THE BENEFITS OF CONTINUOUS PROCESS IMPROVEMENT

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The Benefits of Continuous Process Improvement

Graduate School of Banking
Agenda

- Introduction
- Process improvement
- Customer value streams
- Teams
- Measures
- Mapping techniques & tools
- Case studies
- Roadmap of continuous improvement
What Is Process Improvement?
Five Questions

- What percent of your day is spent reworking something someone else started?
- What percent of your day is spent doing something someone else has to check or redo?
- What percent of your day is spent tracking down missing or incomplete information?
- What percent of your day is spent on “wasteful” activities?
- How would your customers rate you in how well you provide for their needs and expectations?
What Is Process Improvement?

- Strives for greater efficiency of work processes
- Is a customer-focused management system
- Engages people—staff and leaders—in improving the organization
- Uses “Lean” methods of problem solving and process change to eliminate wasteful activities
What Is Lean?

● Started as a way to produce things without wasteful activities
  • Could be physical goods or services
● Originally derived from Toyota’s production system
● Includes a set of tools that assists in the identification and elimination of waste:
  • Value stream mapping
  • 5S workplace design
  • Kaizen event
What Is Continuous Improvement?

- A customer-focused management system
- Strives for greater efficiency and effectiveness
- Relates to lean activities
- Incorporates lean methods of problem solving and process change
- Engages people—staff, volunteers, leaders—in improving the organization
## A Process for Everything

<table>
<thead>
<tr>
<th>Personal</th>
<th>Work</th>
<th>Social</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brushing your teeth</td>
<td>Walking to your desk</td>
<td>Meeting new people</td>
</tr>
<tr>
<td>Driving to Target</td>
<td>Logging into systems</td>
<td>Making a date</td>
</tr>
<tr>
<td>Mowing the yard</td>
<td>Dealing with email</td>
<td>Choosing a restaurant</td>
</tr>
<tr>
<td>Doing the dishes</td>
<td>Requesting vacation</td>
<td>Ordering a martini</td>
</tr>
</tbody>
</table>
Processes We All Share

- Customer Service: Opening an account
- Compliance: Loan and deposit regulations
- Finance: Financial reporting
- Management: Scheduling staff
- Leadership: Vendor management
- Others?
Lean Applications

Effectiveness:
• The degree to which you meet or exceed customer needs and requirements

Efficiency:
• The amount of resources consumed in being effective
Customer Value

Definition of **Value**: 

- Something a customer needs or wants enough to be willing to pay for it—either with money, time, or sacrifice of other opportunities

Definition of Customer…what is your definition?
Customer Value

Is your customer external or internal?

- **Who** needs the “output” of the process?
- **What** is specifically required?
- **When** do they need the output?
- **How** do they need the output?
What percentage of processes are value adding from the customer’s perspective?

Typically, we see that 95% of all activity time is non-value-added.
Lean Sigma
Thinking Principles

Typical football game:

- Elapsed time 3 hours, 20 minutes
- Regulation time is 60 minutes
- Active playing time 23 minutes

Or

11.5% Value-Added Activity
Value and Waste

● Value:
  • Something a customer needs or wants enough to be willing to pay for it—whether with money, time, or sacrifice of other opportunities

● Waste:
  • Anything other than the minimum amount of equipment, materials, parts, space, and employees’ time that is absolutely essential to add customer value to the service
Identifying Waste – Traditional

- **D** Defective service and information
- **O** Overproduction
- **W** Waiting for service and decisions
- **N** Nonefficient processing
- **T** Transportation
- **I** Inventory (excess inventory)
- **M** Motion (excess motion)
- **E** Employee under-utilization
Identifying Waste – Service Oriented

C  Checking
H  Handoffs
A  Approvals and internal controls
M  Missing or inaccurate information
P  Prioritization and scheduling
I  Interruptions
O  Ownership and accountability
N  Nothing happening/waiting
Value Streams
Customer Value Stream

- The goal is a foundation of a “Lean” continuous improvement mindset in your culture, as seen from the eyes of your external customer/customer.

