

Six Sigma ... at a Bank?

BANK OF
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\$2 BILLION
AND INCREASED
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When we began our quality journey back in 2001, there were skeptics who wondered whether a discipline from the factory floor could be applied at one of the world's largest financial services companies.

It could—and it has.

Less than three years later, quality and Six Sigma have become an integral part of the culture at Bank of America. We have embraced the Six Sigma discipline as a:

1. Core process performance metric.
2. Business approach.
3. Leadership philosophy.

Earning a Green Belt (GB) has become a badge of accomplishment for leaders and associates, from our chairman and CEO on down, and Black Belts (BBs) and Master Black Belts (MBBs) now sit at the table with business leaders to plan strategy and tactics.

And through it all, our quality culture has created huge improvements in performance—improvements that are recognized and valued by our customers, associates and shareholders. Looking ahead, we fully expect our quality culture to play a vital role in our journey to becoming the world's most admired company.

We Needed a Change

Bank of America took its first tentative steps in process improvement several years ago, as business leaders within the company realized inefficient, error prone processes were costing the company money and generating customer dissatisfaction. In response, the company attempted to address process related issues using some of the methods popular at the time. But these efforts tended to be isolated, lacking systematic implementation and, often, key executive support. As a result, many people within the company dismissed these various process improvement efforts as the “flavor of the day.”

That changed in 2001, when then-new Bank of America chairman and CEO Kenneth D. Lewis announced a major strategic shift for the company, from growth through acquisition and merger to organic growth—acquiring, retaining and deepening profitable customer relationships.

Bank of America was positioned well. Its strategy of mergers and acquisitions had made the company a coast-to-coast powerhouse with significant competitive advantages, including a national customer base of 27 million households; small, middle market and corporate customers in the nation's hottest growth markets; a diverse and stable mix of blue chip businesses; world-class executive management and a strong focus on the bottom line.

Unfortunately, the company was not so well-positioned when it came to providing its customers with the kind of world-class performance that would lead to customer acquisition, retention, loyalty and revenue growth. Despite our earlier process improvement efforts, key process performance was still relatively poor, with many of our most important customer processes functioning with hundreds of thousands of defects per million opportunities. (Most of the defects were caught internally and



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corrected, but the rework involved added to our costs.) Customer delight scores were low, with only 40% of customers scoring their Bank of America experience a nine or 10 on a 10-point scale.

Not surprisingly, account growth was stagnant. Clearly, we needed a vehicle that could focus the entire company on achieving breakthrough improvements.

Time To Get Serious

Lewis and other top executives determined Bank of America needed a more rigorous, disciplined and comprehensive approach to process improvement and decided to adopt a quality program based on Six Sigma. Lewis hired Chuck Goslee as the company's first quality and productivity executive, reporting directly to the CEO. That sent a message to the entire organization that quality was serious business.

The message got louder when Lewis undertook one of the company's first GB projects and required all his direct reports to follow suit. The list of Six Sigma projects led by the company's top 10 officers showed the potential to deliver results across Bank of America, including:

- Increased customer delight with problem resolution.
- More precise control over payments to suppliers.
- Increased productivity of new hires via training.
- Elimination of significant travel expenses.
- Enhancement of enterprise e-mail governance to improve productivity.
- Reduction of credit risk assessment considered biased.
- Elimination of significant numbers of electronic information subscriptions.
- Increased associate retention in key areas.
- Increased collections by reducing abandoned inbound calls.
- Improved ability to detect and prevent fraud at banking centers.

With Lewis' support, Goslee moved to change the culture by changing expectations. An enterprisewide metric was established for customer delight, replacing product and channel centric customer satisfaction research. A vigorous benchmarking effort looked outside the financial services industry and established world-class standards for key metrics, including an astonishing customer delight goal of 90%.

Note: "Delighted" customers score their satisfaction

at nine or 10 on a 10-point scale, while "satisfied" customers give ratings of six, seven or eight. Delighted customers are statistically much more likely than satisfied customers to reward the company with the deeper relationships required by the organic growth strategy. They are three times as likely to open new accounts and four times as likely to recommend Bank of America to family and friends.

