

How a Fortune-500 Process Can Help Your Firm Reduce Errors

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While the majority of Fortune 500 companies use Six Sigma (a management tool to improve processes), few companies with revenues less than \$25 million utilize it. Those firms are missing a great opportunity, because Six Sigma offers a practical way for small and medium-sized service companies—such as financial planning firms—to better evaluate and manage their business operations by focusing on the customer and relevant data.

The objective of Six Sigma is to deliver high performance, reliability, and value to the end customer by identifying, analyzing and improving work processes and eliminating waste. Achieving Six Sigma translates into generating only 3.4 defects per million activities. Don't think of faulty widgets on a production line—think of reducing the time and in-house errors common to bringing on new clients and serving existing ones.

We spent six months researching the operations of 20 small and medium-sized firms, run by CFP® certificants, in the Southeast. The research involved a review of their management organization, business processes, and use of technology. Firm's ranged in size from solo practitioners with less than \$2 million assets under management (AUM) to 10-person practices with more than \$400 million AUM. The average number of employees was approximately 4. Business models were a mix of fee-based, fee-only and commission type businesses.

We also conducted an in-depth Six Sigma session with the staff of one firm to help improve both the speed and accuracy of its data gathering

Key Findings

On a strategic level, four common attributes were observed among these 20 firms:

1. There was separation—in varying degrees—between customer facing and back-office processes. While not intentional, this “silo” phenomenon (lack of communication or procedures between both processes) generally was observed to affect both upstream and downstream business practices in the form of operational inefficiencies and, at times, poor customer experience.
2. We discovered that 55 percent (11 of 20) of the firms had no documented end-to-end process flows of how a new account is processed or maintained. Standards process flows include key activities such as points of contact, back-up contacts, data format and transmission type, cycle times, and service-level agreements with third-party vendors. These requirements generally include maximum days to process a new account and maximum hours for responding to customer issues.
3. Financial planning firms are in the vortex of aggregating and synthesizing data—via phone, paper, fax or digitally—from multiple sources including customers, banks, employers, insurance companies, brokerage companies, and attorneys. Consequently, manual data entry. Re-work due to errors and missing data is fairly common.
4. Several practices lacked professional career training or clear career paths for junior staff and administrators. This condition existed in 57 percent (8 of 14)

TOOLS TO USE

Download the complete 16-page case study that this article was excerpted as well as statistical tools (histograms, control charts, Sigma level) at sherman6sigma.com/whitepapertools.html.

Read more about Six Sigma at wikipedia.org/wiki/Six_Sigma.

of the firms with more than one employee besides the owner. Lack of time and money were the most common responses by owners. While not unique to financial planning firms, this condition contributes to excessive turnover.

Based on this research, we see ample opportunities to apply the rigor and discipline of the Six Sigma methodology to these companies.

The Case Study: Putting Six Sigma to Work

Let's assume your firm has 250 clients and each contacts the firm four times a year with customer service issues, questions and requests. This equates to 1000 contacts per year. The firm we studied had customer requirements that stated all customer issues would be handled within one to four hours of the call.

The average response time at the survey firm was 3 hours, with a standard deviation of 30 minutes. From basic statistics, within 1 standard deviation of the mean, we

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would expect 68 percent of the calls to fall within 2.5 hours and 3.5 hours. Within 2 standard deviations of the mean we would expect 95.5 percent of the calls to fall within 2 and 4 hours. It is clear that 2 standard deviations is the limit before exceeding the 4 hour maximum response time [3 hour average + (2 std. dev. × 30 minutes) = 4 hours]. So the imaginary firm was operating at a 2 Six Sigma Level or 308,538 DPMO. A minimum of 3 Sigma is required for any process to be considered "Capable"—meeting customer requirements or design specifications.

During our research we facilitated a Six Sigma Workout Session for a firm with two CFP® practitioners and four supporting analysts/administrators, and presented an overview of Six Sigma, conducted team exercises, and developing an Order-to-Cash Cycle process (processing a new account) to identify gaps, bottlenecks and /or redundancies.

Situation—Processing an account includes account setup, data collection, data entry, obtaining client signatures, wire fund transfers, and third-party verification of accounts. The firm's two financial advisers were spending excessive amounts of time checking work completed by the analysts and were considering hiring another analyst.

For this firm, the scope was to reduce cycle time for processing new accounts from 25 days down to 19 days to free up capacity of the analysts.

Define—Another key activity performed at this stage is process mapping. This can be as simple as drawing a block diagram of key steps in a process; for this firm, the high-level process had eight steps in 25 days to establish a new account.

Measure—Prior to the Six Sigma Workout Session, 20 sample accounts were collected—each comprising three random new accounts—and measured in terms of business days. Some samples required only 6 days to process while

others took nearly 46 days. The process was clearly out-of-control

We also measured defects in the new-account process. Defects were defined as accounts with missing data or wrong data. New account data from the prior 21 months was collected and quantified in terms of defects. Of the 212 accounts opened, 55 percent had defects! This translates to 550,000 defects per million or a Sigma Level of only 1.35. The process was clearly not Capable (meeting customer requirements) as defined by a minimum 3 Sigma Level.

Analyze—This identified key root causes and helped determine significant factors. Descriptive Statistics (standard deviation, average, and mode) and Inferential Statistics (regression and correlation) are the most common statistical tools used to analyze data, and can be performed using basic formulas in Excel.

Based on the analysis, the team focused on three key causes: third-party verification, customer signatures, and data gathering/data entry.

Improve—The team brainstormed and captured many improvement ideas before judging their viability based on four criteria (effectiveness, time to implement, cost, customer satisfaction) with percentage weightings and scores ranging from 1 (lowest) to 10 (highest).

Implement—Implementation can take the form of conducting a pilot or full scale implementation. Either way, the goal is to execute the improvement plans and transition to the new process.

The firm then conducted a test with the selected improvements over a four- to eight-week period—enough time for approximately 20 accounts to be processed with the new processes. It's important to isolate which factors have the most significant impact on the project objective. Staff focused on processing time and defects.

After conducting the pilot, statistical analysis is performed to determine if the results were significantly lower than the

Six Sigma Experiences

Although Six Sigma may seem like a difficult concept to understand, most everyone can readily grasp its meaning with these examples:

- Federal Express—Knowing your package will be delivered by 10 a.m. the next day
- McDonald's—Whether you're in Athens, GA or Athens, Greece a Big Mac tastes the same
- AT&T—The reliability of getting dial tone every time you pick up a telephone

hypothesis based on a certain confidence level. Multiple Regression analysis helps identify which factors explain the variation of the outcome (in this case "time to process accounts," otherwise known as Coefficient of Determination). However using straightforward criteria such as "Days Reduction in Processing Time" is perfectly acceptable.

Control—In the case with the CFP firm, it was recommended that the team comprise 1 CFP and 1 Analyst meeting once a week during the initial six weeks and then every two weeks to track the process.

After spending just a half day with the firm, the team was able to map the process for completing a new account, identified major gaps and bottlenecks, isolated key root causes, and developed a game plan to improve the operations. Your firm can do the same. ☐

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