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Driving lean management:

An interview with the COO of TD Ameritrade

The financial-services group's Marv Adams explains how ridding organizations of valueless complexity can spur growth.

Marv Adams is the chief operating officer (COO) of TD Ameritrade, a leading US provider of electronic discount brokerage and related financial services. The company currently holds more than \$524 billion in client accounts and executes an average of nearly 400,000 trades per day.

In his role as COO, Mr. Adams oversees all IT and operations functions, including systems development, data centers and infrastructure, networks, project management and process improvement, and retail brokerage clearing and operations. He has devoted much of his 30-year career to the pursuit of lean management, initially in traditional manufacturing environments and later in financial services. He has been a member of the senior leadership teams at Ford Motor Company, Bank One, Citigroup, Fidelity Brokerage Services, and TIAA-CREF.

McKinsey spoke with Mr. Adams at his office in Jersey City, New Jersey.

McKinsey: *Across the many operational contexts in which you have worked, what do you find makes lean management so powerful when it is done well?*

Marv Adams: Lean management effectively taps into associates' convictions and passions. They have a deeper sense of when their company is acting in the right way—for the long term, out of a genuine belief in serving clients—versus when it is just reacting to short-term pressures in a never-ending cycle of “flavor of the year.”

Flavor of the year is exhausting. It consumes time and energy without achieving real change. That's dispiriting for associates and makes it even harder for middle managers to motivate their teams. Everyone is so worn out that when they

see a system that says, “We are stewards; it is our responsibility to find a better way to help our clients,” they find it inspiring. When associates can tie their work back to a purpose that's deeper than just making more money next quarter, the result is a culture in which people are much more satisfied, inspired, productive, and innovative at every level of the organization. So it's incredibly powerful when it's done well.

McKinsey: *Now that you have designed and led a number of lean management–based transformations, how has your perspective evolved?*

Marv Adams: The first few times that I got involved with some of the ideas underlying lean management, it was all about individual methodologies, so it was inherently fragmented. There wasn't any emphasis on the belief system or leadership and management practices. A “lean project” would start when somebody saw a problem—a problem big enough to warrant significant resources.

At most, the project would fix a process. But it didn't leave behind a continuous-improvement system; it didn't leave behind motivated staff.

Now I see lean management as an integrated system of beliefs, leadership practices, and management practices. The methodologies and tools are important in that they allow the organization to implement those deeper ideas in a practical way, but the tools alone are not lean management.

McKinsey: *How can lean management bridge the gap between a complex organization and the client?*

Marv Adams: One of lean management's great strengths is its focus on understanding a whole

Marv Adams



With more than 30 years of operations and technology experience, much of it in the financial-services sector, Marv Adams has served as chief operating officer of TD Ameritrade since 2011. Previously, he was executive vice president of shared services and technology and operations for TIAA-CREF, where he oversaw operations and applications-services technology, as well as IT strategy and policy. Earlier in his career, Mr. Adams served in a similar capacity at Fidelity Investments, where he was responsible for enterprise transformation. He also served as chief information officer at Citigroup, Ford Motor Company, and Bank One and was the head of worldwide engineering systems for Xerox. He started his career at IBM after earning a bachelor of science in electrical engineering at Michigan State University.

value stream, every step in a process from beginning to end, from the client's point of view. It forces everyone to ignore internal boundaries and instead examine only the flow of work and activities that contribute value for the client—whether in the form of a funded investment account, completed loan, or something else. The organization may discover that it needs new work systems to make sure that work flows from function to function. Middle managers will need to take on a different kind of role, one that emphasizes cross-functional collaboration and problem resolution. And the organization as a whole becomes more cohesive.

As a result, the organization begins to simplify itself. Left on its own, almost any organization evolves in a way that leads to what I call “valueless complexity.” People assume that things are done in a certain way because that is the way they need to be done. Very often, however, what has actually happened is that a practice developed for

a very specific time and purpose has crept into processes that it was never intended for. And in larger organizations, these intrusions proliferate to become bureaucracy.

Much of the time, associates can see the problem, but they feel powerless to make changes. Lean management gives them the voice, structure, and tools to challenge long-standing assumptions—and the freedom to question how the organization does certain things and why. The effect is to help simplify and root out valueless complexity every day at the working level of the organization.

McKinsey: *What are the most important things that leaders must believe for lean management to work for their organization?*

Marv Adams: I see four beliefs as essential.

