
CREDIT CULTURE REBOOT, PART VII: LEADERSHIP, MANAGEMENT, AND CREDIT CULTURE

If General George S. Patton had been a loan officer, would you have assigned him with the bank's legal lending limit?

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Credit culture needs a "reboot," or at least, a revisiting, in many banks today. The credit cycle's impact has been amplified by some bankers' exuberant belief that there is an acceptable long-term alternative to what blogger Ed O'Leary refers to as a "conservative credit culture." This special "Talking Credit" series will examine the fundamentals of bank credit culture, and explore how management and lender can revisit how they grant credit. If you missed earlier instalments, click here for [Part One](#), [Part Two](#), [Part Three](#), [Part Four](#), [Part Five](#), and [Part Six](#)

—The Executive Editor

This past spring, I read two best-selling books on World War II by Rick Atkinson, *An Army at Dawn* and *The Day of Battle*. The personal profiles of the principal political and military figures in both the North African and Italian campaigns were fascinating. They reminded me of the types of people whose responsibilities parallel those bankers who define a bank's credit culture.

First, we should distinguish between leadership and management to better appreciate the unique skill sets that represents each.

Leadership, to me, is the guiding of an enterprise by a high-visibility person according to a shared vision and a common purpose that the individual has largely created and imposed on the organization.

I think of this as "leadership from the front"—in front of and in full view of those who are led. Such players are the first ones up out of the fox holes or the first ones out the door to call on a new prospect. The late Walter Wriston, chairman of First National City Bank of New York, and Jamie Dimon, current chairman and CEO of JP Morgan Chase, are examples of bankers possessing first-class leadership traits.

Management, by contrast, is the guidance and administration of an organization primarily through plans, budgets, goals, and systems of controls and individual rewards and punishments. We might call this "leadership from the rear."

Think about some of the wonderful characters portrayed in the two books by Atkinson: Churchill, Roosevelt, Patton, Eisenhower, Rommel, Montgomery, Clark, and others. They were leaders, not managers.

Can you imagine constraining or confining George Patton to a budget? Do you think he'd sit still while a committee debated the structure of this or that paragraph of an Ops Order?

On the other hand, Eisenhower achieved attention and prominence during the 1920s and 1930s through his skills as a planner and administrator. When presented with much larger challenges and responsibilities early in the war, he met them with an array of acquired skills and became much more than simply a highly competent manager.

Credit cultures seem to share some common characteristics with military cultures.

Both are highly "values infused" cultures, ones where key, core values are essential components to the success of each. But the "out front" or "from the rear" styles are quite identifiable and starkly different

The talents of Rommell, Montgomery and Patton were showcased in North Africa. They were dedicated and gifted professionals who put a highly personal stamp on the activities each directed. Gen. Mark Clark, the senior American ground commander in Italy, had a number of idiosyncrasies that became distractions to his success and the same was true of General Patton with the two bizarre "slapping" incidents that nearly ended his military career.

Individuals in these positions are not immune to human error or personal foibles. But their innate capacity for success is unmistakable.

Contrast the style of Omar Bradley who became Eisenhower's indispensable chief of staff with the style of Eisenhower himself. Each displayed God-given talents, preponderance of leadership or management skills that contributed to the success of the enterprise as a whole. It takes a diversity of skills to be successful in an overall effort—those who are out front and those with less-visible roles. It's also important to note that each "type" has to be free to function in his assigned role.

Now relate these thoughts to a bank's credit culture. An organization that is moving forward—expanding market share; increasing ROE; growing the business in terms of breadth, depth, and quality of the product line—has a distinctive type of personality.

Is it the "out front" or "in the back" sort of talent that makes organizations like this work? Balancing the requirements of a healthy culture is not a haphazard undertaking. If George Patton were a banker, how much loan authority would you give him? You might choose to give him the legal limit. But if you did, you'd probably surround him with the best credit administration and loan review that you could assemble.

There's nothing inherently right or wrong with an aggressive business development orientation. If your bank operates that way, however, you'd better have the support systems to keep credit quality where it needs to be.

You also need to understand the tension between aggressive up-front leadership and the administrative and credit support systems. They need not be incompatible—but any management group that ignores or demeans the internal control aspects of the business ultimately is risking the success and perhaps viability of the whole.

What was missing during the last business cycle was a strong sense of risk management during prosperous economic times.

Things were comfortable and we lost our sense of skepticism or wariness that is characteristic of every good lender.

Charles Dickens, in his Tale of Two Cities, observed in 1799 that :

“It was the best of times and the worst of times.”

That pretty well summarizes our industry in 2006 and 2007. We didn't appreciate the risks we were piling onto our balance sheets and our operating results were not sustainable, as we had assumed them to be.

Could we say that the culture, those shared attitudes and behaviors, failed us? Or did we fail the culture? In what way or ways did this happen? Have the lessons we've learned been enduring? Or will the next generation of bankers have to plow this same ground again?

Comment on this instalment below. Suggest future topics in the series to Ed O'Leary at etoleary@att.net

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 a frequent speaker in ABA's Bank Director Telephone Briefing series. You can hear interviews with Ed about workouts here. You can e-mail him at etoleary@att.net. O'Leary's website can be found at www.etoleary.com.

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