

Applying Lean and Six Sigma for operational excellence in financial services

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Over the last five years, there has been a rapid increase in the take-up of Six Sigma and Lean within the services sector, particularly in financial services. Naturally the U.S. has led the way, as one would expect, and the financial services industry has become one of the highest growth sectors of the global Lean Six Sigma market. High profile initiatives at institutions such as Citigroup, Bank of America, Merrill Lynch, and JP Morgan Chase have provided the interest and inspiration for others to follow. It is interesting to note that many of the companies now practicing these methodologies in the U.K. and Europe are indigenous companies rather than subsidiaries of a U.S. parent. Recent converts to these methods include a number of British and European retail banks and credit card providers, and we are also seeing an increased take up in investment banking. So, whilst the new flame bearers run onwards along the often rocky road to Lean and Six Sigma driven success, others will be observing and wondering “what is all the fuss about and what is in it for me?”

What is all the fuss about?

Well, it is probably down to the simple fact that the application of Lean Six Sigma methods can work really well and anything that makes companies more profitable is bound to have a phase of popularity. But it is worth remembering that none of this is new or revolutionary. The tools and methods of the Lean and Six Sigma packages have been around individually for decades, primarily in the manufacturing industry. But what Six Sigma gives us is a very neat and coherent ‘management pack’ for conducting our business activities in an improved and more sophisticated manner. After all, business is actually very simple, and if companies do the basics well and maintain a strong focus on their customers and core services they will always be successful. Six Sigma provides us with a means of applying great management practices in a structured approach, but we should never overlook the most powerful tools at our disposal – good leadership, good management, and, of course, common sense. There will be many occasions in any improvement initiative when there is no

need for the sledgehammer to crack the nut, and this tenet holds especially true when it comes to the application of Six Sigma in financial services, as opposed to the manufacturing industry.

“Business is actually very simple, and if companies do the basics well and maintain a strong focus on their customers and core services, they will always be successful.”

Since its emergence in the mid-1980s, Six Sigma has been used primarily in manufacturing, so why is it now relevant to services companies? One could argue it was an evolutionary certainty that the services industry would adopt these methods eventually. Six Sigma was developed to provide a means of reducing common cause variation in business processes – that has to be relevant! There is hardly a financial services business out there in the market today that is not suffering from the effects of uncontrolled variation in one or more of their client-facing processes. Take a look at a typical retail bank – in essence they simply open accounts, receive payments in, and make payments out. As one banker recently said...“how hard is that?” Yet for their millions of customers, they regularly take an excessively long time to conduct the former, force us to wait 3 days for funds to clear, and make a large number of incorrect outgoing payments. In many cases, these companies need a new approach to service and operational improvement that will enable them to better serve their customers.

“...Beneath all the ‘razzmatazz’ of the front offices in these organizations lies a maze of (often manual) operational processes...”

A core theme of the Six Sigma concept is centered on the idea that all activities we conduct in business are processes, and every process has inherent variation. Whilst it is easy to view a production line in a factory as a process, it is harder for many of us to identify discrete processes within a financial services business. Yet the financial services industry is built on them and beneath all the ‘razzmatazz’ of the front

offices in these organizations lies a maze of (often manual) operational processes. The insurance sector is a good example. For years its members have led us to believe that the industry is highly complex and shrouded in mystery, but when one breaks it down the underlying business is built on 3 core processes – risk placement, claims, and settlement.

Aligning to business processes and the client experience

Moving down a level, it is typical to find a financial services business structured hierarchically around operational departments and functions. Whether it is the underwriting department, credit, cash operations, billing, payments, or any other function within a financial institution, they nearly always exist as a discrete vertical unit. Yet processes always flow horizontally from the first point of customer contact through the sales process and onwards through service delivery to ongoing relationship management. More than likely the process will flow through 4 or 5 lines of management responsibility and each handoff in the workflow increases the cycle time and the chance of a service failure. As customers we do not care if 9 internal departments are meeting their internal SLAs of same day turnaround, we only see the provider taking over 3 weeks to execute a simple transaction. Hence a primary root cause of variation and subsequent customer dissatisfaction is the fact that the provider is delivering the service as a series of separate tasks – loosely linked – rather than as an end-to-end process.



Figure 1 - Traditional departmental infrastructure

Figure 1 provides a sample of a typical operational structure in a retail financial services company, where the business is traditionally built around functions and departments. Whilst this provides no shortage of 'ladder climbing' opportunities for management and staff, it does not necessarily represent the best model for a client-centric service delivery.

