer back was far cheaper than losing a very, very large agent.

Another example involves an agent who, after installing the computer, refused to pay for any software services, and even cancelled his computer maintenance contract with the computer company. After 18 months, this computer stopped working because of neglect. He then called upon the "friendly" underwriter, and, $5,000 later, he's back in business. We still have not been paid, even after repeated billings.

Therefore, an equitable billing policy must be determined and established, and it must be adhered to. But what is equitable, and how can it be enforced? I'm hoping that maybe the industry can propose alternatives so that the underwriter can implement to be paid for some of its automated services.

The second alternative available to the underwriter is to assist the agent in selecting the best alternative to satisfy the requirements. In other words, the underwriter assumes the role of a technical consultant.

This is the approach I most prefer because the agent will, in virtually every instance, obtain the optimum solution, in that a number of potential solutions are examined, and not just one.

At First American, if one of our agents requires assistance, a computer hardware and application software review questionnaire is sent with instructions as to its completion. Once completed, a definition of objectives, the system requirements and costs can be compiled. The questionnaire then can be utilized to prepare a request for a proposal and be submitted to four or five companies which provide automated services. These selected companies are approved vendors which have been evaluated from an experience, software capability, geographical coverage, financial stability, local and emergency service availability, response time to problems, customer referrals, contractual terms, and customer base standpoint.

These pre-screened companies will normally discount their services and products once they get selected for the approved list. They can offer discounts because, in effect, they are making quantity sales to the underwriter and usually submit their invoices to the underwriter for payment. It is then the responsibility of the underwriter to collect from the agent, thus insuring the vendor a reasonable short payment period. This approach offers greater benefits to the agent, in that his requirements are evaluated by a number of vendors, and the best solution, at a reduced cost, can normally be achieved.

This alternative does not provide the "security blanket" of the full support alternative, and there is still vulnerability to the selected vendor's financial stability and staying power, in other words, bankruptcy. However, in order to minimize this vulnerability to bankruptcy, the vendors are constantly evaluated based upon the factors mentioned above.

In addition, most of these reputable vendors have agreed to place their software code and documentation into an escrow account. In the event of their demise, the code and documentation will be released, and either the underwriter or another software firm can assume the ongoing support.

Utilizing this approach, First American can offer technical consulting assistance to our agents. An example of this approach is as follows. I recently did a review of a proposal for one of our agents. The total cost for the proposal was $175,000. The proposed cost was $125,000 but there was $50,000 in hidden costs which were the responsibility of the agent. The cost benefit to the agent was calculated at $20,000 a year—so, you can see, it was quite a long payback. In addition, a major portion of the system was an order tracking module. The agent only had 12 employees working in a 3,000-square-foot area, and order tracking really wasn't needed.

Also, the proposal did not address implementation, the impact of automation on the organization, conversion and support. The submitting company was located 1,200 miles away and charged $65.00 an hour for any support time, whether they were in the air, or on the telephone, or on-site. This could have been a very, very expensive operation.

Based upon experience, because of the lack of automation expertise prevalent at most agencies, a smooth operation can take six months or more, even with constant attention. There is always turnover, problems with the hardware and the software that may be unrecognizable to the new user. There are operator mistakes, and also the inability of the system to perform all you thought it would do. There must also be a reconciliation of what the user thought he would achieve and what it actually will perform. As a result, these ongoing costs can really mount.

The ALTA Committee on Information Management is preparing a list of pre-screened vendors and the services offered, and it can be an excellent source for guidance, as well as for the underwriters.

The third support alternative is to do nothing. And this, in some cases, can avoid bad will that can invariably result with complex systems and the automation process.

Data processing is dynamically changing, and what is good today will probably be obsolete or not available tomorrow. For instance, the *Wall Street Journal* quoted recently that there are over 200 microcomputer vendors "chasing" 10 per cent of the market. We can expect a large failure rate in the near future.

Don't let anybody kid you, the computer cannot just be plugged in and it goes. There are always major problems encountered during any installation—regardless of the size.

For this reason, I have done nothing in many instances to avoid problems with agents whose reputation or organization is not conducive to success.

For example, one of our agents had tried two different computer systems, both of which failed. He then called upon First American for some assistance. After an evaluation, it was determined that the failure was caused by his organization and its lack of commitment to data processing. To this organization, the computer was just something to brag about at the country club. Therefore, offering our services to the agent would have possibly put us in a bad light with the agent.

In summary, what type of automated service should the underwriter provide? In my opinion, those that will result in the best solution for the agent. The underwriter must be flexible by providing a service and not just a piece of hardware.

Angelo J. Musante
Vice President and Director of Information Systems
Ticor
Los Angeles, California

I have been asked to discuss Ticor's development of an affordable microcomputer work station for smaller title operations. We believe Ticor has solved the problem of title companies which are finding it increasingly difficult to economically process files manually, but are too small to justify the costs of a computer, until now.

We soon will be offering a computer system that addresses increased productivity at prices affordable for even the smallest agent. The system software automates title report and policy production, closings and preparation of associated documents on a desk-top size computer.

The computer used is an IBM Personal Computer and includes a letter quality printer. It is this combination of software and microtechnology that brings automation within the grasp of all our agents. The system is called TI-STAR.

This system will be available the first quarter of 1984.

The TI-STAR System will be easy to learn and operate. For example, to do a closing on the system, one sits at the work station where a menu of possible activities is presented on the video screen. The operator would choose "settlement/closing" from the menu with one keystroke, and the system would respond by prompting for the individual items of information needed. The list of items is variable by the user so that each agent office which installs the system can personalize the software to meet its local needs and customs.

Once all the information for the closing has been entered, the operator can decide to execute the calculations necessary to determine the disbursements. All prorations are calculated within seconds. Buyer/seller closing statements, disbursement sheets, checks, RESPA (HUD) forms, notes and deeds, all can be produced quickly and easily through the use of the letter quality system printer. Truth-in-Lending Statements, amortization schedules, copy capability from existing orders, and management reports are also available as part of the software for real estate closings.

The computer can hold 500 orders in its memory. All of this information is at the operator's fingertips for instant update, addition of missing items or re-calculation. All orders are stored on a fixed disk which make this instant access possible.

Once the information has been input, and all corrections necessary have been applied, the result is flawless output. No manual calculations, no balancing, no laborious typing is necessary. The drudgery is virtually eliminated; the accuracy and quality of the output documents is guaranteed.

Another major activity addressed by TI-STAR is report/commitment and policy production. Simply choosing this activity from the main menu offers the operator the ability to select standard exceptions/clauses and do word processing as well. These clauses can be drawn into the report and the variables within the clauses can be either word processed, typed in, or filled in from the computer's data base, automatically. The system offers this flexibility through the creation of one customer file per order for both closings and reports/policies. The final report or policy printout is swift and neat.

This gives you some overview of the TI-STAR System. There are some tasks which Ticor must accomplish before we begin shipments to our agents. Our immediate objective is to finish testing the system in pilot test sites. This process starts in November and continues through the balance of the year.

During this same period, we will be training our own employees around the country so that they will be able to assist our agent personnel to install and effectively utilize the TI-STAR System. We have set up a formal classroom in our Los Angeles headquarters for the purpose of presenting effective training courses. Work is now going on to put the final touches on the course content. We have scheduled testing of its effectiveness for December. On completion, a participant will be able to return to his or her home location and teach others.

We are also hard at work on a user reference manual, taking care to produce a task oriented, step-by-step guide that is easy to use. We are also setting up a support center with a toll free phone number so that all users have access to a Ticor expert on the system. These troubleshooters will help our agents diagnose problems and bring their systems back to working status in the shortest possible time.

We soon will be advising our agents as to the availability of this system within their regions. Our main goal in this effort is to help our agents improve the way they do business. The TI-STAR System will do just that. It will improve productivity and the quality of their products. It will help agents manage their businesses, balance their workloads, and make supplemental services easier. We at Ticor are very proud of this new development, the TI-STAR System, designed particularly with our agents in mind.

Workshop: Safety Of Uninsured Bank Deposits

Dr. Warren G. Heller
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The flavor that I would like to try to impart this morning is that there are some actions that those of us who do not have access to government bank examiner's reports can take to increase our odds against winding up with losses of uninsured deposits. Unlike the FDIC insiders, we must "look in" and, using available data on banks and S&Ls, guide our investment and deposit decisions accordingly.

The specific topics which I will discuss will include some background on problems in the banking industry, where the industry is today and how it got there. In passing, I will identify some of the areas which our VERIBANC clients have mentioned as risk areas for them, outline what a cash manager can do, in addition to maintaining deposits within the $100,000 insurance limits, and offer some summary thoughts.

