

Operational Efficiency: Process Improvement Opportunities for Credit Unions

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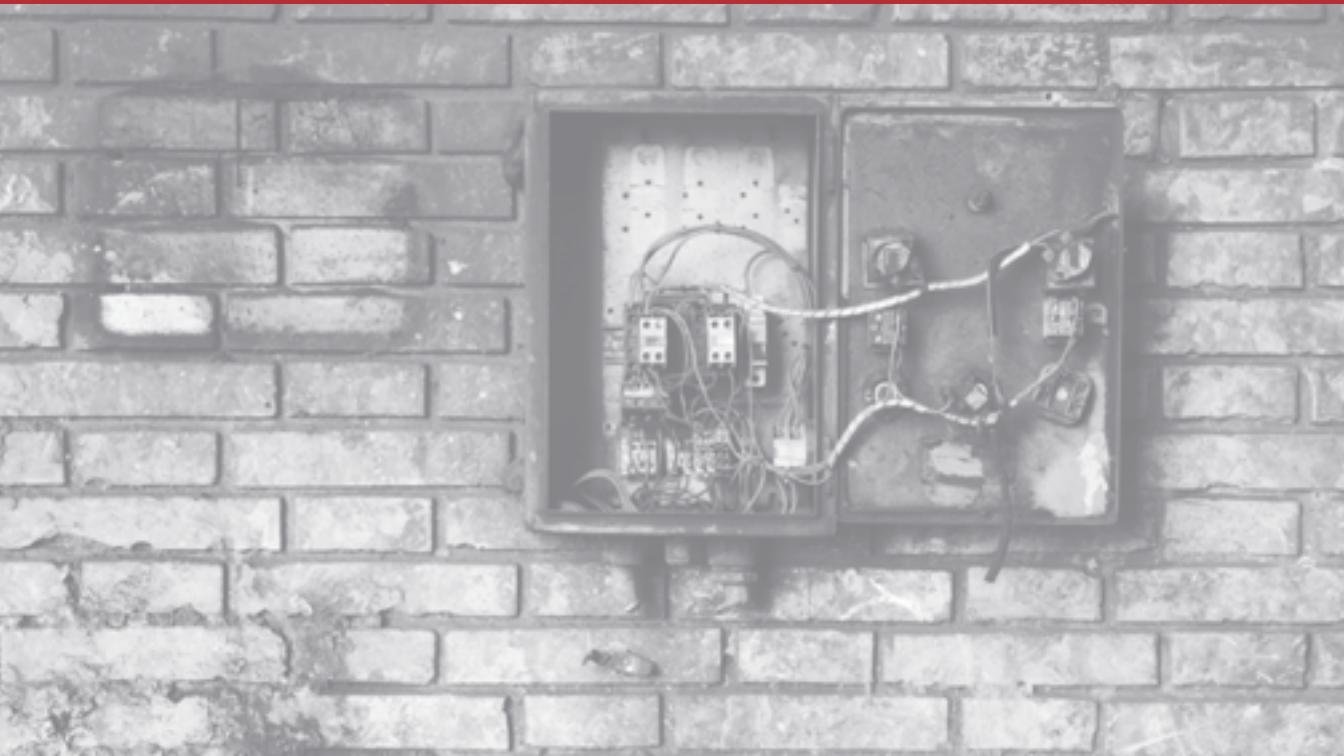
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Progress is the constant replacing of the best there is with something still better!

— ***Edward A. Filene***

Deeply embedded in the credit union tradition is an ongoing search for better ways to understand and serve credit union members. Open inquiry, the free flow of ideas, and debate are essential parts of the true democratic process.

The Filene Research Institute is a 501(c)(3) not-for-profit research organization dedicated to scientific and thoughtful analysis about issues affecting the future of consumer finance. Through independent research and innovation programs the Institute examines issues vital to the future of credit unions.

Ideas grow through thoughtful and scientific analysis of top-priority consumer, public policy, and credit union competitive issues. Researchers are given considerable latitude in their exploration and studies of these high-priority issues.

The Institute is governed by an Administrative Board made up of the credit union industry's top leaders. Research topics and priorities are set by the Research Council, a select group of credit union CEOs, and the Filene Research Fellows, a blue ribbon panel of academic experts. Innovation programs are developed in part by Filene i³, an assembly of credit union executives screened for entrepreneurial competencies.

The name of the Institute honors Edward A. Filene, the “father of the US credit union movement.” Filene was an innovative leader who relied on insightful research and analysis when encouraging credit union development.

Since its founding in 1989, the Institute has worked with over one hundred academic institutions and published hundreds of research studies. The entire research library is available online at www.filene.org.

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Dennis Campbell
*Associate Professor,
Harvard Business School*

By most external measures of customer satisfaction, credit unions appear to enjoy significant service advantages over their larger bank rivals. However, they often don't enjoy the same scale and operational efficiency advantages. This report makes a persuasive case that credit union leaders can make significant competitive gains in their markets by implementing well-known continuous improvement techniques to simultaneously improve operational efficiency, reduce cost, *and* improve the member experience.

As should be apparent in reading this report, it is imperative to keep the objective of improving the member experience at the forefront of any such efforts. In many organizations, operational efficiency and attendant cost reductions come at the expense of the customer experience. Properly implemented continuous improvement efforts avoid this trade-off by focusing efforts on making processes more efficient and cost-effective for both the organization and its customers. An instructive example can be found in the asset management company Vanguard.

Like its credit union counterparts, Vanguard has a mutual ownership structure. With an expense ratio that is consistently five to six times lower than the industry average, Vanguard is also by a large margin the most efficient provider of mutual funds in its industry. The organization accomplishes this through an unrelenting focus on both continuous improvement and enhancement of the client experience, which is embedded in its culture all the way from the top executive level to its frontline and back-office operations.

Far from experiencing a trade-off between service and efficiency, Vanguard has been able to make impressive gains in both. In fact, the organization recognizes that the best answer is not always the shortest path or most efficient process viewed in isolation, but rather it is the one that is best from their clients' perspective. This view has led to changes both large and small, ranging from simplification of forms sent to clients to wholesale changes in its systems for managing people, processes, and technology—all of which have made the organization more efficient while not only maintaining but also enhancing the quality of the client experience.

I hope that this report will point credit union leaders to the real possibility that their organizations are similarly suited to benefiting from continuous improvement efforts aimed at improving the member experience. With their mutual ownership structure, credit unions are ideally positioned to implement continuous improvement methodologies aimed squarely at enhancing the quality of the member experience. The benefits may lie not only in improved

performance and service differentiation vis-à-vis larger bank rivals, but also in a stronger organizational culture. Ongoing continuous improvement efforts require a culture of accountability, fact-based decision making, and adaptability to change—characteristics that can only strengthen the long-run performance of credit unions for their members, employees, and leaders.

By Ben Rogers
Research Director

In 2009, Filene hosted a series of roundtable discussions for credit unions with McKinsey & Company consultants around the country. One of the key takeaways from those meetings came in a comparison between the efficiency ratios [noninterest expense / (net interest income + noninterest income)] of credit unions and banks with between \$500 million and \$17 billion in assets. Participants were shocked to see banks maintaining a long-term average of around 0.50 and similarly sized credit union averages bouncing between 0.60 and 0.70—a massive systemic difference.¹ There are two reasonable explanations for the gap between equally-sized institutions: Credit unions spend more heavily on operating costs and member service, or credit unions are much less disciplined than banks at controlling costs. The truth probably rests on both sides.

Earlier this year, I interviewed the CEOs and senior leadership teams of nearly one dozen large credit unions, trying to find out what was on their minds and what research would be valuable. Without exception, each mentioned expense control as one of their top three priorities. Why? Because the Great Recession stole growth from many of them, and expense management is the best way to eke out profits in the absence of growth. It is also an essential competency for any credit union that wants to build a sustainable business model. This research, by two efficiency experts, is a direct response to these needs.

What Is the Research About?

Credit union employees and leaders are not terribly different from other humans in exhibiting what cognitive researchers call the status quo bias. Without incentives, we tend to do things the way we did them before. In business, that often means muddling through complicated processes or inefficient workarounds. Using principles and case studies, this report maps a course for credit unions that want to discover and enact more efficiency. Doing so saves resources for the credit union and allows it to serve members better.

