EPIPHANY
ASSOCIATES, LLC

Module 1:
Foundation

Why Money isn't always the answer

Veteran Suicide Prevention Case Study (2018 – 2023) Key Data

- 220% increase in spending, rising from $20 million in 2018 to $64 million in 2023.
- 28% increase in per-veteran spending
- Outcome: 4.85% reduction in suicides

State Integrated Benefits System (2018 – 2023) Key Data

- $195 million one-time cost to develop the system.
- $85 million annual cost, with $635 million total spending over six years.
- 19% increase in cost per applicant

Timeliness Decline: Processing times initially improved from 21 days to 12 days but reverted to 19 days by 2023.

Accuracy Decline: Eligibility determination accuracy fell from 91% in 2018 to 85% in 2020, recovering partially to 89% by 2023.

Context: The budget could have funded an additional 1,411 eligibility caseworkers annually, nearly doubling the workforce of 750 employees

Medicaid per Member per Month

Cancer screenings for women	1.4% growth per year
Preventative care	0.4% growth per year
Child immunizations	0.3% growth per year
Medicaid PMPM	4.4% growth per year
PMPM in 2000 = $393	PMPM in 2020 = $624

Distinguishing Budget Costs

Government budgets and financial tools are crucial for compliance, controlling spending, and tracking costs by category. However, they offer a narrow view of the bigger picture. Traditional budgets, like X-rays, show surface-level issues but fail to uncover the deeper causes of costs, much like how an MRI reveals underlying complexities.

These budgets break costs into detailed categories, which can obscure the broader, interconnected factors driving expenses. It's like replacing a worn tire repeatedly without addressing the misalignment causing the wear.

Traditional tools may track the cost of replacing the tire but miss the root problem altogether. To truly reduce costs and improve outcomes, we need a broader perspective—one that reveals hidden causes and interconnected dynamics.

While traditional budgeting is important, it's essential to recognize its limitations and adopt tools that provide deeper insights into the true drivers of cost.

7 Organizational Causes of Costs

1. Wrong Goal 

Assumption: The organization's goals are already clear and on target, and all goals are equally important, making it necessary to serve multiple priorities simultaneously to meet the needs of all stakeholders.

Example #1: Imagine an airline where safety is treated as just one of many goals, on par with customer service or comfort. Leadership focuses on delivering luxury services like gourmet meals and in-flight entertainment, while safety checks and operations receive equal priority. The lack of a singular focus on safety leads to higher costs, reduced efficiency, and declining trust.

Example #2: Imagine an organization with a goal to "ignite innovation." The phrase sounds exciting but is so vague that teams interpret it differently. One team focuses on launching new products, while another reworks existing processes. Without clarity, effort is scattered across multiple initiatives, leading to inefficiencies, duplication, and frustration. Progress stagnates because no one knows how to measure success or whether they're solving the most critical problem.

Reality: Without a goal that is singular, clear, and directly aligned with the primary customer's primary need, resources are wasted or directed toward the wrong priorities. Organizations need to focus on primary goals before they spread their finite time, attention, and resources on secondary goals.

A clear, correct goal establishes a baseline for where the organization is today and where it needs to go, exposing the gap and creating the foundation for strategy, execution, and measures. When goals are unclear or misaligned, confidence in the system erodes, leading to increased audits, oversight, and costs.

2: Wasted Effort 

Assumption: Good strategy is defined by new, innovative ideas or silver-bullet solutions that appear exciting and impactful, while ignoring trade-offs and the potential problems those trade-offs can create in the future.

Example: Imagine a rental car company seeing an opportunity to lead the industry by dominating the electric vehicle (EV) market. Leadership rolls out an ambitious strategy to replace their fleet with EVs, promoting the move as innovative and environmentally friendly. However, the company's core customers—families and business travelers—value reliability, convenience, and familiarity.

Many are hesitant about EVs, citing range anxiety, lack of charging infrastructure, and unfamiliarity with the technology. Instead of breaking the conflict between innovating in the EV market and meeting customer needs, the company goes all in on EVs. This leaves customers frustrated and turning to competitors, while the company faces declining satisfaction, decreasing revenue, and rising costs.

