

LEAN MANAGEMENT IN BANKING

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Abstract: The main objective of this study is to clarify the concept of Lean Management by describing the system and the key concepts and techniques that underline its implementation. The study shows what organizations, in particular commercial banks, can gain from Lean Management.

To achieve this objective, it has been conceived a comparative study of Lean Management using available literature, critical analysis and professional experience of the author.

The implementation of a Lean Management program in a bank will result in a Lean Organization (less waste, *less* bureaucracy, but *more* employee knowledge and empowerment, *more* productivity, *more* satisfied customers).

As practical implications, the study shows how to address change, how to implement Lean in different parts of business.

The originality and value of the study comes from the suggestions that are made regarding concepts and methods that would contribute a Lean Organization through an integrated program.

JEL classification: G21, M11, M12, P21

Keywords: Lean, Lean Management, Lean Banking, business excellence, value for customers, just in time, quality programs.

1. INTRODUCTION

The key concepts, the practices, the tools and techniques of Lean Organizations are known and recognized all over the world as a very effective and powerful way to build and maintain improving business over the long term. Led by progresses first pioneered at the Toyota Motor Company over 50 years ago, Lean has proven to be a consistently successful approach to optimizing any organization.

For decades, Lean was known and practiced only by a few researchers and specialized manufacturers. In the late 1980s, this fact changed and the understanding and practicing Lean has spread across organizations, researchers and continents. (Sayer, N.J.; Williams B., 2007).

In basic terms, Lean is a holistic and sustainable approach of management processes of an organization, a business strategy based on creating value for the customers, while eliminating waste and deficiencies in the process. Corporate leaders often focus on the “tools and techniques” of their company. But what empower the businesses are the management systems and the human spirit that give their purpose. Lean is about continuous improvement, but also about respect for people and only by uniting purpose, process and people an organization may obtain sustainable change and business excellence.

Many banks and other financial institutions routinely apply the management principles of lean manufacturing to help standardize straightforward business procedures, thus creating value for their customers. (Meyer K., 2008)

2. OBJECTIVES

This paper aims to clarify the concept of Lean Management for the reader and to offer valuable principles and techniques that are applicable everywhere – in large and complex corporations like banks, but also in small industries business and industries at all levels.

3. METHODOLOGY

In order to understand the concept of Lean Management we will briefly study its evolution in time in a comprehensive comparative study. Even though the assembly of principles and practices known as Lean date from late 1980s, the origins of Lean are much older. Historians cite King Henry III of France in 1574 watching the Venice Arsenal build complete gallery ships in less than an hour using continuous flow process. In the 18th century, Benjamin Franklin established principle regarding waste and excess inventory and Eli Whitney developed interchangeable parts. In the late 19th century, Frank and Lilian Gilbreth were the first who explained motion efficiency as it related to work. In the 20th century, Fredric Winslow Taylor, the father of scientific management, pioneered the concept of standardized work and best practices (Sayer, N.J.; Williams B., 2007).

However, the first person to truly integrate an entire production process was Henry Ford. He lined up fabrication steps in process sequence wherever possible using special-purpose machines and go/no-go gauges to fabricate and assemble the components going into the vehicle within a few minutes, and deliver perfectly fitting components directly to line-side (<http://www.lean.org/WhatsLean/History.cfm>).

Ford clearly understood the requirements of true efficiency (constant increase of quality, great increase of pay of workers, repeated reduction in cost to the customer) but also the many forms of waste and the concepts of value-added time and effort. The effect was one hundred fold in less than ten years and an enormous profit for the manufacturer.

Kiichiro Toyoda, Taiichi Ohno, and others at Toyota looked at this situation in the 1930s, and more intensely just after World War II, it occurred to them that a series of simple innovations might make it more possible to provide both continuity in process flow and a wide variety in product offerings. They therefore revisited Ford's original thinking, and invented the Toyota Production System.

This system in essence shifted the focus of the manufacturing engineer from individual machines and their utilization, to the flow of the product through the total process. Toyota concluded that by right-sizing machines for the actual volume needed, introducing self-monitoring machines to ensure quality, lining the machines up in process sequence, pioneering quick setups so each machine could make small volumes of many part numbers, and having each process step notify the previous step of its current needs for materials, it would be possible to obtain low cost, high variety, high quality, and very rapid throughput times to respond to changing customer desires. Also, information management could be made much simpler and more accurate (<http://www.lean.org/WhatsLean/History.cfm>).

The Toyota Production System (TPS) is the origin of Lean. We could say that Lean Manufacturing and TPS are synonymous.