First, clients matter more than anything and their perspective trumps almost all other consider-

ations. That also means taking care of the associates, since they are the ones taking care of the clients. Companies are often tempted to monetize their productivity gains too quickly via layoffs. Unless handled exceptionally well, layoffs will undermine the trust that lean management seeks to build. People already have preconceived notions about the relationship between lean management and layoffs, and such action only serves to reinforce that misconception. Conversely, companies that protect this newfound trust and instead rely on attrition and redeployment through practices that associates perceive as fair will earn a continued commitment to making the organization better.

Second, most people come to work every day wanting to do a good job and serve the client—not to create problems. So when there are problems or somebody makes a mistake, the first response cannot be blame. So many dysfunctional things occur when people are afraid of being associated

with problems—they not only hide individual problems, but they also distance themselves from complex situations. But once the fear eases and people begin to feel comfortable uncovering problems themselves, excitement builds and performance takes off.

Third, whatever the organization is doing, there is probably a better way of doing it—and people are individually and collectively responsible for pursuing that new way of doing things. It's not enough just to want to find a better way; people must commit to lean management's approaches and tools, which take effort to learn and adapt to the organization. But they are essential because they systematically guide the creation of new structures for orchestrating resources more effectively.

Finally, lean management is a holistic system for achieving permanent change, not an isolated project or collection of tools for meeting short-term goals.

Most of these beliefs are rooted in trust. I think leaders absolutely have to convey that trusting your colleagues is critical to having a team, to having one company from the eyes of the client.

McKinsey: *A lot of organizations say they believe in those things, but the reality doesn't meet the rhetoric.*

Marv Adams: Lean management provides a tangible way to translate rhetoric into action. The common language, methods, and tools create a structure for daily reinforcement, much like practice sessions in music or sports.

For more, see sidebar “Lean management at TD Ameritrade.”

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Lean management at TD Ameritrade

McKinsey: *What were TD Ameritrade's initial goals in pursuing lean management?*

Marv Adams: It started with the CEO, who simply wanted the organization to be better. Over the years, he has consistently avoided phrases such as “best in class,” which can imply a limit to how good an organization can become. Instead, his focus has long been on “better,” regardless of how good the organization may become. It was lean management's focus on continuous improvement that drew him to the concept.

The CEO also recognized that under current conditions, the financial sector's persistent profitability challenges were unlikely to change without a major intervention. He wanted cost reduction, but in a way that would build TD Ameritrade's muscle rather than strip it away.

McKinsey: *Where did you start and why?*

Marv Adams: We started off in several key value streams, including retail new-account opening and call centers, institutional client onboarding and service, and shared brokerage operations.

The scale meant that our improvements would have a substantial effect on the organization, both financially and psychologically. For example, across the industry, new-account opening can be frustrating for clients because it cuts across many functions and every step involves important compliance requirements. Brokerages struggle to reduce the number of clients who never fund their accounts, either because they lose interest or because they end up with errors in their applications. Even modest reductions in this type of “leakage” add up to significant new

business for us. Improvements were therefore highly visible and helped position lean as a growth story—the main goal was to increase revenues, with efficiency gains as a welcome consequence.

I'd estimate that about half of the benefit we have seen comes from productivity and efficiency improvements. But what's more important over the long run is that the other half comes from growth sources, such as clients opening more new accounts and call centers pursuing more high-quality leads. Most important of all, by fundamentally changing how 3,000 people work across all of our sites, our transformation has propelled our employee-engagement scores into a new category. Our survey partner tells us that we are now among the best-performing companies in all of financial services. That's what makes further improvement possible.

We have not been afraid to make tough decisions. In areas such as new-account opening and brokerage operations, we have redrawn the organizational boundaries to deliver better value for our clients, with minimal internal coordination and redundancy. It is a strong sign that leaders now advocate to do what is right for our clients and the company without regard to their personal fiefdoms.

McKinsey: *How have the communications evolved over the last year?*

Marv Adams: I think the most important change is that the communications are becoming much more bottom-up. People are reporting their achievements in town halls, posting them online in our newsletters. Our surveys show that even the registered investment advisers we

serve are becoming excited; their most important metrics have all improved—client satisfaction, error rates, controls, even revenues. Some of our institutional clients are asking us how lean management might help them in their businesses.

