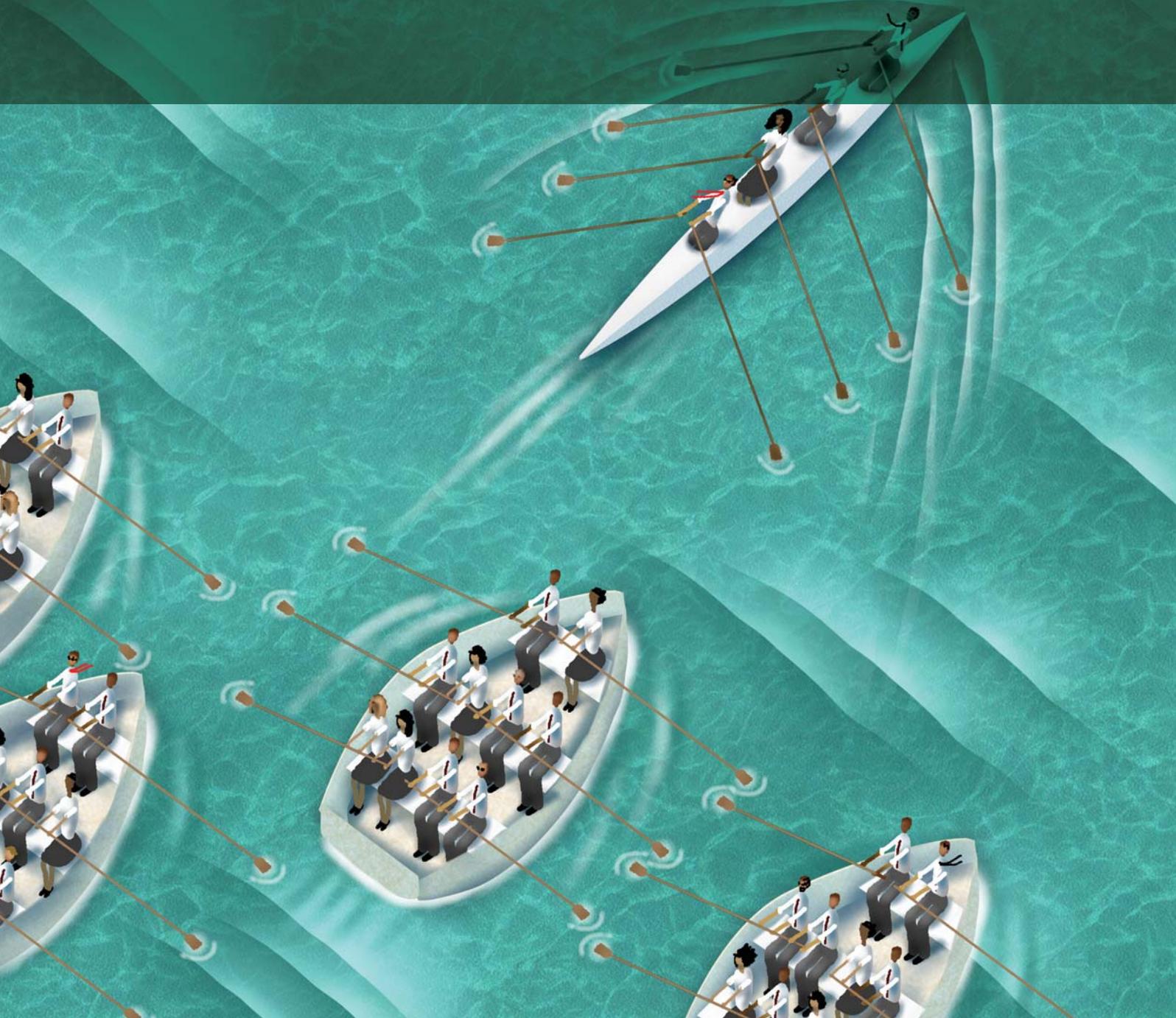


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Lean That Lasts

Transforming Financial Institutions



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Lean That Lasts

Transforming Financial Institutions

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September 2012

AT A GLANCE

The initial wave of lean programs that many financial institutions undertook after the global crisis began has been too limited—in scope, endurance, and commitment from management—to drive sustained improvement. Turbulence and uncertainty remain—and institutions struggle in a “new new normal.” Capital and liquidity are scarce, and the cost of credit risk is increasing. In this two-speed world, emerging economies enjoy expansion while developed countries confront slow-growth economic recovery. At the same time, institutions face sustained pressure from regulatory reform, shifting customer demands, and boardroom scrutiny.

