The Challenge of Quality Improvement

by Mary Beth Sullivan

Vive la difference. One size rarely fits all, and that is particularly true for quality improvement. Yet everyone wants to do it, and many fail. Before undertaking any quality improvement process, the institution should place a value on the key benefits to decide if a large-scale program is worth the effort or if a smaller, more focused program might fill the bill. Then, six critical elements must be in place for any large-scale project to have a fighting chance.

Virtually all large financial institutions are working on initiatives to improve the quality of the service they provide. They employ a wide range of process methodologies to identify service gaps, inefficiencies, and quality improvement opportunities. Smaller institutions employ less rigorous analytic and process management approaches, but they consider quality delivery no less important than their larger rivals do. There are many sound business reasons behind the drive for quality advantages, but achieving these advantages is very difficult.

Tired of competing on the basis of price, financial services companies are working hard to find ways to compete on other factors—and, in particular, those factors that customers find valuable (and therefore for which they are willing to pay). Individuals, whether looking for personal or business financial solutions, value the products and services they use in terms of both price and quality. In other words, a watch purchased at Target may be considered to be of same value to a consumer as a watch purchased at Tiffanys if the consumer considers the quality received to be roughly equivalent to the price paid in both stores. One expects a higher-quality watch from Tiffany's, but one also expects to pay more for it. In the end, both watches may be of equal value in the customer's eye.

So value is really all about the price-versus-quality perception. The trick is that one side of the equation has become more and more constant over time: Prices in the banking business have become virtually identical across providers. Where discrepancies arise, competitors are often quick to react, and this (among other factors) has driven down prices across all providers. That is not to say that price advantages aren't sought and, when obtained, able to drive consumer choice, but any advantages gained here tend to be short-lived. Competing on the basis of price is a tough platform to sustain in an industry where prices are often quickly, if not always rationally, matched. Quality, on the other hand, may vary greatly among providers. So quality has become the name of

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the game in building competitive advantage. Financial services companies seek to improve the perceived value they provide to customers relative to that provided by others, and many have been willing to invest heavily in quality improvement programs to achieve quality advantages.

Of particular interest to academics and industry consultants is the reason why results of quality improvement efforts vary widely. Numerous quality program disciplines are in use in the industry that attempt to define specific processes that will yield a predetermined set of results. But companies using the same disciplined approach often achieve different degrees of success. Either the disciplines themselves are at fault or something goes wrong in the execution process.

In fact, the disciplines themselves have evolved greatly over the years since quality was first proposed as a potential source of competitive advantage. In 1931, Dr. Walter Shewhart proposed a revolutionary management concept: Managers should work to satisfy specific customer demand factors while minimizing variation in design and process to control quality. Before Shewhart, no academic had as thoroughly analyzed the economic impact of process variation and proposed rigorous analytic methodologies to evaluate opportunities for improvement.

Since Shewhart published his work, dozens of management approaches and disciplines have been postulated to improve on this original theory, including TQM, Six Sigma, and most recently Fusion Management. In fact, Six Sigma leverages directly the statistical work first developed by Shewhart and now widely used in operational engineering in the U.S. Each new post-Shewhart process has merits, and many have been used successfully to improve quality within individual financial institutions that have committed to the undertaking. But results continue to vary significantly across institutions employing similar techniques, and, in the end, it is often very difficult to assess the benefit realized by customers and shareholders from what are often very expensive programs to administer.

Exploring the Mystery

First, let's consider this issue of quality improvement benefits. Quality improvements should be designed to generate one or more of four key beneficial results:

- Improved customer retention. Poor quality, which can take many forms, is often a key reason that customers defect to other providers. By way of example, one of the most well understood reasons for defection is the speed and effectiveness with which institutions resolve customer problems. It's not necessarily the problem itself that causes defection (although problem incidence is costly for companies); rather, it's the perceived quality of the process by which the customer's problem was addressed and resolved. Improving key quality-related customer experience factors has a definite impact on retention rates.
- Improved cross-sell. A better customer experience through a perceived higher level of quality can positively affect customer choice when making purchases. For this reason, many companies committed to the idea of growth through deepening of existing customer relationships make substantial investments in service and process quality improvements.
- Cost reduction. Quality disadvantages translate into higher costs, including costs to correct errors, costs associated with process inefficiencies, and costs of increased operating losses resulting from inconsistent internal processes and higher levels of operational risk. Customer-focused process consistency and efficiency are the cornerstones of many quality-reengineering programs.
- Increased customer acquisition. A quality-centered value proposition, when properly executed, can serve as a platform for differentiation, par-

ticularly in the minds of consumers who have experienced quality service elsewhere. In addition, cost reduction achieved through process reengineering can be translated into pricing advantages and used to drive gains in market share.

Quality improvement processes, when properly executed, always drive toward these benefits. The issue with many theoretical quality-engineering disciplines, such as Six Sigma, is the degree to which they fail to ensure that results translate into tangible, bottom-line benefits for institutions. In many cases, process reengineering takes on a life of its own, and an expensive life at that. It's not the approach that fails; it's the execution. This is recognized to a degree in the most recent approach proposed—Fusion Management. While no management approach can ensure execution success, a few critical elements must be in place for large-scale quality improvement programs to work.

