Lean done properly creates tight teams and forces managers to do what they are supposed to do: manage, instead of doing things themselves or hiding behind emails. This is part of the cultural change, and the ongoing improvement that comes from lean.

Lázaro Campos
CEO, SWIFT

People are getting more comfortable with an execution-oriented culture and a can-do attitude. That makes them impatient for change. They are saying "Why can't I do it now?"

Eric Siegel
former president and CEO, Export Development Canada

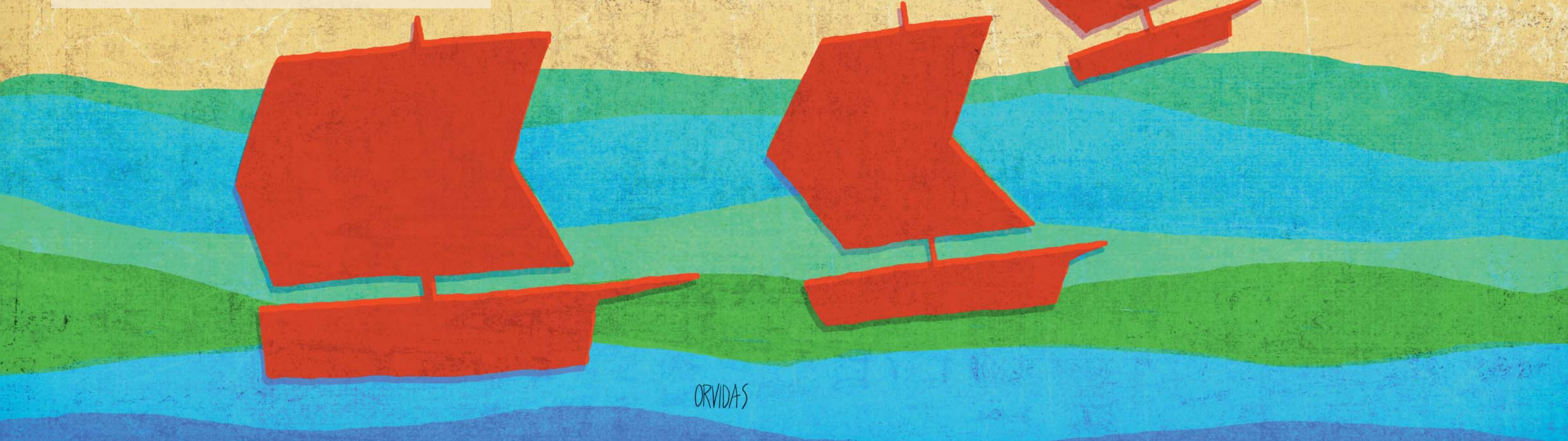
Lean is something more than just cost reduction. It's reducing time-to-market, it's improving service quality, it's reducing risk exposure, it's increasing employees' quality of life. It's also cost reduction, but the point is to obtain all these other benefits simultaneously.

Jorge Ramirez del Villar
COO, Banco de Crédito del Perú

McKinsey&Company

Lean Management

New frontiers for financial institutions



Lean Management:

New frontiers for financial institutions

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Foreword

For the last 10 years, leading organizations have been successfully importing concepts and solutions from lean manufacturing into service industries such as retail, travel, healthcare, government, and financial services. Financial institutions have been at the forefront of the lean movement, with notable success stories coming from banks, insurers, credit card issuers, and asset managers.

To deliver more value to more customers more quickly, financial institutions are deploying lean to unlock substantial improvement across many dimensions at once—from productivity to quality, customer experience, and work environment. Financial services executives increasingly see lean as the best path to reinvigorate their business performance in customer-facing channels, back-office centers, and support functions.

For some institutions, the experience has been truly transformational, leading to stronger, more resilient, and more responsive operating cultures. Moreover, they have done this across sprawling networks with thousands of branches and dozens of operations centers globally.

For other institutions, however, lean has failed to meet expectations. In their enthusiasm for quick change, these institutions often allowed their focus to become too narrow, and the resulting changes to remain too superficial.

A common pathology is the rush to adopt lean tools and certification programs. At best, these mechanical, bottom-up approaches can create short-term value within a department or function, but not the breakthrough performance improvements that enable successful institutions to change how they compete. Achieving that goal requires ingraining new management practices and cultural habits as well.

We shared our perspectives on the crucial gap between "doing it" and "really doing it" in *Banking on Lean* in 2008. Our hope was that by describing the value some pioneering financial services firms had derived from their lean programs, we would inspire more executive teams to embark on a lean journey.

Since then, the successes and failures of the first wave of pioneers have more sharply defined what it really takes to sustain a large-scale transformation. Successful institutions have buttressed lean's tools and process changes with entirely new management practices that more effectively develop the skills of all employees, while enabling continuous improvement and building a higher-performing culture. We refer to this powerful combination as "lean managment" (see "The value of lean management in financial services," p. 6).

Executives who are "really doing it" are now asking a new set of questions about how to expand and deepen lean's impact:

- How can we accelerate the rollout of beachhead lean management initiatives across the enterprise?
- How do we sustain our hard-earned performance gains to embed the new way of working within everyone's DNA—including middle management and top executives?
- How can lean management be applied in entirely new areas within the organization?

In *Lean Management: New frontiers for financial institutions*, we offer a series of articles and executive interviews that we hope will stimulate ideas among those looking to extend their lean programs even further.

Scaling lean management across the enterprise

In this first section we explore lean management approaches that reach beyond "demonstration events" to achieve more profound changes throughout the enterprise. Standard patterns create shortcuts for designing lean workflows across a wide range of business processes, while a new approach to rollouts facilitates the scaling of lean across a distributed network. Richard Hemsley, the COO of global transaction services at the Royal Bank of Scotland Group, describes how RBSG introduced lean into a complex, global organization. Jeroen van Breda Vriesman, executive board member at Eureko, a Dutch insurance group, shares how he helped expand the lean program from its health insurance division across the rest of the enterprise. Finally, Robert Miller, executive director of The Shingo Prize for Operational Excellence, shares his view of the common traits of companies that are sustaining the highest levels of lean.

Changing the role of leaders and managers

Next we address the importance of winning "hearts and minds" to sustain the lean journey. We describe the unique and pivotal roles played by effective frontline managers and senior leaders. Eric Siegel, former CEO of Export Development Canada, describes how his leadership team sustained a transformation that enabled EDC to become more "execution oriented." In addition, Lázaro Campos, the CEO of the SWIFT financial services messaging cooperative, shares his views on the importance of the human element during the lean journey.

Taking lean management to new areas

We conclude by sharing examples from financial institutions that are taking lean management to new horizons, including emerging markets, higher-risk businesses such as wholesale banking, and critical functions such as sales and IT. To illustrate lean management's power to open new opportunities and support competitive differentiation, Jorge Ramirez del Villar, COO of Banco de Crédito del Perú, shares his institution's experience in using lean to generate radical improvements in customer service. In a similar spirit, Thierry Pécoud, the CIO of global equities and commodities derivatives at BNP Paribas, discusses how lean complements traditional IT improvement methodologies to achieve dramatic results with a highly skilled workforce.

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We hope the perspectives in *Lean Management: New frontiers for financial institutions* prove encouraging and thought-provoking. Our aspirations are to help executive teams considering lean management journeys feel more confident and prepared to begin, while aiding those that have already embarked to take the power of lean management into new realms.

Alison Jenkins
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Changing the role of leaders and managers

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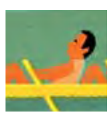
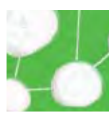
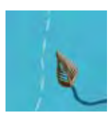
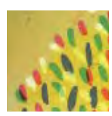
Taking lean management to new areas







The value of lean management in financial services

A few dozen financial institutions have used lean to transform themselves fundamentally. As a witness to many successful transformations, and to some that did not do as well, we have formed a perspective on how institutions derive the greatest value from lean. Below we outline three key assumptions that challenge conventional wisdom, inform our approach to lean management, and recur as themes in many of the articles that follow.

A comprehensive approach to transformation

Effective lean transformations yield major improvements not only in productivity, but also in speed, quality, customer loyalty, employee engagement and, most importantly, growth. Attaining these results, and ensuring that the underlying changes endure, is possible only through lean management's comprehensive approach. Rather than focusing only on "how the work gets done," lean management addresses all dimensions of a transformation at once, recognizing that each provides crucial support to the others.

- *Put the voice of the customer at the heart of the business.* Everything a lean organization does is geared to helping people work together more effectively to deliver exactly what customers value.
- *Strengthen performance systems.* Lean involves reshaping management roles and supporting infrastructure to make performance and targets more transparent, to ensure effective deployment of resources, and to encourage root-cause problem solving.
- *Enhance organization and skills.* Lean shifts responsibility towards the front line, and demands new styles of leadership. These new roles and responsibilities must be clear, and require stronger mechanisms to develop skills and capabilities at all levels of the organization.
- *Influence mindsets and behaviors.* While the leaders of most financial institutions understand that organizations cannot change unless their people do, lean management further recognizes the need to magnify the commitment of all employees to improve continuously.
- *Make processes more efficient.* To fulfill a customer need from initial request through to completion, an organization will mobilize a whole series of processes and resources that cut across internal boundaries. Focusing on how value flows to the customer allows the organization not only to identify and eliminate waste in time, resources, and energy, but also to make a dramatic difference in customer experience.

These five dimensions come together in a reexamination of everything an institution does, beginning with very basic questions, such as: how easily can our customers open new accounts that have the features and functionality they need? The questions quickly become more focused, asking whether, for example, employees have the skills and perspective necessary to probe for unstated needs, process an application efficiently, and make the right risk decisions. Finally, the inquiry reaches the deepest issues, such as whether staff believe that their approach to cross-selling is the right way to meet customer needs, or simply a reflection of the bank looking to make an extra buck.

Empowering the work force

Lean environments are characterized by the application of a few overarching principles, such as "eliminate waste." These principles are enabled through systems that bring lean management into each person's working life in a tangible way. The three systems that we believe are most critical to a successful transformation are:

- *Performance management*, so that everyone knows what they are supposed to do, which practices they should follow, whether they are meeting targets, and how they can improve.
- *Capacity management*, so that staff can systematically set priorities for skill development and exercise control over normal demand variability.
- *Root-cause problem-solving*, so that everyone learns how to identify, raise, and resolve issues more proactively.

Each of these systems in turn comprises a set of discrete tools. For example, performance management is commonly delivered through the use of key performance metrics, visual performance boards, and daily huddles. Taking an integrated view of principles, systems, and tools is essential: without practical tools, lean principles remain abstractions that people quickly forget, while focusing on tools alone leads individuals to see them as nothing more than exercises in box-ticking. Each tool in a given system builds on the others; only through the resulting virtuous cycle will companies achieve the continuous improvement that lean management enables.

Opening new strategic possibilities

Lean management should not be perceived only in terms of its effects on a single value driver, such as cost; a one-dimensional case for change is not enough to sustain an effort that will necessarily involve a coalition of leaders across an organization.

Senior leaders should instead turn to lean when they are facing broad challenges or opportunities that can engage an institution as a whole:

- If we dramatically accelerate our delivery of value to customers, how much extra business (and how many new customers) would we win?
- What growth opportunities could we pursue by making better use of our employees' energy and skills?
- How can we move beyond re-engineering processes, and create the capability to improve our performance year after year?

Through a successful organization-wide lean transformation, a global post-trade services provider doubled its capacity and found that it could support an aggressive growth plan without adding personnel. Meanwhile, a European retail bank increased the productive capacity of its branch network by 20 percent, allowing it to release staff, boost sales, and maintain excellent quality standards. A North American retirement services player was able to capture 50 percent more assets from customers seeking to rollover investment balances held at other institutions. Finallly, one Latin American bank won a national all-industries customer service award after lean contributed to reducing average cycle times by 70 percent while raising productivity by 150 percent.

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Lean management demands much more than the one-time elimination of waste or the implementation of new managerial tools. It requires businesses to transform themselves in accordance with what customers value—a commitment that will mean not only new processes, but new capabilities and cultural expectations. Lean management is therefore not an extrinsic goal for an institution to reach, but an intrinsic quality that the institution must continually strengthen so that it stays open to change and improvement long after the transformation itself has ended.

1 Scaling lean management across the enterprise

Making change stick

An interview with Richard Hemsley of the Royal Bank of Scotland Group

The COO of global transaction services at RBSG talks about the impact of lean management on productivity, customer satisfaction, employee engagement, and his own work.

The Royal Bank of Scotland Group (RBSG) is one of the world's largest banks. The group's activities include personal and business banking, investment banking, private banking, corporate finance, and insurance. Companies within the group include National Westminster Bank, Drummonds, Ulster Bank, Coutts, Citizens Financial Group, Direct Line, and Churchill Insurance.

With its headquarters in Edinburgh, RBSG has more than 150,000 employees in 40 countries, with 30,000 people working in operations and more than 50,000 in business services, the division that provides operations, technology, property, and purchasing services to the group. RBSG initiated its lean journey in its UK operations in 2008, and has since expanded to operations in the US and India, retail branches, IT, finance, and HR.

Championing the program has been Richard Hemsley, RBSG's COO of global transaction services. Mr. Helmsley was formerly COO of business services from 2008 to early 2011. He first joined NatWest Bank (a member of RBSG) in 1983, working in a variety of roles in retail and corporate banking and in head office functions. His previous senior roles include head of lending operations, group manufacturing, director of group security and fraud, and managing director of manufacturing operations.

McKinsey met with Mr. Hemsley in his offices in Edinburgh, to discuss the lean program at RBSG and his personal role in the transformation.

McKinsey: *Why did you decide to bring lean to RBSG?*

Richard Hemsley: When you manage operations, you're constantly looking for ways to improve your business. As COO, I knew it was important to involve the people who actually do the work at the front line. The people who sit there serving customers every day are the ones who know most about our processes and our customers. Lean is a great methodology and a great set of tools, but it's also a great way of engaging people to make sure change sticks. One of the key reasons for adopting lean is being able to sustain the improvements you achieve, and sustainability is through engaged people.

McKinsey: *How far have you got in your lean journey?*

Richard Hemsley: We're in the early stages. Our initial aspiration is to reach the 30,000 people within operations. They are spread across some 40 countries, but primarily focused in the UK, Ireland, the US, and India. By the time we have completed this initial program, every single part of operations will have gone through lean.

So far we've started three waves, adding more projects each time. We've ramped up quite quickly. The first wave was limited to five pilots, and now with our third wave the number of projects is in the high teens. We've got one more step to go to wave four, when we think we'll be running at maximum capacity.

We've brought in some of our best people to help with training and with delivering lean, but we still have a long way to go on our journey. We need to build sufficient capability in the organization to keep lean running over the medium and long term. Ultimately our aim is not just to take every part of business services through lean, but to create an enduring capability, a pool of resources, and a practice within RBSG so that we can roll lean out across the whole group.

McKinsey: *What impact has lean had so far?*

Richard Hemsley: The impact has developed over time. Before we had any experience of lean, we set ourselves a productivity improvement target of 12 percent. It soon became apparent that we would exceed it, so we raised the threshold to 15 and then 20 percent. We are now seeing some improvements just short of 30 percent.

On top of this, in the units where we've deployed lean, we've seen improvements of up to 20 percent in customer satisfaction and 25 percent in the engagement of our people. In fact, across the board, we've seen exactly the improvements that we hoped to see—the ones you read about in textbooks that convince you that lean is a good thing to do.

McKinsey: *You mentioned that lean helps to make change stick. What are you doing to ensure that your transformation has a lasting impact?*

Richard Hemsley: Compared with previous attempts to instill continuous improvement, the biggest difference this time is the investment we're putting into training, into development, and into stabilizing lean after the project is complete. With previous efforts, we delivered short-term improvements in productivity or quality, but we didn't leave our business with the capability to drive continuous improvement and sustain the benefits into the future. This time around, we've put far more emphasis on that aspect.

We've also targeted our interventions at multiple levels in the organization. Senior leaders from across the business are spending time walking around units at different stages in the lean cycle, doing process confirmations as they go. Managers from the center and the line are participating in every step of the lean journey. We've taken some of our best people out of line management roles, trained them to become lean leaders, and put them with local change agents to work in multiple businesses so that they can build up their skills while delivering impact. And we've invested a significant amount of time

Richard Hemsley

Richard Hemsley served as COO of business services for The Royal Bank of Scotland from 2008 to early 2011, during which time he oversaw the development of a wide-ranging lean transformation. He has since become COO for the group's global transaction services division.

We can have performance-driven dialogues in just ten minutes where we're not just making day-to-day improvements, but solving medium-term performance issues as well.

and money in building a group lean practice: a capability that will build and sustain tools and techniques for the whole business, as well as delivering the training we need.

McKinsey: *What challenges have you faced in scaling up the effort?*

Richard Hemsley: One would be the ability to recruit people from within the business to join the lean practice. That's hard at first until people understand the journey we're going on. We set a high capability threshold to make sure we have people who can genuinely deliver over the long term. At the moment we have a massive change agenda across many objectives, and creating the time and space for line management to understand the benefits of lean took a lot of work.

Another challenge is that as we go through the projects, there is a lack of "voice of customer" data, so we're having to go back to first principles by talking to customers and business partners to get information. But as we make more and more progress we're getting more and more buy-in.

McKinsey: *How have you separated the roles and responsibilities of your central team from those of line management?*

Richard Hemsley: The central team we've created has two distinct roles. The first is to create and sustain the methodology and enhance it as we go along by building on our experience. That involves making sure we've got the training to help people learn to use the methodology, as well as the controls to ensure that what we are doing delivers sustainable results in the long term. So that's about keeping the model pure and constantly improving it.

The second role concerns the pool of resources that we're looking to create, this team of lean leaders that we want to deploy across the whole business. We need to bring these people in, train them up, accredit them, assign them to the right projects at the right time, and keep the pool fresh as people leave and rejoin line management roles. So a group lean practice fulfills these two key functions.

McKinsey: *What about the line managers? What are they accountable for?*

Richard Hemsley: We hold the line managers responsible for two things—day-to-day performance and continuous improvement—but that's on a wide array of metrics, not just speed and productivity. It's about quality, and it's about getting them to develop their people at all levels within their business.

People need to understand why we're asking them to do something, what their role is, how they can learn from each other, how they can coach each other to keep improving their performance, and how they can help to improve our processes and the propositions we deliver to our customers. Line managers have to be effective lean leaders in all respects: behaviors, practices, and mindsets.

McKinsey: *What impact has lean had on you personally?*

Richard Hemsley: The thing I enjoy most is going and seeing what's happening in the business units. I get to spend time with the teams working on lean, walk around the centers, listen to the calls, and participate in the huddles and the problem solving. It's very rewarding to be able to do all that.

From a development point of view, I need to learn to ask different questions of my team—questions that hand a problem over to them and let them solve it, instead of me trying to find the answer myself. As the most senior sponsor of lean in the organization, I have a role to play in championing lean with colleagues. I need to make sure I'm able to turn up and speak about lean when we're inducting people into the program or recruiting new hires into the organization.

McKinsey: *What differences do you notice when you make your visits to the front line?*

Richard Hemsley: The most impressive thing I've seen has been the huddle boards[1] and the way that the team meetings we've been holding for years have developed into short, focused, objective sessions. The quality of the dialogues that team managers have with agents and with customer service managers has improved tremendously. Everybody understands what their role is and knows that they need to participate. By now, people can almost predict what questions they are going to be asked. We've got to a position where we can have performance-driven dialogues in just ten minutes that achieve all the results that we could hope for—not just making day-to-day improvements, but solving problems to improve performance in the medium term as well.

McKinsey: *What do you actually do during your visits?*

Richard Hemsley: The visits tend to follow a common pattern. When I arrive, the senior lean leader and the center manager take a few minutes to introduce the unit and explain where they are on their lean journey. As soon as that's done, we're out onto the floor. We join the team huddles to understand what our performance was yesterday, what it is expected to be today, and what objectives the teams are setting themselves. Then I sit with an agent who is doing processing or talking on the telephone, and I do a process confirmation with them. That involves checking that a process is working as it should and that it meets minimum design standards. For most of the day I'm moving among people within the center, doing more process confirmations.

At the end of the day I usually return to the senior lean leader and center manager. They challenge me about what I've learned, what observations I've made, what improvements I can suggest. So they make me work for my living, and I become part of the continuous learning cycle within the center.

McKinsey: *There's a rumor going around that when you went to the cash and coin center, you helped design a system to ensure there is always stationery in the cupboard. Is it true?*

Richard Hemsley: Yes. I'm somebody who loves operations—that's where I've spent the past 10 or 12 years of my career. When I'm visiting the centers, I'm always tempted to get deeply involved in what they are doing. If they happen to have a workshop running, I love to take part, and if I feel I can add any value by making suggestions or describing experiences I've had, I do that. But the primary benefit from my point of view is to see the talent and imagination and innovation that we have within our people. And if I can take just one or two of these nuggets and share them with other businesses in the group, that's a wonderful thing to be able to do.

[1] Huddle boards are visual performance boards used during daily team meetings to focus discussions. They typically track team and individual performance, monitor customer metrics, show trend charts, and note problem-solving efforts.

McKinsey: *Has lean management extended beyond operations yet?*

Richard Hemsley: The early phases of lean were very much focused on our operations, but you need to go beyond those boundaries to deliver the improvements that people identify. We had to bring in the IT function to make sure they are equipped to do short, sharp, smooth, small changes in some of the applications we use. We also had to bring in our property function to move desks around, knock walls down, and make sure that some of the solutions people have designed can actually be implemented. Some of the areas we will tackle next are the wider support functions across the group: risk, finance, and HR.

McKinsey: *If you were starting lean again today, what would you do differently?*

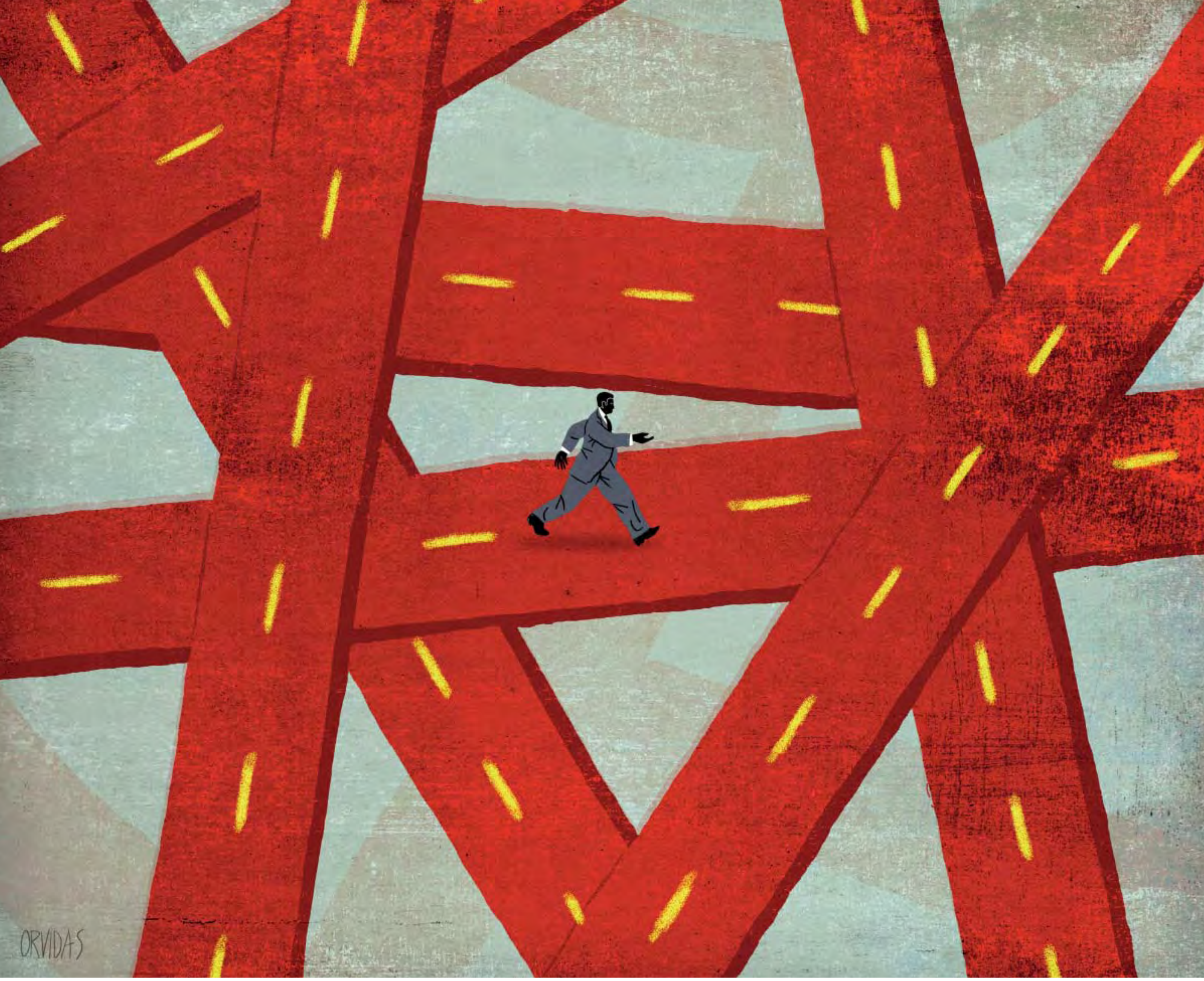
Richard Hemsley: One of the things you learn on the journey is that you make some mistakes along the way. We tried to roll out the lean program very quickly, and that caused us one or two lumps and bumps in terms of becoming better able to train our people in the necessary capabilities and of the experience we can give them. So I might tell myself to take it a little bit more steadily if we started again.

The second message would be to make sure there is senior management engagement across all the divisions of the group. At RBSG, we focused on improving operations and developing confidence in the lean approach within our part of the business. But to get the maximum value out of lean, we should have looked at some of our processes end-to-end as they run through different divisions of the group. That's something we'll have to go back and address. If I had the time again, I'd pick one or two of these processes to work on end-to-end right from the outset.

McKinsey: *What advice would you give to someone who is thinking about embarking on a lean journey?*

Richard Hemsley: Before you start you need to sit back and understand a couple of things. First, do you as the sponsor of the project understand the journey that lies ahead of you? How much of a feeling for it can you gain by going to see other businesses and talking to people who have already been through it? This isn't an easy journey, and you shouldn't expect everything to go smoothly. You will be challenging almost every aspect of the culture and organization of your business and what you ask people to do in their daily work. But lean has impact; it is sustainable; and it delivers benefits. So my first tip would be to go out there and understand.

The second piece of advice would be to understand who your sponsors are. With any change of this magnitude you need senior people to be active sponsors because you are touching so many parts of the business and affecting the whole way that it works. So you need to understand the journey yourself, and you need to be clear that you have senior sponsors across the group. o



Slowing down to speed up: Expanding lean across a network

The secret to successful network-wide transformation lies in planning the rollout with the same level of care and discipline that the institution invested in the initial diagnostic.

Carlo Fabbrini,
Erin Ghelber, and
Remco Vlemmix

When implementing a lean program, managers are often convinced by what they see when they run tightly controlled, small-scale lean pilots in specially selected branches or operations centers. They can't wait to get all their locations operating in the same way.

But moving from pilot to rollout requires thoughtful planning, particularly in financial services, where there are three specific challenges to address. The first is breadth: financial institutions' networks may include thousands of individual branches and dozens of processing locations, operating in different regions with different languages and different core IT systems. In this environment, support resources may be thinly spread and staff at different sites can find it difficult to learn from each other and share best practices.

The second challenge is the range of activity involved, making it especially difficult for institutions to find the right balance between standardization and flexibility. Branches and processing centers regularly accommodate a wide variety of sales and service requests. In some environments, volumes fluctuate widely, with customer demand spiking at peak times while capacity sits underutilized at other hours.

Third, differences in size, configuration, and local conditions between sites—even those engaged in the same fundamental processes—mean that no two face the exact same combination of transactions over the course of a day, month, or year. At one Latin American bank, for example, day-to-day branch operations vary enormously, reflecting the gap between a relatively wealthy, technology-savvy customer base in the capital city and poorer, less IT-literate customers in rural areas. This difference influenced how the bank introduced automated teller machines and other self-service equipment in the branches during a lean rollout.

Despite these hurdles, our experience in assisting financial institutions in large-scale lean implementation shows that with careful design and execution, transformation of even the largest networks is possible. One global bank, for example, is now rolling its program to more than 2,000 branches over a 2-year period, reducing costs by an average of 15 to 18 percent while maintaining sales activity at preexisting levels.

A new way of thinking

Of course, success in lean rollout requires institutions to get the basics right. They must create a compelling change story to motivate their staff (see "Winning hearts and minds: The secrets of sustaining change," p. 46), recruit and train a population of change agents to assist in the delivery of the transformation on the ground, introduce supporting infrastructure to manage the program, and establish tracking systems to measure and sustain progress.

Beyond these fundamentals, however, the most effective lean management transformation programs also pay close attention to three critical, often-overlooked design elements:

- Delivering change through the line organization, not outside-in,
- Testing rollout strategies as rigorously as the lean solutions themselves, and
- Choosing the right model for sequencing change at the site level.

Transformation "through the line"

Many institutions have successful track records in rolling out policy and procedure changes, such as IT system upgrades or new compliance measures. This experience can lead them to rely on tried-and-trusted project execution methods to implement lean: amending procedural manuals or putting thousands of staff through a standard set of training courses.

Applying lean across a network certainly requires all the project management skills large

Piloting the rollout process allowed one bank to replicate its program successfully at over 2,000 branches.

institutions have honed over time. But lean differs from many other corporate initiatives in that it seeks not only to deliver immediate business benefit, but to build the mindsets and capabilities that will enable continuous improvement in the months and years ahead. In practice, this in-depth transformation requires a different approach to implementation, one in which the business itself—the line organization—takes the lead, with support from the institution's human resources and training functions. It therefore requires close collaboration among line managers (at all levels), HR staff, training specialists, and a cadre of lean experts, or "change agents."

Executives. As Eric Siegel, former CEO of Export Development Canada, explains in "Walking in our customers' shoes" (p. 54), senior executives must engage themselves at every stage of the transformation (see also "Building lean leaders," p. 60). Even before the lean program starts, they are responsible for setting its strategic objectives and direction to ensure that it aligns with wider corporate goals. At least one top manager, often the COO, must serve as lean's champion, monitoring the transformation's progress and communicating why it is the institution's top priority. Neither task is achievable from the comforts of the executive floor: the champion will need to visit sites in person to see how the program is working and listen to employees.

Middle managers. Network, regional, and area managers are especially critical in leading the initial capability-building efforts. Although they may be tempted to turn this duty over to the training department, they should resist doing so. As role models for new behaviors, network leaders who run bootcamps or launch kick-off events are much more effective in convincing employees that lean is vital to the institution's future.

Frontline managers. In a far-flung network where staff rarely see anyone from headquarters, frontline managers have the greatest day-to-day impact on the employees most responsible for serving customers. If frontline managers adopt the new way of working and train their staff to do the same, the changes are much more likely to endure. But in the process, these managers must make significant, difficult changes in how they operate, becoming coaches instead of administrators (see "Lean's linchpin: The frontline manager," p. 66).

Change agents. A team of experts fluent in lean provides crucial support both on lean's technical elements (such as implementing the tools) and on the trickier management issues that can arise during a transformation. Recruiting, developing, and retaining the right change agents—good communicators who are also analytical, courageous, and respected within the organization—is therefore essential to a program's success, and worth a major investment by the institution at the early stages of program design.