Since the establishment of deposit insurance and the organization of the government banking regulatory agencies, the resources of these bureaus have not really been stressed until relatively recently. Bank failures, since the depression years, have remained relatively low until 1981, when ten banks failed. With the recession, the failure rate increased dramatically, with 42 closings in 1982. As of September 17, there had been 38 bank failures in 1983.

For S&Ls, the situation has been considerably worse. However, I will defer discussion of the thrifts for a few minutes.

Of course, in addition to failures, there have been some critical situations which did not end with banks closing down. For example, over the past two years, Chase Manhattan received considerable publicity as a result of several unfortunate incidents. Although the bank was apparently never in severe trouble, the Lombard-Wall and Drysdale Securities collapses, the Penn Square failure and the Mexican peso-dollar conversion moratorium all took their toll. Continental Illinois Bank took such heavy losses from their Penn Square-originated loan participations that they wound up firing entire floors of people. Perhaps the closest call among the largest banks was SeaFirst Bank in Seattle. SeaFirst would have failed had it not been acquired by Bank of America.

This background provides some motivation for the color classification system we have developed at VERIBANC. The color system is a screening process which uses two criteria to provide a quick-look at an institution's financial performance. The criteria involve net income and capital strength and are computed from the most recently available federal bank regulatory data releases. The color system works as follows. If an institution is profitable and its equity is 5 per cent or more of its assets, the institution is classified green. An institution which is losing money (i.e., reports negative net income) at a sufficient rate, that, if continued, would cause it to run out of equity within a year, is classified red. Also, if an institution's equity is less than 3 per cent of assets, it is colored red. Yellow represents an intermediate case.

The purpose for explaining the color classification system to you is that it provides an interesting measure of how the banking industry has been performing recently. In December, 1981, out of over 14,000 banks, only 300 were in the red and yellow categories. However, last December, the number exceeded 2,000. Note that the color classification tracks the bank failure rates previously discussed. It also illustrates the recent acceleration of the industry's problems. As a measure of the usefulness of the color code as a screening device, approximately 70 per cent of the banks which failed since January, 1981 (when we started keeping track), were red or yellow.

Turning attention to savings and loan associations (S&Ls), which have been failing at the rate of dozens per month (436 failures in 1982), the thrift industry's travails began several years ago. The classic squeeze which they suffered was that most S&Ls held fixed rate mortgages stretching out over long terms. With the skyrocketing of interest rates, they suddenly found that they were paying more interest on deposits than their loans were earning. By December, 1981, over half of the S&L industry appeared in the red and yellow categories. By December, 1982, the easing of interest rates had not had time to correct the damage to the thrift industry. At that time, even though many S&Ls had returned to profitability, most of the industry (84 per cent) had moved into the red or yellow category as a result of the serious capital erosion caused by steady losses over the previous years. Despite the well-publicized turnaround in the S&L earnings, their capital strength has not yet returned to healthy levels. As of June, 1983, the number of red or yellow S&Ls still numbered near 2,000 (of 3,248).

I would like to touch on some of the factors which have caused the FDIC and other banking regulatory agencies to have to work much harder in recent years, trying to prevent closings and liquidating those institutions at which insolvency could not be prevented. A major influence has been the recent period of high inflation.

Inflation causes a number of phenomena which at first appear beneficial, even to a banker. He can lend money and collect very high interest rates from loan customers who gladly repay in inflated dollars. If some of these loans do not pan out, it is no problem as long as the bottom line of the income statement still shows good earnings. In fact, a banker can even fool himself into thinking that he is performing clever risk management by knowingly choosing high interest paying loan customers while well aware that a certain fraction of the loans are not going to be repaid. The idea is that the extra interest earned by the good loans more than offsets the losses. This is a fine-tuned approach which works well until the risk environment changes (say, due to a recession) and default rates exceed predictions.

Of course, other than encouraging imprudent lending practices (even if they are given fancy names), inflation wreaks additional havoc as well. The obvious problem of real equity decrease in an environment of 10 per cent inflation and 9 per cent earnings becomes especially difficult when inflation abates and earnings plunge. It is particularly acute for banks since they are expected by the regulatory authorities to maintain specified capital levels. Inflation seems particularly prone to lead well-meaning people to develop thinking patterns which prove disastrous during subsequent periods of economic contraction. Many of our bank problems today result from bankers believing that they were truly in control of the inflationary situation but, in fact, based lending policies on an environment which proved transitory.

The foreign lending issue has been receiving considerable publicity for over a year. While the potential situation is very severe, with 87 of the largest U.S. banks holding overseas loans in excess of their equity, so far we have not seen any bank fail because of the foreign lending. Of course, if an international situation should develop which caused a significant fraction of these loans to default, an exceedingly serious banking crisis would ensue. As of last June, the total amount of money owed to U.S. banks by overseas borrowers was $244 billion. This is over 15 times the FDIC's deposit insurance reserves. To put the $244 billion figure another way, it represents four times the equity of all U.S. banks which report lending abroad. On the average, one-fifth of these institutions' entire asset base is involved.

Finally, it is appropriate to mention several factors specifically related to the recession which have caused bank problems. This recession was particularly severe for banks, since the business downturn especially affected areas of the economy that engage in considerable borrowing: energy, agriculture, basic industry and, no news to the title industry, housing.

These thoughts sketch the background of why bank problems have been on the rise. Now I will discuss banking areas about which our clients have expressed concern. In particular, there are several distinct areas of risk for a bank depositor and investor, despite the availability of deposit insurance.

The greatest risks, of course, accrue to the investor. When a bank fails, or is forced to merge, the stockholders always end up on the short end. In fact, when a bank is liquidated, equity owners often end up with nothing. Forced mergers also usually entail severe losses for equity holders. For example, last spring when the stockholders of SeaFirst met to decide whether or not to accept Bank of America's acquisition offer, many of them complained about the terms, and some threatened court action. They had good reason insofar as the offer discounted their stock considerably and required the remaining equity value to bear the burden of any future loan writeoffs. In short, Bank of America was receiving all of SeaFirst's assets but the SeaFirst stockholders would be stuck with all the risks which were left.

SeaFirst's President Cooley explained that, while the transaction was not very favorable, it was the only offer available. If Bank of America's offer were rejected, the regulatory agencies would surely close the bank. Insofar as the FDIC gives nothing to stockholders of failed banks, the vote was to join Bank of America.

At this point it is appropriate to separate the goals of investors from those of depositors. The investor wants to see both good earnings return and institutional growth so his investment will appreciate. On the other hand, the depositor really does not care much about an institution's profitability, as long as the institution is not threatened with insolvency. He only cares about a safe haven for his funds at a predictable rate of return. The depositor prefers to avoid the risks associated with equity ownership and choose the safer course of simply lending his assets to the bank.

In assessing risks associated with bank deposits, the immediate issue is ascertaining when deposits are "insured" vs. "uninsured." While it is well known that the FDIC, by law, insures most commercial bank accounts up to $100,000, it is appropriate to distinguish between law and policy insofar as the coverage is concerned. It is also necessary to be aware of the different policies of the various deposit insurance agencies which enforce different deposit insurance laws for banks, savings and loan associations and credit unions. For example, before the failure of Penn Square Bank, the FDIC's *policy* was, when a bank failed, usually to make whole all depositors. (In the case of mergers, this policy still prevails.) However, when Penn Square was closed, the FDIC's insurance exposure was so high that the payout policy was changed to place account holders above the $100,000 insurance limit at risk. Since then, a number of large depositors have suffered losses due to bank failures.

A particularly important area, where the differences between deposit insurance law and the policies of the administering agency are not necessarily obvious, is that of trusts, escrow funds and other categories of group accounts. Often such accounts are controlled and administered by a single entity, for example, a corporate pension plan office. The present FDIC interpretation is that the ultimate number of "beneficiaries," of an account determine how many multiples of $100,000 the deposit insurance covers. For example, a 1,000-member pension fund would be insured to the $100 million level. While this policy is both equitable and politically very palatable, the question occurs, "Could this interpretation be changed in a crunch?" An argument could be made to the effect that "one trust is a single legal entity which counts as one depositor." Perhaps, where pensioners are involved, it would be difficult, except in the gravest circumstances, for the FDIC to change its interpretation. However, would it be possible to effect policy changes in regard to the insurance of other types of accounts which garner less widespread support? For example, what policy reinterpretations might occur if the FDIC were faced with crushing obligations to employee profit-sharing funds? Or to title company escrow funds? Or to deferred compensation trusts for executives?