Starting with an overview of credit union challenges and the areas that most affect process improvement efforts (technology use, timely process data, etc.), the report introduces approaches like Lean and Six Sigma. Challenges like waiting for approvals, excess movement of data, and incomplete forms weigh on performance in two ways: They increase the resources needed to perform even basic tasks (a financial drag) and they delay the completion of member services (a drag on membership loyalty and growth). Credit unions that can learn from the principles and actually introduce process improvements will win out.

What Are the Credit Union Implications?

The introduction to efficiency methodologies is instructive and helpful, but pay careful attention to the credit union and bank case studies. They reveal the different ways that credit unions are thinking about lowering their operating expenses without alienating the very members they are supposed to serve. They also reveal that process improvement can (and should) have different targets at different institutions, which is why the variety of cases will be helpful:

- One large southwestern credit union that has identified nearly 800 unique processes shares four tangible examples of high-value processes it improved: online statement conversion, electronic warnings, loan modifications, and ACH transactions.
- A large east-coast credit union tagged 630 discrete steps in its mortgage processing, of which 38 required significant rework. The credit union has since improved the compatibility of its software and started teams that will coordinate work between departments.
- The process improvement skill led one credit union to reduce its credit card losses from a projected \$800,000 to just over \$200,000 by creating a central “losses” team, adopting more fraud detection tools, and tracking member activity in real time.

In all cases, regardless of the size of the institution or the process being used, documentation and analysis of the workflow brings measurable benefits.

Treating process improvement as a temporary initiative instead of an ongoing program is a recipe for failure. The credit unions and banks that do it well share some common characteristics, including:

- Top management and executive involvement and buy-in.
- Training employees to effectively use and implement the methodology.
- Insisting that Lean Six Sigma will help improve member service and/or benefit the company financially.
- Investing in infrastructure (tracking methods, personnel, etc.) that will support a culture of continuous improvement.
- Involving all groups across the organization.

Without these characteristics, efficiency initiatives aren't likely to succeed. But considered and disciplined efficiency improvements put credit unions on the path to financial sustainability and the ability to better compete with more efficient banks.



Sheila Shaffie

For over 10 years, Sheila held leadership positions in quality and process management at three General Electric businesses—Plastics, HealthCare, and Capital. As the cofounder of ProcessArc, a Lean and Six Sigma training and consulting firm, a sample list of her clients includes: GMAC, Associated Bank, US Bank, Guaranty Bank, Thomson Reuters, and Allied Capital.

She has a proven track record in launching global quality initiatives, Six Sigma process refinement, and delivering quantifiable customer satisfaction. As the director of quality, she pioneered the use of Lean and Six Sigma at GE Capital's transactional environment. Her efforts led to an 80% improvement in customer service level. Sheila honed her Six Sigma, Transactional Lean, Change Management, and Kaizen skills by closing out over 250 Six Sigma projects and delivering \$90 million in cost reduction. In her career at GE, she trained and led over 100 Six Sigma Green Belts and Black Belts globally. Sheila holds an MBA from the University of Chicago and a BS in chemical engineering from the University of Waterloo. She is GE Six Sigma Green Belt, Black Belt, and Master Black Belt certified. She has received additional training in GE's Technical Leadership and Management Development Programs, as well as Change Acceleration Process (CAP) and CAP Facilitation.



Shahbaz Shahbazi

Prior to launching ProcessArc, Shahbaz was a leader in General Electric's Global Six Sigma Quality organization focused on strategic business growth. As an expatriate based in Paris, France, he reformulated a sales and pricing strategy for a \$250 million market and streamlined the commercial launch of new products. He has also led global customer satisfaction initiatives. As the cofounder of ProcessArc, he has helped institutions like RW Baird, BETA systems, Industrial Bank, Wauwatosia Savings Bank, and Metavante launch Lean Six Sigma in their respective organizations. In his career he has trained and mentored over 90 Lean Six Sigma Green Belts and Black Belts globally. Shahbaz has authored over 40 strategy reports on product development and advertising techniques. He has received professional education in Transactional Lean Methodology, CAP, Import/Export Practices, and GE's Leadership Essentials. Shahbaz holds an MBA from Rensselaer Polytechnic Institute, a master's in public policy from the University at Albany, and BAs in French literature and Middle Eastern history from the College at Oneonta, State University of New York. He is Six Sigma Green Belt and Black Belt and Master Black Belt certified.

Credit unions across the country are experiencing financial pressure, much like their banking competitors. This pressure comes from a myriad of sources—increased competition, reduced fees, reductions in loan volume, etc. All combine to exert a downward force on financial performance. While increasing or maintaining revenue and asset size will continue to be a challenge, there are avenues to help alleviate some of the financial pressure by focusing on operational efficiency. Credit unions typically gauge their efficiency through their expense ratio, which is an expression of expenses as a percentage of revenue. While historically the expense ratio has been improved by increasing asset size and revenues, this strategy proves more challenging in today's market conditions, leaving credit unions with the other side of the equation to focus on—i.e., expenses. Now, more than at any time in the history of credit unions, it is imperative that leadership take a critical and deep analytical look at their operational efficiency, which drives expenses. It is only through this path that credit unions will be able to make a step change in their operating procedures and

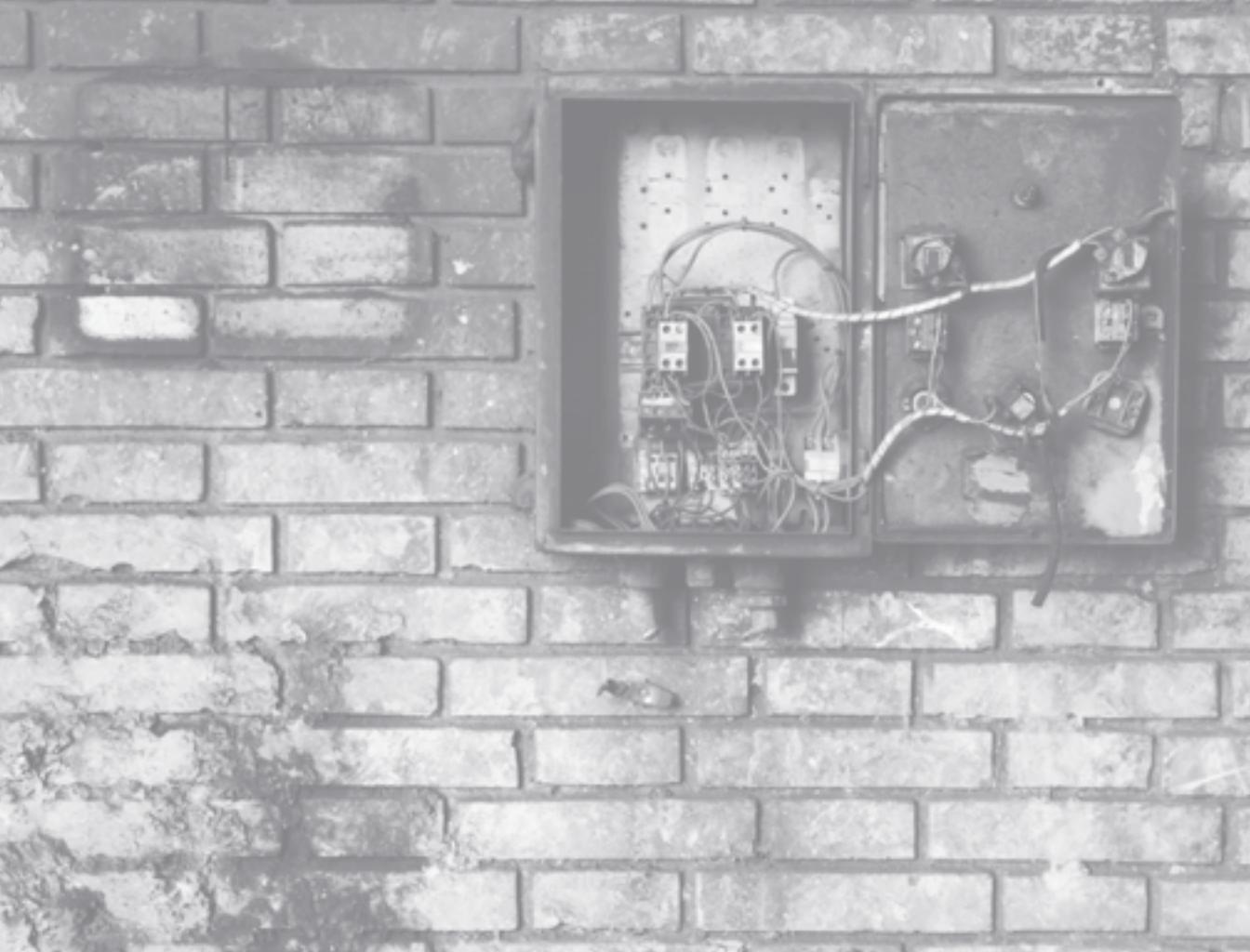
processes to reduce cost and, in the process of making things more efficient, improve member experience.