1. Recognize that doing things smarter, faster, and cheaper is what your employees are paid to do every day. Outside resources and new methodologies can aid the process, but it must not be done apart from day-to-day responsibilities. Continual improvement is the day-to-day responsibility of the workforce. And some people in the workforce are just better at it than others, no matter which tools and methodologies are used.
2. Identify the specific, quantifiable business results—in customer, risk, and financial terms—that must be achieved, and build the right

Book Review

Fusion Management offers sound principles in navigating through quality improvement but still misses the boat.

Fusion Management: Harnessing the Power of Six Sigma, Lean, ISO 9001:2000, Malcolm Baldrige, TQM and Other Quality Breakthroughs of the Past Century, Stanley A. Marash, Paul Berman, and Michael Flynn, ISBN 193219102X, QSU Publishing Company, 2003.

Companies can eliminate wide variation in quality program results by fusing strategic, tactical, and operational elements of previously proposed quality disciplines, say the authors of *Fusion Management*. The synergies evolve to drive success. The book dissects the major quality management strategies used by companies today (or, as Dr. Marash calls them, the quality improvement "programmes du jour"). *Fusion Management* attempts to specify a continuous, ever-evolving management system that uses the best of past strategies in a new way, a way that won't fail and won't fall into disuse over time.

This book provides a fairly detailed description of most of the major quality improvement programs in use today, and Dr. Marash and his colleagues do a good job of highlighting the issues that individual firms face in executing these programs. But the concept proposed in the book—Fusion Management—can be criticized on the basis of many of the same criticisms leveled at other quality initiatives.

- The process itself might easily become overblown within an individual company. There simply does not seem to be enough focus on generating specific results.
- Fusion Management cannot be the right process for all organizations. Fusion Management focuses on enterprise-wide quality engineering, and enterprise-wide anything can be far more than is needed to deliver the quality advantages sought by many companies. The degree of quality improvement desired, and an individual company's specific quality improvement needs, should drive decisions regarding the most appropriate approaches, tools, and methodologies.

Fusion Management does a sound job of summarizing the intelligent work practices of prior quality improvement approaches and postulates some sound principles in its own right—good reasons to read this book for those considering a quality improvement program. The authors conclude that management strategies fail because organizations want the quick fix; they adhere to the instructions but not the philosophy. While we don't disagree with this statement, it's far too general to describe why results vary widely in the industry. If we were to generalize here, we would assign blame to the lack of clarity around quality's role in the value chain and a lack of clear vision on the part of company leadership regarding the expected outcomes of quality improvement programs.

—Mary Beth Sullivan
Partner, Capital Performance Group

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processes to deliver these results. No single quality improvement approach is right for all circumstances. For example, Six Sigma concepts work well in operational areas, but less well when trying to improve certain frontline work practices. (I'm sure to get blasted by a black belt or two for that statement, but I stand by it.)

3. Break the work down into digestible pieces. We've seen over-scoped quality improvement programs immobilize many companies. It is absolutely critical to break the issues down into manageable portions that can be worked, improved, and put into practice. Resources can then move on to the next opportunity identified. You don't take an old car to a mechanic and tell him to fix it. You tell him what to fix. Otherwise, he may work on the car forever.

4. Build a scorecard that can be used to track aggressively the results of quality improvement programs, and pull the plug on those efforts that fail to deliver results in a reasonable time frame. Do not let quality improvement programs run amok; they become fodder for employee criticism. The process cannot become larger and more time-consuming (and therefore more expensive) than the issues it was designed to address, or more trouble than the benefits it was designed to deliver, are worth.

5. Once quality advantages are achieved, move quickly to make them explicit elements of the value proposition. In other words, if you are working to improve quality to create a competitive advantage, be sure to market and sell that advantage. Banks and other financial services firms are beginning to get better at building tiered value propositions designed to appeal to specific segments of their marketplace. It's not uncommon to see tiered product suites—along the lines of the standard-gold-platinum theme developed long ago by the credit card industry. What is still less common is the integration of service and quality elements into the value proposition—particularly into the product line itself—that have clear price points. It is always important to remember that consumers can rarely judge the value of something if they do not understand its price.

6. Put people in charge of the process who understand that the results matter infinitely more than the path used to achieve them. Process engineers are no substitute for people who have the aptitude to strive for excellence and behave as if "continual improvement" were in fact what they are paid to do. While Jack Welch gets high praise for his Six Sigma effort at GE, much of the benefit realized at that company had to do with the type of people GE hired to manage Six Sigma efforts—people who knew how to use the tools and disciplines to get real results.

When companies seek to provide a better value than their competitors offer, they must define specifically the quality and price points they intend to offer and the way in which the combination of these factors creates greater value. Quality improvement disciplines can be used effectively to work the program, but they will never substitute for clarity of vision around the results to be achieved. Those competitors that understand exactly how they will create value advantages will succeed in building sound quality improvement programs. Those that seek quality improvement for improvement's sake will find they've wasted their investment dollars. ❐

Sullivan can be reached by e-mail at msullivan@capitalperform.com.