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Agility and Risk Management at Pacific Life: Optimizing Business Unit Autonomy

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Title: Agility and Risk Management at Pacific Life:
Optimizing Business Unit Autonomy

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Abstract: Pacific Life is a diversified financial services company with a history of autonomous business units. Pacific Life had five independent divisions, including Life Insurance, Annuities and Mutual Funds, and Investments. These divisions served different customers and responded to different regulatory and market requirements. Pacific Life executives embrace decentralization as the best structure for capturing excellence in the individual businesses, so they are willing to sacrifice some potential efficiencies. But while they are usually willing to forego the benefits of a more centralized organization structure, they are not willing to assume any unnecessary risks. This case describes how the company governs shared IT services and enterprise risk management to limit its risk exposure while reaping the benefits of decentralization.

Keywords: agility, risk, shared services, IT governance

13 Pages



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**Agility and Risk Management at Pacific Life:
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In late 2006 Jim Morris, Chief Operating Officer of Pacific Life Insurance Company, argued that the secret to the success of the 139 year old company was its culture:

There are five strengths that stand out in the way we operate. One is an appreciation for risk management at the highest levels in the organization. Two is a customer service culture, understanding who our customers are—at both the distributor level and the end customer level—and treating them like they matter. Three is a team orientation—we operate in a highly complex industry that requires many different types of expertise—we spend a lot more time worrying about what needs to get done than worrying about who gets credit. Four is continuity in who we are and how we operate—a maximum amount of continuity and a minimum of jolt. Five is integrity—adherence to a code of values centered on delivering value to clients—the glue that holds it all together.

—Jim Morris
Chief Operating Officer¹

Maintaining these strengths demanded a delicate balance between business unit autonomy and central control. Pacific Life was designed mainly to maximize business unit autonomy.

¹ Jim Morris became CEO of Pacific Life in April, 2007.

Business unit managers were rewarded solely on the basis of business unit performance. Accordingly, customer service flourished in all of Pacific Life's businesses:

I think a big part of our success is customer intimacy. And we've done that very well by being decentralized and being nimble and having an edge in services. IT enables a lot of those services. Trained people are another big part of that edge. And I think a big part of the way we've been nimble and had great service in each of those businesses is by having the services extremely close to the customer.

—Jim Morris

But while the decentralized structure allowed business unit managers to focus on the unique needs of their customers and producers, business unit autonomy complicated efforts to manage risk at an enterprise level:

You need to have an infrastructure and system that is complementary, consistent and not duplicative or conflicting. You can't do the same thing five different ways... And that is the balance between autonomy and centralization. Enterprise-wide projects such as information security, business continuity planning, and document management need to be cen-

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trally coordinated to achieve our business objective. In these cases it is more efficient to have an enterprise-wide policy for what needs to be done.

—Khanh Tran
EVP and Chief Financial Officer

Pacific Life was addressing the tradeoffs between business unit autonomy and corporate risk management through a set of enterprise initiatives that would introduce increased standardization across Pacific Life businesses. These efforts had important implications for IT, which had been charged historically with responding to business unit requirements, not enterprise policies.

Pacific Life Background

Headquartered in sunny (or occasionally foggy) Newport Beach, CA, Pacific Life provided life insurance products, annuities, and mutual funds and offered a variety of investment products and services to individuals, businesses, and pension plans. In 2007, Pacific Life counted more than half of the 50 largest U.S. companies as clients.

Founded in 1868, Pacific Life became a mutual company in 1959, but subsequently restructured as a stock company. The company could sell shares to the public, but as of 2007 was instead still owned by its policyholders.² The company had grown organically as well as through mergers and acquisitions. With \$99B in assets and more than 3,100 employees, Pacific Life was the largest California-based insurance company, although its assets were 20–50% of those of its principal competitors. (Exhibit 1 provides a financial summary.) Pacific Life was rated A++ (top rating) by A.M. Best, the insurance company rating group, and received high ratings from Standard and Poor's for its claims paying ability and Moody's for its financial strength.

Insurance companies have traditionally competed on service, product features, price, ratings/financial resources, name recognition and IT capabilities. Pacific Life competed with a large number of insurers, as well as many non-insurance financial services companies, for the attention of its producers—the independent

² Thus, Pacific Life, like a mutual company, operated like a cooperative, having no stockholders beyond its policy holders.

producers, brokers, and advisors who acted as intermediaries in Pacific Life's relationship with its end customers. Many key competitors offered a broader array of products, but almost none had a better reputation than Pacific Life with their producers.

Designing Business Unit Autonomy

Pacific Life had five independent divisions. The company's original businesses, Life Insurance and Investments, were well over 100 years old. In contrast, its second largest and fastest growing business, the Annuities and Mutual Funds Division, was established in 1994. The company also had a small real estate division and a corporate division. Exhibit 2 provides a partial company organization chart.

The divisions were expected to operate autonomously, because there were few synergies between them. The two largest divisions, Life and Annuities (which constituted 80% of the company) relied on the same 33 mutual funds for their underlying investments, but they shared few producers or end customers. Top management estimated that fewer than five percent of their producers sold both annuities and life insurance:

Annuities and life insurance are such different sales. Selling an annuity is more like selling a stock or mutual fund than selling a life insurance policy. The producer writes up an order or a ticket and the contract is issued. There is no medical exam. So you've made the sale and, boom, you get paid. On the other hand, life insurance is a process. First, a producer helps a client figure out how much they need. Then you have to go through the medical underwriting. Then you find out what the rating is going to be, and then you build a product for it. It is a process that can take up to a couple of months. The time frames are so different. Producers usually gravitate to one or the other. Most of the time, annuity producers don't have the patience to deal with the "process" of a Life sale. So, there are few annuity producers that sell life insurance too.

