

Arizona AHCCCS Virtual Office Evaluation Project

Final Report

May 21, 2007

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Executive Summary

An evaluation of the Virtual Office Business Model (VOBM) piloted by AHCCCS in July 2005 was initiated to determine the effectiveness of the project and the business model. The focus of the evaluation was both to identify the impact of the initiative to the organization and its key stakeholders and to determine if the business model should be implemented throughout AHCCCS. The evaluation was initiated by the senior leaders of AHCCCS and conducted by an external consulting organization to ensure an objective evaluation. This report summarizes the findings from the evaluation and provides a set of recommendations and next steps.

The evaluation included interviews with AHCCCS executives, managers, supervisors and leaders to identify potential positive and negative impact on AHCCCS stakeholders (State of Arizona, the environment, the members served by AHCCCS, the AHCCCS organization). Interviewees were asked to make a recommendation as to whether the Virtual Office Business Model should be stopped, continued but kept in the organizations where it has been piloted, or expanded throughout the entire AHCCCS organization. A variety of benefits to AHCCCS as an organization, to the State of Arizona and the environment, to the AHCCCS employees, and to AHCCCS's members and partners were identified through the interviews. And a number of challenges and risks were identified. None of the risks or challenges was seen as an obstacle that could not be reasonably overcome.

As part of the evaluation relevant documents were reviewed including state guidelines on the virtual office, AHCCCS strategy documents, policies, documents developed for the Virtual Office Business Model initiative, and surveys conducted with employees. Various results reports and executive presentations were reviewed. All of these documents not only helped to ensure a smooth implementation of the initiative, they also can serve as the basis for sharing knowledge with other organizations who are considering implementing a virtual office business model.

As part of the evaluation benchmarking was used to identify best practices from other organizations who have implemented virtual office, to identify opportunities for AHCCCS to consider in the future, and to identify the typical improvement in results experienced in other organizations. Benchmarks were collected for organizations such as IBM and AT&T who have had various forms of alternative work arrangements such as virtual office in place for over twenty years. Current benchmarks such as Jet Blue's use of virtual office work at home arrangements for their call centers were also gathered.

The Virtual Office Business Model implemented by AHCCCS has created value for all of the stakeholders as demonstrated by the impacts from a qualitative and

quantitative perspective. First, the Virtual Office Business Model (VOBM) arrangements have impacted AHCCCS including increased productivity, reduced absenteeism, and reduced facilities costs. There will be an increase in the flexibility of the workers and an increase in the level of talent as a result of having access to new alternative source pools for hiring employees. Second, the VOBM has impacted employees. Employees are more satisfied as reflected in a reduction in turnover of greater than 10%. Employees also feel more respected by their leaders. They are less stressed from not having to commute in traffic and they have experienced some cost savings from reduced gasoline purchases. Third, the VOBM has impacted the State of Arizona and the environment. The reduced commuting by employees results in reduced use of fuel, a reduction of carbon dioxide, and therefore less pollution. The VOBM opens up opportunities for new sources of employees for AHCCCS. There will be the opportunity for people who may be homebound as well as those who are located in remote locations in the state to work for AHCCCS from their homes. Fourth, the VOBM has impacted the members and partners. The virtual office workers provide higher level of quality services to the members. Improved productivity leads to reduced time to provide the services. Increased hours of service result from the flexible work schedules.

Based on the results of the evaluation, it is recommended that AHCCCS expand the use of their Virtual Office Business Model. AHCCCS can also consider other Alternative Work Arrangements to further improve productivity and quality in the future. The best practices AHCCCS has developed should be shared with other organizations.

To optimize the benefits from the success of this initiative, a number of recommendations for next steps are provided. First, revise and communicate the Virtual Office strategy to the entire organization through a series of top down meetings. Second, create a tool for leaders to use to help them decide how to expand virtual office and other alternative work arrangements (using a business case focus). Third, modify the process for collecting business impact and performance results to enable the measurement of improvement in performance year over year not only to measure the attainment of the annual goals. Fourth, establish a state-wide group of resources to support all agencies. Currently AHCCCS is being asked to share their processes and best practices for implementation of their Virtual Office Business Model because of its success. Over time these requests can become a drain on the organization's resources. Fifth, develop a formal talent management process to identify leadership and management capabilities for supervisors and managers in an organization with a Virtual Office Business Model. The process is needed to identify and develop future supervisors and leaders. Sixth, modify the staffing process to select for attitudes and skills for a virtual office environment. Seventh, develop the Learning Architecture Model to be the basis for learning and development in the organization. Employees in a virtual office environment will need a new approach

to learning and development consistent with this organizational model. Eighth, design workshops or other approaches needed to realize the recommendations in this evaluation report. Essential to making the Virtual Office successful for the long term is the development of new attitudes and skills to accomplish some of the needed cultural changes. Ninth, identify groupware to support communications, knowledge sharing, and virtual team work. Tenth, continue and expand the use of performance bonuses and other approaches to rewards and recognition essential to achieving increased level of performance over the next few years. Eleventh, use high performing studies to achieve the next level of performance by identifying practices of high performers and migrating them across the organization. And last, continue to increase the ratio of employees to supervisors to realize continued productivity improvements in supervisors.