This is an area of business thinking where the Six Sigma approach is offering financial services companies an opportunity to rethink their operating model to improve their capability in delivering end-to-end services to their customers. Some companies have already moved to a model broken down into core processes, aligned to the customer experience, such as 'enquiry to order,' 'order to remittance,' and 'billing.' If we were to apply this thinking to the business described above, it would look considerably different from the status-quo ante (Figure 2). The key point is that the business would be aligned to the 'moments of truth' – those interactions with the customer when they experience the service and make a judgment upon it.

Most importantly, the management structure of the business should also be realigned. This is a radical departure from the traditional 'head of department/function' model, but one which can make a significant difference to the customer experience.

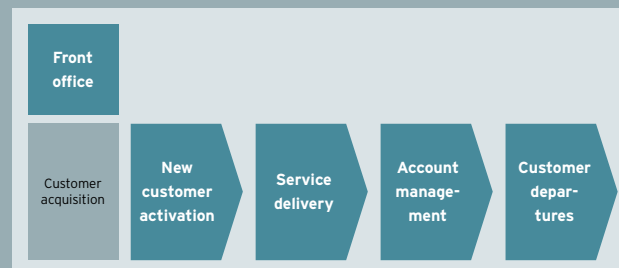


Figure 2 - End-to-end process alignment

“Surely...one of the most important and high profile management positions in any services company should be the end-to-end owner of the new customer activation process?”

To illustrate this point, consider the following. Whether a bank, building society, mortgage lender, insurer, or investment manager, each new customer's first experience with a financial services provider is the account opening process. If the process goes well and the human (or even technological) interaction with the provider is impressive, the customer will come on board with greater loyalty and commitment. They will accept more service failures later on before they depart to another supplier. They will tell their friends and colleagues about the experience – after all, it is quite unusual to get exceptional service in this area! On this firm foundation, the provider is more likely to achieve the opportunity of successfully cross-selling additional financial products. Of course, it goes without saying that if the experience is poor, the impact is far greater, but in reverse. Surely then, one of the most important and high profile management positions in any services company should be the end-to-end owner of the new customer activation process? This position would have a significant impact on a company's growth and profitability. But does it even exist?

Six Sigma or four?

As we are all customers of numerous financial services providers, we should all be familiar with the characteristics of the market today. Regulatory change has made it easier to understand and compare financial products. Dissatisfied customers are a common phenomenon. Worse still, they are becoming increasingly sophisticated! The Internet has made it easier to compare prices/rates/fees/premiums/benefits, which means that it is simpler to invest/apply/insure and switch service providers. The companies who achieve operational and service excellence in their customer facing processes will be the winners in the longer term. But there is absolutely no need to strive for the level of Six Sigma to achieve this. This is one of the most important differences between services and manufacturing. In production processes, it is natural to strive for

zero defects. Anything less can be costly to both profitability and brand reputation. However, in many cases within the services environment, this level of accuracy is not required. Whilst providers would want to achieve Six Sigma in the accuracy of bank statements or reconciliations, these are often not the problem areas that lead financial services companies to adopt Six Sigma. It is in processes, such as account opening, credit card, or ISA applications processing and policy renewals that service levels are typically below par. If a financial services provider could achieve Four Sigma (99.4%) in its primary customer facing processes, it would undoubtedly dominate its market.

“If you want to change the process, you have to persuade the people!”

Whilst this conceptual thinking may make a strong case for adopting Six Sigma methods within a financial services business, it is never going to be that simple. Financial services companies may be built around processes, but in the majority of cases these processes rely on people. People provide the inputs, conduct the processing, and produce the outputs. This has a number of implications. Firstly, the inputs to the process are often incomplete and inaccurate. Secondly, there is a high likelihood of human error and Spanish customs within the transaction processing. Lastly, and most importantly, if you want to change the process, you have to persuade the people!

So how do financial services companies guarantee success when choosing to follow a Six Sigma path? It is seldom that we hear of manufacturing companies who have failed spectacularly in their Six Sigma programs. Yet it is not uncommon to hear of service businesses where the initiative has failed to get off the ground and achieve the commitment it requires to succeed. This has caused a fair level of skepticism among senior financial executives and has deterred many companies from adopting the method.

To help answer this question, it would be prudent to consider the following principles when embarking upon the Six Sigma journey.

The 10 commandments for Six Sigma in financial services

1. Listen to the voice of the customer

Six Sigma is a method for improving quality by removing defects and their causes in business process activities. The method concentrates on those outputs which are important to customers and translates these customer needs into measurable requirements, the so-called CTQs (critical to quality). Then we strive to ensure that process performance meets or exceeds these requirements. In order to understand and define these requirements, we have to listen to the voice of the customer.