Reality: Good strategy solves the primary customer's primary need in a way that addresses root causes and avoids creating new trade-offs or perpetuating future problems.

3. Focus on Utilization Over Throughput 

Assumption: As long as every resource—staff, equipment, or functions—is busy and fully optimized, the organization is being efficient.

Example: In a busy restaurant kitchen, the belief might be that as long as every chef is actively chopping, cooking, or plating, the team is efficient, focusing on utilization and activities rather than throughput. But if dishes pile up at the pass because the flow of orders isn't coordinated, it takes longer to get meals to customers.

As a result, tables aren't turned around quickly, fewer customers are served, and the restaurant generates less revenue—all while accumulating bad customer reviews. A manager who doesn't understand throughput might feel pressure to hire more chefs or staff to speed up meal delivery time, increasing costs without solving the real problem.

Reality: This assumption overlooks how work moves through different people, functions, and resources in the system. When progress stalls or work gets stuck, the hidden costs of delays and inefficiencies outweigh the perceived benefits of keeping everyone busy. Simply because the chefs are busy doesn't mean the customer is getting their meal.

4: Desynchronized Functions

Assumption: Each department or function (e.g., IT, policy, management, training) should work off their own timelines and individual priorities and should be measured on their individual performance.

Example: Imagine a movie production where the script isn't finalized before filming begins, actors haven't been cast, and the budget isn't approved. The director proceeds anyway, and different departments work at their own pace. As a result, scenes need to be reshot, costs skyrocket, and the film is delayed.

Reality: When functions work independently without alignment, priorities conflict, and resources are wasted. Synchronizing all functions to work on the same priority at the same time ensures faster, more effective, and cost-efficient outcomes.

5. Not Understanding Stuck Reasons or the Cost of Wait Time

Assumption: If outputs are being produced, the system must be working. Delays—whether people, applications, or services are stuck waiting—are assumed to have no cost because they remain invisible as long as outputs continue. While delays in the system may be frustrating for customers, they are seen as having no financial or operational consequences for the organization.

Example: Imagine a manufacturing plant that produces custom furniture. Orders are received faster than they can be processed, so partially assembled furniture builds up in storage. Each day that items sit waiting, the company incurs costs for warehouse space, additional handling, and labor needed to keep track of the backlog.

Over a month, the costs of storing these stuck products add up to $100,000. Meanwhile, frustrated customers cancel orders due to delays, further increasing financial losses. The time that furniture isn't completed has significant financial consequences for the organization.

Reality: When people or work are stuck, wait time creates hidden costs that compound over time, such as staffing costs, overtime, infrastructure strain, and continued payments to providers. In service systems, these costs aren't as visible as inventory in a supply chain, but they are just as real. The longer work is stuck, the higher the financial and human cost becomes.

6. Bloated Buffers

Assumption: Breaking budgets, projects, or operations into smaller parts might seem like it improves understanding, management, and control. However, this often leads to unintended buffers at every level as teams add safety margins to ensure reliability.

Example: A retail company stocks inventory at each store to meet customer demand. Store managers use forecasting models, but all predictions are imperfect. To avoid shortages, they add extra stock as a buffer. This results in excessive inventory spread across stores—products expire, storage costs increase, and shortages still occur in high-demand areas.

By consolidating buffers at a regional warehouse, the company reduces total inventory, improves flexibility, and better meets customer needs, saving costs overall.

Reality: Breaking systems into too many parts leads to excess as buffers accumulate at every level. Resources are locked into areas where they may not be needed, creating inefficiencies. The "use it or lose it" mindset worsens this problem, as teams spend all their allocated time or budget to retain future capacity.

Managing buffers centrally or at a higher level reduces costs, maintains reliability, and allows flexibility to address variability. Over-detailed processes add not only monetary buffers but also time delays, slowing systems and impacting customers.

7. Misaligned Measurements 

Assumption: Each team or function should define and track their own success metrics, believing that different areas have different priorities. Success is often equated with individual outputs or activities, rather than system-wide outcomes.

Example: Imagine a rowboat with a team of rowers. Instead of rowing at the same cadence and aiming for the same destination, each rower is measured individually based on how many strokes they take or how hard they pull. Some row faster, others slower, and a few row in different directions entirely.