In summary, AHCCCS took a strategic and systematic approach to the trial and evaluation of the Virtual Office Business Model as a key move to improving the performance of the organization for the long term. The pilot and rollout have demonstrated this virtual office model can add significant value to their stakeholders and improve the performance of the Agency. As a result of this project the organization has built various best practices within the Agency. There is an opportunity to systemize the knowledge and best practices to ensure continued improvement in performance and value creation. There is also an opportunity to further improve performance and create value by expanding the Virtual Office Business Model within the Agency as well as to other agencies in Arizona.

1. Scope of Evaluation

An evaluation of the Virtual Office Business Model piloted by AHCCCS in July 2005 was initiated to evaluate the effectiveness of the project and the business model. The focus of the evaluation was both to identify the impact of the initiative to the organization and its key stakeholders and to determine if the business model should be implemented throughout AHCCCS. The evaluation was initiated by the senior leaders of AHCCCS and conducted by an external consulting organization to ensure an objective evaluation of this initiative.

The evaluation included interviews, review of related policies and documents, and analysis of available results data. Interviews were conducted with AHCCCS executives, managers, supervisors and employees by the external consultants. Documents relevant to the project were reviewed by the consultants. Performance data was analyzed. The evaluation included a review of current information available on the use of virtual office in other organizations.

Based on the findings from the interviews, documents, and results analysis a set of recommendations are provided as to whether the Virtual Office Business Model (VOBM) should be stopped, continued to a limited degree, or expanded throughout the organization. As a result of the study the best practices that could be brought in from other organizations that have used the virtual office approach are provided (**PowerPoint Slide 2**).

This report will provide a summary of the findings from the evaluation of the initiative. It will include a summary of the interviews with executives, managers, supervisors and employees. It will also include a summary of the documents that were reviewed as well as a summary of the results analysis. Some of the best practices from the preliminary benchmarking will be identified. Based on this information a set of recommendations and next steps will be provided **(PowerPoint Slide 3)**.

1.1 Definition for Alternative Work Arrangements including the Virtual Office

There are a variety of definitions which are used when discussing Alternative Work Arrangements such as the Virtual Office. The definitions used in this paper are the ones defined by the Federal Register on March 17, 2006 (Volume 71, Number 22). Alternative Work Arrangement (AWA) is the term which is used for the overall approach and includes telecommuting, hoteling, virtual office, telework centers, hot desking, and other distributed workplace arrangements.

The Virtual Office (VO) is a work environment where employees work cooperatively from different locations using a computer network (in lieu of a single building or other single physical location). The actual physical locations of the employees working in a virtual office can be temporary or permanent and can be nearly anywhere, such as their homes, satellite offices, hotel rooms, corporate offices (shared work space), airports, airplanes, or automobiles. **For this study**

the Virtual Office (VO) is defined as employees working out of their homes via direct access to the Agency's network. Within AHCCCS the use of this approach as a new business model is referred to as the Virtual Office Business Model (VOBM).

Other Alternative Work Arrangements include "hoteling", "hot desking", "telecommuting" and "telecenters". Hoteling is an AWA in which (1) employees work in one facility (facility A) part of the time and at one or more alternative worksites the rest of the time and (2) when working in facility A, these employees use non-dedicated, non-permanent workspaces assigned for use by reservation on an as-needed basis. Hot Desking is an AWA in which (1) employees work in one facility (facility A) part of the time and at one or more alternative worksites the rest of the time and (2) when working in facility A, these employees use non-dedicated, non-permanent workspaces assigned on a first come, first served basis. A Telework Center is a facility that (1) provides workstations and other office facilities/services that are utilized (typically on a fee for use/service basis) by employees from several organizations and (2) is used as a geographically convenient alternative worksite for its users.

When referring to the specific model used by AHCCCS it will be called the Virtual Office Business Model (VOBM). When referring to this model as a concept we will call it the virtual office. Although the virtual office is a new business model for

AHCCCS, it has been used over the past 20 years by many different organizations.

2.0 Summary of Interviews

2.1 Focus for the Interviews

A series of thirty interviews were conducted by the external consultants with AHCCCS executives, managers, supervisors and leaders. The focus of the interviews was to identify what the potential positive and negative impact was on AHCCCS stakeholders. These stakeholders include the State of Arizona, the environment, the members served by AHCCCS, the AHCCCS organization, as well as AHCCCS's executives, managers, supervisors, and employees. As part of the interviews the participants identified what they had experienced as the challenges and risks associated with implementing the Virtual Office Business Model pilot project. They were asked to make a recommendation from their perspective as to whether the Virtual Office Business Model should be stopped, continued but kept in the organizations where it has been piloted, or expanded throughout the entire AHCCCS organization where it is appropriate.

Thirty interviews were conducted with senior leaders, managers, supervisors and employees. One hundred percent of those interviewed recommended expanding

some form of Virtual Office throughout all of AHCCCS because of the positive impact the pilot project has had on the business results and all of the stakeholders. Employees voiced a concern that the initiative might be stopped since they believed the virtual office was a major benefit to them (**PowerPoint 4**).

