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## IMPLEMENTATION OF LEAN PRACTICES IN BANKS: A QUALITATIVE RESEARCH

*Implementação de praticas enxutas em bancos: uma pesquisa qualitativa.*

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**ABSTRACT:** For Pakistani banks to remain competitive in this 21<sup>st</sup> century, they have to adopt and excel in practices that have brought significant competitive advantages to firms worldwide. Among these practices, lean management has played a significant role. There is a need to develop a systematic approach to access up to what extent firms are adopting lean practices. The objective of this research is to measure the level of adoptions of lean practices in banking sector in Pakistan. Face to face structured interviews were conducted and our findings suggest that banks are not implementing lean practices in true spirit. To implement lean practices holistically, bank employees should understand the philosophy of lean.

**KEY WORDS:** Lean Management, Practices, Pakistan, Banking sector, Semi structured interviews

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*Implementação de práticas enxutas em bancos: uma pesquisa qualitativa.*

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**RESUMO:** Para os bancos paquistaneses permanecerem competitivos neste século 21, eles precisam adotar e se destacar em práticas que trouxeram vantagens competitivas significativas para empresas em todo o mundo. Entre essas práticas, o gerenciamento lean tem desempenhado um papel significativo. Há uma necessidade de desenvolver uma abordagem sistemática para acessar até que ponto as empresas estão adotando práticas enxutas. O objetivo desta pesquisa é medir o nível de adoção de práticas enxutas no setor bancário no Paquistão. Entrevistas estruturadas cara-a-cara foram conduzidas e nossas descobertas sugerem que os bancos não estão implementando práticas lean com verdadeiro espírito. Para implementar práticas lean de forma holística, os funcionários do banco devem entender a filosofia do lean.

**PALAVRAS-CHAVE:** Lean Management, Práticas, Pakistan, setor bancário, entrevistas semiestruturadas

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### INTRODUCTION

In today's world, organizations are striving to deliver quality services to meet rising customer expectations. For this purpose, they develop strategies to enhance understanding of needs of customers. Increase in customer expectation has pressurized organizations to reconsider their operational activities and to become more efficient to retain their customer base (Cronje, 2007). Goldman, Nagel, & Preiss (1994) suggested that agility, adaptability and leanness are three major pillars in order to remain competitive in global volatile business environment.

Lean is a business strategy that has focus on maximizing the customer value while eliminating waste and deficits in the business process. It is viable and holistic methodology of management processes of firms. Lean is all about continuous improvement and the only way an organization can gain business excellence and sustainable change by making strong bond between purpose, process and people (Alina-Maria, 2011). The Lean practices are followed globally by organizations that are facing some level of inefficiencies that is negatively affecting their financial performance. For many years, lean was considered only for manufacturing industries. However, recent researches have shown that lean applied to every business. It is not a cost reduction approach or program, but it is way of thinking for organizations (Deely, 2014).

In order to retain and enlarge customer base, banks should focus on customer-centric approach. Commercial banks are offering same financial product that is why customer services become core competency that can give competitive edge to banks (Tyrer, 2010). A study conducted by Levides (2012) revealed that banks are more inclined towards measuring employee performance in terms of sales and revenue and are not focusing on behaviours that are associated with customer services. Customers are more frustrated due to errors made by their banks; this is due to the fact that employees service product rather than clients. Banking institutions have significantly transformed their business paradigm from product service to customer service (Nzama & Mbhele, 2015). The banking sector is bit slow in adopting lean practices because of its manufacturing origin; but this attitude is changing gradually. The primary objective of applying lean practices in banks is to gain revenues by reducing cost (Duthoit, Bartletta, & Bhatia, 2010).

The only challenge faced by lean practices lies in its application i.e. it needs to be implemented holistically. Applying lean practices in few departments will result in its failure. In addition, lean needs to be supported by cultural change from top to bottom in organization. The top management must believe in and exhibit commitment to lean practices while middle managers and frontline officers must feel motivated and their empowerment to contribute (Bhutta, Rosado-Feger, Huq, & Muzaffar, 2013).

When a new term or theory regarding cost reduction or increase in sale is proposed, there is interest in industry to adopt it because a lot of prestige is given to academics in Asian countries. Hence, there is a need to design a systematic approach to assess the level of adoption of such practices. In this research, our objective is access up to what extent banking industry of Pakistan is implementing lean practices. The banking sector of Pakistan has significant importance in financial sector and economic growth of country heavily relies on it (Ministry of Finance, 2017). That is why; banking industry adopts these latest techniques first and then migrates to other industries after identifying potential of these techniques (Bhutta et al., 2013).

