MANAGEMENT SUCCESSION, WRIT LARGE--AND HOW IT MAY REALLY MATTER IN THE END

You may move up--but will it be at your original bank?

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The other day an HR consultant told me that experienced bankers from independent and smaller regional institutions possess skill sets that are valued by similar-sized banks--and also by larger ones.

That idea intrigued me. For several years, we've been hearing how the community bank is an endangered species. If that's so, how--logically--could a manager from a smaller institution have skill sets of considerable value to larger institutions?

Yet the answer may be buried in plain view. You have to look beyond labels, at the actual skills.

Scanning the landscape--where do they fit?

Look towards the growing incidence and dangers of reputation risk, for instance.

Middle and senior-level managers at midsized institutions see how a business model integrates its various pieces. One can argue that at the very large banks the various business model components have not been well ordered, integrated, or managed.

High-performance banks share a couple of significant characteristics.

First, their operating results have consistency and are generally in the upper quartile of performance metrics as measured against their peers.

Second, their managers have first-hand experience of how the total organism works. They have learned this through more direct feedback and interaction with their operating counterparts in other portions of the enterprise.

This second point makes good sense, from my own experiences over the years. That's not to say that large banks won't be high performers. But it certainly suggests that managers from smaller banks may have insights of a high order into performance achievements.

Consider the trend toward consolidation of banks and banking that is likely to continue uninterrupted in the future. What are the skill sets in terms of relevant and useful experience that smaller banks should value as they develop their management for the future?

The issue is timely--and pressing.

There are many small- to medium-sized banks that are quietly engaged in discussions that are likely in time to lead to mergers and consolidations. These may take a couple of calendar quarters, or perhaps a year or two.

However, the internal environment is shifting even if the external environment gives no indication of impending change.

What does each party to a possible deal bring to the table? Do you have a management group that is equipped by skills, experience and intellectual horsepower to survive if no merger is forthcoming? Do you have candidates to assume executive leadership roles across the range of functional opportunities and challenges if a consolidation occurs? These questions are urgent.

Diagnosing a patient: your industry

Any of you who have had to deal with a complex medical diagnosis for yourself or a loved one is familiar with the nature of increasing specialization of doctors and health care professionals.

Today doctors know more and more about narrower aspects of disease and treatment. Yet they fail frequently to treat the whole patient. For example, they may miss how a bad knee can create misalignments of the spine resulting in back pain. Oftentimes the pain is treated, but not the knee.

The same thing can sometimes be true in banking. Senior managers in big banks are increasingly involved in functional areas of specialization and fail to see how the various pieces work in a holistic way.

If a bank takes the approach of hiring salespeople to generate credit leads to be brought into the branches, how does the bank ever develop an appreciation of the fundamental needs of the business borrower?

Does a small business owner want to talk to a salesman? Or to a small business lender who is experienced in the problems and opportunities he faces day by day?

If your business model is of the "empty suit" variety, how would you even think about this issue to ask the question of whether this is the best model?

Costs are important. Business today must be done in cost-efficient ways and salaries are the major cost of doing business second only to interest expense in a bank.

But do the apparently cheapest means of delivery produce the best long-term results?

Can they necessarily build a committed customer base and create the bonds of loyalty and trust that tie customers, especially borrowing customers, to the bank for a lifetime?

Winners will define the right roles differently

Survival today in the banking business requires skill sets of a high order in the areas of organization and execution.

The latter means tending to systems and internal controls to be sure that execution is as close to flawless as possible. But organization sensitivity means figuring out the means of delivering the functional service in a way that most benefits both the recipient and the provider.

The difference between a salesman with a big broom moving business to the nearest branch is a world apart from giving the customer access to a lender who can be both problem solver and business resource.

To some customers, all that may matter is a speedy answer to a loan request and a hassle free delivery of the product. But to those who feel that customer service is more than simple efficiency, you will favor an organizational format for delivery of credit and credit related services that is very different.

These differences translate into potentially quite different skill sets among middle and senior managers.

Putting the right people in the right boxes on the right chart

My urgency today is to advocate for a mindset where the differences are appreciated and careful thought has gone into having a blend of the components in proper proportion. Not only must the right organization chart be built but it must be populated with the right skills.

Curiously enough, it's the middle managers at the smaller institutions, the community banks of this decade, who are likely to be the best candidates for leadership roles of tomorrow throughout our industry.

These men and women understand the value of the local perspective of the market in the crafting and delivery of services, especially credit services. They appreciate how systems integrate into a harmonious whole and intuitively understand that to manage the variety of risks in our business, the platforms and processes have got to have a high degree of predictability, consistency and efficiency to them.

They know, too, that they must strive to be low-cost providers of service while making those conscious choices on delivery that are truly differentiating of the best long term outcomes.

There are lots of different and very valuable components to the continuous education of lenders. Increasingly, though, banks preparing to be long-term survivors must assure that future executives are prepared with both the functional credit skills and the intellectual framework to integrate the delivery of services to minimize those types of risks that face our industry in coming years.

Moving beyond traditional credit risks and concerns

We'll never eliminate credit risk or liquidity risk as they are inherent in the business. But reputation risk and compliance risk are two conspicuous examples of a new frontier of business hazard that were less ominous and oppressive to past generations. I suspect that many mid-career bankers are not being well prepared for the market place of tomorrow which has in some stealthy ways already arrived.

In a lengthy business career, I've seen lots of "strange" personnel decisions and some badly botched org charts.

We are entering a transitional period among small and midsized institutions where staffing needs may not fit the available talent. The results of these mismatches will almost surely be dysfunctional to a point where survival of the enterprise will require better odds than the resources provide.

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.

Today he works as a consultant and expert witness, and serves as instructor for ABA e-learning courses and has been a frequent speaker in ABA's Bank Director Telephone Briefing series. You can e-mail him at etoleary@att.net. O'Leary's website can be found at www.etoleary.com.

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