Achieving Six Sigma Quality In Financial Services

IT'S AN IMPORTANT STEP FOR COMPANIES THAT WANT RAPID, SUSTAINABLE RESULTS.

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No financial service company executive would deny superior service quality is critical to achieving customer satisfaction, value creation and growth. Yet only a handful of companies in this industry are making effective use of one of the most robust quality and cost improvement methods now available: Six Sigma. This is not surprising because service organizations have historically been slow to adopt improvement methods that begin in manufacturing. Such companies often question the methods' applicability and effectiveness.

Our work with financial services firms, however, indicates this is an approach whose time has come. Both a blueprint and a toolkit for improving business processes, Six Sigma is helping its early adopters in financial services successfully streamline processes, increase quality and accelerate growth. These are impressive results in an industry that continues to consolidate, where new sources of competition are constantly emerging and where the need to meet high customer expectations and compete in a global marketplace are the new business realities.

Companies with significant experience in quality and productivity improvement have found Six Sigma is the next logical step in their effort to achieve superior service quality. Six Sigma helps companies less skilled at quality management develop a stronger process and customer focus and adds rigor to their quality initiatives.

Though there are challenges to applying Six Sigma methods in a financial services environment, companies such as GE Capital, Bank of America and JPMorgan Chase have taken the plunge. GE Capital's productivity and quality improvement results have been impressive. Bank of America[1] and JPMorgan Chase[2] have also made executive level commitments to use Six Sigma as their engines for achieving world class service quality and billion dollar expense savings.

Industry Trends and Quality Issues

After a decade of consolidation in financial services, many organizations are still struggling with basic customer service quality problems. In fact, service quality emerged as the top priority among financial services executives in a study completed in early 2001.[3] The most pressing quality issues they face include:

- **A lack of consistency in processes and procedures.** While mergers and acquisitions helped financial services organizations increase revenues and grow market share, numerous quality problems have resulted as these companies struggle to integrate different platforms, systems and procedures.
- **Low levels of customer satisfaction.** A study by Barlow Research Associates revealed only 38% of companies doing business with the nation's 10 largest banks are satisfied with the service they receive.[4] A separate study of U.S. banks found satisfaction among retail customers has slipped to 70 (out of 100)—lower than the scores reported for supermarkets and gas stations.[5]

- **Organizational roadblocks to quality.** In some companies, outmoded organizational structures—often characterized by functional divisions and product silos—undermine efforts to provide timely and seamless customer service. In others, archaic back office procedures continue to require numerous hand-offs and approvals. This increases the probability of mistakes and drags out turnaround time.
- **A growing gap between marketing and operations.** Today's demanding consumers want low cost, high quality financial services and more customized accounts. While most companies pay lip service to the importance of quality, many fail to live up to their service mission and fall considerably short of their customers' expectations.

What Six Sigma Can Do

Many financial services organizations, especially those in a postmerger environment, have recognized and attempted to tackle these issues by implementing improvement strategies, such as reengineering or business process redesign. But most of these improvement approaches have been project oriented and short lived.

A team of business-smart but improvement-process-light associates assigned to fix problems often focuses on symptoms, not statistically validated root causes, and bases its solutions largely on perceptions, not facts. What's more, the implementation of team recommendations, if it occurs at all, is usually handled piecemeal, with no clear accountability for tracking, measuring and evaluating results.

Six Sigma offers an alternative approach, one that integrates the statistical tools of total quality management and the process improvement methods of reengineering into a rigorous, disciplined change methodology. When part of a long-term business strategy, Six Sigma helps companies:

- **Develop a strong process orientation.** Companies traditionally organized by product or function learn to identify the core business processes critical to customer satisfaction. They can now focus on improving their quality and reliability at a business process level, based on a clear and more comprehensive understanding of their customers' requirements.
- **Improve quality while reducing costs.** Six Sigma provides service organizations with a disciplined way to prevent errors, minimize hand-offs and eliminate rework and workarounds. This helps expedite service transactions and reduce costs.
- **Manage and make decisions based on fact.** With its emphasis on measurement and variation as key diagnostic tools, Six Sigma adds statistical rigor to improvement projects. This helps managers make decisions based on data and hard facts, not perceptions or gut feelings, and more accurately establish what levels of performance can be achieved and promised to customers.
- **Gain customer loyalty and increase share of wallet.** Six Sigma's strong emphasis on the voice of the customer promotes a better understanding of what drives customer loyalty and how to build long-term and more profitable customer relationships.
- **Avoid radical cost saving measures.** The savings generated by Six Sigma programs allow companies to self-fund needed investments and avoid radical cost saving measures, such as downsizing, that can damage morale and bring negative publicity.
- **Translate strategy into action.** By providing predictive, in-process performance measures (leading indicators) that can be linked to business goals and outcomes (lagging indicators), Six Sigma helps companies bridge the gap between strategy and operations. Some companies also use Six Sigma to successfully link their business and unit-level scorecards to their corporate goals.

