

Playing with fire

How Chuck Hallberg grew MemberHealth by \$1 billion in one year by mastering the challenges of red-hot growth

Growth.

It's something that every company wants, but not every company is ready for it. In fact, growth is like fire — beneficial when used properly, but deadly when you aren't cautious.

"Growth can be your friend, or growth can kill you," says Chuck Hallberg, president and CEO of Solon-based MemberHealth Inc., a prescription benefit management company that processes prescriptions for nearly 5 million members annually.

At the end of 2005, MemberHealth had \$215 million in revenue. By the end of 2006, that number had grown to \$1.2 billion.

Hallberg has had to continually adjust his company to navigate through the fires of growth. What works this week won't necessarily work next week, so writing plans in pencil and keeping a stack of erasers handy is almost mandatory. "You have to be willing to step back and rethink everything that you're doing and who's doing it and how they're doing it and realign, and you do it again and do it again as you grow," says Hallberg.

The challenges are many, but Hallberg says if you carefully manage the pace of growth, find the right people and communicate your vision to eliminate surprises and foster unity, you can make growth your friend.

The right pace

Rapid growth can be hazardous to a company's health. Finding the right ways to keep up with it can be the key to continued success.

When MemberHealth became a player in the Medicare game, Hallberg looked around and realized he would quickly need more people to capitalize on that opportunity. In about four weeks, he trained and brought on close to 500 people — nearly doubling his staff — for customer service.

But instead of hiring 500 people outright and risking bad cultural fits, he opted to work with an agency and bring in people on a temporary basis first, then, as they proved to match with the business, transition them to full-time. "That can kill growth if you have an organization and you bring in people and they don't have a common vision and everyone has their own agenda," Hallberg says. "You're not going to get momentum from that. ... You have to have strong core values, and you have to communicate them, and you have to really help the organization understand that it's important. It just can't be lip service. How do they know that? They have to see it. It's got to start with the CEO and work its way through senior management. "There is no short cut to people's relationships, and people's relationships in a fast-growing company amongst each other will either add momentum, or it will slow your pace down."

And if someone isn't a fit or doesn't embrace change, Hallberg can ratchet it back and there are no hard feelings when he lets that person go.

"The preparation for growth is you start out with a baseline, and then you keep refining it," Hallberg says. Every month, he evaluates staffing and then communicates those needs and decisions. Using temps and cutting back when needed, keeping only the best, helps keep MemberHealth from getting too far ahead of itself.

Not getting overextended goes beyond just the people side of it. Hallberg also maintains scalability in other aspects of the business. In terms of physical space, he only buys what he needs right then. When the business moved into its current Solon facility, the employees took up very little space in the building. But as the company grew, he knew he could buy more space in the facility as needed it, and now almost the entire building is full of MemberHealth employees.

Another way he prevents overextension is by outsourcing, so he doesn't have to hire a huge information technology organization or call center because those groups scale to MemberHealth's growth needs. This allows him to grow the company consistent with its revenue while continuing to test vendors on an interim basis, allowing him to invest when he feels the company is ready. "We can measure it and analyze it," Hallberg says. "Once we're very comfortable that it's permanent, then we build to it. It's a combination of

really good planning upfront, and then don't buy more than you can use right away, but arrange so you have access to multiple sources."

Building the crew

People can make or break the success of a company, so Hallberg says it's important to hire employees willing to contribute to the growth of the business.

"Really hold out for the best and really look for the best," Hallberg says. "The best will attract the best. They want to have the best."

To get the highest-caliber people, Hallberg says it's important to analyze what you're looking for, but that extends beyond the realm of job skills. Just as people have different personalities, so do the desired attributes of different positions in a business. Address what kind of person you want filling a position, including desired behavioral traits and things that motivate them.

Once those roles are clarified and understood, it's a matter of creating a total team.

"No one is ever a complete package," Hallberg says. "People have strengths, and people have weaknesses. What you do is maximize their strengths, and then support them to minimize the weaknesses." Helping play up people's strengths and improve on their weaknesses involves straightforward communication that comes across in a caring — not critical — way when they start.