2. Start with the 'what' not the 'how'

Many companies are led to believe that Six Sigma is the answer before they have posed the question. It is imperative to start by defining what it is that the business wants to achieve. Then decide how you are going to get there. If Six Sigma is an appropriate means, then use it – it is a great approach. But a clear and meaningful operational strategy is the starting point and that drives everything that follows.

3. All projects must be aligned to the strategy and priorities of the business

In defining the operations strategy, the business should conduct a rigorous operations review, identifying risks, problems, opportunities, and recommendations, and assigning real cash values to them. This drives priority in the selection of projects, and also in the selection of appropriate methodologies and practices for each. At this stage the appropriate tools and training can be properly deployed. Experience has shown that few companies have been successful when they simply launched into DMAIC projects as soon as a corporate decision has been made to implement Six Sigma. This is because the head-first launch into DMAIC does not allow for appropriate and deliberate project selection. The net result is that companies invest fortunes in training for, and working on, the wrong projects.

4. Remember that Six Sigma is a set of tools, not a strategy

Start with the realization that Six Sigma is not a strategy – it

is a set of methods and tools. Six Sigma is an approach to solving problems and encompasses three elements: a philosophy of putting the customer first and defining the service levels expected by the customer, a structured project management method (DMAIC), and a statistical means of measuring process capability. It is no substitute for a coherent business strategy and it does not matter whether all your processes operate at Six Sigma. If your strategy is flawed it will kill your business.

5. Launch your initiative in a manner consistent with your company culture

Many of the most successful recent case studies of Six Sigma deployments in financial services organizations have achieved their success by adapting the approach to the cultural environment of the company. We are all aware that Six Sigma is a proven methodology for business improvement, but that does not guarantee that it will work each time in every business. Furthermore, companies are becoming more discerning about the advice they take in this field. Fewer European companies are falling for the 'Do it the GE way with a company-wide roll-out' routine, as proposed by many of the Six Sigma training and consulting companies. Such an approach is high risk, excessively expensive, and very difficult to manage on a company-wide basis. A greater chance of success and cultural acceptance is achieved when launching by stealth. Companies should select a few high profile and high impact projects, train only the required number of resources, and focus on achieving tangible results and stakeholder support. Then it is time to consider a wider role for Six Sigma across the business.

6. Apply Lean value analysis to your training curriculum

If service companies do choose to implement Six Sigma, they should be very selective about any element included in their programs and should not accept the conventional view that every aspect of Six Sigma is applicable or necessary in every circumstance. Take a look at a typical Six Sigma training curriculum and ask the tough questions – is much of this really necessary in a financial services environment? The answer is

no, not always. By training staff in only those specific elements of Six Sigma that are relevant to their industry, service businesses can avoid the lengthy training programs available on the market, which are sometimes more academic than practical, and which have been derived predominantly from non-service environments.

In financial services, initial Six Sigma training to get a Blackbelt up and running can be successfully and effectively achieved in days, rather than weeks. This can be further supported as necessary with specific coaching during actual projects, so that Blackbelts learn from real experience. A primary reason for this is that not every Blackbelt needs to be an expert in Minitab. Whilst this statistical software plays an important role in data analysis and the production of high quality dashboards, it can be a supporting function provided by a team of business analysts, rather than expecting every project leader to be an advanced statistician. In this industry, it is the soft skills that make the difference.

Finally, training and coaching should be delivered by experienced and highly qualified service industry practitioners, whose business and industry sector expertise is both personal and current. Consequently, the case studies they present during training will be up-to-date, directly relevant, and culturally appropriate. Training which is delivered around industry specific process simulations, such as customer account opening, has proven to be an extremely effective way of transferring appropriate levels of Six Sigma expertise in this sector.

7. Measure what you need, not just what is available

One of the many challenges faced by financial services companies is the availability of clean, relevant, and accessible data. How often do we see managers poring over call centre telephone measures because it is the only data they can get their hands on! In many cases we find managers looking at spreadsheets with aggregated data, offering measures that do not really offer much relevance to the underlying process capability or performance. Likewise we find a plethora of

internal service level agreements, often relating to staff productivity metrics, because supervisors and managers feel uncomfortable without them. But should we really care how many minutes per day a clerk has spent keying in data or in team meetings? Surely it would tell us more to look at measures such as underwriting performance, claims leakage, application backlogs, reasons for input errors and cycle time measures against customer specifications, and client-centric service levels?

It is never easy to access relevant data at a transactional level and often takes some moving of mountains to achieve. However hard the effort and determination required, the end result is worth it. Following the Six Sigma approach of defining CTQs, developing data collection plans, producing operational definitions of the key measures, extracting and cleaning the data, and designing client-centric process management dashboards will prove invaluable in achieving operational excellence and meeting customer expectations.

