Bank of America

Effectively Managing Performance Measurement Systems

Bank of America is the nation's second largest bank, with $37.9 billion (USD) in revenue and 180,000 employees. Consumers or retail customers are its strength among its six customer segments. Of any U.S. bank, it has the largest number of retail customers, which stood at 33 million following the acquisition of FleetBoston in April 2004.

Bank of America has the most extensive network of branches of any U.S. bank with 5,669 locations that stretch coast to coast. It is also first in other areas:

- **deposit market share in the United States**—9.8 percent;
- **ATM network**—16,551;
- **active online banking customers**—8 million customers;
- **small business lender**—11,594 loans; and
- **debit card transactions**—more than 15 percent market share.

It is among the top financial institutions (No. 5) with respect to credit card managed receivables, at $47 billion in 2003.

Performance Measurement Overview and Implementation

Ken Lewis was appointed chairman and CEO in April 2001 and almost immediately began refocusing the strategy of the company. His initial stated goal was to "be recognized as one of the world's most admired companies." In 2003 Bank of America raised the bar to "be the world's most admired company."

Chaks Karuturi, senior vice president in corporate quality and productivity, said the company will be the most admired company when it achieves its stated goals for key stakeholders including customers, associates, and shareholders. Karuturi emphasized that the company's values focus not only on results, but also on behavior. Lewis expects everyone to embrace leadership and accountability, which he said are critical in the bank's decentralized environment.

With an increased focus on growing the business organically, Lewis charged the organization to improve processes and expand the customer base. This new strategy emphasized cross-selling and customer retention and places a renewed focus on the voice of the customer. This customer-centric focus spotlights the customer voice and links all planning back to drivers of customer satisfaction and loyalty. Karuturi said, "All our strategies, tactics, and goals start from the voice of the customer."

With voice of the customer comes a new way to manage the business:

- **Hoshin planning**—set direction and alignment across the organization,
- **kanri**—manage deployment to achieve results,
- **Six Sigma discipline**—enable execution through excellent processes, and
- **benchmarking**—aim for the best.

Hoshin, a Japanese planning process, is akin to a compass, said Karuturi. It sets direction through strategic planning that focuses on the vital few breakthrough strategies and measures for success in the short and long term. It entails an iterative process that starts with goals set at the top and then cascades down to each successive level. Hoshin planning is used as the umbrella to integrate financial, personnel, and risk planning into one strategic plan. This ensures alignment in all the different aspects of the business. Using a theme similar to balanced scorecard, Bank of America set its strategic goals and plans in three key stakeholder categories.

1. **Customer: provider of choice**—The Hoshin plan benchmark goal for customer delight is based on the best-in-class leader, Ritz-Carlton. Customer delight is more than satisfaction; on a ten-point scale, it would be measured by a 9 or 10 rating. The company focuses on delight rather than satisfaction because of the stronger correlation to loyalty and increased business.
2. **Associate: employer of choice**—The Hoshin plan goal for associate satisfaction is based on best-in-class benchmarking, at the level that the top companies are performing at.
3. **Shareholder: investment of choice**—The Hoshin plan goal is to be the first in peer group for total shareholder return.

Bank of America uses kanri, a Japanese performance management process, to manage and achieve its goals. Six Sigma is part of this execution because it helps the company identify enablers to accomplish goals. In the Kanri performance management process, executives review scorecard performance monthly and/or quarterly as needed. They review and understand root causes of performance gaps and what drives causes and effects; they also prioritize resources for key tactics and enablers.

Six Sigma is viewed as a vital tool in achieving process improvements. Said Karuturi, "Without Six Sigma, you may get improvement, but it may not be sustainable. Six Sigma provides the discipline for making it repeatable and getting consistent results year over year." The company is using Six Sigma to re-engineer the enterprise-wide core processes, close gaps in Hoshin plan performance, and make improvements via belt projects.

Benchmarking is another important tool for process improvements. The bank uses benchmarking to determine what benchmarks the leading practitioners are achieving, learn how the leaders are achieving excellence, and determine how the bank can integrate those best practices into its planning and execution. Benchmarks can come from outside the financial services industry (e.g., customer delight) or can be from within the industry.

Implementation

Bank of America initiated its Hoshin planning in June 2001 and by December had a strategic plan for the next year. The company started this process at the top level and implemented down through two levels at first. Concurrently, Bank of America began developing its technology tool for a scorecard system. The tool took a year to complete.

Although the bank encountered some challenges getting consistency among the units, Karuturi said this approach was quicker than starting from the bottom up and trying to go to an enterprise level. By working from the top down, the company produced in six months a Hoshin strategic plan: a three-page top-down plan that sets the standard for breakthrough performance, with metrics and goals aligned within the three categories of Hoshin plan. Bank of America continues to refresh these plans on an annual basis.