—Mike Bell
EVP, Life Insurance Division

In addition, the divisions were not likely to benefit from cross selling. Management believed that cross selling was infeasible:

I don't think we can take an annuity client and use him as a prospect for life insurance. Life insurance is not bought, it is sold. Clients need a producer involved to help them through the process of figuring out what they need. The producer's relationship with the client is an important component. What if the producer that sold the annuity doesn't sell life insurance? By sending a letter to an annuity client saying, "Have you checked our life insurance out?" we are potentially undermining the producer by contacting his client behind his back.

—Mike Bell
EVP, Life Insurance Division

Pacific Life's decentralized structure was driven not just by a lack of synergies among the business units, but also by management's belief that centralization imposed constraints on individual business unit excellence.

The Life Division

Pacific Life's Life Insurance Division was among the top five U.S. companies in sales of variable universal life and the top ten in total life insurance sales. Between 2001 and 2005, annual growth in sales averaged over 10%, even though the life insurance market had been flat. Life executives attributed the division's success to being easy to do business with. For Pacific Life this involved meeting the needs of independent insurance producers:

Our corporate commercials give us name recognition with the public. But we really need to market to the producers. They are really in the middle of the client's choice. Today the big mantra is, "make it as simple and as easy as possible for that producer, and give him choices." So we have to have a full range of products for him to choose from. Most insurance producers don't want to do business with more than two or three companies. We all have different processes, different underwriting tweaks, different paperwork, dif-

ferent everything. A producer wants to operate his business as effectively as possible and that means not making it too complicated for his staff. So the more one company can answer and fulfill their needs, the less likely that producer will go somewhere else.

—Mike Bell

Given this mantra, Life designed systems and processes to maximize flexibility for the producer. At the heart of Life's capabilities was its administrative system, the system that issues documents and manages billing and payments. Life had a single administration system for all its products. Management saw this single system as a source of competitive advantage:

In contrast to some other insurance companies, who must tie new products into hundreds of legacy applications, when the Life Division launches a new product, it only has to be tied into 20 systems. We only issue new business on one administration system.

—Dawn Trautman
VP, Information Technology,
Life Insurance Division

Life also sought competitive advantage by providing more and better information to producers than other life insurance companies. For example, Life was investing in a Plan Performance Tracking (PPT) system. This system would allow the producer to show a client a comparison of the expected ("as sold") and actual ("in force") performance of their policy's cash value (in the form of "illustrations"). With this information, producers could work with their clients to review their plans and make adjustments. Mary Ann Brown, SVP for Corporate Development, noted that Pacific Life was uniquely positioned to deliver this kind of capability:

PPT will tell our policyholders how their policy has performed, comparing illustrated results with actual results. The application will give our Life Insurance Division an edge over public companies that can't take the long-term view and invest in these technologies.

Annuities and Mutual Funds Division (AMF)

The AMF division offered variable annuities, fixed annuities and mutual funds to wealthy individuals and small businesses. AMF offered annuities with several options—guaranteed withdrawal and accumulation and portfolio optimization—that were popular with end customers. Like Life, AMF regarded its producers, who were typically brokers, as its primary customers. In addition to an emphasis on service and automation of contract administration, the Annuities and Mutual Funds Division sought competitive advantage from technology-enabled products and speed-to-market with product features:

In the annuity business, the companies are copying each other constantly, rolling out new product and new product features and the business chases the hot feature. So it comes down to focus and execution. Can you define a strategy to focus on the key products and product ideas in your market place? And then how well can you execute versus your competition?

—Phil Teeter
VP, Technology,
Annuities & Mutual Funds Division

When AMF started up in the mid-nineties, Pacific Life invested heavily in its technology infrastructure. According to EVP Bill Robinson, AMF was expected to “bring Pacific Life to a new level. We were to build a state-of-the-art service center and use state-of-the-art technology and do things differently.” As a result, AMF became a technological leader in its industry. Pacific Life was the only firm that produced a statement that included internal rates of return from inception to date. In addition, a survey of producers comparing AMF with its top 15 competitors rated the AMF website as best in class:

We distinguish ourselves from our competitors with some product features. We are known as the leader in asset allocation. And we have the ability to get to the marketplace quickly with new products. We are more nimble than most of our competitors.

—Bill Robinson
EVP, Annuities and Mutual Funds

Its high-tech advantage had helped the Annuities and Mutual Funds Division grow rapidly. By 2006, AMF had reached the industry’s top ten in revenues. The importance of the High Tech-High Touch strategy for the division had become clear in 1998 when Annuities launched its Financial Professionals website (before Pacific Life was in the Mutual Funds business):

In September 1998, I went out into the field to get a better sense of what kinds of website development our end users [financial professionals] were looking for. One of the financial reps I met with said, “I will show you what I want your website to be like.” And he brought up the Internet site of a leading retail-based mutual fund company. He was comparing variable annuity sales to everything you could do on line with mutual funds sales. It made me realize that we weren’t competing with other insurance carriers. That wasn’t our benchmark, from a technology perspective. Our benchmark was the mutual fund and stock brokerage industries—which had at least a four year head start on the Internet.