THE ACCELERATING BENEFITS OF LEAN TRANSFORMATION

Competitive financial institutions are doubling down on lean—for both survival and long-term advantage. They are embracing lean that lasts—comprehensive and sustainable change based on an operating philosophy of continuous improvement that motivates the entire organization. Efficiencies and cost savings, depending on the cost base and a program’s starting point, can exceed 35 percent.

THE LEAN JOURNEY

A lean transformation progressively reinvents an institution and its ecosystem in many ways—all of them sustainable and measurable with rigorous benchmarks.

AS ECONOMIES REELED AND the crisis engulfed global markets in 2008, leading financial institutions rushed to expand efficiency initiatives, looking for a path back to prosperity. Companies around the world launched “process reengineering” programs aimed at achieving quick productivity gains and cost savings. Many programs were based roughly on the innovative lean-manufacturing principles pioneered by the Toyota Motor Company.

These first lean forays by financial institutions typically focused on cost-oriented process redesign, sourcing, and outsourcing. In many cases, companies enjoyed a degree of initial success, increasing productivity, and capacity. Some firms gained breathing room from the relentless pressure to cut expenses while simultaneously trying to win new clients and expand market share.

The gains proved ephemeral, however. Financial companies discovered that the initial wave of so-called lean programs had been too limited—in scope, endurance, and commitment from top management—to drive sustained improvement. Companies had revamped processes but stopped short of holistic efforts across the organization. They failed to create new operating models and cultures able to sustain their initial hard-won efficiencies.

Although the initial crisis has abated, turbulence and uncertainty remain—and financial institutions struggle in a “new new normal.” Capital and liquidity are scarce, and the cost of credit risk is increasing. In this two-speed world, emerging economies enjoy robust expansion while developed countries confront slow-growth economic recovery. At the same time, institutions face sustained pressure from regulatory reform, shifting customer demands, boardroom scrutiny, disruptive competition by new delivery channels, and complaints from overworked employees.

Welcome to Round Two: Lean That Lasts

Rather than abandon lean principles, however, a small set of the most competitive financial institutions are doubling down on lean both to assure survival and to gain long-term advantage. This time, these forward-looking companies are embracing lean that lasts—comprehensive and sustainable change based on an operating philosophy of continuous improvement that motivates the entire organization and creates a genuinely lean company.

Lean that lasts is not simply cost-cutting, and it extends beyond traditional process optimization. A true lean transformation applies a set of principles as the catalyst

The initial wave of so-called lean programs had been too limited—in scope, endurance, and commitment from top management—to drive sustained improvement.

for comprehensive change that redefines the company’s processes, structure, and organization, as well as its relations with providers, partners, and clients. (See Exhibit 1.)