- A “value stream” is defined by the entire flow of similar services—from the beginning to end from the customers’ perspective.
“Leaning Out” Value Streams

What many financial institutions’ processes look like:
“Leaning Out” Value Streams

Create a mind shift by dismantling and realigning each process from beginning to end so there is:

• No waiting
• No unnecessary steps
• No rework
Lean Value Stream

New value stream

- **Effectiveness:**
  - The degree to which you meet or exceed customer needs and requirements

- **Efficiency:**
  - The amount of resources consumed in being effective
Teams
People Are at the Heart of Change

- We all bring different perspectives to the table
- People cannot change unless they change the way they feel
- People change the way they feel by changing their perspectives or the stories they are telling themselves
Too often, organizations use a “one size fits all” approach to managing change.
Identify Who Should Be Involved

- Senior management oversees and supports the project
- Role of process owners
  - Managers of the process are actively involved in studying and improving the process
  - Staff who perform the process participate in all aspects of the project
Roles and Responsibilities

- Stakeholders are those impacted by, but not directly part of, the process and are consulted but not necessarily on the team
  - Responsible – Department Leadership
  - Accountable – Executive Leadership
  - Consulted – Internal Audit, Compliance, IT
  - Informed – Board of Directors, Front Line Staff
Measures
What to Measure?

- **Time is money**
  - Who’s doing what jobs
  - Getting the most value out of the roles
  - Employee turnover

- **Risk exposure**
  - Opportunities for compliance issues

- **Customer satisfaction**

- **Growth**
  - Increase size without increasing staff levels
Mapping Tools
The Secret of Walking

What is a Process Walk?
- A hands-on activity performed by a team that physically tracks the process steps as they are completed along the path of a value stream

Why would I process walk?
- To understand the flow of information, products, material, and people
- To allow an audience that normally doesn’t perform the activities the opportunity to experience the process
- To identify areas of constraint, issues, challenges, and opportunities that occur along the process path
- To learn a structured approach of collecting and analyzing information and data in preparation for process improvement
How is a process walk performed?

1. Select the boundaries of the processes to be studied
2. Identify 5 - 7 sequential components to be studied
3. Organize participants with predefined roles and responsibilities
4. Map the process upon returning from the walk
Setting Up a Process Walk

Who should participate in a process walk?

<table>
<thead>
<tr>
<th>Role</th>
<th>Task Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tour Guide</td>
<td>Lead the team through the walk. S/he needs to have a sound understanding of most of the steps that occur in the process.</td>
</tr>
<tr>
<td>Scribe</td>
<td>Record the details of the walk on a notepad. Journal information will be critical in the mapping process later on.</td>
</tr>
<tr>
<td>Data Collector</td>
<td>Capture data and information on the Data Collection Cards.</td>
</tr>
<tr>
<td>Map Maker</td>
<td>1) Trace the flow of people and information on area layouts, and (2) Measure distances traveled between each process.</td>
</tr>
<tr>
<td>Garbage Collector</td>
<td>Identify the forms of waste present in each step of the process using Garbage Collector Cards.</td>
</tr>
<tr>
<td>Wait Analyst</td>
<td>Identify and document wait and hand-off issues using the Wait Analysis Sheet.</td>
</tr>
<tr>
<td>Photographer</td>
<td>Photograph work areas where: (1) Waste resides, (2) Inventory issues are evident, and (3) Non-value-added activities are occurring.</td>
</tr>
</tbody>
</table>
Walking the Process

- Slow everything down, the value is on the walk itself!
- Engage in conversations/ask questions
- Don’t accuse or blame – Be Switzerland
- Identify “sacred cows” or things that will only change “when pigs fly”
- Acknowledge aha moments
- Coach the Scribe and Photographer: the details are critical!
Describe the Current Process

Initial Interviews

- Meet with the managers of the process, starting with the highest level
- At the higher levels, ask for goals and concerns
- The managers closest to the work can tell you about the process and provide details
Gather Process Information

● Questions for leadership
  • How will you know this project is successful (e.g., what will be different)?
  • What is the purpose of this process?
  • Who are the “customers” – internal and external?

● Question for staff closer to the process
  • Define the beginning and ending steps in the process
Gather Process Information

● Questions for staff
  • What do you do?
  • What do you get?
  • What do you produce?
  • What works well?
  • What could be improved?
  • What are your ideas for change?
Gather Process Information

● Caution…
  • People will tell you their *perceptions* of the situation
  • Perceptions may or may not be reality

● It doesn’t matter
  • People act on their perceptions, so improvements must reflect perceptions as well as reality
Types of Flowcharts

- Process Flow Diagram
  - Provides high-level view
  - Shows the most basic perspective of a process

- Top Down Flowcharts
  - Adds steps to the process flow diagram but no complexity

- Detailed Flowchart
  - Illustrates all the complexity of a process
Process Flow Diagram

Purpose

Identify the 5 – 7 main steps in a process

• Agree on a process

• Identify the steps with complications or problems

• Place the process in the context of the organization’s workflow

  • Its relationship to other processes
Method

• Identify the beginning and ending points of the process
• List the minimum critical steps that must occur to accomplish the goal of the process
  • 5-7 steps
• Show the diagram to people familiar with the process. Do they agree?
Process Flow Diagram