—Lisa Skinner
AVP, Technology,
Annuities & Mutual Funds Division

The Investment Management Division (IMD)

The Investment Management Division managed investments to fund the obligations of Life and AMF. It also offered investment and annuity products to pension fund sponsors and other institutional investors. Unlike Life and AMF, IMD sold mainly through a home office marketing team and other intermediaries. To achieve its investment objectives, IMD used sophisticated modeling tools and techniques, constructed with state-of-the-art commercial analytical packages and supplemented with internal proprietary applications:

There has been just tremendous innovation in the capital markets. Computers have made amazing things possible, with mortgage-backed securities and asset-backed securities and credit card deriva

tives. Just keeping up with the modeling is a real challenge. —Mark Holmlund
EVP, Investment Management Division

Real Estate Division

Pacific Life's Real Estate Division invested in high-quality commercial mortgage loans and equity real estate. Real Estate's value proposition focused on flexible deals and customized loans, and the division promised clients speed and certainty of execution. Real Estate relied on third-party providers to provide application services to support their core IT requirements. In addition, a small IT group had developed significant expertise in configuring and tweaking these services to fit Pacific Life's unique requirements. This group also had strong capabilities in the areas of data management and decision support. They downloaded data nightly from the third-party providers to support both custom and regular reporting.

Designing Consensus Approaches to Risk Management and IT Services

Despite management's willingness to sacrifice some efficiencies for the sake of business unit agility, Pacific Life faced constant pressures to define common processes to manage corporate risks and capture available efficiencies. For the most part, business unit and corporate managers had resisted these pressures, assuming that the costs of defining common needs and delivering shared services would outweigh any gains.

Early in the 21st century, however, two forces drove management to reassess the net value of enterprise-wide services. First, the economy was in a slump, so management wanted to seize obvious opportunities to cut costs. Second, corporate scandals, increased compliance requirements, and the 2001 terrorist attacks had heightened concerns about corporate risks. Pacific Life relied on four corporate units—Business Continuity, Information Security, Compliance, and Information Technology Services—to build consensus for standard risk management processes and shared IT services.

The risk management initiatives started in 2002 with external evaluations:

We brought in Deloitte and then Accenture. Part of their recommendations was to have a central group that would oversee information security. [Subsequently, Corporate Audit also pointed out] that there was little cohesiveness to our business recovery plans. We were very decentralized, but there were a lot of interdependencies, not only from a technical standpoint but from a business standpoint. Our recommendation was to have one company plan for continuity that looked at all the interdependencies.

—Sharon Pacheco
VP, Chief Compliance Officer

Following up on these recommendations, Pacific Life initiated several enterprise-wide initiatives to enhance risk management. These were focused on business continuity planning, information security, and compliance. As one executive noted, the “lowest common denominator” for all three initiatives was the CEO. As a result, all three engaged team members from across the company and all three received board level oversight.

Business Continuity

The mission of Pacific Life's Business Continuity Office (BCO) was to facilitate the development of plans to get the business up and running as quickly as possible in the event of some business interruption event (e.g., a facility loss, a technology loss, a virtual partner loss, or an extended outage of personnel). Carl Jackson, Director of the Business Continuity Program, reported to the head of Strategic Programs, under the CFO.

In an effort that started in 2005, Jackson was developing three kinds of plans: IT disaster recovery plans (closely coordinated with corporate Information Technology Services); business resumption plans; and crisis management plans. Jackson followed the guidelines for business continuity provided by Governance Framework 27001 of the International Standards Organization. An Executive Steering Committee, which included the CFO, the COO, the SVP for Corporate Development, and representatives

from Life and AMF, met for an hour every three to six weeks to provide oversight.

The BCO was mostly focused on what Jackson referred to as “tier one” processes, those that for financial or customer service reasons must be recovered within 24 hours of a disaster. Tier one processes were initially identified during a Business Impact Assessment carried out by Accenture in 2002. Accenture inventoried all processes and gathered opinions as to which were the most time critical. Because it would not be economically feasible to try to recover an entire company within 24 hours of an outage, the Business Continuity Program focused on the roughly 1/3 of the processes that were the most time critical. Many of these time critical processes crossed division/corporate lines (e.g., processes that connected the treasury unit, which handled wire funds transfers, with the divisions, or processes that linked the Investment Management Division to the AMF and Life Divisions).

Every six weeks Jackson convened a meeting of the 30 IT and business managers from the business divisions and corporate functions comprising his business resumption group. This group helped to identify enterprise business continuity priorities and generated buy-in for the business recovery processes and tools that the BCO recommended:

I do not have direct responsibility for recovery of tier one processes because I don't own any of those processes. The divisions own the processes. My role is to provide the divisions with the tools, consulting expertise and facilities they need to be able to recover their tier one processes.

—Carl Jackson
Director, Business Continuity Program

Information Security

The mission of Pacific Life's Information Security Office (ISO) was to establish the policies and standards required to safeguard the company's information. This included ensuring the confidentiality and integrity of company information. The three and a half person ISO was led by AVP Micki Krause. Like the BCO, the ISO

reported to the head of Strategic Programs under the CFO.