Despite everyone putting in a lot of effort, the boat ends up spinning in circles, wasting all that energy without ever reaching the other side of the lake.

Reality: When teams and functions have conflicting measurements that are not aligned with the organizational goal, they act and behave in opposing ways, pulling the organization in different directions.

Misaligned measurements waste time, resources, and money by creating confusion, duplicating efforts, and focusing on activities that don't drive outcomes. Cohesive, system-wide measurements ensure everyone is rowing in the same direction and focused on achieving shared outcomes.

Four Emotional Causes of Costs

Core Problem: Status Quo Bias

Definition: Preference for the familiar over change, even when alternatives are better.

Emotion Behind It: Leaders feel a deep attachment to what already exists, relying on the comfort of certainty and avoiding the perceived risks and unpredictability of change.

Concepts That Reinforce the Status Quo:

- Loss Aversion: Fear of losing the current state.
- Effort Avoidance: Change requires effort many prefer to avoid.
- Fear of Regret: Anxiety about making the wrong choice.
- Endowment Effect: Overvaluing what we already have.

Author Credit: Studied by William Samuelson and Richard Zeckhauser.

1. Loss Aversion and Negativity Bias

Definition: Fear of losses outweighs potential gains, making it emotionally difficult to cut budgets or reduce programs.

Personal Example: Keeping a gym membership you don't use for fear of it costing more money in the future if you decide to cancel then join again.

Author Credit: Concept introduced by Daniel Kahneman and Amos Tversky, Nobel Prizewinners.

2: Sunk Cost Fallacy

Definition: The tendency to continue investing in failing projects, programs, initiatives, etc. because of previous resources spent, even when stopping would be the better choice.

Personal Example: Sitting through a bad movie because you paid for the ticket. There is a Japanese proverb that explains this idea: if you find yourself riding on the wrong train, get off at the first, available stop, because the longer you stay on, the longer the ride will be back home.

Author Credit: Concept attributed to Richard Thaler, Nobel Prize winner.

3: Hope and Optimism Bias

Definition: Overconfidence in future success, despite past evidence to the contrary.

Personal Example: You start a DIY project thinking it'll take one weekend. Weeks later, it's incomplete, but you keep going, convinced success is just within reach.

Emotion Behind It: Leaders feel driven by hope that "this time will be different," holding onto optimism as a way to avoid confronting systemic issues.

4: Mental Accounting 

A. Fragmented Awareness

Definition: The tendency to categorize money into rigid "accounts" leads to inefficiencies and a lack of holistic decision-making.

Personal Example: You struggle to save money at the end of the month because of scattered expenses like subscriptions, dining out, and small, unexpected purchases.

Without a clear overview, it's hard to understand where your money is going. Rather than looking holistically at your budget, you take on an additional shift at work to generate more income

B. Default to More

Definition: Seeking new funding instead of addressing inefficiencies in existing budgets.

Personal Example: You keep paying for an expensive cable package because it feels like a fixed cost, even though you rarely use it. Instead, you add streaming services to access the shows you want, increasing your spending

Author Credit: Concept by Richard Thaler, Nobel Prize winner.

Case Study: USCIS and the ELIS Digital Transformation

In 2011, U.S. Citizenship and Immigration Services (USCIS) set out to replace its paper-based immigration system with a fully digital platform, the Electronic Immigration System (ELIS). This effort aimed to modernize workflows, speed up processing times, and improve customer service, positioning USCIS as a leader in digital government services.

A Challenging Start

ELIS began with an online portal for applicants to upload documents, marking the agency's first move away from paper forms. However, the system didn't integrate well with backend adjudication processes. Submissions often came in incomplete or incorrectly formatted, requiring staff to fix them manually.

To improve efficiency, USCIS adopted a task-based model, splitting cases into smaller parts for workers to handle individually. Instead of speeding up processing, this approach caused inefficiencies as workers handled fragmented tasks without full context. This led to repeated work, delays, and more errors.

Mounting Problems

Facing these challenges, USCIS shifted strategies, hiring multiple contractors instead of one and adopting Agile development to accelerate improvements. However, coordinating multiple contractors was difficult, and earlier work had to be reworked, delaying progress further.