This report examines how some credit unions—like their

competitors, banks—are adopting quality methodologies like Lean, Six Sigma, and Lean Six Sigma to help alleviate some of the financial pressure by increasing operational efficiency and differentiating themselves based on improved service. Quality methodologies, by definition, force an organization to assess how they conduct business from the products they offer, how they market and sell them, what processes and systems they rely on to deliver these products, and, ultimately, how the members gauge the service they receive from the credit union.

When an organization makes the decision to deploy a quality methodology such as Lean or Six Sigma, its leaders are looking for cost reductions and improved service through organizational transformation. This involves a shift from the classic business and operational management model to a process management model. This provides increased process clarity, consistency, and ownership as well as improved oversight and general control. This report will help demonstrate how credit unions and their competitors have utilized quality methodologies to improve the overall performance of their organization.

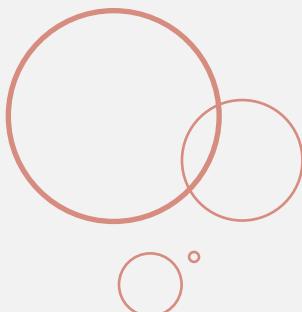
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CHAPTER 1

Challenges Facing Credit Unions

Wearing the white hat didn't save credit unions from the effects of the financial crisis and the long recession. Today, one of the few paths to improved profitability is smart process management.





Credit unions are generally conservatively run financial institutions. While for the most part they did not engage in the types of practices that led to the financial crisis, they nonetheless have been impacted by it. The result has been significant pressure on the financial performance of credit unions. On the revenue side, some of the most noteworthy challenges include:²

- Decreasing loan growth.
- Tightening lending standards.
- Decreasing quality of loan applications.
- Increasing number of foreclosure notices.
- Shrinking sources for liquidity.
- Declining fee income.
- Shift in the competitive market—mergers and consolidation.³
- Demographic shift—change in customer expectations.⁴

The outcome of these challenges will be anemic growth. The observed avenue for growth will be attained by stealing market share from competitors. Holding this as fact, we need to incorporate into the equation yet another truism concerning the demands of customers of financial institutions: Based on research conducted by Rad-don Financial Group, the top two reasons for consumers selecting a primary financial institution are:

1. Branch availability.
2. Service quality.⁵

This is what leaders of financial institutions should take away: Going forward, competition will force us to grow by stealing away market share from our competitors, and in order to bring those members into our fold, we must offer verifiable, quantifiable, top-level service.

Meanwhile, regulatory challenges brought on by accounting standard changes such as expanding fair value accounting to loans held for maturity and implementing Regulation Z rules will continue to persist. These issues place added pressure on employees, systems, processes, and policies. It is for these reasons that credit unions now, more

than ever, need to determine how to operate more efficiently, freeing up capacity for their employees to pursue value-added activities.

Critical Elements of Operational Efficiency

A competitive marketplace requires that companies provide quality products and services at the right value in order to capture market share. To achieve this, they have to actively measure and improve their operational efficiency across their entire value chain. Efficiency at its core is about producing more and better products and services with the same or fewer resources. This requires minimization of waste and maximization of resource capabilities. The end result has a direct impact on the organization's profit margin: Getting rid of waste and inefficiency reduces operational cost while improving the overall quality of service, which allows for capturing more market share. Some of the key elements that directly impact an organization's efficiency level are:

- Use of technology.
- Design of processes.
- Quality of management.
- Availability of timely and accurate process data.
- Corporate culture.

Billions of dollars are spent every year purchasing and implementing new IT systems. These systems can help improve the efficiency of an organization *only* if they can effectively integrate with existing systems and process—eliminating the need for manual intervention and additional monitoring. From a customer's perspective, efficiencies are gained when the adoption rates are high, eliminating the need for maintaining multiple processes for the same service/product.

Design of processes (how work gets done, by whom, when, and why) is at the core of operational efficiency—the seamless flow of work through the organization drives the cost associated with that service/product. Well-designed processes require fewer resources because all areas of waste, redundancy, rework, poor handoff, and failure have been identified and removed. Additionally, good process design takes into account the “voice of the member” and ensures that those processes can meet member requirements and expectations. As an example, when a member requests new checkbooks, they may expect them within five days. A well-designed process will ensure that all steps required to fulfill the request (whether internal or completed by a vendor) can consistently meet that expectation. Ultimately, well-designed processes create the foundation for an organizationally efficient company.

The quality of management also plays a role in an organization's efficiency level: Poor managers make poor process and risk decisions, which adversely affects the organization. One way to improve the decision-making skills of managers is to empower them to make informed and timely decisions. A manager's appreciation and knowledge of their processes, access to timely and accurate data, and a culture of accountability all have an impact on the quality of leadership.

Having access to timely and accurate process data is one of the central pillars of an efficient organization. As Mikel Harry, one of the principal architects of Six Sigma, stated: "If we cannot express

"If we cannot express what we know in terms of numbers, we really don't know much about it and if we don't know much about it, we cannot control it and if we cannot control it, we are at the mercy of chance."

—Mikel Harry

what we know in terms of numbers, we really don't know much about it and if we don't know much about it, we cannot control it and if we cannot control it, we are at the mercy of chance." Process data allow for active monitoring and measuring of process and financial

performance. This in turn allows executives to make accurate and appropriate decisions, having removed emotions and hunches from the decision-making process.

Improving operational efficiency works best in companies that either have a strong culture of accountability or would like to enhance it. Becoming more efficient requires management and executives to embrace change for the better. To identify improvement opportunities, an organization should actively and critically assess its performance while disregarding the threat of negative implications. A corporate culture that demands excellence and measures its staff against that elevated performance is imperative when embarking on the journey of continuous improvement.

Quality methodologies like Lean, Six Sigma, and Lean Six Sigma help organizations effectively address the critical drivers of operational efficiency outlined above by:

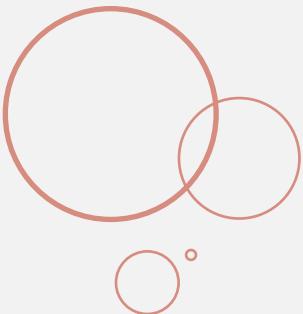
- Helping organizations ensure that the IT systems they purchase meet internal and external requirements, allowing for seamless integration.
- Ensuring that processes are designed to minimize cost while consistently meeting member needs.
- Giving management metrics and targets that are meaningful and attainable.
- Making critical and accurate process and financial data available so that timely business decisions can be made.



CHAPTER 2

Quality Methodologies

Lean and Six Sigma methodologies are proven routes toward process improvement. Identifying and measuring the types of process waste extant at a credit union are the first steps toward improvement.





Six Sigma

In the late 1970s, many US-based companies began adopting quality initiatives. In many cases, they undertook this path because their backs were up against the wall. Leading manufacturers were losing market share to overseas competitors, particularly those from Japan. At that time, Japanese companies were using Total Quality Control (TQC) and Lean principles to improve manufacturing performance and to design “customer-centric” products. In response, US firms began adopting Total Quality Management (TQM)—a variation of TQC.

In the 1990s, Jack Welch, the CEO of General Electric, began touting the benefits of a new quality game changer—Six Sigma. The world of quality began to converge on Six Sigma based on its delivered benefits and the flexibility to apply this methodology to any functional business area. Today, it has made its way through all the major segments of the US economy: financial services, healthcare, defense, government, and manufacturing.

Six Sigma is a statistical problem-solving methodology and a management philosophy, one that dictates that business and process decisions should be based on data. It contains five distinct problem-solving phases known as the DMAIC approach:

- *Define* the problem statement, goal, and financial benefits.
- *Measure* the current performance of the process and collect the required data.
- *Analyze* the root cause of the problem.
- *Improve* the process to eliminate errors and instability.
- *Control* the performance of the process, ensuring that the improvements are sustained.

Six Sigma’s fundamental goal is to reduce operational variance by improving the overall quality and performance levels of business processes. This is particularly critical in the service sector, as customers are more likely to take notice of service variance, or “foul-ups.”