Krause's organization was developing Pacific Life's Information Security Management Framework based on International Standards Organization security standards. The ISO defined repeatable and sustainable process standards to provide the needed controls over major information domains and then, with the divisions, performed a gap analysis based on existing practices. Subsequent analyses focused on sub-domains within each division. With completion of the analysis—around the end of 2007—the divisions planned to lead remediation efforts.

As with Business Continuity, the ISO's job was to define accepted standards and processes. The ISO worked with an Information Security Steering Committee, which included division IT heads and representatives from Audit, Compliance, and Legal, to set strategy for information security. Division security officers were expected to work with their lines of business to implement Pacific Life's information security standards. Corporate Audit would monitor compliance to Pacific Life standards. Each division's information security practices would be audited on a rotation basis.

The ISO and BCO provided Program status to the Executive Steering Committee regularly. The support of the executives was key to adoption of security standards because, as Krause noted, the company recognized the value of having a defensible and risk-based Security Program.

Pacific Life's strategy of establishing the Security Program in conformance to the International Standards Organization Security Standard, ISO27001, is an important endeavor. I expect that ISO-27001 will become the globally-accepted methodology for addressing information security, just as ISO9000 has become the defacto standard for quality.

—Micki Krause
AVP, Information Security Office

Compliance

In 2003, Pacific Life created a Chief Compliance Officer role, which was filled by Sharon Pacheco, Pacific Life's former head of internal audit. Pacheco reported to the Board's Governance and Nominating Committee, the Board of Trustees for two of Pacific Life's funds, and to Pacific Life's General Counsel. Compliance was a particular concern in Pacific Life's decentralized environment due to the growing number of federal regulations (e.g., HIPAA on privacy of health care information, the Gramm-Leach-Bliley Act on privacy of financial information, the U.S. PATRIOT Act on anti-money laundering) and the variety of regulations enacted by the 50 states. Pacheco was responsible for putting into place policies, procedures and controls to insure that Pacific Life complied with these laws and regulations, and that the company complied with its own code of conduct. The Compliance Office was also responsible for raising awareness about compliance requirements, training employees, and overseeing investigations of violations.

More recently, the CEO had asked Pacheco to address the management of electronic documents—email, “Office” documents, PDFs—so that requests for discovery from regulators or litigators could be addressed efficiently and effectively. She started by forming a steering committee that included representation from both business IT heads and corporate IT Services. For example, EVP Mark Holmlund represented the Investment Management Division on the committee, SVP for Administration Robert Hsu represented Annuities, and Cameron Cosgrove, VP for IT, represented Life. Participants recognized that agreeing on software solutions would simplify the business environment, so they worked toward a single email and single document management solution.

The steering committee selected a solution based on SharePoint (for collaboration and sharing of documents), Meridio (for retention/searching of records), and Exchange (for managing email). Together, these tools would allow workers to collaborate on Office documents, protect them from unauthorized changes,

perform searches, and set retention schedules. Following a proof of concept in 2005 and a 15-person pilot in 2006, Pacheco estimated that corporate functions would be on the selected tools by the end of 2008. It would take more time before the business divisions would be fully utilizing the tools, because the transition from existing tools required changes in both technology and individual habits.

One executive noted that the diversity in business unit processes complicated efforts related to business continuity planning, information security, and document management, but it was easy to justify the added cost, because it was a rounding error. In comparison, the opportunity cost of forcing standardization across the businesses could be steep.

Information Technology Services (ITS)

In 1955, Pacific Life became the first private enterprise west of the Mississippi to install a “large scale electronic data processing system—the Univac I.”³ Like most companies at that time, Pacific Life ran data processing as a centralized service to leverage the capabilities of large, mainframe systems. By 1988, however, server and desktop technologies allowed Pacific Life to decentralize applications services and most IT operations to the divisions. In 2000, Pacific Life's executive management decided that some operational responsibilities and competencies that had been developed in the divisions should be centralized in ITS. Adoption of shared services proceeded slowly, but in February 2002, CEO Tom Sutton reiterated his support for the centralization effort:

*My expectation is that all divisions will work together to share existing technology, conform to company created standards, avoid duplication of efforts, and utilize or transition to a shared IT services environment wherever possible.*⁴

³ <http://www.pacificlife.com/About+Pacific+Life/General+Information/Pacific+Life+History.htm>

⁴ From “ITS Vision 2004”, Pacific Life Information Technology Services, internal company document, June 2003, p. 2.

At that time, Pacific Life brought in Joe Schneider to head corporate IT Services (ITS) with a mandate to provide high quality and cost efficient IT shared services. By all accounts, Schneider was taking on a challenging role:

When Schneider arrived, the scope of ITS's services included all of the mainframe infrastructure, open systems such as Unix and Wintel servers, telecommunications, the WAN/LAN networks, second tier help desk services to the divisions (first tier help to corporate offices), and backup for all of Pacific Life except AMF.

To insure that ITS could meet the divisions' service expectations, Schneider led an assessment of the unit's strengths and weaknesses and defined necessary procedural, structural, personnel and policy improvements. ITS then embarked on a transformation. Key procedural changes included the introduction of ITIL operational processes as well as project management processes. Key structural changes included reorganizing into a front office/back office structure to improve both relationships and productivity. ITS also consolidated support centers and monitoring activities and appointed "business consultants" to serve as liaisons with ITS's customers to resolve problems and set priorities. Exhibit 3 shows a high-level organization chart for ITS's 122 employees in 2007.