2.2 Value to the stakeholders

A variety of benefits to AHCCCS as an organization, to the State of Arizona and the environment, to the AHCCCS employees and to AHCCCS's members and partners were identified through the interviews (PowerPoint 5).

AHCCCS results: There were a number of positive areas of impacts to AHCCCS's results. All of those interviewed identified increased productivity, reduced costs, improved quality, and reduced absenteeism. The majority of those interviewed also identified the ability to eliminate facilities and related expenses as well as the increased capacity of the organization to handle the increased work volumes experienced each year as the number of members increase. Additionally the Virtual Office Business Model would enable the organization to increase the flexibility of its workforce to handle a variety of different types of work. And supervisors, managers and leaders identified the Virtual Office Business Model would enable them to raise the level of talent in the organization since they would now be able to bring in new employees from remote areas throughout Arizona as well as from the population of people who may be homebound.

Impact on employees: There were a number of positive areas of impact to employees identified by the employees, supervisors, managers and senior leaders. All of the people interviewed identified the fact that working at home resulted in a lot lower level of stress on those who worked at home. This reduced stress resulted from not having to deal with traffic, from not being interrupted by fellow workers, and from not having to deal with some of the negative politics typical of any workplace. The people interviewed all indicated that those who worked in the virtual office were more satisfied than they had been when working in the traditional office environment. There were a number of other positive factors identified through the interview process. Some of the employees indicated that they felt respected by senior management who trusted them to do their jobs while working from home. In return they had a very high level of respect and trust for their supervisors, managers, and senior leaders. Employees who worked from home said their quality of work life had significantly improved because they did not have to deal with the hassle of long commutes, they could set up a comfortable work area at home, and they could avoid some costs such as gasoline for commuting. They saw the opportunity to work at home as an offset for the lower salaries paid by the state when compared to the private sector. They believe the small stipend offered to cover telecommunications cost did in part offset some of the increased cost to them of working at home. They suggested that the use of performance based compensation would help to lead to even higher levels of performance and productivity for the longer term.

Impact on the State of Arizona: Across all the groups of employees interviewed people identified a number of areas of positive impact on the State of Arizona. Because of the significant reduction in commuting and the use of personal cars there would be a reduced level of consumption of fuel as well as a reduction in pollution. The reduction in commuting would also lead to a reduced traffic level on the roads in Arizona along with reduced costs of services associated with roadway wear and tear. Other areas identified included the opportunity to offer work at home positions to the “homebound” that may not be able to work at a traditional job. And more employees who lived in the more remote areas of Arizona could be offered jobs which would positively impact these locations.

Impact on members and partners: Across all of the groups interviewed a number of people identified areas of positive impact on AHCCCS members and partners. The members would receive an increased quality of service because employees serving them were more satisfied. Because employees had fewer interruptions and had become more productive, they can serve the members and partners quicker taking less time to provide them service. The Virtual Workplace Business Model resulted in people being available to serve members, in many cases, during a longer workday since the work hours each day were expanded.

2.3 Challenges and risks associated with the Virtual Office Business Model (VOBM)

As part of the interviews a number of challenges and risks were identified. None of the risks or challenges was seen as an obstacle that could not be reasonably overcome (**PowerPoint 6**).

Challenges: Most of the challenges identified were in the area of resource constraints or the need for modified processes to improve the efficiency and effectiveness of performance or productivity. No one interviewed believed these challenges were insurmountable. For the supervisors and managers there was an increased workload until some of the work processes and supporting systems were revised to support the virtual office. Most of this process and technology change work is underway. Supervisors sometimes found it challenging to address performance problems when people are located remotely. They did feel they have the data to identify performance problems with their employees. In some cases employees identified it was difficult to find information, such as health plan contract conditions, to answer specific questions. This challenge was true both for traditional office workers and those who worked at home since the information was neither automated nor mechanized. Employees identified the fact that they could not always readily access the subject matter experts from whom they needed information. They realized many of these people were very busy. In some cases these subject matter experts did not get back to them in a timely fashion. And employees felt that in some cases they were no longer aware of what was happening in the Agency from an organizational and political perspective even though their supervisors and managers constantly communicated with them. Some employees found it difficult to network and build

needed relationships in the organization. And they found the current time reporting (employee time sheets) very time consuming; they recommended the need to quickly mechanize the time reporting process. Across the groups interviewed, people indicated the challenge in having all AHCCCS leadership identify how their employees could move to a virtual office arrangement. The suggestion of one employee was: "People need to focus on how to move to virtual office to improve the agency rather than focus on justifying why they cannot move to virtual office -- to maintain the status quo and what they are comfortable with based on the past."