Development and Maintenance of Measures

In its first year of the Hoshin planning process, the bank began with about 20 or 30 metrics at the corporate level. This year, that number was reduced to the most critical 12. For example, the customer metrics include customer delight, market penetration, and productivity through process improvements; the associate metrics include satisfaction and turnover; and the shareholder metrics focus on shareholder return, value added, revenue growth, and risk measures. Driver tree analysis of these top-level metrics is used to determine the metrics relevant at the lower levels. Alignment is the key.

Unlike other balanced scorecards, the Bank of America scorecard does not include a separate process category. The company deliberately chose not to have that category because, according to Karuturi, rather than having a process category for the sake of process, it wanted to link all process improvements to benefit the stakeholders.

When it began Hoshin planning in 2001, the bank monitored numerous segment process measures (e.g., core processes such as deposits, payments, and problem resolution) at the CEO level. Now process measures are pushed down to levels accountable for the work and are aggregated and monitored only as a productivity measure at the top. This productivity measure is captured in the customer category rather than shareholder because Bank of America wants to ensure process improvements benefit the customer, which reinforces its customer focus. Bank of America also started a process excellence certification so that, every year, lines of business identify their top few processes on which to focus and strive to achieve process excellence.

Organizational Support

According to Karuturi, executive support has been key to achieving success. For each of the strategies and tactics within the Hoshin plan, an executive is accountable and acts as the champion to make sure goals are accomplished.

STRATEGIES AND ALIGNMENT OF PERFORMANCE MEASUREMENT

Strategic Direction, Targets, and Day-to-day Operations

The Bank of America Hoshin planning process is conducted annually and begins at the corporate level. Within the framework of its strategic goals, the businesses conduct a competitive and environment analyses by using measures of strength, weaknesses, opportunities, and threats to prioritize the top strategic objectives by business and set breakthrough goals.

The final product is a three-page document. Page one details the vision and three- to five-year goals and strategies in three categories: customer, associate, and shareholder. Page two details next year's initiatives to achieve the stated goals. These are the tactical enablers—what actions are necessary in the next year to 1.5 years—to achieve the goals listed in page three. These enablers are limited to the vital few (three to four tactical actions) necessary to accomplish the strategies and goals. Page three details the measures of success on a balanced scorecard. For each strategic objective, Bank of America has one measure of success it monitors, with calendar milestones that outline where the company is, where it would like to be in the next three years, the benchmark it is aiming to achieve, and the source of the benchmark.

As a large organization comprised of customer-facing business units, as well as support units (e.g., technology, which considers internal businesses as customers) with numerous interdependencies, Bank of America invests a significant amount of time ensuring all plans are aligned and focused on the vital objectives.

The Hoshin plan is deployed across the organization by beginning at the top with the overall bank. It involves an iterative process, which starts in the second quarter each year and establishes page one strategies and page three goals. Then alignment discussions take place with support units, and depending on how budgets are set up, there is a dialogue between the customer units and the support units in terms of what is affordable and what can be delivered. "So we let that process flush out until we get to final page two tactics," said Karuturi.

At the individual associate level, plans are summarized in a one-page performance plan that outlines annual tactics each associate must achieve. At the end of the process, plans are correlated with the company-wide Hoshin plan. Pages one and two of the Bank of America Hoshin plan are posted on its intranet and made available to all associates; page three scorecard goals are made available as needed. The Bank of America Hoshin numbering system, similar to a library indexing system, helps associates understand the link between the strategic objectives and tactics (e.g., "customer" is indexed as 1; its strategies are listed as 1.1, 1.2, etc.; and tactics linked to 1.1 are identified as 1.1.1, 1.1.2, etc.).

Alignment

In addition to the Hoshin planning process, in which alignment is inherent, Bank of America uses a metric driver tree to ensure alignment vertically and horizontally. Once company metrics are identified, then the drivers and enablers to achieving each goal are identified for each metric. As measures cascade down in the organization, those drivers are on an associate's scorecard as their own goals. For example, the Bank of America Spirit Program is considered a driver and is included on the metric tree for both customer delight and associate satisfaction; goals for the Bank of America Spirit Program are incorporated and assigned accountability on lower level scorecards.

PROCESSES FOR SUSTAINABILITY

The Kanri process at Bank of America is a closed-loop management process.

1. The Hoshin plans set direction and align the organization.
2. "Management by fact"—a report of analysis, root causes, and countermeasures—is used extensively within the bank to determine how to close gaps. The management-by-fact countermeasures become Hoshin tactics that feed back into the Hoshin plans (page two). The management-by-fact report identifies projects for step three. Lessons from those projects feed back into the management-by-fact report and also support performance discussions in step four scorecard reviews.
3. Nested management-by-fact reports, Black Belts, and Green Belts drive results. Project results/ performance show on the scorecards.
4. Scorecard reviews monitor performance. Results feed back into the monthly review and the management-by-fact reports.

