

## Too big to fail, too slow to change?

Until recently big was considered beautiful in financial services but today the increasing pressure is to be fast and Lean.

Until very recently too big to fail was the byword for our financial institutions. How times change! If we go back to the 70s we saw Rolls-Royce and British Leyland bailed out for the same reason. Thirty years on, one is a world class global player in its marketplace and the other has disappeared off the map. Where once the largest factory in Britain stood, now there is a small Chinese-owned sports car plant, surrounded by acres of land up for redevelopment. Too big to fail is not forever. In 2010 governments around the world are seeking to break up large financial institutions, limit bonuses and introduce new legislation to limit "irresponsible risk-taking."

The ability to change quickly appears to be inversely proportional to size – like turning an oil tanker. These behemoths have every legacy system known to man and all the new ones as well! Financial services customers are increasingly complaining, not about the product themselves, but about the service that they receive – it's too slow, too inefficient and too impersonal, or there are too many mistakes. The threat is that, like the national airline carriers, their size allowed the low cost airlines to enter the market and offer a viable alternative that wrong footed the slower, legacy burdened carriers. Mobile banking and new entrants such as Metrobank, Tesco and Virgin entering the 'narrow banking', with a clear value proposition, could change the landscape completely over the next few years. And it's not just the banks who are feeling the pinch. Insurers, who for years have worked through brokers, realise they too have to get close to their end customers to convince them of the value of their offerings.

Scratch beneath the surface and what you realise is that, where management loses sight of their business processes, there are the potential causes of failure. It is a general rule that the larger a company is, the more distanced management become from their customers and the processes by which customers' needs are met. So how can methodologies that started in manufacturing, such as Lean Sigma, help in the complex service and administrative environment found in financial services?

Bourton Group demonstrates that applying Lean Sigma techniques can be used both strategically and tactically to service based and administrative functions to focus on the customers, and can shorten lead times by up to 60% and reduce errors by, on average, 25% and in some cases as much as 87%. This paper focuses on the short cycle improvements that the institutions need to implement this year if they wish to improve those processes that are subject to regulatory reforms and customer dissatisfaction, at the same time as deleveraging and managing post merger integration.

### Taking the right approach

So where to start? Tackle areas that touch the customer first, i.e. customer service, statements, sales, account opening and so forth. Applying Lean Sigma principles will pay immediate dividends in terms of

customer goodwill and even sales. The second target area is in administration. Many administrative functions consist of activities such as document handling where Lean Sigma can be utilised to improve flow, efficiency, quality and profitability. Keep in mind that with administrative functions you are not dealing with machines but with people and systems, so there is a different agenda along with different challenges.

Efficiency may not be the primary driver of the administrative processes. Convenience, historical precedent, inertia and lack of training are all possible reasons why administrative processes may be inefficient. Unlike manufacturing, waste in administrative areas is harder to see and the benefits of adopting new processes are less clear-cut at the outset. Results may also take longer to show up, as total adoption to a new process may take longer to achieve. Unlike machines, people may be more wedded to existing processes and find it harder to change. On factory floors the proportion of genuine value adding work is about 40% in Lean environments, but in administrative functions it is typically 10% or less. This is largely because administrative processes have seldom been specifically designed for the purpose. They are usually a combination of historical precedent, technical requirement, staff skills, regulatory need and staff morale. In Bourton Group's experience, administrative processes that have been designed specifically from a customer need perspective are in the minority in most businesses, especially service based ones.

A combination of a decline in the training of administrative staff and a lack of focus on administrative activity means that in many companies administration is the single biggest opportunity for cost saving but also the hardest area in which to achieve significant, sustainable and measurable improvement. The key to success is to adopt the right approach from the outset. It is essential to be able to demonstrate confidently how Lean Sigma concepts will add value to what they do. An ability to gain consensus across functions and levels will also help.

### Selecting the right tools

Lean Sigma, a combination of Lean and Six Sigma techniques, is ideal for solving problems in administrative and service environments. Lean tends to focus on areas of processes that impact customer value, value stream, process flow and waste, whilst Six Sigma is primarily focused on eliminating process variation. For example, Lean would be utilised where there are multiple handoffs and lots of lost (idle) time between activities; Six Sigma would be adopted where there are multi-variable and data rich processes. As an example, take an insurance company managing claims. The benchmark was that on average claims should be answered within 5 days. The processes were meeting this standard, but once we examined the process in more detail things were not so rosy. Variation was huge; some claims took only 2 days whilst others took up to 90 days. The process rewarded speed and took no account of importance. Consequently employees focused on easy to resolve claims of low value, leaving larger more complex claims unanswered. The process measures focused on activity and speed of resolution, not quality of outcome, customer satisfaction and cost of resolution.