Schneider, whose background included work as a coach and mentor, provided training for ITS staff on not only ITIL processes, but also communications, relationship formation and maintenance, customer service, and problem solving. A number of metrics were introduced to ensure continuous improvement of ITS' services. Schneider noted:

Half of the job was relationships—building trust, confidence, and working with the divisions. The other half was just standard IT blocking and tackling.

—Joe Schneider

VP, Information Technology Services

Business divisions were charged, using simple algorithms, for ITS services. Division IT executives worked closely with ITS to define boundaries between services ITS would provide and

those that divisions would provide for themselves:

Where the divisions have IT requirements that are unique to their core business and they need flexibility, to have that independence to just GO, we've put those services into the divisions. Where the need is common and can be shared and the consensus is it's a commodity, and competitive advantage isn't really going to be derived from there, then the focus becomes running that service like a utility with low cost and reliability being the drivers—that's what ITS is supposed to do for the divisions.

—Cameron Cosgrove

VP, IT, Life Insurance Division

Although business unit IT leaders favored the idea of sharing commodity IT services, generating their support for any given service level or standard technology was often contentious. To help introduce standard services and service levels, ITS and division IT units formed Enterprise Architecture Groups (EAGs). EAGs were intended to "create economies of scale, reduce support, maintenance and training needs, improve quality while reducing complexity, and optimize reusability throughout the company."⁵ EAGs prioritized and scheduled initiatives to improve, upgrade or harmonize ITS's technology assets or services. The EAGs secured funding for ITS-related initiatives:

If I have a business need for a technology and I think it should be part of a standard for one of the shared services, then I bring it to the appropriate EAG. I can advocate for it to the entire organization. I can explain it and build a coalition of support for it. It moves forward through a process that I have a line of sight into. We'll implement it when we all agree that it is the best solution for the organization as a whole.

—Cameron Cosgrove

In late 2006, Pacific Life had nine EAGs, six of which were headed by division IT leaders:

⁵ From "ITS Vision 2004," Pacific Life Information Technology Services, internal company document, June 2003, p. 35.

mainframe (headed by an AVP from AMF), UNIX/Linux (IMD led), service management/ITIL (ITS led); Wintel (Life led); LAN/WAN (IMD led); Voice (led by a call center manager in AMF); Remote Access (AMF led); Data Centers (ITS led); and Storage and Backup (Life led). EAG heads volunteered for their roles, usually because the technology was strategic for their division. Each EAG included representation from ITS and the divisions. They met from once a week to a few times a year, depending on the flow of issues needing to be discussed or resolved, or the number of initiatives that needed funding.

The secret of the EAGs is that everyone realizes that we're all better off if we work together. People want more of it.

—Scott Johnson
VP, Corporate Application Systems

Division IT leaders credited the EAGs with improving the quality and usefulness of ITS services:

Mainframe is a perfect example. What has, I think, made a huge difference in the service levels we see has been the EAG. In the past, all of the requests went from each separate division into ITS. Life wants to go to a new version of the Focus Reporting tool, but Annuities doesn't. And Annuities wants to go to this version of CICS and Life doesn't—and ITS had to sort that out. Now, we've stopped making ITS be the bad guy in all that. In the EAG, we've developed three-year road maps. We've decided how quickly we're going to move. We've decided what the financial repercussions are if a division cannot keep pace with that. We work out things like who pays what if they need to adopt the technology early or late. And just getting that consensus before it's needed, before we hit the roadblock, has made a huge difference.

—Lisa Skinner
AVP, Technology,
Annuities & Mutual Funds Division

The decisions made by the EAGs mostly drove programs and projects that ITS would execute, but sometimes there were also division impli-

cations. For example, the Wintel EAG designed the architecture for secure server build, but the servers were mostly located in the divisions:

ITS is a 100% adopter of the EAG standards. Because of the divisions' autonomy, ITS will not have oversight as to whether a division follows the standard or not. Audit does, but they only test a third of the general computing controls each year [so it could be three years before Audit sees a problem]. While adoption is considered optional, because we have vetted the idea in the EAG, and we have reached consensus of that standard across the enterprise, the divisions are strong adopters of it. By reaching consensus we eliminate the need to walk around checking.

—Joe Schneider
VP, Information Technology Services

Exhibit 4 provides an overview of ITS governance bodies. The main governance body was the IT Council (ITC). This Council included all the IT heads in the divisions and the heads of Information Security, BCP, Compliance and Audit, as well as Joe Schneider and Mary Ann Brown. Chairmanship of the ITC rotated among its members. The ITC approved the operating budget for ITS, prioritizing any projects that ITS proposed to improve its services, along with other enterprise-wide initiatives that required ITS to make infrastructure investments or process changes.

A key responsibility for the ITC was to implement policy decisions flowing from Information Security, BCP, Compliance and Audit and their respective steering committees that had implications for ITS. These policies often drove the need for strategic ITS initiatives. Mary Ann Brown, as SVP for Corporate Development (with responsibility for ITS) brought the perspective of Pacific Life's senior executives to discussions on ITS project priorities:

One of my responsibilities is to challenge IT project budgets by asking such questions as, "What are the implications if we don't do a project or if we do it in half the time or deliver half the functionality?" I think about the tradeoffs between business

line decisions and security and business continuity planning. These special projects aren't always scrutinized the way other IT budgets are. They're outside the normal radar screens of budgeting and approval. So they could become sacred cows.