"We say, 'You do these three things really good, but I'd like Joe to coach you on these other two things,'" Hallberg says. "You do that not from a perspective of, 'You silly fool! You don't know this!' but from the perspective of, 'We want you to be successful, so we want you to be everything you can be, but we think this would be an area that would help you.' It gets warmly received."

Coaching and mentoring also require continuous assessment, reassessment and adjustment, and Hallberg says his people do it up and down the ranks monthly.

"We don't wait for an annual review," he says. "It goes hand-in-hand with a company growing as fast as us. We have literally reinvented ourselves sometimes a couple or three times a year ... because the things that you do as a 20-person company work great as a 20-person company, but when you're suddenly, four months later, a 40-person company, those same processes that worked very well before may not work very well anymore."

Because of such rapid growth, MemberHealth has even rebudgeted a couple times within a single year, and because of those regular changes, Hallberg is very upfront with potential employees — if you can't deal with frequent changes in the company and your job responsibilities, then this isn't the place for you. That honesty helps ensure he gets people who will get on board with his vision.

Eliminating obstacles and surprises

Part of growth is constantly looking beyond where the company is to see what could happen or what opportunities may arise. "In sailboat racing, you're always looking out, and the thing about Mother Nature and the wind is it's always shifting and always moving, and even though the wind is coming from a particular direction, it can change in a second, and that means you have to change your strategy," Hallberg says. "We call it 'eyes outside the boat.' You have to have somebody out there looking strategically, thinking about and looking at what's going on and making sure that you're constantly ready to move and to shift."

Just as a strong wind can set a sailboat in another direction, a company's plan can shift as the market changes and opportunities arise. But change often breeds anxiety, both inside and outside an organization. "I don't think anybody likes surprises," Hallberg says. "Most people that find something irritating, there's probably a surprise buried in there somewhere. 'I didn't know this, or I didn't expect that.' If you mitigate those sorts of things, you probably extend out that ability."

MemberHealth has historically been a prescription benefit management company, but as it picks up the Medicare arena, it is slowly transitioning to an insurance company specializing in prescription drugs. To help eliminate irritations during the metamorphosis, Hallberg stresses communication. "Communication is always the key to it, whether you're talking to clients, industry relationships, employees," he says. "When you're growing fast, you can't overcommunicate. You just can't. There's no such thing as overcommunicating because whatever is OK or ordinary to you might be dramatic to a customer or employee or an industry relationship."

Communicating changes also creates trust between parties, and trust allows them to voice concerns and problems so that they can be overcome sooner and the problems don't fester.

"The way you get faster and grow faster is by eliminating obstacles," Hallberg says. "The more momentum you get, the faster you grow."

Despite the need to communicate changes to employees, customers and vendors, leaders also need to learn the importance of the other side of the communication process — one that they often overlook.

"Listen first. Talk second," Hallberg says. "Part of that communication, and one of the most significant parts, is the listening part, so it may be that you need to articulate something to a customer or employee or vendor, but then you want to hear their thoughts and views about it. And not just theirs, but we try to get a 360 view from many different angles."

"We don't always agree with everybody, but we do like to get enough input so we can assess it and do what's right for MemberHealth. What's the cart and what's the horse? Some days it's one thing, and some days it's another."

Fostering communication by listening helped MemberHealth create a reputation when it was smaller because it heard customers' problems and worked to solve them, something many of the larger players didn't have time to do. "We weren't well-known, but what we could be was the absolute expert," Hallberg says. "We could make sure that we knew more about whatever it is we were involved with the client than anybody else, and by that, we could then be the partner of choice."

Being the go-to company and helping others is important to Hallberg, even if the company doesn't earn a penny from it.

"If I solve somebody else's problem, and I'm knowledgeable in their problems and can help them solve their problems, whether or not I make money from it, it creates tremendous alignment and creates these win-win environments," he says.

Listening and helping also prove to potential clients that MemberHealth is looking out for their dollars instead of just trying to make some themselves.