Other recent developments also promise to effect changes in the way the basic $100K deposit insurance coverage applies. Administrators at the FDIC and Federal Savings and Loan Insurance Corporation (FSLIC) have become increasingly disturbed that increasing numbers of cash managers use the deposit insurance to avoid practically all investment risk. They dislike the ever more common practice of proliferating deposit accounts into many institutions, keeping the maximum amount at $100,000. As a result, modifications of the insurance have been suggested. The rationale behind the change recommendations are to create incentives for all depositors to encourage their bank's management to pursue sound operating practices. FDIC Chairman Isaac has proposed that banks have their insurance premiums adjusted according to their soundness and has proposed measures not unlike the VERIBANC color classification system to accomplish this. Currently banks pay uniform insurance rates.

Another plan, proposed by recently-retired Home Loan Bank Board Chairman Pratt, was to place a "deductible" on the insurance benefits, perhaps 1 per cent or so. This would encourage depositors not to ignore the risks of a poorly run, but perhaps high interest paying, institution.

FDIC executives have also discussed changing their present policy in regard to keeping large depositors whole when mergers are arranged. An adjustment to 75 per cent coverage for accounts in excess of $100,000 per account beneficiary has been suggested.

Of course these are only trial balloons, but I urge those of you who have cash management responsibilities to follow the deposit insurance arena closely. Moreover, if your coverage could be doubtful in any way, try to obtain a written opinion from an authorized FDIC representative (or FSLIC or National Credit Union Share Insurance Corporation, as applicable).

Touching on some other risks which depositors face, it is worth mentioning repurchase agreements. These are short-term instruments, usually traded by specialists but occasionally offered to wider markets. At first look, "repos" offer attractive rates, but it is important to realize that repurchase agreements, unlike certificates of deposit, are not protected by deposit insurance. This has caused confusion on occasions such as following last year's failure of the Mt. Pleasant Bank and Trust Company in Iowa. Following that episode, many of the townspeople, who turned out to be unsophisticated investors, were left holding worthless repurchase agreements from the bank. Quite a few of them claimed that they had been told by bank officials that their holdings "were as good as deposits" insofar as insurance was concerned!

Repurchase agreements, ordinarily used by banks to move large amounts of money around, have come under another cloud, too. Following the Lombard-Wall Securities firm's collapse last year, and an obscure ruling by a New York Bankruptcy Court judge, the question arose as to whether it was legal for the collateral holder to liquidate the collateral if the repurchase agreement were defaulted. In an initial ruling, which was later reversed, the judge refused to allow liquidation. As a result, many banks now fear to provide liquidity to weaker or ailing institutions through the standard mechanism of repurchase agreements. Since the net effect of the uncertainty tends to dampen the flow of repurchase money, the banking system's stability is influenced adversely. For this reason, Congress is considering legislation to provide repo collateral holders with the right to liquidate defaulted agreements without delay.

Delay is another concern whenever the FDIC pays the depositors of a closed bank. Normally, of course, bank closings are performed late in the week and regulatory personnel labor hard through the weekend to get account holders' money to them immediately as of the next business day. However, they are not always successful. In a little publicized case last spring, the Bank of Sparta in Tennessee was closed. When Monday came, and the usual arrangements to pay off depositors had been made, the previous management of the bank obtained a court injunction to prevent the payout. Their argument was that, if the FDIC paid all their depositors, they would be denied due process before their case (against the FDIC) could be heard in court. The result was that lines of depositors formed outside of the bank and, reminiscent of the depression era, were told they had to go home. Fortunately, the delay persisted for only a few days. The judge lifted his order and depositor payout commenced on Thursday of the same week.

No discussion of depositor risk is complete without mentioning, at least in passing, the variety of doomsday scenarios often explored by financial columnists. Although most of us hope that hyperinflation, liquidity collapse, or massive foreign loan defaults are simply worst case imaginings, it is nonetheless sobering to realize that our banking system is vulnerable in a number of areas. Near total collapses in banking have occurred on several occasions within the last century. With some of the threats which are apparent today, it is worthwhile to not take the stability of our banking system for granted.

One of the frustrations which I have experienced in recent years is the number of people who take a head-in-the-sand attitude about banking risks. Too prevalent is the attitude that bank failures are, like nuclear war, totally outside of our control. The corollary that no effort needs to be put forth to seek strong institutions and avoid weak ones, is then used to justify inaction. My reply to this is an emphatic assertion that BANK FAILURES ARE NOT RANDOM OR UNFORESEEABLE. Financial institutions are like other businesses; they can make mistakes, can have bad luck and can suffer from human frailty.

Also, many institutions can fail within a short period of time (witness the last two years), and the system has not collapsed. In fact, the federal regulatory agencies have done an admirable job to administer all of the recent failures and mergers and maintain confidence in the banking system all the while. The net result is that money managers who have been either astute or lucky have escaped damage from the nearly 1,000 banks and S&Ls which have gone out of business in the last two years.

At this point, let me return in more detail to the topic of what outsiders like you and me can find out about our banks. We deal with several constraints. The data is submitted by the bank officers through the Federal Reserve's data collection system. The information is not as recent as we would like, running some three to four months behind ongoing operations. Nonetheless, this data provides us with a surprising degree of insight into a bank's condition.

For example, the color classification system mentioned earlier, even though it is based on only two criteria, provides a remarkable screening function. Of all banks which have failed since the beginning of 1982, some 70 per cent were yellow or red. It turns out that, if one had no information at all about a bank other than its color classification, exclusive use of green institutions would offer a factor of 10 lower risk of failure than a bank selected at random.

Next, I would like to mention several factors which anyone with the inclination and interest can use to help them choose banks. Historically, most bank failures (not all) involve small institutions. This, in large part, is because small banks are much more numerous than large ones. However, a large asset base clearly permits bank management to make more errors and poor judgments than can be afforded by a small institution. The failed Hohenwald Bank in Tennessee serves as a typical example. They cashed two checks totalling over a million dollars without holding the customer's deposit account until the checks were paid. In this case the checks bounced but the account holder had withdrawn his funds. The bank's equity dropped below regulatory limits and it was closed. A large bank would not have had this problem. For this reason many cash managers will only do business with banks above a certain asset size.

Another measure, one which FDIC spokesman Alan Whitney has maintained to be the best single indicator of a bank's health, is capital strength. Capital strength is measured in terms of the ratio of equity to assets. All three federal bank regulating agencies, the FDIC, the Federal Reserve and the Office of the Controller of the Currency, have set the minimum allowed value of this ratio at 5 per cent.

The financial success of banks, like other businesses, can often be appraised by examining their net income. In fact, profitability can be considered to be a fundamental indicator. After all, banks are suppose to earn money, not lose it.

As an illustration of the importance of net income as a useful item of data, last year we performed a research exercise to find all of the banks in the country which, based on their June, 1982, financial filings, were losing money at a rapid enough rate to run out of equity within a year. We have tracked how these institutions fared since then. As of June 30, 1983, 14 of the 45 institutions no longer exist. Nineteen of them are still in various problem categories while 12 appear to be financially healthy.

Liquidity, the proportion of a bank's deposits which are invested in assets readily turned into cash, is also an often-used indicator. While most of the depression era bank failures were the result of inadequate liquidity—otherwise healthy banks could not raise cash fast enough to pay panicked depositors—recent bank closings have usually been for other reasons. In today's environment, a healthy bank has virtually instantaneous access to borrowed cash through the electronic media. If the institution is in a remote area, money can usually be trucked in within a day. In recent times, liquidity is used more as a gauge of a bank's management style (conservative vs. aggressive) than as a weighty indicator of financial condition.

The foregoing discussion has presented a variety of factors which have historical precedent. Now I will turn to a few potential hazards. These are areas where, although no banks have failed in recent years, many experts believe that significant risks exist.

As mentioned earlier, most of the country's largest banks have made loans to overseas clients which are well in excess of their equity. Because the amounts involved are so large, many analysts doubt whether repayment will ever be possible. As a result, there have been several crises and considerable publicity relating to international lending policies. It is worthwhile to note that the foreign lending is extremely concentrated in the money center banks. For example, of the $244 billion foreign debt mentioned earlier, over $229 billion of it is held by banks with assets above one billion dollars.

It is interesting that a large part of the investment community believes that the government would not allow any of the large banks to fail in the event of foreign loan defaults. The theory goes that, even if the Federal Reserve Board had to generate hundreds of billions of dollars overnight to prop up the large lenders, the money center banks would be protected. This theory coincides nicely with the "large is safe" concept mentioned earlier. However, skeptics point out that an independently-minded set of federal regulators just might liquidate one or a few large institutions either as an example to the rest of the industry or simply because it might be cheaper to pay off depositors at the $100,000 limit than to have to support billions of dollars of bad assets. Other observers question whether, if a run on the large banks began, the government would move quickly enough to stem it before a full-fledged panic developed. Because of this uncertainty, many cash managers are tending toward maintaining their uninsured deposits in large regional institutions which have modest amounts of overseas lending.

