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Continuous Improvement in the Service Sector



By Sean Rast

Continuous improvement process (CIP) programs have traditionally been employed for quality improvement in manufacturing industries. Programs such as Six Sigma were originally developed at Motorola in the 1980s for production work because of the high volume and the high degree of standardization that define such activities. General Electric, AlliedSignal, and other well-known manufacturers credit Six Sigma with billions of dollars in savings. Since then even the Six Sigma method has undergone some optimization and been made better (SLIM, SCIM, SIM).

But CIP is not just for nuts and bolts anymore. Today service firms and service functions within almost every sector, are also using some sort of continuous improvement methods to boost performance. Companies are using it to shape up such nonmanufacturing work such as accounts receivable, sales, and R&D. A chemical company, for example, estimates the application of CIP to environmental, health, and safety services has saved the company \$130 million in the past two years. Other initiatives are under way for corporate R&D, finance, information systems, legal, marketing, public affairs, and human resources functions. Not surprisingly, financial institutions, hotel, restaurant, telecommunications, and health care firms are starting their own CIP initiative.

“But every customer is different,” some bankers, lawyers, and doctors may quickly counter, warning that standardizing processes will result in inferior service. Their concerns certainly have some merit. The “standard” CIP method may not work for every single service offering, and adjustments may be required for it to suit even those offerings for which it does apply.

Nevertheless, many of the lessons learned from the classical production lines are relevant to the service trades. What’s more, you’d be surprised by how many highly personalized services have standardized work components — for example, filling out forms or obtaining follow-up information— when streamlined, can improve the level of service the customer experiences. Besides, CIP’s off-the-shop floor successes are too significant to ignore. The issue is no longer whether CIP should be considered, it’s when and how. Some advice about how to adapt CIP methods to service processes is listed below.

1. Determine which parts of your service offerings are the top candidates.

Look at each task that goes into the service you provide and identify it as either highly customized, mass customized, or standardized. Highly customized processes, such as complex IT systems implementation, have a high variability of tasks and are used in many different situations. The cost of applying CIP to such processes often exceeds the benefits. Mass-customized processes are good candidates for CIP campaigns if the volume of activity is high enough or if greater efficiency will result in significant cost savings, as is often the case with, say, media buys. Standardized services, such as tax account services or investment service, can yield substantial benefits from a CIP campaign. Within a company, accounts payable or payroll and benefits processing services are often the most likely candidates. Within any given industry sector, highly customized, mass-customized, and standardized work can exist, each category presenting a different opportunity for applying CIP. Just look at investment advisors. Highly customized investment advisors are likely to achieve benefits from CIP in project administration: client set-up, billing and collection, and, perhaps, in account status reporting. Mass-customized investment advisors can apply CIP to hone their core service. Standardized services have the greatest CIP potential because they use software or Web sites to take clients through the entire process. A human gets involved only to answer a question.

2. Define what you mean by a “service defect” and how you intend to measure it.

Defining a service problem (defect) — where there are no products to return, nothing to inspect, and highly variable processes—is one of the most challenging aspects of applying CIP to service delivery systems. “Until you reach agreement on what constitutes a service defect”, says Edward Baker, former director of quality at Ford Motor Company and author of *Scoring a Whole in One*, “your CIP effort will likely disappoint”.

When former General Electric Chairman Jack Welch complained his frontline managers had “their face towards the CEO and their ass towards the customers,” he was emphasizing the core value of CIP: the customer defines quality. Granted, employees affect quality at each point in the system, but it is the customer who remains the final arbiter of the results. Accordingly, most CIP programs for services define a problem (defect) as a flaw in a task that results in a lower level of customer satisfaction or a lost customer. In short, a service defect means your systems are not delivering on your promise to customers.

