Lean-led business transformation

A real change agenda for financial services
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**Executive summary**

Financial-services (FS) firms are in the middle of a challenging period. Margins are shrinking as services are commoditized and less-than-loyal consumers look for the best deal, no matter who offers it. Even more troubling are the dynamics in the industry: Globalization and new regulations have added a layer of complexity and risk to the FS landscape. To overcome these disruptions, financial-services firms increasingly seek to simultaneously improve efficiency and client service, while also meeting regulatory demands for increased transparency and risk management. However, to do this, they too often rely on narrowly targeted improvements, an incremental approach that may achieve one-time gains but not sustainable or structural repairs. As a result, enthusiasm for change dissipates and the firm continues to face a rapidly changing marketplace without enough weapons to truly compete.

Simply put, real and lasting holistic change is essential — and it can be achieved by following a pathway called “Lean-led business transformation.” This approach, which can deliver cost reductions of more than 25 percent across an organization, will also help better meet customer demands, increase transparency for risk management, and create capacity for growth. Lean-led business transformation is particularly effective because it attacks waste, inefficiency, poor processes, and systemic breakdowns across the entire organization. The advantages of Lean-led business transformation are myriad: Resources are better aligned with demand and capacity; functions are consolidated, propelled by technology and process gains; customer responsiveness improves greatly; risk mitigation is enhanced; and staff satisfaction is measurably higher.
Key highlights

• Financial-services firms are being challenged by a disruptive business environment, and typically their response is to target one-time or incremental improvement efforts in efficiency or client service, which fail to achieve sustainable and permanent change and competitive advantage.

• Real and lasting change — which is critical for financial-services firms — is possible with an approach called Lean-led business transformation.

• Lean-led business transformation attacks inefficiency, systemic breakdowns, poor processes, and inadequate automation, as well as risk across the entire organization, and aligns transformation directly with the firm’s strategic direction.

• With Lean-led business transformation, resources are aligned with demand, functions are consolidated with strategically deployed technology and enhanced footprint, customer responsiveness improves, risk mitigation is enhanced, and staff satisfaction rises — and on average, companies enjoy cost reductions of about 28 percent and sustained improvement to client service.

• The FS firm can begin a Lean-led business transformation by launching a comprehensive program or by conducting a strategic assessment and establishing an individual pilot.
The financial-services industry was already in flux when the global recession hit in 2008. But as economies around the world suddenly veered into negative growth and financial-services firms (those that survived) began the task of digging out of troubled loans and an overreliance on questionable assets, the pace of disruptions for banks big and small sped up.

The challenges facing FS firms encompass virtually every facet of their businesses: Basic services are becoming commoditized; consumers are showing less loyalty, taking their business to whichever companies give them the most attractive — or least expensive — deal; the business of banking is much more complex as the internationalization of investments requires more global interaction and enhanced technology; and stricter regulations, like the Dodd-Frank bill in the U.S., demand new processes and technologies to comply with consumer protection rules. Not surprisingly, profit margins are suffering.

Financial-services firms are responding to these disruptions with partial solutions. By and large, improvement initiatives tend to be targeted at eliminating a specific set of inefficiencies, at making one-time or incremental improvements in client service, or at haphazard responses to risk. Just as frequently, FS firms set broad-brush goals of cutting 15 percent off the cost base without examining what processes are actually driving costs higher. Such reengineering efforts often incorporate some methodology to improve efficiency, such as traditional Lean or Six Sigma, and they frequently involve outsourcing or offshoring to lower-cost facilities. Alternatively, or sometimes in conjunction, banks will overhaul technology and enhance applications, often to meet new regulatory requirements.

These initiatives are almost always insufficient. Not only are they focused on one-time and immediate improvement, rather than sustainable, structural change, but they also tend to be run within individual organizational silos. As a result, enterprise-wide integrated coordination, organizational and strategic alignment, and senior
corporate leadership support are lacking. Moreover, redundancy of effort and conflicting goals, as well as a lack of consistent performance metrics to measure returns and improvements, virtually ensure that the efforts will not be transformational.
In our view, broad, enterprise transformation, not just incremental improvement, is critical for FS firms. Lean techniques and new technology architectures in isolation cannot be the centerpiece of the change initiative; instead, they can be catalysts, tools, and drivers. But the primary mission must be to alter the entire operating model of the organization to better align to the changing marketplace, a shift in emphasis that we call Lean-led business transformation. This more radical and far more effective approach, which precipitates change end-to-end throughout the enterprise, must be led from the top.