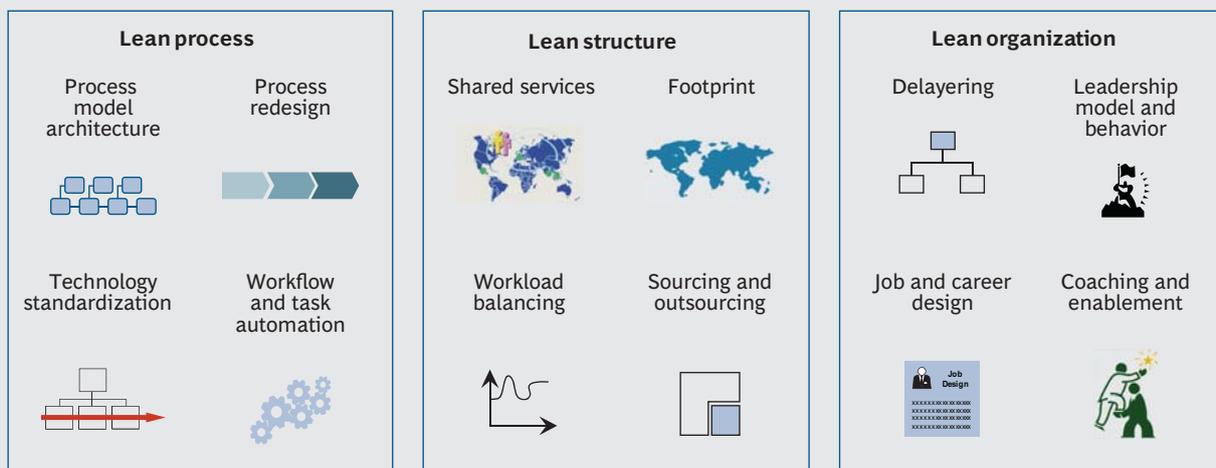
What defines lean that lasts? In our experience, a lean transformation progressively reinvents the organization and its ecosystem in many ways—all of which are sustainable and measurable using rigorous benchmarks. First and foremost, lean creates a “learning organization” that is motivated by a culture of continuous improvement and focuses on creating added value for customers, at minimal appropriate cost.

One measurable consequence of lean, therefore, is an increasingly satisfied base of clients, served by an organization attentive to understanding and meeting their needs. This path differs fundamentally from the direction taken by organizations that are driven primarily by company politics—rather than customer interests—to expand product lines, for example, or to meet mandated sales goals.

Lean initiatives also greatly enhance control over operational risk. Inefficient checks and redundant controls are often built into financial-institution processes by operations managers who are not fully aware of existing procedures or who fear being penalized for mistakes. Over time, as new controls pile on top of legacy measures, costs rise and risk control suffers. Lean programs identify and remove those redundant controls.

Yet another hallmark of a lean company is that it does not trade the interests and well-being of its employees for short-term gains in efficiency, productivity, and profit. Instead, employees are partners in driving gains and identifying means to achieve them. A truly lean company will develop a culture and structure that are optimized for performance and decision making. Jobs are defined and aligned with

EXHIBIT 1 | A Lean Transformation Redefines a Company’s Processes, Structure, and Organization



Source: BCG analysis

lean processes, instilling behavior that continuously drives performance improvement. In short, employees are active and self-interested participants in establishing lean goals from the outset, and they are enabled to produce its agreed results.

The result of all the capabilities accumulated through this approach is a more integrated, enabled, and efficient organization. Ultimately, a truly lean company is one that is naturally focused from bottom to top on aligning resources with a common strategy. (See Exhibit 2.)



Lean That Lasts, in the Real World

In our work with clients, we have learned how to identify the companies that are on the path to creating lasting lean enterprises, as well as those destined to achieve shorter-term results.

In 2010, for example, a leading European financial-services company embarked on a lean-influenced program aimed at optimizing processes and cutting costs. The initiative started energetically, driven by a handful of leaders at the top. Each business within the company charted its individual course based on its particular needs and client set. The program quickly identified opportunities in each business to eliminate waste and duplication, generating a set of quick-fix solutions to boost efficiency.

At first, the results were promising, but progress proved difficult to sustain. Each new step required tough and controversial decisions that increasingly pitted business leaders against one another. Turf battles erupted over the company’s operating model and the jobs that would be eliminated. With no companywide mandates to guide decisions, and no arbitration mechanism to calm disputes, top management began sidestepping hot-topic discussions and postponing contentious decisions.

The lean program established a universal, companywide goal of maximizing value for customers, at minimal cost, in every function and activity.

Today, just two years later, the program has yielded only modest and temporary benefits that are limited to cost savings in individual business silos and that can't be scaled across the organization. The company is back where it started, in the pressure cooker of an increasingly demanding environment and lacking firmwide, metrics-driven benchmarks, scalable solutions, and an institutionwide lean philosophy.

The picture is very different at another leading, global financial institution that operates in more than three dozen countries worldwide with corporate investment, retail banking, and wealth management businesses. Initially, the company launched a lean program that focused on its corporate-credit operations around the world. For years, the credit process had grown increasingly complex, spread across several departments including the front office, analyst team, risk assessment, and operations. Roles and responsibilities were unclear, generating frustration, redundant work processes, and delays for the customers. The lean program established a universal, companywide goal of maximizing value for customers, at minimal cost, in every function and activity of the credit process worldwide.