When a major financial institution launched its Six Sigma program for banking services in 1996, it defined a defect as any customer rating below the two highest responses on a satisfaction survey. Based on that definition and survey feedback from customers, the bank identified seven service task defects in its account opening method, its customer statement system, and five other processes. Three measures stand out for service businesses, primarily because they are easily quantified:

Service defections (that is, lost customers). Harvard Business School professor W. Earl Sasser, Jr., and Bain & Company director Frederick F. Reichheld's seminal article, “Zero Defections: Quality Comes to Services” (*Harvard Business Review*), showed how problems in service quality lead to lost customers. Simply meeting customer expectations was not enough, the authors concluded—customers who aren't completely satisfied are likely to switch to another service provider. Of course, not all lost customers are the result of a service defect, but this measure serves as a good proxy for defects.

Customer satisfaction ratings. In another article, “Putting the Service- Profit Chain to Work” (*Harvard Business Review*), Sasser and his coauthors pioneered the notion customer satisfaction drives loyalty and long term profitability. When you can articulate and measure how your customers define value—and build your internal processes around delivering that value—the result is often greater customer loyalty and longer-term company profitability. In addition to counting how many customers you lose, you should also measure where your service fails to meet or exceed customer expectations.

Service turnaround times. The bank identified a global standard of service for its account opening process. Most banks opened new customer accounts within three days of receiving the customer application. Analyzing its own processes, the bank found it took, on average, six days to open a new customer account. Measuring defects requires skilled researchers and service representatives who can pose the right questions and glean meaningful responses from customers. It's easy to tabulate customers' “very satisfied” and “satisfied” responses on a survey form, but it's much more difficult to get a feel for the highly variable standards they use or to fully understand the cause of their dissatisfaction. So building a certain amount of flexibility into the measurement systems makes sense. How precisely can you measure the cost of the time a executive spends with company attorneys on the preparation of a lawsuit? How well can you calculate what it should have been?

Because of the difficulty of quantifying expected results and actual outcomes, one cannot solely rely on hard numbers to evaluate its CIP program's success.

3. Probe relentlessly for root causes.

Once you have identified and measured specific service short falls, the one question you must keep asking over and over is "Why is that?" This question embodies the search for the underlying reasons for customer dissatisfaction and/or defection. Typically, there isn't one single reason; in fact, you'll often find a half-dozen or more root causes that all contribute to the service dissatisfaction. Once you've identified the chief contributors, you can build procedures that better serve your customers. When an investment company realized its commission checks to agents were frequently inaccurate, it drilled down further to uncover several root causes for the inadequacy. Among them: complex regional dependant commission rules, check processing staff using different systems to calculate, and confusing procedures for approving checks. Once these root causes had been identified, it was easy for the company to streamline rules and procedures and improve the training for its check processing staff.

4. Remember, this is a long-term commitment.

Although GE, Motorola, and others boast of training 100,000 employees in Six Sigma, Baker advises managers "not to use as their measure of success how many people have been trained or the levels of belts that have been achieved. It is application of the techniques that matters." That application often takes a while to bear fruit, and you can never put the initiative on autopilot. Subir Chowdhury, executive vice president of the American Supplier Institute (Livonia, Mich.) and author of *Design for Six Sigma*, has found many CIP efforts fail because the leadership fails to ensure that everybody "gets it" and that the initiative remains a top priority. A successful CIP effort requires relentless communication and reinforcement—well beyond what most leaders assume is enough. Here are a few pointers to help ensure success over the long haul:

- Scope your projects well.
- Don't take on too much at once.
- Start with processes that are self-contained within a unit or processes that do not rely on a change in another process.
- Monitor your organizational culture.

If your CIP initiative is to maintain its momentum, you have to do a certain amount of "cultural planning," says John Grout, a Sydney Australia based CIP consultant. Develop specific cultural objectives for your CIP initiative—for example, ensure management decisions are based on fact instead of anecdote. Your incentive program has to be aligned with your CIP objectives. "If the system of promotion and compensation encourages individual performance over collaborative work, then any knowledge gained from CIP training will not reap much benefit for the firm," says Grout.

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