What will be the ultimate resolution of the foreign debt held by the large banks? Financial writers generally agree on three possibilities. One widely held variation is that, over the next several years, we will be subject to a very high rate of inflation. The inflation, caused partly by political pressures to facilitate solution of the banks' foreign loan problems, will allow the industry's equity, denominated in dollars, to grow while the problem loan levels remain fixed. As a result, the proportion of problem loans decreases.

The second possibility is a sort of status quo. The banks continue to muddle through with continuing renegotiations of the loans on into the very distant future. Of the three scenarios, this is most attractive.

The third possibility is default. Some defaults by international borrowers could certainly be absorbed by our banking system, but if large numbers of overseas debtors repudiated their obligations, such as occurred in the late 1920s, the impact would be very serious. In that event, a financial collapse of this country's money center's institutions could occur, or, if massive government intervention managed to save the industry, the resulting inflation could be a disaster in its own right. This is why most observers really do not want to think about widespread default possibilities.

A second area of significant potential risk came to the forefront following the Penn Square Bank failure. The problem which was highlighted then was that many banks, particularly in the money center cities, lend and borrow from each other and share in loan syndications that create networks of interlocking credit. As a result, if there is a failure of one large bank, or even of a heavily networked modest sized institution (like Penn Square), many other banks can be affected. The key worry about interlocking loan and deposit relationships among banks is that the failure of an important money center institution could cause a chain reaction of failures as financially linked banks could not meet their obligations to each other. Although this worry is largely hypothetical, the failure of a few small banks, several credit unions and the forced merger of Seattle's SeaFirst Bank come as a result of the Penn Square failure.

Another potential risk relates to the bandwagon effect of fashionable trends in banking. The foreign lending arena looked very attractive in the mid-seventies and, as a result, many lending offices sought the high rates of return involved. With hindsight it is clear that many of them did not exercise the best possible amount of prudence in their rush to take part. Another trend which has not worked out too well is energy-related lending. More recently, possible overextensions in the letter of credit area have been identified. While, with the exception of energy loans, there have been few, if any, recent failures due to trend or fad-related banking practices, most analysts advise that good bank management practice encourages diversification of assets. The corollary to money managers is to be cautious of institutions with lopsided portfolios.

In my discussion so far, I have shared with you many of the reasons why banks have failed, or might fail. These are all categories into which we can obtain some insight from the data which is currently available. However there are two types of problems which so far have proved difficult to us to detect. One is fraud, where bank managements file deliberately misleading, but consistent, reports to the regulatory authorities. The second is "bolts out of the blue." An example of the surprise problem was the Hohenwald Bank management's security lapse in their check cashing procedures mentioned earlier.

* * *

In conclusion, let me offer a summary of specific steps which cash managers can take to reduce risk to their banked assets. Most importantly, choose a bank with attention to more than convenience or a few basis points of yield difference. Pay attention to your institution's disclosures and writeups about it in the news media.

A number of independently-compiled reports on banks are available. Some are even easy to read. For example, we put out a "Blue Bank Report" which lists banks that meet all of the criteria discussed earlier, as well as a few more. Also, as the size of an investment portfolio dictates, more detailed data on individual banks can be accessed and studied. VERIBANC's Bank Research Report serves this purpose. Data sources other than the news media, VERIBANC and the banks themselves include the FDIC, the Federal Reserve and the Securities and Exchange Commission.

Despite the FDIC's misgivings it still makes sense to spread deposits around to different banks. The present insurance system encourages it. Until the system changes, prudent cash managers will continue to take as much advantage as multiple account logistics allow.

Finally, custom bank analysis of a particular cash asset management plan can offer significant benefits. With nearly 50 banks a year failing, there is roughly one chance in 300 that an institution chosen at random will go under. Careful selection can reduce this risk to better than one in three thousand and an appropriate diversification plan can lower expected losses to inconsequential levels.

My final message is that bank failures, by and large, are not random and that large depositors have several avenues of risk reduction open to them. Uninsured deposits can be protected.

Management by Objective Vs. Crisis Management

Professor Peter P. Schoderbek
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Iowa City, Iowa

As some of you know, my constant theme has been the professionalization of management. In traveling around to various organizations throughout the country, there's one thing that comes out very loud and clear—that the success of an organization is based on its management talents. We're going to talk a little about these management skills and about some of the things that I've found in working with many organizations.

In the last 60 years, a body of management knowledge has developed which can be taught and which we know to be effective, regardless of the type of organization to which it is applied. These same principles apply also to your type of organization.

Basically, when you people started out on your jobs, many of you started out at the bottom rungs of your organization. However, as you rose up through the ranks—promotion after promotion—or moved to a larger organization, you discovered that more and more of your job was taken up with supplying the leadership required to *get things done. Now* we're talking about management: we're talking about *getting things done through people.* Less of your current time is being spent on the technical aspects of your job. For many of you here, 80 to 90 per cent of your job lies in managing. And yet, if we were to look at your organizations, we would find that some of you are still involved in doing technical work instead of managing. And when we talk about managing, we mean PLANNING, ORGANIZING, DIRECTING, CONTROLLING, MOTIVATING, COMMUNICATING, SETTING OBJECTIVES, EVALUATING PERFORMANCE AND DEVELOPING SUBORDINATES. These are the things you are being paid to do. These are the things you should be doing.

Peter Drucker, the sage of management consultants, tells of three stonecutters who one day were asked what they were doing. The first replied, "I'm making a living." The second stonecutter remarked, "I'm doing the BEST job of stonecutting in the entire country." The third, when asked what he was doing, responded with a sense of dignity, "I'm building a cathedral."

The first person knew what he wanted out of work and he got it—making a living. It's the second individual, however, who creates PROBLEMS. While workmanship is obviously essential, there is the ever-present danger that the workman believes he's accomplishing SOMETHING when, in reality, he's just polishing stones or gathering footnotes. Many of today's managers are like the second stonecutter who was overly concerned with specialized work. Functional work is important—don't get me wrong! But it's not an END IN ITSELF. Functional workers often tend to miss the big picture; they tend to measure their performance not by their contribution to the overall goals of the organization but by their own subjective criterion of workmanship. They also tend to appraise their subordinates the same way. Oliver Wendell Holmes, Jr., once said: "There are one-storey intellects, two-storey intellects, and three-storey intellects with skylights."

All fact collectors who have no aim behind their fact gathering are one-storey people.

Two-storey people compare, reason, generalize, using the labors of the fact collectors as well as their own.

Three-storey people idealize, imagine, predict. Their best illuminations come from above, through the "skylight."

Leading-edge leaders will be these Holmesian three-storey persons, aided and abetted in their work by their one-storey people and their two-storey management colleagues. While specialization is important, it must give way to new and different abilities when managing. This is what I term, "The Vital Shift," which many people are unable to make. This particular phenomenon is not limited to your organizations; it pervades all fields of endeavor—the Engineer who is made Project Head and fails miserably; the Super Salesman who is made District Manager but just can't get results; the Researcher who is made Dean of the College but can't manage.

Many people in organizations strike out because of their inability or unwillingness to make this transition, this Vital Shift. Making this transition, however, is only a part of the professionalization of management. Professionalism also demands a commitment to the conscious application of the management principles that have evolved over the past 60 years. It's through the conscious application of management principles that we are able to break out of our technical "prison" and make a break for freedom to the secure citadel of management.

Because of the rapidity of change in society today, managers face unprecedented challenges. The coming to age of the baby boom, the diffusion of technology, the increased pressure for social and institutional change—all of these impact your organizations. Alfred Sloan, in his book, *My Years with General Motors*, has a chapter where he discusses why GM was so successful. A lot of people attributed GM's success to its centralized control, others to its decentralized decision making. Sloan, however, clearly states that THE SINGLE FACTOR that allowed them to increase their share of the market and to increase their profitability was their commitment to the professionalization of management. This, in turn, provided them with the continuity the organization needed to keep moving forward.

A lot of times we come across people who say that they're pretty good managers the way they are, without any special training. (This is especially true of entrepreneurs.) When they attend seminars, we hear comments like, "I don't need better management. I'm already managing twice as good as I know how. What I need to know is how to get money out of retained earnings without paying any taxes on them."

Let's assume for the moment that this person is, indeed, a good manager. Does he or she create any problems? Definitely! These individuals may be successful but they don't know WHY THEY ARE SUCCESSFUL. And because they don't know, they can't provide that all-important continuity to the organization. Success demands continuity which implies that there must be training on the job. Training presupposes that one already knows what talents and what skills make for success.