HR. The institution's HR professionals will help guide the investment in change agents, identifying strong candidates while providing assistance in defining their roles and integrating them into the organizational structure. Later in the rollout, HR will work with senior leaders to revamp manager expectations and incentives, revise processes to reinforce the institution's new culture, and manage the human capital implications of the changes, such as layoffs or redeployments.

Training. During the rollout, the institution's trainers are charged with designing concise learning modules that reflect the most effective adult education techniques. Rather than lead the training themselves, trainers provide expert advice and coaching to the line managers who will take the lead in the actual sessions. Once lean becomes part of the normal way the network operates, lean capability building becomes an integral part of the onboarding of new employees and the regular training regimen. The training department will also be responsible for ensuring consistency and for updating courses and materials over time.

One European bank used its line organization very effectively to roll out its lean program across a network of 1,000 branches. Although external lean experts served as trainers and coaches for the regional managers, from that point on the line organization took the lead. The regional managers trained the area managers, who in turn trained branch managers, cascading the capabilities through-out the organization (Exhibit 1).

At the branch manager level, the bank invested in a series of academies led by regional managers, with lean expert support. The program included three days of training on the technical aspects of the transformation, and offered branch managers the rare opportunity to

Exhibit 1

Change initiatives must be cascaded through the line.

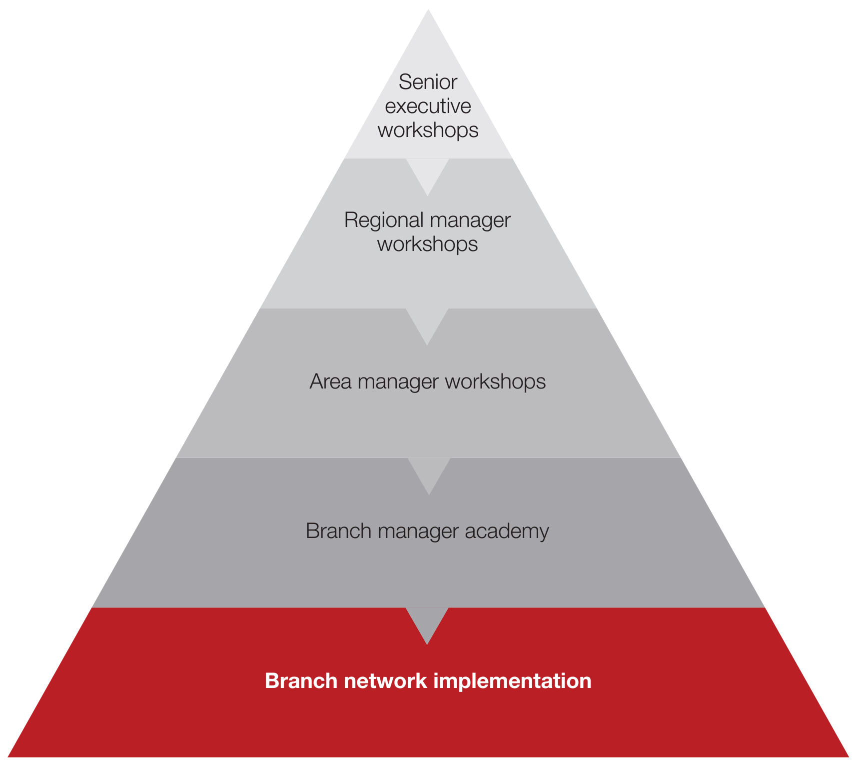


Exhibit 2

A European bank implemented lean across a 2,000-site branch network in under 2 years.

Preparation time

	1 Implementation in pilot sites ("lean labs")	2 Implementation in test sites	3 Full network implementation
Objectives	• Generate and test new ideas • Assess impact, both on economics and customer experience	• Test the rollout support model • Refine ideas generated in lean labs	• Launch implementation across the network
Key elements	• Up to 2 lean labs per IT platform, region, and site type • 1 manager and 2 trained experts per site	• Up to 9 test sites per lean lab • 80–150 change agents	• 100 sites launched per month • Earlier sites serve as "buddies" for sites in successive waves
Scale	~20 lean labs	~150 test sites	Over 2,000 sites
Timing per site	12 weeks	10 weeks	8 weeks

share experiences and ideas with their colleagues and the faculty. Members of the bank's senior management also attended these events, which helped to reinforce the importance of the program.

Rigorously test rollout strategies

Lean's potential can excite the leaders of financial institutions to a point where they want to implement all of the changes as soon as possible across the entire network. Going too fast without sufficient support from change agents and line management, however, often leads to superficial, temporary improvements. On the other hand, going too slowly can damage morale at lagging sites, where employees may become frustrated at having to wait for the chance of performance turnaround.

Moreover, during rollout, no institution can afford the level of resources and top management attention that pilot sites typically require. Once an institution has piloted what it wants to rollout to its branches, it must also take the extra effort to pilot how it will roll out these changes.

To do this, institutions should select a representative group of sites for testing the new lean approach, using the resource levels and methods they plan to adopt for the entire network. This trial serves to reveal any limitations to the rollout model, such as unclear communications, confusion from rolling out too many changes at once, or unexpected requirements for additional hands-on support. Institutions can then modify their methods or develop additional support resources before they move on to full-scale rollout.

A successful pilot of the methodology helps to smooth the full-scale rollout in other ways, too. The performance improvements at the transformed sites create interest and enthusiasm from the remaining locations, while developing a trained and experienced core staff who can provide support to other sites as the rollout accelerates. One global bank used the pilot-rollout approach to manage an extensive and geographically dispersed lean program. Although the bank recruited a large number of change agents from its ranks to assist the transformation, the massive size of its network prevented them from being available to every site during the rollout phase (which involved multiple regions rolling out simultaneously). Therefore, the bank decided to start by testing its rollout approach in 150 branches (Exhibit 2). This pilot generated invaluable feedback on what worked and what didn't, allowing the bank to refine its communication strategy and self-help guides before continuing the effort at over 2,000 locations targeted for transformation. The full rollout is now under way and the bank is on schedule to complete it within the projected 2-year time frame.

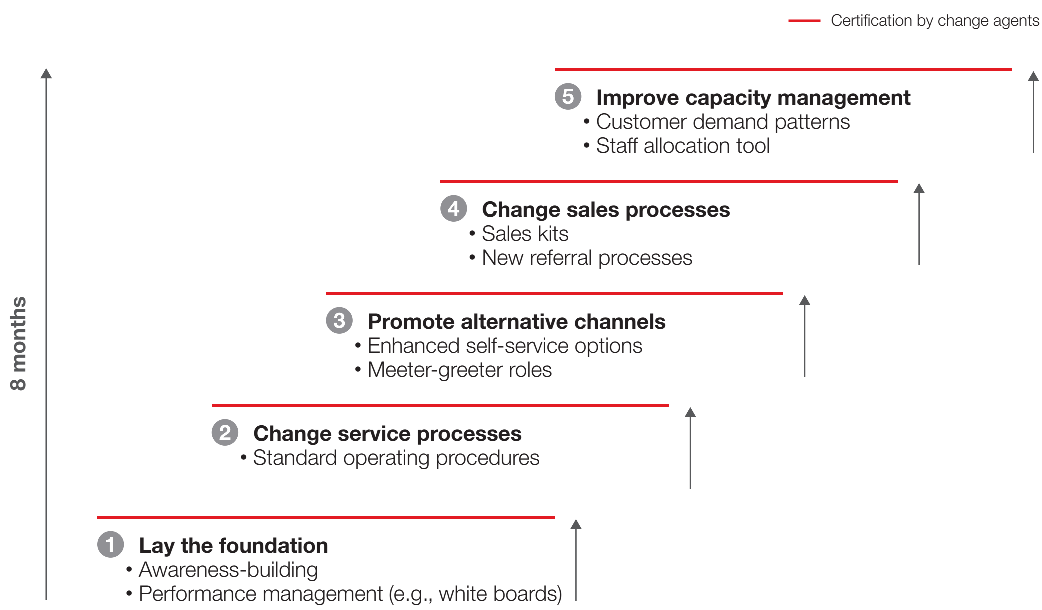
Sequence site-level changes carefully

There are two basic models for sequencing the changes at individual sites. Both models build on the concept of self-discovery, which allows employees and managers at all levels to understand why change is needed and how the new ways of working will improve outcomes. The key difference between the two is the scope of change undertaken at a given point in time.

The first model is the "big bang," in which each site rolls out all of the changes at once. Although more difficult to manage, this option is preferable when feasible because it better reflects the close connections among the many elements of lean, including new operating models, staff roles, and performance management systems. Introducing them together helps front-line staff understand and quickly adapt

Exhibit 3

A modular rollout allows branches to absorb changes more easily.



to new ways of working. However, this option requires intensive support from both change agents and senior managers, even when an institution's leaders have generated a widespread readiness for transformation within the organization. It is therefore chosen more rarely than the second model.

The second model is better suited to the more common situation in which support resources are limited. In these situations the sheer number of changes in processes, roles, and mindsets in the "big bang" approach could overwhelm frontline staff trying to apply them all at once, making sustainability unlikely. Institutions can avoid this problem by using a phased approach at the site level. To keep the rollout from becoming too complex, leaders can start by quickly executing a few straightforward but high-impact changes, such as simplifying forms or eliminating dupli-cated process steps. Although basic, these changes can be extremely powerful as they both free up staff capacity for more difficult aspects of the change program, and help build enthusiasm by providing a glimpse of the better working practices to come. From this point, change agents can start implementing several of the crucial lean practices that will support the rest of the transformation, such as daily performance meetings, capacity management tools, and improved task queuing. More difficult changes that require intensive IT or structural changes can then be rolled out later. Exhibit 3 illustrates how sequential waves of a transformation can

Checklist for getting started

Twelve questions to ask before rolling out a network-wide lean transformation.

Testing and piloting

1. Have all proposed process changes been tested and refined in a pilot?
2. Will test sites be used to perfect how the changes will be communicated and rolled out to the network?

Designing the rollout

3. Is there a clear rollout plan, including a timeline by site and region, with the right balance between quick results and lasting change?
4. Will employees at all levels have the right training and self-help tools to support implementation (e.g., bootcamps, manuals, standard operating procedures, job aides)?
5. What is the order and frequency for rolling out proven changes? Are they in a logical sequence so that easy or priority changes occur in the first wave?
6. Are support functions—HR, IT, and facilities, for example—aligned and ready to assist?
7. Has the top team ensured that no other major programs (platform releases or sales campaigns, for example) will overlap or interfere with the rollout?

Getting the key enablers right

8. Do managers understand that delivering change is their responsibility, not something that can be delegated elsewhere?
9. Does the institution have a team of talented change agents in place to support the rollout?
10. Has senior management developed a change story?
11. Are current performance management systems and incentives aligned with the rollout plan?
12. What is the plan for checking the sustainability of results after 6 months, one year, and beyond?

focus on different functional areas such as sales processes or capacity management.

At one African bank, the sequential transformation waves focused first on the role of the teller, then on the customer's experience in the branch, then on performance management, and finally on other key parts of its transformation objectives. This multi-wave approach now provides structure to the bank's ongoing continuous improvement efforts, coordinating initiatives that in the past had sometimes confused employees in a barrage of individual campaigns.

• • •

Distribution networks are the revenue engines for financial institutions—and lean is a powerful way to unleash their full potential. But achieving measurable impact across such far-flung networks depends entirely on the success of the rollout. With proper attention to design, testing, support, and sequencing, lean can be expanded across even the largest networks with surprising speed, and at the depth necessary to achieve lasting change. It starts with a leadership commitment to provide the required time, resources, and energy. o

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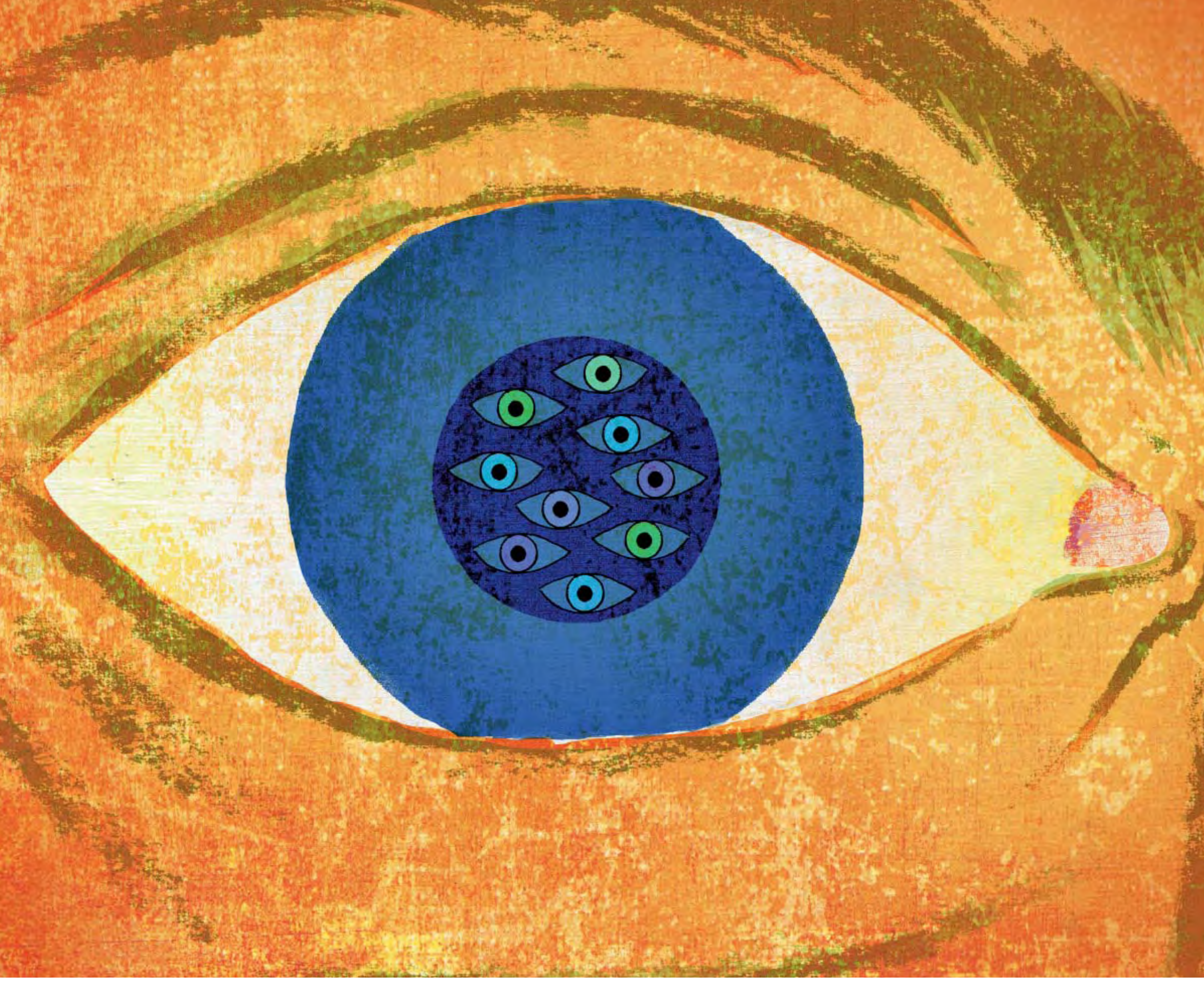
Further reading

David Fine, Maia Hansen, and Stefan Roggenhofer, "From lean to lasting: Making operational improvements stick," *McKinsey Quarterly*, November 2008.

Josep Isern, Mary Meaney, and Sarah Wilson, "Corporate transformation under pressure," *McKinsey Quarterly,* March 2009.



Scaling up a transformation

An interview with Jeroen van Breda Vriesman of Eureko

A member of Eureko's executive board describes how the Dutch insurance group first transformed its health division and then rolled out the changes across the whole company.

Eureko, a large insurance group operating in the Netherlands under its Achmea brand, faced a tough decision in 2006. The Dutch government implemented radical market reforms that fused a partly public, partly voluntary private system into one mandatory national health insurance scheme executed by private insurers. Amid uncertainty about future cost and premium levels in the new system, many stock-listed companies opted to leave the health insurance business.

Achmea, which had grown through two centuries of mergers between mutual insurers, faced a choice of either exiting health insurance or going in big and competing on quality to win substantial market share. “We decided on the latter because we were good on the commercial side. So we went in although we knew we would be losing a lot of money in the first year,” explains Jeroen van Breda Vriesman, the Eureko executive board member responsible for the health division and group information management and technology. The company launched a lean transformation of its health division, which went from loss to profitability in three years, and then started to scale up that transformation across Achmea’s non-life, life insurance, pensions, and other activities in 2008.

Mr. Van Breda Vriesman recently talked with McKinsey about the importance of a compelling vision, and of engaging the right leaders at every level when scaling a transformation from 2,200 staff in the health division to more than 20,000 employees.

McKinsey: *Why did Achmea launch a transformation of its health division in late 2006?*

Jeroen van Breda Vriesman: Liberalization was a great challenge for all health insurers. Our offensive strategy worked—we gained a lot of market share—but we knew we would face two tough challenges. One was to fix our profit and loss numbers and meet our budget in the coming years. The other was to play the role envisioned by the legislators: to improve the health system in terms of better quality and prices. Going from one market system to another is a big shift for a company but it does create a strong sense of urgency and it can be a driver for organizational changes.

McKinsey: *Where did you start?*

Jeroen van Breda Vriesman: We started with profit and loss, and that meant transforming our operations, including customer care and the front and back offices, which now had to cope with a much larger customer base. Even before liberalization our operations performed below their potential. They were not meeting cost benchmarks. The administrative process itself had become more important than the customer. We hadn’t been thinking in terms of continuous improvement and we weren’t giving employees the power to really improve their way of working. All that had to change.

McKinsey: *What roles did strong leadership and the lean concept play in changing mindsets and culture?*

Jeroen van Breda Vriesman: Having really good people in all the right places was the prerequisite for the success of the program, which we named “Sens” for internal communication purposes; in Dutch that’s an acronym for “together effectively towards success.” Starting at the top, we identified existing managers with the right mindset and put them in positions that were critical for the change effort. We also trained managers who were underperforming or lacked the required mindset. Occasionally we hired external staff for certain tasks.

Interestingly, two of the division’s general managers approached the task in different ways. One set out to improve efficiency, focusing on culture and behavior, without the help of lean experts. The other general manager put a lean system in

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place and this helped him achieve results, including cultural change. Both managers met the 25 percent efficiency target. The only problem was that we couldn't duplicate the improvement achieved by the manager who did it on his own. But we were able to ask the manager who was using lean to help others implement it in the same way. That has proved to be the beauty of lean. It helps you continuously improve your company in a very systematic way.

McKinsey: *What more does it take to truly change mindsets and behavior?*

Jeroen van Breda Vriesman: Strong top-down leadership is very important but not enough. You must also have a vision and a strategy that explains to people why they are working according to lean principles—that it's not only about meeting a budget; that it's actually about creating a better company. With a vision, one that employees trust, you can make incredibly big changes in a short time. Without this vision, if you push lean just as something top management wants, it will probably not be around for more than a couple of years.

McKinsey: *How did Achmea create the vision and strategy for its Health division?*

Jeroen van Breda Vriesman: More than 400 managers and key players in the division were involved. This process was important because doing it together created a sense of common ownership. This made it easier to communicate across the division why things had to change and in what way.

McKinsey: *What are the key elements of the vision?*

Jeroen van Breda Vriesman

Jeroen Van Breda Vriesman is an executive board member at Eureko, a diversified insurer that owns the Achmea group of businesses in the Netherlands. Since 2006, he has led the lean transformation of the group's health division, and is now expanding lean across Achmea's other insurance and pension businesses.

Jeroen van Breda Vriesman: The most important element was our decision that we wanted to be a health insurer simply because we care about the health of our customers. As a company with a cooperative background, we put our customers first. To do this, we balance the interests of the four stakeholders we identify in our organizational model—customers, shareholders,[1] business partners, and employees.

That, in turn, means that we must care about the cost and quality of the health system so that it becomes truly sustainable, which benefits us as well as our customers. This focus on sustainability became the key driver for our people to accept the lean principles. Second, we believe that health care will only improve in partnership between the insurers and the providers. That's why we are now supporting the implementation of lean at our providers, such as the hospitals that we work with. Success means better quality of care for our customers and higher efficiency for us. Third, the prerequisite for succeeding with this vision is that people trust us.

McKinsey: *What do you mean by trust?*

Jeroen van Breda Vriesman: We mean that people in our company need to trust themselves; players within teams have to trust each other, and teams also need mutual trust. This is very important for lean because if teams don't trust each other they will end up duplicating work. It goes without saying that our customers need to trust us. So we have performance indicators that measure how sales teams trust each other and how our customers trust Achmea overall and its separate brands. It's also important to learn how we can improve that trust. Finally, we have begun to measure how health care providers trust our company.

McKinsey: *How do you measure the impact of the lean program in the health division?*

Jeroen van Breda Vriesman: We measure it in three ways. One is financial impact, which, by the way, is not only cost, but also turnover in terms of gross written premiums, because you get more of that when you deliver better quality. The second thing we measure quite frequently—every 2 weeks on teams where we implement lean— is employee satisfaction. Typically, satisfaction drops in the first 6 to 8 weeks because employees need to get used to the new way of working. Satisfaction levels then stabilize and are usually higher one year into the program.

Customer satisfaction is of course a critical metric. We measure easy things like the number of mistakes we make, the number of letters of complaint we get, and so forth. But we are now also looking at ways to assess behavioral changes among our customers. We want our customers to stay with us longer, buy more products, and recommend us to people they know. By measuring this we believe we can really prove the importance of continuous improvement.

Looking at customer satisfaction, the results have been enormous in the health division—we've seen improvements of 50 to 60 percent. What astonished me was that the results in the first year were so good. Now, every year we see 5 to 10 percent improvement in efficiency, mainly in terms of lower costs and higher employee and customer satisfaction.

McKinsey: *Turning to the companywide transformation, what was the case for change?*

Jeroen van Breda Vriesman: Because of the success in the health division, we decided in the summer of 2008 to implement lean across Achmea. Then, the financial crisis hit our industry, which created a sense of urgency and added momentum to the effort. We did something that I'm really proud of. We budgeted only the costs of the implementation. We didn't put

[1] The majority shareholder is an association representing Achmea's customers; the Dutch banking cooperative Rabobank is the second largest shareholder.

It's not only about meeting the budget, it's about making a better company.

the potential efficiency gains in our budget. Why? Because we wanted continuous improvement to be the main topic of discussion, not just meeting the budget.

Change in behavior, change in culture, that's the key. And you don't change culture just by saying, "meet this budget." You need a different approach. Lean and continuous improvement are important parts of this story because by changing your company in small steps you can look back after 2 years and find that you've made a huge leap. When people in our company know their customers, know how to change processes, and are used to change, they can do bigger things more easily, such as develop new products or implement a new IT system.

McKinsey: *What is the key element of the vision for expanding the transformation to all of Achmea?*

Jeroen van Breda Vriesman: Achmea has traditionally been a decentralized company. If you want to have a more centralized, a more unified, way of working you need a single vision for the whole company. So we developed one with the help of 1,200 of our managers. The core of our companywide vision is the same as the one for our health division. What's more, as a company whose shares are not listed on any stock exchange, we are not under pressure to meet short-term expectations of just one group of our stakeholders. We can take a long-term view in delivering on all fronts and meeting the expectations of all our stakeholders. This means that we can take a long-term view and allow our people to get thoroughly acquainted with lean so that we can truly change the company toward what our customers really want.

McKinsey: *Compared with the health division, what was the greatest challenge in tackling a company-wide transformation?*

Jeroen van Breda Vriesman: Changing a whole company with 20,000 people is very different from changing one division with a staff of 2,200. Because there are so many managers involved it is harder to make sure you've got the right people in the right places, which is crucial for successful implementation. In some of the cases where we are meeting some resistance the problem is management capabilities and mindsets.

McKinsey: *What is the key to getting senior management really excited and committed to a big transformation like this one?*

Jeroen van Breda Vriesman: It's crucial that they understand that continuous improvement is not a program with an end point. It's about coming to work every day with a new mindset. To understand and really feel that distinction is very important. You can almost see in the results whether top management is implementing continuous improvement or just implementing a program. There is no magic formula to make this change happen. Every manager is different. Some are most excited by changing the culture; some by achieving certain metrics. You have to pull all the levers: good people, better strategy, spend time on culture and behavior, push on results, and discuss every day, week, month and year. It's a marathon; not a sprint.

McKinsey: *How was the companywide transformation organized?*

Jeroen van Breda Vriesman: For such a huge change effort we needed a central program office. Its first task was to find and build the right change competencies. We started with one external partner for lean, one for behavioral change, and one for the program's management information systems. We're now in the middle of educating 200 lean experts and 20 agents for behavioral change from among our own people. So we were speeding things up in the beginning with external partners and are now shifting to internal heroes. This approach helps us achieve consistency, which is critical, track progress, and build capabilities across divisions. When you implement lean, it involves discussions on the executive board, but more important on a division level and even more important on a team level and between employees themselves, because in the end they start every day discussing how yesterday was and how they can do better today.

McKinsey: *Where is Achmea today compared to its starting point for the company-wide launch of lean 18 months ago?*

Jeroen van Breda Vriesman: Some 8,000 people will be working in different stages of lean by the end of this year. If you look at team commitment it's getting a little bit higher every time we measure it. Employee satisfaction is a little bit higher than it was when we started, and the divisions are meeting their efficiency targets.

McKinsey: *Looking back at the transformation effort so far, what are the key lessons?*

Jeroen van Breda Vriesman: There are two important lessons. One is to take great care to select and train the right people, because success is so much about good leaders and good people. Almost every time we had a problem it was essentially a management challenge. The second is about sequencing, first a vision and a strategy, and then implementation of lean. Without a vision, people tend to think that lean is simply about reorganizing and cutting costs.

McKinsey: *Looking ahead 5 years, where do you see Achmea?*

Jeroen van Breda Vriesman: We will be implementing our strategy faster; we will have better consumer insights, products, and IT systems; and we will be working better with our customers. All this delivers real value to our customers, shareholders, business partners, and employees. At the end of the day, the concept of continuous improvement puts the employee first as well. She or he has the chance to implement own ideas every day. That's a great way to work. o

Rapid design of lean solutions

Institutions can save on the time and resources involved in designing a lean solution by using one of four standard patterns as a starting point.

Dan Devroye, Andy Eichfeld, and Rami Karjian

When lean produces breakthrough results at a financial institution, such as major improvements in customer satisfaction, cost efficiency, or time to market, it is only natural that executives will want to replicate that success throughout the organization. An 80 percent reduction in, say, the time and labor required for opening a deposit account teaches the institution what it can achieve when it really listens to customers, erases boundaries between functions, and reorients its processes around "end-to-end customer value streams"—the steps for fulfilling a customer request, from initial receipt through to completion. Leaders suddenly start to see value streams everywhere—and the bottlenecks that keep them from flowing as they should.

But enthusiasm can fade quickly at the prospect of designing new processes from scratch for each value stream that needs attention. Of course, leaders also recognize that what works in retail deposit accounts may not work in retail credit cards, let alone on the corporate side of the business. What they want, therefore, is not a rigid "lean recipe" but a way that they can build on their current momentum before it dissipates—a shortcut that would allow a further generation of lean projects to get moving quickly, without having to return to first principles to redesign each process.

That shortcut is now emerging from the many lean transformations that financial institutions worldwide have already completed. While each transformation is unique, four distinct patterns have begun to take shape. Each pattern summarizes a configuration of work-flows and activities that can be applied in a variety of service environments.

Using these patterns can help leaders more quickly and clearly see how they can revamp the value streams that are essential to meeting customers' expectations. By considering just a few factors, such as cycle time, number of handoffs, and levels of expertise required, an organization can determine which patterns are most relevant for a given value stream; rather than designing a solution from scratch, it can tailor the relevant patterns to its particular needs.

That speed in turn makes it possible to extract more value early on, maximizing impact while minimizing opportunities for short-term regression. Leaders are then able to focus on building the conviction and capabilities that managers will need if the organization is to sustain the performance gains and ensure improvement over time.

Four patterns for rapid design

The four patterns are all based on lean's central principle of creating flow through eliminating waste and reducing unnecessary variation. Yet each pattern applies these ideas in distinct ways, depending on the characteristics of the value stream that the financial institution needs to transform (Exhibit 1).

1. Work cells: Assembly lines for service businesses

For relatively standard, assembly line-like processes that take only a few hours or days to complete and involve limited specialized knowledge, the *work cell* is an effective solution. It is therefore the most fundamental of the patterns and is the typical starting point for lean at many financial institutions. Common examples of financial-services value streams fitting this profile include account opening, mass-market credit originations, new business in life insurance, and check processing.

In the typical work cell, a co-located cross-functional team covers an entire process from start to finish. For example, at a large South American bank, the work cell covered every step in processing new deposit, personal loan, and credit card accounts, from the initial application to the final approval or rejection notice. The cell therefore included representatives from each

Exhibit 1

Patterns for lean solution design.

Value-stream characteristics	Examples	Solution
Simple, quick, standardized processes requiring low to moderate skills	• New current accounts • Credit originations • Insurance new business • Insurance claims	Work cells
High-value clients expecting responsive service across many products	• B2B servicing teams • Problem resolution for key accounts • Complex claims	Relationship service cells
Complex, lengthy, custom processes requiring advanced skills and heavy coordination	• Commercial lending • Regulatory filings • New-product development • Application development	Expert choreography
Wide range in volume of work, mix of tasks, and required skills	• Transaction settlement • Accounting for proprietary and margin accounts • Insurance disputes	Segregated variability

of the functions necessary to complete the decision: originations processors, risk analysts, compliance officers, and so forth.

Bringing all of these personnel into the same physical space, with a single manager responsible for oversight, helped ensure that files progressed quickly through each step. Communications improved dramatically: problems that previously might have taken days to resolve instead took only minutes. As a result, the average turnaround time for credit card applications decreased from 14 days to just 1 day, while productivity almost doubled; for deposit accounts, turnaround times dropped from 6 days to 1.5 days, and productivity more than tripled (Exhibit 2).

2. Relationship service cells: ‘White glove’ service for a demanding clientele

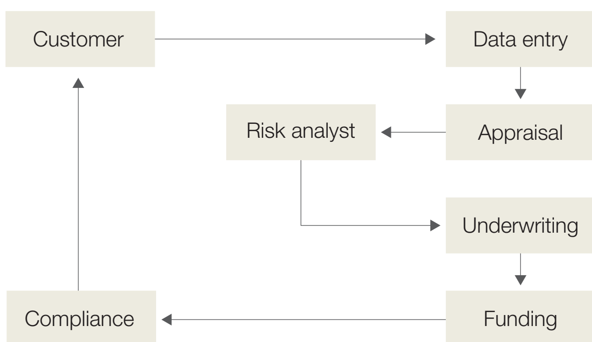
For certain types of service operations in high-touch fields such as institutional asset management, commercial lines insurance, or private banking, the most valuable clients—those who use many services at once—often find themselves working with many different departments that fail to communicate with one another. As a result, these clients experience the negative consequences of complexity, despite the fees they pay for high-quality support. The white-glove service that these clients need, covering multiple service requests at any point in time, means that a standard work cell designed to fulfill just one process will not be adequate for the task. Moreover, the solution will need to strengthen not only the fulfillment of the individual requests but also the ongoing relationship with the client—a factor that usually is less of an issue for work cells handling purely transactional matters. These clients therefore need a different type of support organization: one that is co-located and cross-functional but reaches beyond the middle- and back-office activities that are the work cell’s strength to incorporate front-office client interactions as well (Exhibit 3).