## LITERATURE REVIEW

Shah & Ward (2007) provides a brief history of lean production locating its roots in pre 1927. Hines, Holweg, & Rich (2004) also provide historical background of lean production, from scientific movement by Fredrick W. Taylor in early 1900s to the quality revolution in 1980s and later new production model of 1990s.

Jaaron & Backhouse (2011) stated that many researchers have turned their focus to analyze the impact on lean production on specific industries. In developing world, there is an active research on adoption of lean practices and their impact on productivity (Portioli-Staudacher & Antardini, 2012). In the past decade, lean has transformed from technical oriented to human oriented aspect (Nordin, Deros, Wahab, & Nizam, 2012). Chibaira & Hattingh (2013) stated that primary goal of lean is to identify and eliminate waste at different process levels. The lean methodology helps to streamline the processes and entire flow of work to increase the firm's productivity while eliminating waste and satisfying customers.

Hines et al. (2004) stated that lean can be classified in two level i.e. strategic and tactical. Strategic level lean focuses on value creation thus have universal application. Tactical level lean focuses on those techniques that are applied in specific context. Many lean application focus on tactical level rather than strategic level, with organizations applying specific tools and techniques. That is why, many organizations did not get much benefits of lean implementation like Toyota did. According to Anand & Kodali (2009), the major reason of poor implementation of lean is absence of brief list of principles, tools, techniques knowledge and practices along with lack of unifying framework. Therefore, impact of lean varies due to lack of general understanding on lean and how individual firms implement this system.

Kanakana (2013) stated that many service organizations are implementing lean principles. Zarei, Fakhrzad, & Paghalehc (2011) found that lean practices can reduce cost and improve customer services by improving process. Vlachos & Bogdanovic (2013) found that in some cases, automation of some non streamlined functions can cause some problems and work flow can be reduced. Therefore lean principles cannot be applied to all industries. However, service sector can adopt only those principles that are useable and useful.

Goldenbaum-Gaber & Rizenbach (2013) conducted a research to investigate how successfully financial sector is adopting lean practices. Their results showed that banks can gain substantial benefits by using lean practices including cost reduction and improvement in efficiency. This validates the findings of (Maleyeff, 2006) that banks can adopt lean to improve the banking operations. A survey conducted by PriceWaterHouseCoopers (2013) found that there is a lot of potential for financial sector to adopt lean practices to increase day to day efficiency.

Lean practices can be directly applied to banking system because it is purely process business. By applying different lean techniques and practices banks can (i) reduce the time require to perform specific tasks (ii) eliminate wasteful and idle activities to reduce business cost, (iii) better customer services by providing quality services and boosting morale of staff by engaging them in development and continuous improvement. Moreover, lean practices can result in reduction of cost by 25 percent, response time can be increase by 50 percent and revenue gain can increased by 5 percent annually (Sayer & Williams, 2012). GoLeansSixSigma (2015) shows a list of financial institutions that have successfully implemented lean practices. According to report, some banks have gained more than 90 percent result in net income after few years of its lean implementation.

## METHODOLOGY

There is a significant evidence to use case based methodology in case of exploratory research (Bhutta et al., 2013). The case study methodology is used when in-depth and holistic investigation is required (Feagin, Orum, & Sjoberg, 1991). Barkley (2006) stated that case study method can be used for business evaluation.

Case study can be used for exploratory research or hypothesis testing or evaluative research. Also this method does not restrict researcher to either number of respondents or organizations. The main reason to use case study method is when the researcher has little or no hold over specific event. Qualitative and Quantitative methods can be used to analyze the data collected through case study. Case study not only provide rich source of quantitative and qualitative data but also most appropriate when investigating a new phenomenon (Yin, 2009).

This research uses the case study methodology to measure extent of lean practices in banking sector of Pakistan. Face to face in-depth interviews from managerial level bank employees were conducted to collect data. These interviews were conducted with a purpose to identify up to which extent lean practices are followed in banking sector of Pakistan. For this study, we have conducted five interviews as we reach saturation point as suggested by (DePaulo, 2010). Tag clouds were created using tagcrowd.com. The banks involved in this study were from both public & private sector. Table 1 shows the profiles of respondents. The names of banks and respondents are kept secret on their request.