Nowadays management theory and practice reveal a wide range of initiatives when regarding continuous process improvement. All these initiatives, methodologies and “systems” focus on the same basic themes and have many common elements, but also critical differences in scope, application, investment and return.

Total Quality Management (TQM) is an integrative management strategy for continuously improving the quality of products and processes. TQM capitalizes on the involvement of management, workforce, suppliers, and even customers, in order to meet customer expectation. (http://en.wikipedia.org/wiki/Total_quality_management).

Developed in the 1970s as a combination of different quality movements and approaches in the United States, Europe and Japan, interest in TQM increased in 1990s. (Sayer, N.J.; Williams B., 2007). TQM focuses on culture and organization. The cultural element requires a quality perspective in all aspects of a company’s operations.

As a broad culture oriented approach, TQM is challenged by a lack of focused implementation methodology and direct measurable results.

Like TQM, Lean is an integrative strategy for an organization and it uses and incorporates TQM principles and practices.

The concept of Six Sigma appeared at Motorola in the 1980s. An engineer called Mikel Harry began analyzing variation in outcomes in the company’s internal procedures, and realized that by measuring variations it would be possible to improve working systems. Harry’s original idea was developed into Six Sigma approach aimed to change procedures, so that overall performance could be improved permanently. (Thomsett, 2005)

In the next years, the same idea was applied to General Electric and AlliedSignal. GE decided in 1995 to implement Six Sigma throughout the entire organization. Estimates that cost savings from SS exceeded \$320 million in the first two years and more than \$1billion by 1999.

Six Sigma is a business management strategy aimed to identify and control variation in the processes that most affect performance and profit. With a well-defined implementation, training and management framework, Six Sigma gave form and focus to the application of quality tools and techniques and has delivered extraordinary results. (Sayer, N.J.; Williams B., 2007; http://en.wikipedia.org/wiki/Six_Sigma).

Sometimes the concept of Lean and Six Sigma are mixed and new terms appear like Lean Six Sigma or Lean Sigma. Many Six Sigma consultants tend to choose a few Lean tools- especially pool techniques and waste-reduction tools- and use them in the Six Sigma context. Although this extends the power and capabilities of Six Sigma, it’s not Lean. These methods particularly tend to neglect the people and the cultural elements, the accessibility and inclusiveness and the everyday Kaizen.

The Theory of Constraints (TOC) is based on the premise that productivity is always limited at the point of at least one constraining process- a bottle neck. Only by increasing the bottleneck process can the overall throughput be increased (Sayer, N.J.; Williams B., 2007).

Theory of Constraints (TOC) is an overall management philosophy pioneered by Elijah M. Goldratt in his 1984 book titled *The Goal* that is geared to help organizations continually achieve their goals.

Lean practitioners may find in TOC a very useful toolset for examining constraints in the value stream and is also precious with its focus on throughput.

Total Productive Maintenance (TPM) firstly appeared in Japan in 1971 as a method for improved machine availability through better utilization of maintenance and production resources. (http://en.wikipedia.org/wiki/Total_productive_maintenance)

TPM can be considered a critical adjunct to Lean. If the machine uptime is not predictable and if process capability is not sustained, the process needs to maintain extra stocks to buffer against this uncertainty and flow through the process will be interrupted.

TPM is a value-added maintenance concept that can be implemented as a standalone process or as a foundational strategy of TPS, or as the maintenance component of a TQM program. Maintenance in TPM is considered an integral part of business and the main objective is to minimize emergency and unscheduled maintenance by converting to planned maintenance activities. TPM evolved from TQM and it is a proven and effective foundation within a Lean framework.

The ISO 9000 family of standards is „ an international consensus on good quality management practices”. It consists of standards and guidelines regarding quality management systems and related supporting standards. (http://www.iso.org/iso/iso_9000_essentials)

These standards do not guarantee a certain quality of end products or services, but they certify that consistent business processes are being applied. Standardized work defined in Lean Organizations becomes the foundation of ISO 9000 procedures.

The term Business Process Management (BPM) refers to activities performed by organizations to optimize and adapt their formal processes, particularly those controlled by automated systems.

Although the initial focus of BPM was on the automation of business processes with the use of information technology, it has since been extended to integrate human-driven processes in which human interaction takes place in series or parallel with the use of technology. BMP practices include: modeling tools help define and categorize work, data integration capabilities, activity monitoring tools.

BMP may be seen as an enabler for Lean, directly facilitating the implementation of Lean practices while following Lean objectives. BMP is the systems counterpart to Lean. (Sayer, N.J.; Williams B., 2007).