Such an organization, called the *relationship service cell*, integrates all of the processing steps across most of the service lines these clients use, providing the single point of contact that a select clientele values highly—in a much more reliable and scalable way than is possible via "concierges." If a client calls asking for support in transferring assets out of another institution, a phone specialist (in essence, a relationship manager specializing in phone support) can immediately begin working with the transaction specialist to execute the request, rather than sending the job off to a separate settlement department (which might in turn need to involve still other departments). At an institutional asset manager, this structure

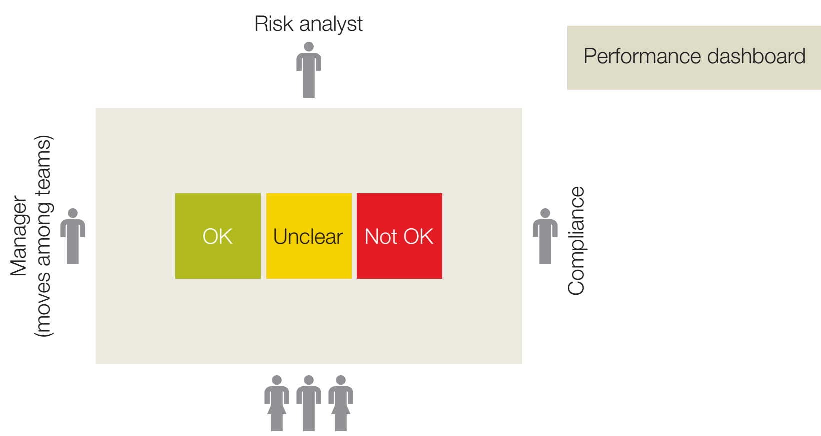
Exhibit 2

A South American bank deployed work cells to process new accounts more efficiently.

From functional departments



To cross-functional work cells



Each work cell is aligned to 30–40 branches, and processes deposit accounts, personal loans, and credit cards dramatically increased institutional customer satisfaction, while a life insurer found that agent satisfaction rose to unprecedented levels. Both institutions saw modest cost savings as well, but far more significant were the revenues that these changes yielded.

3. Expert choreography: Flexible structures for complex tasks

Even if the client's request involves only a single task, as the time, complexity, and coordination involved in completing that task all increase—such as in commercial lending or new-product development—the work cell becomes impractical, for two reasons. The first is logistical: too many functions may be involved for co-location to be feasible. The second, thornier problem is the need to coordinate experts whose highly technical work does not lend itself to ready standardization or linear processes.

In project finance, for example, the lawyers and engineers involved in assessing a project's risk may each need input from the other to complete their respective analyses. The analogy to a factory breaks down: there is no way for the lawyer to simply complete the file and hand it over to the engineer. Furthermore, projects may languish because none of the experts is truly responsible for shepherding it through to completion.

Yet it is possible for the process to operate much more efficiently via *expert choreography*, an approach that balances lean's insights on reducing variability against the greater flexibility that complex workstreams require.

Exhibit 3

Adapting the lean work cell to create a relationship service cell.

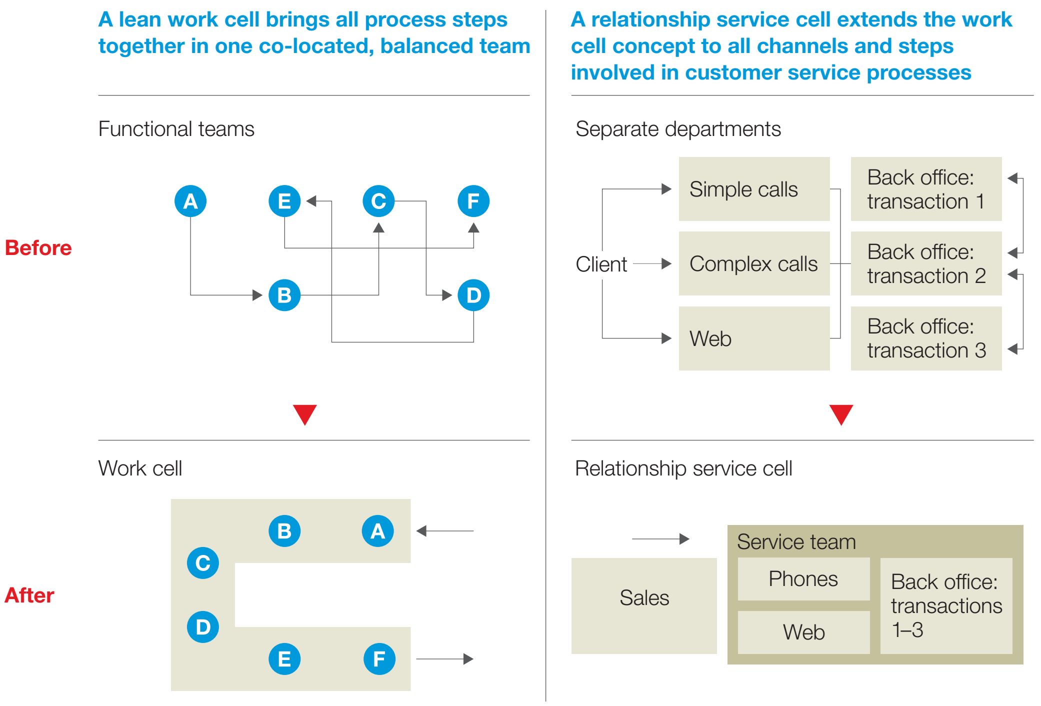


Exhibit 4

Standardized tracks for product development.

	Project track: 1	2	3
Description	**Simple** (e.g., repackaging or extending existing products)	**Moderate** (e.g., some degree of uncertainty or complexity)	**Complex** (e.g., new technologies, long lead times)
Time-to-launch expectation Months	1–3	3–6	9–12 or more
Approval authority	Champion	Senior management	Executive leadership
Timing of go/ no-go decision	Week 2	Week 6	Week 15

Rather than assigning employees to permanent work cells, the expert choreography pattern comprises four interlocking components: a new, highly adaptable team structure that fosters collaboration, greater accountability via a "project champion," standardized project "tracks" to improve consistency, and an enhanced pacing mechanism to keep projects on schedule (Exhibit 4).

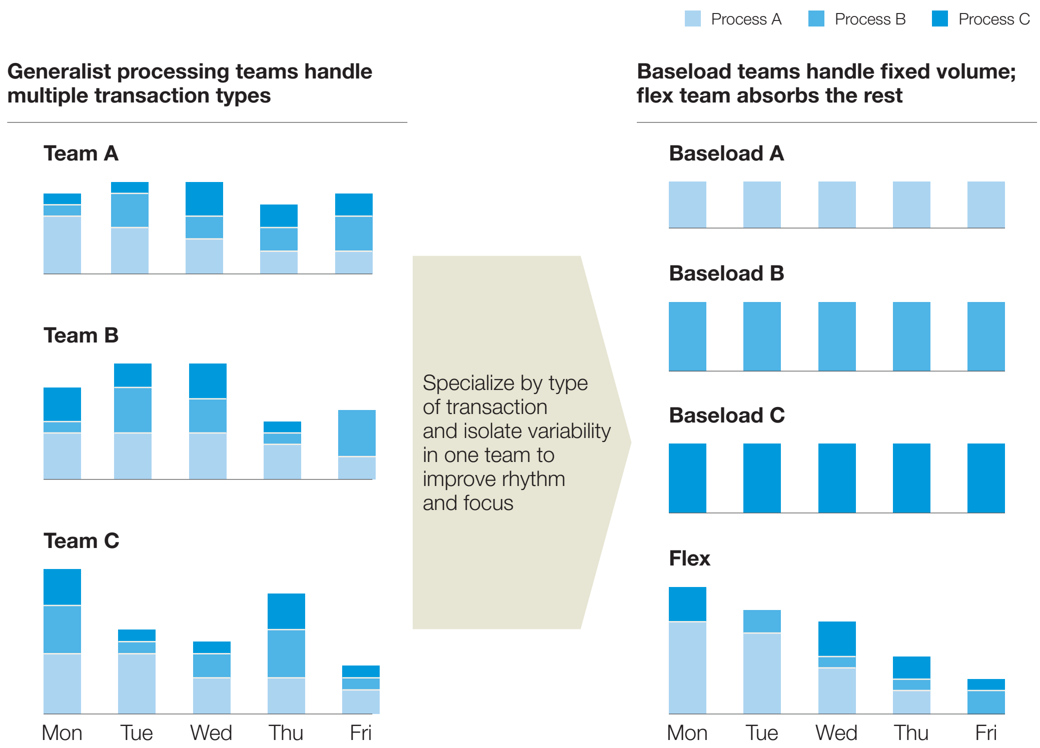
At a specialty corporate lender, the new approach reduced average turnaround times by almost 70 percent, allowing the company to increase its lending capacity dramatically with the same number of employees—all while decreasing customers' administrative burdens.

In a similar fashion, a major credit card issuer used expert choreography to revamp its direct-mail and Internet advertising campaigns, which previously had taken so long to finish that fast-moving pricing opportunities closed before the issuer could take full advantage of them. The staff involved in developing a campaign included everyone from data analysts, who determined which customer segments to target, to creative professionals responsible for the campaign's "look and feel," to compliance managers who needed to review all ad copy for potential legal issues. The interconnections among these specialists were so complex that a single, standardized process was not feasible.

Instead, the group's leaders created a series of project tracks, the length of which varied depending on the size and complexity of a campaign. When a campaign was assigned to a track, a manager was tasked with coordinating the work of the other professionals to ensure the campaign was complete by the target launch date. By using this structure in combination with standard lean techniques such as co-location, visual management, and daily huddles, the group reduced the average campaign's time to launch by more than 50 percent for mail and 90 percent for the Web. "Win" rates jumped by more than 25 percent, and the company

Exhibit 5

Managing variability through baseload and flex teams.



was able to move 30 percent of its full-time equivalents to other functions.

4. Segregated variability: Baseload and flex teams for managing extremes

The final pattern often applies when variability in both the volume and complexity of customer demands is quite high. In these cases, managers often believe that it is virtually impossible to allocate resources to match customer needs in a way that keeps service levels consistent. For example, customer service operations at a mutual-fund transfer agent will typically see dramatic spikes in activity at the beginning of the week and around the end of the quarter, and must also handle requests ranging from simple redemptions to multiparty payout requests. The resulting scope of activities is so broad that lapses in staffing, by measures of both quantity and quality, can seem unavoidable—to the detriment of customer satisfaction.

Nevertheless, it is often possible to identify the factors that drive variability, enabling a two-step fix to accommodate the extremes. The first step in *segregated variability* is to form baseload teams, which handle a consistent volume and product mix every day—much like a baseload power plant is designed to meet a utility's core generation needs. Because the work these teams perform is predictable, managers have a much easier time filling staff positions and measuring performance than they did in the past.

The second step is analogous to the peaker plants that utilities switch on and off quickly to meet temporary demand increases. The idea is to isolate the remaining variability into a specialized, highly trained team that is much more productive at handling activity spikes (Exhibit 5).

For the transfer agent, deploying the baseload and flex teams allowed managers to reduce the company's ballooning overtime costs by 90 percent, even while it raised customer service standards. Meanwhile, a leading emerging-market bank applied segregated variability to a unit where customer service issues were languishing for an average of well over a week. To meet a new commitment to shortening its process to just one to three days, the bank restructured the unit into four types of baseload teams (each aligned to a particular subset of issues), along with two flex teams. The unit is now meeting its service commitments 95 percent of the time— 99 percent for top customers—while complaints have declined by half. The bank recently won its home country's award for the best customer experience across all industries.

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With an understanding of how the patterns operate and where they apply, an institution can increase its aspirations both for what lean can achieve across its businesses and how soon it can produce results. Moreover, as the institution uses the patterns to build new programs, the patterns themselves become more valuable: leaders learn how to refine them to meet the institution's needs, and they begin to recognize potential new applications more quickly. That cycle becomes its own form of continuous improvement, enabling changes at a scale that would otherwise not be feasible in a large, complex organization.

Dan Devroye is an associate principal in McKinsey's Washington, DC, office, where **Andy Eichfeld** is a director. **Rami Karjian** is a principal in the Seattle office.

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The journey to operational excellence

An interview with Robert Miller of The Shingo Prize

The executive director of The Shingo Prize for Operational Excellence discusses what it takes to sustain lean.

The Shingo Prize recognizes organizations' efforts to build cultures of operational excellence and continuous improvement. Established in 1988 and administered by the Jon M. Huntsman School of Business at Utah State University, the prize is named for Shigeo Shingo, a Japanese industrial engineer who is widely recognized for his work in developing many of the revolutionary manufacturing practices that originated at Toyota.

The Shingo Prize is a global award program focused on lean. Evaluation criteria include the establishment of a continuous improvement culture, results achieved (e.g., impact on quality, cost, customer delivery), enterprise alignment, and people development systems. A Board of Examiners, consisting of more than 250 lean practitioners who come primarily from Shingo Prize recipient companies, carries out the evaluation process, which includes a 2- to 3-day site visit. Previous Shingo prize winners include Baxter, Gulfstream Aerospace, Sandia National Laboratories, and E-Z-GO, the first organization to receive a Shingo Prize at the enterprise level.

Robert Miller was named executive director of The Shingo Prize organization in 2007. He has spent most of his career in the manufacturing industry, as both a practitioner and senior executive at Deere & Company, Herman Miller, Inc., and the Gates Rubber Company. Prior to his association with The Shingo Prize, Mr. Miller was a partner in a global business consulting firm where he advised leadership teams in Europe, Asia, and Latin America.

We recently spoke with Mr. Miller about how The Shingo Prize is evolving, and how its teachings apply to service industries.

McKinsey: *What is The Shingo Prize?*

Robert Miller: The Shingo Prize is a recognition program that identifies organizations doing exceptional work in business improvement. The intent is to motivate others to learn from them. The prize focuses on building excellence in operations, and is rooted in the underlying principles of lean, six sigma, total quality management (TQM), Toyota production system (TPS), and just-in-time (JIT). To earn The Shingo Prize, organizations compete against a challenging set of standards, rather than against one another.

McKinsey: *You recently restructured The Shingo Prize. Why?*

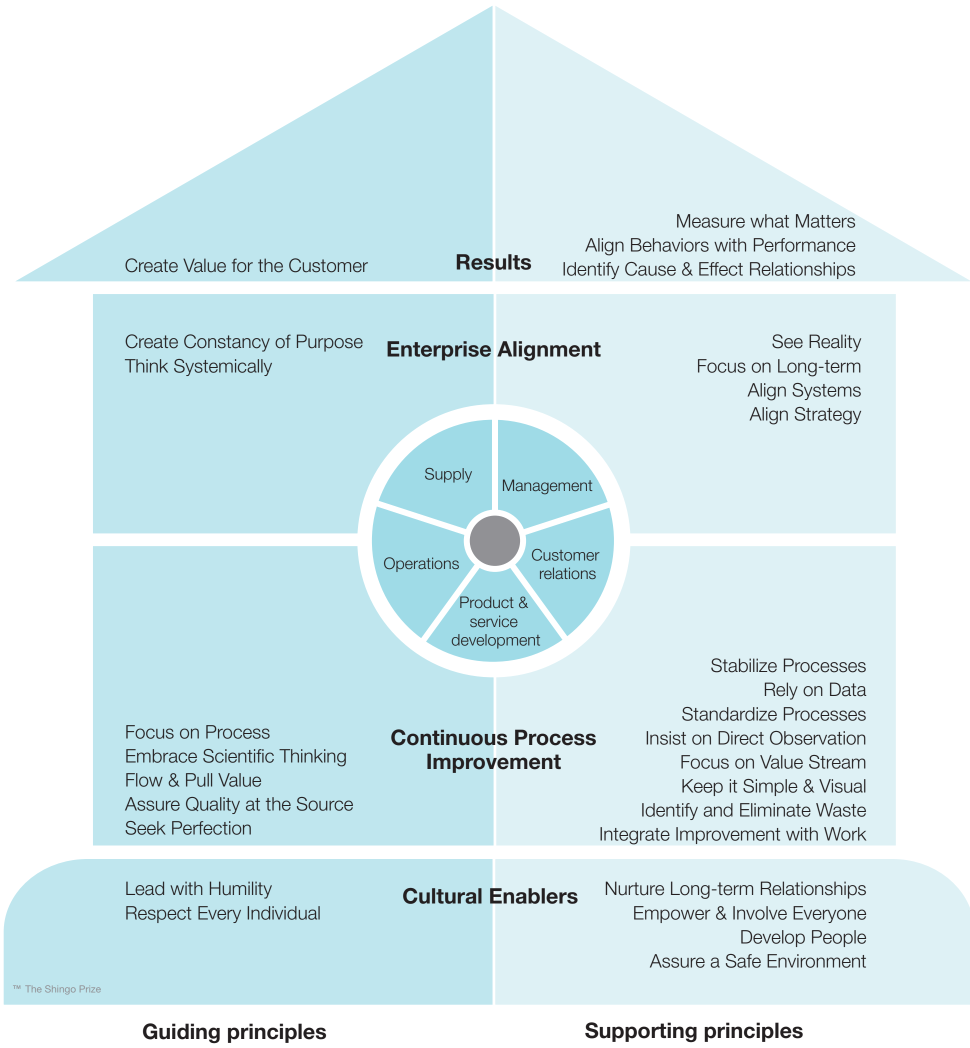
Robert Miller: A few years ago, we met with recent and prospective Shingo recipients, as well as with representatives of several professional associations, to gain a deeper understanding of the value and brand image of The Shingo Prize. We were really happy with much of what we heard, but some of it was unsettling. The Association for Manufacturing Excellence, for instance, had stopped offering its regional conference attendees tours of Shingo Prize-winning plants. We then discovered it was because many prize recipients were unable to sustain their improvements, and were no longer the world-class organizations they had been when they received the prize. However, visitors still saw the Shingo trophy in their lobbies.

So we knew things had to change. We needed to identify the degree to which organizations were actually changing the mindsets of their executives and employees. This required understanding the relationships between the principles and systems that drive people's behavior, and how using certain tools can improve those relationships. Ultimately, we identified a set of principles for operational excellence that we call the Shingo Model (Exhibit 1). We believe these are more reliable indicators of sustainable continuous improvement.

McKinsey: *Can you give us a few examples of those principles?*

Exhibit 1

The Shingo principles of operational excellence.[1]



[1]Reprinted with permission of The Shingo Prize.

Robert Miller: The Shingo principles are drawn from the pioneers and leaders of change management and process improvement from the 1800s to the present day. Enabling principles include respecting others and leading with humility, while others deal with continuous process improvement, such as improving flow and assuring quality at the source. Creating value for the customer is also fundamental. Importantly, there's also a strong overarching focus on correctly aligning the entire enterprise. This is because we found that lean and operational excellence are really not sustainable when any group or sub-group is out of sync with the overall system.

McKinsey: *Did companies understand your principles-based approach right away?*

Robert Miller: Not always. There are many executives from an earlier generation who place little credence in the concept of principles and behaviors. To them, it's all soft conceptual thinking, but ultimately that's what produces a genuine and sustainable difference—and, it's not so soft after all. When you translate principles into behaviors, it becomes very tangible.

McKinsey: *What happened after you restructured the prize?*

Robert Miller: Well, we used to have 10 or 12 Shingo Prize recipients annually. After the change, however, that dropped to just a few per year. We've since added bronze and silver recognition levels, which help organizations learn where they stand in the journey. And we give those recipients feedback about their strengths and opportunities for improvement. For most, it takes about another 2 years of effort to reach the next level.

Most people are attracted by high standards, so when we say "operational excellence," we really mean just that. We can't compromise in any way, or anywhere in the world. We now have a silver medallion recipient in India, and another large company there wants to contend for the prize this year to demonstrate that it can compete with the best. The same holds true for military organizations that use the Shingo Model to show they're on a competitive footing with defense contractors and partners. In the UK, they even use The Shingo Prize in the judicial system, and to manage government retirement programs more effectively.

We have really worked at increasing the stature and prestige of becoming a recipient. Our goal is to build some assurance that when people visit the operations of a Shingo Prize recipient a few years later, the recipient organization will be even better off than when they received the prize.

McKinsey: *Do you see any patterns in what institutions must do reach a higher level?*

Robert Miller: Yes, we see a pattern in all of the recipients. Bronze medallion recipients seem to be focused on tools and the management systems that will assure those tools are applied consistently. Silver recipients tend to exhibit a strong application of tools and management systems; however, those systems are often designed to achieve specific outcomes rather than instill the behaviors that will deliver those outcomes consistently over time. So silver recipients frequently need to focus more strongly on the people aspect of their organizations.

McKinsey: *How long is the journey?*

Robert Miller: The bar for excellence has risen significantly. The silver level sets a high standard—much higher than was required of early Shingo Prize recipients.

Achieving Shingo gold can require a 12- to 14-year journey, but most companies today can't wait that long. The Shingo Model offers a systematic approach to culture transformation that should enable them to make the transformation considerably faster.

Problem solving and crisis management consume 70 to 80 percent of most executives' time. If you shift their primary focus to leading and building the organization's culture, they'll think a lot more about how to align people's behaviors with desired results. We don't have sufficient data yet to say this empirically, but we believe that organizations can shorten the overall journey to about 6 or 7 years. That's really not very long. Most business-culture advisers say achieving real transformation takes 8 to 10 years.

McKinsey: *Being able to accelerate the journey is a promising message. Based on the patterns you've seen, what advice would you give senior managers?*

Robert Miller: I'd encourage them to think about the principles of operational excellence, and about how their organization's culture relates to those principles. When meeting with companies, we ask them what kind of leadership behaviors they demonstrate on a daily basis, and importantly, what behaviors others would say they demonstrate. How leaders' behaviors are perceived is critical.

McKinsey: *Lean and operational excellence are relatively new in many service sectors. What differences are you seeing between service and manufacturing prize challengers?*

Robert Miller: Well, principles are universal by definition. For example, assuring quality at the source and adding nothing but value are applicable principles whether you work in a bank, hospital, or an auto assembly plant. They're also applicable in any industry, culture, or geography.

We're careful not to advise organizations about the kind of systems they should have. We understand, for example, that hospital systems differ considerably from those of banks, governmental agencies, and factories. What really matters is how well those systems align with the principles and behaviors that create operational excellence. The tools being used can differ, but their main function is to help systems be more effective in generating results. So the Shingo Model works well regardless of business type.

McKinsey: *Can a single business or functional unit apply for The Shingo Prize?*

Robert Miller: When an organization submits its application we ask them to specify a desired scope. So a single plant or hospital, let's say, that's

Robert Miller

Robert Miller is executive director of The Shingo Prize, administered by Utah State University's Jon M. Huntsman School of Business. He has had a long career in industry, having served in leadership roles at leading manufacturers such as Deere & Company, Herman Miller, Gates Rubber, and FMC.

Exhibit 2

Current Shingo Prize recipients

Autoliv Airbag Module Facility
Ogden, UT

Autoliv Inflator Facility
Bringham City, UT

Baxter
Cartago, Costa Rica

Carestream Health, Inc.
Guadalajara, Mexico

Denso Mexico S.A. de C.V.
Guadalupe, Mexico

E-Z-GO (Enterprise Level)
Augusta, GA

Goodyear do Brasil Productos de Borracha Ltda, Americana
Sao Paolo, Brazil

Guanajuato Manufacturing Complex North Plant, AAM
Silao, Mexico

Interiores Aéreos S.A. De C.V. Gulfstream Aerospace
Mexicali, Mexico

John Deere Power Products
Greeneville, TN

Kemet Electronics
Matamoros, Mexico and Victoria, Mexico

Lycoming Engines (Enterprise Level)
Williamsport, PA

Metalworks/Great Openings
Ludington, MI

Sandia National Laboratories—Neutron Generator
Albuquerque, NM

ZF Lemforder Corporation
Tuscaloosa, AL

part of a larger organization can enter a challenge for the prize. But applicants should keep in mind that a challenge is a multi-year initiative that requires many assessments over an extended period. At the U.S. Army's Red River Depot in Texas, for instance, they do a lot of things that differ significantly from one another, and wanted their challenge to be based on a single value stream that involves a relatively small facility. So we did allow that.

So, yes, you can enter a challenge based on one value stream at a time, if it will help you build improvement momentum. You can also challenge more than once based on that same value stream until you reach the silver level. But eventually you need to think of yourself as an enterprise because divisional and corporate functions enter the picture. At that point your application will need to be at that enterprise level. We can help challengers determine when that should be. We'd rather help them build momentum than barriers. This might be especially important in non-traditional business segments so organizations can advance by creating local pockets of excellence—as long as they're not too small.

McKinsey: *So a financial institution could receive a Shingo Prize?*

Robert Miller: Absolutely. I think it would be fantastic for a financial institution to receive one in the next few years. In fact, we may have some financial institutions as bronze recipients at our conference next year—maybe even silver recipients. It's just a matter of how rapidly they progress. o

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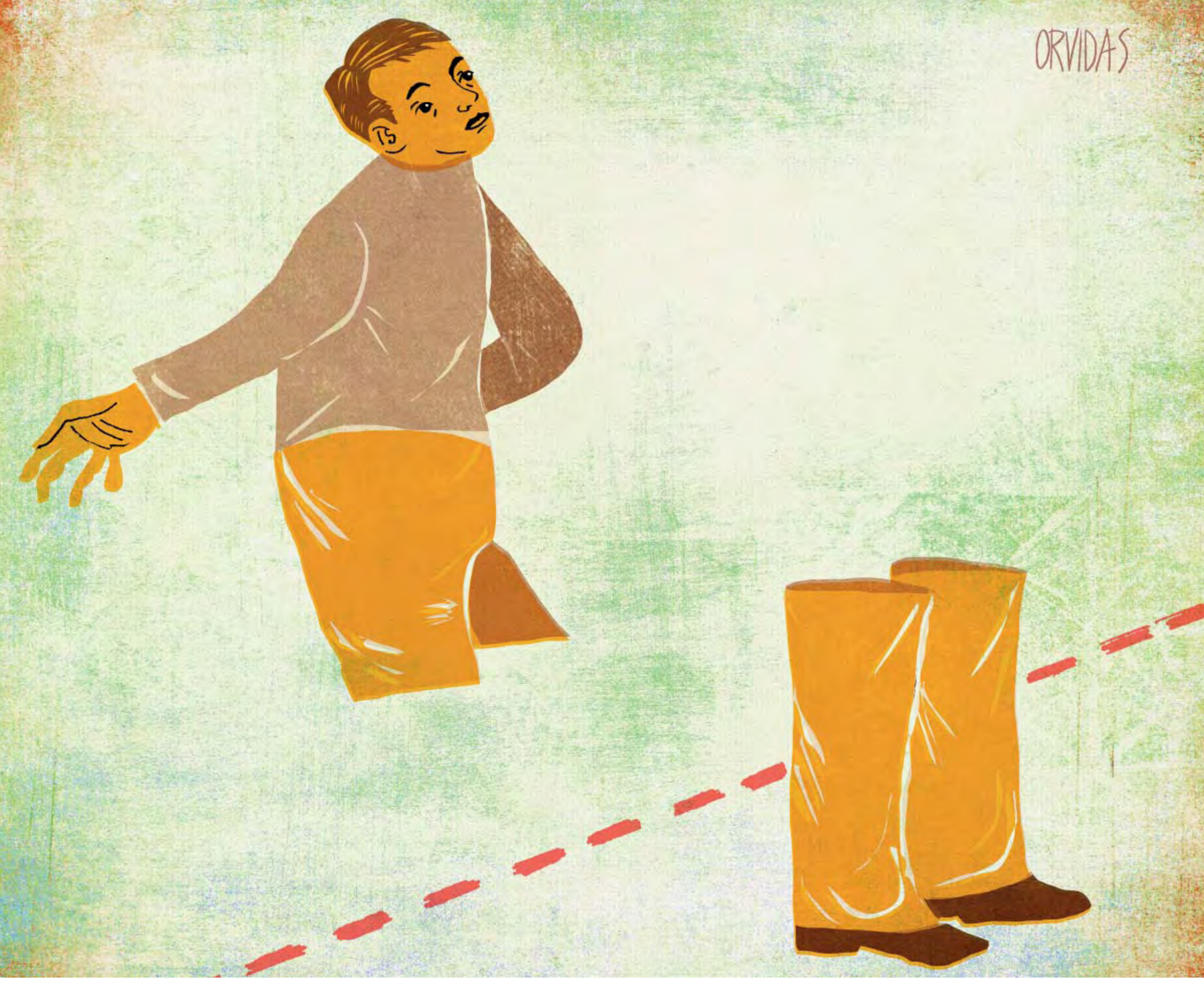
2 Changing the role of leaders and managers



Winning hearts and minds: The secrets of sustaining change

In a lean transformation, paying close attention to mindsets can make the difference between achieving quick wins that fade over time and capturing the long-term value of continuous improvement.

Carolyn Aiken,
Dmitriy Galper,
and Scott Keller

Organizations that embark on a lean transformation understandably have high hopes. Fixing broken processes, eliminating activities that don't add value, creating more fulfilling jobs, and delegating more power to the front line all hold out the promise of a better way of working and a more successful enterprise. Most lean efforts deliver early wins that unleash energy and build confidence. Yet these initial successes do not always translate into sustainable improvements.

When we asked European financial institutions to assess their own large scale transformations, fewer than 40 percent rated their program as successful as they would have liked over the long term. McKinsey research into change programs across a range of sectors suggests that the difficulty organizations have in sustaining change can be traced to insufficient attention paid to the attitudes and behaviors of managers and employees. These people-related factors were responsible for more poor outcomes than were the usual suspects—inadequate budgets or badly targeted resources. The reshaping of employee attitudes and behaviors is just as critical to the success of a transformation as the implementation of process changes.

The perception that behavior is a "soft" topic leads managers to assume they can rely on their own instincts, an approach that seldom leads to sustainable long-term change. Instead, managers need to take the time to understand some of the factors that influence human behavior. In our experience, organizations that have achieved true behavioral change in the context of a lean transformation have incorporated six often-overlooked insights.

1. People need to feel that change matters

Most financial institutions implementing lean transformations tell one of two classic change stories to motivate their people. The first—which we might call "good to great"—portrays financial services as an increasingly competitive sector in which customers are demanding better and better service, thus requiring the organization to change in order to recapture its leadership position. The other classic story is the turnaround, which says that the institution is performing below industry standards and must transform itself to survive.

Despite their apparent logic, these narratives lack the power to motivate real change. They primarily address the institution itself: how it can beat the competition, push performance to the next level, pursue industry leadership, and so on. But research by leading social scientists shows that most people are motivated to change by influences coming from beyond the organization. These include the customer, society at large, the working team, and the interests of the individual employee. If the change story is focused only on the organization, it is unlikely to inspire heartfelt commitment to the transformation.

The good news is that lean transformations are capable of delivering multiple benefits to multiple stakeholders. Lean processes eliminate frustrating rework for employees and boost satisfaction for customers. The introduction of work cells enables colleagues to communicate more effectively and achieve goals through closer teamwork. Coaching helps employees perform better while addressing their career development needs. A strong change story will stress the benefits that lean can bring to individual employees, teams, customers, and the wider community, as well as to the institution itself. In effect, by "telling five stories at once," senior leaders can unleash substantial organizational energy that would otherwise remain dormant.

When a large US financial services company embarked on a cost-reduction program, it devised a change story that ticked all the boxes of conventional change management wisdom. Even so, 3 months on, employee resistance was holding the program back. So the team recast the story to include elements relating to society

This article is adapted from Carolyn Aiken and Scott Keller, "The inconvenient truth about change management: Why it isn't working and what to do about it," McKinsey & Company, May 2008.