Risks: The people interviewed identified a number of risks which they believed could be and must be addressed. The primary area for risk management was to ensure the Agency hired the right people for the virtual office or any other alternative work arrangement environment. People needed to be reliable and ethical as well as capable of working in an environment without a lot of social interaction. The development of "virtual office" employees to assume supervisor and management positions would require a clear process for developing these employees beyond just training. The people interviewed identified the culture of AHCCCS as being positive, future focused, employee focused, and performance focused. Maintaining this culture in a virtual office environment is a risk which must be addressed if AHCCCS is to continue to succeed. And if the organization continues to increase the number of participants in a virtual office arrangement there is the need to move from a focus of "meeting this year's target numbers for productivity and quality" to "continuous improvement in productivity and quality"

results”. It will be important for all people in the Agency to believe in the value of the virtual office to improve performance and productivity and to have supervisors and managers coach for continuous improvement in performance rather than manage poor performance. As part of implementing the virtual office across the Agency it would be important to move from the belief “we need to identify a set of perfect performance measures” to the belief “we need a set of workable performance measures that will enable us to focus on continuous improvement”. Continuous improvement and measurement of the core work processes will be essential for continued improvement in performance of the Agency.

3.0 Review of AHCCCS Documents

As part of the review of the Virtual Office Business Model at AHCCCS a variety of documents were reviewed. These documents included state guidelines on the virtual office, AHCCCS strategy documents, and policies. Documents developed for the Virtual Office Business Model initiative included a technology plan, communications and training documents, the project plan for the pilot, and surveys that had been conducted with employees. Additionally, various results reports and executive presentations were reviewed (**PowerPoint 7-9**).

The State of Arizona clearly communicated their support for the use of virtual office for a number of the reasons as evidenced by this evaluation of the AHCCCS initiative. The AHCCCS strategic plan and executive presentations

clearly defined the proposed plan to use the Virtual Office Business Model to improve productivity, improve quality, reduce costs, increase the level of talent needed for the agency to succeed, and improve employee satisfaction. A combination of state guidelines and AHCCCS policies has been used to govern the implementation of the Virtual Office Business Model in AHCCCS.

To ensure an effective and efficient implementation of the pilot initiative a structured, rational plan was used to implement, conduct and evaluate the pilot process to determine if there is value in the Virtual Office Business Model for AHCCCS and its key stakeholders. As part of the pilot a plan was put into place to collect and report results in the areas of productivity, quality, and employee retention. In many of the areas such as productivity, quality and absenteeism, new and higher levels of performance were set for the 100% target. Throughout the pilot, as well as at the end of the pilot, a combination of approaches was used to evaluate the value of and impact of this initiative.

To support the pilot, the organization developed a number of documents which can be considered best practices. Continuous communications were used to engage and align their employees. Training was used to prepare employees not only to work in the new virtual office environment but to set up and use the technology that would be needed in their homes. Executive presentations were used to communicate with various stakeholders. The Information Services Division developed a technology plan that would cost effectively and quickly

enable the employees to work in their homes. Throughout the implementations, they have identified the needed changes in processes and technologies that will continue to support improvements in AHCCCS business results. All of these documents have been maintained in a central database which could be used to create a knowledge website for the purpose of sharing and maintaining the knowledge across the State of Arizona as well as across the country.

4.0 Benchmarked Best Practices

As part of the evaluation a benchmarking study was included to identify best practices from other organizations who have implemented virtual office as a business model. Benchmarking was used to identify potential opportunities for AHCCCS to consider in the future as well as to identify the typical improvement in results experienced in other organizations. Benchmarks were collected for organizations such as IBM and AT&T who have had various forms of virtual office arrangements in place for over twenty years. Additionally current benchmarks such as Jet Blue's use of work at home arrangements for their call centers were also investigated at a high level (**PowerPoint 10**).

4.1 Increasing number of virtual office workers

A variety of studies show the number of workers, who will be working from home offices or other virtual office arrangement, is increasing. According to a study from the International Data Corporation, nearly 27 million people will be working from home offices by the end of 2007. According to U.S. Census data these

employees will save an average commute of 24.3 minutes each way. And according to an article in Money Magazine Online on September 19, 2006, they will also save money as a result of using less gasoline, spending less on dry cleaning, and spending less on eating lunches out. In some cases those who work exclusively at home can also get tax deductions from their home offices **(PowerPoint 11)**. The recent Fortune Magazine Study of the top 100 companies to work for in 2006 identified that 82 of these top 100 companies allow their employees to telecommute or work at home at least 20% of the time **(PowerPoint 12)**.

4.2 Virtual Office has provided major business benefits for years

The Virtual Office Business Model is not new. Some companies such as AT&T and IBM have used it for over twenty years. It is a strategy that has enabled them to achieve annual increasing performance targets through continuous improvement in processes, significant reductions in turnover of up to 50%, and increased employee satisfaction. And it has had a number of other benefits to the business and their customers. AT&T employees who were spread over a broad geographical area limited the organization's exposure to the Hurricane Katrina disaster. Those workers not affected by the disaster picked up the areas for those that were affected by this disaster **(PowerPoint 13)**.