Unfortunately, most customers don't remember general performance over time. Statistically, attaining Six Sigma implies having processes that produce only 3.4 defects per million opportunities. Therefore, if a credit union provides one million loans, only 3.4 of them are closed with errors. Figure 1 outlines the relationship between a Sigma score, the accuracy of that process (the probability of getting that transaction done right the first time), and the number of defects if there were 1 million of those transactions. As the process capability increases, so does the Sigma value, which indicates that there is a lower probability of making a mistake. While achieving Six Sigma is a desirable goal, only select industries such as the pharmaceutical or airline sectors need to attain processes with these accuracy levels. In the financial sector, a four sigma level (99.4% accuracy) is a highly noteworthy accomplishment. Furthermore, it is commonly accepted in this sector that embarking on the "quality journey" is in itself an important step. Based on the authors' observations of over 500 Six Sigma projects in the financial services industry, processes in this sector are operating at around zero sigma. This means that, on average, 50% of processes/products are not correctly transacted on—i.e., they require additional information, have critical errors, and/or require additional work. This results in higher operational cost as well as inconsistent service delivery for the member. As mentioned earlier, members are more apt to take issue with instances when things don't proceed as they have come to expect.

Figure 1: Linking Six Sigma Score to Error Rate

	Sigma level	Percent accuracy	Number of defects per million opportunities
Excellence ↓	2	69	308,537
	3	93	66,807
	4	99.4	6,210
	5	99.97	233
	6	99.9997	3.4

On average, 50% of processes/products are not correctly transacted on—i.e., they require additional information, have critical errors, and/or require additional work. This results in higher operational cost as well as inconsistent service delivery for the member. As mentioned earlier, members are more apt to take issue with instances when things don't proceed as they have come to expect.

The strength of Six Sigma is based on its quality culture infrastructure. This methodology has well-defined roles and responsibilities such as Green Belts, Black Belts, and Master Black Belts; training; language; and a particular problem-solving mindset. In a nutshell, Six Sigma is a

problem-solving methodology that uses human assets, data, measurements, and statistics to eliminate waste and defects while increasing member satisfaction, profit, and member value. If implemented correctly, the key deliverables in the financial sector are:

- Improved service reliability—consistency of performance and delivering the service right the first time.
- Improved responsiveness—timeliness of response and readiness to provide the service when the member wants it.
- Improved assurance—creating trust and confidence in the member base.
- Reduced expenses—improving the effectiveness and accuracy of business processes.
- Increased revenue—understanding what your members want, when they want it, at the right “price.”⁶

The hidden cost of variation—defects and waste—can total in the millions of dollars. This variation often derives from not having access to information. The Six Sigma methodology helps organizations identify what they don't know *and* emphasize what they should know. It then provides a road map for taking corrective action to reduce the errors and rework that ultimately cost the organization money, opportunities, and members. Robust processes—those producing low error rates—have a direct impact on overall productivity, member satisfaction, and profitability.

Lean

Lean is a philosophy that is focused on shortening the timeline between the member request and the delivery of the service by eliminating waste. This ensures that every activity and process step adds *value* to the end product or service. Lean methodology defines waste as any activity that adds time and cost but does not improve the fit, form, and function of the service or product

To attain perfect value creation, management will need to change its focus. Instead of optimizing separate technologies, assets, and vertical departments, management has to optimize the flow of products and services through entire value streams.

that is delivered to the member. There are seven types of waste, as outlined in Figure 2.

The creation of perfect value for the member is Lean's core objective. However, to attain this, an organization needs to:

- Understand member needs and wants.
- Identify key waste elements that impact the performance and quality of the service or product.

Figure 2: Lean's Seven Types of Waste

Type of waste	Description
Defect	Any nonconformance that leads to redoing, reworking, recontacting, or reviewing. Examples: missing critical data on forms, not sending out debit card within promised timeframe.
Waiting	Any time during which work is not being performed on the customer request. Examples: waiting for approval, waiting for branch feedback.
Overproduction	Producing more than required or more than a process step has the capacity to handle, which results in building of inventory. Example: batch processing of applications.
Unnecessary transportation	Movement of files, data, or customer requests. With every movement there is risk of loss or delays in processing.
Inventory	Work in process, representing unrecognized potential revenue. Example: applications pending processing.
Overprocessing	Doing more than is required from a customer's perspective.
Motion	Movement to transport information or data. Example: extra steps taken by employees to accommodate inefficient process layout.

Knowing both your members' needs and the areas of waste within your organization allows for the creation of processes that deliver perfect value. For example, organizations can reengineer their processes in such a way that quality and value are embedded in them. This eliminates the need to inspect for defects at the end stage. Eliminating waste along the entire process leads to less human effort, space, defects, capital, and time when delivering a service. This ultimately translates to a faster response to member needs at a lower overall cost to the organization. To attain perfect value creation, management will need to change its focus. Instead of optimizing separate technologies, assets, and vertical departments, management has to optimize the flow of products and services through entire value streams. This will invariably require an in-depth look at the end-to-end flow that brings a product or service to the member. Once that flow is understood, the effort of eliminating waste and redundancies can begin.

When deployed correctly, Lean's main deliverables are:

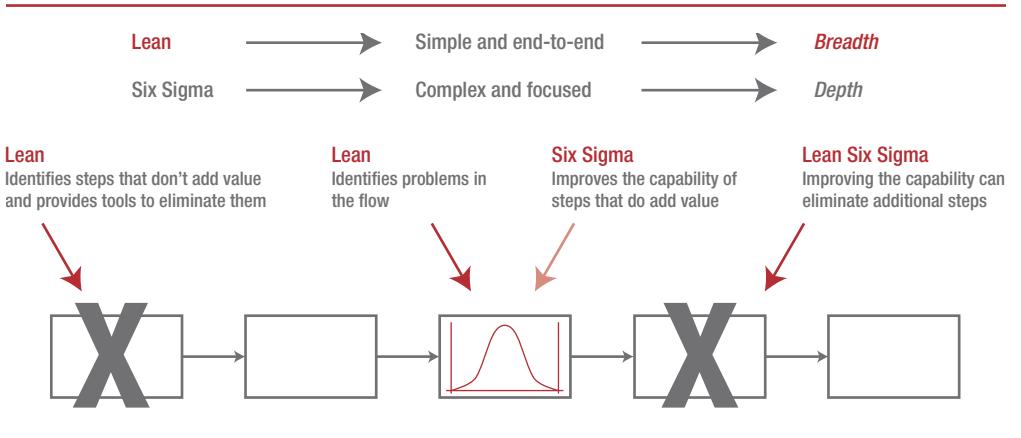
- Reduce work in process (WIP), or the backlog.
- Increase productivity.
- Increase process capacity.
- Improve area/organizational layout for optimization.
- Standardize operations/processes.

Lean Six Sigma

In the past century, various quality methodologies have come and gone, but some basic principles have endured. In 1913, as young Henry Ford developed his mass assembly system he focused on standardization and taking waste out of the car manufacturing process. Over the years, the world of quality has ultimately converged on the principles that are known today as Lean and Six Sigma.

Lean, with its simple approach that focuses on improving the speed and efficiency of processes, provides breadth in problem solving. On the other hand, Six Sigma is more sophisticated and offers a method to drill deep into complex issues. Six Sigma also has a very structured approach to problem solving that is absent in Lean. By definition, Six Sigma is about enhancing the quality and accuracy of processes by reducing variation, while Lean helps achieve faster response times by eliminating waste. It is for these reasons that they are complementary toolkits; they help address the root cause of different business challenges. As an example, when focused on reducing account opening cycle time, Lean principles can help identify areas of waste to be eliminated. On the other hand, if trying to reduce credit card losses, Six Sigma tools provide the better fit in understanding root causes.

Figure 3: Lean and Six Sigma Integrated



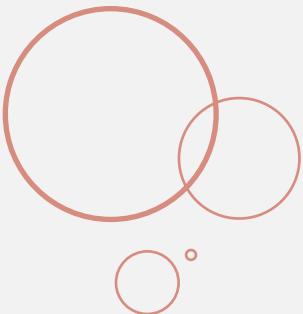
Historically, the use of Lean Six Sigma in the financial world can be traced to Bank of America, which began utilizing Six Sigma as a stand-alone toolkit in the late 1990s. Shortly after the initiative was launched, the organization decided to merge Six Sigma with Lean. Soon, others in the financial sector realized that not all business challenges were a fit for either Lean or Six Sigma. Rather than focusing training and investment on just one of these methodologies, many came to recognize the benefits of providing the integrated solution of Lean Six Sigma.