(providing affordable services for affordable housing), customers (increasing simplicity and flexibility, reducing errors, making prices more competitive), the company (slowing unsustainable growth in expenses), working teams (reducing duplication, increasing delegation, promoting accountability), and individuals (creating jobs with broader scope). This simple shift boosted employee motivation within weeks.

2. Change must be seen as fair

Making employees care about change and want to contribute to it is one challenge; another is to make sure that change is considered fair.

Whenever an organization makes changes to its structures, processes, systems, and incentives, it should always pay attention to employees' sense of the fairness of the change process as well as its outcome. Particular care should be taken when changes affect the way employees interact with one another (such as headcount reductions or changes to talent management practices) and with customers (such as sales stimulation programs or pricing changes).

Change stories should explain lean's benefit to employees, teams, customers, and the community—not just to the institution.

A bank undertaking a major change program discovered that its pricing did not adequately reflect the credit risk it was taking on, so management created new risk-adjusted rate of return models and pricing schedules. At the same time, it modified sales incentives to reward customer profitability rather than volume. The rationale for these changes was not sufficiently delivered to the front line, and the effect was disastrous. Customers—and not just the unprofitable ones—deserted in droves, and price over-rides went through the roof.

To understand what went wrong, we need to appreciate that people will act against their own self-interest if a situation violates their sense of how the world should work, especially where fairness and justice are concerned. When the bank raised its prices, frontline staff thought it was unfair—a case of executives getting greedy and losing sight of customer service. Some bankers even told their customers how they felt about the new policy, siding with their customers rather than their employer even though this put their personal sales goals at risk. Many bankers used price over-rides to show good faith to customers and take revenge on the "greedy" executives.

Paradoxically, the bankers' sense of unfairness was misplaced: the new pricing system, in which customers were asked to pay a price commensurate with the risk the bank was taking on, was inherently fair. The downward spiral of bad feeling, lost customers, and price over-rides could have been avoided if the training and communications accompanying the changes had made this fact clear to employees.

Another bank ran into difficulties when it rationalized its IT support services. Formerly, field workers needing IT help simply turned to a nearby technician, a practice that led to unnecessary work and made it difficult to track productivity or plan workloads. As part of its lean effort, the bank required people seeking IT support to call the help desk first. When workers complained to the field technicians, they replied that the procedure was part of corporate's plan to cut service levels.

To set the record straight, the bank explained to staff that the new system would speed up service as well as reduce costs. A technician would respond within 1 day (compared with 3 days under the old system), and real emergencies would be handled immediately. Once staff understood the benefits of the new system and saw that it worked, the grumbling died down.

3. Positive feedback and active learning help make change last

Most organizations take a "deficit-based" approach to implementing change: they focus on defining a problem, analyzing its causes, identifying feasible solutions, then developing and implementing an action plan. This approach seems so sensible that it is hard to understand why it might not be effective. Yet motivational research shows that focusing on what is wrong invites blame, causes fatigue, builds resistance, and fails to draw on people's passions and experience. University of Wisconsin researchers illustrated the value of positive feedback after filming two bowling teams. They gave the teams different videos to review: one showing only mistakes, the other showing only successes. The team that reviewed its own successes was able to improve its performance far more than the team that reviewed only its own errors.

Focusing on the positive aspects is the best approach to promote change. Lean transformation teams can act on this insight by emphasizing the added value that process changes will create for customers and the greater employee engagement that will come from eliminating needless rework, duplication, and complexity.

Another way to promote behavioral change is to engage people in active learning right from the outset. Adults attending lectures, presentations, and discussions—i.e., learning by listening—typically retain just 10 percent of the material after 3 months. Learning by doing—taking part in role plays and simulations and putting lean to work in a "model office" setting—boosts retention rates to 65 percent. When people have an immediate opportunity to put what they have learned into practice in their workplace, retention can approach 100 percent.[1]

Lean skill-building programs can capitalize on this insight by adopting a "field and forum" approach that intersperses classroom learning with frequent fieldwork assignments linked directly to employees' jobs. These assignments provide opportunities to apply new thinking and skills in relevant and meaningful ways, and make learning a much more efficient and rewarding experience. At the executive and management level, on-the-job learning is often facilitated by coaching. Sometimes this takes place in a confidential one-to-one setting; in other cases, coaches sit with managers during everyday tasks, observe how they handle interactions with their staff, and provide immediate feedback. Organizations can further enhance learning by introducing quantifiable performance measures to track competency growth, and setting up certification and rewards to recognize new skills. When leaders treat training as an ongoing part of career development rather than isolated events that end on the last day of class, they also have a better chance of engaging their employees in making continuous improvements in the way they work—one of the key benefits of lean management.

4. Changing behavior means changing mindsets

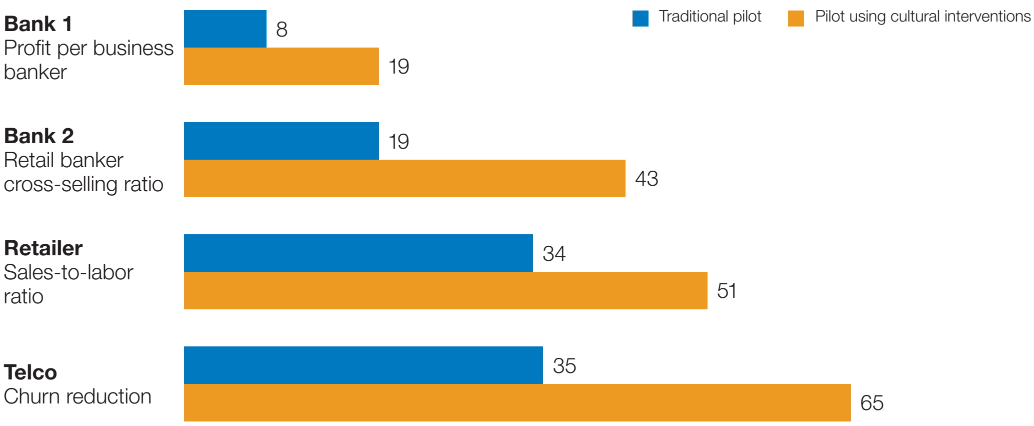
Some managers believe that employees' thoughts, feelings, and beliefs are their own private business, and not a suitable subject for discussion in the workplace. But people's inner lives inform their behavior. If leaders want to change how their employees work, they need to

[1] John Whitmore, *Coaching for Performance: Growing people, performance and purpose* (Nicholas Brealey, 3rd edition, 2002).

Exhibit 1

The business impact of performance culture.

% improvement



appreciate why people act the way they do and understand how influencing their mindsets can help them change their behavior.

To see how this works in a lean transformation, consider one bank that learned its sales per banker were well below the industry benchmark. The bankers claimed that mounting paperwork left little time for customer interaction. So the bank gave its bankers new sales scripts, easy-to-use tools, and additional training to reduce the need for paperwork. Problem solved? Not at all. Six months later, the hoped-for improvements in sales had failed to materialize.

Close investigation revealed that most of the bankers felt uncomfortable interacting with customers, and preferred doing paperwork. Many had introverted personalities and poor interpersonal skills, and found that dealing with wealthier and more educated customers made them feel inferior. To make matters worse, most of the supervisors were drawn from the bankers' ranks and shared their outlook. Although the outward environment had been changed to make it easier for bankers to spend more time with customers, the bankers' own mindsets prevented them achieving this goal.

Once it understood this barrier, the company introduced training to help staff explore topics such as personality types, emotional intelligence, and vocational identity. The training helped people to realize that they can learn to change how they act at work even if the new behavior does not come naturally to them at first. Management also sought to present sales in a new light, as a noble pursuit helping customers to discover and fulfill their unexpressed needs. Within six months, the program was back on track and generating sustainable sales gains well above the original targets.

Understanding and influencing employees' mindsets is sometimes seen as a "soft" subject with little real business impact. Yet when organizations create an environment that motivates employees to work to their full potential—what we describe as a "performance culture"—they achieve considerably better bottom-line results. Exhibit 1 illustrates the impact of a set of pilots conducted in companies undergoing change programs.

Some pursued traditional approaches; others used cultural interventions to address employee mindsets and behaviors. The second group outperformed the first on every measure. Because both sets of interventions were carried out in the same companies at the same time, they provide compelling proof that paying attention to employees' mindsets generates tangible benefits.

5. People won't change unless their leaders do

Most senior executives believe in leading by example. Encouraged by HR professionals and consultants, they commit themselves to role-modeling behaviors targeted by the transformation effort. Yet all too often their efforts bear little fruit. A common difficulty is that leaders don't consider themselves to be part of the problem, and have little motivation to alter their behavior. Most hard-working and well-intentioned executives believe they are doing the right thing already. They may recognize that their organization is low in trust, bureaucratic, and lacking in customer focus, for instance, while failing to see how their own actions contribute to these shortcomings.

Accordingly, many institutions use 360-degree feedback techniques in surveys or discussions to shed light on areas where leaders' mindsets and behaviors might represent barriers to change. Engaging an objective observer to sit in on meetings and analyze day-to-day activities in the executive calendar can also be a great help to leaders in understanding how they spend their time and manage others. A CEO who is trying to improve customer focus but spends no time meeting customers is not sending the right

message to the rest of the organization. Nor is a leader who claims not to be bureaucratic but holds meetings that spawn yet more meetings without ever reaching decisions.

To focus attention on behaviors that needed modification, one global bank asked managers to complete self-assessments on specific lean-related topics and had subordinates rate the managers on these topics anonymously. The combined assessments, which were made quarterly, allowed managers to see how far they had to go to achieve program goals and focused their attention on the desired behaviors. Such techniques can be highly effective in holding up a mirror to leaders and helping them overcome their personal behavioral challenges (See "Building lean leaders," p. 60).

Leaders apart, a few employees in most organizations exert disproportionate influence over the behavior of others. Conventional change management wisdom recommends enlisting these "influencers" to ignite behavioral change. But we would advise caution: the reach of influencers is often narrower than organizations might imagine, and engaging them in sufficient numbers to make a real difference can be costly. Experience suggests that success depends less on influencer persuasiveness and more on the receptiveness of the target audience.

6. Personal involvement creates ownership and impact

Most leaders realize that they need to devote a great deal of time to communicating their change stories to employees through road shows, town-hall forums, blogs, intranets, and other approaches. But effective communication is a two-way process. Only by listening to employees as well as speaking to them can managers make the organization's change story compelling.

The CEO at a division of a UK-based bank drafted a change story and asked his top team for their feedback. He also asked each team member to write a change story for their own department that would support his broader story. This process was repeated at progressively lower levels until it reached the front line. Although it took a long time to cascade these multiple change stories, the process produced stories that were relevant to employees and engendered tremendous commitment to the program.

People need to feel actively involved not only in making change happen but in deciding what to change and how to make the working environment more efficient and effective. Flatly telling employees what to do and leaving them to it is demotivating: it imparts no ownership of the initiative, while undermining personal involvement and discovery.

Applying this insight in a lean setting can have a powerful impact. Consider the daily huddles that many financial institutions hold around visual performance boards to discuss today's targets, yesterday's results, ongoing challenges, and ideas for tackling them. In a non-lean setting, topics like these would probably be aired in a formal meeting with a team leader or department head leading the discussion and telling subordinates what to do. In a lean organization, by contrast, the huddle is a forum for brainstorming and joint problem solving, and the discussion can be led by any team member. Their role is not to provide answers or delegate tasks, but to ask good questions, motivate colleagues around shared targets, and encourage new thinking to solve recurring problems. Rotating the leadership of the huddle gives team members an opportunity to develop leadership skills as well as the satisfaction of contributing to a more effective working environment.

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Many financial institutions have had success using lean programs to deliver short-term improvement goals, but sustaining the change is often more difficult. A well-informed approach to engaging employees in the process of change can help lean programs reach beyond short-term success to become a long-term enabler of sustainable competitive advantage. Leaders that act on the six insights we have discussed will stand a better chance of engaging their employees and unleashing the energy to make real change in their organizations.

Carolyn Aiken is a principal in McKinsey's Toronto office, **Dmitriy Galper** is an associate principal in the Munich office, and **Scott Keller** is a director in the Los Angeles office.

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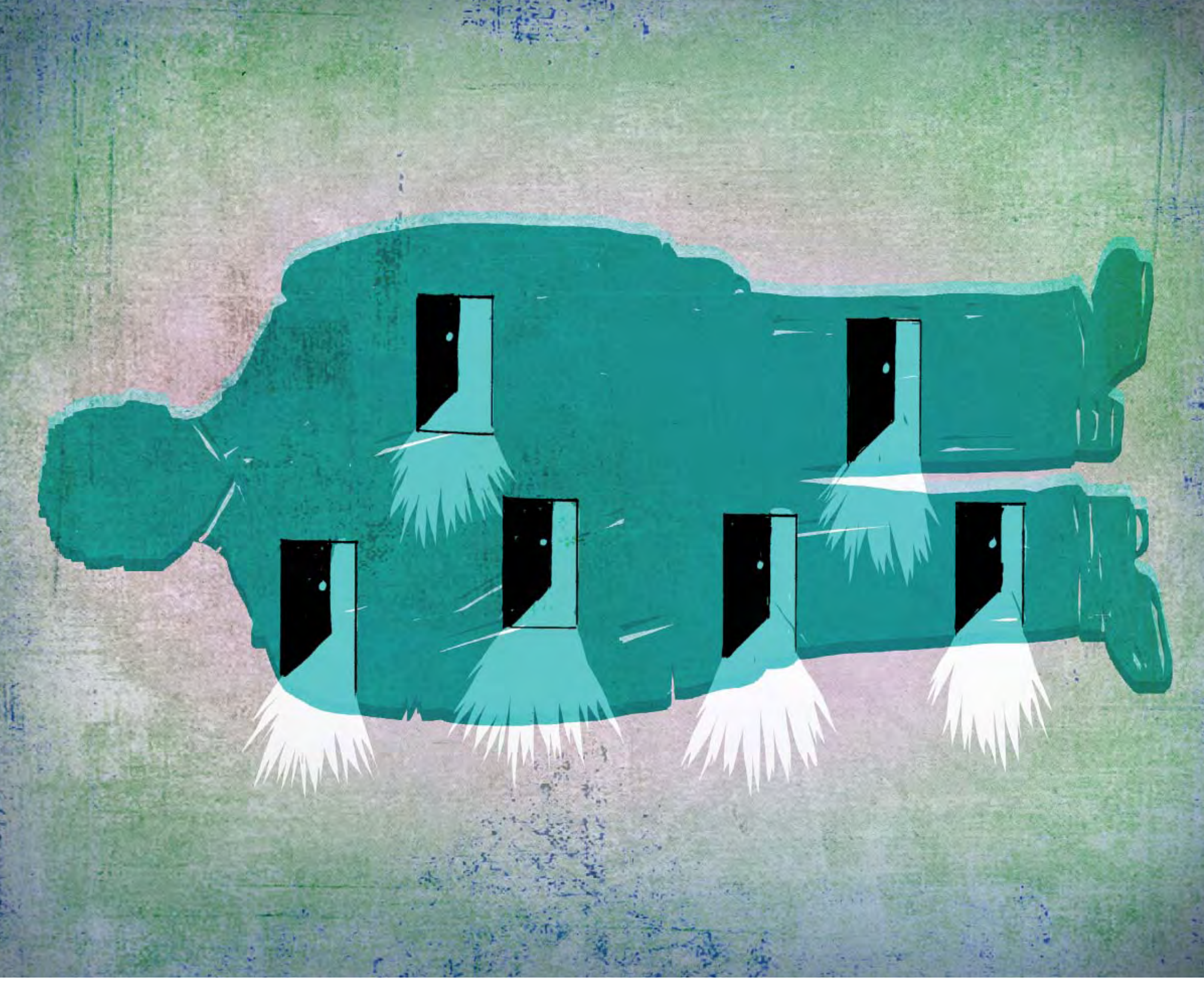

Walking in our customers' shoes

An interview with Eric Siegel of Export Development Canada

The former president and CEO of EDC explains how lean management enables his institution to work more intimately with its customers—and to learn from them.

EDC is a government-owned export credit agency that provides financing, insurance, risk management, and advice on international opportunities to Canadian exporters and investors. It operates on commercial principles and is financially self-sustaining. In 2009, it facilitated C$82 billion in exports and investments in more than 180 markets around the world.

Most of the 8,300 customers that EDC serves each year are small to medium-sized businesses, but it also assists large corporations seeking finance for telecom infrastructure, energy projects, aircraft sales and leasing, and other major deals.

The organization launched its lean transformation program in March 2007 in the underwriting part of its financing process. It has since rolled lean out across its financing and insurance lines to cover all core activities for understanding client needs, customizing deals, and disbursing funds.

The leader responsible for initiating EDC's lean journey is Eric Siegel, who retired as CEO in 2011. McKinsey interviewed Mr. Siegel at EDC's headquarters in Ottawa, Ontario to explore his role in leading the lean transformation over the past 3 years and the difference it has made to EDC's relationships with customers.

McKinsey: *How did EDC get started on its lean journey?*

Eric Siegel: While I was visiting one of our clients, a midsize oil and gas company, I had an epiphany. The company was run by a couple of young guys who were ecstatic with the results they were getting from lean. They said it was changing their organization and making it globally competitive.

When I got back, I realized what a privileged position EDC is in: we advise companies on how to deal with globalization, what they can do when their margins are squeezed by the rising Canadian dollar, and how to invest in technology, processes, and R&D in order to compete. If you're not practicing what you preach, you feel vulnerable. You have to walk in your customer's shoes to have a right to provide that kind of advice.

At the same time, we wanted to elevate our operating performance, and we knew that meant improving three things: our ability to connect with the customer, our operational efficiency, and our ability to manage people effectively. Lean was a means to tie these three things together and make everything happen.

McKinsey: *What were you hoping to achieve?*

Eric Siegel: Before we got involved with lean, we had already determined that we needed to become a much more execution-oriented organization and get much closer to our customers. We were in the process of introducing dedicated customer relationship management for all business lines so that we no longer presented ourselves to customers product by product. We had defined a whole new set of roles, moved people around, and introduced account management, but we were still operating in vertical silos.

We had to go from being vertically to horizontally oriented. We needed to see our performance through the customer's eyes, not EDC's. But we lacked the processes and tools and technology and culture to do that. The idea was to tilt the organization on its side and work horizontally from the customer in, which put tremendous emphasis on hand-offs and on segmenting and segregating duties. You need a lot of trust between different roles, as opposed to a lot of duplication. We hoped that lean would give us what we needed.

McKinsey: *Where did you start?*

Eric Siegel: I knew from previous change initiatives that you have to build credibility early. Our financing process for large commercial deals is the most complicated and intensive of all our product functions. To get a loan done takes business development, underwriting, credit oversight, legal, technical, environmental, back-office administration, treasury—an awful lot of people who have a role in bringing about a highly customized transaction. Our feeling was that if you could apply lean to financing and see tangible benefits, you could do the same in other areas. The benefits would be the kind that resonate strongly both internally and externally—things like having the CEO and top team less operationally involved in individual transactions.

We used to have something called the "seven gates of hell"—a colorful description for the pain of getting things approved all the way up the organization to get a transaction out the door. Making the seven gates go away was a call to action, and delegating authority was a signal that things are different now and we're going to trust the process and the people.

McKinsey: *How would you describe the benefits you achieved?*

Eric Siegel: In financing, we went from diagnostic to successful prototype application in six or seven months. The impact was enormous: credibility went up, enthusiasm went up, and everyone saw the organization was committed because change was not just permitted but driven by the executive. Delegating more authority, empowering people to act, and enabling more real-time sharing of information all happened very fast.

The huge gains we've made in cycle times have improved predictability, which enables us to make commitments to our customers. As a result, the number of transactions has risen. We've been able to handle everything with only a modest increase in people, so productivity is up too.

Now we have a far more collaborative culture where information flows freely. That's the exciting part: knowledge moving around the organization so that people can use

Eric Siegel

Eric Siegel served as president and CEO of Export Development Canada, Canada's export credit agency, until his term expired in early 2011. He joined the organization in 1979 and held a number of senior roles, including chief operating officer, before being appointed president and CEO in 2007.

it to make decisions on the spot instead of letting things fester or hiding behind processes to avoid making decisions. No one talks about the seven gates of hell any more. People are getting more comfortable with an execution-oriented culture and a can-do attitude. That makes them impatient for change. They are saying, "Why can't I do it now?"—which is a totally different attitude from, "There are problems, but you're never going to fix them."

Our customers see and feel it too. They say, "I don't know what you did, but this organization is very different from the way it was 18 or 24 months ago." We're more available; we listen; we're more responsive; we seek them out; we're more helpful. We can now meet or exceed the turnaround they expect, so they compare us favorably with other financial service providers.

Now that we have a connection with customers, we derive huge energy from them telling us that we're making a difference. During the economic crisis, we had people saying, "If it hadn't been for you, I wouldn't still be in business." That goes right to your heart—and that's what jazzes up our people. They realize that they matter to the customer.

McKinsey: *How did the credit crisis affect your lean transformation in commercial lending?*

Eric Siegel: The global economic recession made 2009 a very demanding year for us. To put it in perspective, we finished 2008 with a surge of customers in the last two quarters that took us to something like 8,300 customers, and in the first four months of 2009 alone we had an increase of about 700 customers. We couldn't have handled that influx of demand if we hadn't created the capacity and flexibility to move resources between teams from different sectors. Even though the demand was complex, we were able to deal with it in a risk-charged environment without letting transactions default back up to the executive team for approval. We were committed to ensuring that our operating mechanisms held up and that we didn't revert to doing things the old way. When things work in tough times as well as good, it's hugely rewarding and confidence-building.

Since then we've gone further. We've introduced simple service-level agreements that focus on predictability and value. We have a dashboard that consolidates everything so we can gauge how we are doing and how customers perceive our performance. We linked 30 percent of employees' total variable incentive to what customers told us they thought of our service. At the time it was viewed as risky to go that high, but we felt we had to if we were serious about the direction we were taking.

McKinsey: *What happened when you introduced lean into your commercial insurance products?*

Eric Siegel: When you have such success with your initial implementation, it's much easier to cascade lean out to other areas. The results in insurance were just as dramatic as they were in financing, if not more so. There was a huge reduction in the time it takes to process and complete a transaction. In contract insurance and bonding, business development drew great satisfaction from being able to give customers underwriting decisions quickly and predictably. And customers see the difference in our turnaround time and responsiveness. Now we're in the process of applying lean to receivables insurance, the last major product in our rollout.

McKinsey: *How would you characterize your own role in the transformation?*

Eric Siegel: Part of the CEO's role that can't be delegated is the regulation of the demand for change, ensuring that it is substantial but not reckless. My job was to put things into context for our employees, the executive team, and the board.

Getting people to see why we needed to change was difficult because we were doing well; we had a strong customer following and an international reputation as a top export credit agent. My biggest task was to communicate, communicate, communicate—to build the excitement, the credibility, the commitment. To hear people enthusiastically repeating back what you've been saying is a validation that you're hitting the mark. I was blown away by how strongly the initial group took up lean, and how capable and confident they were in learning and applying it.

Getting people to agree isn't enough—you have to have people who are engaged. There were times when the executive team was not totally aligned and I had to get everyone back to the table. In retrospect, I could have drawn them all into a more vibrant dialogue about how their role was changing and did we all agree this is what we wanted our executives to be doing in the future. We gravitated there in the end, but not at the same speed. Some made it faster than others.

I had to ensure that the board understood this too. Just describing lean didn't mean anything to them. They had to see it in a strategic context: why are we making such a huge investment in dollars, people, effort?

It was my job to establish and maintain lean as our number one priority, and there were times when that was tough. When the world went south after Lehman in 2008, we had every reason to say let's put lean on the back burner and come back to it if and when the world gets back to normal. I take pride in the fact that throughout the crisis, we maintained our focus on lean while we did our day jobs.

McKinsey: *So how did the role of the executive team change after lean?*

Eric Siegel: Prior to lean, the executive team took decisions on transactions above a certain size. For anything complex or contentious, there was a process for delegating upwards. All of that changed when we said "Don't delegate that up any longer; make the decision right there. We'll know the decision has been made and what its implications are, but we aren't the people who need to make it."

Once you are comfortable that your organization can function that way without driving off a cliff or damaging its reputation, you can focus on creating the envelope in which you operate. So the executive team spent a lot more time dealing with portfolio management and understanding the financial implications, like how much capital do we have—the kind of discussion that frankly didn't happen before, or if it did it revolved around transactions, which is not very useful. We were liberated to invest in the things that make the most difference to EDC's performance and health: articulating the strategy, testing it, looking at the challenges on the horizon, managing talent, developing people.

The economic crisis proved that we had made this critical shift. When the meltdown happened, we had time to focus on defining what we would do and what we wouldn't in broad philosophical and policy terms. Then we gave people guidelines to apply instead of trying to architect everything transaction by transaction. Where that proved difficult, we inserted ourselves into the existing process rather than creating another one. We sat at the table with the process for a few weeks until we reached a comfort level with it, then we removed ourselves and let it work.

McKinsey: *Is your role different now that you're three years into your lean journey and approaching retirement?*

Eric Siegel: My objectives have to be tailored to the time I have left. In my last year at EDC, my vision has been to move lean away from being project oriented to being a day-to-day continuous improvement process. To do that, we must create a supporting culture. That means modeling behaviors in a highly visible way and shifting the focus from me to the rest of the executive and senior management group. It's important that lean isn't seen as my baby, because I won't be here forever. Lean will, so it needs a broad base of support. It isn't driven by an individual; it's driven by the organization as a whole.

Now we have a training curriculum that exposes everybody to lean, and we have our own lean advocates who give us much more capability to apply it. We need to promote them and use them more effectively. It's all about trying to make lean our normal state—what we call "The EDC Way." It's the set of behaviors, mindsets, principles, tools, and methodologies that we use to get things done. We want it to be tangible, so that people say, "Yeah, that's the way we do things around here." My job is to make sure it's well embedded in the organization.

McKinsey: *Do you think you could have created the EDC Way any earlier in your journey?*

Eric Siegel: I wonder. I think we knew intuitively that lean was about changing the culture as much as the processes. Before you can change culture, you have to show that you're credible in your ability to bring change. You have to get results fast. You may not solve the big problems, but you need tangible change to show you're serious. That goes a long way to winning people's hearts and minds, and then you can start to focus on the culture.

I'm torn about whether you should start with mindsets and behaviors. If you haven't demonstrated that you're prepared to change processes, it could fall on deaf ears. In retrospect, we could have started a little earlier, but actually our timing was pretty good in getting to where we are now.

McKinsey: *If you could go back, what would you do differently?*

Eric Siegel: I would invest more time in education. Once you're operating in a lean environment, you can connect with companies all over the world. I spend as much time talking about lean as anything else, whether it's with a customer in India or someone down the street in Ottawa. You learn that there are far more similarities than differences in the challenges we face. Lean is a leveler, and you can learn a lot from what other companies have done.

Learning from customers is also a powerful way to sustain your own effort. If you send your people to walk the floor of a customer who is applying lean, three things happen: they learn a great deal, they're energized and come back even more committed, and your customer is unbelievably flattered by the fact you have invested time to understand their story. So it's win-win-win all around. It deepens your relationship with your customers because they see you making the kind of investments they've made themselves. We are walking in their shoes.

McKinsey: *What's been the most powerful lesson for you personally?*

Eric Siegel: It's been the reaffirmation that organizations have the capacity to change. The issue is how you unlock it. Strike hard and fast, build credibility, and you'll get a following. Make sure that the executive is knowledgeable, connected, and visible. See the power of customers to inject energy and vindicate what you're doing through their feedback.

The most gratifying part is to see the organization change and its people grow. As I leave this organization, I think it has the strongest senior management team and the greatest depth it has ever had. I credit lean with a great deal of that, because it has provided the impetus for people to step up, not step down. o

Building lean leaders

Sustaining a lean transformation means strengthening six leadership behaviors throughout an organization.

Laura Costello and Remco Vlemmix

Executives at financial institutions understand that to sustain deep change, their organizations will need effective leaders from top to bottom. But in the context of a lean transformation, that basic realization raises more questions than it answers. First, what does "effective leadership" mean for the lean organization—what does the lean leader *do*? And, more practically, even if we can agree on what an effective lean leader does, can those things be taught?

An analysis of dozens of lean transformations across industries is beginning to reveal an encouraging answer to both questions, via the common threads that constitute successful leadership in lean. These are the "six Ps" (process, purpose, problem solving, people, performance, and partnering), each of which summarizes a distinct and straightforward set of behaviors that the best lean leaders follow. While no leader is likely to be equally stellar at all of the behaviors, the deepest, most sustainable change will tend to come in those groups whose leaders do reasonably well across the six, with particular depth in at least one.

The combination of skills that the six Ps require may now be rare, but helping leaders develop it is not magic. Indeed, the real value of the Ps is to enable changes at the individual level, making leaders aware of what they need to do so they can seek out appropriate coaching in response. This process, repeated throughout the organization, becomes an essential component supporting a transformation across the enterprise.

The six Ps of lean leadership

At a high level, the six Ps will seem intuitive to anyone acquainted with leadership studies over the past couple of decades. But that familiarity can mask the deeper point: each P describes the leader's personal role in initiating and sustaining a lean transformation.

Process

The first of the Ps is conceptually the most basic. Given lean's focus on revamping how the work gets done, the lean leader must follow those new processes daily: using the new tools, demonstrating the new behaviors, and enforcing the new expectations. Without this level of commitment, employees will quickly abandon the new way of working, no matter how much care the company may have taken in designing it. Conversely, leaders who make a point of changing their own practices to conform to the new model make a powerful statement to the rest of their organizations.

For example, at a regional US retail bank, leaders built "model days" for themselves in which they publicly posted their daily schedules, showing the time they set aside for walking the floor, answering e-mails, leading huddles, and so forth. This highly visible demonstration of how to contain and eliminate waste (no more endless e-mail chains, for example) underscored the leaders' individual commitment to lean, while enforcing the expectation that their reports would do the same.

Purpose

Purpose, the second element, asks leaders to provide the sense of meaning that people need in order to even consider undertaking a transformation that will inevitably demand much of them. It is more than just a matter of branding or internal communications. To be persuasive, messages must appeal not just to multiple audiences, but in multiple dimensions as well—from the very broad, such as the transformation's potential impact on a desirable social goal, down to the level of making an individual employee's job more meaningful (See "Winning hearts and minds: The secrets of sustaining change," p. 46).

An emerging-market bank achieved this balance for a performance improvement program it launched in its retail sales operations. Having found that 60 percent of its sales agents were missing their monthly targets, the bank's broad message was deeply human: it wanted to avoid large layoffs. To bring this to the individual level, the bank started a contest that challenged top-performing agents to help their lower-performing colleagues improve their sales skills. Those top performers whose colleagues improved the most would be eligible to be promoted to the management track. Within three months, sales almost doubled, and the proportion of underperforming sales agents dropped to only 15 percent.

Problem solving

The next requirement of the lean leader is to foster effective problem solving, particularly by collecting information firsthand. This requires more than just the occasional, well-rehearsed visit to a work floor, which can be "about as authentic as an audience with the queen," as one executive put it. It means working with the leader's immediate reports, challenging them with difficult "why" and "how" questions to reach

The six Ps in practice

Helen is a fund-accounting supervisor at an asset manager that we will call Trustco. Her primary responsibility is to ensure that by 6 p.m. each day, her team of fund accountants and pricing analysts provides accurate net asset value calculations for a suite of 13 equities funds. Any errors or delays can have serious consequences, both financial—including fines and restitution payments—and reputational.