A manager once told me, "Heck, I used to train my people all the time. I did such a good job training that many of my employees left the company either to start their own or went over to my competitors. I sure put a stop to that pretty quick! In no time flat I solved that problem: I just quit training altogether. I now practice what I call 'mushroom management': I keep them in the dark, feed them a lot of manure, and hope they grow!"

Professionalism demands of managers that they train their subordinates; but it demands a lot more—that they plan, organize, motivate and direct. Let's concentrate on the planning function for a while.

One theme of this presentation is to discuss the need for planning. President Lincoln said: "If we *know* where we are, and perhaps a bit about how we got there, we might see where we are trending, and thereby affect our destiny." This idea can affect your business, your organization, or your life. The difference between planning and nonplanning can be likened to the Sunday driver versus the vacation driver. The Sunday driver is on a joy ride who says, "Let's go to the park, out to the country, or to the seashore. Who really cares? Nobody cares whether we get sidetracked and don't wind up where we originally thought we would." These people are "winging" it. Obviously this isn't any planning at all and the price that one pays for the momentary pleasure is too high.

The vacation driver, however, is on a far less romantic trip. It includes setting out clearly in advance where we are going, what the final destination will be, when we will arrive, what stops are going to be made along the way and what is our anticipated speed and mileage. It also includes a clear calculation of what the trip will cost, what the terms of payment will be, where the money is coming from, and who will be responsible for every job in every detail, with some standards of performance for everyone. Every planned stop is covered with a reservation and guarantee, and provisions for the unexpected are thought out in advance and protective actions then taken to avoid surprises. This latter type of planning can be termed the *planned grand tour*.

One would think that most business people clearly see the need for planning but this is not so. Some people who are competent in their jobs actually enjoy crises and the problems associated with their work more than they would care to admit. Crisis management, for some, provides a recognition from others for their extraordinary powers of mastery displayed in handling pressure-cooker problems. Frankly, it provides some ego satisfaction for some managers.

Under crisis management, however, planning, thinking, reflection, and creativity are likely to disappear. Crisis management is a potent anti-planning force for many of us.

A sign that all of us have seen somewhere or another reads, "When you're up to your behind in alligators, it is sometimes difficult to remember that your objective was to drain the swamp." What this suggests is that we have to fend off alligators on a daily basis with all sorts of crises; yet, we should not lose sight of our overriding goal. Crisis management produces an obsession with day-to-day short-run aspects of the job.

When organizations and people don't have goals, they tend to concentrate on activities. They get ensnared in what George Odiorne calls the *Activity Trap*. Everyone becomes emotionally attached to some irrelevancy and does his or her job *too well*.

This activity trap transcends many professions including education, unions, the government and even churches. They become enmeshed in covered dish suppers and basketball leagues—activities generating little other than indigestion and flat feet. Even *families* get entangled in the mechanical processes of living. A story is told of the perfect housewife whose son got up at night to go to the bathroom; when he came back, his bed had been made.

The human consequences of the activity trap in organizations is that employees shrink. The organization drains its people of their zap, and finds itself employing pygmies. They look like real people, they wear neckties or skirts, they drive cars, and pay taxes, but they are performance *midgets*. And when these people lose sight of their goal they *redouble* their efforts. They run a race without knowing how long the track is. Trees "fall" upon them and *then* somebody yells, "Timber." The effect is cumulative. Not knowing the goals, they practice established rituals. Looking busy becomes safer than being productive.

In America's best managed organizations, and I suspect yours also, managers sit down with subordinates and periodically ask, "What are you going to produce for me the next quarter or next year?" They talk about outputs and results so, when the curtain goes up, both actors have the same script. The key person in this type of productive organization is the top executive. He or she determines that the organization will be managed by objectives, not activity. Virtually every organization is susceptible to the activity trap because it is so alluring. But the security of the trap is inherently false, and the rewards diminish quickly. Organizations, after all, are not ends in themselves—they are *means* to ends. To accomplish these, the participants must get down to business rather than the "busyness" of the activity trap.

I would like to discuss with you a few of the myths that concern leadership. One can understand how such myths arose and why they are still being circulated. They evidently fill a felt need.

A myth often articulated in many programs is that, to be successful, one must have a personality compatible with that of one's fellow employees and of one's boss. Unfortunately, in the hiring process, all too often we look for individuals with certain personality traits rather than hire against the job description. Somehow we imagine that some of these traits are associated with both the "great man" syndrome or with the "charismatic leader."

A favorite game that some instructors play at management development seminars is to ask the participants what traits an individual must have to be a successful manager. The instructor then notes these down on the blackboard or flip chart. After a few minutes, the list becomes quite formidable. One finds attributes like the following: creativity, intelligence, initiative, integrity, insight, aggressiveness, pleasant appearance, loyalty, trustworthiness, friendliness, empathy, a sense of humor, PIZZAZZ, and even certain physical characteristics and a host of other nice sounding qualities.

It is surprising today that business executives, government personnel and not-for-profit sector managers still believe that there are certain inborn attributes, or qualities, which a person acquires in early childhood that destine one to be a successful leader or manager. It was once thought that, if certain personality traits could be identified in known leaders, the selection task of recruiters and of search committees would be drastically simplified. One would merely test for the presence of such traits and, when found, would then be assured of having uncovered future leaders. Many giant corporations of the past employed this approach, a technique still in existence today. Small wonder then that no other management topic has received such prolonged and exhaustive treatment as the identification of these leadership traits.

A review of the hundreds of studies regarding the presence of certain traits in managers and leaders is disappointing. The findings of many studies are contradictory, and even in those in which positive evidence exists in at least 10 or more studies, the findings are so tenuous that they are of little or no value.

In spite of the meager evidence, researchers continue to look for factors that will distinguish future leaders. Strong evidence against the leadership trait approach also was reported in a variety of studies in which the same leaders were observed or compared with other leaders on a variety of tasks. If one were to grant the assumption that there are leaders born with certain traits, then one would expect these individuals to perform well in a variety of situations. After all, personality traits are enduring qualities, quite constant over time in a variety of circumstances.

For instance, if intelligence were a supposed leadership trait, one would expect to find it exhibited in a variety of business situations. Results of a number of studies show that this simply is not the case. The conclusions state that leadership performance on one type of task is essentially unrelated to leadership performance on another type of task. This suggests that leaders are effective in certain situations and ineffective in other situations. LEADERSHIP TRAITS OR ANY PERSONALITY TRAITS DO NOT HAVE ANY SIGNIFICANT EFFECT ON THE PERFORMANCE OF LEADERSHIP TASKS.

While this may at first appear startling, upon some reflection, it is not. The managers who attend executive development seminars all have achieved a modicum of success in their positions. They often attribute part of their success to their bosses. Yet the styles of management and the personalities of their superiors vary considerably from their own. In fact, when they are asked to think of two different bosses they have worked for who were effective managers, the descriptions of the traits and styles of these bosses show tremendous differences. Thus, one can safely conclude that

> there is no single trait or group of traits found in successful managers and absent in unsuccessful managers.

The reason the leadership trait approach has been unsuccessful is that it ignores the leader's followers. Today it is almost a truism to say that followers have a profound impact on the job done by the leader. An old saying has it that a leader is judged by his followers. If the followers are doing a good job, then the leader is effective. If the followers are not doing a good job, then the leader is ineffective. Jim Hays, the former president of the American Management Association, put it this way: "If you surround yourself with a bunch of pipsqueaks, you're Chief Pipsqueak. If you surround yourself with a bunch of tigers, you're Chief Tiger."

The capabilities of followers have a near critical effect on the performance of the leader. When this approach is used in selection, it invariably becomes an evaluation of individuals. This approach does not focus on the results an individual obtains but rather on how well he or she gets along with other people. In one organization, I recently heard a top divisional manager state publicly that he promotes people on the basis of loyalty, and only God knows how he defines loyalty. Loyalty has little resemblance to work output. This is hardly what one would call "accountability in action!" It is for this reason that Management by Objectives and similar programs have been accorded so widespread an acceptance. In this system a person is evaluated, promoted and given pay raises on the basis of accomplishment of predetermined goals.

I want to read from a quote that I clipped out of the paper a while back. It is from the president of one of the largest companies in the world today. This is what he said, I quote: "I look for a person that has leadership status—I hope the man LOOKS like a leader—and has some ability to command attention by his sheer presence and force of character." END OF QUOTE. I dare say that I would have been fooled more often than not if I had to rely on judging leaders by the shape of their bodies and the length of their probosces. Such an approach is of dubious value in the selection or evaluation of people. What is needed are performance standards for the job. These can serve as guidelines for measuring one's contribution. An old saying has it, "If you don't know where you're going, any road will take you there."