The results became apparent quickly and have been persistent. During the initial pilot projects, the response time for credit decisions accelerated by at least 25 percent and as much as 33 percent. The efficiency of analyst teams increased between 22 percent and 28 percent. Overall productivity gains allowed the company to shift resources to relationship managers, whose time spent with clients rose 8 percent.

Buoyed by the results, the company then embarked on a more comprehensive lean journey. This time, it targeted all operations across its entire wealth-management business in Europe. Under an executive agenda led by its CEO, the company committed itself to ambitious goals for improving productivity and customer satisfaction simultaneously. It targeted the inefficiencies built into the culture and organization that stalled credit approval and client outreach.

The company began by optimizing processes throughout the organization, across businesses and functional units. The program started with core credit-approval processes, then uncovered inefficiencies in support functions including budgeting, HR, and IT. Drawing input from employees at every level, the company identified and eliminated redundant activities and approval cycles. Positions were removed, but remaining employees were empowered with unique decision and approval rights conferred under mandates that they themselves helped develop.

Once again, the benefits from the lean initiative became evident, and they grew quickly and steadily. Most notably, customer response time for simple requests was reduced to four days from three weeks. Rework and processing time shrank by nearly 50 percent. The overall backlog of credit requests was slashed by 90 percent. "Everything we had tried in the past to sort out this dysfunctionality did not work," the company's head of wealth management said. Embarking on a lean journey made all the difference.

Early in a lean program, quickly achieving productivity improvements and cost savings such as these is not unusual for financial organizations that place the goal of becoming a lean company at the top of the executive agenda. (See Exhibit 3.)

EXHIBIT 3 | Aggregating Lean's Cost Savings

Lean ecosystem	Lever	Sample cost savings within each lever (%)	Overall program cost savings (%) ¹
Lean process	Process model architecture	5–10	20–35+%
	Process redesign	10–20	
	Technology standardization	5–10	
	Workflow and task automation	5–25	
Lean structure	Shared services	5–10	
	Footprint	10–25	
	Workload balancing	5–10	
	Sourcing and outsourcing	5–15	
Lean organization	Delaying	5–15	
	Leadership model and behavior	} Necessary components to develop and sustain lean transformation	
	Job and career design		
	Coaching		

Source: BCG project experience.

¹The overall program cost savings do not reflect the total of all the lever savings because the cost base will reduce as savings are realized.

Initial savings typically range from 10 to 25 percent of the cost base under consideration, and vary based on the program's starting point. Savings aggregated over the span of a program can exceed 35 percent. In addition, industry leaders also achieve measurable improvements in client satisfaction as well as significant risk reduction.

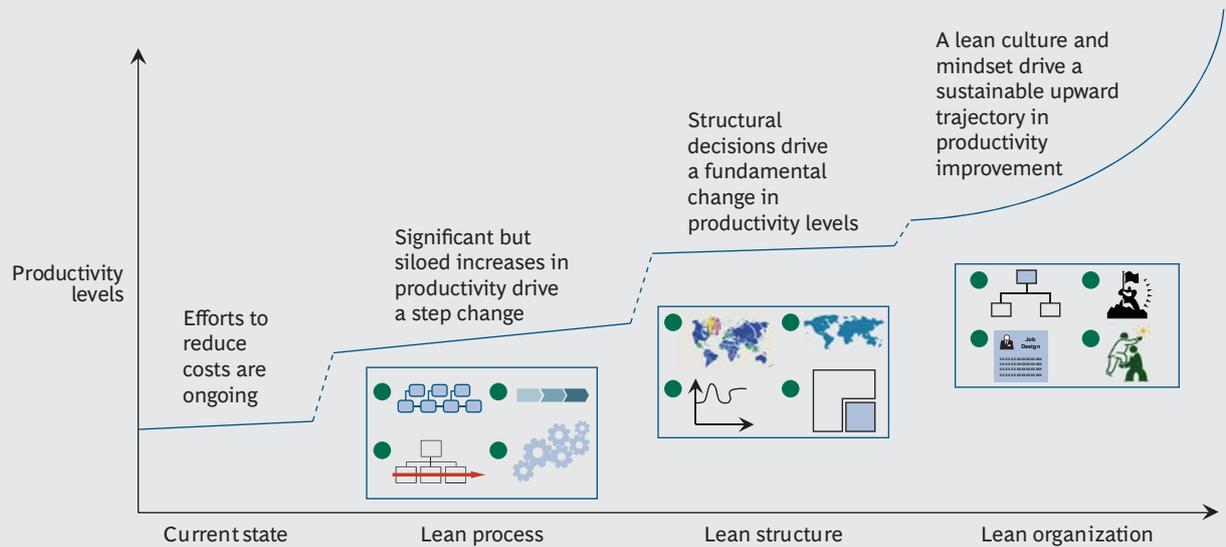
The Accelerating Benefits of Lean Transformation