—Mary Ann Brown
SVP, Corporate Development

Together the ITC and EAGs generated some of the benefits of IT centralization without centralizing all of Pacific Life's IT assets. Joe Schneider referred to these groups as "a virtual CIO" since Pacific Life did not have a CIO.

The Ongoing Balancing Act

Information technology played a critical role in Pacific Life's efforts to foster business agility while managing corporate risks. While Pacific Life management accepted the costs of decentralization, ITS was designed to take out unnecessary duplication of effort and provide some economies of scale. More importantly ITS provided the technical foundation for common tools and processes, where these were required to manage risks.

Each division's IT is autonomous. My role is to assist in bringing them together, identify what company-wide initiatives from Information Security, Business Continuity, Audit, and Compliance are needed, and through consensus building and cooperation, build a Strategic Projects budget to accomplish the initiatives. I can get the shared services part compliant, and I have to make sure intent is understood and misunderstandings are straightened out."

—Joe Schneider
VP, Information Technology Services

The emphasis on consensus building and cooperation meant that ITS's (and thus Pacific Life's) success depended on the active collaboration between the business divisions. The business divisions recognized that they contributed to Pacific Life's success through both divisional excellence and by being good corporate citizens:

My job is a matter of trying to make sure that that balance is maintained. If I see

something that is not really that important to our division, but we're stuck on a point, maybe it's time to escalate back at the division and say, "I think there's a bigger enterprise point to be made here." And vice versa, if there's something that is critical to our division that's not getting enough attention or where the risks are not understood, then it's my job to make people aware of what that is.

—Lisa Skinner
AVP, Technology,
Annuities & Mutual Funds Division

Management anticipated that ITS would continue to play a key role in enabling risk management in a culture of autonomy. Just as important, managers throughout Pacific Life would continue to participate in the governance processes that enabled the adoption of common standards in a decentralized organization. Defining and implementing necessary enterprise risk management initiatives and shared IT services was an unremitting challenge:

Some of these risk-related initiatives are a function of laws and regulations that have been enacted because of recent events; some are just fundamental to the business; and some are fundamental to technology. Information security is fundamental to technology. I don't see the bad guys giving up and just walking away. Business continuity planning is fundamental to the business, whether or not you have technology, but technology exacerbates it, because of the demand for instant information and because many things are stored electronically. And then compliance is a function of recent actions enacted by law and regulators. Will those things go away? I don't think so. Will they become more routine? I expect so. Will there be other things that we need to do from a companywide perspective? Probably. I don't see those going away. I can only see maybe other things coming down the pipeline. What will they be? I don't know.

—Khanh Tran
EVP and Chief Financial Officer

Exhibit 1
Pacific Mutual Holding Company Financial Summary

Figures in Millions	2006	2005	% Change
Company Assets	99,346	87,115	14%
Policyholder and Other Liabilities	93,249	81,382	15%
Equity¹	5,661	5,055	12%
Revenues	5,196	4,619	12%
Operating Income²	560	418	34%
Deposits³	13,126	11,304	16%

¹ Excludes net unrealized gains/losses on derivatives and securities available for sale.

² Excludes net investment gains/losses and discontinued operations.

³ Includes receipts from the following liabilities: universal life contracts, variable annuities, funding agreements, guaranteed interest contracts, and other deposits.

Source: <http://www.pacificlife.com/About+Pacific+Life/General+Information/intro.htm>