4.3 A new trend has call centers moving to virtual office arrangements

A number of organizations have moved their Call Center to “work at home” as a better alternative than “offshoring” the function. One example is Jet Blue who is often referred to as a role model of a “virtual business”. All of their call center employees work out of their homes. They have provided these employees with a standardized set of equipment for their home offices. As an organization, Jet Blue has attributed part of their financial success to this business model. Their call center employees do come in to a meeting once a month. As a result of their use of virtual office they have not been impacted by many natural and manmade disasters. And the turnover in the Jet Blue “call center” is only 4% compared to the 50-100% typical of many similar call center. Jet Blue is not the only company using this new call center model; Farmers Insurance and Proctor and Gamble also support call center employees working at home. A number of benefits for this new business model have been identified by recent research studies. A study by Nova Amber identified benefits such as:

- A measurable reduction in capital and operational expenses
- Improved customer satisfaction
- Faster time to market
- Improved focus on the company’s core business

Studies from IDC (a sister company to Network World), Booz Allen Hamilton, and Purdue University have identified other benefits for the use of work-at-home employees for call centers. These benefits include cost savings to their organization as well as to employees. Examples include the following:

- Traditional call center employees cost \$31 per hour including overhead and training; work at home employees cost an average of \$21 per hour (IDC Study)
- Improvement in productivity of up to 20% has been realized

Some call center outsourcing organizations are also moving from “offshoring” to having employees work at home as a cost effective alternative (**PowerPoint 14 and 15**).

4.4 Companies use technology and leadership strategies to ensure success of virtual office

Companies who move to the virtual office as a business model use a number of different tactics to ensure its success. American Express’s Human Resources Technology team reorganized to serve its internal clients who were located around the world. The defined a clear vision as part of their group’s strategy to help align the employees around their core purpose as an internal staff organization. And the defined a clear goal for their team: They would provide valuable technical support in a world of virtual work. They also brought in various forms of technology to support their virtual organization. They used groupware such as videoconferencing, chat rooms, threaded discussions, document sharing and project management to support various group processes. The leadership for the organization supported the importance of the virtual organization in realizing their strategy (**PowerPoint 16**).

4.5 Business leadership models enable a performance improvement focus in organizations

There are a number of expert leadership models that have been used to improve the performance of work groups who are in a virtual office structure. These expert models can be used to identify approaches needed in the virtual organization for changing the culture, building a focus on measurement and results, coaching people for continuous performance improvement, as well as building virtual teams and virtual organizations. For example the book, *The Discipline of Teams*, provides a model for creating a performance and accountability discipline in teams whether they are in traditional or virtual office arrangements (**PowerPoint 17**).

5.0 Summary of Results (**PowerPoint 18**)

5.1 Impact on results is significant to all of the key stakeholders

The Virtual Office Business Model has created value for all of the stakeholders as demonstrated by the impacts from a qualitative and quantitative perspective (**PowerPoint 19**).

The virtual office arrangements have impacted AHCCCS from a number of different perspectives: Productivity has increased over 10% in all of the organizations where it has been piloted (some areas consistently exceed 30%).

There has been a reduction in absenteeism of over 50%. The reductions in the costs of facilities from the closure that has been completed have been estimated to be approximately \$5000 per employee. The improved productivity is expected to result in an increased capacity of the virtual office groups of about 10% per year for the next two years. Additionally there will be an increase in the flexibility of the workers and an increase in the level of talent as a result of having access to new alternative source pool for hiring employees.

Virtual office has impacted employees from a number of perspectives: The cost savings to employees is approximately \$80 per week from reduced commuting expenses and a reduction in commuting time of over 280 hours per year. The increase in expenses to employees, including utilities and DSL service, has not been fully documented. Employees are far more satisfied which has been reflected in a reduction in turnover of greater than 10%. Employees also feel more respected by their leaders, and feel less stressed. Employees would also appreciate an opportunity to be compensated when they achieve high levels of performance through a PIP (performance incentive plan).

Virtual office has impacted the State of Arizona and the environment from a number of perspectives: The reduction in the use of fuel by employees is estimated at greater than 250 gallons per employee per year. This reduced consumption of fuel results in a reduction of over 4500 pounds of carbon dioxide per year and therefore less pollution. Public and environmental savings are

estimated at over \$5200 per year per employee. The virtual office option also opens up opportunities for new sources of employees who can work for AHCCCS. There will be the opportunity for people who may be homebound as well as those who are located in remote locations in the state to work for AHCCCS from their homes.

Virtual Office has impacted the members and partners from a number of perspectives: The virtual office workers provide higher level of quality services to the members. Improved productivity leads to reduced time to provide the services. Increased hours of service result from the flexible work schedules.

5.2 Improvement in KIDSCARE productivity

Some of the KIDSCARE service group moved to the virtual office in August 2006 and in October 2006. A total of 23 employees moved to the Virtual Office Business Model in the two parts of this pilot. The first group showed improvements of an average of over 10% per month for the first 4 months of the pilot. And the second group showed a productivity improvement of over 10% in their first month. About 80% of the employees showed significant improvement; 20% of the employees did not show any significant improvement (**PowerPoint 20**).

5.3 Improvement in productivity and quality for Adjudication Group

Data was available on three of the members of the Adjudication Group showing significant improvement in both their productivity and the quality of their work.