Barriers to Implementation

Despite these potential benefits, there are several reasons financial services companies often adopt an "it doesn't apply to us" mindset when it comes to Six Sigma. One is the lack of process management discipline.

Historically, service organizations have focused on lagging indicators of performance: aggregate sales, revenues and operating costs, for example. Unaccustomed to developing and using leading indicators, which provide real-time information on how processes are performing, companies are sometimes reluctant to invest in the training needed to instill a process orientation.

What these companies may not realize, however, is such investments are recouped quickly in most cases, even when extensive training is required. General Electric (GE), for example, invested $200 million in Six Sigma programs in 1996 and saved only $170 million. But the following year, GE's savings from Six Sigma jumped to $700 million, and the company saved about $1 billion in 1998.[6]

Another common objection we hear is Six Sigma won't work well in industries such as banking and insurance because they are highly regulated and deal with financial risk. Certainly these are complicating factors

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and may limit the kinds of changes companies can make and restrict how far they can go to satisfy customers, but they are not impediments to improvement. No insurance company, for example, is going to eliminate its underwriting function just to please its customers. But it may apply Six Sigma methods, as one company we worked with did, to develop underwriting processes that are more efficient and customer focused.

Perhaps the most common objection to Six Sigma is one we have heard since the beginning of the quality movement: Quantitative improvement methods can be applied to the manufacture of hard goods and products, but not to the delivery of complex, intangible services—especially those that require active customer participation. The trend toward increased customization in financial services also appears to argue against the application of Six Sigma, which is designed primarily to reduce variation.

Though still prevalent, these objections are easier to refute these days based on service organizations' demonstrated use and success with the quality measures and statistical tools that began in manufacturing. By creating run charts, workflow diagrams and process maps, companies can now analyze the intangible services they provide, break them down into discrete and measurable components and calculate their effectiveness at meeting customer requirements.

Similarly, some companies in financial services now apply the Six Sigma toolkit to streamline mortgage applications, process error free lockbox payments, provide more accurate investor reports and reduce turnaround time from weeks to days. Some are even using Six Sigma to improve the soft side of customer service, such as communication.

Focusing on this issue and using Six Sigma, one aircraft leasing company found its business customers have five specific requirements for good communication: assign us a designated representative, assign a backup representative, make sure our file is up-to-date, return calls within eight hours and provide immediate notification of changes. While its previous efforts to improve communication involved little more than smile training, this company was able to establish clear quality standards, all of which could be easily quantified and measured, for communicating with customers.

This example also belies the common perception that Six Sigma will work in financial services, but only when applied to high-volume transactions that involve little or no customization. While companies have made significant gains in these areas, some are also applying the Six Sigma approach to those aspects of service delivery once considered unquantifiable and now representing new and promising opportunities for quality improvement.

Lessons Learned to Date

What does it take to implement Six Sigma successfully? While this improvement approach is still relatively new to financial services, we have learned a number of important lessons:

- **Provide dedicated leadership to ensure success.** Complex improvement programs such as Six Sigma cannot be implemented successfully without dedicated leaders and senior management's involvement. By demonstrating visible and vocal support for quality improvement, leaders committed to Six Sigma help sustain interest over the long term; reinforce a continuous focus on process improvement; and ensure quality goals are met, results are tracked and individual contributions are recognized.
- **Invest in and reward process learning.** More than other quality improvement methods, Six Sigma requires extensive training in the use of quality tools and statistical measures. Black Belts (BBs), for example, typically receive 20 to 25 days of training, must achieve significant results in guiding two major improvement projects and must obtain certification. While targeted training in specific skills is usually more effective than mass training, you may need to enlist both internal and external training experts and implement training in stages. At GE, for example, employees receive four days of training in basic Six Sigma concepts, then attend a follow-up training session several months later to reinforce their newly acquired skills.