Not long ago, I talked to several people about problems in managing UNSATISFACTORY PERFORMERS. One of the very first places we ought to look for unsatisfactory performance is . . . THE BOSS. Too often I hear that this or that employee is not working out on the job. He or she just can't hack it. My question to that manager is, "Who selected that employee?" "Who trained the employee?" "Who set this person's objectives?" "Who monitored the progress?" "Who developed this individual's goal?" The answer invariably is . . . MANAGEMENT!

It's not too unusual to see individuals who may be unsatisfactory in one organization or in one department, go to another and burn up those rungs of the ladder. I like to use an example which I came across a number of years ago in the auto industry. We had a situation in which an individual was not doing a good job. The boss came to him and told him, "You're not doing your job well. Your work is satisfactory, but not outstanding. You're definitely not going anywhere in this organization and, if I were you, I would probably move elsewhere." This individual became very perceptive. He did indeed leave, but not to another organization. Instead, he went to a different department in the same division of the same organization. And he did a tremendously good job! As a matter of fact, two years later he got promoted to the level of his former boss, and two years after that he got promoted above his old boss. His old boss now reported to him. One day he said, "Say, don't I know you from somewhere?"

Now, what is it that allows an individual who cannot perform in one organization, or for one boss to go to another organization or to a different boss and turn it on? Did he change his personality? Not by a long shot! You see now why I suggested that the first place to look for ineffective performers is the boss. And yet, this is often the very last place we look.

Let us now briefly look at the effects of leadership on all of us. We often hear that ours is an age without heroes or heroines, that business and government are without leaders. The towering personalities of the past seem to have had considerably more impression on us than do their successors. This implicit indictment, while containing some truth, overlooks the many rugged individuals who are on stage today—individuals embedded in the ranks of business, government and communities—individuals who desire to achieve leadership roles. Nevertheless, the charge that we've allowed leadership to lapse as an art merits some consideration. In far too many organizations, the careful person has replaced the rugged individual who in an earlier era was willing to take uncommon risks by bold actions. Today, decision-making in many organizations has become diffused, decentralized and impersonal. To some extent this is the inevitable result of social and economic changes. But more importantly, the reason why leadership has changed so much is that direction now flows from cadres of professional managers who are responsible to boards, federal or state regulators, organized union workers and special interest groups.

Often in today's society we are replacing dynamic people with efficient people. Seldom do we look beyond what must be done today. This has been termed by some "bureaucratic stagnation." And this civil service mentality is being infused not only in government but also in education, business, churches, unions and other social bodies. In many of these systems an individual is assigned his or her function according to the standards of proficiency. This is done to insure that such a huge system stays under control. Duties and regulations laid down to guide employees are applied meticulously in such a manner that all risk is avoided. Initiative is not tolerated to any great degree lest the whole system fall apart. Under such a system, risk is truly eliminated. And the rationales, rules, regulations and policies—although they appear irrational to the individual—are nevertheless adopted. In such an organizational setting, managers are constrained to be efficient managers. Today's organizations and tomorrow's organizations require a new breed of restless men and women with imagination who, while not cut from the same cloth as were the titans of old, nevertheless stand ready and able to break free of conventional fetters and move on under their own initiative.

Because many managers profess to be effective managers, I have, over the years, kept a tally sheet on the ways that they feel that they have learned to manage. You may recognize many of these and, perhaps, identify with some since they constitute the core of the main sources of management knowledge.

1. EXPERIENCE IS THE BEST TEACHER is a cliche that has been around so long that we almost accept it un-question-ingly. Experience is, indeed, a good teacher and well respected. The rolls of corporate executives are filled with men and women of experience; in fact, often with so much experience, that creative thinking and problem solving are stopped dead in their tracks. Much of the resistance to

change with regard to new programs, products or services comes from managers blinded by their past experiences. Experience, PER SE, is neither good nor bad. We MAY or MAY NOT learn from our experiences. The point I would like to make is that one ought to look at experience with a cautious eye. A saying making its rounds in the training circuit is whether a seasoned manager with 20 years' experience has had 20 years of experience or just one year's experience 20 times over. There is a difference! The question deserves to be asked.

2. Experience is one way many managers learn to manage. Another way is by OBSERVATION. In traveling around to many organizations, I often hear that So-and-So got his start under Such-and-Such, implying that he learned much by OBSERVING OTHERS. This may, unfortunately, well be the case. Observation is a widely practiced way to acquire managerial know-how. We may observe a variety of corporate leaders or community leaders and then decide that their particular mode of operation is the way to go. While this may be noteworthy, it also has its pitfalls. Because operations differ, personnel differ; emphases on various factors differ; and performance standards differ. These all make for variations in the job.

Observing managers in one situation may not be the ideal way to acquire managerial know-how in another situation, especially if the situations are quite diverse in nature.

3. Managers should not be reluctant to acknowledge if not publicly, then at least privately, that they can learn to manage from their SUBORDINATES. This assumes, of course, that they are willing to listen and to accept the fact that subordinates too may have ideas as to how the organization can best be run. At present there is little evidence showing that learning to manage from one's subordinates is a common learning technique. All too often managers insist on blind obedience, on loyalty—EVEN TO THE DETRIMENT of the organization. And what is WORSE, they EVEN REWARD IT!

4. Research shows that the single biggest source for learning how to manage is THE BOSS. People imitate their boss. If the boss sets objectives or performance standards for subordinate managers, they, in turn, tend to set objectives or performance standards for their subordinates. If they tend to provide counsel or serve as a mentor to subordinate managers, they in turn tend to do the same. It's only natural for people to want to please their boss.

While one's superior is the single most common source for acquiring managerial skills, it can also be the most error-prone source because of two basic assumptions:

First, it assumes that the boss is competent enough to deserve to be imitated;

Secondly, it assumes that the employee can isolate and identify those things which make the boss successful on the job.

As to the second assumption, one must make sure that one imitates those things that made the boss successful, rather than some personal, individual idiosyncracies totally unrelated to his or her success.

Now all of us have learned from bosses. I had the very good fortune to work for a giant in the field of MBO, George Odiorne, who has probably popularized the concept of Management by Objectives in the states more than anyone else. I did my work for George at the University of Michigan.

George is a tremendous, dynamic individual. He works 16 hours every day. Gets up at six o'clock in the morning. Puts on his sweatsuit and runs around the golf course a couple of times; eats wheat germ for lunch; takes vitamins; does Canadian exercises; and tops it off with a Corona-Corona cigar. A fantastic individual.

In his 10 years at Michigan, he wrote six books and authored 115 articles. A lot of people, myself included, tried to imitate George. It was only after I came out of the hospital with a rundown health condition, that I found out that George had an overactive thyroid. And, at Iowa, it took me two years to convince myself that I really didn't like Corona-Corona cigars. Yes, a lot of people went around imitating George—imitating his idiosyncracies rather than the things that made him successful on the job. (I still wonder how many other people's health he's ruined besides my own.)

Some bosses go to great lengths to ensure that their subordinates really learn how to manage from them. In one organization which I recently visited, the boss was quick to point out that he had a very extensive training program which he personally conducted. Upon consulting the subordinates, I indeed discovered that the boss did extensive job training. But I also discovered that this organization had MISmanagement at the top of the organization, and, through the boss's extensive training program, he was able to instill poor management practices throughout the entire organization. He had what I termed "MISMANAGEMENT . . . IN DEPTH." Naturally, the question was asked: How does one solve this problem? Realizing that not all problems can be solved all at once, I suggested that the boss should QUIT training the employees so that the MISmanagement could be confined to the top. The real problem there was that the boss had done TOO GOOD a job in training his employees in all his . . . lack of skills and abilities. By the time I got there, the entire organizational structure had been GUTTED by mismanagement practices and policies.

Let us now turn our attention briefly to the subject of human relations and then spend some time on an employee's Bill of Rights.

Over the years, a great deal has been written about human relations, about job satisfaction and productivity. Since a good number of studies have shown that job satisfaction and productivity are not consistently and necessarily related, the human relations movement has been steadily losing ground. In its place has come the whole field of the behavioral sciences with their emphases on leadership, motivation, participative management and so forth.

At some time or other, all of us will have faced difficult personnel decisions. At the root of the difficulty is our desire—a very human desire—to be well liked. We want our superiors to like us; we want our subordinates to like us. The decisions that we make will make us either better liked or not. But that is *not* the criterion we should use in our decision making. Rather, can we have both productivity and job satisfaction? If so, GREAT; but if not, then we shouldn't sacrifice productivity for job satisfaction. Perhaps what we need is a good MBO program, one that enables us to discriminate between the good performers and the not-so-good performers. A good MBO program enables us to set up performance standards whereby we can determine who deserves to be promoted on the job. Otherwise, everybody gets promoted and mediocrity continues to permeate the entire organization. Everywhere—in the field of education, in universities, in local school districts, in stockholder meetings, in government operations—people are clamoring and DEMANDING an accounting from their stewards. Each one of us should be held accountable for the professional management of our operations.