The average improvement in productivity was over 14%. And the average improvement in quality was over 88% (**PowerPoint 21**).

5.4 Improvement in Productivity for the Communications Center Group

Although data was only available for four members of the pilot of the Communications Center Group, there was significant improvement in their productivity. The productivity improved over 12% for the sample of 4 employees. There were significant improvements in productivity in three of the people. One person showed a 1% decrease in productivity. The level of quality of their work ranged from the high 80's to the high 90's percent. There was no significant change in these quality results (**PowerPoint 22**).

5.5 Significant saving realized from real estate

As a part of the virtual office pilot the 12th street facility was closed. This closure resulted in annual savings including the following:

- Rent savings of \$252,000.00
- Electricity savings of \$48,000.00
- Gas savings of \$600.00, and
- Water savings of \$2,400.00

The dollars saved from this real estate closure are essential to fund the needed improvements in the business infrastructure in order to realize further savings from the virtual office model in the future (**PowerPoint 23**).

6.0 Recommendations to Expand Impact

Based on the value created by the Virtual Office Business Model, the risks and challenges identified, and the results of benchmarking, the recommendation is to expand this model throughout AHCCCS. In order to expand the model and realize the potential benefits, a number of items need to be addressed.

The following items are the recommendation regarding expansion of the virtual office throughout AHCCCS both to increase the performance of the agency as well as to ensure the success of the virtual office as a business model (**PowerPoint 24-25**).

- **Define a strategy for the focus of the organization:** Define a strategy for the degree and nature of “Virtual Office”, “Alternative Work Arrangements”, or “Virtual Organization”. There is an opportunity to consider a range of Alternative Work Arrangement including the current Virtual Office Business Model (work-at-home), “Road Warrior”, “Hoteling”, Telecommuting, etc.). Each organization within AHCCCS may find different approaches more or less effective based on the nature of their work. Ultimately AHCCCS will need to decide if their strategy is to move

some functions to the Virtual Office Business Model or other forms of Alternative Work Arrangement or to become a “Virtual Organization”.

- **Use a business case approach for each group to forecast opportunities and collect performance results:** In order to both prioritize which groups should move to the virtual office arrangement first as well as to collect the actual impact on results, a formal business case approach should be used for each group as it moves to the virtual office arrangement. This process would involve collection of business results prior to the move to the virtual office as well as through the first year of implementation. This information can be used by AHCCCS as part of their strategic planning process to forecast future results. Although each group moving to virtual office currently wrote a proposal to do so, baseline business results were not always available prior to beginning virtual office.
- **Expand virtual office implementation:** Provide leaders a tool to identify and prioritize the groups to move to the virtual office or other alternative work arrangements based on factors such as potential impact on results, size of the group, nature of the work to be done, and ability of processes to work, etc. To optimize the impact of the Virtual Office Business Model it will be important to move all internal information, documents, training, tools, and future groupware to the Agency’s intranet.
- **Modify the process for collecting business impact and performance results:** Currently all of the VOBM organizations collect a variety of performance results. It will be important to modify the process to enable

the measurement of improvement in performance year over year not merely to measure the attainment of the annual goals.

- **Create a “virtual” structure to continue to share best practices with the State:** Establish a state-wide group of resources to support all agencies by sharing best practices and providing resources to implement an appropriate virtual office model for any agency; consider making it a virtual group of internal and external resources with a variable cost model.
- **Continue with the current high level of communication:** Continue with the current high level of communication by senior leadership, managers and supervisors. Additionally provide group collaboration software to foster knowledge sharing and networking. If the organization decides to expand the use of the Virtual Office Business Model, it will be important to communicate to all employees the nature of the Virtual Organization Business Model and other alternative work arrangements including the role they will play in the Agency in the future.
- **Develop formal talent management process:** Develop a process that will enable the organization to identify and develop the talent needed for the future. The process would include a focus on developing future supervisors, managers and senior leaders.
- **Modify staffing process to select for attitudes and skills for VO environment:** Develop a process for selecting for attitudes, behaviors and skills needed in a virtual office environment. Some of these attitudes

include a focus on performance and continued improvement in performance, comfort with continuous change, and a high level of integrity.

- **Partner with state agencies to increase diversity Including homebound and remote Locations:** There is also an opportunity to partner with other state agencies to increase the diversity of employees and the level of talent by including new employees from remote locations as well as those who might be home bound.
- **Continue to improve learning and development:** Continue current training on working in and managing the virtual workforce. Also provide additional learning approaches in coaching for performance improvement, developing and managing to measures, and process design. There is the opportunity to use a learning architecture for a “virtual organization” that includes content on the Web, skills-development through live workshops on line, and practical applications to build skills.
- **Continue to enhance technology training and support:** Continue current training on implementing and using technology for the virtual office including providing the current Virtual Office Toolkit and the helpline support. Consider providing additional video based support in toolkit.
- **Continue to bring in applications to support creating a virtual organization infrastructure:** Continue to examine and bring in applications to support creating a “virtual organization” infrastructure. Some of the groupware to be considered include collaboration, project management, and knowledge management software. Additional

technology is needed to support sharing information between experts and employees as well as to foster networking throughout the organization as more of it moves virtual.