The table below shows the differences and overlaps between Lean and Six Sigma:

	Six Sigma	Lean
<b>Framework</b>	<ol style="list-style-type: none"> <li>1. Define</li> <li>2. Measure</li> <li>3. Analyse</li> <li>4. Improve</li> <li>5. Control</li> </ol>	<ol style="list-style-type: none"> <li>1. Customer Value</li> <li>2. Value Stream</li> <li>3. Flow</li> <li>4. Pull</li> <li>5. Strive for Perfection</li> </ol>
<b>Focus</b>	<ul style="list-style-type: none"> <li>▪ Problem Focused</li> </ul>	<ul style="list-style-type: none"> <li>▪ Flow Focused</li> </ul>
<b>Primary Effect</b>	<ul style="list-style-type: none"> <li>▪ Reduced Variation</li> </ul>	<ul style="list-style-type: none"> <li>▪ Reduced Flow Time</li> </ul>
<b>Secondary Effects</b>	<ul style="list-style-type: none"> <li>▪ Reduced Flow Time</li> <li>▪ Reduced Waste</li> <li>▪ Less Inventory</li> <li>▪ Improved Quality</li> </ul>	<ul style="list-style-type: none"> <li>▪ Reduced Variation</li> <li>▪ Uniform Output</li> <li>▪ Less Inventory</li> <li>▪ Improved Quality</li> </ul>

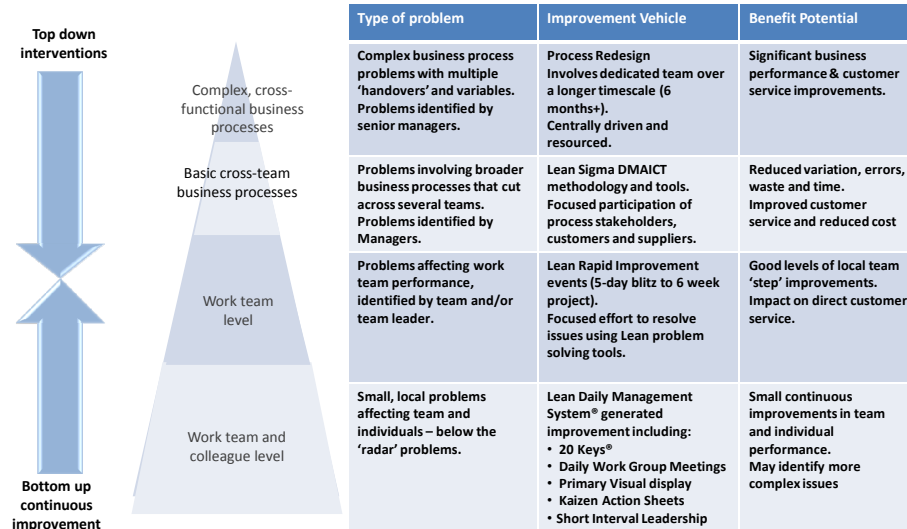
By applying Lean Sigma techniques it is also possible to identify bottlenecks in the processes. For example, claims of a certain amount had to be approved by more senior managers who were often not available, or did not fully appreciate the cost to the business of delaying or stockpiling claims, until it was convenient for them to review them. Workflow was then affected by a sudden influx of approved claims, customer satisfaction was affected by unnecessary delay, and cash flow was affected by the sudden appearance of larger claims arriving in accounts for payment. As was the case here, the impact of a poor process can be felt in areas of the business that are far from the origin of the process failure. That is why it is important not to define the scope of your project too narrowly. Another example was where some high volume printers were always short of capacity. Lots of measurement went into uptime and reasons for downtime (i.e. OEE measures) when the real question that should have been asked was ‘why are they printing so many pieces of paper’. It turned out that lots of the output was from the internet and other software programmes that should have been paperless transfers. This is a classic example of ‘good solution, what’s the problem?’ To be successful, process improvement programmes need the backing and co-operation of senior managers and to get this they need to be able to show results pretty fast!

### Accelerating improvement and demonstrating success

Some people are put off from embarking on improvement activities because of previous stalled initiatives and the length of time to prove and realise benefits. In order to gain confidence you sometimes need to undertake a ‘demonstrator’ project to win over the sceptics. Bourton Group has developed an approach with its clients that blends the best of Lean and Six Sigma, delivering results within a 6-9 week period.

The framework below outlines which approach is best suited to resolve a particular type of problem.

Process Improvement Engine



### Tackling complex business process problems

If the nature of your business problem requires radical process and organisational redesign, then it is likely that you are dealing with complex business process problems. They are probably of strategic importance and contain multiple handovers and many process variables. Projects of this type and scale should have a dedicated team, centrally driven and resourced, as they will probably need to work across many different functions and departments.

Other features of process redesign are:

- Project-based – it is a finite exercise carried out over a specific timeframe
- Methodology – it follows a step-by-step approach
- Tools and techniques – proven ways of working through the methodology and overcoming obstacles
- Team-based – using the expertise and experience of key stakeholders who know, work in and understand the process
- Requires data and information – does not rely on pure opinions for solutions
- Focused on reducing waste and variation – typically the root causes of errors, cost and delay
- Roles – requires people to undertake specific roles such as Sponsor, Facilitator and Team member

For most people, however, what they are looking for right now are benefits that are 'bankable' within the current year, and this is where Lean Sigma approaches can really win.