CHAPTER 3

Credit Unions Improve Processes through Quality

Process improvement is not just about cost savings. Six case studies show how credit unions made essential improvements as varied as honoring member service, decreasing fraud, and better linking internal departments.





A survey of credit unions ranging in size from \$130 million (M) to \$7 billion (B) in assets provided a wealth of information concerning continuous improvement initiatives. The quality activity of the vast majority of these credit unions is relatively new, dating back only to 2006 or even more recently in some cases. Regardless of where these credit unions

The general consensus was, “We can’t just sit by and watch the competition improve processes, reduce expenses, and better their performance while we do nothing.”

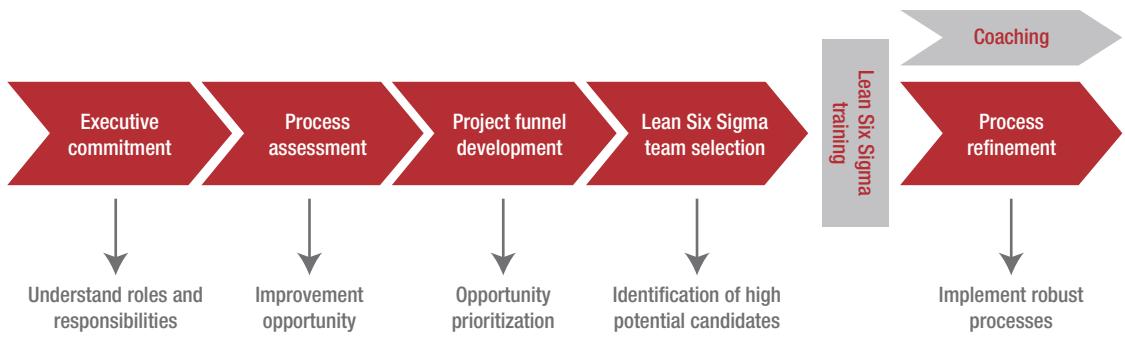
were on their quality journey, their size, or their location, there were some common elements among all that were interviewed.

General Findings

- **CEOs and/or board members as key drivers**—The credit unions’ quality initiatives were sponsored by either the CEO or a board member. This created an instrumental and vital top-down strategy. In some cases, the CEO learned about Lean or Six Sigma through a board member or through his or her service on other boards. But in essence, it was some type of firsthand experience that promoted the adoption of the methodology. More significantly, all the CEOs and board members recognized that this was something important to their credit union.
- **Measurable strategy to improve service quality**—The leaders of these credit unions were seeking a meaningful strategy to improve service quality—i.e., how to define, measure, and improve it. *While most financial institutions claim superior service, there is very little in terms of infrastructure, metrics, data, and credible fact behind these claims.* Survey participants made a conscious decision to start their quality improvement journey by first gaining a better understanding of and defining their members’ expectations. Using surveys or call center data helped with defining service level expectations. The stated end goal for these credit unions was to use quality methodologies to differentiate their institution from banks and other credit unions through improved service.

- **Reduce operational expenses**—Another main reason these credit unions implemented a quality strategy was their strategic goal of reducing operational expenses without adversely impacting member experience. There was recognition that a systematic look at their business processes—using these quality methodologies—would allow them to measure and quantify performance vis-à-vis member expectation. This would allow executives and leaders to hone in on key improvement opportunities, the added benefit being that a data-driven methodology would help take the emotions out of the decision-making process. Ultimately, streamlined processes would help reduce expenses and improve member experience.
- **Not to be left behind by banks**—Among the credit unions surveyed there was awareness that their primary competitors, usually banks in their communities, were actively pursuing process improvement. The general consensus was, “We can’t just sit by and watch the competition improve processes, reduce expenses, and better their performance while we do nothing.” It was a keen awareness of the competitive marketplace that drove these credit unions to seek out process improvement strategies.
- **Build a culture of continuous improvement**—The interviewees made it clear that it was their central goal to make process improvements that were measurable, quantifiable, and meaningful. Their objective was to formalize a strategy by creating a common language, a training platform, and a way of problem solving. In turn, this would help create a culture of continuous improvement and accountability within the organization.
- **Educate from the top down**—Another common theme among the credit unions involved training. In almost all cases, the organization provided executive-level training to senior staff. This was necessary to help embed the continuous improvement philosophy in the organization’s culture—to make sure that everyone understood what was going on and why quality was important to the credit union. Irrespective of the length of the training (some sessions were half a day and others a full day), it was crucial for senior leadership to fully understand their roles and responsibilities in deploying this methodology. Additionally, select, high-potential employees were trained as Lean or Lean Six Sigma Green Belts. These resources were then used to identify and implement improvement opportunities.
- **Dedicate staff for continuous improvement**—Regardless of the credit union’s size, all had at least one to three part-time (20%–25% of their time) or full-time dedicated staff members to identify improvement ideas and implement solutions. As their

Figure 4: Lean Six Sigma Deployment Milestones



quality journeys continue, all the credit unions have plans to train more staff to get them comfortable with the quality methodology.

In general, financial institutions of all sizes—both credit unions and banks—are remarkably similar in their overarching strategy for deploying a quality methodology. Given this, they typically achieve a similar series of milestones along their quality journey; these milestones are shown in Figure 4.

Quality at Work

The credit unions interviewed reported using quality methodologies such as Lean, Six Sigma, and Lean Six Sigma on a wide range of improvement projects, including:

- Balancing teller cash.
- Reducing teller shorts.
- Optimizing branch cash usage.
- Originating loans.
- Improving consumer lending processes.
- Reducing cycle time for opening new accounts.
- On-boarding new members.
- Renewing insurance policies.
- Issuing instant plastic.
- Improving mail flow in insurance administration.
- Reducing loan administration reports.
- Reducing credit card losses.
- Reporting for government taxes.
- Adjusting accounts.
- Settling credit cards.

- Improving sales of homeowner's insurance.
- Shoring up the retail mortgage application process.
- Distributing marketing materials, such as newsletters.

Credit Union Success Stories

Credit Union 1

This credit union, with 37 branch locations and assets in the \$3.5–\$4.0B range, is located in the Southwest region of the United States. The quality journey for this financial institution goes back to 2007, when leaders decided to implement a four-step strategy using Lean Six Sigma:

1. The first step was to create an inventory catalog of all existing processes in the credit union. Each process was then mapped, providing a good understanding of the current state.
2. Once the process maps were developed, the credit union moved to the next phase, which focused on discovering/identifying improvement opportunities.
3. Once the leaders developed a good sense of what to improve, they began prioritizing the list of opportunities, and Lean Six Sigma resources were assigned to start the process redesign.
4. The final step is ongoing as the credit union works to sustain the improvements.

In preparation, the credit union hired outside consultants to train staff members in the Lean Six Sigma methodology. The consultants also provided coaching during the project execution and implementation.

To develop the inventory catalog of processes, the credit union focused on eight business units, as follows:

- Mortgage lending.
- Member services.
- Consumer lending.
- Audits.
- IT.
- Planning and marketing.
- Finance.
- Accounting.

Much to the surprise of the leaders, the Lean Six Sigma team found over 800 unique processes among the eight units. With such large numbers to work with, a decision was made to keep the documentation at a macro level when process-mapping the existing flow. During

the mapping exercises, the Lean Six Sigma team tried, whenever possible, to collect process data such as volume, cycle time, departmental head counts, and lead time.

As macro-level process maps were completed, the credit union uncovered improvement opportunities that were tracked on Excel spreadsheets. This helped identify the low-hanging fruit—items that could be addressed easily because they were quick fixes.

This credit union shared four project examples that were the result of process documentation activities.

Online Statements

The first project came from the marketing and planning department. One of the processes documented in this department focused on the conversion of members from paper statements to online or e-statements. Using Lean Six Sigma principles, the credit union collected process data on how many members were receiving offers from tellers in the branch to convert to the less expensive e-statements. Unfortunately, out of 900 offers made each month, on average only 10 members made the conversion.

Once the process was fully documented and the required process and customer data were collected, the credit union's Lean Six Sigma team leader used a Lean tool, Kaizen, to identify solutions. The central goals were to simplify the conversion process for the member and to improve the tracking of branch data on whom the product was offered to and when.