Trustco has also sought to keep the fund-accounting function's costs under control. Helen's unit has therefore been through a lean transformation that allowed it to double the number of funds it covers without adding any personnel—but Helen wants to show even further improvement as the lean program starts its second year. Her story demonstrates how effective leaders weave the six Ps into their ordinary work, forming the core of what they do.

Helen's daily routine begins with the standard early-morning huddle. Although initially skeptical of huddles, fearing that they would waste time, Helen now views them as her best way to uncover potential problems and resolve them quickly. Her consistency in holding the daily huddle and acting on its findings demonstrates a commitment to the first P, *process*, while also laying the groundwork for discussions of *performance*.

Meanwhile, the content of the discussion points to *problem solving*. At the center of the huddle, an electronic whiteboard shows each employee's output against quality and productivity metrics. Although the team as a whole exceeded its group target yesterday, one of the pricing analysts, John, came in low. But after a year of these huddles, the staff understands that this is not an inquisition—Helen has been clear that the discussion is about finding solutions, not shaming team members, thereby underscoring an important *performance* point. John quickly volunteers that his output was lower than his target in part because he had to check the price of the same security four times. Frustrated, he comments that it would be far more efficient if he could make a single price check, then record it in Trustco's system.

Helen thanks John for identifying a problem that the group can work on. Although she has heard about a software upgrade that would take care of the problem, Helen chooses not to mention it—not yet. As a supervisor, if she volunteers an answer, she risks cutting off the conversation, undermining an opportunity to help her *people* strengthen their own capabilities. Helen suppresses an urge to mention the software fix and instead asks if this issue has come up for others. Several team members beyond easy explanations to the root causes of an issue.

In some cases, the starting point need not be an in-person visit. An executive for a US-based insurer has technicians give him a random selection of recorded customer calls into the company's service line every week, which he then listens to on his iPod. "I'm not just listening to how the employees are handling the calls," explains the SVP, "but what problems are motivating customers to call in the first place." Those findings become the basis for further conversations with employees to determine, for example, the reasons certain statement errors were occurring.

People

In any service environment, the fourth element will inevitably have the longest-lasting impact:

agree that redundant price checks are a common occurrence.

She then asks the group for possible solutions. After a pause, one of the fund accountants, Elizabeth, hesitatingly mentions having heard that Carlo's fixed-income team had figured out a way to eliminate the redundant checks—but she wasn't sure how they did it, or if a fixed-income solution would work for their needs. Seeing the potential for *partnering*, Helen replies that there would be little harm in looking into it. She asks Elizabeth for help later in the day in speaking with Carlo about his group's solution.

The huddle closes with Helen congratulating the team as a whole for exceeding its target and thanking them for a productive problem-solving session. She then reinforces the *purpose* of this work, noting that these are the sort of ideas they need to generate regularly if Trustco is to improve its lagging reputation for customer service. "And remember that this isn't just about making the customers happy—we know that higher satisfaction means more assets under management, growth that in this economy is going to be especially crucial for our bonuses." After the huddle, Helen returns to her desk, marking two new entries on her to-do list: calling IT about the software solution she remembered, and speaking with Elizabeth about getting the other team to share its solution. Elizabeth needs this opportunity: while she usually meets her targets and is happy to help when asked, she lacks confidence, even in small, informal sessions like the huddles, and she never volunteers. Helen therefore decides that her first stop will be at Elizabeth's desk, where the two of them can plan a call with Carlo.

For the next 20 minutes, Elizabeth explains what she has heard. Helen makes her second *people* investment of the morning, coaching Elizabeth in setting up a list of questions to ask Carlo. Helen then asks Elizabeth to try calling Carlo to see if he has time for them to swing by before lunch.

An hour later, Helen and Elizabeth are sitting by Carlo's desk as he explains the work-around his group developed. As the conversation winds down, Helen asks Carlo if he knows anything about the software upgrade she had heard about. "We started with that, actually. But it's just not stable enough, at least not yet. We were spending too much time dealing with crashes."

committing to making other people successful by challenging them to build their own skills. The goal is to push as much responsibility as possible as far down in the organization as possible, preferably to the frontline employees who are directly interacting with customers. Managers must therefore resist the urge to provide quick answers that do not allow their reports to struggle and learn. As the European insurance executive noted, this change is one of the most difficult that lean demands of a leader: "As a lean leader, the most important sacrifice you make is of the notion that you derive status as a leader from knowing it all."

At a corporate lender, this issue arose when a frontline loan officer overseeing a large transaction started to question whether one of the more time-consuming elements of her review might be wasteful, at least for the deal she was working on. The standard lending process required an extensive financial analysis for all transactions above a certain loan amount. But in this case, the borrower was a long-standing customer—and it was a public company whose operations had been exhaustively reviewed by third parties. The loan officer concluded that there was little additional research that she or her colleagues could do that would add value. Although the head of the lending unit initially wanted to resist, he recognized that the loan officer had identified genuine waste—and the group had successfully created an environment in which employees felt free to challenge existing practices. He approved the loan without the extra research.

Performance

The fifth P, performance, requires the leader to take a particularly active role in enforcing new goals and metrics, helping employees translate them into more specific actions and providing timely, appropriate feedback. It can be difficult for many leaders to learn the art of conducting frequent, objective, constructive performance conversations.

Instead of waiting for annual or semiannual meetings with the boss—which are too infrequent to change employee performance in a meaningful way—the lean organization relies on daily huddles as the main vehicle for performance discussions. These short, tightly managed discussions summarize the day's objectives, review the previous day's results, and identify potential opportunities for change—but in a way that focuses on understanding specific issues and finding ways to fix them, rather than parceling out blame. At the US retail bank mentioned earlier, team leaders lead their own huddles and then in turn huddle with their managers to escalate performance issues and design solutions, such as sharing employees across cells for the day to balance workflow in a way that allows all of the teams to meet their targets.

Partnering

The final component of lean leadership, partnering, builds on the core lean concept of cutting through internal organizational boundaries to improve coordination and serve customers better. At the most basic level, this partnering arises within a single process, as the leader works with employees to smooth handoffs between one production stage and the next. At a more strategic level, leaders must also continually reassess their organization's alignment with other internal units and with third parties. That exercise often reveals new opportunities for improvement, whether from closer cooperation or better sharing of best practices.

Because partnering inherently involves a substantial degree of coordination, sustaining it requires leaders to make a deep commitment to prioritize their work with one another—particularly when units have little history of cooperation. At the specialty lender, for example, the top team revamped the company's meeting structure to ensure regular cross-functional reviews of company-wide performance metrics so that each function could better understand how its work was affecting the work of others.

Assessing leadership behaviors

In the course of a lean transformation, the six Ps become a pragmatic means for helping leaders strengthen their own capabilities in a tailored way. A detailed evaluation, based in part on a 360-degree review and the leader's own self-assessment, allows the institution to identify where the leader can improve.

At the top of an organization, this process is most effective when the leadership team undertakes it as a group. At one institution, for example, the top team built an assessment of the six Ps into its long-standing 360-degree review process. It then conducted an intensive workshop during which each member of the team reviewed and challenged the results—a difficult series of conversations, but one that was essential for each executive to trust the process. Those results then became the basis for a joint development program, in which the leadership team committed to a highly detailed and public series of changes, from increasing their visibility to creating explicit targets for delegating important decisions.

The assessment can then proceed further down in the organization, with appropriate customization for each leader. "The six Ps provide a baseline for describing what the organization expects of a lean leader," explains a European insurance executive. "Once it's clear that a leader has trouble in a particular area, you need to understand why the leader is behaving that way. That may require some follow-up on the part of reviewers to validate the assessment results. But the additional check is worthwhile because it often reveals deeper issues in the leader's day-to-day environment."

For example, one of the insurer's senior managers was not showing the right problem-solving behaviors, with a particularly low score on the quality of his visits to the work floor. The reason turned out to be that the manager struggled in finding the right questions to ask when probing employees' ideas. The insurer's lean team therefore developed a simple pocket card that the manager could follow for the first work-floor visits, allowing him to build not only his own confidence, but his team's as well. By the third visit, employees were already changing their behaviors and their expectations, starting a virtuous cycle that made the manager more willing to undertake the effort.

An additional reason this case turned out well is that the leader was able to exercise a degree of choice over the program. "In his case, the diagnosis showed several development needs, so prioritization was really the only option. Asking the leader to choose which area to work on—and how—helps underscore the organization's respect for that individual."

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The process of building lean leaders is a substantial undertaking that can begin even before an organization commits to lean. It starts with a clear-eyed assessment of an institution's existing capabilities—the most important of which is a willingness to fundamentally change what it expects of its leaders. The institution can then begin helping its leaders change themselves, a task with enormous benefits that makes the effort well worth the while. ○

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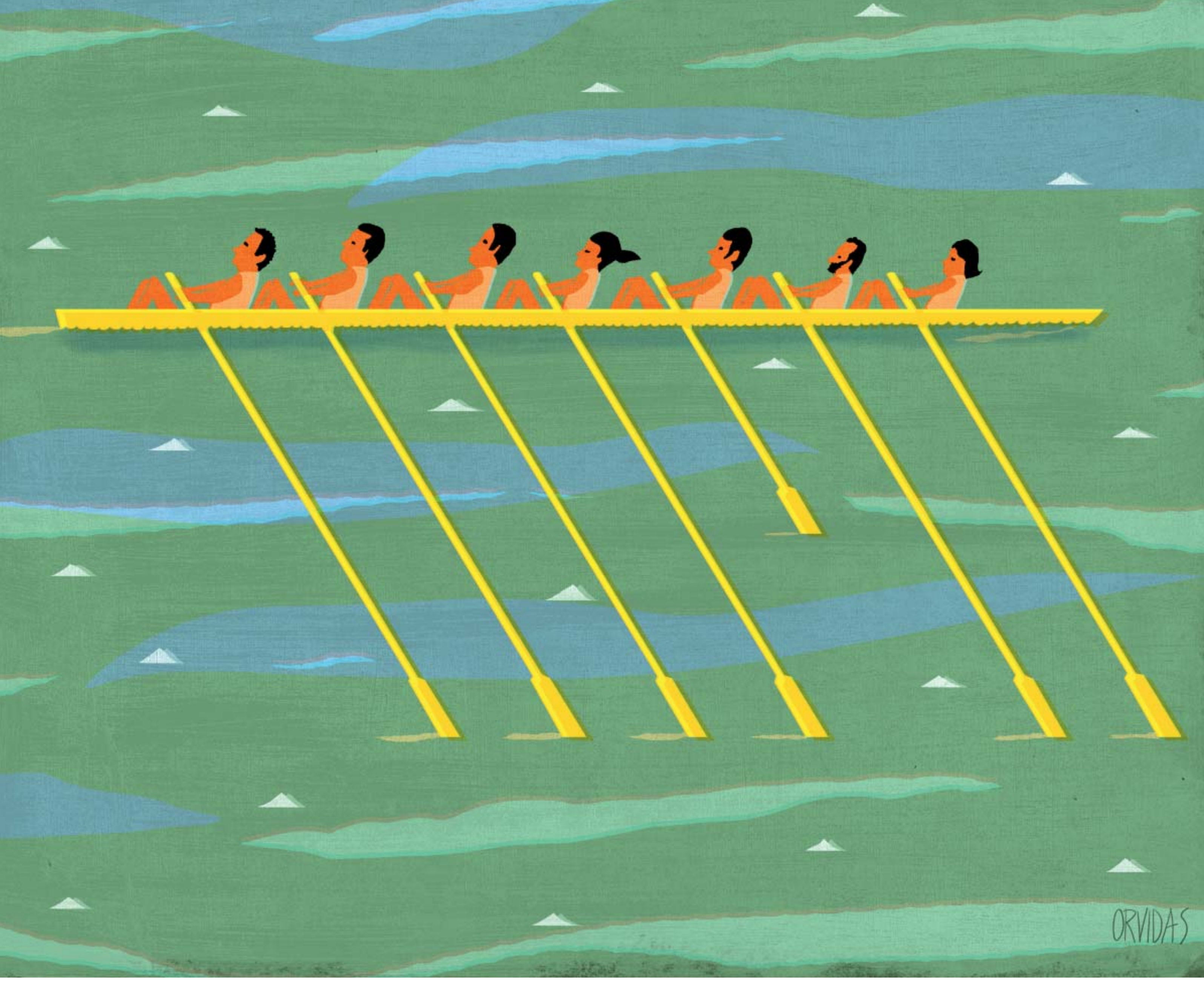


Lean's linchpin: The frontline manager

To capture lean's promise of continuous improvement, frontline managers must see lean as more than just a set of tools.

Alison Jenkins and Mark Minukas

For financial institutions that are operating at unprecedented scale, one of the most difficult problems is simply to understand where they need to improve. Lean's solution, relying on frontline employees throughout the organization to see the performance improvement opportunities that executives cannot, yields extraordinary results at first just by uncovering issues that have long remained hidden.

The hard part is to keep this cycle going. That will depend in part on leadership from above (see "Building lean leaders," p.60), but even more critically on the support that frontline employees get from their immediate supervisors, who will need to take on new roles. Rather than "firefighting"—guiding their teams through tough situations and making judgment calls—frontline managers working in a lean environment become teachers and coaches, overseeing the system as a whole and building their teams' capabilities.

Some frontline managers make the transition easily, developing an almost instinctive grasp of how lean principles and systems can help them and their teams. The easy success stories can make lean management seem like nothing more than a matter of selecting the right lean tools. Too often, executives think that so long as they give their frontline managers a few whiteboards and a good set of metrics, the rest will take care of itself.

It almost never does, and institutions that are serious about lean understand the limitations of a tool-centric view. As important as the tools are, they are effective in sustaining performance improvement only to the extent that they are an expression of a much deeper shift in how frontline managers view themselves, their teams, and their jobs. It is this transformation that is essential to address. Focusing too closely on the tools can encourage frontline managers to view them as little more than additional boxes to tick. But by integrating the tools into a comprehensive system, institutions reinforce fundamental changes in perspective.

The integration must encompass three critical functions that the frontline manager fulfills in a lean organization: matching the workforce to incoming volume, or *workload allocation*; ensuring that workers are able to meet work demands, or *performance management*; and systematically uncovering and confronting obstacles so that they do not recur, or *root-cause problem solving*. Crucially, lean recognizes that each of these three elements depends in part on the other two: in managing employees' performance, leaders will naturally need to review how work is distributed, and they must identify the underlying reasons for gaps in productivity.

Tools are indeed a part of what binds the three functions together. But the tools' deeper value lies in how they embody and strengthen a set of mutually reinforcing mindsets (Exhibit 1). Understanding the principles behind the tools puts managers in the right mindsets, and having the right mindsets makes the tools more effective. This virtuous cycle enables a frontline manager to become a good teacher and coach—one capable of turning an ordinary operating unit into an engine for continuous improvement.

Workload allocation: A rhythm that responds

The virtuous cycle starts with workload allocation, which serves to ensure that the tasks involved in serving customers are assigned in such a way that work is completed accurately and on time. Superficially, workload allocation can appear almost mechanical—a simple matter of matching tasks to employees. But in practice, it requires constant adjustment in response to changing conditions.

To make the right judgments, managers must balance two mindsets that are partly in tension. The first holds that employees perform

Exhibit 1

Shifting managers' mindsets helps make lean tools more effective.

From		To
I just need to make sure my group meets customer demand— how they do it does not matter	**Workload allocation**	I understand customer demand in detail and know how to support the team in meeting those needs throughout the day
Individual performance and conflicts within a team are private matters, to be discussed only when absolutely necessary	**Performance management**	Making performance and problems transparent is critical to helping my team perform better
When problems come up, it is better to work around them than to waste time dwelling on them	**Root-cause problem solving**	Problems are opportunities for all levels of the organization to improve

best when they work at a steady rhythm. This concept of "flow," carried over from production lines, requires the manager to monitor the operation closely for variations that could interrupt employees.

Yet flow alone will not serve the organization over the long run. Endless repetition of the same tasks quickly proves stultifying, conjuring up images of Charlie Chaplin with his wrenches in *Modern Times*, his arms still twisting away well after he leaves the factory. Managers must therefore embrace a second mindset: that employees excel when they are comfortably challenged in their work. The "comfort" part of the equation suggests that employees want continuity, but the element of "challenge" means that their work must gradually change to expand their skills. Managers must avoid wasting employee talent and instead give the most complex tasks to individuals who are ready for them.

In fulfilling these requirements, managers typically rely on a few common lean tools. A skills matrix incorporates performance data to help identify which employees are qualified to receive specific kinds of work, as well as to pinpoint opportunities for further cross-training. Meanwhile, a customer demand profile assembles data on incoming work to determine how many employees are needed for specific tasks, providing early warnings of potential mismatches. Finally, a visual performance board shows the status of all work currently in the system, allowing the manager and team to monitor workload conditions.

Performance management: Making progress transparent

The focus of performance management is to identify and fill the gaps that inevitably arise between actual production and the targets that the institution sets. These gaps can be temporary, as managers deal with fluctuations in workload demand and employee availability, or more chronic, as the organization's needs shift and employee capabilities change. Nevertheless, regardless of the time frame, the real work in performance management lies in making performance transparent at all levels of the organization so that adapting to conditions becomes a group responsibility rather than just a collection of individual efforts. Performance management boils down to three mindsets. The first is openness, holding that a group's performance should be immediately apparent to anyone observing it. This idea represents a radical change in many organizations, where performance is something revealed only occasionally, if at all. Yet it is essential for managers so they can allocate workload effectively, identify opportunities for deeper skill building, and reveal issues for further problem solving.

The second mindset relates to the manager's new role on the team, in which instruction, guidance, and role modeling replace crisis management. The successful manager embraces this definition of leadership by offering frequent, rapid feedback that assesses the employee's current activities, and by providing coaching to support the employee as he or she tries out new approaches. Performance becomes a constant conversation, with managers replacing infrequent, awkward performance reviews with discussions that occur more informally—and that now account for a majority of the frontline manager's day (Exhibit 2).

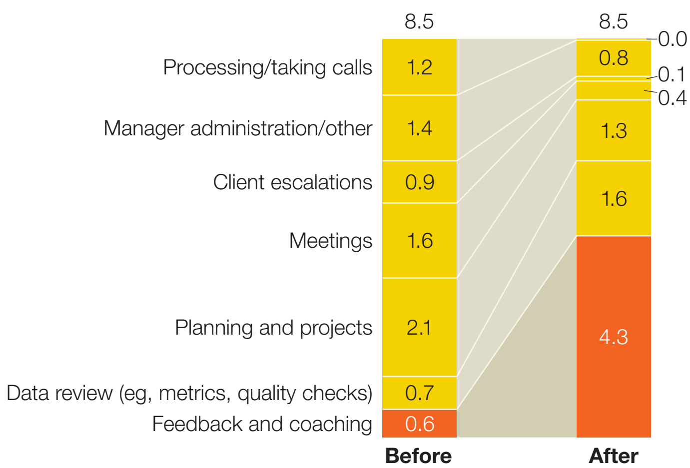
The third mindset recognizes that standards are essential to support transparency and engage all of the workforce in improving their work over time. Rather than stifling creativity and involvement, standards become a way of empowering employees and managers alike to share best practices, allowing them to focus their ingenuity on identifying how work could be done even more effectively.

One tool for making performance transparent is a visual performance board, which shows exactly how the group is performing relative to its targets (for an example, see Exhibit 2 in "Tackling the roots of underperformance

Exhibit 2

Managers can move from a focus on "firefighting" to a focus on coaching.

Asset management example, Hours per day



in IT," p. 107). Performance boards are typically used in daily huddles, where results and targets are discussed openly as a team. Meanwhile, feedback and coaching relies on "sit-withs"—structured, regular meetings in which the manager sits down with the employee, observes how he or she works, and actively provides feedback and coaching to help improve performance. As the employee progresses, the manager updates the skills matrix, enabling further changes to workload allocation.

Because sit-withs occur often and focus mainly on training, both managers and employees see them as much less intimidating than official reviews. Employees thus feel more comfortable about revealing issues, giving managers greater insight on employee capabilities and on operations as a whole.

Standard work[1], which reflects the collective best-practice knowledge of all team members, is a particularly effective tool to use during sit-withs because it shows how employees should handle particular types of work. Managers can use standard work to assess employees' use of best practices, provide coaching on ways to improve, and gather ideas on identifying and eliminating areas of waste in the team's processes. As those ideas are implemented, employees and managers must update the standard work—thereby continuing the long-term improvement cycle.

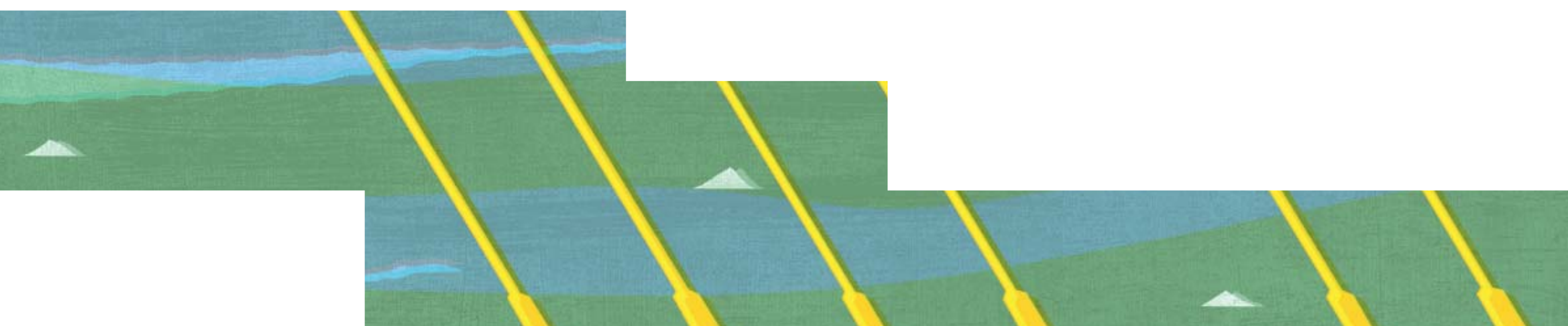
Root-cause problem solving: Turning problems into ideas

To address issues, managers encourage root-cause problem solving, an exercise that forces teams to push beyond superficial, short-term fixes. Managers must combine three mindsets to make root-cause problem solving work. The first, and probably most difficult, is to change their perspective on problems from things that are inherently bad to things with great potential to do good. Conveying this message to employees requires patience and consistency: it means providing rewards to employees who identify problems and disincentives to those who hide them. In this way, root-cause problem solving becomes part of the basis for measuring employee performance.

Once managers convince staff that it is good to raise problems, they must focus on the second mindset, which emphasizes objectivity in reaching a solution. Teams must rely on logical arguments and factual assessments rather than anecdotes and blame—which may require further coaching for many employees.

The final mindset is a willingness to reach as deep or as broad as may be necessary to address a problem completely. The "five whys" (that is, repeatedly asking "why," not "who" or "what," as deeper layers of a problem are revealed) are a classic lean structure—but in many cases, they are just a starting point.

[1] Standard work is the best known process to achieve a target outcome, and typically includes a recommended sequence of steps, expected time per step, and key points for quality and productivity.



The more difficult challenges arise when, as frequently happens, the team discovers that one or more of a problem's root causes resides in a different unit. When that is the case, managers must actively pull in support and input from the other units, rather than leaving the problem unaddressed.

To reinforce these mindsets, two tools are especially important. The first, idea boards, are publicly posted boards that list proposed solutions, the employees responsible for advancing them, and progress made relative to milestones. These boards become the basis for the second tool, which is a structured meeting cycle that provides further monitoring while also promoting ideas for implementation.

• • •

By weaving lean management tools and mindsets together into a single structure, an institution equips its frontline managers to escape the trap of crisis management. While the tools are an enabler, it is the mindset shift that is essential for the institution to attain lean's full promise, which is an organization that keeps learning and improving over time.

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The authors would like to thank AJ Singh for his contributions to this article.

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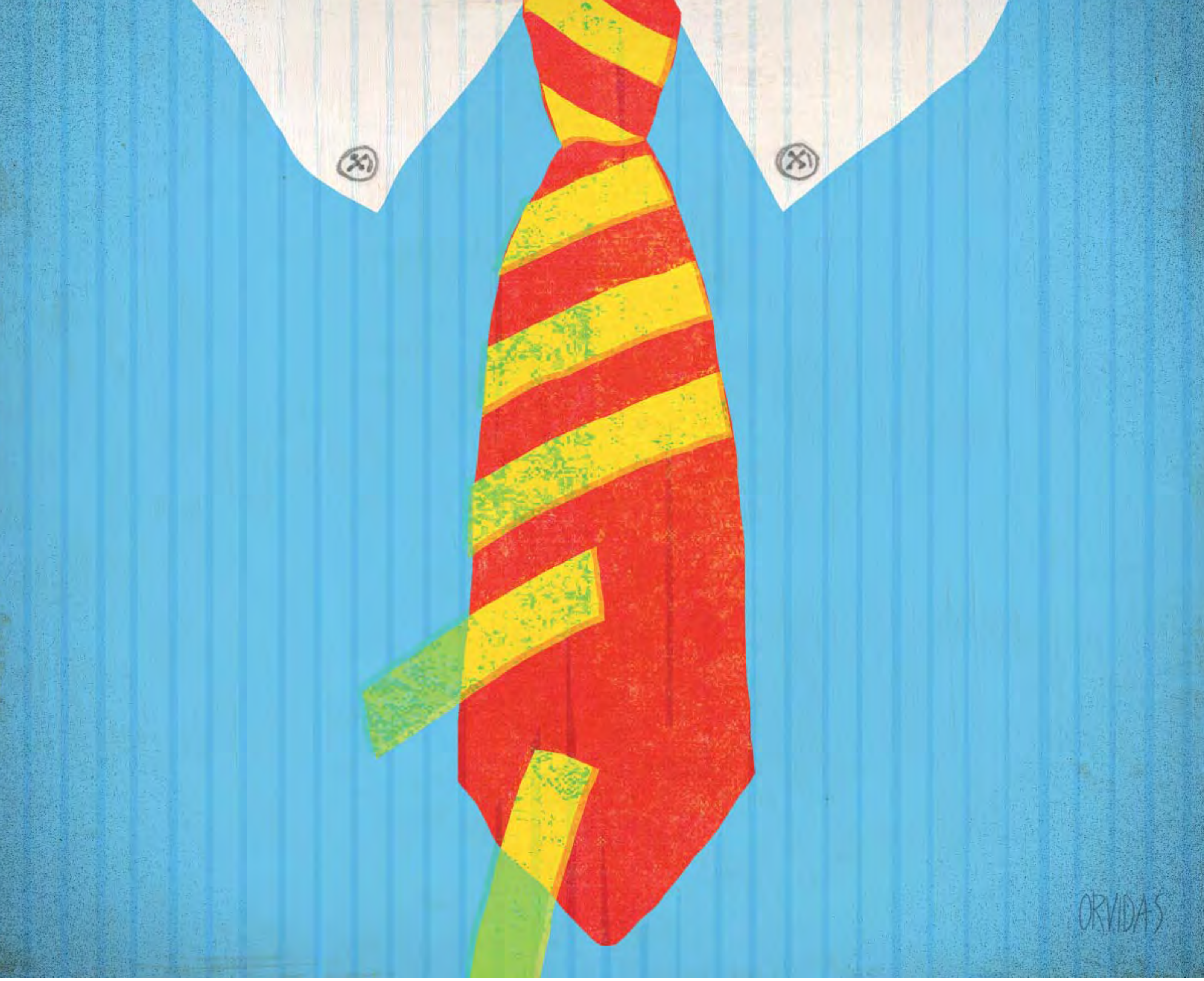


Engaging people in the lean journey

An interview with Lázaro Campos of SWIFT

The CEO of SWIFT shares his perspectives on program design and discusses the importance of the human element in the company's transformation.

The Society for Worldwide Interbank Financial Telecommunication (SWIFT) is a member-owned cooperative through which more than 9,000 banking organizations, securities institutions, and corporate customers exchange financial messages in a secure and standardized manner.

In early 2009, SWIFT launched an organization-wide lean program, setting an ambitious target to increase efficiency by 30 percent, while further improving service and creating a more agile culture. At year end, the company had already achieved half of the structural cost reduction target, and had clear evidence that lean was empowering managers and employees and changing the firm's culture in a positive way.

Lázaro Campos joined SWIFT in 1987, serving in a range of management roles, including director of market infrastructure services, director of treasury markets, head of marketing, and head of the banking industry division. He was appointed CEO in April 2007.

McKinsey sat down with Mr. Campos at SWIFT headquarters in La Hulpe, outside of Brussels, to discuss his motivations and aspirations for the lean program, what he and the company have learned, and the progress thus far.

McKinsey: *What was the genesis of the lean program at SWIFT? Why lean and why now?*

Lázaro Campos: It was several things. It started before the crisis. I've been at SWIFT for many years, and I know that our customers value our operational excellence. Quality of service has always been paramount. As a non-profit we are obsessed by availability, resilience, and service, but this has led to the creation of inefficiencies over the years. Very few of our customers would say that we were an efficient company. Efficiency was not part of the model. So this was the first driver for lean. We wanted to be and be seen as an efficient organization.

This interview was originally published in *McKinsey on Payments*, Issue 8, June 2010.

Then came the events of September 2008, and our nice-to-have efficiency became a must-have cost-reduction objective. Message volume fell for the first time in SWIFT's 37-year history. Adding to this challenge was our commitment to reduce our messaging prices continuously. To give you a sense of what this means, we have reduced our messaging price by an average of 18 percent per year over the last 5 years.

In this context we clearly had to focus on reducing our costs, but we didn't want to do just a one-off cost reduction. We wanted to make a dramatic and lasting change to our cost structure, which led us to lean.

We also chose lean because the customer is at the center of the methodology. And customer-centricity is something I wanted to have embedded in the corporate culture.

McKinsey: *In your experience, how does lean differ from other cost reduction programs?*

Lázaro Campos: It is not a one-off approach. It changes the way you work. It gives you a framework for continuous improvement. Once you've gone through lean, even the people who had resisted initially end up realizing that lean actually helps them do their job better.

McKinsey: *Did you set any specific cost reduction target* ?

Lázaro Campos: Some say it is better not to set a target because you want to get to the [true] potential. But we made a point of going for 30 percent, minimum. We knew that we wanted to attack costs structurally. You can ask someone to cut 20 percent, and they will come up with something. But when times get better, that 20 percent slowly and surely comes back because all they're doing to get that 20 percent is pedaling faster. They haven't done anything systematic or structural.

McKinsey: *Thirty percent is an ambitious target.*

Lázaro Campos: Exactly. We wanted to position the program as something major, not just process re-engineering.

McKinsey: *How do you maintain your focus on quality and customer service, while at the same time aiming for such an ambitious target?*

Lázaro Campos: We review every process and simplify it, concentrating on the parts of the process that do not add value to our customers and getting rid of them. We also ensure that all of the controls we have in place to guarantee quality and customer service are unaffected. We take very seriously the quality of our service and our responsibility to our customer base and the industry at large.

McKinsey: *How did you launch the lean program?*

Lázaro Campos: First, we did two pilots. Each was very different. One was in end-to-end ordering, which involves setting up new customers, making changes to customer profiles, and integrating new products for customers. All of this is very process-driven and tech-oriented. It is something you can really measure.

The second pilot was on the other end of the spectrum: stakeholder relations. This encompasses corporate and marketing communications, branding and, of course, events and conference organization, including Sibos, the world's largest gathering of financial industry professionals.

We thought that if lean can work in those two pilots, it can work everywhere else. And while it was a challenge, we actually met the objectives.