Rolling Right Along

At the same time, Bank of America was aggressively recruiting senior Six Sigma professionals—BBs and MBBs—from such companies as General Electric, Honeywell and Motorola, using them to seed a culture of quality throughout the company. Our engineers were sent out to help business units adopt an outside-in view of customer delight, quantify the financial opportunities in closing performance gaps and use a process engineering framework to define business priorities.

Voice of the customer data identified the key business processes—such as deposits and payments—that were linchpins in the overall customer experience at Bank of America. Process engineering teams were established to work across business lines to facilitate improvements that would cause maximum impact on customer delight.

We implemented the *hoshin kanri* planning process to create an enterprisewide integrated management and measurement regimen. *Hoshin* plans helped key leaders focus on the vision for the company, ways to drive the breakthrough strategies to achieve the vision and crisply defined tactics for each strategy. Metrics were assigned to define success and measure progress. Planning at every subordinate level was required to demonstrate how it was aligned to the plan above it, creating a cascade in which every strategy, tactic and metric could ultimately be connected to the company's master strategic plan.

Six Sigma based tools were widely introduced, so the define, measure, analyze, improve and control methodology would become the foundation of our business approach. The message was clear: Six Sigma was not the flavor of the day, but the way we do business. The benefits started flowing quickly, as Six Sigma and lean tools enabled process improvements that immediately provided tens of millions of dollars in cost savings.

Under the leadership of our BBs and MBBs, quality training spread throughout the company, beginning with our Six Sigma Champions—senior leaders who learned to scope and select projects and then helped

coach and guide the first GB project leaders. Putting the early emphasis on leadership's influence would later have a big payoff in GB project results.

It wasn't long before terms like "Pareto" and "FMEA" started popping up in elevator chatter as GB projects sprouted all over the company. The culture of quality was taking root.

Getting Results

Six Sigma tools were soon being applied across the entire Bank of America value chain, from sales through fulfillment to service. Businesses and engineering teams were collaborating on projects to eliminate variation and errors in key processes.

Those first GB projects, certified in late 2001 and early 2002, reflected traditional operations oriented Six Sigma applications, such as reducing missing items from customer statements by 70%, lowering the number of late posted customer transactions, reducing encoding errors and improving the efficiency of large scale printing operations.

In spring and summer 2002, the deliberate strategy of infusing the discipline across all Bank of America businesses and support units began to pay off, and new GB projects showed skeptics Six Sigma can work in financial services, even outside operational areas, by focusing on customer issues and performance gaps.

One of our main priorities was to give customers world-class reliability in our automated and electronic channels: ATMs, telephone banking and online banking. One of our marketplace advantages was the variety of ways in which customers could interact with us, but this advantage was negated when systems broke down and denied customers access to their accounts. Few things dissatisfy even a loyal customer faster than a failed online transaction or an ATM with "out of service" flashing on its screen

Six Sigma helped teams reduce those system hiccups that occur in hardware and software systems. More than three dozen Six Sigma projects concentrated on the root causes of these defects, reducing overall defects across electronic customer channels by 88% through the end of 2002.

Another project applied Six Sigma to develop new sales processes that increased IRA accounts. And yet another project improved CD and IRA service, reducing costs and delighting customers by trimming response cycle time for certain account maintenance requests from three days to less than 10 minutes.

GB projects in our premier segment—an important growth business dedicated to affluent customers—

increased sales revenue, improved service and balance retention, and delighted customers. One project reduced the cycle time from application to closing of mortgages by 15 days.

In all, Six Sigma and the other quality tools that have become part of Bank of America's culture have created benefits of more than \$2 billion.

Our key customer facing processes have been greatly improved, with several at or near 6 sigma levels. Best of all, customer delight has increased by 25% across the company, with some operational areas of the company showing even greater gains, thanks to those operational process improvements and the success of projects designed to enhance the customer experience at every point of contact.

Speaking to financial analysts and our associates, Lewis said he was "more proud of our improvement in customer metrics" than he was of our record breaking financial results. These tremendous financial and customer satisfaction results have convinced leaders throughout the company that Six Sigma works and our quality efforts are critical to achieving our desire to become the world's most admired company.

Taking Quality to the Next Level

When Goslee retired in April 2003, Lewis asked me to lead Bank of America's quality effort and focus on using our Six Sigma tools to drive revenue growth. This excited me because, in my previous position as the quality and productivity executive for our consumer and commercial banking unit, I had learned about the potential for quality and Six Sigma to move us toward a breakthrough level of performance.

