



COUNSELOR'S CORNER

Lean Six Sigma: Are You and Your Vendors Sufficiently Focused on Process Improvement?

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—“We are what we repeatedly do. Excellence, then, is not an act, but a habit.” Aristotle

Every commercial enterprise employs processes in its day-to-day operations, from a manufacturer that produces widgets to a service provider who provides professional advice. Some of these processes may lead to Aristotle's version of excellence, while other processes fall measurably short. The more streamlined and simplified its process, the more efficiently and effectively an organization delivers its goods or services. The improvement of commercial processes can decrease labor costs, shorten work in process cycles, improve cash flow, and enhance the quality of goods and services by minimizing variability.

Manufacturers have long grasped the importance of process improvement. Toyota developed the Toyota Production System (TPS), which focuses on minimizing inconsistency and eliminating waste. TPS helped Toyota grow into a preeminent manufacturer with a brand recognized for its quality. The Lean Six Sigma process improvement methodology, which is patterned after TPS and the kaizen philosophy upon which it's based, was widely adopted by other manufacturers beginning in the 1980s.

Financial institutions, hospitals and other service providers subsequently realized that process improvement is not just for manufacturers. For example, some financial institutions have implemented process improvement to reduce documentation errors and to shorten the time from loan application to


loan closing. Additionally, a handful of savvy law firms are now utilizing process improvement to more efficiently and predictably provide legal services for the benefit of both the firm and its clients.

So how does Lean Six Sigma work? Six Sigma focuses on process, quality and the elimination of variations and defects from products and services. It asks what key factors affect outcomes? What is the best method to increase the probability of a good outcome? What are the benefits of standardizing the process? Similarly, Lean is a comprehensive strategy for eliminating waste and increasing the flow of products and services. It separates “value adding” from “non-value adding” work, using well-known business and process-management tools. Lean Six Sigma combines these two related strategies, to deliver quality and efficiency.

The Lean Six Sigma methodology is broken into five steps: 1) define the problem; 2) measure the current performance; 3) analyze opportunities to reduce waste or variation; 4) improve the process by implementing and testing process changes; and 5) continuously evaluate the improved process. In the first phase, the organization identifies an area for improvement, such as an administrative process or production area where bottlenecks occur or areas where everything is a “mess.” In the banking world, relevant questions that could lead to the identification of a problematic process include: How

many hands touch a loan application and the related underwriting file before a loan is approved and funded? Do multiple employees gather and input the same information on a single account? Do the inefficiencies delay loan funding and the collection of loan fees and interest income? What's the process for documenting a commercial loan? Is loan servicing using the same criteria for security instruments and title endorsements on each commercial real estate loan? Is there a way to streamline the process for periodic reporting so loan officers spend more time generating business and administering loans than compiling data and preparing reports?

Lean Six Sigma moves to the analysis and implementation phase once the problem is identified and a team has been assembled from within the organization. As part of this phase, the team first works to understand the current process at a micro level to then explore potential corrections. The team asks “why” with respect to each minute step in the process to drill down on inefficiencies and waste, and then suggests improvements to the process that decrease variability and increase efficiency. Once implemented, the team develops and applies metrics to measure any improvement in the targeted process and continuously adjusts that process based upon information gathered in the course of its evaluation.

While simplicity is the goal, it should be noted that there is no one-size-fits-all methodology or solution to broken processes. The Lean Six Sigma process is time-consuming but can be very productive. Lean Six Sigma is becoming the gold standard for process improvement, and implementation of its principals may be a requisite for survival in a competitive market. Financial institutions should evaluate whether the principles of Lean Six Sigma are a good fit for their organization or for a partnership between the institution and any of its vendors. 



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