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Increasing productivity whilst cutting cost is easier with the right approach

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Typically the response to the financial crisis in operations has been to cut costs and as a consequence experience a reduction in the service offered to customers. In many cases as costs have been cut productivity has also declined, so savings have proved to be counterproductive. The results have been more processing errors, increased activity that does not add value, decreased customer responsiveness, adverse impacts on service levels and the consequent loss of talent that is needed as the sector recovers. Financial services businesses in particular can get caught in this downward spiral where every round of cuts leads to a commensurate loss of service. As this paper will show it doesn't have to be like that.

As budgets are prepared for the next financial year, senior executives will be challenging operations to achieve further cost savings and efficiencies. How achievable and sustainable these savings are is dependent on the consistency of your approach to transformation, the degree of ownership of continuous improvement activities and the orchestration of work and staff capacity. Even another 5% saving from an already trimmed department will not be sustainable without considering these factors carefully.

Common symptoms of operational failings include:

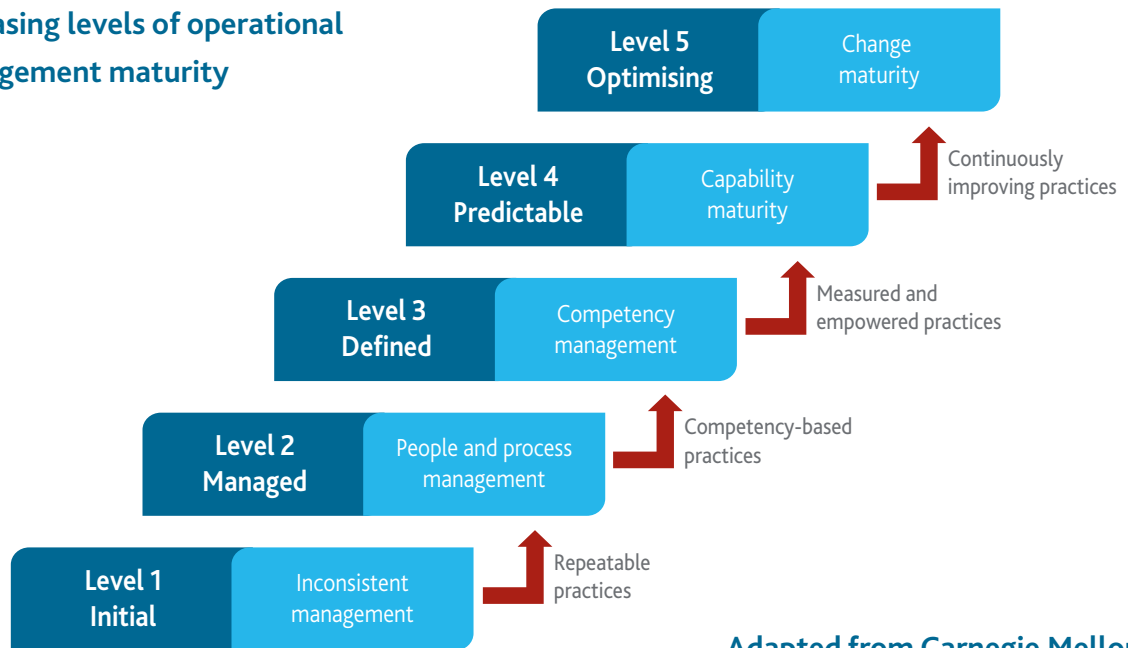
- No connection between corporate strategies and fully defined operational service indicators at team level
- An absence of process control skills to prioritise in situations when teams are short of time and resources
- Lack of consistent management processes across different departments and sites

- Over-utilisation of management time dealing with crises, rather than focusing on identifying causes
- Underutilisation of planning information and technological capability
- Reactive behaviour caused by performance issues
- Backlogs in processing
- Inefficient operational behaviours, for example ineffective meetings.

The scale and nature of these symptoms indicate the level of operational management maturity within an organisation.

In a mature organisation, responsible managers perform repeatable practices in the normal course of operations. The approach is heavily process-based, helping an organisation to develop processes and practices which can be repeated and transferred around the organisation, quickly and successfully.

Increasing levels of operational management maturity



Adapted from Carnegie Mellon, SEI

The three key elements that form the bedrock of operations in financial services companies are people, systems and processes. Sustainable and continuously improving operations is an evolutionary activity not a revolutionary one, that is best described in levels. That is not to suggest that large scale improvement and savings can't be achieved quickly; they can. A UK Life Assurance back office client was recently tasked to achieve 5% FTE savings with no adverse impact on quality whilst maintaining or improving all KPIs. By applying the principles outlined in this paper they achieved 7% savings with the additional benefits of a 30% reduction in complaints and a 50% reduction in overtime through multi-skilling and improved employee morale. This was in an operation that was already performing well and had made a 5% FTE saving the previous year.