McKinsey: *And so you decided to go forward. Were there additional steps you took to prepare for the rollout?*

Lázaro Campos

Lázaro Campos has been CEO of SWIFT, the Society for Worldwide Interbank Financial Telecommunication, since 2007. During that time he has guided the cooperative through a major lean transformation. He previously was the head of SWIFT's banking industry division, and before that served in a number of other roles since joining SWIFT in 1987.

Lázaro Campos: Yes, we undertook a thorough review of senior management. You must understand how important managers are in this process. You cannot afford weak links. They can have a tremendous negative impact not only on the effectiveness of the approach, but also on morale, and on the credibility of the program. If you know you have a management issue, deal with it before you begin a lean program. This makes it more effective and it is more credible for the staff.

McKinsey: *How did you design the central lean team?*

Lázaro Campos: Your central team are the navigators, stream leads, and architects: the change agents who drive the program. And you should never compromise on the quality of this team; they must be the best. This is critical to ensure that you get the impact you want.

There is a big difference between making lean work on a pilot level versus scaling it up across an entire organization. To manage a ramp-up, you must have people that not only have the enthusiasm for lean, but also the capability for it, and the leadership and the respect of the employees. To lead the lean program we chose someone who was responsible for operations, someone known as a people manager, who had an impeccable track record at management and delivery. When we did this, everyone realized that we were serious. That was one of the strongest messages we could have sent.

McKinsey: *Were there any other things that had to be put in place before embarking on lean? Anything specific to SWIFT's structure or organization?*

Lázaro Campos: A very crucial part of SWIFT is our audit team, which reports directly to our board. We made sure from the beginning that our audit team was directly involved in every wave of the lean program. Their sole objective is to ensure that any changes we apply are in line with our security and quality of service controls. They report to our board and overseers, the central banks of the G-10.

McKinsey: *Do you personally get involved in the transformation?*

Even the people who had resisted initially end up realizing that lean actually helps them do their job better.

Lázaro Campos: You have to go out and see how the program is working first-hand. And the attitude an executive displays is absolutely essential. It is not only about openly supporting the program, but about applying it to yourself.

I remember one early session I attended, where the group was using a white board to look at what everyone was going to do for that day. A woman said, "I used to think that I carried the biggest rock in this department; that these guys were just not pulling their weight. Now I know that everybody has as big a rock as I do." That created a very different group dynamic, where it starts to be a team instead of a group of individuals. Lean done properly really creates tight teams and forces managers to do what they are supposed to do: manage, instead of doing things themselves or hiding behind e-mails. This is part of the cultural change, and the ongoing improvement that comes from lean.

McKinsey: *You have chosen a difficult environment in which to embark on a lean program. You are reinvesting some productivity gains, but also cutting costs. Any lessons on dealing with the people side of the story?*

Lázaro Campos: I cannot stress enough the importance of the human resources element. This is something that you cannot just improvise. This goes for the people we have to let go, and for those who stay. This is something you need to really think through. You have to do it with respect. We engaged with the union representatives very early in the process and worked the issues with them throughout.

And as I say, you cannot forget the people who stay. You want to work for a company that treats your colleagues the way you want to be treated. And you cannot reduce your business operations to routine practices that suppress the creative instinct of people. We don't want them to become standardized parts of a machine. We want to ensure that we balance our need for standardization and predictability with the needs of individuals, especially passionate ones like those at SWIFT. Too many companies lose sight of this when down-sizing or improving efficiency.

McKinsey: *You've mentioned a few times the importance of communication, and how employees perceive lean.*

Lázaro Campos: Yes, communication has been very active and transparent, on both the good and the bad. We've been very open about our cost reduction objective—making it clear that 30 percent means 30 percent and that everyone's going to go through it. The message has been consistent from the top all the way. You have to be truthful and transparent.

McKinsey: *Looking back on the aspirations you set before embarking on lean, have these been met?*

Lázaro Campos: Yes. Or they are in the process of being met. Despite a decline in revenue related to the global financial crisis, SWIFT achieved its 2009 operating targets. To date we have reduced our structural costs by more than 45 million euros, half of our target.

Beyond this, we are becoming more efficient in the way we had envisioned. For instance we have put in place a much faster development of standards. Our sales people have more valuable time to spend with our customers. We can see tangible outputs of lean in the way we manage the business.

And our culture is changing. Our people have evidence that they can solve problems together, and mindsets are changing.

I must say, we really did not know what we were getting ourselves into when we started this. The brochures do not do justice to what lean does to an organization! And it is worth it.

3 Taking lean management to new areas

Building conviction for lean management

An interview with Jorge Ramirez del Villar of Banco de Crédito del Perú

The COO of one of Latin America's leading banks describes lean's impact on his institution—and the importance of helping people understand the deeper purpose behind the tools.

Banco de Crédito del Perú (BCP) is Peru's oldest and largest bank, with over $19 billion in assets and 15,000 employees. BCP serves everyone from individual depositors and small businesses to the country's largest commercial enterprises. It is now in the midst of transforming its operations via "Proyecto Lean," a new model that has already reduced customer wait times in the bank's retail branches by 50 percent, while increasing employee productivity. The company's goal is to complete the rollout by mid-2011, not only across its 340-branch network but in businesses including commercial lending, cash management, mortgages, international trade, and credit cards.

Guiding this process is Jorge Ramirez del Villar, BCP's chief operating officer. During his previous role as head of BCP's operations and administration division, Mr. Ramirez del Villar began designing what later became known as Proyecto Lean.

McKinsey spoke with Mr. Ramirez del Villar at McKinsey's Toronto office, where he discussed his experience with lean, the impact of lean on BCP, and the most important lessons he has learned through the transformation.

McKinsey: *How did you first learn of lean?*

Jorge Ramirez del Villar: I had recently changed roles in my company and was looking for something that would have a really dramatic impact in terms of changing processes. I came upon lean in the course of my research. It seemed compelling, but I was still very skeptical because I'd been through all kinds of traditional process redesign and optimization programs in the past.

McKinsey: *What convinced you?*

Jorge Ramirez del Villar: To see lean in action, we visited another bank that was pretty similar to BCP—in fact, we know several of the managers. They were excited about their experience with lean, and I realized that if they could do it, so could we. During this process I persuaded my chairman to speak with his counterpart at the other bank, which built momentum for what eventually became our lean branches campaign.

McKinsey: *Why did you focus on the branches to start?*

Jorge Ramirez del Villar: There were three reasons. The first was visibility. We have about 340 branches, which represent a big part of our business. Second, we already knew that we needed to look at how we were managing this network. We were starting several other projects that affected the branches, so our concern was that those projects might not succeed if they weren't under the larger umbrella of lean. The third reason was our sense that the impact we could achieve by starting in the branches would be high. The project would be complex, but we like challenges, and we thought that if we could do lean in branches we could do it anywhere in the bank.

McKinsey: *At this point, how much of the branch network has been through lean transformation?*

Jorge Ramirez del Villar: Our ultimate goal is to reach 250 of our 340 branches. By the end of 2009 we finished 50, and for 2010 we finished another 150. Our plan is that the rollout will be complete by about the third quarter of 2011. It might have gone even faster but at the same time we're also modernizing the layout of our branches.

McKinsey: *That's ambitious.*

Jorge Ramirez del Villar: The two programs actually support each other. A customer who walks into our renovated branches will pass through an ATM hall before reaching the tellers. That encourages the customer to use an ATM for simple transactions, so the staff can focus on sales. That sort of change is fundamental to lean. Combining the two complicates the rollout, but we are very careful to make sure that our branches go through only one transformation event, not several.

McKinsey: *What's your assessment of BCP's lean progress to date?*

Jorge Ramirez del Villar: It has been even more successful than we hoped. We are selling more, our clients are happier, our quality has increased, our costs are significantly lower. Even our employees are more satisfied because their quality of life has improved—they are finishing their work at 7:30 p.m. instead of 10 or 11 at night.

McKinsey: *What's the next target for lean?*

Jorge Ramirez del Villar: We're now looking at operations, focusing on areas that we thought would show big improvements and would not be too complex. We're proud of our progress, especially in our problem-resolution group. The results are dramatic. For example, we have decreased the time required to resolve a customer problem from 9 days to 2 or occasionally 3 days, and at the very most, 4. And we are doing that with 37 percent fewer people.

McKinsey: *And after that?*

Jorge Ramirez del Villar: Now we need to move to the rest of the bank. We're moving forward with three more processes. The first is mortgages, and then we're expanding beyond retail and related operations to the wholesale business, where we're working on commercial loans and leasing.

McKinsey: *What are the most important challenges in pushing forward?*

Jorge Ramirez del Villar: The most basic challenge is in persuading senior managers, changing their mindsets. We have had enormous success in the parts of the company that we have worked with. But too many people think that lean is just a cost reduction exercise,

Jorge Ramirez del Villar

Jorge Ramirez del Villar is the COO of Peru's largest bank, Banco de Crédito del Perú (BCP), a 15,000-employee institution with $19 billion in assets. After working as a financial analyst for BCP from 1986 to 1988, he returned to BCP in 1994, serving in a variety of executive positions until becoming COO in 2010.

and naturally some are afraid for their jobs. We've been trying to address that by bringing people from other groups into our current programs so they can understand why we are doing these things.

McKinsey: *What's your sense of how lean is now perceived in the other parts of your organization?*

Jorge Ramirez del Villar: The people who really know the theory and have been involved in the process understand that lean is something more than just cost reduction. It's reducing time-to-market; it's improving service quality; it's reducing risk exposure; it's increasing employees' quality of life. It's also cost reduction, but the point is to obtain all these other benefits simultaneously. On the other hand, the ones who didn't know about lean did realize that something very different was being done. But because they haven't experienced lean in their own unit, they still think that it is just a cost-reduction exercise, which basically means cutting jobs.

McKinsey: *How do you overcome these types of barriers?*

Jorge Ramirez del Villar: My role has gradually changed. Now that I'm working outside my unit, I cannot just go in and do lean; I have to convince people that lean is good. I'm interacting with my peers and my boss's peers, trying to be a preacher of what lean means and what lean can do. It's a matter of persuasion, of showing facts and results.

McKinsey: *What are your proudest moments related to the lean journey so far at BCP?*

Jorge Ramirez del Villar: First, we have been very good at learning. For our first wave, our consultants really led the work, but even by the second wave I'd say that we assumed about 50 percent of the responsibility. By the third wave we were almost on our own. Second, the results have been much better than what we had expected. For almost every indicator we look at, we see an improvement of at least 30 percent or 40 percent: reduction in time and cost, increase in quality and satisfaction; you name it, it's been very impressive.

McKinsey: *Have the gains from lean translated into a strategic advantage for your bank?*

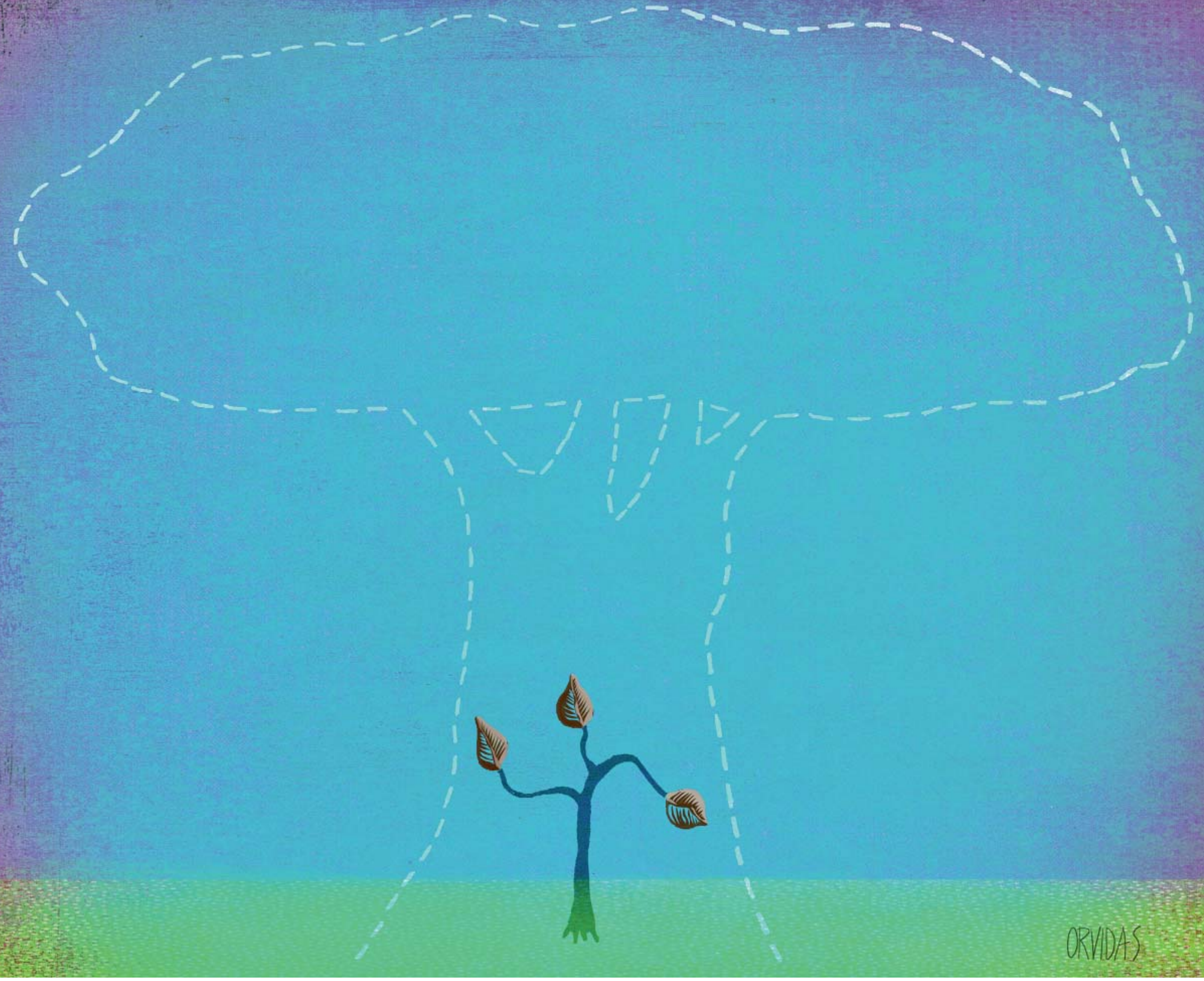
Jorge Ramirez del Villar: We certainly see opportunities. For example, in mortgage loans we've decreased our cycle time by over 70 percent, and my bet is that we're already about twice as fast as our average competitor. Our next step is to turn that advantage into a customer promise.

McKinsey: *If you were giving advice to others who are considering lean, what would be the top two or three things you would say that they need to think about as they start on their journey?*

Jorge Ramirez del Villar: First, while they may understand the tools pretty quickly, I think understanding the theory behind them is basic to any transformation. Second, they have to be convinced that lean is going to work for them—by seeing the results, perhaps by visiting an institution that has adopted lean successfully. Third, the leader of this transformation must have a mandate from the top. Empowerment is critical: without it, nothing will work. Even if you are convinced that lean is the right thing to do, you have to have the power to get it done.

McKinsey: *What's the role of the CEO? Does the CEO need to be a real champion of lean?*

Jorge Ramirez del Villar: That sort of conviction will make it a lot easier, but it's not a prerequisite. You at least need the benefit of the doubt, so that if you bring results that speak for themselves, the CEO will support your work. ○



Capturing growth in emerging markets through lean

By learning to serve low-income customers profitably, lean financial institutions can open up new markets in the regions that will drive the next wave of global growth.

Marco Breu, Francisco Ortega, and Roeland Vertriest

Having established itself within the financial services industry in developed markets, lean management is rapidly gaining traction in emerging markets. In Asia, South America, and Africa, we have seen banks undertake lean transformations that repaid their costs within 12 to 15 months, and raised profits by 10 to 20 percent within a year. Now some leading institutions are using lean management to streamline their operations and expand their business.

Lean banks operating in emerging markets are adopting transformative approaches to product development and distribution that make financial services accessible to low-income customers who have never been able to afford them before. The need is acute: many poor families who resort to borrowing from pawnbrokers or other informal channels are paying five or even ten times as much as they would pay for a bank loan. And for banks, the value at stake is enormous: fully 70 percent of global banking revenue growth in the next 3 years is expected to derive from emerging markets.

As well as reaching out to new customers, lean banks are deepening the penetration of their current customer base. One African bank managed to boost the average number of products per customer by more than 70 percent in a year.

Moreover, when a bank wants to extend its geographic coverage, having standardized lean retail formats enables it to roll out new branches quickly and easily. For the many leading developed-market banks that are now seeking M&A opportunities in emerging markets, lean can offer huge benefits when it comes to incorporating acquisitions into existing networks. Lean provides a mechanism for banks to ensure that best practices are spread systematically across all their operations.

Reaching untapped markets

With few exceptions, banks operating in emerging markets have traditionally regarded large numbers of customers at the lower end of the market as beyond their reach (Exhibit 1).

About half of the world's adult population—some 2.5 billion people, most of them in Africa, Asia, Latin America, and the Middle East—have no access to banks for savings or loans. Yet they still have a need for financial services. A survey conducted in three areas of South Africa in 2003–2004 showed the average low-income household uses 17 different financial instruments over the course of a year (11 for credit, 4 for savings, and 2 for insurance). This reliance on the informal economy for these products comes at a huge cost: an emergency short-term loan might incur an interest rate as high as 50 percent, compared with the 14 to 16 percent charged for a personal loan at a bank.[1]

The challenge banks face is to develop a low-cost offering that will meet the needs of poorer customers yet still make a profit. To do so, they will need to make drastic cuts in their cost-to-serve. Thanks to lean, many institutions are already systematically stripping out inefficiencies and centralizing processes (see box, "New takes on classic lean methods," p. 87). If banks take these efforts a step further by developing simplified product offerings and leveraging alternative delivery channels, we believe they could find a way to serve these huge low-income populations for the first time.

A simplified product offering

Developing a simplified product offering makes products much cheaper to deliver. Following the lean principle of eliminating waste—seen as anything that does not add value for the customer—banks can pare products down to the bare essentials so that they are within reach of people who cannot afford the usual range of features or service levels.

One such product has been developed by a South African microfinance bank. It keeps costs

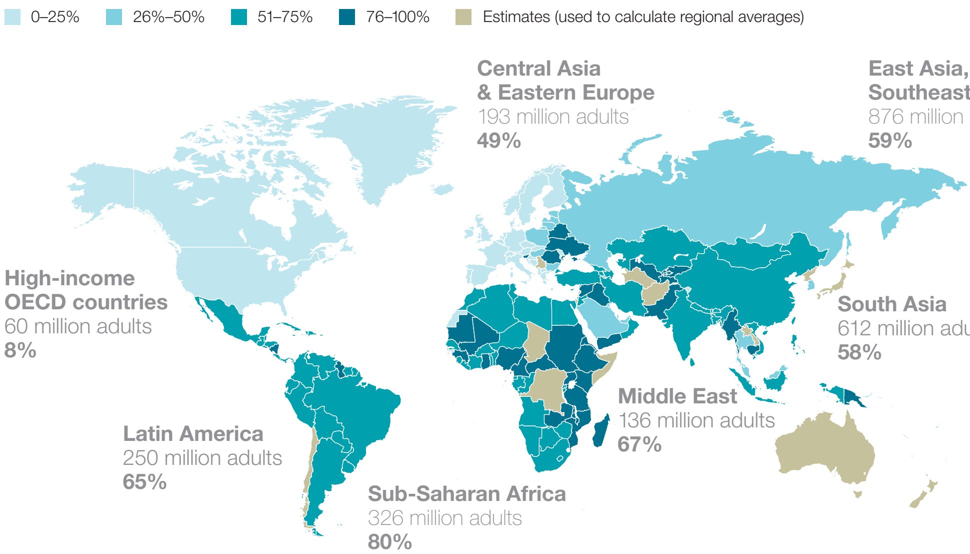
This article is adapted from Erin Ghelber et al., "Achieving operational excellence through lean: New perspectives for banks in emerging markets," McKinsey & Company, 2009. For the purposes of this article, emerging markets are defined as countries with low GDP per capita, large low-income populations, and low labor costs.

[1] From "Focus note: Financial instruments of the poor," Center for Social Science, University of Cape Town, available at www.financialdiaries.com.

Exhibit 1

Half the world is unbanked.

% of total adult population who do not use formal or semiformal financial services[1]



[1]Those not using credit or saving products from formal financial institutions such as fully regulated banks or from semiformal financial institutions such as partially regulated or unregulated microfinance institutions

Source: McKinsey research conducted in partnership with the Financial Access Initiative; financial usage data from Patrick Honohan, "Cross-country variation in household access to financial services," *Journal of Banking & Finance*, Volume 32, Number 11, 2008, pp. 2493–500.

ultra-low by having no cash or paper processes in its branches, using biometric authorizations (fingerprints and photographs) instead of identity cards (which would need to be validated), and offering unlimited free debit-card usage for transactions. To obtain cash, customers pay a small fee to use ATMs or take advantage of the free cash-back service when using their debit card at certain retailers.

To reach a wider range of customer segments without the cost of providing a suite of products, banks can offer a select set of extras for customers with higher account balances. The South African bank supplements its basic account by offering one savings and three loan products. The process for applying for one of its micro loan products takes less than 4 minutes. The teller enters the customer's details into the system, receives an electronic authorization, and issues the loan on a single-use ATM card that can be used immediately to withdraw the money.

One South American bank streamlined its mortgage origination by eliminating certain process steps to reduce cycle times. The changes created a more customer-friendly experience and reduced the cost of mortgage origination substantially. The bank was thereby able to target 70 percent of the population: 60 percent who could afford existing mortgages and an additional 10 percent with below-average incomes.

Alternative delivery channels

Leveraging alternative delivery channels is a crucial ingredient in any attempt to deliver products and services to customers at the lowest possible cost, since branches are expensive to open and to run. Banks can take steps to minimize customer use of branches for basic transactions so as to reduce the cost-to-serve and free up branch employees to spend more of their time on opening new accounts and on active selling.

One South American bank has reduced the volume of transactions in its branches by following a strategy to migrate customers systematically to ATMs and internet banking. For cash transactions, it helped customers learn how to use ATMs and provided visual instructions, while also reducing teller availability so that customers soon found it more convenient to use automated channels. After just 3 months, the use of ATMs and internet for teller transactions was up 15 percent. For service transactions, the bank directed customers to "migration spots"—kiosks equipped with phones and internet terminals where they could check account

New takes on classic lean methods

Many banks operating in emerging markets find that lean approaches need to be applied in different ways than in developed markets. In some places, these banks are able to take lean to a whole new level; in others, they face specific challenges that require innovative solutions.

Reducing waste

Reducing waste is a core principle of lean. Eliminating needless form-filling, opening fewer teller windows at slow times, and moving electronic rather than paper documents between the branch and the back office are common steps to most bank transformations. But some emerging-market institutions have been able to take waste reduction a step further. Unimpeded by the layers of legacy systems and processes that their developed-market counterparts often have to negotiate, they are free to design their lean operations from scratch and implement state-of-the-art solutions.

A South African microfinance bank, for example, has managed to move to paperless processes, streamlined from the point of entry onwards. New customers do not have to fill in an application form; instead, they sit with a staff member who enters the necessary details directly onto the system while they watch the screen to check whether the information is correct. By minimizing errors, omissions, and rework in the data-entry process, this approach reduces risk as well as cost.

Centralized processing centers

Setting up centralized processing centers (CPCs) to handle core processes is standard practice for many banks, enabling them to capture economies of scale, develop deep expertise, and implement best practices systematically. Banks in the remoter regions of Africa, Asia, and Latin America, however, often encounter challenges in setting up CPCs. The lack of reliable infrastructure and the shortage of skilled employees make it difficult to collect and process data and send the results back into the branch in a secure, accurate, and timely manner.

Both incumbent banks and entrants from developed markets have seen good results by adopting a gradual approach to introducing CPCs, in which processes are first moved into local hubs and then centralized in national or regional centers. Such situations also offer great scope for integrating lean concepts with the large-scale IT systems projects that often accompany centralization efforts.

balances, print statements, pay bills, and use other services. The service-related workload for branch staff fell by almost 90 percent, much of the freed-up capacity was diverted into selling, and conversion rates increased substantially.

Perhaps the most ambitious example of leveraging alternative delivery channels is that of a Mexican bank that is working in partnership with the national government and the community-owned Diconsa retail network to reach 15 to 20 million low-income people in isolated rural areas. Diconsa's vast infrastructure—four times the size of other Mexican retail networks—spans more than 22,000 "mom & pop" stores that are now starting to offer basic banking services as well as basic foodstuffs. Most of these stores are located in rural communities with fewer than 2,500 inhabitants, where access to financial services is virtually non-existent. The aim is to introduce a full suite of financial services to meet the needs of low-income customers, starting with government payments, then savings accounts and payments of utilities and other services, and finally remittances, credit, and insurance. Recipients of government benefits are given a card with a chip that stores personal information and a digital fingerprint. These cards could also be used in the future for banking transactions. Payments are delivered through a point-of-sale device that reads the cards and customers' fingerprints.

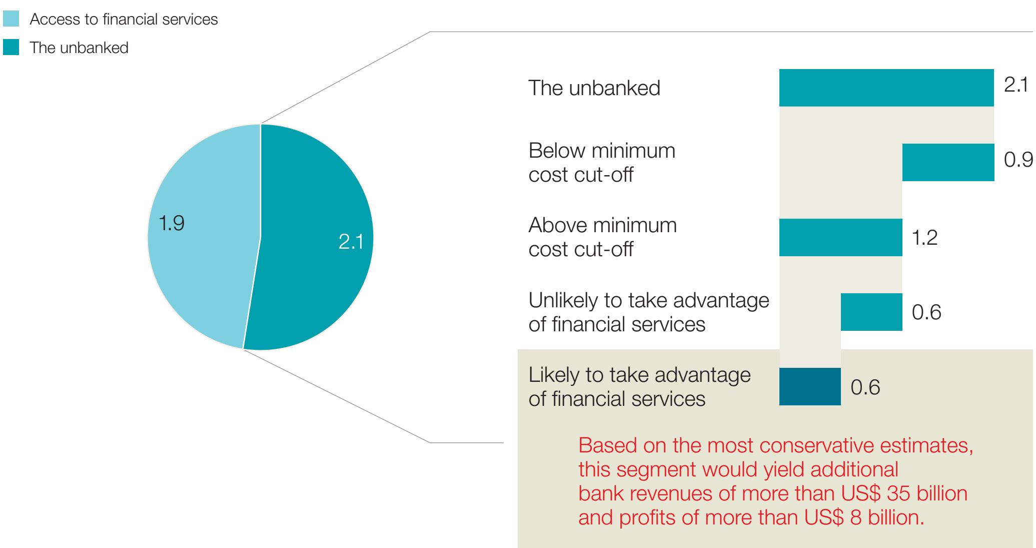
Exhibit 2

By greatly reducing costs, banks could profitably reach 30% of the world's "unbanked" population.

Potential market available to banks with a cost-to-serve that is 65% lower than average

Economically active population worldwide

Billions of people

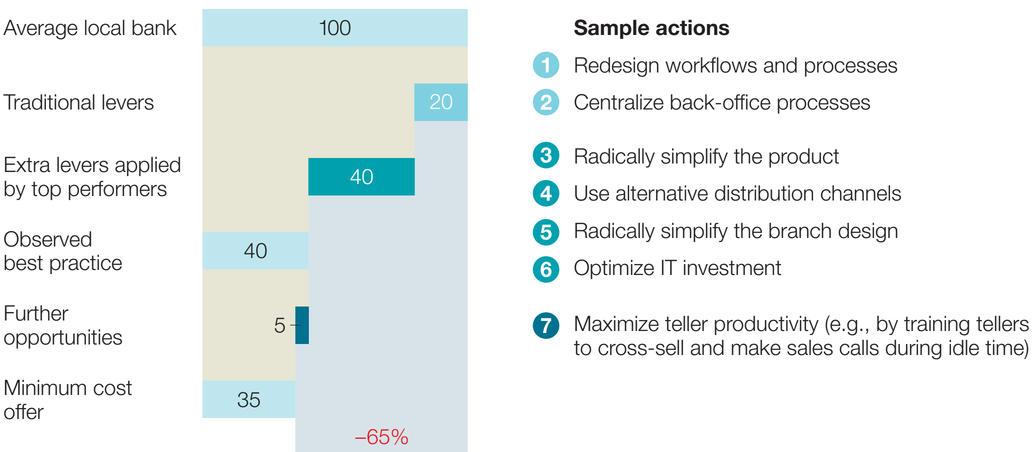


Source: CGAP; World Bank; Global Insight WMM; Euromonitor; McKinsey Global Banking Pools

Exhibit 3

One African bank is operating at a cost-to-serve 60 percent lower than competitors.

2008 cost per customer, indexed



The opportunity for banks

The opportunity is significant for banks that manage to combine world-class operating efficiency with a radical rethinking of standard industry practices in product development and delivery. By reducing their operating costs to 65 percent below local industry averages, we believe banks could open a vast new global market. Its size is hard to fix precisely, but it could involve 600 million people, generating revenue of US$ 35 billion, with potential profits to banks of US$ 8 billion (Exhibit 2).

But is achieving a 65 percent cost reduction attainable? We think so. One emerging-market bank we know already operates at a cost-to-serve that is 60 percent lower than the average local bank, and still has scope for economies that could deliver an extra 5 to 10 percentage points in savings (Exhibit 3). We are convinced that reaching hitherto "unbankable" customers is a realistic prospect for truly lean banks that adopt the innovative product development and delivery strategies described above.

Deepening relationships with existing customers

Using lean to reduce costs and reach new customers is not the whole story. When banks eliminate waste in processes, the freed-up time can be diverted into more productive sales activities. The scope for cross-selling in emerging markets is considerable: for instance, the average Indian bank customer holds only one and a half products with her bank, and the average Chinese customer holds two and a quarter, whereas the average UK customer holds between five and six.[2]

Lean provides systematic ways for banks to boost their cross-selling; indeed, some of the most effective cross-sell programs we have seen came as part of lean transformations (see "Boosting sales in branch and agency networks through lean," p. 112). One Nigerian bank capitalized on the 30 percent productivity gains from its lean

[2] Estimates for average number of products held by customers from the top four banks in each country in 2007–2008, based on "Growth for Knowledge" survey, "Partners for Financial Stability" survey, and the World Bank report *Finance for All?: Policies and pitfalls in expanding access* (2007).

program by training its tellers to use their freed-up time for cross-selling. Within a year, it had increased the average number of products per customer by 70 percent. At another bank that has recently embraced lean, more than 60 percent of customers noticed significant improvements in branch service. A better in-branch experience is a powerful inducement for customers to expand their relationship with their bank.

Preparing for geographic growth

A bank that has developed a scalable, cost-effective operating model and focused its employees on the constant search for further improvements is ready to redeploy valuable resources towards winning more business. That might mean extending its geographic coverage by opening more branches, or pursuing M&A and quickly absorbing acquisitions.

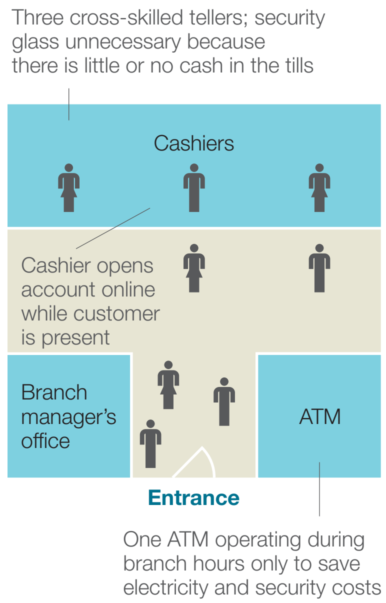
A Middle Eastern bank capitalized on its lean operations to improve the performance of a new acquisition quickly. The acquired bank's branches were paired with existing lean branches to enable rapid peer-to-peer skills transfers. In addition, experienced lean change agents were deployed to coach branch managers through the changes, and were equipped with a set of standard processes and tools that had been developed at lean showcase sites. A senior manager from the acquired bank reflected, "When I saw what they were able to do with their performance management tools and daily performance meetings, there was no doubt any more that this was the way to

Exhibit 4

Creating highly efficient design-to-fit branch layouts.