With recent emphasis on quality-of-life programs, organizations are rushing ahead to provide a wide array of benefits geared to making the worker's job not only tolerable but DOWNRIGHT PLEASANT! Now, much of this is the direct result of the many articles telling us how unhappy we are with the work we do, how unfulfilling our jobs are, how little our talents are being utilized, and how we SIMPLY DESERVE BETTER from our employers. In response to this, company officials have come up with proposals for job enrichment, for joint employer-employee committees, and other democratically-based alternatives, all aimed at alleviating both blue-collar and white-collar blues.

Instead, I would suggest an EMPLOYEE BILL OF RIGHTS, much like that our founding fathers saw fit to adopt to protect the rights of the citizenry. The bill of rights proposed here will not only benefit the employee but will also benefit organizations in that they need no longer search vainly for the "holy grail" of employee relations in meaningless and fruitless activities.

The proposal of an employee bill of rights implicitly attests to the failure of today's organizations to provide for the well being of the individual worker. To be sure, physical welfare has received adequate attention; so, too, the amenities of corporate life. But the chief ingredient still missing is . . . PROTECTION—not protection of the job or a paycheck, but protection that an individual will BE ABLE to contribute to the organization as well as to society. If a bill of rights is ever adopted, here are a few articles employees would probably like to see in it.

Article I. EVERY EMPLOYEE IS ENTITLED TO COMPETENT SUPERVISION

As usual, Peter Drucker puts it succinctly:

It is the responsibility of the organization to remove incompetent managers because it is grossly unfair to subordinates who work for such a manager. Employees are "the length and shadow" of the boss. It is the task of the manager to build upward responsibility and upward contribution into the job of each subordinate. If this isn't being done, then the boss has failed. One way to assess what the boss is doing to help the employee is to ask these questions:

What do I do as your manager, and what does the organization do that **helps** you MOST in your job?

Also, what do I do as a manager and what does the organization do that **hinders** you MOST in your job?

These seem like obvious questions, yet the answers turn out to be far from obvious. Such questions force both managers and subordinates to focus on common performance. They both focus on the purpose of their relationship. And, they are likely to induce in managers a new perspective on the people who work for them.

It is self-understood that no one should be penalized for something that is not his fault. At home, we certainly do not punish our children for things that aren't their fault. In the judicial system, we do not punish people for things they did not do, and yet . . . in the corporate world . . . we often penalize our workers for things over which they have no control.

People do not become obsolete by themselves: organizations must have failed to give them the opportunity to develop. True, organizations do accept responsibility for performance in a wide array of activities. Still, one area sadly neglected is responsibility for providing good supervision and responsibility for providing an opportunity for professional growth.

Take the case of a fiftyish accountant in a medium size firm who somehow missed out on computer training. The organization simply went ahead and hired a young hotshot to handle this area. Eventually, the organization moved the accountant into a job which neither taxed his abilities nor gave him any sense of dignity. In this case, the fault lies with the organization that did not provide the accountant with an opportunity nor the discipline to grow with his job.

Or, take the middle manger who, for many years, has just gotten by in his performance. In the last 10 years, he has had at least three different bosses. Yet not one of them ever called attention to his marginal performance. Each of his performance appraisals were average or satisfactory with a few smatterings of "could improve" on some of the items considered. Then, when a reorganization took place, this individual was the first to be let go and with few skills to sell. Here again, the fault lies with the organization, for it is the responsibility of management to REMOVE people who do not perform with high distinction. To allow managers who do not perform to remain on their jobs is detrimental to those subordinates who must report to them. It is also UNFAIR to the individual himself who inwardly knows that he isn't performing as he should. And, as a result, he must constantly go through meaningless rituals to prevent his being exposed.

Article II. EVERY EMPLOYEE HAS A RIGHT TO KNOW WHAT CONSTITUTES GOOD PERFORMANCE

Many employees strike out not because they swing and miss but because they don't know where the strike zone is. Obviously what is needed is a clear articulation of what type of performance is desired together with any priorities. I genuinely feel that people want to perform but they have to know what counts in the organization. Goal clarity was found in numerous studies to be the most critical element in any objective-based system. All too often managers are more concerned that their subordinates participate in setting goals than that the goals set are clear and unambiguous.

Goal clarity suggests quantification, or at least some criteria whereby employees are able to measure their own performance. Every employee ought to know how well he or she is doing, and their self-appraisal ought to be in substantial agreement with their bosses before appraisal time. The appraisal should be surprise-free. It should merely be a formalization of what is already known by both the superior and the subordinate.

Article III. EVERY EMPLOYEE OUGHT TO HAVE THE RIGHT TO KNOW HOW WELL HE OR SHE IS DOING ON THE JOB

While a corollary of the previous article, Article III merits separate attention since it formalizes the feedback process. Performance appraisals per se are very common in organizations, yet their effective use is not. Even organizations that supposedly have objective-based systems have indicated less than total success with the system. The main reason for this seems to be that managers are not normally trained for this difficult task. It is well known that the one thing managers do poorly, dislike doing, or don't do at all is conduct PERFORMANCE APPRAISALS. In many instances, employees were supposedly given a performance appraisal unknown to the individuals involved.

At times, the whole performance appraisal is simply perfunctory. Here is what one manager said about his performance appraisal:

"It took place beside the water cooler and lasted about 30 seconds. I even signed the form in that same time. Essentially what happened was this. My boss said to me: "Joe, here's your performance evaluation which we discussed earlier. (We didn't discuss it earlier.) It's pretty good, so I would appreciate it if you signed it now because I've got to get it up to personnel since I'm already a couple of weeks late."

This same individual lamented that he never did have time to read the comments on the appraisal form and certainly wasn't going to ask for his file at a later date to do so.

Giving feedback means much more than having an employee sign an appraisal form. It means discussing results, talking over the problems encountered in achieving results, counseling, and many other things pertaining to the job.

Article IV. EVERY EMPLOYEE SHOULD HAVE THE OPPORTUNITY FOR PROFESSIONAL GROWTH

This article places the responsibility for development squarely on the shoulders of the organization. An employee cannot grow by performing dull, unchallenging, routine tasks. The job must be made large enough and rich enough so that the individual is coerced to grow. If the individual is required to grow on the job, there is little chance of obsolescence. The employee cannot control this aspect of job design; only management can. At any level of the organization, managers can lead only if given the opportunity to lead. Jobs must be designed that are large enough so that performance not only makes a difference but is observable. Remember, a job can motivate only when the possibility of failure also is present. The individual who never has the chance to make mistakes cannot learn from them.

One learns to manage by managing just as one learns to drive a car by driving one. Simply reading the manuals is not enough.

One cannot develop employees merely through pep talks or by sending them off to management seminars. Development comes from coaching others to perform at their peak in their everyday tasks and, when they reach their peak level, they are given more challenges to test and develop their skills. The essential point is that people can grow only in *real* work situations that require big decisions.

Article IV presupposes that others have capacities that they are not using. Directed work experiences and the opportunity to use their abilities and skills in real work situations are the key to development. The greatest waste of productivity today is the untapped resources of our work force.

Article V. EVERY INDIVIDUAL SHOULD BE PROVIDED THE OPPORTUNITY TO UTILIZE HIS OR HER SPECIAL SKILLS

Adoption of this article implies that it is the responsibility of the organization to place the right person in the right job. This is no more than what Peter Drucker terms "getting performance out of strengths." One does not get good performance out of the weaknesses of individuals and therefore individuals ought to be allowed to do what they do best.

It's questionable whether the results justify the tremendous effort and expense associated with tests, interviews and other procedures often used in the selection process. We know very little about how personality, skills and knowledge interplay in the work of a manager. Most methods used to identify the "comers" are useless. There is no way to identify "potential" except in performance. Since it is the manager's job to optimize resources, it is the manager's responsibility to put the right people in the right place. Often those who fail are not duds; they are simply in the wrong jobs. Putting people in the right slots takes a lot more than rhetoric. It is demanding work. It requires managers to discover the strengths of each of their employees and to figure out how best to employ the individual.

To recapitulate, our Employee Bill of Rights would guarantee each employee

1. competent supervision
2. the right to know what constitutes good performance
3. the right to feedback on current performance
4. opportunity for professional growth and
5. opportunity to utilize specialized skills

Now what is the Quid Pro Quo? What does the employee owe the boss? He or she owes *performance*, nothing more, nothing less. The employee does not owe us loyalty or gratitude. We are paying for performance and our agreement should stop there.