By 2017, ELIS's cost had soared to over $1 billion—double the original $500 million estimate. Despite this, the system still wasn't functioning smoothly. Applicants struggled with frequent glitches, and adjudicators found the tools slowed their work instead of improving it.

Costs and Consequences

The promised faster service never materialized. For example, family-based green card processing times increased from 9.3 months in 2014 to 12.9 months by 2021. The task-based approach often caused bottlenecks, slowing progress further.

USCIS's operating costs also increased. Staff had to toggle between old and new systems, reducing efficiency. Leaders tracked metrics like digitized forms and Agile sprints but didn't focus on reducing errors or speeding up decisions.

Fragmented Development

ELIS's development was fragmented. The online portal, adjudication tools, and backend systems were created separately, leading to inefficiencies. Adjudicators often worked on isolated tasks rather than focusing on completing applications, further increasing delays and costs.

A Missed Opportunity

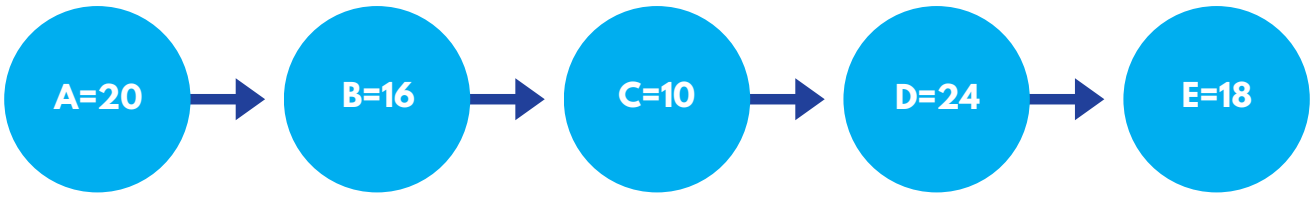
By 2019, ELIS had cost over $3.1 billion. While some forms were digitized, the system added complexity instead of simplifying processes. Many applicants still relied on paper forms, and adjudicators often returned to manual workflows when ELIS tools didn't work.

ELIS failed to modernize immigration processing as intended. Instead of providing faster, more accurate decisions, it introduced new problems. The focus on internal metrics over meaningful outcomes left applicants and staff dealing with rising costs, delays, and inefficiencies.

Systems Thinking

"The performance of a system is not the sum of the independent performances of its parts, but the product of their interactions."
Dr. Russell L. Ackoff

Figure A



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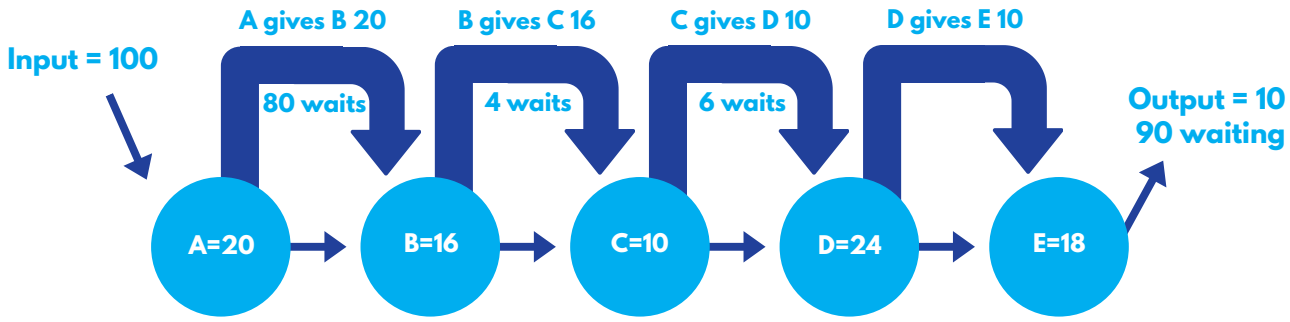