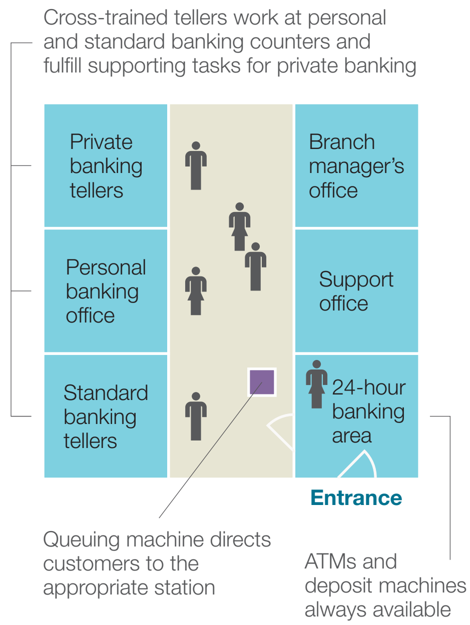
Low-cost offering

African example



Multi-segment offering

Middle East example



go." Sales in the acquired branches rose by 150 percent, and average queuing times fell by 85 percent.

Lean is helpful not just for banks with an aggressive acquisition strategy, but also for those pursuing organic growth. As one client recalled, "Once we had designed our standard branch, we could replicate the building process in the same way that retailers replicate their stores. It took all of the complexity out of the process."

Bridging the market divide

While it is undeniably challenging to devise a delivery model that serves both the low and high ends of the market, the benefits of doing so are formidable. Operating separate offices for private banking and other services adds cost and complexity to a bank's network. To serve a wide variety of customers in one branch, some banks are using formats like those illustrated in Exhibit 4.

The branch model depicted on the left is for a bank targeting the low-income market, where profitability depends on keeping the cost-to-serve as low as possible. The model on the right uses an advanced queuing system to provide appropriate service at both ends of the market. When customers enter a branch, they swipe their debit or ATM card to identify themselves and the machine directs them to the part of the branch that will serve them. Low-end customers are sent to the regular teller queue or to a floor manager who can show them how to use the ATM or deposit drop-box. High-end customers get a priority place in the queue or are sent to relationship managers and higher-skilled sales people.

Leading players are likely to experiment further with mixed models. Introducing elements from extremely low-cost models offers considerable promise: for instance, distributing cash exclusively through ATMs means that branches need fewer tellers and there is no need for security barriers between customers and staff. At the same time, the growing middle class in emerging markets is increasing the demand for personal and private banking services. The ability to offer a wide variety of banking experiences in one branch is likely to be a key element in cost-efficient banking in the future.

• • •

For local or global banks operating in emerging markets, lean management offers more than just an opportunity to play catch-up with best practices in developed markets. For institutions that can develop an ultra-low cost base and radically innovative products and distribution, emerging markets are rife with opportunities. And a few leaders will be able to leapfrog their counterparts in developed markets by taking lean to a whole new level in their pursuit of efficiency and growth.

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Further reading

Alberto Chaia, Tony Goland, and Robert Schiff, "Counting the world's unbanked," *McKinsey Quarterly*, March 2010.

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Wholesale financial services: Higher pressure means greater rewards from lean

A few financial institutions have discovered that lean's ability to improve productivity and quality means that processes that once seemed too difficult to transform can now yield significant improvements.

Michael Coxon, Tolga Oguz, and Christina Schulz

Having recorded notable successes with lean in retail financial services, leading institutions are starting to push lean solutions into the wholesale side of their businesses. These early adopters have recognized that areas such as trade execution and securities lending are ripe for transformation, and they have already achieved major simultaneous improvements in accuracy, timeliness, efficiency—and even risk control.

Yet many in the industry remain skeptical. First, because the wholesale sector's profitability has historically depended on a constant stream of innovative, highly tailored, high-margin products, some wholesale leaders question whether lean's production-based insights will fit culturally. Moreover, although the processes supporting those innovative products usually start off by being intensely manual, the industry has been at the forefront of using automation, outsourcing, and offshoring to reduce marginal costs as products mature. An understandable concern is that lean's process changes would upend vendor relationships or require yet another round of technology investment. Finally, many institutions are pursuing a range of other efficiency initiatives that seem to incorporate similar ideas, which they fear lean might interrupt.

For a few innovators, however, it is exactly in this high-risk, highly complex environment that lean's comprehensive approach to minimizing waste and variability becomes so valuable. By focusing on complete processes rather than on individual activities or functions, lean allows institutions to see that these businesses involve many more factory-like workstreams than they may have realized. It is then a matter of adapting lean's traditional approach to the particular operation, especially in improving the alignment of operating teams, the balancing of capacity and workloads, and the transparency of information flows.

These changes allow institutions to make far more effective use of the investments that they have already made, whether in IT, outsourcing, or offshoring. And the impact can be dramatic. At one large investment manager, for example, new fund-accounting processes reduced costs by 30 percent, even as error rates dropped by 75 percent. Meanwhile, in derivatives confirmation, a global investment bank increased its efficiency by 40 percent, even while reducing errors by 50 percent and exposure to risky clients by 12 percent (Exhibit 1).

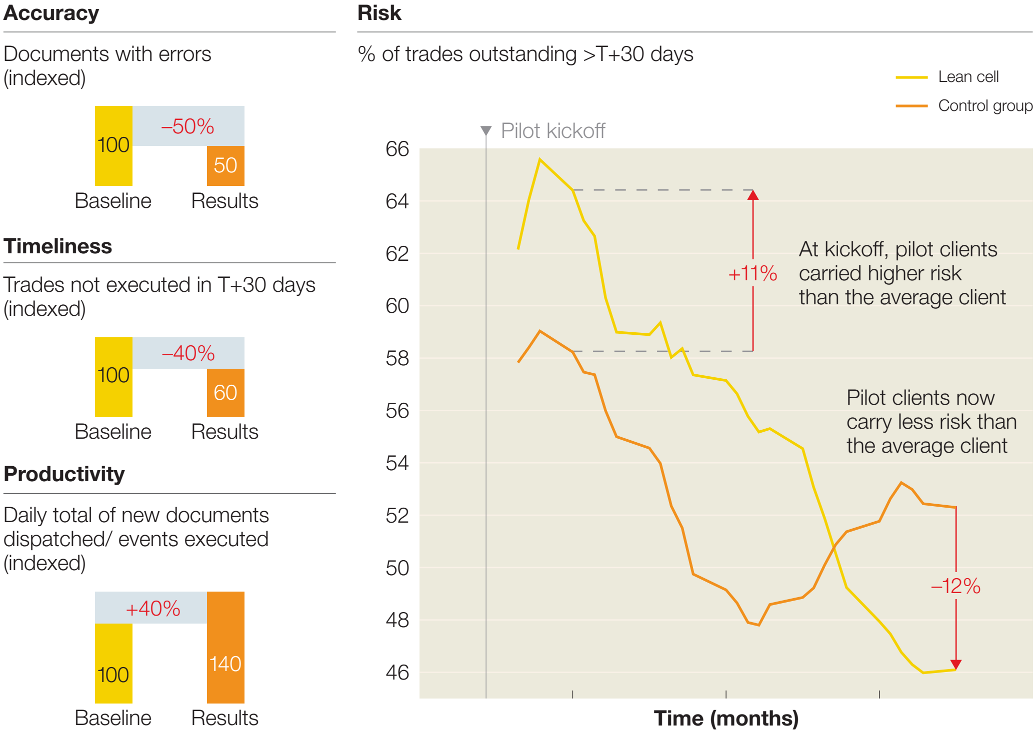
Complexity undermines cost cutting

In the past several years, wholesale bankers have discovered the limits of relying exclusively on IT and outsourcing and offshoring (O&O) to reduce costs and increase efficiency. In IT, for example, the enormous technical challenges inherent in automation left little scope for project teams to revamp processes to take advantage of the new capabilities. Likewise, O&O initiatives tended to concentrate on a narrow definition of value, as institutions swapped roles and activities in London or New York for similar roles and activities in Zagreb and Hyderabad. Reallocating staff on a job-by-job or activity-for-activity basis meant that the only significant effect this had on costs was to lower employee salaries—a benefit that is now eroding rapidly in the most popular offshoring centers. Finally, with most of the industry having completed major O&O projects, offshoring is no longer a source of competitive advantage—and productivity has actually fallen for the more enthusiastic offshorers (Exhibit 2).

In many cases, even the savings from cheaper labor were offset by new, often-hidden costs of complexity. Depending on the particular tasks involved, files may move from onshore employees to offshore employees to outsourced employees and back again, with every step increasing the risk for error and delay. Because institutions

Exhibit 1

Lean makes processes more accurate, timely, and efficient—with lower risk.



are under greater scrutiny than ever from both clients and regulators, accuracy has become even more critical. Yet in trying to mitigate these new quality concerns, institutions find themselves imposing additional controls at the price of reducing speed or adding more personnel—further undercutting the returns from their IT and O&O investments.

Finding the factory within

Resolving these conflicting pressures will require a breakthrough in managing wholesale-banking operations—one that leading financial institutions are discovering is possible through a judicious application of lean principles. But that means assessing wholesale businesses from a new perspective, and the results are often a surprise. When viewed from end to end, the processes underlying many of the most sophisticated wholesale products share essential features with factory-based workflows: low variability in tasks, narrow expertise requirements, predictable work, and few inter-actions with third parties.

While few wholesale workflows show all four aspects, many show three, which is enough for lean to have a real impact. In one bank's capital-markets operations, for example, we found that about 25 to 30 percent of the workforce was engaged in routine "exception-based" activities such as cash settlements (meaning that they intervened only when problems arose). Although this work is inherently unpredictable, it is almost exclusively internal; furthermore, the same types of exceptions occur repeatedly, limiting task variability and the range of expertise involved. Applying lean to these processes yielded typical productivity gains of 20 to 25 percent. Likewise, another 35 to 40 percent of employees focused on "rules-based" work such as document drafting, in which the tasks follow a fairly rigid set of requirements that fulfill all lean characteristics except the final one: these personnel do need to work closely with third parties. In this case, the productivity-improvement potential with lean ranged from 15 to 25 percent.

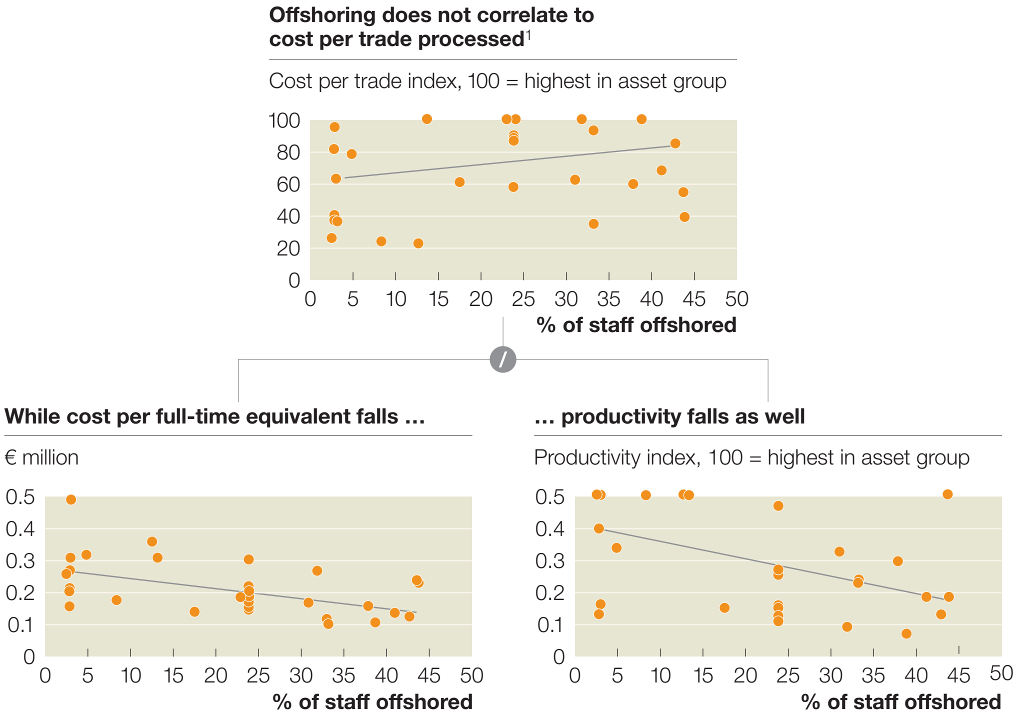
Thus, a total of between 60 and 70 percent of the capital-markets workforce was deployed in processes where lean could achieve substantial savings. Only a minority of employees were in the sorts of highly customized client-relationship or expert roles that are difficult to standardize.

Getting it done

Once a wholesale institution commits to lean, a successful revamp rests on three of lean's core principles. The first is realigning teams to customer value streams, eliminating functional boundaries to minimize errors and speed work from one specialist to the next—regardless of where each person is located. With that

Exhibit 2

Offshoring alone no longer seems to create a competitive advantage.



[1] Excludes regional players with small volume.

Source: McKinsey Capital Markets Trade Processing Survey

Cross-functional teams let one institution reduce “breaks” in corporate actions by 20%— and related risk by 50%

restructuring, the institution can undertake the second major requirement, which is to rebalance workloads to make more effective use of resources. Finally, to make the new system work effectively, managers and employees must make information and metrics fully transparent so that they can make appropriate adjustments in response to changing conditions.

Realigning teams to customer value streams

The complexity inherent in wholesale processes raises a set of familiar challenges. At a given moment, managers may have only a limited perspective on basic operating requirements, such as incoming workflow, group capacity, or total productivity. Backlogs quickly form, with significant rework arising from errors at earlier process stages. Units lack flexibility to respond to new requests—for example, that top clients be treated differently or that new products be processed in an expedited manner. And the fact that workers do not see each other may exacerbate the problem by weakening the sense of mutual accountability.

Nevertheless, geographic dispersion is actually a critical element of the solution. A typical lean response is to realign employees into teams or “work cells” (see “Rapid design of lean solutions,” p. 30) that more closely match actual value streams while fostering stronger relationships—and responsibility—among team members. Under this structure, one group of coordinated employees is responsible for every step involved in fulfilling a customer request. While work cells often involve co-location of employees, wholesale banks can take advantage of their current O&O models to create virtual work cells that maximize talent cost advantages. In short, O&O lets institutions find the right talent at the right price, while lean allows institutions to make the most effective use of the talent.

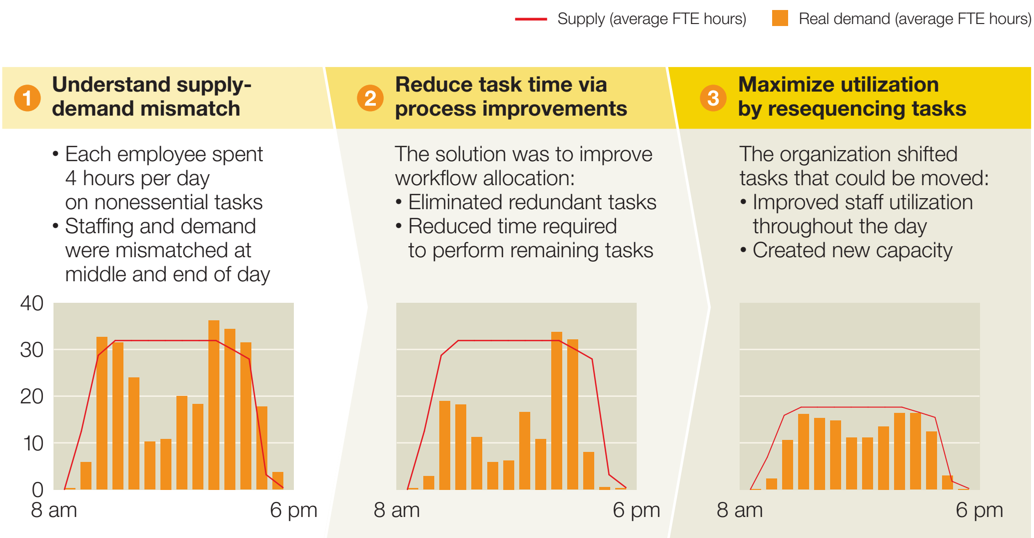
Lean can also help institutions identify targeted opportunities to use O&O more effectively. In corporate actions, for example, an international bank cut across both organizational and physical boundaries to create new cross-functional teams that reduced the average age of the unit’s “breaks” by almost 20 percent and the related risk by more than 50 percent. Furthermore, by applying lean’s end-to-end perspective in revamping the underlying processes, the bank found that one of its offshore centers had become so experienced in several necessary tasks that it could become a “center of excellence.” The bank therefore shifted about 30 percent of the unit’s full-time-equivalent positions to that center. With that change, several nearshore oversight functions became redundant, yielding a total reduction of 14 percent of full-time-equivalent employees.

Rebalancing workloads to maximize resource efficiency

Once the new teams are in place, managers can start balancing workloads much more productively and thereby address the chronic mismatches that occur between labor supply and demand throughout wholesale financial processes. A global investment bank was typical: breaks in derivatives settlement were accumulating faster than the operation could resolve them, allowing needless

Exhibit 3

Managers must match labor supply to demand.



risk exposures and undermining client-service guarantees. Meanwhile, at a large US asset manager, fund accountants found themselves in a daily "fire fight," rushing to integrate data in advance of reporting deadlines even as the rest of their work hours were consumed with low-value tasks.

The techniques involved in readjusting workflows are mostly applications of familiar lean themes, starting with a detailed analysis of employee activities and of production demands. Once managers eliminate the obvious waste, they can assess an operation's capacity and the capabilities of its staff, identifying opportunities to shift tasks whose deadlines are less urgent to time slots that are less busy, or to create separate channels for activities involving larger exposures or requiring greater judgment (Exhibit 3). Changes such as these increased the global investment bank's settlements back-office productivity by 15 to 25 percent (depending on product type), allowing it to reduce its error rate by 15 percent as well. The asset manager freed more than two and a half hours of the day for each fund accountant, enabling them to meet their deadlines more consistently and improving the timeliness of their work by over 40 percent.

Making data transparent

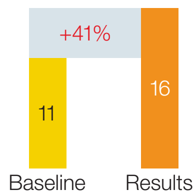
The final requirement is to review how work-status updates proceed through the organization. In complex operations, an employee whose work relies on earlier stages in a process often has no way of knowing if the team responsible for completing those tasks has run into obstacles and has been delayed. A critical component is therefore to improve communication between "upstream" and "downstream" information flows (regardless of location), which the investment manager achieved using a new system of video screens that allowed each employee to track the status of a particular task at a particular time. Such visual-management techniques allow both managers and employees to respond quickly to problems as they arise. If, for example, a particular data feed goes down, the team members relying on that source will all know in real time and can cooperate on finding alternatives in time for everyone to meet their deadlines.

Exhibit 4

An asset manager that used lean techniques in fund accounting saw impact across multiple dimensions.

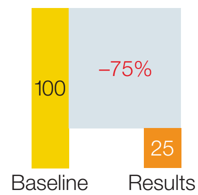
Productivity

Funds per accountant



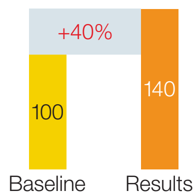
Quality

Rework levels, indexed to 100



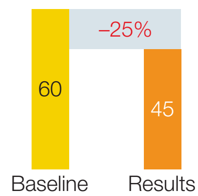
Timeliness

End-of-day timeliness rate, indexed to 100



Delivery

Fund reporting, days



An integrated solution

One institution's derivatives-confirmation operation illustrates how the three components come together. Prior to a lean transformation, execution of a "vanilla" equity derivative required an average of 37 days as it slowly progressed from one functional group to the next, crossing several time zones along the way. The institution started by reorganizing its processing front line into virtual work cells that assumed responsibility for particular groups of clients. At the same time, the institution implemented new workload-balancing tools that enabled it to shift tasks among the work cells as demand volume changed, preventing the backlogs that had been a crucial source of error. The third component was a continuously updated, fully transparent performance-data system that enforced accountability by allowing each employee to see where the cell stood at any time compared with its targets. These changes together allowed the institution to reduce delays by 40 percent and dramatically increase client satisfaction.

Building buy-in to start the journey

Because of the sensitivity of the processes involved, managing the change will be especially demanding for an institution. Two factors are critical.

The first requirement is deep commitment from leadership. Although designing and implementing a lean program is far less expensive than IT- or O&O-based alternatives, internal resistance to lean may be even greater. At every level of the organization, personnel may worry that by "industrializing" operations, lean will diminish the value of their contributions. Leaders must therefore be particularly visible and vocal in articulating the need for change and advocating for lean as the right answer. They must convey the program's purpose in a way that emphasizes the benefits not only for the institution but also for the individual, pointing out that the waste the program is targeting is the sort that keeps employees from using their skills fully.

The second requirement is for thorough prototyping. For an organization to be comfortable making changes in processes with significant operating risk, it must experience a prototype operating in a live, working environment, with ordinary employees doing actual work on actual products. By demonstrating what lean can achieve, this sort of pilot generates excitement at all levels of the organization, as people recognize how lean can change their jobs for the better. At the asset manager, for example, whereas prior to lean most accountants handled about 11 funds each, the prototype members eventually reached 16 funds, while errors dropped by 75 percent and total reporting cycle time declined by 25 percent (Exhibit 4).

• • •

The first step to achieving these sorts of improvements is for leaders to take a hard look at their wholesale operations, particularly those processes where cost pressures may be rising as returns from IT and O&O projects diminish. Reimagining these workstreams can wring new value from long-standing investments and point toward new opportunities to redirect time, attention, and resources to innovation, allowing the organization to move away from simply overseeing complexity.

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Bringing lean to a highly skilled workforce

An interview with Thierry Pécoud of BNP Paribas

The CIO of global equities and commodities derivatives at BNP Paribas describes the unique challenges of bringing lean to an IT organization.

BNP Paribas is one of the world's largest banks, with approximately $2 trillion in assets and a Standard and Poor's rating of "AA" at the end of 2010. With a deep European presence across all of its business lines, the group also has an extensive international network with operations in 84 countries. Global Equities and Commodities Derivatives (GECD) is the business line within corporate and investment banking that brings together the complementary activities of structured equity, flow & financing, and commodity derivatives.

Following the success of the GECD lean transformation in operations, the IT organization launched its own multi-year transformation program at the end of 2009. The goals of the program were to improve the productivity of software development and application support teams and to instill a new performance culture. Capitalizing on these successes, a global lean program was recently launched across all the IT and operations units within capital markets.

Thierry Pécoud joined BNP Paribas in 2008 as global CIO for GECD, after serving in a variety of IT leadership roles at Société Générale. McKinsey sat down with Mr. Pécoud in Paris to discuss his aspirations for the lean IT program and lessons learned along the journey.

McKinsey: *Why did you decide to launch a lean program?*

Thierry Pécoud: There were two main reasons. First, during the 2009 crisis, I needed to optimize resource allocation, as my people were under pressure to deliver more projects without increasing costs. Second, I wanted to instill some new managerial practices to allow the IT organization to grow and mature. Lean was the right approach, as it is not just an ordinary performance improvement exercise but a comprehensive transformation program that allows an organization continuously to improve its way of working.

McKinsey: *What were your goals for the program?*

Thierry Pécoud: We implemented three successive rounds of cost reduction just after the crisis of September 2008, when it was absolutely necessary to reduce our cost base quickly. For me, however, the essence of lean is radically different than a one-shot effort at lowering costs. It is a continuous commitment to improve your organization by constantly eliminating inefficiencies. Lean transformation is about giving your people the right tools and teaching them how permanently to evaluate and improve their own way of working, without undermining the creative, artistic nature of the software development process. This approach is particularly relevant in an IT environment, as software developers are usually not experts in tracking their time and energy. It is also especially relevant in capital markets, where IT is a true business differentiator.

McKinsey: *How does the lean approach differ from ITIL, or common IT process improvement approaches such as Agile and CMMi?*

Thierry Pécoud: In my view, all are compatible with lean but they operate at different levels. We have deployed ITIL with our application support team and we also practice CMMi on development teams. However, these approaches do not deal with performance management or mindset change. Because they focus exclusively on processes, I would not call them transformative. They have more to do with industrialization than transformation. What I like about lean IT is that it encompasses all the dimensions that determine the overall effectiveness of an IT organization, not just the processes.

McKinsey: *How did you select the initial areas to pilot?*

Thierry Pécoud: We wanted to start somewhere that was representative of the type of work we perform. We decided to choose an IT team working directly for the traders and another team working cross-functionally with the various IT departments. Also, we made sure we picked people for the two teams who would keep an open mind, so that we could experiment a little and learn from our mistakes.

McKinsey: *What did you learn in those early days?*

Thierry Pécoud: In the beginning, we were too focused on the numbers. When we conducted the diagnostic, people thought that the discovery of waste in their team implied that they were bad managers. As a result, resistance to lean started to grow. We stepped up our communication efforts and explained that lean is about seeing the bigger picture and trying to improve the organization's way of working. Now that we are implementing the third wave, we are getting more positive responses. People understand that if they do things differently, they can realize resource economies that are beneficial, maybe not always for them individually but for their colleagues and thus for the organization as a whole.

Like our experience with lean in GECD operations, the IT experience confirmed that lean is a very good tool for revealing the managerial maturity of an organization. While I observed many of our employees blossoming and rapidly developing new skills, I also saw others recognizing their own limitations when we prompted them to do things differently.

McKinsey: *Were there any surprises?*

Thierry Pécoud: I think everyone was a bit surprised by the intensity of the first wave. We performed a thorough diagnostic in only 3 weeks and a complete turnaround of our way of working in the pilot areas within 2 months. We knew such an ambitious transformation would require us to work hard but we were still surprised by the pace of it all.

Thierry Pécoud

Thierry Pécoud is the CIO of BNP Paribas' global equities and commodities derivatives (GECD) business. GECD offers a full range of innovative equity-, index-, and fund-linked structured equity and flow and financing products, along with comprehensive research and execution services and advanced price risk management solutions for commodity derivatives, covering underlyings from energy and metals to soft commodities.

McKinsey: *What are the challenges of implementing lean with a highly skilled workforce?*

The implementation of lean in an IT department will face a number of specific challenges.
I have always felt that IT professionals in general and software developers in particular are somewhat special, in the sense that they bring an artisanal mindset to their roles. Developers must grasp unstable business needs and translate that understanding to build stable and efficient applications. This requires a flexible and creative mind, capable of developing innovative solutions. You cannot simply impose a set of ready-made working methods on a team of software developers. That would be like sending a group of artists into a factory and asking them to produce beautiful sculptures using a standardized method of production. In addition, IT developers are not necessarily at ease with performance management tools and KPIs. So, it is particularly important to ensure that their mindsets are evolving in the right direction. This sometimes requires one-on-one coaching to allow people to get used to the tools and working instruments you provide them with.

McKinsey: *Did the transformation affect the way you engaged with other departments?*

Thierry Pécoud: It did. Right from the start, we decided to assess and revise all the different phases of the IT application development process, including the manner in which we interacted with end users working on the trading floor or in the back offices. A strong partnership with our end users was indispensable, particularly to understand their needs and update them on what to expect from the changes. This partnership is particularly important in a capital markets environment, because of the intensity of business demands. The diagnostic and implementation phases caused a temporary short-term reduction in service levels, and resulted in a longer-term change in our alignment model, from direct to team-based support. I learned that ongoing attention needs to be directed to the expectations of end users about how the changes will affect them. Also, you need to be sensitive to the fact that not all the teams you interact with will be equally willing to accept the new practices.

McKinsey: *How do you measure the success of the lean program?*

Thierry Pécoud: I look at three things. First, I check if my managers have adopted lean principles in their own work habits: Agile methodology, performance management, waste tracking and continuous improvement mindset. To me, that behavioral change indicates a true understanding of what lean is all about. Second, I want to achieve the targets we set for increasing our capacity. We set up an Investment Committee, comprising the management of the front office and the IT and operations organizations, where we keep track of the capacity freed-up by the lean transformation and allocate it to new initiatives. So far, we are on track and we will be able to reallocate 10 percent of the transformed teams. Finally, in line with the raison d'être of an IT department, we measure our client satisfaction through specific "voice of the customer" surveys to assess the improvement of our users' experience.

McKinsey: *What is lean bringing to your people?*

Thierry Pécoud: This initiative is now truly perceived by all involved staff as a very positive cultural transformation. Our navigators trained them in powerful work habits that are easy to describe but harder to practice on a large scale and on a regular basis. For example, performance management, feedback sessions, formal rewards and people development are now part of our culture. Such developments have strongly empowered my managers, which is my ultimate goal. ○

Tackling the roots of underperformance in IT

A lean approach can help IT executives bring stronger operational discipline to the intensely varied, specialized environments that they oversee.

Christophe Chartrin, Dan Bensemhoun, and Michael Kropf

IT executives in today's financial institutions face a daunting array of business challenges. Assuring the stability of complicated, legacy infrastructures, maintaining and enhancing the performance of dozens, if not hundreds of customized applications, supporting new product and channel innovation, and responding to the ever-changing needs of users requires a diverse and highly skilled workforce.

Meeting all these demands also requires a significant operating budget. On average, financial institutions spend a greater share of their revenues on IT—up to 9 percent—than do other industries.[1] Unfortunately, the value of this investment is not often fully realized, as a result of too few controls on incoming demand, poor resource coordination, and lack of performance transparency. While many executives have taken steps to drive down the costs of delivering IT services, most have not solved these fundamental barriers to breakthroughs in productivity.

IT executives are therefore increasingly turning to lean to drive sustainable improvement in their operating performance. The power of lean lies in its ability to improve productivity and delivery simultaneously in areas ranging from infrastructure management to software development. Financial institutions have employed lean to reduce end-to-end response times for help desks and improve real-time monitoring of key systems. Lean principles have even helped IT organizations shorten time-to-market for application development and maintenance (ADM) by 10 to 25 percent, while reducing the number of bugs in test and post-launch phases by 20 to 45 percent (Exhibit 1).

Lean achieves these benefits by offering frontline employees and managers in IT departments a set of simple, yet powerful approaches to gain more control over their environments:

- Standard work practices to improve quality, consistency, and response times
- Performance transparency that lets work groups measure progress, prioritize work, and meet targets with greater frequency
- Demand management that allows employees to work with fewer interruptions, and focus on tasks that are matched to their skill level
- Broadening the skills base to minimize silos and improve sharing of best practices.