Beyond a positive reputation, listening also allows you to open up to new ideas and change to create a clearer direction and a better path to success. Listening itself isn't always effective, as some choose to be selective listeners, but listening and responding appropriately can generate powerful changes.

Creating internal unity

When it comes time to move and shift, just as it's important to communicate with customers, partners and vendors, leaders also need to communicate with employees and get buy-in to create a sense of unity in moving the business forward.

If changes are made and not communicated, it can put people on edge, so Hallberg takes a different approach and explains why employees should be excited.

"Change is OK because it creates opportunity, and because of the way we communicate, we minimize surprises, so you've minimized that anxiety of, 'What am I going to be doing?'" Hallberg says. "You've taken that change and created, 'Wow, this is a fun place, and I never know what I'm going to do tomorrow, but it's really cool, and I know there's something for me to do tomorrow.' They feel valuable and feel they have a contribution and input into it. It's like a journey, and by having really good communication, you've minimized the anxiety."

To help alleviate anxiety and facilitate communication throughout the organization among teams, departments and managers, Hallberg instituted daily huddles, five- to 10-minute stand-up meetings to start each day, where all the members of a department or project team gather and briefly address what they have to do that day to meet their goals. "Start the day by talking, engaging, communicating and thinking," Hallberg says. "It's not around the water cooler. It's an environment that gets you focused on what's important to the company today. What are the roadblocks? What's in the way of us succeeding today? What's slowing us down? How can we get rid of what's slowing us down?"

Tackling problems and bringing up issues that impair progress help motivate people.

"Everybody in the company gets to stand up every day and say what's keeping you from getting your job done," Hallberg says. "And you know what? If, on the third day in a row, you're somebody else's obstacle — your department or your job or whatever you're doing — boy, it gets painfully obvious, 'I better get out of this guy's way.'"

These huddles also allow people to contribute by encouraging them to throw out ideas to both improve the company and help others overcome their obstacles. Hallberg says generating good ideas is paramount to growth, and huddles help facilitate doing so. "When I say good ideas, what I mean is something that resonates in whatever industry you're in," he says. "There's lots of good ideas out there, but it's got to be executable good ideas. That's the resonance. You have to be able to put all the pieces together and make it work. "I equate it to music. When those things come together, it's like a tune that hums in the back of your mind. It just feels good. And tunes that you don't like, and if something's cacophonous, it doesn't hang together."

When employees feel they're invited to participate and contribute ideas, it motivates and encourages them and helps create buy-in to the goals of the departments and the company as a whole. Huddles also eliminate much of the hush-hush whisperings that flow in an office when people get frustrated with other workers' performances because if an employee doesn't bring up an obstacle, he or she is just as much at fault for ignoring the daily opportunity to address issues.

"Bad news always has to be dealt with first, or hard things always have to be dealt with first," Hallberg says. "Everybody does easy stuff because it's easy. Everyone wants the easy button. We don't like whining. We like doers. That's part of it. "People feel empowered to get their job done, and they certainly feel empowered to articulate when they aren't able to get their job done or aren't being given the tools to get their job done." While huddles have been extremely effective in helping MemberHealth grow, Hallberg knew it would take time before people really began to see the value in them and embrace them whole-heartedly. "These types of things don't just happen overnight," Hallberg says. "We knew it was going to be months before they really

start to become a cultural value. A company can't just say, 'We're going to do that next week and try it for a week.' If you're going to try it for a week, don't bother. "You really have to make a commitment organizationally, at your core, to get those kinds of processes and goals."

When everyone collaboratively dedicates to openly communicate and evaluate to help the company improve, then growth can happen successfully. But it takes an entire organization constantly adjusting. All of these processes help MemberHealth focus on its customers and on smoothly growing every day, but Hallberg stresses that it can only happen with patience and planning and adjusting.

"Most sailboat races are lost rather than won," he says. "It's kind of like the team that makes the fewest mistakes ends up being the fastest at the end of the day. A lot of growing and momentum is eliminating obstacles and mistakes, so it's a lot less about being perfect and a lot more about anticipating or responding really quickly when you see there's an issue and fixing mistakes fast, because you're not going to eliminate them."

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