An executive is accountable for each strategy and metric. Executives conduct monthly performance reviews and take corrective action where necessary. A scorecard summary categorizes performance indicators into green, yellow, and red for review. A dashboard for each metric illustrates progress, with run charts and status. Executives are expected to closely monitor any metric with a red or yellow status on a monthly basis; all metrics are to be reviewed quarterly regardless of status.

Executives are responsible for reviewing their own scorecards monthly, as well as the scorecards of associates reporting to them on a quarterly basis.

The report provided for monthly review includes the red, yellow, and green status indicators for each of the metrics based on latest data points for actual results and goals. For example, end-of-March results would show actual results for the first quarter compared to first quarter goals. These results are also displayed against the year-end goals to show where the organization is headed. For executive reviews, a one- or two-line commentary is provided to give a quick snapshot, and drill-downs are available for any metric. A run chart shows overall results (e.g., month, quarter, and year), and those results are disaggregated as far down as applicable.

Data gathering and reporting is a decentralized process. Karuturi said each business unit leader is accountable for taking ownership of that process; however, results are made available through a central tool, which shows monthly performance (when available) of the top 50 business units.

ENABLERS FOR SUSTAINING A PERFORMANCE MEASUREMENT SYSTEM

When it started its Hoshin journey, Bank of America had good databases for financial reporting but not for associate or customer reporting. Thus, it wanted to establish a scorecard system that would be a valuable tool for executives. It set several objectives in designing its system:

- a central database for all Hoshin customer, associate, and shareholder measures, with performance against milestones;
- a quick and easy visual of diagnostics (red, yellow, and green indicators);
- the ability to drill down to drivers of performance and see cause-and-effect relationships;
- links to supporting documents; and
- performance alignment across business segments and organizations.

Bank of America uses a tool called Panorama Business Views, or PBViews, which Karuturi said is an effective visual display with the look and feel of a book and ability to attach documents. The tool:

- monitors progress on Hoshin metrics (i.e., customer, associate, and shareholder);
- displays easy visual to metrics gaps and successes displayed in red, yellow, and green;
- houses consistent metrics and analysis across organizations;
- depicts charts and graphs showing progress against quarterly milestones;
- possesses dynamic drilldown capability for cause-and-effect relationships; and
- links to key supporting documents (management-by-fact reports and Hoshin plans).

Metrics are available for the top 50 units, from the CEO and down two levels. Executives can review their own scorecards as well as drill down one level. Financial and associate data are fed into the system automatically from the production systems. Customer data has proven more challenging because metrics come from different sources and often entail manual processes. Yet the company has been able to capture and report data timely for monitoring performance with most metrics reported monthly and some quarterly.

The company's preliminary scorecard reporting system was paper-based—even financial reports—with data from various sources and analysis using different tools. According to Karuturi, disparities existed in definitions. For example, for the customer delight metric, different businesses were using different surveys, processes, and measurement schemes. The result was the company spent a lot of time reaching consistency in definitions during phase one. Karuturi said, "The system part was not as difficult as getting consistency in definitions and trying to get everyone to agree to common definitions."

IMPACT OF PERFORMANCE MEASUREMENT AND CHANGE MANAGEMENT

In 2001 the bank's customer delight rating was 42 percent. In 2003 it had risen to 51 percent. In addition, dissatisfied customers, the bottom two survey response boxes on a 1 to 10 scale, fell from 12.6 percent to 10.2 percent over that same time period. Karuturi said this progress is better than the average improvement and shows some correlation to adding more customers to the business. In 2003 the number of checking accounts opened at Bank of America doubled over the previous year, and savings accounts took a huge leap from a net negative of 265,000 to a net positive 640,000 new accounts. All that, Karuturi said, adds results in terms of earnings per share growth. Consequently, the company has experienced a 16 percent compound growth over the same period.

Important to its progress and reaching its ultimate customer and process goals, executive commitment has been a critical component. Karuturi said, “Obviously it helps to have the CEO focused on this, which will enable everybody in the organization to march to the same vision.” Not surprisingly, this support appears at the top of Karuturi’s list of important steps Bank of America has taken to garner buy-in and adoption throughout the organization.

1. **Reinforcement from the CEO and his direct reports in monthly communication meetings is critical**—Karuturi stated executives are practicing what they preach by getting certified in Six Sigma.
2. **Share best practices and lessons learned**—For example, in communications meetings, executives share one or two examples of where Bank of America is using six Sigma tools to improve the process. According to Karuturi, people accept change more readily when they see it working.
3. **Train**—The Bank of America spirit program entailed massive training, as did the initial Six Sigma training that consisted of a four-hour overview of quality fundamentals for every associate. Also, associates interested in acquiring Six Sigma certification are encouraged to enroll for more extensive training.

ABOUT APQC

For over 30 years, APQC has been on the leading edge of improving performance and fostering innovation around the world. APQC works with organizations across all industries to find practical, cost-effective solutions to drive productivity and quality improvement. We are a member-based nonprofit currently serving more than 500 organizations in all sectors of business, education, and government.

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