To address the problem, the process was changed so that when a teller offers the e-statement to a member and the member indicates interest, the teller can flag the member's account. Then, the next time that member completes an online transaction, a pop-up message appears on his or her screen. This message reminds the member of his or her expressed interest in converting to e-statements and takes the member through each step of the conversion process. If the member fails to complete the process, the account is flagged for someone from the back office to contact the member and assist with its completion. The improved tracking at the branch level will also improve the incentive programs. The solution is still being finalized by the IT department.

The credit union is expecting a 30% conversion rate due to this improvement project. This could translate to yearly savings of nearly \$150,000—all stemming from a simple, inexpensive, one-day Kaizen event.

Electronic Warning Bulletins

This project focused on the fraud alerts that are issued when members lose or cancel their credit card. As part of the process of “disconnecting” or canceling a card credit, an electronic warning bulletin is applied to the card. This helps prevent potential fraudulent activities.

The credit union was using this service, provided by MasterCard, to send electronic warning bulletins for six months after a card was cancelled. The cost of this service was \$13,000 per week. While studying the process, the Lean Six Sigma team questioned the risk department about the six-month cutoff and the justification for this lengthy period. They learned that there was no statistical correlation between the dollar value of losses incurred and how long the warning bulletins were applied to the credit card. Ultimately, the credit union decided to scale back the warning bulletin period to 30 days. This process change resulted in a savings of more than \$8,000 per week, or \$400,000 annually.

Loan Modifications

This process improvement project originated in the consumer lending division. With fluctuating interest rates, it's common for members to ask the credit union to modify an existing loan to match the rate or terms of another financial institution. Process mapping indicated that the loan modification process took anywhere from 30 minutes to four days per loan. This cumbersome process included 93 steps, 14 decision points, and four physical handoffs. The process started with the lending representative, who moved the request to the decision center (underwriting). Once a decision was made, the request went back to the lending representative, who, in turn, contacted the member with a decision.

Once the process was well documented, the Lean Six Sigma team conducted a one-day Kaizen event to determine ways to streamline the loan modification process. The result was a newly designed process that will include an 80% reduction in number of steps to just 19, two decision points, one handoff, and a new target time of 10–15 minutes per loan modification. The simplification of the process was based on the notion that most loan modifications can be completed by the lending representative. The data collection for the process helped identify a trend in loans with modification requests—they were typically for small loan amounts and represented a low risk to the credit union. Based on IT assessments, the development costs for this project would be far higher than the value of adding this functionality. As a result, this project was not selected for completion. The Lean Six Sigma methodology helped the credit union make an accurate go/no-go decision on an expensive IT project.

Automated Clearing House Transactions

The fourth project focused on automated clearing house (ACH) transaction requests from members. Typically, it took the credit union four to five days to complete these transfers—a very long process. The existing process required a teller at any of the 37 branch locations to have the member complete a request form and then sign three copies of that form. Two copies were placed in an envelope and sent to the back office; the original stayed with the teller. One of the back-office copies went to the accounting department for processing. This was a paper flow problem, with 15,000 transactions of this nature per year. Most notably, 10%–15% were incomplete and required rework, primarily due to missing signatures. In such cases, the credit union asked the member to return to the branch office to sign the request forms, causing further delays and creating member dissatisfaction.

A Kaizen event helped identify several improvement opportunities. This included enhancements to the ACH system to generate a new daily report of missing signed ACH forms. Previously this information was maintained manually on spreadsheets. Scanning of signed forms was added to the process as part of the Kaizen event. After the new steps were implemented, the process improvement department determined that the changes save the accounting department four hours a day. Eventually, the credit union plans to redesign the ACH process to capture the member's signature at the point of request. The new process will likely have the teller or member entering the request into an online system, with the request then automatically sent to the accounting department for approval. The goal is to shorten this process from a four- to five-day cycle to same- or next-day service. The credit union predicts this will save time and money and improve member satisfaction.

While these projects seem simple in nature, once the problem was identified, the observed impact to the credit union and its members was significant. The power of the Lean Six Sigma methodology was that it helped uncover inefficiencies that the credit union had learned to live with over time. Lean Six Sigma provided a formal structure for improving processes throughout the enterprise. With an unbiased analysis of the process and the expertise of subject matter experts, this credit union has been able to successfully close large- and small-scale projects over the past five years.

Credit Union 2

This credit union, which has over 15 branches and is located in the northeast, began its quality journey over a year ago with the goal of creating the required infrastructure for continuous improvement—i.e., process data, metrics, process maps, and trained

employees. Sponsored by the CEO, this institution with over \$3B in assets set out to build a solid foundation for process management and improvement.

To accomplish this, a core team was assembled. They identified 140 unique processes in the credit union. After defining these processes, the team documented them end to end, outlining process steps, interdependencies, and key metrics such as cycle time, percentage of rework, and number of customer complaints. The purpose of the process documentation and data collection was to:

- Ensure that the assigned business targets were attainable and realistic.
- Develop an understanding of processes and interdependencies among leaders and employees (“How does what I do impact others?”)
- Enable proactive process management. With an understanding of the processes and their limitations, leaders were empowered to more effectively manage them with the help of metrics such as accuracy, cost, and cycle time.
- Identify opportunities to reduce cost and cycle time and improve accuracy and service.

One of the areas selected first for documentation was consumer lending. Several key opportunities for improvement were quickly identified once the processes were mapped. An added benefit of process documentation was that it enabled the credit union to transfer process information that was previously stored on computers, in paper files, or perhaps in the heads of one or two employees to process maps that were visible and understandable to all.

The key findings in this project were:

- The mortgage process included over 630 steps.
- There were 38 failure points in the process (areas that would require rework).
- Failures were driven either by technology or organizational structure. The employees involved in the lending process operate in silos: Origination is aligned with branches and the frontline; processing, underwriting, and closing report to the CLO; and servicing reports to the VP of operations. Without a proper understanding of the overall process and without a team structure, employees in these areas did not understand the other employees’ functional requirements. As an example, 50% of mortgage applications required rework due to missing information. That is a clear enough indication that the front line did not have a good understanding of or appreciation for other departments’ requirements to complete a request without rework. This had negative

ramifications for the member (who may have been recontacted for the missing information) and the credit union's bottom line.

- Multiple calls were coming in from members to obtain the status of their mortgage. Clear expectations were not being established with members up front, and not all frontline staff were providing appropriate levels of service to members.
- The credit union's systems were not compatible. For example, the system used for loan origination didn't "talk" to the system used in the underwriting department, which led to increased manual work and redundancies.

While this credit union was simply working to create an infrastructure around process management by documenting how it did business, it was able to uncover the opportunities for improvement listed above. They are now in the process of assembling teams to address these issues, with the central goal of reducing process cycle time and cost by streamlining the flow of applications through the entire process.

Credit Union 3

A third credit union reported that it used quality principles to completely reengineer the way it originated consumer loans in its 12 branches. This financial institution, located in the south, has assets of over \$600M. The organization was able to reduce the steps in its loan process from 110 to 42. This initiative saved them \$750,000 annually, a significant figure for a financial institution of this size.⁷

Credit Union 4

The innovative efforts of this financial institution demonstrate that Lean Six Sigma is applicable across the entire business. This credit union, located in the Midwest, has assets of over \$1.3B. Its Lean Six Sigma initiative is being spearheaded by the CEO, who gained experience with the methodology while serving on the board of another organization.

Leaders of this credit union shared their success in utilizing simple Lean Six Sigma tools to improve processes for generating and distributing the member newsletter. With a growing percentage of members accessing services online, the organization realized these members could also receive the newsletter online. Reducing the number of newsletters printed and mailed would result in lower costs. Projects like this show the versatility of Lean Six Sigma, as opportunities for improvement don't have to be complicated—even marketing expenses can be reduced through quality improvement.

Inspired by its success with smaller projects, this credit union recently conducted a Kaizen event to focus on improvements in its consumer lending application process. At this time, results are pending on the project.