- **Continue process projects essential to doing the work:** Continue with process projects essential to doing the work such as document imaging and automated time reporting. Continue to identify and prioritize work processes to be redesigned.
- **Expand approaches to rewards and recognition:** Continue and expand the use of performance bonuses and other approaches to recognition. Increased recognition will be essential to achieving increased level of performance over the next two to three years.
- **Use high performing studies to achieve the next level of performance:** There is a tremendous variation in the performance levels of individuals in each of the organizations. Use “high performance studies” to identify the best practices and factors in groups and individuals that have led to the higher levels of performance. These best practices and factors can then be introduced to the average and lower performing groups and/or individuals to raise their level of performance.
- **Re-evaluate current ratio of employees to supervisors:** Over the next few years consider moving the employee-to-supervisor ratio from the current average of 7 to an average of 10 to 12 to be in line with ratios found in other organizations with a Virtual Office Business Model. The individuals in some of the supervisory positions can be moved in the

expert roles as well as new roles to get additional improvement in performance for the future.

7.0 Next Steps

In order to realize the above recommendations some specific next steps should be considered for implementation over the next two years. These recommended next steps are summarized below along with some possible approaches **(PowerPoint 26-27)**.

- **Revise and communicate the Virtual Office Business Model strategy to the entire organization through a series of top down meetings:**
assuming AHCCCS decides to expand the use of the Virtual Office Business Model which has been used by organizations such as AT&T and IBM and considers moving to a “Virtual Organization” Business Model as used by companies such as Jet Blue. This process will help to clearly share the expectation of the senior leadership as well as communicate this strategic direction to the entire organization and its key stakeholders to engage and align them around the selected model. Some key messages for this communication include:
 - The focus on the future will be either appropriate use of the Virtual Office Business Model or movement to a “Virtual Organization”

- How the AHCCCS strategy and vision is enabled through this strategic business model
 - The need for all organizations and individuals to identify the few key measures for their jobs in the areas of productivity, quality, employee retention/satisfaction
 - The need for continuous improvement as an essential strategy to continue to meet the agency's mission and the expectations of its key stakeholders
 - AHCCCS will be evaluating a variety of models for expanding the use of Alternative Work Arrangements (virtual office work at home, hoteling, mobile worker, telecommuter, etc.) in order to have the right options available for each organization and job
 - All of the supporting resources that are available and the supporting initiatives that are in progress or planned
- **Create a tool for leaders to use to help them decide how to expand Virtual Office (using a business case focus):** This tool will provide a process to help leaders identify the groups and jobs with potential to move to a Virtual Office model. It would provide models (work at home, telecommuting, hoteling, mobile worker, etc.) suitable for different types of work. It would also identify the need and provide some guidance related to developing performance measures for staff and operations position. A process for prioritization of the groups and job would be based on criteria

such as alignment with AHCCCS strategic goals, degree of impact on performance measures, cost of implementation and ease of implementation. A template would be provided for the business case to be developed; this business case would include a number of different items including a forecast of business impacts and a process to collect and report pre and post performance results. The template should be developed so it can readily be modified to use in other strategic initiatives in the future. The results from the business case can then be used for planning in terms of forecasting performance improvement results for the following year.

- **Modify the process for collecting business impact and performance results:** Modify the process for collecting business impact and performance results to enable the measurement of improvement in performance year over year not merely to measure the attainment of the annual goals. At this time the results are all normalized to allow organization to report the degree to which they attain their goals. However the process does not enable reporting year over year performance improvement. Nor does it support collecting results to demonstrate the impact of strategic initiatives such as the Virtual Office. In order to demonstrate the actual improvements in productivity it will be important to collect and store the raw performance data to use for evaluation of the project. The key areas include productivity, quality, absenteeism, turnover and costs.

- **Establish a state-wide group of resources to support all agencies:**
 Currently AHCCCS is being asked to share their processes and best practices for implementation of their Virtual Office Business Model because of its success. Over time these requests can become a drain on the organization's resources. And over time there is still an opportunity to further expand the use of this "Virtual Organization" approach within AHCCCS. To enable the organization to share its best practices and learning with other state agencies it would be beneficial to establish a state-wide group of resources to support this initiative. This might take the form of a virtual organization which provides various resources to various organizations inside and outside the state. A fee for services could be charged so that this organization is self-funding.
- **Develop formal talent management process:** Identify leadership and management capabilities for supervisors and managers in an organization with a Virtual Office Business Model. Once the model is completed develop a talent management and development process to enable employees to get the needed capabilities through training, work experiences, coaching, and other talent development tactics. Integrate the talent management process into the current performance management process.
- **Modify staffing process to select for attitudes and skills for a virtual office environment:** Develop a process for selecting for attitudes, behaviors and skills needed in a virtual office environment. Some of these

attitudes, behaviors and skills would include a focus on performance and continued improvement in performance, comfort with continuous change, and a high level of integrity. The process should include identification of the capabilities (attitudes, skills and behaviors) needed to work in and supervise in a “virtual organization”. These capabilities would be used to modify the behavioral interviews used for hiring. A tool could be provided to all hiring managers that would include sample questions and provide a decision-making matrix for selection of the final candidate for each position. These capabilities should be matched to those used for the talent management process. Identify other agencies and approaches to identify a broader resource pool including those who are located in remote areas, disabled and restricted to working from home, and older workers.