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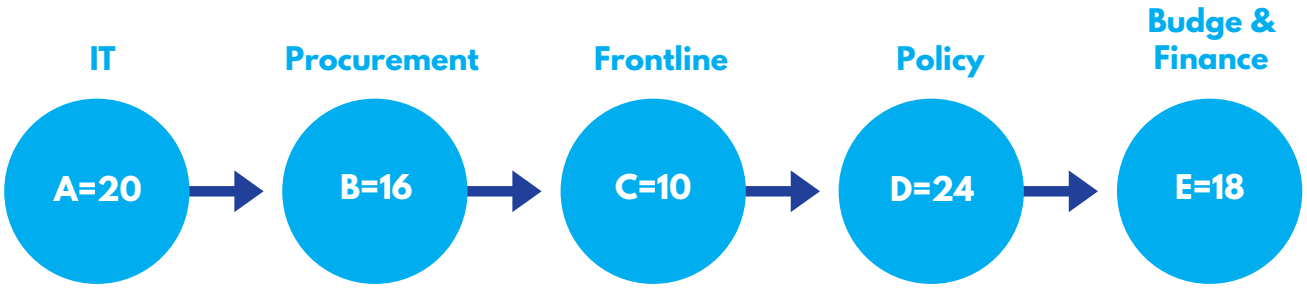

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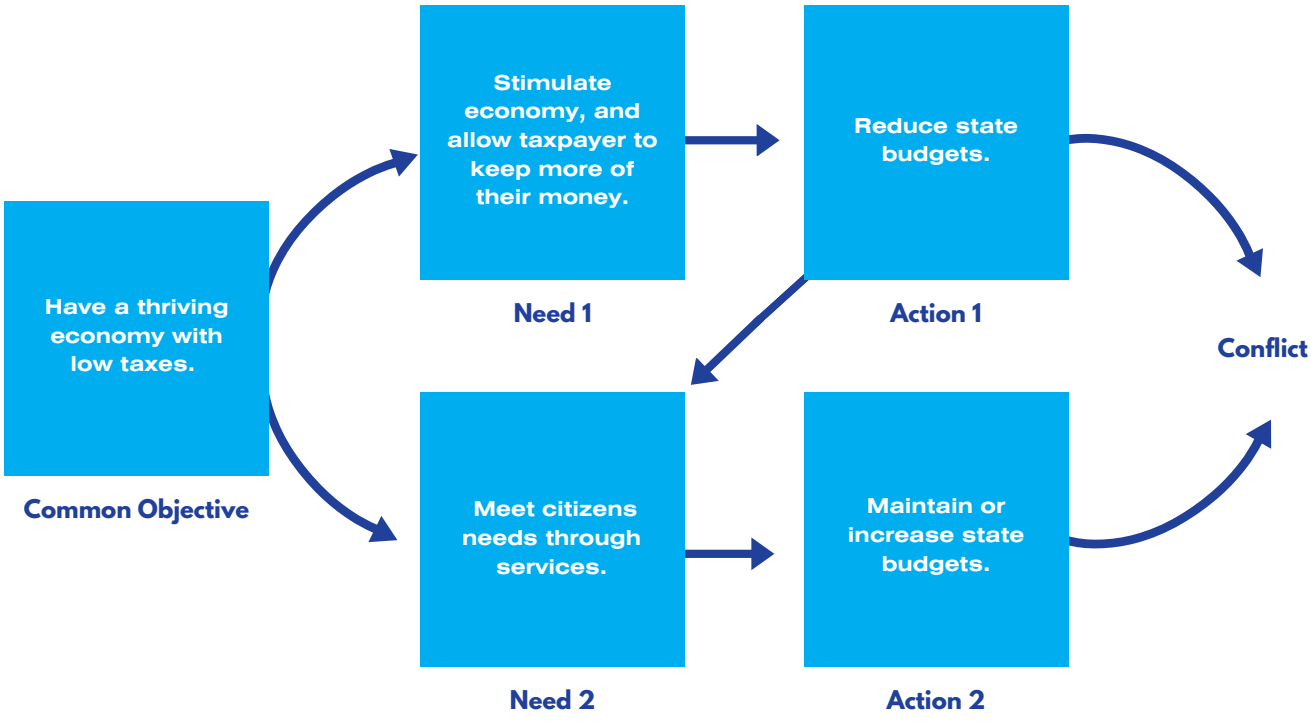