Exhibit 2
Pacific Life Partial Organization Chart, 2007

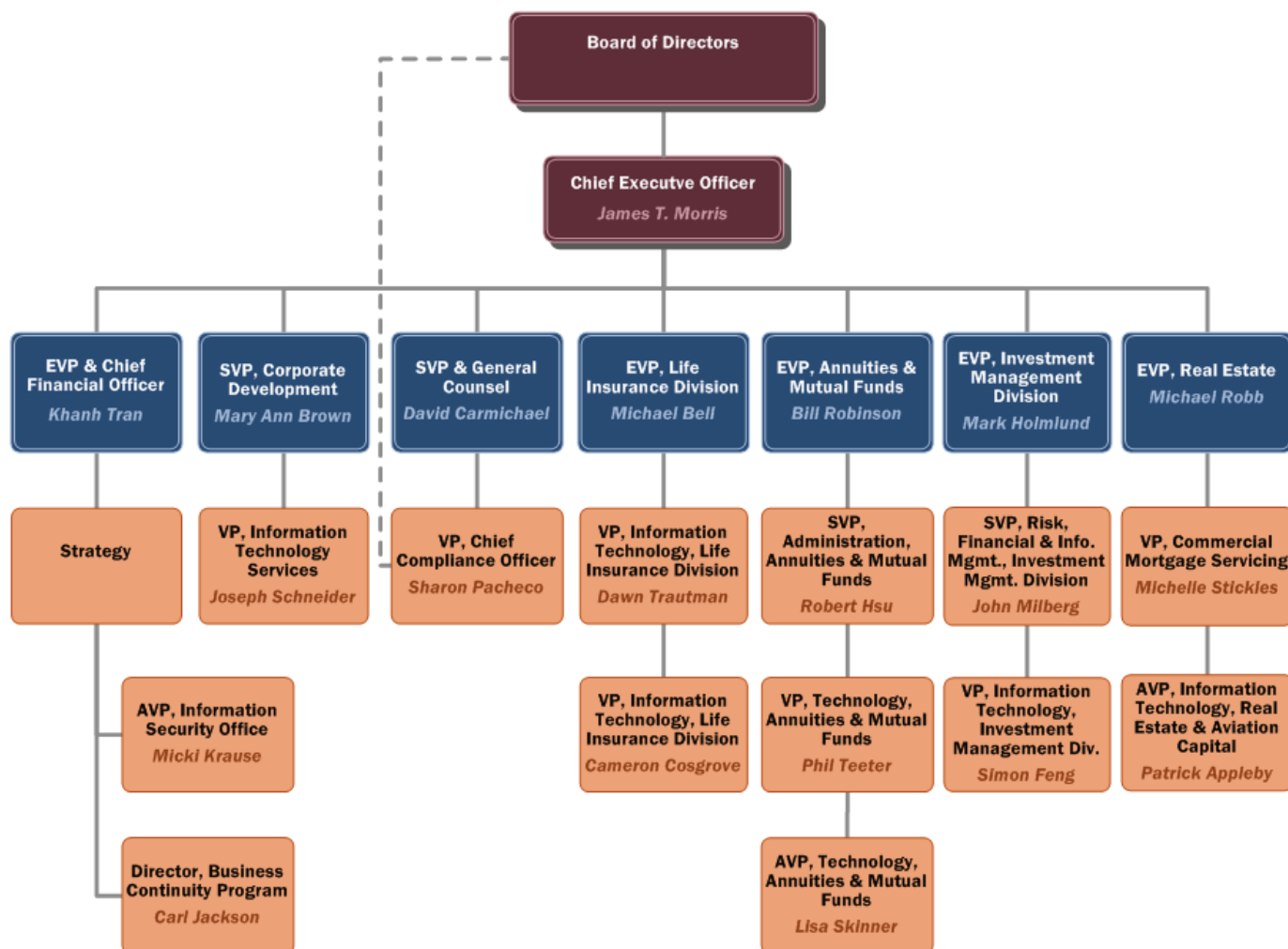
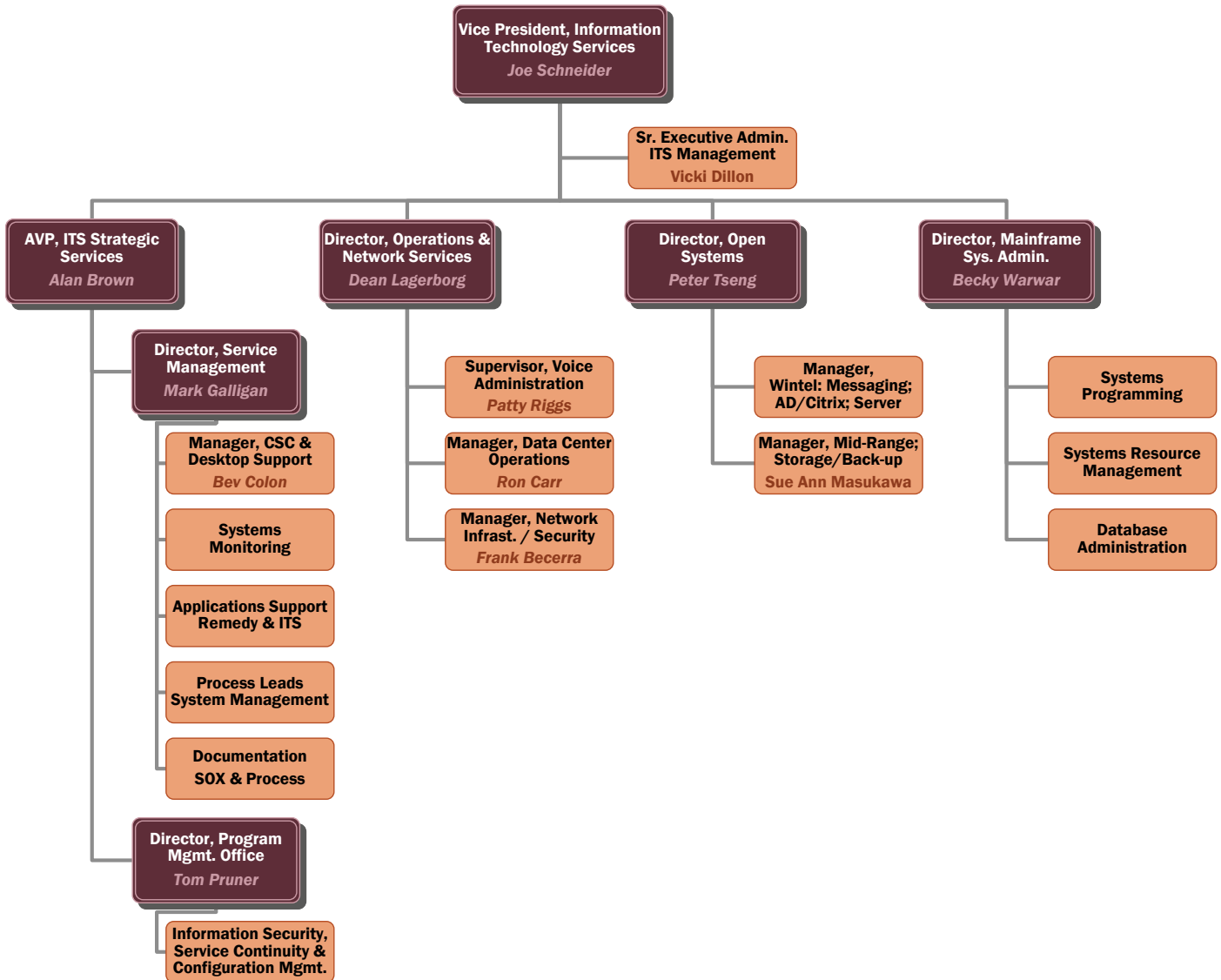
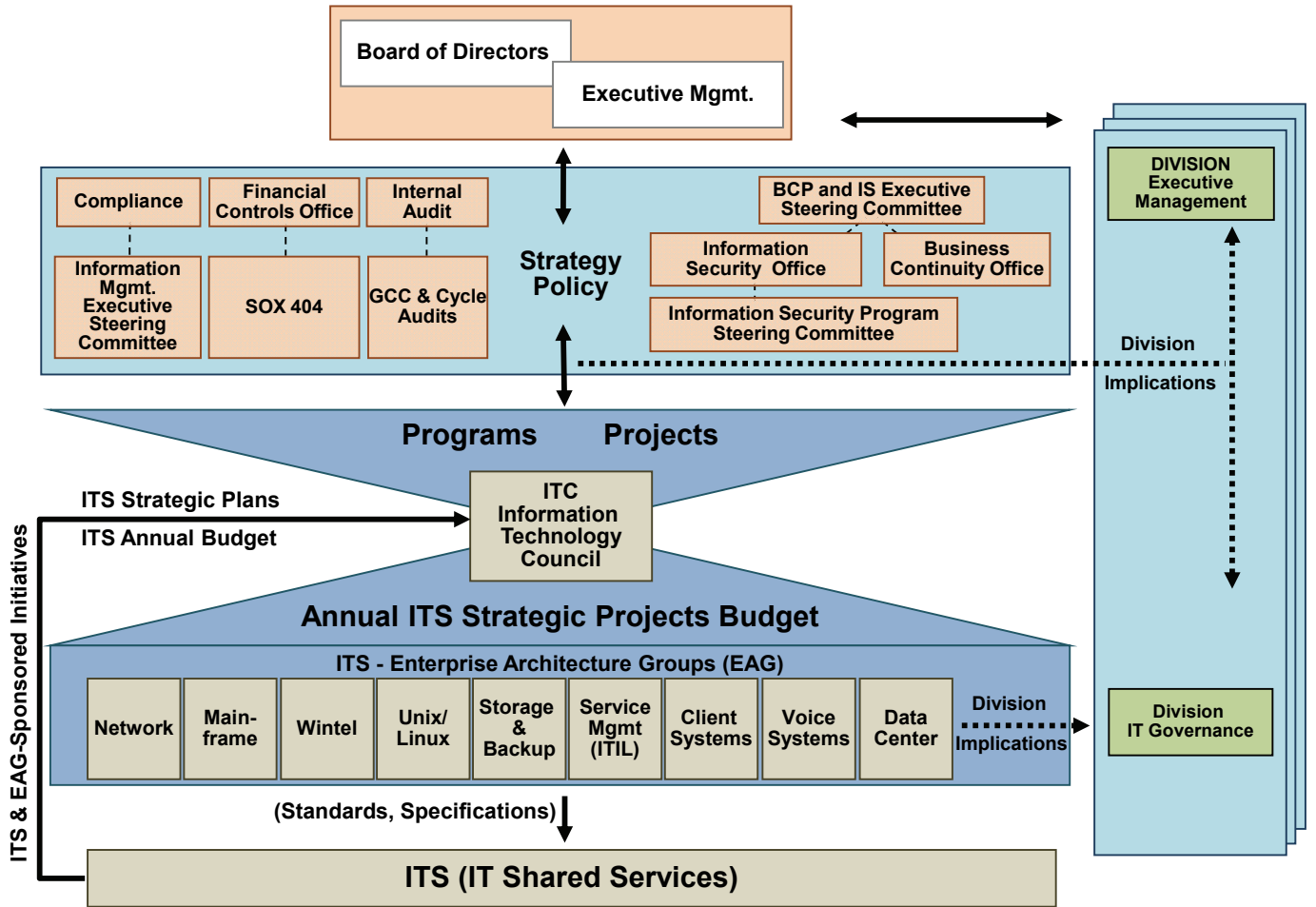


Exhibit 3 Pacific Life Corporate ITS Organization



**Exhibit 4
Pacific Life ITS and Enterprise IT Governance Model**



About the Center for Information Systems Research

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CISR was founded in 1974 and has a strong track record of practice based research on the management of information technology. As we enter the twenty-first century, CISR's mission is to perform practical empirical research on how firms generate business value from IT. CISR disseminates this research via electronic research briefings, working papers, research workshops and executive education. Our research portfolio includes:

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- IT Engagement Models and Business Performance

Since July 2000, CISR has been directed by Peter Weill, formerly of the Melbourne Business School. Drs. Jeanne Ross, George Westerman, Nils Fonstad, and Stephanie Woerner are full time CISR researchers. CISR is co-located with MIT Sloan's Center for Digital Business and Center for Collective Intelligence to facilitate collaboration between faculty and researchers.

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