Standardizing work practices

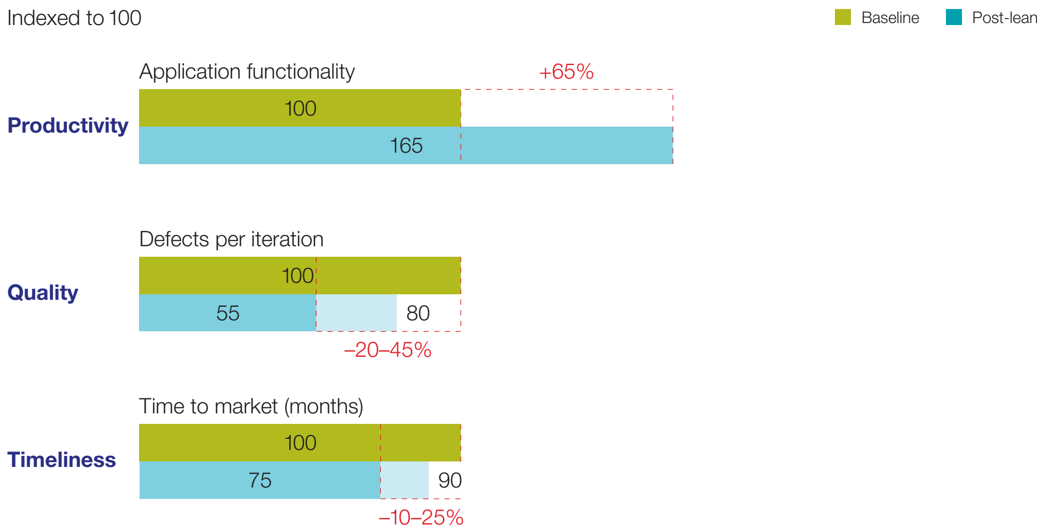
The development of standard work practices is the foundation for continuous improvement over time, and is therefore one of the cornerstones of lean. It is also among the most effective ways to improve quality, consistency, and response times. Many IT processes lend themselves naturally to standardization. Within IT infrastructure management, for instance, teams can drive significant time and cost savings by establishing standard configurations for workstations and servers, and by implementing standard flows for call handling and intervention. In programming environments, seemingly basic tactics such as the enforcement of common standards for naming conventions, code structure, documentation, and architecture can go a long way toward reducing errors and creating applications that are easier to update and repurpose. They can also reduce differences in productivity among peer groups.

One financial institution discovered that high turnover combined with misaligned incentives and lack of oversight had spawned a variety of different coding practices, which in turn led to uneven testing results and latent production issues. To increase cohesion, the IT department implemented a rigorous peer review process to identify and incorporate best practices. To ensure that the changes stuck, management led a series of small, on-site training and coaching sessions. These meetings were coordinated with frequent "sit withs" and performance reviews. Over time, the new coding practices became accepted as the routine way of doing business.

[1] McKinsey & Company 2010 European banking IT benchmark

Exhibit 1

In application development, lean delivers substantial benefits across productivity, quality, and timeliness.



Introducing visual performance transparency

All too often, established IT performance measures fail to provide teams the information they need to manage their own performance on a daily basis. This is because these measures usually do not address the real need for coordinating the efforts of a highly specialized team of professionals towards an on-time delivery. As a result, managers often struggle to assess and manage progress against targets, and to gauge the trends in IT performance over time.

To provide a more empirical and efficient means of managing software development projects, for instance, lean employs visual performance boards (Exhibit 2). For each major application under development, these boards provide instant information about which tasks each developer is working on, as well as which tasks have yet to be completed. The board provides the team leader a clear view of who is doing what, as well as individual and overall workloads. Each day, managers determine the number of tasks the team has completed (the "burndown rate"). This allows teams to track actual progress against a plan while also monitoring resource allocation. Most importantly, the boards provide teams with an opportunity to spot emerging issues that might otherwise go unseen and uncorrected, while helping engage the business on issues ranging from delivery expectations to scoping issues and clarifications of user requirements.

One large financial institution, for instance, used lean-enabled project planning to correct what had become an intractable series of product delays. IT team leaders met on a daily basis to review production output (and the number of planned versus actual production hours), and to assign remaining story points and tasks. Insights gathered from these reviews allowed the IT team to produce more accurate release schedules. In a 6-month period, the bank's IT department increased capacity by 20 percent and improved its on-time launch rate. That success, combined with greater transparency and accountability, engendered better credibility with the business, while also giving IT managers a much better sense of their team's average pace for different types of projects. Such performance data allowed the CIO to compare productivity across teams on an apples-to-apples basis, something he had been unable to do before.

Building formal structures to manage demand

While visual boards can improve performance management, lean can play an equally significant role in helping IT organizations manage incoming requests, an increasingly important capability amid the rising demand for IT services. This involves rationalizing demand channels to minimize interruptions, and prioritizing and routing incoming requests to balance the workflow.

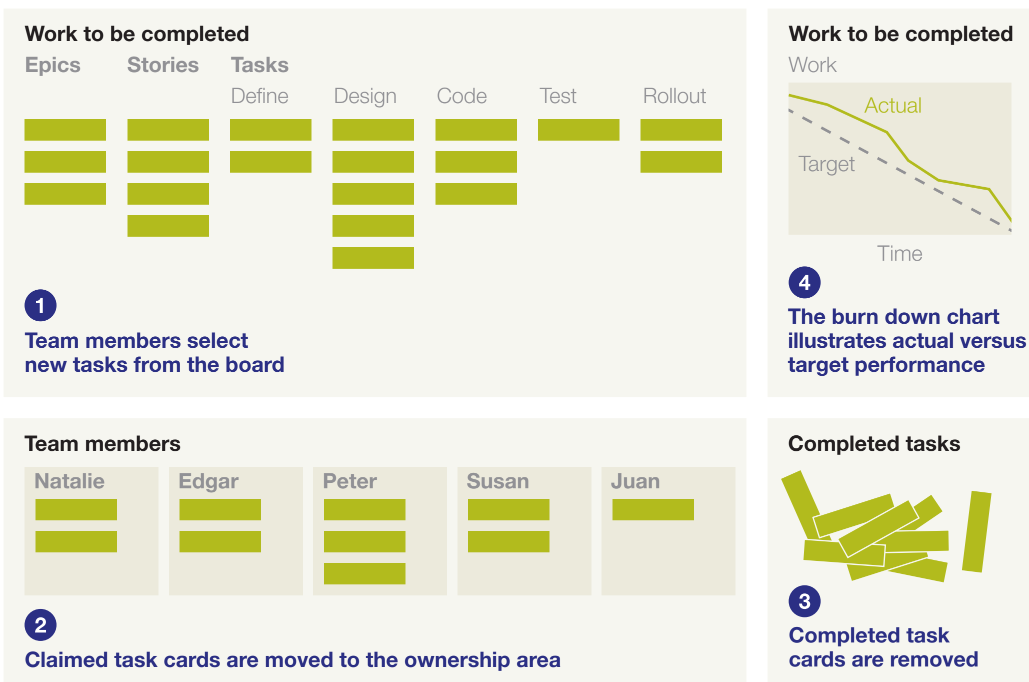
Rationalizing demand channels

In the intense work environment that characterizes many financial services IT departments, application developers may switch tasks up to 30 times per day. E-mail, voice-mail, shoulder-taps, and other interruptions dramatically slow the rate of project completion. Lean diagnostics can help to isolate the extent of such "context switching," and the amount of time developers spend dealing with unplanned work. One bank, for instance, was surprised to learn that e-mail, phone calls, and unscheduled service requests consumed 25 percent of every development hour on average (Exhibit 3).

The solution usually lies in streamlining the number of channels through which requests flow, reducing interruptions and allowing managers to prioritize tasks more efficiently. For example,

Exhibit 2

A visual performance board for software development.



Application developers may switch tasks up to 30 times per day, dramatically reducing their concentration and efficiency.

by introducing basic self-service tools for end users, and funneling all remaining service requests through a dedicated contact person, one IT department reduced the average number of interruptions experienced by its developers by more than half.

Prioritizing and routing requests

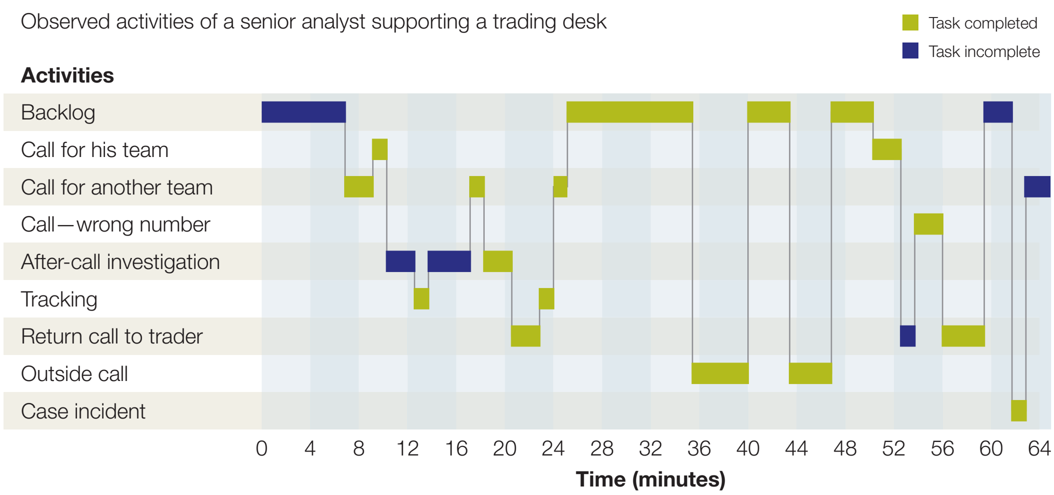
In addition to rationalizing channels, IT organizations also need a means to segment incoming requests by type, complexity, and urgency in order to "weed out" lower-value projects and route the remaining items more effectively. Standard work orders allow managers to assess these task characteristics quickly. One European bank assigned a traffic coordinator to field and vet incoming queries that had previously gone directly to specialists. Authorized work orders were directed to a project manager who was charged with prioritizing requests, phasing the workflow, and scheduling the necessary resources. These organizational changes improved productivity while also reducing uncertainty for all stakeholders (Exhibit 4).

The IT help desk at another European bank also had no formal process for scoping the requests it received. As a result, project needs and time frames were haphazardly estimated, and the bank often found itself scrambling to find qualified staff at peak times and to occupy excess staff at idle times. To fix this imbalance,

Exhibit 3

Repeated context switching reduces efficiency.

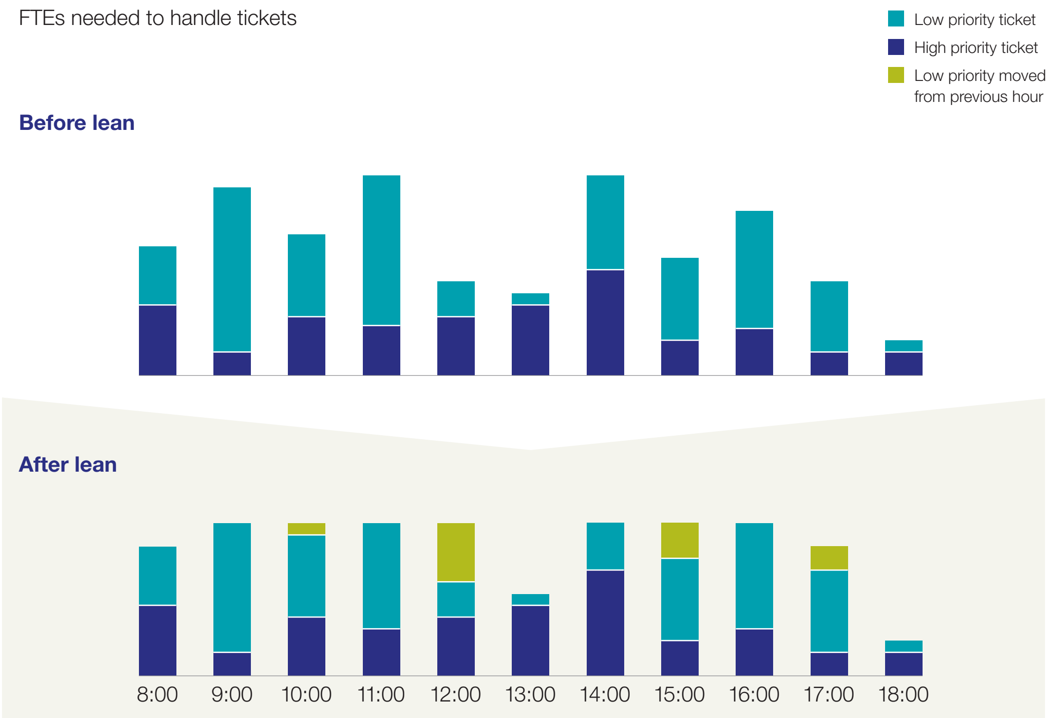
Observed activities of a senior analyst supporting a trading desk



- 30 percent of tasks interrupted before completion
- 22 task switches in 64 minutes (average time per task <3 min)
- Reduces concentration and efficiency

Exhibit 4

Matching labor supply to work demand in an IT data center.



department leaders created a simple classification system that allowed help desk personnel to sort incoming requests by application, platform, and complexity. With projects tagged and labeled, workflow managers had a better sense of corresponding staffing needs. Managers "right-sized" their teams and were able to distribute tasks to the appropriate specialists more quickly. Response rates accelerated by more than 60 percent.

Broadening the skills base of the department

The technical nature of IT, coupled with the difficulty of retiring legacy platforms, tends to generate highly specialized pockets of expertise. Many IT organizations lack a culture of sharing knowledge across the various specialties, which can leave departments over-reliant on certain individuals, or short-handed when multiple projects simultaneously demand similar skills sets.

Lean programs frequently deploy skills matrices to help groups proactively manage the depth of their capacity against work load demands (see "Lean's linchpin: The frontline manager," p. 66). In IT, these matrices can break down specialist silos by identifying places where cross-technology platform training is needed. The software development unit of one financial institution, for instance, gained a 5 percent jump in productivity just by implementing a series of mini-training programs on core IT platforms for its 30-member staff. The cross-training also mitigated the organization's risk of concentrating

unique knowledge of certain platforms in just one or two individuals.

Bringing it all together: Equipping managers to manage

The emphasis that IT departments place on technical skills often comes at the expense of management training and development. At the same time, the environment for managers can be particularly difficult, since highly skilled IT specialists often value their craft to the point where efforts to direct their work, or gauge their productivity, may face high resistance. As projects, user requirements, and release schedules have all grown in complexity, the need for skilled IT managers has never been higher. Lean's answer is to create systems for workload allocation, performance management, and root-cause problem solving that each rely on a set of practical tools to drive higher performance. Even more importantly, these systems create transparency so that every individual can make choices that will lead to better results for the team overall. New ways of engaging highly skilled frontline IT personnel—daily huddles, issue identification, and regular performance dialogues—can excite their imagination and formidable problem-solving capacities. Better workload allocation reduces "fire-fighting" and staff frustration, while skill development creates opportunities for personal growth. A lean transformation provides a path for those who may not be natural leaders to develop the skills they need to become effective managers.

Because technology touches nearly every process in today's financial institutions, performance improvement within the IT organization can have a ripple effect across the wider business. By cultivating stronger management mechanisms, IT leaders can mitigate the view that IT is a "black box," forging greater visibility and trust between IT and the businesses that use it. That synergy helps banks, insurers and asset managers trim waste, raise productivity, and deliver more responsive customer solutions, not only within the IT department, but across the organization as a whole.

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Boosting sales in branch and agency networks through lean

Lean management is helping financial institutions generate more sales and instill practices that will sustain the improvements over time.

Nicklas Ilebrand, Seth Mitcho, and Stefan Roggenhofer

Most financial institutions spend at least half of their cost base on generating sales. To improve the productivity of their branch and agency networks and create more time for sales, many banks and insurers have centralized administrative activities and introduced new IT tools. Yet many of these efforts have delivered less than they promised. Indeed, some have failed to deliver at all, with sales barely shifting or even sliding back as freed-up time fails to translate into revenue-generating activities, and network costs rise rather than fall.

Why is this? Experience suggests that such programs are not addressing the root causes of the huge variability in performance within sales networks. Tremendous gaps exist between different players: a survey of German insurance agencies, for instance, showed that the best companies outperformed the weakest by a factor of three.

Even more alarmingly, we see enormous performance variations between different branches or agencies at the same institution. At both insurers and banks, we have observed sales productivity gaps of 75 percent between top- and bottom-quartile performers.

Closing the performance gaps

Variability in results is not always a bad thing. Branches and advisers in higher-opportunity markets, for example, can be expected to generate greater revenues or premiums. But variability in operational indicators such as conversion rates is a sure sign that potential is not being fully captured.

Take one key indicator: the number of customer appointments. At one Northern European bank, the number of appointments per sales person explained more than 60 percent of the performance differences between branches. Addressing this appointment gap boosted branch sales by 15 to 20 percent.

In insurance, the appointment story is much the same, with high-performing agents often logging 15 to 20 customer appointments per week while their less successful colleagues struggle to record ten. High-performing agents also get more out of their appointments, spending a larger proportion of their time with higher-potential customers and achieving much better closure rates. Top-performing insurance agents close seven out of ten offers, for instance, while weaker agents do just over half as well, with fewer than four out of ten offers leading to a signed contract.

Although some fundamental differences in talent will always remain, significant improvements in performance can be made by implementing lean methods for streamlining processes, capturing and sharing best practices, and eliminating activities that do not add value for the customer. In our experience, these methods are just as effective in the front office as the back. After bringing lean to its sales operation, one Latin American bank was able to increase customer appointments by 50 percent and total sales volume by 20 percent, while reducing its non-sales staff by more than 20 percent. A European insurer, meanwhile, achieved sustainable improvements in productivity of between 15 and 50 percent per agent.

Higher sales productivity and lower costs are not the only benefits that flow from applying lean to sales. A lean sales operation promotes employee engagement, improves customer service, and sustains improvements over the long term. Below, we discuss how financial institutions can transfer lean methods into their sales activities, and look at some of the key factors for success.

Changing the way sales works

Financial institutions seeking to maximize the value of their branch and agency networks will find that lean helps them dedicate more time to sales, standardize their sales approach, and strengthen the management of frontline performance.

Dedicating more time to sales

Spending time with customers is how frontline staff create value. Yet on average, retail banking sales representatives spend less than half their time actually selling to clients or taking part in sales management activities such as coaching, planning, or skills development. The remainder of their time is usually taken up by service and administrative activities. Lean provides effective ways to reduce this administrative burden and generate sales productivity gains of as much as 20 to 30 percent.

To free up time for selling, lean institutions eliminate redundant activities, such as the entry of the same information into multiple systems (e.g., back office, customer relationship management, and sales tracking systems). They automate routine activities and encourage customers to use online channels for simple queries, or transfer these activities to non-sales staff—for example, by having bank tellers perform sales support tasks when they are not serving customers.

The remaining sales activities are streamlined through measures such as standardizing the approach to meeting preparation, automating credit responses, creating single-touch processes for product delivery, and centralizing prospecting. After adopting a combination of these approaches, some institutions that started with a particularly high administrative burden have managed to double or even triple their sales capacity.

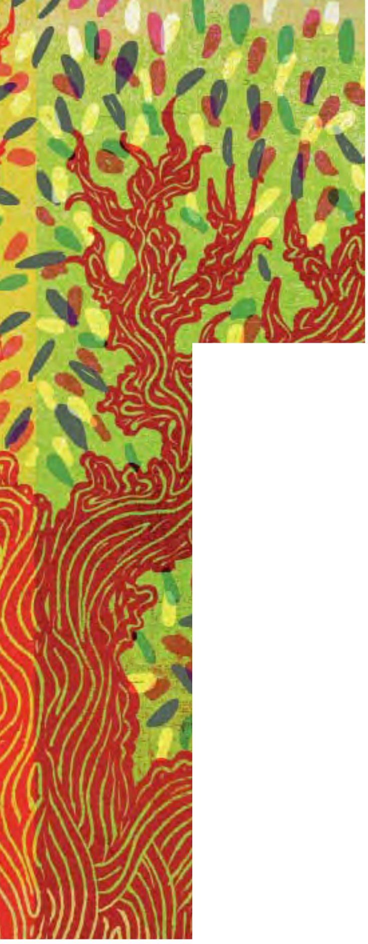
Lean techniques can be applied with equal success to insurance agencies and wealth management branches. One large sales force with over 10,000 customer advisers was able to reduce the cost of branch operations by 10 to 15 percent by applying lean levers to key processes and activities. When it streamlined and automated the account-opening process, for instance, it reduced total time spent from 19,000 to 13,000 hours per year, while improving turnaround time for clients by 33 percent. The additional sales time created was equivalent to 1.5 FTEs per branch.

In most cases, applying lean principles will enable financial institutions to free up as much as half of the time they spend on activities other than sales. Freeing up time, however, is only one side of the coin: the value of that freed-up time then needs to be captured through cost reductions, service improvements, and increased sales. These measures must be taken deliberately, as they are unlikely to happen automatically. One European bank that centralized administrative tasks to release more time for sales achieved precisely the opposite, as selling time fell from 32 to 29 percent of time spent in the branch. Without structures and systems to guide new behavior, as well as motivation to work in a new way, people soon lapse back into old habits.

Standardizing the sales approach

Traditional sales stimulation efforts often end up helping already-strong performers to do better, rather than giving weaker performers the discipline and skills they need to raise their game. An institution that wants all its sales people to perform at consistently high levels should not simply leave individuals to find their own leads, develop their own methods, and allocate their own resources. Instead, it should implement a standardized sales process

> One 10,000-adviser sales force reduced the cost of branch operations by 10 to 15 percent



that captures best practices and reduces performance gaps. Most institutions may think they have a standardized sales process already, but a close look at what their people actually do often reveals that the process is not followed in practice.

In order to develop the best process and get sales people to buy into it, institutions study the current sales process stage by stage to see how frontline staff generate contacts, make appointments, conduct discussions, advise customers, close sales, and follow up—taking care to capture the most effective approaches. Then managers determine, stage by stage, the sales approach they want staff to follow, identifying the capabilities, tools, and systems that will be needed, and the appropriate level of standardization. For instance, some institutions have a highly standardized approach to making appointments—often delegating the job to non-sales staff, a call center, or a third-party service provider—but choose to treat their sales discussions in a much more differentiated way, tailoring them to the circumstances and needs of individual customers.

Other institutions standardize their approach to the sales dialogue itself. They develop standard agendas for common types of meetings, such as a full review or a short sales meeting, and introduce tools to guide advisers through the sales process in the most effective way, such as product guides with best-practice sales arguments and questionnaires to identify customer needs. One North American life insurer created a menu of options for agents to use in discussions with clients. For each option, agents had a set of standard scripts or meeting outlines to structure the dialogue. By using these tools, the insurer was able to help veteran agents increase their productivity by over 15 percent, while also improving customer satisfaction.

At an Asian bank, performance in outbound sales varied widely within and across branches, offering enormous scope for improvement. In one case, among staff at the same branch with similar tenure and client bases, the top performer achieved five times the success rate of peers. To raise performance among the weaker staff, the bank introduced a standard process for approaching clients: whom to call, when to call, and what to say. It also reduced the personal client portfolio of the department head to allow him to spend more time sitting with staff, observing their work and carrying out day-to-day coaching on the job.

One institution analyzed its patterns of activities and the timing of customer visits in order to develop a standard weekly timetable with a "choreographed" schedule for calls, visits, administrative duties, and performance dialogues. At first, all sales agents had to follow the timetable precisely, but after a while stronger performers were permitted to adapt it to suit their own needs (Exhibit 1).

For sales staff accustomed to working autonomously, adjusting to a choreographed timetable may not be easy. A European insurer overcame initial resistance by having top-performing sales agents share their weekly schedules with colleagues. After trying out the schedule and achieving better results, the other agents were more willing to accept the change.

By systematically analyzing and measuring the sales process, institutions create a fact base for development. Management must link the new process with sales objectives in order to develop binding targets for key measures such as the number of customer discussions per week, customer contact frequency, and product take-up rates.

Strengthening performance management

After an institution has harnessed more time for selling and has captured best practices in a standardized sales approach, sales managers are then able to apply the newly developed measures and targets to assess how their staff are

Exhibit 1

Best-practice branch choreography.

Customer traffic: Low, Medium, High

Hour	Customer traffic	Manager	Personal banker	Teller	Teller
07:30–08:00	Low	Branch opening			Branch opening
08:00–09:00	Low	Administrative activities and customer service	Performance management		Administrative activities and customer service
09:00–10:00	Low		Sales meeting		
10:00–11:00	Medium	Calls to customers	Extended sales meeting	Customer service	Calls to customers
11:00–12:00	High	Customer service			Customer service
12:00–13:00	High		Ad hoc support for tellers		
13:00–14:00	High		Lunch Sales meeting		
14:00–15:00	High	Performance management	Sales meeting	Calls to customers	
15:00–16:00	Medium		Book customer meetings	Administrative activities and customer service	
16:00–17:00	Low	Return calls & e-mails	Return calls & e-mails		
17:00–18:00	Medium				
18:00–18:30	Medium			Branch closing	

performing, and support them in adopting new ways of working. Where tracking performance is concerned, there are two key elements: measuring activities as well as results, and creating transparency about performance. Measuring activities is important because if the sales management model and performance dialogues are focused on results alone, managers will not be able to see where weaknesses lie. By the time the results come in, it may be too late to put things right. But when managers track activities—such as the number of customer discussions taking place this week and the number booked for next week—they can quickly take any action that is needed.

Creating transparency is made much easier by using visual performance management tools, such as whiteboards that track the progress of daily activities in the branch. Another powerful aid is the performance dashboard, a desktop management tool that provides a clear view of performance at individual and branch level, and enables comparisons to be drawn among peers: sales people with similar backgrounds and experience, or branches with similar market opportunities and starting positions (Exhibit 2).

The metrics used to measure branches start with high-level indicators of financial performance, and allow managers to drill down to the specific operational activities that drive these numbers. Frontline managers use the dashboard to identify training and support needs among their sales teams, while senior managers use it to understand capability issues affecting the wider organization.

Coaching and training are a core focus for lean organizations, which set clear expectations for their frontline managers and provide them with simple tools and processes to support execution. Managers spend much of their time on the floor with their staff, observing interactions and providing feedback. Ideally, they should identify the particular skill gaps of every member of their sales team and draw up individually tailored development plans. Each team member's tenure and skills will help determine the nature and frequency of the coaching they receive (Exhibit 3). One retail bank expects its frontline managers

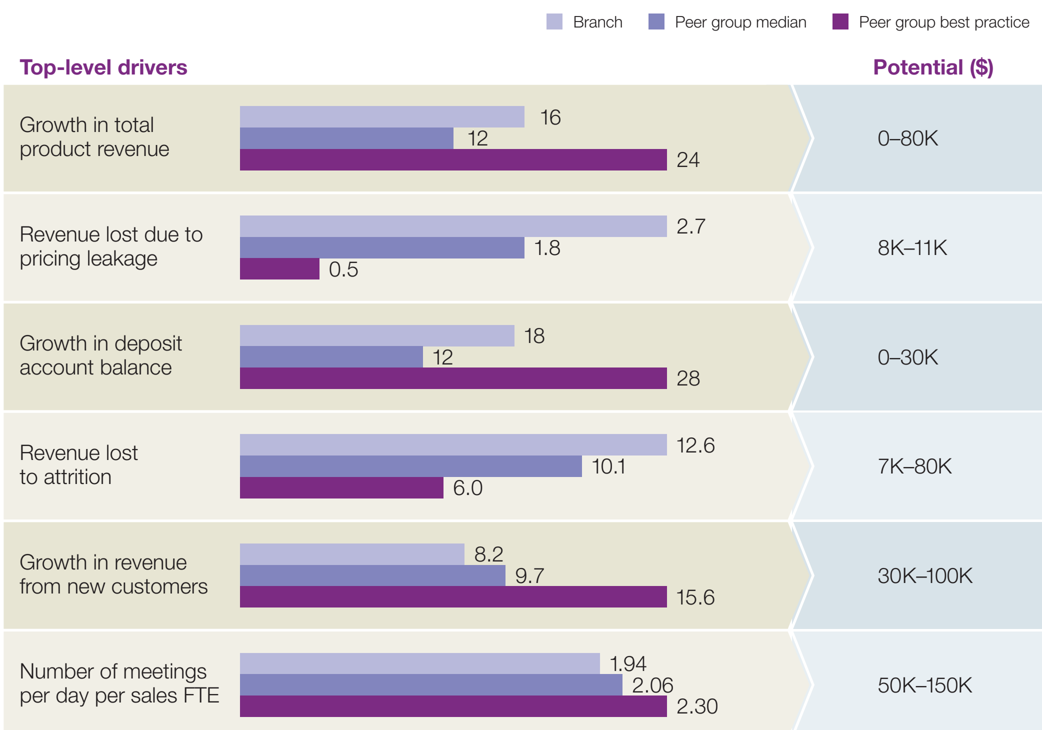
Exhibit 2

Tracking peer branches on a performance dashboard.

Quarterly branch revenue micro-driver scorecard

General information
Quarter: Jan–March
Branch: Deerfield Center
Region: Northeast
Peer group: Urban Northeast

Branch fast facts
Q1 revenue: $250,000
% of Q1 target: 101%
Revenue growth over last quarter: 8%
Peer group rank: 24/50
Additional annual revenue potential: $95K–450K



to coach staff in two different ways: on skills (based on observations of an individual's interactions with clients on the phone or in person) and on performance (based on the individual's performance on key metrics). Each month, all staff take part in at least one session on skills and another on performance. Each session ends with the manager and sales person completing a one-page action plan for development, which is then reviewed at the beginning of the next session. Since introducing this new approach, the bank has seen new sales rise by more than 20 percent.

Frontline managers are not the only people who need to change their approach to coaching. Senior leaders also need to rethink the way they manage and develop others. For instance, when delegating a task, most executives take competence for granted. Typically they do not evaluate the ability of their managers to perform assigned tasks effectively, nor do they spend time helping them improve their skills.

A case in point was the head of sales at a European insurer. He needed to work on his performance dialogues, which mainly consisted of complaints from him and excuses from his four regional directors. As part of a lean transformation, he received 30 minutes of coaching from an external expert every week to help him identify his directors' skill gaps and find ways to overcome them. The coaching enabled him to begin genuine problem-solving discussions tackling the root causes of underperformance at the front line. He also spent time in the field taking part in

Exhibit 3

On-the-job coaching varies by tenure and skill level.

	Frequency of sessions	Key goals	
Top 20%	• Once a month; minimum 60-minute session[1] • More frequent during new product launches or special campaigns, as needed	• Identify skill gaps or opportunities to improve • Identify best practices	Branch manager spends 2.2 hours per month with each banker on average
Average 70%	• Twice a month; minimum 60-minute session[1] • More frequent if working on specific skill issues or during special campaigns	• Identify skill gaps • Help develop broader skill portfolio • Disseminate best practices, from within bank	
Underperformers & new staff 10%	• Once a week; minimum 60-minute session[1] • As needed, joint sales meeting to observe banker in action and provide feedback	• Closely observe development in identified areas • Observe desire to develop	

[1] 45 minutes of observations covering 3 or so client interactions, followed by 15 minutes of feedback

discussions between the regional directors and their sales managers. Adapting to the new way of operating was challenging, and two of the regional directors had to be replaced, but the results were impressive: a year after lean was introduced, premiums increased by more than 20 percent, and there was a further gain of 10 percent the following year.

• • •

So wide are the performance gaps found in most sales networks that using lean to raise the skills of weaker performers can yield enormous gains. Lean also lays a firm foundation for further improvements by bringing rigor and standardization to key processes, and greater transparency to performance. Institutions that have already embraced lean in the back office have a golden opportunity to apply their lean capability and experience to drive sales. On the other hand, those new to lean could find sales an exciting place to start their lean journey. Either way, getting the most from lean will mean treating it not as a one-time effort to stimulate sales, but as a whole new way of managing the sales process.

Stefan Roggenhofer is a principal in McKinsey's Munich office. **Nicklas Ilebrand** and **Seth Mitcho** are alumni.

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