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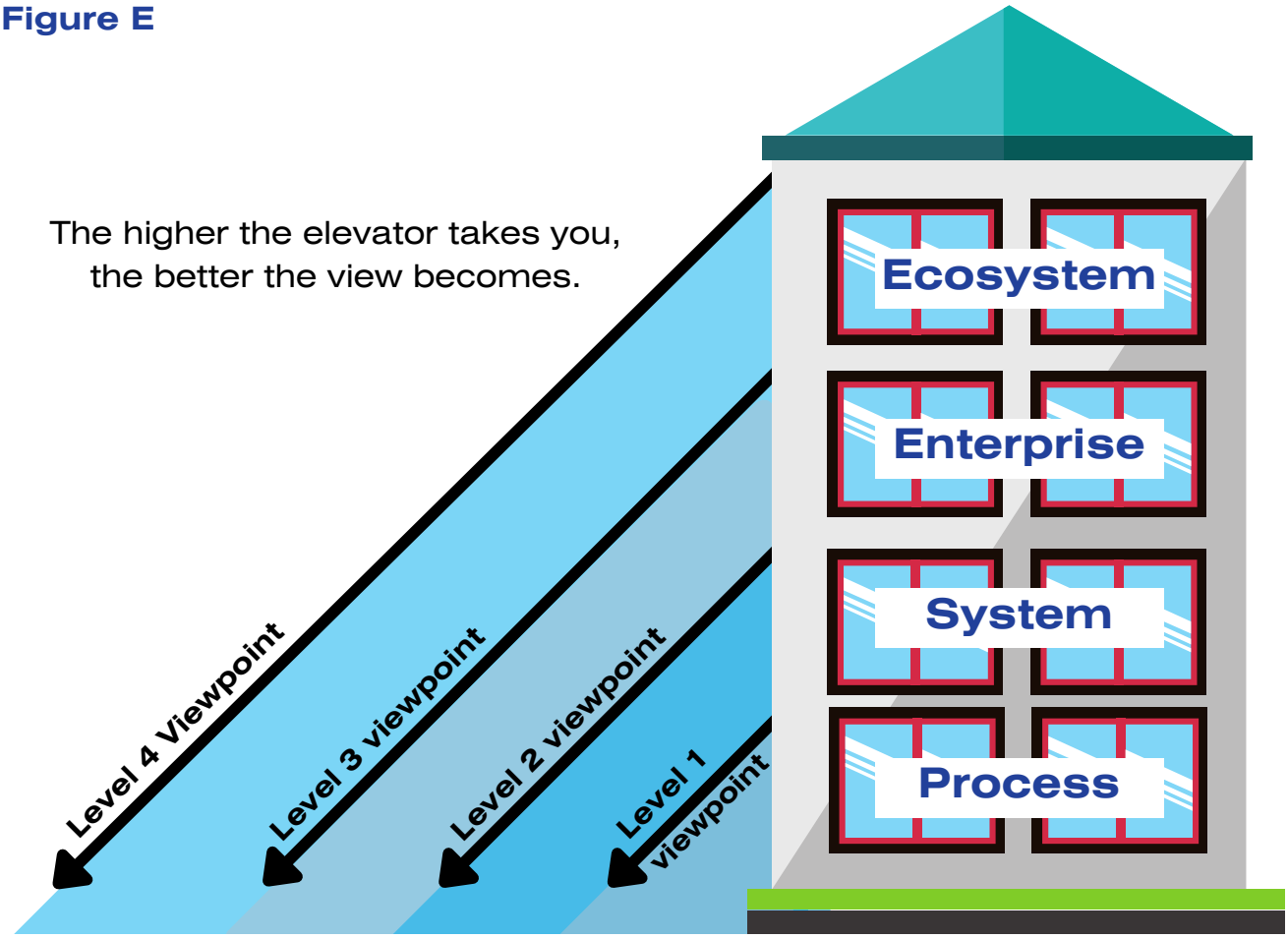

Five-Question Framework

Who is your primary customer?	Address the wrong goal
What is their primary need?	Address the wrong goal
Why can't we meet this need today?	Address wasted effort
What's the problem in execution?	Address desynchronized operations and bloated buffers
How do we know if we're performing?	Address misaligned measures