**Table 1:**

**List of Banks and Respondants**

Banks	Type	Respondant Designation	Respondant Banking Experience	Education
B1	Public Sector	Operations Manager	10 Years	MBA
B2	Public Sector	Credit & Trade Manager	4 Years	MBA
B3	Private Sector	Operations Manager	6 Years	MBA
B4	Private Sector	Relationship Manager	4 years	MBA
B5	Private Sector	Relationship Manager	6 Years	MS Management

## RESULTS

Although all respondents have enough banking experience and familiarity with banking operations, there was no concept of implementation of lean practices in banks. Below are the findings of our study.

### Cost reduction by using effective tools

Cost reduction is now done by every bank. One of the respondents said,

*“Paperless banking is still not possible in Pakistan but banks are trying to reduce cost at branch level e.g. in case of inter bank communication, documents are sent via email, administrative expenses of branches are reduced.”*

Cheque books, debit cards, credit cards are printed by head office that reduced printing cost. Though banks have claimed that cost reduction is their priority but in reality no effective tools and techniques are being used by bank. Banks are still using multiple copies for contracts and every contract is of 7 to 10 pages. Banks are spending too much time and resources for customer verification and also banks have to maintain hard copy of every record and every record is printed on single side page.

#### **Time spent on walk-in-customer**

Banks are spending approximately 5 minutes on walk in customer. However, this time depends on nature of transaction and speed of system. One of the respondents said, *“In case of big transaction, it can take 10 to 15 minutes transactions.”* Banks have operational token systems that helps in reducing que and waiting time. Dual approval is required on every transaction to reduce errors and mistakes. Time spent on walk in customer can be reduced if system is not down and working properly

#### **Focus on service excellence**

Banks are using different products for providing service excellence i.e. ATM, Internet banking, phone banking, sms alerts on every transaction, discount on debit and credit cards and many more. One of the respondents said, *“The use of technology has given so much ease to customers and now they don't have to wait in que.”* Due to use of technology, human interaction in banking transaction is reduced; hence chances of errors are now minimum. In case of any error or mistake, banks take normally 1 to 2 days depending on nature of error.

#### **Utilization of Human Resource**

In banks, the minimum qualification required for OG-2 level job is graduation but banks are hiring post graduates. The promotion of employees on their performance and operational working their branches. One of the respondents said, *“employees have to spend minimum 3 years on same post to become eligible for next promotion”*. Banks conduct training workshops for their staff on regular basis. In case of launching of any new product, trainings are delivered to staff members and banks ensure that staff member must attend these trainings.

#### **Understanding of Lean & Lean Banking**

Managerial level staff has no idea about lean and lean practices. *According to respondents, if banks can reduce contracts to 4-5 pages then it can reduce cost.* Moreover, paperless banking is not possible in Pakistani culture because customer will not accept paperless contract. The banks are not spending huge amount on publishing their marketing material. Social media is one of the fastest and inexpensive medium used by organizations to reach to their customers. One of the respondents said,

*“Instead of using social media, banks are using expensive mediums for reaching to their customer i.e. print and electronic media.”*

## **CONCLUSION**

For the past few decades, lean practices has gained popularity in operations strategy of organizations in developed countries. Recently, organizations in developing economies have also started to implement lean practices to improve their production and to increase competitiveness in continuous changing global environment (Bhutta et al., 2013). Many researchers argue that Lean practices is not about choosing appropriate technique, but it is about adopting the philosophy and applying holistics and complete lean program in organization. Also, implementation of lean program can be take time as employees and managers need time to adjust with new philosophy (Nordin et al., 2012).

Very few researchers are conducted in Pakistan to analyze the lean practices in Pakistan. This study is an attempt to identify up to what extent banking sector of Pakistan is implementing lean practices. Based on our findings, we can conclude that banking sector of Pakistan is in early stages of implementing lean practices and also there is great opportunity for banks to improve their operations by implementing lean practices. Though banks are striving for reducing their cost but they are not implementing lean practices in true spirit. In order to implement lean practices holistically, banks should inculcate philosophy of lean practices in its staff. Even

managerial level employees of banks have no concept of lean practices. Also banks need to educate their customers about their products. This will not only decrease the transaction time but also reduce the visit of customer visits in branches. Also we have found that there is a lot of paper wastage in banks i.e. single sided printing is being used in braches, lengthy and multiple contract copies etc. This paper wastage can be reduced to minimize cost.

The bank are operating in highly competitive enviornment and it is important for them to invest in such programs which enhance their performance and productivity. For future research, we recommend to expand this analysis to overall financial sector by making different clusters of financial institutions. These cluster will then act as becnhmark for management to determine where their financial instituion is standing in industry and it will help in identifying best lean practices for financial institutions in context of Pakistan.

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