Credit Union 5

The Six Sigma journey of this credit union dates back to 2006. Their journey has taken them through the successful completion of multiple complex Six Sigma projects, the development of a core quality team trained in Six Sigma, and the implementation of internal Service Level Agreements (SLAs). The small army of trained staff, process metrics (SLAs), process maps, and a culture of continuous improvement allow them to actively work on four to five projects each year. Some of their key accomplishments have been:

- **Reducing credit card losses from an expected \$810,000 to less than \$200,000.** The documentation of the process and data collection helped the team identify areas of high risk and failure. To get to their results, many things had to change. A list of examples includes:
 - Created one central “losses” team to monitor debit cards, credit cards, and ATM/POS activity.
 - Changed the credit card processor to one with more capabilities.
 - Implemented fraud detection tools.
 - Modified the monitoring process so that as alerts are received, member activity gets tracked in real time so that if a pattern continues, the card is shut off.
- **Reducing ACH transfers from two to three business days to one to two business days.** While ACH requests are initiated through online banking, internal processes led to long execution cycle times. Before the Six Sigma team examined the process, all requests had to be reviewed by the fraud detection team prior to being sent to the processing company; they were allotted 24 hours to complete their review. The process was designed so that all of that day’s requests would be batched, sent over to the fraud team with a 24-hour turnaround time, and then batched again to be sent to the processing company. This resulted in a two- to three-day turnaround time. In collaboration with the fraud detection team, the Six Sigma team simplified the monitoring process by creating a daily report with all the data required to complete the fraud analysis. Additionally, the cutoff time for ACH was modified so that all ACH requests received by noon would be expected to be sent over to the processing company that day. The simplified fraud detection process would now enable the team to review

these requests by 3 p.m. This ultimately allowed ACH transfers to be completed in one to two business days instead of two to three days.

- **Reducing the number of incoming calls related to annual tax forms.** Every year the credit union ensured that tax forms were sent to members by the federal government deadline of January 31. Logically, every year the call center experienced high call volumes in early January from members who had questions about the availability of the forms. The credit union wanted to improve their service level to members and reduce the number of incoming calls. What the Six Sigma team discovered was that each department (e.g., mortgage, IRAs, retail) was using different processes and systems to generate their tax information. Some departments didn't have a monthly balancing process and were waiting until the end of the year to complete their balancing. Furthermore, IT did not generate the tax forms until they had received notification from all departments that their numbers were available. With the help of a cross-functional team, the Six Sigma team revised the processes so that each department was balancing/reviewing on a monthly basis, resolving all exceptions. As for IT, instead of waiting for every department to have its numbers available, they would generate and send out tax forms as each department gave them the go-ahead. The end result was that the credit union was able to send out all of its tax forms by January 8, 19 days sooner than the year before. Another enhancement is that an e-mail is now being sent to members notifying them when their tax forms are available online. These changes have resulted in a substantial reduction of incoming calls in January.

In all cases, regardless of the size of the institution or the process being used, an objective, unbiased documentation and analysis of the workflow resulted in measurable benefits.



CHAPTER 4

Looking at the Competition: How Banks Utilize Process Improvement

Banking competitors have a head start in the kind of process management that leads to superior efficiency. Two bank case studies are followed by takeaways for credit union leaders.





Regardless of asset size or location, banks across the country are also adopting quality methodologies, with many demonstrating significant results. Some of the banks that have deployed Lean Six Sigma are Bank of America, FifthThird, Bank of Montreal, BB&T, and Key Bank.

A recent publication chronicled the success of Capital One in driving a Lean Six Sigma strategy as the multibillion-dollar organization prepared to enter the direct banking market.⁸ Leaders realized this new business focus would create added pressure and new demands on the organization. Essentially, Capital One was preparing for both organizational and operational change, so leaders embraced Lean Six Sigma to minimize customer impact and cost.⁹

Capital One

Similar to the quality journeys taken by many credit unions, Capital One first secured executive commitment for the new quality strategy and then created a high-level, detailed process inventory that included 43 unique processes for the new business. Next, the organization used three general criteria—risk, cost, and customer experience measures—to prioritize the 43 processes. From this exercise, the organization began focusing on four major business processes that were identified as critical to the success of the new direct banking activities:

- Account opening.
- Flexible resource strategies.
- Internal quality assurance.
- Complaint management.

Through a series of Lean Six Sigma improvement projects, the organization reengineered its processes associated with opening new accounts. As leaders began to realize the rigidity of operating within a silo-type environment, the organization began conducting more cross-functional training, utilizing many subject-matter experts to

facilitate the transfer of knowledge and information. The internal quality assurance focus prompted Capital One to introduce new metrics to measure performance on compliance violations, application rates, customer callback rates, etc.

As a result of improving processes and increasing efficiency, Capital One reduced the cost to open a new account by 40%. Aside from

As a result of improving processes and increasing efficiency, Capital One reduced the cost to open a new account by 40%. Aside from the significant financial benefits, employees gained a better understanding of processes and systems across the organization.

the significant financial benefits, employees gained a better understanding of processes and systems across the organization. The culture shifted toward a more rigorous process-centered philosophy as Capital One began measuring error rates, regulatory misses, accounts

converted, and customer callbacks. In addition, the Lean Six Sigma journey helped established a culture of pride as staff worked to fulfill customer requests.

Reports of success in large organizations such as Capital One should serve as encouragement to smaller, more nimble credit unions and banks in their pursuit of continuous improvement.

Regional Bank—Bank A

This financial institution began its Lean Six Sigma journey in 2004 as leaders looked to reduce costs and improve the customer experience. Ultimately, the goal was to make the retail division as lean as possible by removing incremental costs and products that delivered minimal revenue. This is where the name of this quality initiative, “Simplify and Unleash,” came from—to simplify the retail division and then unleash the strategy as a model for all branches to follow.

Although the strategy offered many avenues to pursue, the team focused on simplification to address process issues affecting the back-office operations and to improve teller performance. Their selected approach focused on three goals:

- Increase capacity by reducing waste and rework.
- Reduce costs per account by eliminating unprofitable services and control processes by cleaning up inefficiencies.
- Increase customer satisfaction through improved training and organizational structure.

Bank A began its journey like many credit unions—by creating an inventory of all key processes. This inventory included 250 unique processes, about half of which took place in the branch locations

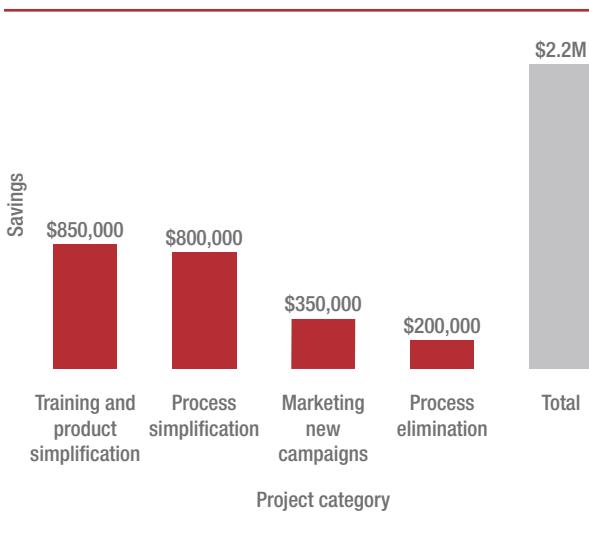
and the other half of which took place in the back office. Once the inventory was completed, a Lean Six Sigma team, spearheaded by five employees serving as team leaders, began collecting data on the selected processes—measures such as transaction volume, error rates, and frequency of errors.

After analyzing the data, the team identified four potential improvement targets:

- **Simplify and streamline key transactions with three central goals:**
 - Reduce the required labor in both front and back offices to complete the transaction.
 - Reduce rework and reject rate in the back office to recover labor costs.
 - Increase the usage of products by customers in order to increase revenue; example: debit card signature usage.
- **Simplify product offerings**—Customer surveys showed a lack of confidence in tellers’ abilities to correctly complete their banking transactions. The uncovered root cause of this issue was two-pronged:
 - A lack of control on employee hiring as well as onboarding and training processes for new tellers; i.e., tellers would conduct transactions for which they had not received training.
 - A broad array of overlapping retail products that made it difficult for retail employees to successfully engage in cross-selling of products.

- **Measure the success of marketing campaigns**—On average, the bank was conducting one marketing campaign per month to attract new customers. However, very rarely was the success of these campaigns measured. Furthermore, the frequency of the campaigns was creating an unstable work environment for the employees. Through baselining competitors on their incentive programs and reducing the number of campaigns, the marketing director signed up for generating \$350,000 in incremental revenue.
- **Eliminate low-value-added services/products**—Finally, the team identified a list of services that were being offered to customers that were not considered key differentiators. They were selected for elimination. Examples included cash advances and bond redemptions.