In October 2003, something happened that helped us realize how far Six Sigma had penetrated Bank of America's culture. During a quarterly senior leaders meeting, Barbara Desoer, the executive who runs our consumer products business, gave a special presentation on the impact of quality and Six Sigma in her business.

Her story was tremendous—it showcased great results in customer satisfaction and revenue growth. Desoer, who is now working on her own BB project, said the absence of BBs was "slowing us down" in our drive to become the most admired company. She also said she foresees a time in the near future when BB certification will be a mandatory qualification for leadership roles in her business and across the company.

When she was finished speaking, Lewis asked everyone in the audience who had a Six Sigma certification to stand up, and we were elated to see almost the entire audience rise en masse. We were clearly well on

our way to taking quality and Six Sigma to the next level in the company's culture. *Hoshin* planning has worked down several levels, well into the lines of businesses, further improving the alignment of business unit activity with corporate objectives.

Our aggressive recruitment and quality training have meant growing numbers of certified engineers now sit at leadership tables and report directly to business executives, helping them embed quality and Six Sigma in both strategic planning and tactical execution. Most importantly, our senior Six Sigma professionals are not off in an ivory tower—they are directly involved in the operations of our revenue businesses and support functions. Engineers and business experts are working together in highly productive partnerships to drive speed and results in new and exciting ways.

For example, we have hundreds of projects underway to increase revenue generation by improving sales processes. You could say our earlier focus on raising satisfaction by improving customer experience processes has opened the door for organic growth and relationship deepening. Our focus on sales processes is designed to help us close the deal by quickly and accurately identifying the right products and services to meet and deliver our customers' financial needs.

We have even used Six Sigma to improve the entire process of opening new banking centers, a critical component of future growth. From site selection to interior design and staffing, Six Sigma is helping us get branches up and running months earlier than in the past.

We have dozens of projects aimed at reducing non-credit losses and fraud, another innovative application of Six Sigma tools. We have helped drive down per-account losses by almost 28%, even while other quality initiatives helped raise the number of accounts by more than a million in 2003.

For the last two years, we have required our key vendors to use Six Sigma methods, and we now require them to participate in our own Six Sigma training programs.

Recently, Lewis cited Six Sigma as key to unlocking the full value of our merger with Fleet Bank in Boston and expects it will make the merger pay off for shareholders much more quickly than anyone anticipates. He told Wall Street analysts our Six Sigma capabilities would help by accelerating the process, sales and service improvements already under way at Fleet to drive customer satisfaction and loyalty there.

Given the growing importance of Six Sigma at Bank of America, it's little wonder senior executives and business leaders hiring and promoting leaders on their teams are increasingly looking for candidates

who have Six Sigma skills and the ability to apply them practically. The highly competitive environment within Bank of America has made training and certification a self-enforcing requirement for career advancement. We are proud to have trained more than 10,000 associates who are Champions, MBBs, BBs and GBs knowledgeable in design for Six Sigma and lean, but we still have more than 100 open senior leadership positions that require BB certification.

A Quality Future

Today, Bank of America handles almost 200 customer transactions per second, faster and more accurately than ever. Same day payments have improved by more than 36% and deposit processing has improved by 47%. Overall, we expect our quality initiatives to have made measurable contributions totaling \$2 billion in 2003, with more than half of that in added revenue generation. And since we believe we are just starting our quality push for revenue growth, we are excited about the potential to drive revenue to new levels, even as our ongoing efforts in process improvement continue to create cost savings by containing expenses, increasing efficiency and driving productivity.

We see quality impacting the top line and the bottom line. Quality and Six Sigma enable us to envision new standards for performance and give us the tools we need to achieve aggressive higher standards.

Lewis recently said, "Bank of America, using its emphasis on the customer and Six Sigma, has been successful over the past three years in enhancing our ability to put the right customer in the right products at the right price. Bank of America is committed to continuing to improve service excellence, continuing to invest in our future and continuing to innovate to respond to customer needs."

Quality and Six Sigma have become part of the culture at Bank of America, thanks to senior commitment, a robust internal training program, aggressive and ongoing external recruiting and results that excite everyone in our company. We are determined to become the world's most admired company, and quality and Six Sigma will help provide the breakthrough performance to get us there.

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