Having ingested huge portions of management principles, you, no doubt, would like something lighter for a dessert. In conclusion, I would like to offer you some of my personal thoughts on managers from observations I've gathered over the years. Specifically, I would like to discuss with you some of the qualities that in my mind set apart result-getters from other managers or administrators. These qualities are not innate (in-born) but factors that can be taught to others.

1. The first of these is an INNER DRIVE. People with this particular quality are not endowed with an overactive thyroid or abundance of animal energy. The big thing here isn't physiological; it's a habit of generating a vigorous and positive approach to everything. It's an unhappiness or an uneasiness with the way that things are, and a hankering after some possible improvement. This type of individual has developed a talent for picking out a single goal and mustering all of his knowledge, talents, skills, energy, powers of persuasion and leadership skills to reach this goal. You don't build this inner drive in a person through pep talks. It involves coaching the person to perform at his or her peak level in his or her everyday tasks. It's designing the job so that more challenges are presented.

2. I find that these people have a knack for picking out the really important things and focusing in on them. You know, their desks get piled up with the same assortment of trivia as does yours or mine. They get as many requests for their time as the next person. They're invited to the same meetings as we are. They have as many opportunities to dawdle as the next person. But what's amazing is that these people can wade through the underbrush and pick out the really important things.

This means that they have mastered several difficult tasks along the way. They have trained themselves to scan the whole range of pressing events and to evaluate their importance. The point I want to make is this: We don't have a natural whirlwind to start with, just an ordinary human being, a mortal like us. Like us they have capacities and abilities which they may not be using. But with their ability to focus on the really important things and to weed out the trivia and the merely fascinating, their unused abilities are energized and directed to the goal that they have set for themselves.

3. The action-getter is extremely skilled at overcoming obstacles. This single ability probably contributes more to the manager's job than any other. And it grows out of practice in overcoming them. On some occasions a direct approach is needed, on others an indirect one. One manager put it this way: "The fact that I get results I think is attributable to the ability I have to know when to fight and when to run."

But it's more complicated than that. It's an awareness that there are many ways to solve problems. In developing people who make things happen, the major thrust, it would seem, should be on careful SELECTION of those men and women who are willing to pay the price—people with hides thick enough and frames durable enough to be tossed against problems bigger than themselves. Conferences and courses can help—no doubt about it—but the major emphasis should be put on systematic coaching or mentoring and carefully planned job assignments. Once you've got these action-getters in an organization, develop their talents and then get out of the way and let them perform.

4. These managers staff toward excellence. Sometimes we hear managers who brag that their subordinates have relatively few weaknesses but unfortunately they also have relatively few strengths. Hiring to prevent weaknesses is not the same as hiring toward strengths. These managers staff toward excellence.

President Lincoln had gone through several generals who headed up the Union army without distinction. Before he finally settled on General Grant, he was politely informed of Grant's propensity to tip the bottle. To which he replied, "Tell me what brand of whiskey he drinks, and I'll send a barrel of it to all my other generals."

The question that should be asked is this: Will this person make a difference in the performance of the job? If so, hire or keep that individual. We can tolerate a lot of weaknesses if we get performance.

I'm reminded of the story about General Eisenhower at the time when General Patton disregarded his orders and marched into Germany. This insubordination caused General Eisenhower to mutter to one of his aides, "What should I do with that officer for violating my direct orders?" His aide replied, "Remove him, sir, from his command." To which Eisenhower replied, "Don't be foolish. HE PERFORMS!"

5. The hard-hitting manager also makes sure that the job is well designed. Today, we hear a lot about job enrichment and other techniques that put challenge into a job. This concept is nothing new to this type of manager. He has always known that the job must be BIG ENOUGH so that one can recognize performance in the first instance. You simply cannot get performance out of small jobs. Performance is possible only with jobs large enough so that performance is clearly visible. The trend today is toward narrow specialization and limited authority with the consequence that the individual seldom reaches beyond his job description for fear of usurping another manager's domain.

Managerial jobs should be designed to enable a person to grow, to learn, and to develop for many years to come. There is little harm, as a rule, in a job that is designed too big, for this defect shows up quickly and can easily be corrected. A job that is designed too small, however, is like an insidious poison that slowly, by degrees, paralyzes both the individual as well as the organization.

All managerial jobs should be designed to provide satisfaction through job performance. Jobs should be both challenge and reward. If one's main satisfaction comes from promotion, the job has lost its meaning. And, since most managers are bound to be disappointed in their aspirations for promotion—by simple arithmetic rather than by organizational politics—it is unwise to focus on promotion either in compensation, in status, recognition and in management development. The emphasis should always be on the job itself.

6. Lastly, from my observation, a good leader and a good manager is one who is able to identify and simplify problems. There is much literature on how to do problem solving, but virtually nothing on how

Expansion for Ticor

Ticor Title Insurance Company is moving its Delaware state office into newly renovated and expanded quarters in Wilmington, and is opening a new Sussex County branch in Georgetown, according to Richard E. Yerger, vice president and state manager.

to IDENTIFY problems. How does one acquire this skill (for, indeed, it is a skill). The answer is: PRACTICE . . . PRACTICE . . . PRACTICE. There are but few managers who have the intuitive ability to pick out the significant factors in a situation without going through a logical chain of reasoning. They exist, but they are rare. These managers have the skill to jump to the heart of a problem while the rest of us poor mortals have to struggle to identify the problem. Yet these skills can be acquired. It takes, as I said before, a lot of PRACTICE in TOUGH JOB ASSIGNMENTS.

Sometimes we become too concerned in this day and age with maintaining the STATUS QUO and as a result we wallow for a time in mediocrity. Sometimes we become more concerned with establishing the equality of rewards instead of equality of opportunity. This country would suffer immense damage were we to concentrate on seeing that everyone crosses the finish line together rather than seeing to it that everyone has an equal opportunity at the start. It is this very equality of opportunity that produces the uncommon person. The nation that does not produce uncommon people for future leaders will have no future. Nicholas Murray Butler, former president of Columbia University, once remarked:

> "People can be put into three classes: The few who make things happen; The many who watch things happen; And the overwhelming majority who have no idea what has happened."

There is no question whatsoever that the uncommon person of the 1980s will be of the new breed of managers that MAKE THINGS HAPPEN.

Calendar of Meetings

March 28-30
ALTA Mid-Winter Conference
Capital Hilton Hotel
Washington, D.C.

April 26-28
Arkansas Land Title Association
Inn of the Ozarks
Eureka Springs, Arkansas

April 29-May 1
Iowa Land Title Association
New Hotel Savory
Des Moines, Iowa

May 10-13
Oklahoma Land Title Association
Skirvin Plaza Hotel
Oklahoma City, Oklahoma

May 16-18
California Land Title Association
Hyatt Del Monte
Monterey, California

May 17-19
New Mexico Land Title Association
Marriott Hotel
Albuquerque, New Mexico

May 17-20
North Carolina Land Title Association
Mills House
Charleston, South Carolina

May 17-20
Texas Land Title Association
Registry Hotel
Dallas, Texas

June 3-5
Pennsylvania Land Title Association
Toftrees
State College, Pennsylvania

June 7-9
Tennessee Land Title Association
Ramada Inn
Gatlinburg, Tennessee

June 21-23
Colorado Land Title Association
Keystone Resort
Keystone, Colorado

June 21-23
Oregon Land Title Association
Pendleton, Oregon

June 21-24
New England Land Title Association
Dunfeys Hyannis Hotel
Hyannis, Massachusetts

June 22-24
Illinois Land Title Association
Clarion Hotel
St. Louis, Missouri

July 8-10
Michigan Land Title Association
Grand Hotel
Mackinac Island, Michigan

August 16-18
Idaho Land Title Association, Montana Land Title Association, Wyoming Land Title Association
Virginian Motel
Jackson, Wyoming

August 16-18
Minnesota Land Title Association
Grandview Lodge
Brainerd, Minnesota

August 23-25
Kansas Land Title Association
Hilton Hotel
Garden City, Kansas

September 8-11
Indiana Land Title Association
Radisson Plaza Hotel
Indianapolis, Indiana

September 12-14
Nebraska Land Title Association
Regency West
Omaha, Nebraska

September 13-15
North Dakota Land Title Association
Holiday Inn
Dickinson, North Dakota

September 14-16
Dixie Land Title Association
Gulf State Park
Gulf Shores, Alabama

September 19-22
Washington Land Title Association
Sheraton Tacoma Hotel
Tacoma, Washington

September 20-23
Missouri Land Title Association
Hyatt Regency
Kansas City, Missouri

October 14-17
ALTA Annual Convention
MGM Grand Hotel
Reno, Nevada