McKinsey: *What kinds of support are people asking for across the organization?*

Marv Adams: For parts of the organization that have already implemented lean management, we see a big pull for more help with developing lean leadership skills and building new structures to support faster problem solving and talent development. They want to do more. For those that have not experienced lean yet, there's a different sort of pull. When they first hear of the results, they get very interested. But then there's a middle stage when they push back, because change is difficult and they come to realize that lean management is a whole new way of working. Once they start engaging, they come to realize that the long-term outcome is worth the commitment.

McKinsey: *Where does lean go next?*

Marv Adams: Because we believe that lean management applies everywhere, the next step is to expand across all support functions. IT is already under way.

McKinsey: *What are the similarities and the differences you have seen in extending lean management into IT?*

Marv Adams: I've been in IT since 1981, and since then I've managed a lot of IT organizations. The patterns of IT work are largely consistent, regardless of industry or scale: the challenges of

infrastructure management or application development are pretty similar whether at Ford Motor Company or Citigroup or TD Ameritrade. So I can say with great, great conviction that the processes of IT that have built up over the last three or four decades are rich with opportunities that lean management can address—they're just as rich as in any classic value stream.

But the culture is different in IT, which is filled with people who are more independent, generally more introverted, and very narrow and deep in a technical field. As a result, getting them to see how their work fits into a larger stream of activities or asking them to work more collaboratively can be more difficult at first. Historically, IT professionals have been supposed to solve their own problems themselves, so the idea of sharing problems for others to help solve is a radical change.

Then there is the question of metrics. Measuring the output of other value streams or functions is usually pretty clear: we can add up the number of transactions or phone calls or open accounts, then see how many we have completed and how long each one took. Trying to evaluate individual productivity in an application-development project involving 25 people over three months is a lot less clear. It's doable, but there is more of a learning curve.

Now, having said that, IT is not only a rich target for lean management but an absolutely critical one—especially in a business such as TD Ameritrade's, which is mostly online. In this context, IT figures highly in every area of the business that is important to the client. If we say that we are client-centric, we must engage IT deeply in the whole system of activities.

McKinsey: *How is lean management changing IT at TD Ameritrade?*

Marv Adams: The early indicators are promising. In application development, for example, we're adapting rigorous methodologies such as visual modeling, collaborative requirements analysis, and more frequent iteration in the software-development life cycle. Infrastructure operations has created a single "front door" for requests, together with clearer segmentation, better resource pooling, and more accurate metrics for throughput and productivity.

We expect to free up about 30 percent of our capacity in both application development and infrastructure. We have not yet decided on whether to reinvest that capacity into faster speed to market or to improve our efficiency, but we are excited that we will be running significantly more effectively than we ever have before.

McKinsey: *And after IT?*

Marv Adams: We will expand to other functions such as HR and marketing. But what's even more interesting to us is to "surf the improvement wave," expanding our ambitions as lean management takes hold. For example, in IT the transformation is already turning into an important source of innovation. We recently held a daylong "hackapalooza" to generate new IT ideas, in which the best ideas won awards and are on track for implementation.

McKinsey: *How do you help leaders, managers, and associates get lean management?*

Marv Adams: Even in my current position, I can't simply push lean management into an organization. Instead, I demonstrate my belief that lean management is important by taking the time to help senior managers understand it. I also encourage people to go and see another organization that is applying the same ideas. Seeing it live and talking to the people involved makes a huge difference in creating shared understanding and conviction to try it out.

Once an informal dialogue gets going, people start to trust their colleagues a lot more. Hierarchies

start to level out. Respect for associates increases with the recognition that they have valuable insights. Managers come to realize that their job is to create the conditions for drawing those insights out, as opposed to giving top-down direction.

Horizontal trust increases as people collaborate more closely across organizational boundaries. Not long ago, middle managers from two organizations came forward and jointly recommended moving hundreds of associates from the first organization to the second. The managers weren't thinking of turf anymore; they believed deeply that the new configuration would lead to a better client experience and, almost as an aside,

higher productivity. They came to value the system as a whole more than their individual function. That's what I mean by stewardship.

And never underestimate the importance of communication. Talk about it often and consistently. And make sure you do it in a way that's personal for your organization.

McKinsey: *It sounds like trust also strengthens, from bottom to top.*

Marv Adams: I've seen it at almost every huddle I attend. When I ask our associates what they like most about the changes, they talk about how they see their managers more often; they see their leaders more often; their ideas are being heard. They feel like they're taken seriously, and that's really motivating—they see that they play a certain role, and they can better understand the manager's role as well.