Lean-led business transformation is as beneficial as it is primarily because of its breadth. The change agenda and initiatives to support this agenda are coordinated across the organization and linked to the strategic objectives of the business. As such, Lean-led business transformation can identify improvement opportunities that blend efficiency, risk mitigation, customer experience, best practices, and cost synergies — and, in the process, provide proof that Lean tools can be effective for achieving improvement goals. Moreover, Lean-led business transformation creates a single program approach to ensure consistency in data gathering, analysis, and metrics; has a common governance structure to direct investment and resources across all workstreams; and eliminates traditional organizational boundaries while minimizing the influence of “sacred cows” often protected in a siloed transformation.

When it is successful, Lean-led business transformation can be lucrative (see Exhibit 1, next page). In general, FS firms that have taken this path have enjoyed cost reductions averaging more than 25 percent across the enterprise and 10 to 52 percent in individual functions. This result is chiefly driven by better resource alignment with demand, capacity, and location; process and technology improvements; and the consolidation of functions.

But the returns from Lean-led business transformation go well beyond cost reduction. For one thing, this approach improves accuracy and responsiveness to customers, particularly high-value customers.
Through end-to-end assessments of what key customers value most, processes can be designed to efficiently deliver a suite of products and services that match consumer preferences. In turn, this higher-quality customer experience drives greater loyalty and frees the organization from focusing on products and services that customers are not particularly interested in. In addition — and perhaps most important for long-term performance gains — staff satisfaction, engagement, and retention are usually higher after a Lean-led business transformation because tasks and processes can be managed more smoothly, skill levels are more closely aligned to actual jobs, and alternative work schedule programs, such as flex-time and hoteling, are often made available.

Exhibit 1
Substantial cost savings from Lean-led business transformation

% cost saving per Lean project

Source: Strategy&
The Lean-led business transformation is composed of four primary components:

**Alignment to strategy**

A Lean-led business transformation yields recommended changes that are closely linked to other critical initiatives within the organization. This ensures that top management’s message about goals, forecasts, performance, and transformation is consistent and that the change agenda is clearly supported from the organization’s executive suite. More important, it guarantees strategic alignment, linking the transformation to an organization’s distinctive capabilities and success formula, which in turn helps to ensure that the transformation is long-lived and sustainable. For example, if competitive differentiation is critical, then the company should adjust its product development life cycle to be quicker to market while explicitly assessing competition for where the real product battles are going to be fought in the short and long terms. Alternatively, if managing risk is a critical barometer of performance, the Lean-led business transformation should focus on organizational vulnerabilities in processes, tools, staff, and technology, while embedding greater efficiency and transparency.

Among the strategic inputs integrated into the Lean-led business transformation are the competitive landscape, customer needs and preferences, underlying corporate culture, the company’s technology portfolio, the degree of product or service complexity, and existing or potential mergers.

**Data-driven approach**

In a Lean-led business transformation, an organization can quantify critical areas that are difficult to analyze, such as process steps, customer preferences, and time spent by staff on essential activities. This data is gathered through a rigorous analysis in which the inputs
and outputs of the value stream are assessed, process technology is inventoried, time studies and surveys analyze what employees are actually doing during their workday as opposed to what they are perceived to be doing, and customer behavior is examined. This critical data is placed against potential improvements in all operational areas in the target state, which aligns the firm’s operating model with its strategic objectives. The data is used to quantify short-, medium-, and long-term benefits in an integrated implementation plan. Quick wins can be implemented in as little as three months and often involve the elimination of no-value-added steps (see Exhibit 2, next page).

**Operating model perspective**

A comprehensive set of five operating model levers are assessed in viewing the organization end-to-end: process; technology; organization, governance, and people processes; footprint, or where the staff is located globally; and risk.

Applying an operating model perspective drives the organization's transformation to a common vision, aligned to the strategic objectives of the firm. The goal is to design a target state that optimizes the five operating model levers. This has many advantages over the traditional Lean process, where the lack of a holistic change agenda across the full range of operational levers tends to produce a narrow platform for supporting change. As a result, many potential risk mitigation, automation, cost cutting, and efficiency opportunities are neglected.

**Sustainable change**

Change should be continuous. By shifting how people think about their work and empowering them to look for potential improvements, a Lean-led business transformation embeds a culture of continuous improvement in the organization. “Lean masters” can lead and maintain momentum for change as well as identify roadblocks to support of the transformation. But line workers are critical as well; they are expected to embrace the Lean consciousness and develop capabilities to drive transformation themselves.

