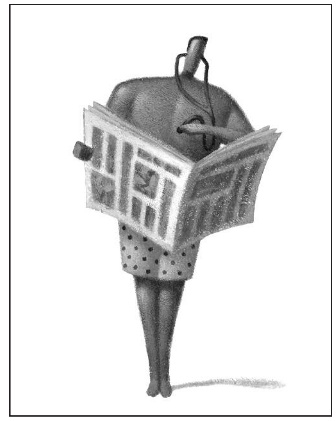
White Paper

Time for a Fitness Revolution?

Why the tactics of connecting strategy to execution matter

SIX SIGMA QUALTEC



Time for a Fitness Revolution?

Why the tactics of connecting strategy to execution matter

A White Paper from Six Sigma Qualtec

While nearly every industry suffered during the recent economic downturn, by comparison mortgage companies enjoyed a flowing stream of success. Yet the lending industry as a whole is by no means optimized, and tougher times are ahead.

"Achieving immediate strategic superiority through acquisition has been the order of the day," says Dale Meder, Bank of America senior VP of business process excellence. "But now the industry is seeking to achieve lasting operational superiority through improved process capability."

If Meder sounds like a consultant, it's because he once was. But now he's one of those who very much practices what he preaches. Bank of America, since launching operational improvement efforts, has identified more than $1 billion in business improvements as a result of applying Six Sigma and Business Process Management in a planned, measured and systematic way.

Here's what is sparking Bank of America and most other large financial institutions. The boom of the nineties broke the seams of "transactional capacity" for many lending and servicing institutions that couldn't originate, close and service loans quickly enough to meet customer demand.

This state of overload, and the pain of lost opportunity, sparked imagination. How can we improve the cycle times of all our processes? How can we remove bottlenecks and dead time from our operations?

This is how we can make more money: not by merging and acquiring more, but by doing what we do better, in a different way. Surely we can merge and acquire, but can we achieve systemic operational efficiencies that reduce cycle time, minimize errors, cut costs, increase capacity and delight customers?

An Operational Focus

The service sector in general, and the specific world of loan servicing, is undergoing a collective epiphany of sorts. Driven by Wall Street, it has recognized that improvement initiatives, such as Six Sigma and Business Process Management, are as vital as finding the next scheme for top-line growth.

Could it be that the analysts themselves, post-Enron, have decided that growth in general is not as golden as they thought? Growth can be bought and sold – or cooked up in the books – to an extent. Beyond this, the real path of generating value (profit) in a financial services business lies in the ability to lower cost and time per transaction.

The pertinent question isn't, "How much revenue can you show today?" The real question is, "How much value did you create, for your customer and yourself, per unit of time or cost?"

The mergers, the marketing, the growth-by-acquisition mentality has in a sense overachieved – with a little help from Greenspan and an anemic stock market. Now it's time to focus on pure operational excellence.

Why to Focus on Operational Excellence:

1 **Interest rates are expected to rise**, which will have a dampening effect on the refinance market. With dropping demand and top-line growth in this area, lenders and servicing organizations will have much to gain by streamlining operations, building error-free capability and reducing costs.

2 **Home ownership as a percentage of the population is still on the rise**, so demand for new loans should remain strong. Efforts to reclaim wasted time and cost in this area will increase the capacity to process more loans with the same amount of resources.

3 **Complexity in the financial services industry will materially increase**, as the lines between banking, investing and insuring break down. This introduces heterogeneity into formerly homogeneous strategic and operating environments. With more puzzle pieces of different shapes on the table, the task of putting them together in a way that satisfies customers and benefits the business is more demanding.

4 **Figuring out how to provide more value per customer transaction**, rather than how to acquire more transactions, leads to market leadership. Getting your house in order, and delivering superior transactions and services, has as much or even more potential for growing a business than a pure acquisitions or merger mindset.

What does all this mean? It means delighting the customers you have may be more important than finding new ones, who you lose later because you don't bring your strategies to bear on their real needs, today, everyday, across the entire spectrum of what you do.

All of business is a relationship between a "need" and a "do." While sound strategy formulation takes care of identifying customer and business needs, sound operational configuration takes care of "doing" in accordance with defined and measured standards.

In other words, financial services organizations better get busy figuring out how to become error-free when they handle the customer's money, process payments, send out bills, close a loan, collect outstanding debts, answer the phone – when they do anything in the context of a business relationship.

Where Strategy Meets Execution

In a healthy financial business, or loan servicing company, executives commit to critical strategies and performance targets on a one- to three-year horizon. "Formulating strategies beyond five years is often folly," says Meder, "because the basic landscape of the financial services industry is shifting dramatically."

Furthermore, the notion that long-term strategy can hold up in a volatile market is flawed. A mindset of flexibility, not staunch adherence to long-term goals, is the ticket for managing the forward-looking plans of an enterprise as circumstances change and as new data dictate.

What's changing is that banks can increasingly offer the same transactions as brokerages and insurance companies, brokerages can increasingly do what banks and insurers do, insurers can fuse themselves with a bank or a brokerage house, and so on.

All the product lines are merging, and it is becoming fashionable to be the do-all, end-all solution for everyone's banking, investment and insurance needs. A visionary mortgage company can see itself as a one-stop-shop for portfolio advice, checking, savings, car insurance, homeowners insurance, health insurance, mortgages, credit cards and debit cards.

Building the internal systems – the infrastructure – for making that vision possible is another matter. There's a few working parts that have to be mashed together, some strategies to align, some processes to merge and an intensive amount of linkage and coordination.