McKinsey: *What indicators do you follow to evaluate progress?*

Marv Adams: I look at how authentic people's beliefs are—how strongly they own the underlying concepts. Very pragmatically, I want to see that the design of the value stream and management system reflects a solid understanding of lean management. Once the transformation is under way, I look at how well the tools match the design—what information is used daily, how managers and associates engage in huddles, and whether problem-solving cycles fully address the outcomes that matter most to clients.

I want to see people connecting to a deeper purpose. Recently I was in Omaha, where a single huddle had identified and fully implemented some 51 ideas in the first six months, out of a total across the whole organization of about 500. That level of energy tells me that the continuous-improvement engine is revving up.



There's always a better way. As a transformation matures, it becomes more important to challenge your own methods.

McKinsey: *What value should leaders expect to see?*

Marv Adams: The easy answer is productivity, but another of lean management's virtues is that productivity gains are actually a by-product of other changes that are more significant and lasting. For example, client-satisfaction rates will improve because the client experience will be simpler and better integrated.

Innovation improves as well, especially over time. Initially the daily huddles will focus on problems, but as those get resolved and associates gain confidence, the discussions will turn more to new ideas. At the same time, a simpler organization with greater capacity will make it easier to bring these innovations to market.

Risk controls also become more effective. Value-less complexity obscures important sources of risk. The exercise of identifying value streams reveals the real sources of risk, allowing the organization to realign its controls so they are more targeted and effective.

As for the productivity "side benefit," if an organization hasn't previously implemented a lot of efficiency programs, it's not uncommon to free up 20, 40, or even 50 percent of labor capacity

in the first year. The important difference between lean management and the typical efficiency program is what happens after the initial burst. In an efficiency program, not much happens, whereas lean management's legacy is the continuous-improvement engine, which typically yields at least 5 percent further improvement year after year.

But I would argue against launching a transformation by setting an artificial target for any of these dimensions. The danger is that people will then think that lean management is only for achieving that single target. As a result, they will implement lean management poorly, forgetting that the reason it works is that it is a holistic system.

McKinsey: *What two or three messages would you want to give someone considering lean management for the first time in their organization?*

Marv Adams: I would tell them not to think about lean management as yet another priority; instead, think of it as a more effective way of doing what you already do, so you can better achieve your current priorities and take on even more. The reason I say this is that in most organizations, there are too many priorities already. Lean management cannot succeed if it is merely added to the stack.

I would also recommend putting your best people on the team that spearheads the design and deployment of value streams and lean-management methodologies. Don't leave it to managers who just happen to be available or who may have done a process-improvement program or two in the past. The people heading the transformation must be respected leaders from within the organization.

It's an exciting journey. People sometimes come in with a preconception that processes are boring, but I would say that lean management will help you feel more connected—to your company's purpose, to the people you lead, and to your clients.

McKinsey: *What would you say to someone who's already pushing forward with lean management and is wondering, "What do I do next?"*

Marv Adams: The short answer is that there is no "next," because lean management should never go away. But people do wonder what more they can do with it.

I see this as a matter of returning to first principles: the belief that there's always a better way. As a transformation matures, it becomes more important to challenge your own methods. For example, we see a need to increase the speed and scope of our problem solving across the enterprise. We're therefore developing more robust management systems for middle and senior management.

We want to avoid setting too many top-down goals, which could damage the bottom-up focus that is the hallmark of lean management. There is no value in lean for the sake of lean; the goal must always be focused on the client.

McKinsey: *Over your years of working with lean management, what have been the most powerful moments for you personally?*

Marv Adams: A favorite is to participate in a huddle that's really clicking. In senior-

management roles, it's easy to think that your job is all about sitting in your office, reviewing financial performance and making policy decisions. But when you actually go out and see associates taking care of clients and see how much it means to them for you to be present and to hear what they're experiencing, it flips your whole view of what effective leadership is all about.

Another very satisfying aha moment is when one of the leaders I'm working with hits the tipping point between complying with what they think I want them to do and suddenly becoming inspired. The level of energy is so terrific; then they come back and say, "Everything you told me would happen is happening, and more." I've seen that transition play out with almost every senior leader I've worked with. As crazy as this may sound, I feel like I've changed their life in a positive and meaningful way. The results that they're going to be able to produce for clients and the company are substantially greater than what would have been possible before.

The final moment for me was seeing the dovetail between simplification and innovation. Getting rid of valueless complexity is a really powerful opportunity to spur growth in unexpected directions and further change the company culture to support more new ideas. ○