8. Thou shalt not look at averages (...or traffic lights, RAG ratings, etc.)

Lack of normal data is a fundamental difference in applying Six Sigma's structured and data-driven approach to service businesses. We, therefore, have to find other ways of coping with the existence of non-normal data. Additionally, operational managers in financial services tend to be less familiar with statistical thinking. Looking at the end-to-end process and process variation is often a departure from the ubiquitous traffic light indicators and performance measures derived from aggregated data. However, the customers feel the variation, not the average. The average, or mean, is sensitive to outliers, especially in smaller volume situations, which can skew the value significantly and produce a very inaccurate indicator of the customer experience.

A first step should be to define and monitor relatively simple indicators for the central tendency and the variation of the process. With non-normal datasets we should be concentrating on the median rather than the mean. If the mean is sig-

nificantly different from the median, this is a clear indication that there are big outliers within the data and/or that the distribution of the data values is skewed. To measure and manage the variation in a service process, it is advisable to look at percentiles. Monitoring the difference between the quartiles (Q3 – Q1) or even the P95 – P5 interval are good indicators of how the variation around the centre of the process behaves over time.

9. Remember...it is a 'people business' and it only takes two to make politics!

In a manufacturing process it is possible to hire a post-graduate with a technical background, give them 5 weeks of Six Sigma training (much of which will cover statistics and Minitab software training) and voila! One trained Blackbelt. Yet in financial services it is more akin to young marines leaving training and heading off to Vietnam. They need to know the basics but they are only really effective once they are six months into a tour of duty. Even manufacturing companies that are experienced in the successful deployment of Six Sigma in their production and design operations are not getting comparable results when they use the same approach to tackle their non-manufacturing transactional and administration areas.

It is not really possible to train and prepare someone for the organizational, cultural, and political challenges they will face as a Blackbelt in a service business. Likewise how can a financial services master Blackbelt be trained in a classroom? If you need a statistical coach, hire one or send someone on a university course. Blackbelts in this industry need a manager or coach with meaningful commercial experience, who has fought the cultural and political battles involved in implementing Six Sigma projects in a people-based business. There is only one way to gain that knowledge.

10. The 'sustainability' of the change is as much a factor of the 'acceptance' as the 'quality' of the solution

In a financial services environment there are often opportunities to make immediate common sense changes when the

solution seems obvious. Alternatively a team may have spent months on a project and developed a process and organizational solution that will transform process capability and performance against customer expectations. However obvious that change may be, it is worth remembering that the implementation will involve new staff working practices and possibly the removal of age old habits. It can pay dividends to employ the motto – 'go slow to go fast' – ensuring that the staff involved in the solution have developed a shared need for change and the project team has achieved the necessary 'buy-in' and stakeholder support to gain a good level of acceptance in the business.

So where next for operational excellence in financial services?

From 2000 to 2003, with the economy and markets in a state of depression, many financial businesses focused actively on cost reduction programs, but since 2004, the uplift in economic conditions has led to a noticeable shift in focus from cost cutting towards service enhancement and improving the customer experience. There is likely to be a continuing change of mindset in the financial services industry towards process orientation and understanding processes end-to-end from the customer's perspective. Furthermore, executives have recognized the value of these approaches in ensuring managers make better decisions – decisions based on fact and empirical analysis, rather than assumption and gut feel. With a strong focus on operational risk, and with many retail financial services institutions suffering from heavy bad debt losses in 2006, the ability to rely on data and strong analysis in the underwriting and management of credit is becoming an increasing priority.

The move to Lean

Another trend becoming apparent has been the move towards Lean – the operational approach, based on the Toyota production system, of removing waste and focusing on value. Unlike Six Sigma, which relies more on a top down and infrastructure-based deployment model, Lean is generally driven 'bottom up' by the operational staff. Lean is less

'methodology and tools' and more 'principles and approach,' hence it provides companies with a powerful means of empowering staff to change business processes and culture in a relatively simple and common sense manner. It requires considerably less training, and hence is generally self-funding as an initiative from the start. Through a series of 'Kaizen events,' companies are able to identify and implement process improvements within rapid timeframes (action plans of less than 8 weeks) as opposed to more time consuming Six Sigma projects (3 to 6 months).

Conclusion

Consequently, it would be fair to conclude that Lean and Six Sigma are destined to gain further traction in the financial services industry in Europe, but in the context of a growing realization that in service and transaction businesses it is truly a different ball game. Companies deploying Lean and Six Sigma methods are becoming increasingly knowledgeable and thoughtful of how they should launch their improvement programs, supported by the growing number of successful case studies in this sector that have steered a different path to the traditional company-wide Six Sigma roll-out. As was so often said at GE, these are great management practices which should be integrated into business as usual. In financial services – Lean Six Sigma should simply be the way we work.