- **Identify and prioritize high impact projects.** Careful project selection is critical to the success of Six Sigma programs. All projects should have goals that relate to bottom-line improvement or customer satisfaction, but priority should be given to those that will have a high impact throughout the organization, contribute strongly to meeting strategic goals and target processes that span regional or functional boundaries. If your company is new to Six Sigma, you may want to begin with projects likely to bring good results quickly, because this helps build enthusiasm and increases commitment to the program.
- **Recognize Six Sigma is not a silver bullet.** Six Sigma may be the most powerful tool available for improving quality, but it is not a solution to every business problem and is no substitute for good strategic thinking and planning. It cannot tell you which customers to target or what services to provide, nor can it control events outside your organization (rising or falling interest rates, for example) that may have a significant impact on your business. While Six Sigma can assist you in building a quality focused culture, it often works best when used in conjunction with other improvement tools, such as benchmarking and work process redesign.
- **Share improvement results and best practices organizationwide.** To get the most from your Six Sigma program, communicate project results to all levels throughout your organization. Sharing what you learn from your quality improvement efforts adds to your company's storehouse of best practices, works to build momentum for continued change and helps convince everyone that, with proven tools and a disciplined approach, your organization can achieve levels of service quality never thought possible before.

Six Sigma Success Stories

Though few in number, companies in financial services now practicing the Six Sigma approach report quality improvement gains that are often impressive, and sometimes spectacular. These results are typically achieved in a relatively short time. While other improvement methods, such as reengineering, may take up to three years to generate results, the payback from Six Sigma projects usually occurs in less than six months.

What kinds of improvements can you expect?

- By adopting Six Sigma methods, the aircraft leasing company we cited above is now ranked for the first time among the top third of all companies in its field.
- A commercial equipment leasing company claims Six Sigma helped improve its responsiveness to customers and increased wallet share by 36%.
- In just one year, a private label credit card company gained 8% more business after using Six Sigma methods to shorten in-store application processes.
- A global insurance company used Six Sigma to expedite the issuance of reinsurance policies. The result: Cycle time was cut by 40%, and the company gained $38 million in additional revenues the first year.

Companies that routinely apply Six Sigma tools are likely to experience significant benefits beyond these quick win process improvements. By promoting new ways of thinking and driving operations to ever-higher levels of effectiveness and efficiency, Six Sigma impacts organizations, improving their competitive position and bottom line.

No company is more dedicated to the Six Sigma approach than GE. An enthusiastic believer and advocate, former CEO Jack Welch introduced Six Sigma in 1995 and set a companywide goal to have all processes reach Six Sigma quality by the year 2000. In 1997 alone, 17,000 quality improvement projects were initiated at GE by more than 4,000 full-time BBs, and today the company's quality improvement is tied to both management compensation and promotions.[7] Throughout the company, in manufacturing and service divisions alike, 40% of executive bonuses are based on the attainment of Six Sigma goals, and no one is promoted to an executive position without certification in Six Sigma.[8]

One result of these measures is that GE organizations that provide financial services have become sophisticated users and major beneficiaries of the Six Sigma approach:

- GE Capital Real Estate used Six Sigma tools to identify communication and documentation problems, then redesigned a system to give customers initial loan structure approvals in two days instead of two weeks.[9]
- After using Six Sigma to develop a customer expectation pact, GE Capital Commercial Finance experienced a 160% increase in new transactions.[10]
- In Japan, where banking hours are limited, GE's Global Finance Service company applied Six Sigma to identify alternative payment methods and established a network in 25,000 convenience stores now used by 40% of its customers.[11]

- After learning 24% of its callers hang up, GE Capital Mortgage Insurance applied Six Sigma methods to measure the impact of variables ranging from lunch breaks to the use of voice mail and reduced the abandon rate to 0.5%.[12]

As successes like these become more widely known, other financial services companies are likely to adopt the Six Sigma approach. Industry leaders such as Bank of America, JPMorgan Chase, Merrill Lynch and Vanguard are in various stages of Six Sigma deployment. Some are training their associates in the use of Six Sigma concepts and tools, while others are starting to achieve promising results. And, as results become more apparent, we believe Six Sigma concepts and tools will be adopted industrywide. For now, those companies that have the foresight and discipline to achieve industry leadership are using Six Sigma as their engine for change.

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