Develop a Process Flow Diagram during interviews with managers

- Identify need
- Select vendor
- Get approvals
- Place order
- Receive order
- Process payment
Simple Customer Loan Creation Process

**Inputs**
- Customer Information
- Account Forms

**Lender**
- Greet Customer
  - Record Information
- Submit Application

**Review**
- Review Forms
  - Qualify Loan
- Disburse Funds

**Result**
- $
Top Down Flowchart

**Analyze processes or identify changes**

- **Step 1** Identify a process to improve or redesign
- **Step 2** Identify who should be involved
- **Step 3** Describe the current process or desired change
- **Step 4** Find the problems, bottlenecks, etc.
  - Start with a big process (process flow diagram)
  - Get input from those who work in the process
  - Get input from those affected by the process
  - Consider flowcharting the detailed process
  - Consider collecting data

**Develop solutions**

- **Step 5** Identify root causes
  - Examples: delays, errors, workarounds, bottlenecks
  - Does everyone do the process the same way?
- **Step 6** Develop improvements/changes
- **Step 7** Track changes
Detailed Flowcharts

**Purpose**
- To identify the actual flow or sequence of events in a process or system
- To learn how workers can do the same task differently

**What to look for**
- Waste
- Check backs
- Use of technology
- Manual processing
Future State Value Stream Map

ABC Bank

Process Focus – First Lien Secondary Market Residential New Purchase or Refinance Origination (Future State)

Application
- 20-45 minute with customer (Current State)

Early Disclosures
- 45 minutes (Current State excluding Loan Estimate Review)

[Diagram of process flow]

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Purchasing & Accounts Payable Process

<table>
<thead>
<tr>
<th>Program</th>
<th>Purchasing</th>
<th>AP Clerk</th>
<th>Principal Accountant</th>
<th>Controller</th>
<th>Accounting Technician</th>
<th>CFO</th>
<th>CEO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepares requisition</td>
<td>Prepare purchase order (PO) &amp; assign number</td>
<td>Places order</td>
<td>Replaces by entry into e-req &amp; creation of a PO by the accounting system</td>
<td>The AP clerk should receive and match all documents</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program manager approves</td>
<td>Receives packing slip &amp; invoice &amp; matches to PO</td>
<td>Sends all docs to AP</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Received order &amp; send packing slip to Purchasing</td>
<td>Hand-write transaction voucher</td>
<td>Replaced by the PO created in MIP</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
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</tbody>
</table>

Key to Shapes
- Paper document
- Process step
- Decision point
- End of process

48
Creating Charts

- List the major activities, inputs, outputs, and decisions from the beginning of the process to the end

- If you are doing this with a group of people, put the steps on Post-it® notes and stick them on a flip chart
  - Arrange the Post-it® notes in the order they occur
Creating Charts

- Use verbs to describe process steps and actions
- Use columns for each position
  - Deployment Chart
- Portray what *is*, not what should be
  - Unless you are designing a new process
  - Reviewing progress for accuracy
- Keep the picture simple
- Add arrows to show the flow of events
Creating Charts

- Test the flowchart for completeness
  - Are the symbols used correctly?
  - Are the steps clearly defined?
  - Is every loop closed?
- Show the chart to others who are familiar with the process to get their feedback
Basic Flowchart Symbols

- Manual Process
- Adding Machine Tape
- Decision Point
- On-page reference
- Electronic or Sub Process
- Connector to other chart
- Paper Document
- End of Process
Real-World Transformation
Let’s Get Energized

- We want to share with you how to energize teams of people to make changes in their work to create operational excellence through a Discovery Event.
  - Chose a Project Charter
  - Educate
  - Walk the process
  - Analyze
  - Brainstorm
  - The process creates excitement and buy-in from the team, which makes the change much easier!
### Sample Charter – Setting Boundaries and Expectations - Discovery Event I