Let's bring it down to the level of a loan servicing organization, which has as much imperative as any to improve its operational capability across a broad spectrum of functions. Servicing organizations should be asking the same question their larger parent companies are asking: how can I extract more business out of my customers and take care of them too by improving my operations?

The mantra is to increase value to and income from existing customers, while raising the standard of services provided. In short, we ensure customer retention through exceptional service with one hand, and we continue to refine our strategic intent with the other.

The Japanese have a phrase for the idea of strategy tied to execution. They call it "Hoshin Kanri." Hoshin literally means "direction needle," as in a plan or course of action. Kanri literally means "control reason," as in the mechanistic management of change.

In plain English, if you want to improve your business, you must systematize the way you set, deploy and execute your strategies. Hoshin Kanri is a system for translating critical strategies into critical metrics. It then deploys those metrics throughout the hierarchy of the value chain in a cascading, cause-and-effect way.

Strategies are broken down into corporate goals, which are broken down into business unit objectives, down to the lowest level of measurement detail. As objectives are cascaded, they are transformed into tactics and specific improvement projects at the lower levels. This is how and where defects are actually eliminated and improvements are realized.

This measurement system design is now what drives the entire organization. Performance targets are set, accountability for meeting targets is established and everyone in the entire place knows what they have to do: drive their process to improve their metrics

Easier said than done. Remember the IBM commercial in which the boss says something close to this: "This is a brilliant strategic plan…but is it executable?"

It's always easier to make the plan than to make the plan happen. This is where Kanri comes in: the systematic creation and control of change. Kanri is the way you manage and control the processes of value creation.

This is where strategy meets execution: in the way you do business, your "core processes." It's the way you originate, the way you fulfill, the way you close and the way you service that matters. These are the value pipelines that flow through and beyond the various functions and departments, the cost and profit centers, of the place you call "work."

Business Process Management

Business Process Management is a tool used by business leaders to derive clarity around how an organization's core processes function, interrelate and interact with each other. While we all intuitively "know" how we do business, the reality is that we don't. Whoever you are, and wherever you work, you may think you know how your organization originates and closes loans, but you have another thing coming.

Each individual in a value chain (process) has blind spots about how the process really works. When all the many people who work on the process interact, their blind spots interact as well. This is why inefficiencies happen, why rework is done, why bottlenecks occur and why customers aren't always delighted with what you do for them.

No one is necessarily a good or bad employee, manager or executive by definition. But a company's Business Process Management infrastructure is good or bad by definition. Inasmuch as certain design methods inoculate a production line against variation (the root of all inefficiency and wasted cost), a Business Process Management system inoculates a loan servicing organization against variation, or poor quality, in what it does.

Business Process Management leads us directly into facing who we are and, even more, how we do business. It leads us into "mapping" our processes – drawing them out on a wall or in a piece of software. It also drives us into collecting valuable data about how process inputs are morphed into outputs through some "operational transfer function."

Remember that Hoshin Kanri is the direction and dashboard by which a loan servicing company can fruitfully, and scientifically, engage in making itself better and more profitable. The causally broken down metrics create a dashboard of blinking lights by which the reds, yellows and greens are all the time, on and off, depending on how well critical processes are meeting their objectives.

The goal is always the same: to get healthy. A Hoshin Kanri system provides the technology for establishing a scientific basis of procedural health intervention. Business Process Management is the machine used to diagnose where the performance tumors are. Six Sigma and the like are the instruments used by expert surgeons when performing the improvement operation.

Now we have the context and traction to translate strategy into flawless, or at least healthy, execution. Business Process Management is the nexus space between the brains of the strategists and the hands of the executioners. In medical terms, Business Process Management is the x-ray that tells the improvement surgeon where to make the incisions.

Business Process Management connects strategy to execution in the most organized and actionable manner possible. It is this connection that brings life and torque to an enterprise. The strategy without the execution is a pipe dream; the execution without the strategy is a ship gone awry.

Most of us have been involved in schemes to "improve the way we do business" at least once in our careers and probably more than once. How many times has your involvement, regardless of how high or low you were in the organization, been clearly delineated and understood? How much ambiguity has accompanied former attempts to improve your scope of operational control?

Hoshin Kanri and Business Process Management create the foundation for intelligently moving in and out of a process battlefield with your SWAT teams – your Six Sigma black belt or green belt projects, your quality improvement specialists, your process engineers.

It's not a haywire system of training a bunch of people and turning everyone loose on any projects or opportunities they can find. Real operational excellence grows up from only one thing: taking the pie-in-a-sky vision of what a business wants to be and shaping it into something actionable.

Business eventually and always comes full circle from strategies set to actions taken, and around again. Anything you can do to make this cycle tighter, faster and better will yield greater control power (Kanri) in keeping the company on course (Hoshin).

"It's such a bold step to actually try and get 140,000 people aligned from the top of the organization to the bottom in all the businesses we are in," says Bank of America's Meder. "When complete, it will create an impetus I don't think will be stopped."

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Six Sigma Qualtec
821 Alexander Road
Suite 130
Princeton, NJ 08540 • USA

toll free	(800) 247-9871
phone	(609) 925-9458
fax	(609) 419-9855
email	info@ssqi.com
website	www.ssqi.com

Six Sigma Qualtec
1295 W. Washington Street
Suite 208
Tempe, AZ 85281 • USA

toll free	(800) 247-9871
phone	(480) 586-2600
fax	(480) 586-2586
email	info@ssqi.com
website	www.ssqi.com

Six Sigma Qualtec
P.O. Box 2959
Kenilworth
CV8 1XR
United Kingdom

tel	+44 (0) 1926 859555
fax	+44 (0) 8701 400023
email	info@ssqi.co.uk
website	www.ssqi.co.uk