But the early savings achieved at the outset of a process-improvement exercise are just the first-stage benefits of an institution's commitment to lean. They occur as initial improvements take hold, breaking down silos between business units and functions and identifying procedures and programs to repair or eliminate.

It is during the next stage—when a company commits to deploying the improvements companywide—that things get interesting. In our experience, institutions that take that next step are rewarded with a fresh set of escalating improvements and heightened results, including customer satisfaction and revenue growth. The companywide deployment of process improvements, when guided from the top through an overall strategy, lays the groundwork for a lean company structure and a lean organization as well as a new round of fundamental advances. These can include enhanced global footprints, around-the-clock centers of excellence, and optimized workloads that unlock hidden capacity throughout the financial institution.

Once achieved, a lean structure and mindset drive progressively greater savings across a company's entire cost base; such savings are substantial, sustainable, and measurable. (See Exhibit 4.)

EXHIBIT 4 | Progressing Along the Lean Productivity Curve



Source: BCG analysis

The key to these unleashed capabilities is a transformation that creates a company culture embracing higher performance and achievement, from top to bottom. At every stage, deployment of lean not only streamlines processes but also allows the organization to collect and analyze data systematically so that it can put that information to use in strategic decision-making that sets the stage for further growth.

As a result, the entire organization is subject to constant improvement, and employees and managers are empowered and engaged by a broader purpose. In our experience, these accelerated benefits can occur only when a lean culture is fully embedded throughout the organization.

Beginning the Lean Journey

As noted earlier, the difficult and turbulent environment of the “new new normal” has motivated many financial institutions to transform their business and operating models, sometimes radically.

Institutions that initially regarded lean as a path back to prosperity, during “round one,” of their lean journey, now embrace a full lean transformation as essential to their survival. Indeed, lean that lasts is an integrated, holistic endeavor—not a series of piecemeal campaigns chasing cost-focused results. The organization must be guided by a shared vision of where the journey is headed in the long term.

From our perspective, however, companies don’t need to begin by tackling all the elements of lean at once throughout the entire organization. Nor do they need to address them in a specific sequence. Several paths to success exist.

Some financial institutions, for example, start with process-improvement efforts, building on existing initiatives such as Six Sigma. Often, these are companies not yet ready for structural changes. They typically start with pilot programs to test and prove concepts, then expand improvements across the organization. Other companies tackle organization design from the outset, as a way to cultivate a lean culture and drive change through a more engaged and empowered workforce.

Financial institutions committed to quickly and deeply transforming organizational culture and mindset usually take a different tack. They often launch pilot programs and strategic design efforts in parallel, having already identified organizational inefficiencies and strategic imperatives.

Well-structured lean transformation programs are self-funding in nature, creating significant results in the first year and delivering annual returns 10 to 20 times larger than the initial investment.

Ultimately, it is the journey—not the starting point—that is important in an organization's transformation to a lastingly lean enterprise.

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Acknowledgments

The authors would like to thank Chandy Chandrashekhar, Michael Shanahan, and Vatsa Narasimha for help in drafting this article. They also thank Jonathan Gage for his editorial direction, as well as Katherine Andrews, Gary Callahan, Mary DeVience, Kim Friedman, and Sara Strasenseiter for their contributions to editing, design, and production.

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