<table>
<thead>
<tr>
<th>Area</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Process Title</td>
<td>New customer applications</td>
</tr>
<tr>
<td>2. Project Objective Statement</td>
<td>Create a standard new customer application process that is used by all branches</td>
</tr>
<tr>
<td>3. Scope (Areas of focus)</td>
<td>1) Prescreen, 2) Customer Application Screen 1, 3) Chex Systems and Credit Check – Review Chex and Credit for Approval, 4) Contact information Screen 2, 5) Compliance and Marketing Questions, 6) Activation Process, 7) Manager Review</td>
</tr>
<tr>
<td>4. Goals</td>
<td>Standard approval process</td>
</tr>
<tr>
<td></td>
<td>Standard prescreen script</td>
</tr>
<tr>
<td></td>
<td>Creation of criteria for approval (easy approval, difficult)</td>
</tr>
<tr>
<td></td>
<td>Approval authorization</td>
</tr>
<tr>
<td>5. Risks</td>
<td>• Lack of participation</td>
</tr>
<tr>
<td></td>
<td>• Lack of open and honest communication</td>
</tr>
<tr>
<td>6. Core Team Members</td>
<td>Financial Institution Team</td>
</tr>
<tr>
<td>7. Report Out</td>
<td>Delivery Date</td>
</tr>
</tbody>
</table>
Educate

- Kick off the Discovery Event with 15-20 minute presentation to lay the foundation
- Consider including:
  - 3-5 minute introduction by senior management to show support for project
  - Goals and objectives for the Discovery Event
  - The team members and why they were chosen
  - Measures that apply to the charter
  - High-level principles of continuous improvement
Setting Ground Rules

● Before the process begins, the team is asked to establish their own set of ground rules

● Ground rules should encourage:
  • Participation
  • Open and honest communication
  • Mutual respect
  • Being present
  • Focus on solutions
  • Confidentiality
  • No changes until approved
Parking Lots

● Through the process, the team may come up with ideas that are related, but not directly part of the charter

● Rabbit holes

● These ideas get “parked” and are often used for future Discovery Events
Exercise

- Perform a process
- Complete a process walk
- Analyze and map the process
- Brainstorm improvements
- Map the future state
Examples and Results

- Processing of a Secondary Market Loan
  - Goals
    - Identify pain points
    - Create compliance expertise
    - Streamline process and prevent rework
  - 73 Discoveries with 18 Quick Hits
    - Process flow, technology, marketing, and accountability
Examples and Results

On-Boarding New Customers

• Goals
  – Reduce time and costs
  – Need for standardization
  – Engage team for full participation

• 20 Discoveries with 7 Quick Hits
  – Process flow, marketing, client services, and communications/training

• Unable to quantify savings but helped develop formalized analysis and information gathering resources (e.g., S.W.O.T.)

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Examples and Results

- **Deposit Account Platform** - opening to edit checkback
  - **Goals**
    - Improve efficiency
    - Create standardization
  - **76 Discoveries with 13 Quick Hits**
    - Training, process flow, IT, and staffing
  - **Shopping experience**
  - **Reduced customer time by 40% to allow for more cross-selling**
Feedback

● From the staff perspective:
  • Improved communication
  • More work than expected
  • Improved problem-solving skills
  • Foundation for future with new ideas
Feedback

● From management perspective:
  • Selection of team is CRITICAL to success
  • Communication “up the ladder”
  • A marathon, not a sprint
  • Long-term planning/succession planning
Mindset of Continuous Improvement
Leadership’s Role

Two Crucial Questions:

1. What is the organization’s vision?

2. What aspects of your culture do or do not support attainment of your vision?
Leadership can directly affect:

- What activities should get attention
- Resource allocation
- Own behavior according to clear values
- Criteria for what is rewarded
- Criteria for who is hired
Leadership can indirectly influence:

- Daily, weekly, and monthly routines
- Rites and rituals
- Design of physical space
- Validation or correction of the rumor mill
- Formal statements of philosophy and values
Sacred Cows

Some ritual, object, rule, or person which cannot be tampered with or criticized for fear of public outcry:

- Usually symbols of an organization’s values or historic virtues
- Defended hardest by those who have something to lose if it’s changed or killed off
- Some are okay – litmus test against customer value and efficiency
- Make it okay to do something with those that are not okay (e.g., don’t protect them anymore)

“That cell phone policy will change when pigs fly!”
Continuous Improvement Journey Map

Start in your immediate “circle of control”

1. What one activity or task “wastes” the most amount of your team’s time?

2. Who does the end result of that wasteful activity serve (who is its customer)?

3. Write down only the most valuable aspects of the activity and its result for that customer.
With your list of value-adds:

1. Count the number of other steps, checkpoints, documents, requests, or wait periods that take time.

2. Select one or two of these non-value-adds.

3. Ask why—up to 5 times if necessary—until you get to a real reason it’s being done.

4. Ask how could the overall activity be improved if this one “reason why” is changed?
Continuous Improvement Journey Map

- List out the major processes in your organization
- Try some process walks; be inclusive
- Sketch out the customers and value-added steps
- Name and count the wasteful activities
- Ask the “5 Whys” before trying to improve
- Set some small initial goals and lead the organization to work on change
Questions

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