After having understood the main similarities and differences between Lean and other concepts and systems on the same basic themes, we will reveal the main characteristics that define Lean Management:

- the main focus will always be providing customer value
- implementing Lean Management means adopting a philosophy of continuous and incremental improvement at all levels of the company
- after having studied customer demand, the company will provide exactly what’s needed at the right time
- creating a continuous flow in a value-added effective manner
- using techniques for reducing variation and eliminating waste
- respecting people
- adopting a long term approach.

4. ANALYSES

In this part of the article we will analyze the main aspects about implementing Lean Management for creating business excellence in banking.

Banking industry is a specific for of service business characterized by the fact that the product is purely data and information. Banking transactions are often performed as an outsourced back-office internal service function – the supplier and the customer are the same entry. Banks are typically office environments with a highly educated workforce, using computers and data process capabilities to perform the tasks. In a bank, respect for people is of utmost importance.

As banking is a pure process business, Lean Management is directly applicable to it. Lean practices and techniques can improve a bank by: reducing the time spent performing specific activities, reducing the total cost of doing business by eliminating wasted time and effort, increasing customer satisfaction by delivering faster and better quality services, reducing routine, improving the staff morale and increasing enthusiasm by engaging them in the development and implementation of improvements. The objectives of implementing Lean Management practices in a bank are reducing costs and revenue gains. It is realistic to expect a reduction of 25 percent in costs and 50 percent or more in response times and in process errors and, in addition, revenue gains of 5 percent annually. (Sayer, N.J.; Williams B., 2007).

In order to achieve these goals, a few basic Lean practices should be applied in the bank. The so called 5S are an example of Lean practices, as it follows: 1) **sort**-sorting office materials, maintenance materials or other tools is fundamental for delivery and quality of quality and timely banking services. For instance, sorting emails, files and archive is a Lean activity for any bank employee; 2) **straighten** – the tools of banking services should be arranged in standard locations for consistent and easy access. These include data bases, references, operating procedures, reports. 3)**scrub** – means to maintain service tools in a neat and clean condition.4)**systemize** –at all levels, as part of staff regulation routine, employees should go through the work environment and maintain; 5)**standardize** – it is essential for a bank to exercise discipline in maintain the work place and institute processes in a standard manner.

As in all service businesses, the aim in banking is to increase both speed and quality at all levels. To deliver bank services more quickly is an essential element for the bank to become more flexible and to better respond to changing customer demands and market conditions. Faster services are delivered by fewer hands and by eliminating unnecessary steps. For example when processing payment orders faster, the bank reduces opportunity costs and customers are more satisfied.

To focus simultaneously on quality means to establish specifications and collect metrics, applying tools to reduce variance, prevent failures and attack root cause.

Both strategies (focus on speed and focus on quality) have as consequences lowering costs, cement customer loyalty by offering higher quality service and increasing revenues.

In banking (especially in Retail Banking), variety increases complexity and should be vigilantly examined and reduced whenever possible. Any increase in complexity directly increases the risk of both slower and defective services, and increase support and maintenance costs in the form of overtaxed back-office processing procedures, too many customer-service systems and too much staff training.

Card issuer Credit Europe Bank is an example of service organization that separates common services from unique services and it gains value from each. Another Lean Management approach that has been developed in banking is to enable frontline staff to engage customers more independently – with less management oversight. In this way the frontline staff will operate, instead of having to seek approval for decisions.

This setup also frees staff from focusing on basic transactions and allows them to give more personal attention to customers and have a more direct impact on increasing revenue. For example, In Raiffeisen Bank when a customer has an issue, staff is both enabled and required to break away from regular duties and immediately address the customer concern.

Banks, when applying Lean Management, should do the following: 1) explicitly map the value stream to understand precisely what is required to complete the process task for the customer. The map will be used to continually eliminating wasteful practices; 2) move beyond the misconception that „ transactions are not like products” and design, source, assemble and deliver transactions; 3) regularly use KAIZEN (incremental continuous improvement that increases the effectiveness of an activity to produce more value and less waste) (**The Improvement Encyclopedia**, www.syque.com/quality_tools) to examine and optimize processes, keep the changes small, local, continuous and practical; 3) Perform paper work processing like an assembling line.

5. CONCLUSIONS

Lean Management is an embedded culture of understanding the customer’s needs and requirements, while continuously striving to reduce waste and optimizing the performances of process people and infrastructure.

At all levels of the organization there must be a strong desire to evolve and be better. Lean Management must be applied from the top to the bottom of the organizational pyramid.

In banking, by implementing Lean Management, the organization improves business performance using simple, practical tools and techniques to enhance quality, cost, delivery and people contribution. Employees are not expected to simply routinely do their job, but are expected to contribute to the improvement of processes and operations, utilizing their own personal experience and creativity.

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