Figure 5: Financial Benefits by Area of Improvement

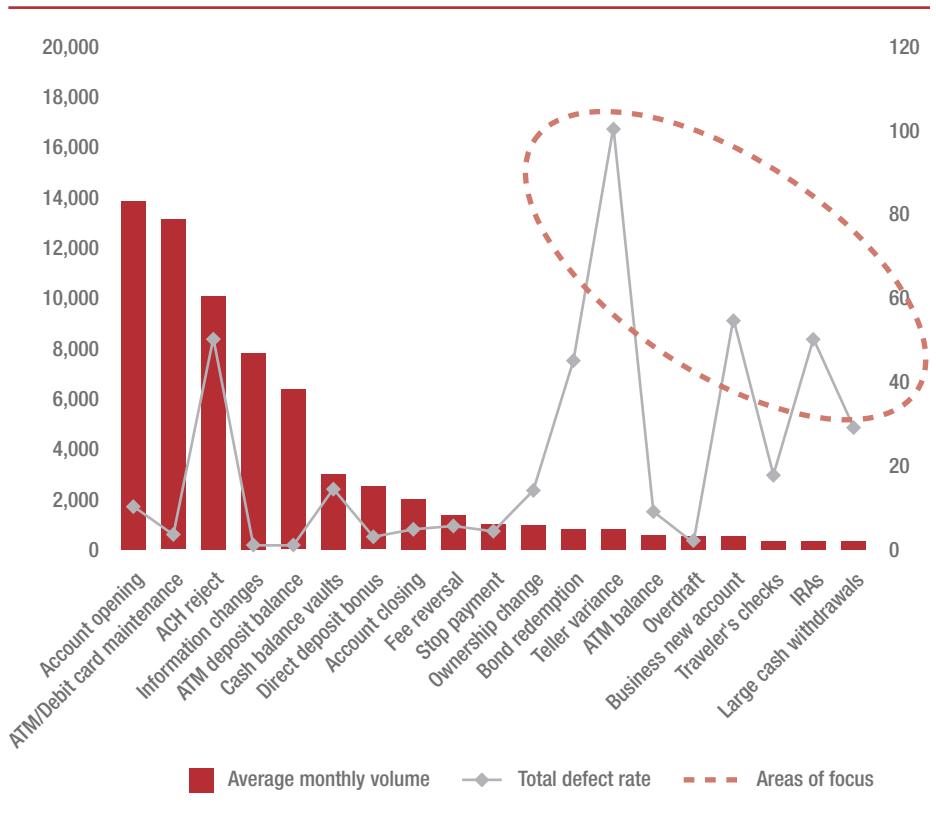


For each category of improvement, the team calculated the potential savings to the bank, which were based on reduced labor costs, vendor fees, and improved products-per-household ratios.

In the early stages of the project, the Lean Six Sigma team learned that only 30% of the processes had any metrics associated with them, so essentially the bank did not have systems in place to measure the performance of the remaining 70% of its processes. The team soon began collecting error rates for all retail branch transactions. Through this improved data collection effort, the team discovered that the process flow from the branches to the back-office operations was broken and was the root cause of back-office employees spending 20% of their time on rework. The team then narrowed its focus to recovering 30% of that waste through product simplification and elimination of broken processes and unprofitable retail products.

Using the error reports, the bank could more efficiently track the most common errors, which created a positive impact on improving training content, driving the concept of accountability, and giving a voice to the back-office operations. The error reports also created a platform for continued training and development of teller staff. Interestingly, the data showed an inverse relationship between

Figure 6: Error Rates versus Volume



transaction volume and error rates, where the higher the volume, the lower the error rate was, and vice versa.

A quick study of existing training materials revealed discrepancies regarding which tellers were trained on particular processes. A change was implemented to funnel the majority of infrequent transactions to a few senior employees. This would increase the volume for those trained employees and drive accountability when tracking error rates by employee.

Next, the Lean Six Sigma team identified 10 high-volume core transactions, based on frequency of complaint, error rate, and total financial impact to the bank and its customers. This list included processes for opening new accounts, wire transfers, and more. Simplifying these 10 processes would translate into nearly \$800,000 in cost savings for the bank.

The team also studied the wide variety of retail products offered to customers, paying particular attention to growth and cost-per-account measures for each product. This profitability analysis helped determine which products the bank should keep and which could be eliminated. Eventually 18 products, including several types of checking and savings accounts as well as three certificate of deposit options, were eliminated. The elimination reduced labor expenses, simplified training, improved cross-selling, and allowed the bank to convert their customers to more profitable products. This resulted in \$850,000 of financial benefits.

In addition to reducing the number of retail products offered, the team worked to lower the number of retail processes. Figure 7 lists the processes that the bank eventually eliminated. These branch services were categorized as high risk, redundant, or unprofitable. They were eliminated because they reduced the capacity of the branch locations and the back-office operations.

Figure 7: Retail Services Selected for Elimination

Retail service	Potential savings if eliminated
Counter checks	\$230,000
Cash advances	\$45,000
Bond redemption	\$320,000
Signature guarantees	\$6,000
Miscellaneous	\$95,000
Total savings	\$696,000

These activities brought the bank to the end of phase one of their Lean Six Sigma projects. A second phase quickly followed, focusing on fixing processes for new account openings, e-statements, and online banking processes. Once the concept of continuous improvement was securely rooted in the bank's culture and the required data points were in place, the employees took the lead on phase three and now continue to successfully use Lean Six Sigma to keep the financial institution lean and strong.

Risks, Critical Success Factors, Failures

With any major initiative, regardless of the size of the company, there are risks of failure. Luckily enough, companies have deployed quality methodologies to help identify critical success factors. Based on the voice of the credit unions surveyed and on a literature search, the following items are deemed essential in avoiding risk and failures when deploying Lean, Six Sigma, or Lean Six Sigma:

- **Top management and executive involvement and buy-in**— This has to be a genuine and very public commitment. Lean Six Sigma is not a grassroots-type initiative: It will require change on all dimensions as it transforms the company for the better (process, data, metrics, organizational structure, etc.). It is the executive commitment that allows for change to take place without much resistance, nurturing the type of corporate culture required to become successful.
- **Appropriate training and coaching of employees in order to effectively use and implement the methodology**— Training and development of high-potential candidates is critical, as they become the change agents and problem solvers in a company. While the training exposes the trainees to a new way of looking at problems and identifying solutions, the coaching helps institutionalize the new way of thinking.
- **Clearly showing how Lean Six Sigma has helped improve member service and/or benefited the company financially**— Improvement opportunities can be identified in different ways, but what is more important is how they are prioritized and assigned resources. Good improvement opportunities have a measurable value to the business and a clear line of sight to company goals and objectives. This allows for appropriate prioritization and maintaining project execution momentum.
- **Allowing for the development of required infrastructure that will manifest in a culture of continuous improvement**— Creating a culture of continuous improvement relies on employees of all levels understanding the processes they touch, the availability of reliable process data, business metrics, and dashboards. Most companies that embark on the Lean Six Sigma journey don't have too many of their processes even documented, let alone measured. That is not to say that everything has to be in place before you deploy Lean Six Sigma, but executives and

Good improvement opportunities have a measurable value to the business and a clear line of sight to company goals and objectives.

managers have to demonstrate patience as projects hit stumbling blocks when required data are not available. By patience, we mean not rushing the team to simply come up with a solution without really understanding and validating the problem.

- **Involvement of all groups**—For each project, getting the key groups (all the areas that may touch or impact the process) involved from the very beginning ensures long-term success. Team involvement allows all parties to understand and appreciate the need for change, their roles and responsibilities, and their part in developing the solution.

Conclusion

What we have aimed to show in the course of this report is simply that quality methodologies *are* being used by credit unions and that many are benefiting from their use. We have witnessed quantifiable financial benefits and improved process efficiency in the credit unions with which we conducted research. The era of Lean Six Sigma as the differentiation strategy reserved only for the 500-pound gorillas in the sector is long over. Today, with the commitment of senior leadership and the presence of a few smart and motivated change agents, many credit unions can start to improve the value they deliver to their members, simply by operating in a smarter fashion. The data are there to prove this, if we follow the tenets of Lean Six Sigma—that we will not take decisions absent the appropriate facts. Several thought leaders in the credit union realm have launched Lean Six Sigma, and all of them are benefiting from the improvements the methodology has brought.

We would be remiss if we didn't point out the potential areas of risk that are present in the introduction of such initiatives. A senior leadership that has not only blessed such an undertaking but also understands the reason for taking the Lean Six Sigma path is imperative. The instances of well-meaning leaders who have launched this initiative but could not communicate the urgency and driving force behind it are more than a few. To mitigate this, the senior leaders should all have an exposure to some level of training and be kept in regular communication by the quality team in their organization.

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