To achieve this mind-set, a core team is created in each Lean “wave” to oversee the implementation involving a function or an end-to-end process. This team includes both Lean masters and line staff, blending expertise across the organization to simultaneously establish enterprise-wide consistency and continuous improvement. Through visual displays of key performance metrics as well as daily huddles for acknowledging accomplishments and discussing challenges, Lean thinking is embedded
deeply. Moreover, through direct and open conversations with team members, senior management can show support for the new focus on continuous improvement and even introduce rewards for those who best embrace it.

Exhibit 2
Tool kit applied to each Lean project

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<tr>
<th>1</th>
<th>Current state analyses</th>
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<td>5-step current state analyses</td>
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<td>• Demand type and frequency</td>
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<td>• Current performance</td>
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<td>• Environmental and structural factors</td>
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Voice of the customer analysis

Time and motion study

Value stream mapping

Identifying waste

Workload profiling

Structured solutioning

Risk assessment

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<th>Target state design</th>
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<td>Operating model design</td>
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<td>• Process architecture</td>
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<td>• Footprint</td>
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<td>• Metrics</td>
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Lean design principles

• Standardized work
• Quality at source
• Workplace organization
• Visual controls
• Pull systems

• People involvement
• Batch reduction
• Cellular teams
• Equipment reliability
• Leveling
• Reduce setup time

Workload balancing

Spans and layers analysis

Risk analytics and solution

<table>
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<th>3</th>
<th>Implementation</th>
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Implementation road map

• Quantify benefits
• Prioritize projects
• Develop individual and integrated implementation plans
• Create program management structure and governance

Execution

• Implement integrated plan
• Ensure ongoing communications
• Maintain business buy-in
• Track and enforce benefit realization
• Institutionalize culture of continuous improvement
• Drive Lean adoption and mastery

Source: Strategy&
Mechanics of change

Because the Lean-led business transformation, unlike many other approaches to change, is built directly on the financial-services firm’s strategic agenda and is, thus, aligned with senior leadership’s vision, the potential for a sustainable transformation is extremely high. However, success demands a set of unique organizational capabilities and attributes, including substantial management support, careful planning, redirection of company culture and behaviors, and deft management of the impact on employees.

In particular, effective and transparent corporate-wide communications to all levels of the organization are essential. They should include online and physical forums, in which employees can offer input about the change agenda — its positive points and flaws. And through a series of questions, part of what we call a change impact analysis, management can capture for each employee segment how the transformation may impact workflow, output, supervision, and performance. Change agenda messages can be tailored to different individuals and teams based on answers to questions like these: How will roles and responsibilities be changing? What new skills, knowledge, and behaviors are required? For example, more detailed information would be delivered to people who are most influenced by — and who will most influence — the transformation.

However, management communications are just a small part of a successful transformation and will have little effect without a balanced blend of top-down and bottom-up participation. At the inception of a change initiative, management must take an energetic role to encourage and motivate the organization to move forward — sometimes even to demand that the transformation be taken seriously. But in short order, grassroots support is essential to embed change, not only in processes and platforms but also in individuals. This dual-sided approach to transformation can best be accomplished through a combination of formal and informal practices (see Exhibit 3, next page).

Among the formal practices are training programs linked directly to organizational transformation, salary increases, and bonus and
promotion incentives for employees and teams that meet change agenda 
benchmarks. Informal practices include identifying “Lean leaders” — that is, coaches, not managers, who can motivate and enable others 
to have sufficient pride in their work and in the company as a whole so 
that they foster more change within the Lean culture. Ad hoc networks 
that promote peer-to-peer interactions and coaching can serve as 
platforms for these leaders to disseminate their messages.

Exhibit 3
Formal and informal levers to achieve lasting change

Formal and informal levers

The formal organization “aligns”

- Sustainable business outcomes
- Structured program and governance
- Linkage to existing levers (HR, recruiting, incentives, etc.)

The informal organization “motivates”

- Positive “virtuous cycle”
- Taps employee’s pride and emotional commitment
- Enables strategic links: top-down, bottom-up, peer-to-peer

Source: Strategy&
Getting started

Achieving a Lean-led business transformation is a multiphased and often multiyear journey for a financial-services firm. There are three primary methods for launching the effort, which depend largely on the firm’s strategic goals, ability to deploy resources, and cultural climate for change (see Exhibit 4, next page):

• **Option A:** If your organization has very strong top-level buy-in from the beginning and is committed to operating model transformation, develop the top-down strategic assessment independently as a first step before pilots begin. Although this approach may take longer, an up-front operating model road map is created for all subsequent steps to follow.