Short Interval Control is an example of how management systems and operational team culture can be measured. It is a way of predicting, seeking out and identifying issues as early as possible and proactively addressing them, so that they are either entirely prevented or do not grow and become increasingly difficult and costly to fix. This requires sustainable behavioural change, the most difficult deliverable in any programme. The degree to which people have changed their behaviours can be measured. It can show how individuals and teams move from level 1 (not doing it, or doing it inconsistently) to level 2 (doing it because they are told to), to level 3 (doing it because they want to) to level 4 (never wanting to return to the old ways of working), and beyond (innovating by applying the principles to other processes), so defining the maturity of the management systems and operational management culture.

Level 1 - Establishing repeatable practices - why this is essential

This is the bedrock of efficient operations. Repeatable processes ensure consistency of performance and provide the ability to measure performance over time and across departments. They are also vital in enabling incremental and continuous improvement because changes in the process will have an effect on the outcome in a consistent manner. Most financial services businesses have established a degree of process consistency and performance measurement. What we find however is that process consistency and performance measurement are not taken nearly far enough so new solutions and working practices fail to become fully embedded and the opportunity is lost to build sustainable capability in operations. Some claim that repeatable processes stifle innovation and lead to an inflexible and 'one size fits all' service. In fact the reverse is true, repeatable processes lead to lower failure rates, better productivity, consistently higher customer service ratings, better employee morale and less waste. The key to making repeatable processes viable is proactive operational management to ensure innovation. Through Short Interval Control, team leaders can identify issues early and deal with them proactively not reactively.

The reasons are:

- The cause of process failure can be more quickly identified and eliminated
- Repeatable processes can be done at a faster rate than fluid ones so productivity is improved
- Customer expectation can be met more efficiently and accurately. Over delivering against customer expectation can be just as wasteful as under delivering
- There is potential for double digit percentage increases in productivity in a very short timescale
- Sustainable management practices are driven from bottom-up to improve communication between the boardroom and operational management
- It facilitates genuine economies of scale
- Employees can see the positive impact of improvement in the measured outcomes and increased workload can be anticipated and managed rather than simply reacting to high demand with unplanned for overtime.

In summary consistency is the key to success. A consistent process for managers to review operational data (volumes, service performance, quality, etc), design performance indicators and the ability to identify root causes of failure as required is what separates those who can successfully move on to competency based, employee empowered practices... and those who can't.

Level 2 - Competency based practices - Improves quality of outcome

Essentially, this boils down to having the right people doing the right job. This may sound obvious, but it is not unusual to find employees doing jobs where they either lack sufficient skills to do the work in an optimal way or more usually the handover process and speed of resolution between the different departments and competencies cause bottlenecks and process failure. This is especially true of more complex financial products such as pensions and life assurance. This leads to delay and customer frustration and a lack of clarity on the root causes of failure. This in turn makes it difficult to move up to the next level by introducing measures that are more reflective of the true business state, empowering employees to take greater responsibility for business outcomes whilst supplementing existing activity based metrics.

Level 3 - Measured and Empowered practices

Having empowered your employees to take greater responsibility for outcomes you can then encourage them to seek increasingly effective and insightful ways of measuring the success and failure of these outcomes. The aim here is to get an increasingly accurate and responsive picture of the true business state. This then enables managers to take more proactive and effective decisions. Data that is insightful, timely and actionable is what provides the bedrock establishing a continuous improvement culture. If you can't measure performance how do you know it has improved?

Level 4 - Continuously improving practices

Genuine continuous improvement is a reality in some financial services operations but the practice is not wide spread and seldom sustained. This is not through lack of desire or even investment. The root cause of failure can usually be traced to any one of a number of key factors.

- A failure to build on firm foundations by achieving Levels one through three effectively first
- Lack of change management experience and the necessary skills and resources to engage stakeholders in establishing and embedding best practice
- Lack of the necessary measures, processes, communications and organisational structures to allow a continuous improvement culture to be sustained.

Level 5 - Change maturity

This level is really about ensuring that a continuous improvement culture thrives, keeping it vibrant and constantly reinforced. By this stage continuous improvement is embedded in the company's DNA. Rigorous evaluation and timely implementation are the watchwords here. Communication is particularly important here for ensuring the various work forums and centres of operational excellence are aware of what is going on and are adopting, measuring and evaluating improvement in a robust, consistent and cost effective manner.