## Delivering benefits quickly

If you feel a 'demonstrator' approach, to win over sceptics and achieve quick wins, is required then a process or rapid improvement event would be the preferred option.

A Rapid Improvement Event is a short cycle, time bounded, improvement methodology where the core improvement activity takes place over a timescale of generally up to 4 weeks. This approach is used to address problems, issues or opportunities within the bounds of an organisation and can be used for processes confined to individual work teams, or cutting across multiple work teams.

The overall approach that Rapid Improvement Events follow is illustrated below:

The pre-scoping meeting ensures the project is well-bounded and defined, which enables the work to get off to a good start. The key output here is 'clarity' of objectives, benefits, responsibilities, scope and timescales. The team then need to be prepared and trained to participate in their specific type of improvement event. The scale of the training will be driven by the type of improvement identified.

Rapid Improvement Event team training usually covers:

- Providing an introduction to Rapid Improvement Events
- Understanding waste and improvement potential
- Specific improvement tools and techniques (as required by the specifics of the improvement event) which may include tools such as: 5S, Process Mapping, Plan Do Check Act, DMAIC etc.
- Simulation exercise to allow the team to 'practice' process improvement 'off-line'

The scoping workshop provides an opportunity for the complete improvement team to meet, review and assess the specific improvement activities they are embarking on.

The specific activities undertaken during this workshop are:

- Review and confirmation of the project scope (Quad of Aims)
- SIPOC exercise
- Development of a high level process flow map
- Confirmation of the boundaries of the exercise
- Definition of data requirements and accountabilities for data collection
- Confirmation for the operating logistics for the core improvement event itself (locations, timings, start-finish times etc)

Rapid Improvement Events can also focus on the physical, working environment improvement rather than process based improvements. In these cases, the confirmation of boundaries is achieved simply using a layout drawing to confirm the limits of the exercise rather than SIPOC and high level process flow mapping.

### Data collection

A period of time needs to be allowed for data gathering, collection and, in some cases, measurement. This is to ensure that the minimum of time is lost during the Core Improvement workshops trying to obtain base data. This is particularly a risk for Rapid Improvement Events where the limited duration means that any extended time needed to obtain data can seriously damage overall timescales and outputs.

### Core Improvement Activity

The key component in any Rapid Improvement Event is the Core improvement Activity. This phase generically follows a series of clear steps in order to analyse and understand the issue and/or problem, identify root cause(s), develop solutions and recommendations and identify costs and benefits. In the case of a Rapid Improvement Event, the complete Core Improvement Activity will be completed in 5 days. Recommendations are generally for very specific, targeted improvements (often attracting little or no cost). In some cases improvements can be identified and implemented during the 5 days of the event.

In this case, recommendations can take several forms:

- Ideal Future State – an unconstrained recommendation of the future process that may require an element of investment to realise
- Constrained, Interim Future State – a recommended approach that realises many of the benefits of the Ideal without resolving major constraints and/or investing significantly
- Quick Hit improvements – identified improvement opportunities that can be implemented quickly and at low cost

All Improvement Events should culminate in a review where the recommendations of the improvement team can be presented to the Sponsor and other Senior Managers as appropriate. For Process Improvement Events, especially those with longer durations, an interim review should be held at the completion of the Current State Analysis.

Project Based Improvements will deploy a wide range of tools and techniques dependent on the nature of the issue they are assessing. These would typically include:

- Value Stream Mapping
- Plan Do Check Act based Problem Solving
- Fishbone Analysis
- 5S
- Project Planning
- Failure Mode Effect Analysis
- Cost-Benefit Analysis
- Ease-Benefit Matrix

Common features of Core Improvement workshops include:

- Full-time attendance by the core improvement team throughout
- The workshops should take place close to the working/process area
- Presentation of findings and recommendations predominately made by the team members, not project team leader or facilitator
- The team members will retain a key role in implementing their recommendations

### Review Workshop

Following the presentation and acceptance of recommendations, implementation should proceed. The implementation needs to be monitored and managed to ensure it is achieved on time, to cost and, most importantly, that the targeted benefits are realised.

The nature of the review process will depend on the nature of the recommendations made by the Improvement Team.

For more significant improvement projects, the implementation phase may require the establishment of a specific implementation team with its own project infrastructure and governance. In these cases the appropriate review approach will need to be built into the project governance process.

Typically, for Rapid Improvement Events, reviews can be based on one or two follow-up workshops monitoring the specific improvements made and/or proposed.

### Summary

This proven approach has released millions of pounds in benefits for clients in processes where they often felt there were no more improvements to be made. Implementing process improvement projects or Rapid Improvement Events enables rapid change to be made, even in the largest of organisations, delivering tangible benefits whilst energising the most recalcitrant workforce.

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