• **Option B:** If your organization is prepared for change or has an internal or external mandate to achieve a set of goals in a relatively short time, run the top-down strategic assessment in parallel with two initial pilots. By executing these activities simultaneously, the enterprise road map can be produced while using pilot results to refine and validate the top-down strategic plan.

• **Option C:** If your organization is largely resistant to change and there is little support for a Lean campaign, start small. Focus initially on two pilots that have the greatest potential for internal backing and generating results, which then validate the transformation and buoy a continuing effort. In the wake of these pilots, a broader program can be launched, including a top-down strategic assessment to quantify the opportunity and build an enterprise-wide road map for a phased Lean-led deployment.
Exhibit 4
Lean-led business transformation launch options

Key attributes

A. With inherent buy-in from top management, the focus is on overall operating model transformation.
   Strategic assessment identifies key areas of Lean opportunity across the enterprise.

B. Pilot results provide proof of concept, feed into the enterprise-wide Lean assessment, and encourage management and organizational buy-in.
   Lean initiatives launched concurrently across the organization.

C. Initial pilots validate opportunity and overcome resistance to transformation within the organization.
   Enterprise-wide strategic assessment results feed into phased Lean deployment.

Source: Strategy&
Primary roadblocks

There are a number of often disarming obstacles that FS firms face in launching a Lean-led business transformation, but in general these can be overcome with proper planning, governance, and change management. Among the challenges are resistance to change, organizational silos, overreliance on technology, and insufficient governance.

Resistance to change

Many organizations are conservative and would prefer to fall back on the notion of “We’ve always done it that way” than to implement real transformation. To combat this, executives should set pre-Lean performance targets. Some functions and employees may surpass the goals while others fall short. But overall this demonstrates strong leadership commitment to change and in turn builds accountability across all levels of the company.

In addition, middle management is often the hardest level of the organization to convince that the change agenda is worthwhile. These managers must learn to view Lean-led transformation as not merely a task that will certainly fall on their shoulders but an approach that can improve their own job satisfaction and greatly enhance their — and the company’s — prospects. A stronger buy-in from them is possible if individual middle managers are purposefully included in the assessment and design process and given a real say in how the transformation will be implemented. Often the best way to do this is to provide frequent progress reports to managers for whom an individual Lean wave is a part of, or close to, their sphere of operations, and be certain that they are invited to participate in discussions about the project as well as in developmental decision making.
Organizational silos

Most companies have evolved with a functional and/or product view of the market. To get the full value of a Lean-led business transformation, these silos must be broken down. To do this, define each Lean implementation as an end-to-end process that ignores traditional organizational constraints. For example, a Lean client service initiative would span help desks, signing up clients for new or additional products and services, and relationship management in all departments across the organization. Only in this way can the Lean-led business transformation optimize efficiency and scale for common, as opposed to customized, activities, and align activities to the right skill sets across the organization. Leaders from multiple functions should be involved in determining the scope of Lean-led activities holistically throughout the enterprise and in supporting their implementation within their spheres of influence.

Overreliance on technology

When assessing a process for improvement, there is a natural tendency to believe that technology can be a panacea. However, greater benefits are often possible by simply removing process steps and/or the demand that drives those steps. Using Lean-led business transformation techniques helps combat any overdependence on technical solutions by focusing on demand drivers and what the customer truly wants or values.

Insufficient governance

Lean-led business transformation results are achievable only if the financial-services firm has the appropriate governance and decision rights in place, as well as sufficient transparency to ensure accountability. A standard change management structure should include (1) program tracking to monitor results and compare actual costs, benefits, and completion schedules against the original business case; (2) an executive sponsor for each initiative — ideally someone who was involved in the design and implementation from the beginning — who will be accountable for making decisions during the deployment and responsible for results; and (3) an oversight body at the top levels of the organization.
There is no better time than now for FS firms to gain a substantial competitive edge in a demanding business environment — and Lean-led business transformation is perhaps the most critical step in doing so. Whether you start small with pilot projects or go all-in from the beginning, real operational and strategic transformation are possible as long as an end-to-end, holistic road map is followed. Analytics, data, communications, governance, staff relations, technology, tools, and processes must all be addressed with robust, committed implementations of whatever size. The firm’s capabilities need to be built on these business elements, not targeted at one-off, incremental changes or minor Lean campaigns. Those small halfway measures are simply not enough anymore, with the stakes and disruptions so high.
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