Putting theory into practice - establishing the right activities and behaviours

When it comes to operations there is no substitute for really understanding what your data is telling you.

Step 1 Discover phase:

We suggest you take four to six weeks to undertake an extensive analysis of your operational data. This is the time we find it usually takes for most financial services businesses to get to grips with and understand the potential opportunities for improvement. This work will prove invaluable in shaping the exact direction of the implementation stage and ensures a consistent understanding of the degree of commitment and the expected improvement with all stakeholders. You can use your own people but an outside perspective from a reputable consultancy can be invaluable in establishing industry best practice and providing some urgency and momentum to the programme. This leads rapidly to the business case, definition and the design of the implementation phase.

Step 2 Implementation phase:

The implementation phase typically takes 14 to 18 weeks so as to allow both managers and employees several cycles of 'the new way of working' to take hold and start to become established. These cycles are typically monthly in duration and focus on improving the broader effectiveness of team managers, since the future sustainability of the improvement project will rely on these managers consistently applying the skills and knowledge they have learned as a result of the changes introduced. Crucially this includes coaching, introducing new management information and effectiveness measurement tools as well as extensive stakeholder engagement.

These components set the tone for the new practices to be sustained. The ultimate goal is to generate high performing teams that are change capable and continuously strive to optimise operational performance.

Quick wins are usually possible simply by removing non value add activity, which is typically 30-40% of all activity. Simply doing this will:

- Bring clarity and focus to factors that are really important to the customer
- Improve and continually reassess business processes to reduce cost
- Systematically remove sources of error within the business.

However we find savings and productivity improvement will be bigger and quicker if your programme is part of a long term solution aimed not only at generating cost savings, but also at generating sustainable capabilities for operational effectiveness and ultimately creating change maturity within operations where managers and staff are constantly striving for operational effectiveness.

This requires organisations to have an eye on driving desired behavioural change so that teams succeed in reaching longer term operational goals not just short term ones. Team members must learn new methods, skills and best practice management techniques covering meetings, data reviews, actions, process reviews and problem solving tools, in order to sustain the performance improvement within operations. By aligning the necessary people, systems and processes in the step by step manner we have outlined you can build an environment incrementally in which:

- Practices can be repeated and an understanding developed of what operational success can mean, and to what extent operational processes can respond to volume fluctuations
- Best practices can be transferred rapidly across teams
- Variations in best practice can be reduced
- Practices are continuously challenged to improve capability.

By following our approach you can enable sustainable behavioural change. The behavioural change is sustainable because no one wants to go back to the old way of working. Managers are able to manage proactively and to place reliance on performance data, forecasting and control, rather than rushing around fixing processes which are unreliable, reactive, and which routinely fail. Employees feel empowered, focusing more on outcome and added value and less on activity. There is a much greater sense of achievement as successful defined outcomes are much easier to celebrate and reward than activity.

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Crucially our approach is neither technology-led nor predicated around a specific IT solution. It can be achieved with any existing spreadsheet or database packages. This should reduce the cost significantly when compared to traditional approaches to transformation programmes that are often built and rely heavily upon the foundations of a new or improved technology implementation. The approach also reduces the risk of potential project delays and missed targets.

Although the performance of a small number of exceptional people can make a significant contribution, there are not enough of them to cover your full range of activities, and an uncontrolled and unplanned environment often makes for a stressful and overburdened workforce. This is not a desirable state for any operation.

It is particularly important that you enable operational teams to succeed through helping and training managers in the adoption of new methods. In addition senior managers may need support to provide proactive demonstration of the importance of adopting new ways of working with their teams.

Cuts are seldom demanded in a time of plenty they invariably come when business conditions are tough and staff morale is low. Paradoxically, if you adopt the right approach cuts can actually be a positive and cleansing experience, providing better service, greater productivity and more effective measurement that truly reflects the business state.

Employees and managers will be more empowered to respond to business opportunities and contribute new ideas and thinking that can be rapidly adopted. This is what a continuous improvement culture is all about.

So when the call comes to cut costs, as it surely will: adopt the right approach from the outset; it will vastly improve your chances of success. This approach is tried and tested over many years and many programmes.

There will be many issues that demand your attention in tough times, but if you can establish a continuous improvement culture, or at least make some headway towards it then many of the issues demanding your attention today will no longer be issues and your employees will be better prepared to achieve whatever is asked of them.

Contact Us

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