- **Develop the Learning Architecture Model to be the basis for learning and development in the organization:** Employees in a Virtual Office structure will need a new approach to learning and development consistent with this organizational model. In many instances online learning has met with failure in organizations either because it was not supported with processes that enable employees not only to learn new concepts but also to apply the new skills and behaviors which lead to improved performance. The Learning Architecture must be clearly defined to ensure there is a development of new skills, application of those skills to the job, changes in behavior and improvement in performance results.

This Learning Architecture should support all of the traditional and Virtual Office alternatives which will be used in AHCCCS. A Learning Architecture will at a minimum require the following:

- A “blended approach to learning” which might include a blend of content/information on the intranet to provide knowledge, live virtual classes with Microsoft Meeting particularly for communication of complex skills such as coaching, development of skills through job application projects, and identification of expected impacts on performance
- Creation of a simple one-page picture of the Learning Architecture including, expectations, eLearning system being implemented, blended approaches to learning expected for different types of learning
- **Design workshops which are needed to realize the recommendations in this evaluation report:** Essential to making the Virtual Office successful for the long term is the need to provide current work information and development of new attitudes and skills so as to accomplish some of the needed cultural changes. These workshops include Coaching for Continuous Improvement, Creating and Using Measures for Continuous Performance Improvement, Working in the Virtual Office, Managing in the Virtual Office. These workshops would incorporate the current knowledge in the current workshops and expand upon it by providing needed skills and tools.

- **Identify groupware that can be used to support communications, knowledge sharing:** Continue to identify and bring in software that would help enable access to subject matter experts and/or the knowledge they possess, enable networking among peers and between organizations, and support project and group work in a virtual office environment. There is group collaboration software in the marketplace which enables these organizational capabilities for Virtual structures and traditional structure. Use of this software across the entire organization will over time improve the performance of the employees, support collaboration and ensure there is not a breakdown in the informal organizational processes which are often missed when moving to new organizational models. Selection of off-the-shelf software may not meet all requirements but will speed up implementation to support the new Virtual Office Business Model.
- **Expand approaches to rewards and recognition:** Continue and expand the use of performance bonuses and other approaches to rewards and recognition. Increased recognition will be essential to achieving increased level of performance over the next two to three years. A formal rewards and recognition process should include the following element:
 - Statement of the philosophy towards rewards and recognition and the value it adds to people while improving the performance of the agency
 - A recommended set of rewards and recognition, the majority of which will be non-financial.

- Inclusion of all of the current rewards and recognition such as salary increases and the current performance based compensation used in some situations as well as the VO stipend
 - Identification of who can make recommendations for rewards and recognition (members, partners, boss, peers, direct reports, etc)
 - Identification of who approves which rewards and recognition
 - A simple communication package for new hires and all current employees that includes a rewards and recognition tool
- **Use high performing studies to achieve the next level of performance:** There is a tremendous variation in the performance levels of individuals in each of the organizations. This variation provides a major opportunity for additional improvement in performance results. Begin to use “high performance studies” to identify how and why some individuals and groups outperform the average. Use the findings to identify other tactics to improve the performance of the organization over the next five years by moving internally identified best practices to average and low performing groups and individuals.
 - **Re-evaluate current ratio of employees to supervisors in virtual office organizations:** Over the next few years consider moving the employee to supervisor ratio from the current average of 7 to an average of 10 to 12 to be in line with ratios found in other organizations with a Virtual Office Business Model. The individuals in some of the supervisory positions can be moved into expert roles as well as new roles to get

additional improvement in performance for the future. One approach is to not replace supervisors as they are promoted, retire or leave the agency. Their direct reports can be moved to other supervisors. And if any parts of the organization are restructured move to higher ratios as part of the restructure.

8.0 In Conclusion

AHCCCS took a strategic and systematic approach to the trial and evaluation of the Virtual Office Business Model as a key move to improving the performance of the organization for the long term. The pilot and rollout have demonstrated this Virtual Office model can add significant value to their stakeholders and improve the performance of the Agency. The pilots have demonstrated that productivity improvements in the range of 10 to 40% are achievable. And error rates have been reduced by up to 90%.

As a result of this project the organization has built various best practices within the Agency. There is an opportunity to systemize the knowledge and best practices to ensure continued improvement in performance and value creation. There is also an opportunity to further improve performance and create value by expanding the Virtual Office Business Model within the Agency as well as to other agencies in Arizona. There is also a future opportunity to collect actual impact on results with a business case/pilot approach to data collection that will

enhance the organization's ability to continue to improve its performance. At the same time there are various enhancements needed to enable the full benefits of Virtual Office and other Alternative Work Arrangements ... or to move ultimately to a Virtual Organization Model (**PowerPoint 28**).