
MCCHRYSTAL AFFAIR PRESENTS LESSONS FOR LENDERS

People and organizations run on the same dynamics, whether they wear pinstripes or camos. And Job One isn't always what you think it is.

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A number of months ago I wrote in passing about a former boss. He intimidated many in the company but I found him a very common-sense manager. He taught me one abiding lesson that is as sound as any bit of advice for surviving and prospering in a big corporate environment:

"You earn a significant part of your pay to get along with your co-workers. If you can't get along with them, then you're not earning a significant part of your pay."

Simple, isn't it? But what does it have to do with a bank's culture?

Plenty.

Lenders' place in their banks

I thought of this former boss these last several days as the infamous Rolling Stone article helped to terminate the career of General Stanley McChrystal. McChrystal and his staff spoke contemptuously of high-level officials, civilian and military, and undermined the chain of command concept so fundamental to the military. This is the sort of attitude I've observed in some credit cultures toward examiners, loan review, conservatively oriented loan officers, and senior bankers in authority over an institution's credit culture.

Generally, lenders, especially those with reputations of being good in their jobs in terms of analytical and presentational skills combined with impressive business development accomplishments, often develop into "stars."

They are the Golden Boys (or Girls) of the lending line. Sometimes, that goes to their heads. Combine a little star power

with a little immaturity in an environment where mutual respect is not the consistent norm, and there is likely to be a problem.

Behaviors otherwise latent, or usually well-controlled, surface and offer poor examples to peers and subordinates alike.

Portrait of a corrosive environment

I experienced a situation similar to this a number of years ago. The executive management group at my bank was engaged in a near constant "gun battle" with examiners, Loan Review, and, from time to time, the bank's ownership.

It was a corrosive environment.

Younger lenders hated to go to credit committee. They were second guessed and occasionally demeaned for their presentations and participation.

That was an environment that could not be tolerated and it forced a change at the top, followed within a few months by a series of selective replacements through the senior ranks.

We hired a new senior credit officer, a superbly credentialed mid-forties credit professional, home-grown to maturity in a large Eastern bank. He was conservative, well-trained, well-met. In all, he seemed like an excellent fit, at least for a while. Then, troubles surfaced in terms of his interpersonal relationships with Loan Review and the central underwriting function.

To make matters worse for me, he was my pick for the job, and to be fair to him, I felt responsible to try to make it work.

Long story short, it never did and I had to referee a portion of executive management activity that was in constant and self-inflicted turmoil. The matter ultimately resolved itself when the bank underwent a merger and positions had to be consolidated. That made the elimination of this individual and a reorganization of other functions logical and appropriate.

But why did it happen in the first place?

An easy explanation is that we were dealing with children. Yes, children-with petty attitudes that were only exacerbated by the interpersonal frictions and inability (or unwillingness) to work with each other.

Ultimately, the peers wounded each other and effectively spoiled their own prospects of personal growth.

How organizations grind to a halt

Some habits and tendencies are deeply ingrained. Much as I tried to elevate the tone of the interactions of these "positive" personalities and counseled with these individuals frequently, they simply refused to see the big picture.

They found it easier and more satisfying to give vent to their personal frustrations than to seek common ground for a more harmonious and constructive relationship between and among departments and department heads. It needn't be that way. But it often is in many work environments.

How many of you have observed "bad behavior," including backbiting and caustic and sarcastic attitudes among coworkers?

It happens quite frequently and it is why being a boss takes skills that many in positions of authority have never mastered. When the boss tolerates or even encourages such behavior, the situation is ripe for trouble.

Organizational failure's bottom line

When all of this really matters is when the organization is distracted from acting as an organic whole. When this happens on the credit side of the house, credit quality can suffer. Morale can be impacted. Turnover increases. And there are a string of losers rather than a string of winners.

When you think about it, this is a form of operational risk-the risk to earnings and capital of suboptimal performance.

You wouldn't always think of it this way but the McChrystal episode brought it to mind.

The military loses a brave and experienced commander. The Commander-in-Chief loses "his man." The assembled staff loses its leader and will be gradually dismantled, a person at a time, while the new commander assembles his team.

And all the while the mission is compromised.

Why? Because a bunch of guys didn't fully earn their pay and the boss didn't set the right tone.

There are life and career lessons for all of us in this.

Don't miss Ed's followup blog on this subject. [Read now](#)

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- About Ed O'Leary:

Veteran lender and workout expert O'Leary spent more than 40 years in bank commercial credit and related functions, working with both major banks as well as community banking institutions. He earned his workout spurs in the dark days of the 1980s and early 1990s in both oil patch and commercial real estate lending.

O'Leary began his banking career at The Bank of New York in 1964, and worked at banks in Florida, Texas, Oklahoma, and New Mexico. He served as a faculty member and thesis advisor at ABA's Stonier Graduate School of Banking for more than two decades, and served as long as a faculty member for ABA's undergraduate and graduate commercial lending schools.

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