



London, September 2008

## Market Research: Operational Excellence in European Banks 2008

Venturehaus has completed its 2008 annual market survey on the development of Operational Excellence in the top 20 European Banks, with a comparison to 15 of their global peers from the US and Asia. Virtually all of the banks have continued to increase their activities and focus on achieving Operational Excellence since the 2007 survey, and only 4 of the 35 institutions included in the study demonstrate little or no discernible evidence of major commitment in this area.

### Operational Excellence in banks

The achievement of Operational Excellence is a core component of an organisation's strategy, designed to support and enable corporate business objectives in delighting customers whilst also serving the requirements of other stakeholders, such as shareholders, regulators and employees. In financial services, this invariably involves the consistent management of the inter-dependent, ever-changing, and often conflicting, requirements of service improvement, cost containment and risk management. Operational Excellence is neither a discrete change programme nor a management initiative; it is a business-as-usual approach to instil a culture of effective business management on an ongoing basis across complex organisations. Where successful, it delivers exceptional service at optimal cost and with manageable risk. It also helps an institution to achieve operating leverage, whereby the organisation creates a scalable platform for growth and a capability to "do more for less" equally well across all three areas of service, cost and risk.

*(For further details, see Venturehaus' paper: "Instilling a culture of Operational Excellence and the discipline of Process Management to achieve consistency in Customer Experience in banking organisations", published September 2008)*

### Assessment criteria and classification

In rating each bank's position, Venturehaus considers the whole bank's organisation against the six key assessment factors proven to have the greatest direct impact on the success of Operational Excellence ambitions. These are: Orientation; Attitude; Capability; Sponsorship; Maturity and Longevity. Each factor has four possible scores (of 1 to 4 points) and the aggregate, weighted scores across all six factors place the respective bank into one of five classifications. The maximum basic score is 24 points and the maximum weighted score is 40.

"Orientation" assesses how Operational Excellence within the bank is positioned: either by the organisation being managed by process on a business-as-usual basis (4 points); or by a programme specifically focussed on business results (3); or by a programme specifically focussed on improvement methodology (2); or by a programme specifically focussed on particular improvement tools (1). "Attitude" describes whether Operational Excellence is "the way we run our whole business" (4), ranging down to "the way we fix one-off problems" (1). Capability denotes whether the pursuit is group-wide (4), or is separated by division (3), function (2) or department (1). Sponsorship evaluates the level within the organisation at which Operational Excellence is actively managed, from Board Level (4) to Middle Management (1). Maturity determines whether the activities can be regarded as mature,

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established, lacking traction or just the result of curiosity. Finally, longevity rates the bank's achievements in terms of likelihood to continue as sustainable, capable, replicable, or simply hopeful.

Classification is made on a comparative basis: rather than necessarily confirming that a bank has or has not achieved the ultimate goal of Operational Excellence, the classification rates the bank relative to the others in the survey. The "Global Leader" classification is awarded to banks achieving more than 35 points out of the possible 40, denoting that they really lead the field. "World Class" describes those with more than 30 points, demonstrating that they are amongst the very best internationally, and are very close to catching the Global Leaders. "Professional" is awarded to those with more than 25 points, indicating that they are taking the pursuit very seriously. "Aspirant" will usually signify a bank which has either only recently embarked on the journey or where the activity is not yet widespread across the organisation. "Unrated" is assigned to those banks which either appear to be doing little in this respect (or if they are not, they are keeping it very secret) and/or where activity is too short-lived to be assessed.

### **Key findings**

Of the 35 institutions studied in 2008, 4 are classified as Global Leaders, 6 as World Class, 16 as Professional, 5 as Aspirant, and 4 were Unrated. All 4 Global Leaders are US banks, as in 2007, as are 2 of the 6 World Class organisations, which this year also includes 2 European banks and 2 from the Asia Pacific region. However, half of the US banks included in the survey have scored lower in 2008 than in 2007, perhaps as a result of the major disruption caused by the sub-prime crisis and subsequent market pressures. This has not yet caused any of them to slip a notch in the overall classification, but there are signs, for example at Citibank and JP Morgan Chase, that the focus has shifted away from Operational Excellence, which could therefore lead to a different result next time around.

Of the top 20 European banks, none are yet Global Leaders, and only 2 are World Class, with Royal Bank of Scotland Group making the leap up from Professional this year as a result of the further expansion of the "WorkOut" programme. However, 13 achieved the Professional classification and 2 have been accorded the Aspirant title. More significantly, many of those with the Professional classification are very close to attaining the World Class level and are likely to do so next time.

Virtually every bank in the survey showed improvements in scoring within the Orientation and Maturity categories, as Operational Excellence begins to take a more tangible hold and achieve greater support within their wider organisations.

Notable increases in overall scores have been recorded by many of the Europeans, for instance by BNP Paribas, Credit Suisse, Barclays, Deutsche Bank, HSBC, HBOS and UBS. Commerzbank and UniCredit have now also begun to feature in the rankings too.

Progress among the banks from the Asia Pacific region, with the exception of the Australasian banks, continues to lag the US and Europe, but some institutions (for example in China and India) are joining their Western counterparts in launching initiatives and programmes to begin to embed Operational Excellence into their organisations and their business approaches.

### **Conclusion**

The pursuit of Operational Excellence is a long-term undertaking, with arguably the ultimate goal always remaining just beyond reach. Banking institutions do not therefore suddenly appear on the Operational Excellence radar overnight. Instead, constant and consistent progress over several years is generally necessary before it becomes evident that a particular bank is genuinely dedicated to this pursuit.

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For a long time the classifications have been led by the US institutions, followed, primarily, by banks from other English-speaking regions (e.g. UK, Australia). These positions are, however, now clearly being coveted by European banks, with banks in Asia also beginning the chase. It is likely that next year the Global Leader class will also include European banks which will become the new examples to follow.

Operational Excellence may have first grabbed the headlines in the US (e.g. with GE and Bank of America) but it has progressively travelled East and continues to do so, from the UK (Lloyds TSB, RBS, ...) through Continental Europe (BNP Paribas, Credit Suisse, ...) and now to Asia Pacific (Overseas Chinese Banking Corp, National Australia Bank, ...). In this way, perhaps, the focus on Operational Excellence is taking a similar route to many other long-term evolutionary developments in international banking.

## About Venturehaus®

Venturehaus is the market leading specialist management consultancy firm which assists financial services companies in achieving Operational Excellence across their businesses. Venturehaus helps its clients to improve business operations in the areas of service improvement, cost optimisation and risk management. We specialise exclusively on the financial services sector and all of our business focuses on the delivery of Operational Excellence to our clients.

The company has unrivalled expertise in planning, training and deploying Operational Excellence in all sectors in financial services especially in Banking, Insurance and Investment Management and in Shared Services Businesses and Business Process Outsourcing. In addition, Venturehaus is an established training provider to some of the world's leading management consultancies. We apply a combination of methodologies within our own Design for Operational Excellence™ framework, supplemented by our deep operational experience in the financial services industry. Venturehaus delivers value through the achievement of Operating Leverage across the client business and in transferring knowledge and skills to staff within our client companies.

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### Further Research available shortly:

- Operational Excellence in European Insurance
- Operational Excellence across the European Financial Services industries (Banking, Insurance, Investment)

For more information about this or any other research, please email [info@venturehaus.com](mailto:info@venturehaus.com).

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