Corporate Seppuku
by Charles B. Wendel

Seppuku, also known as hara-kiri, refers to a type of Japanese ritual suicide. Some banks may be performing their own seppuku as they cut business lines and erode the quality of their customer's experience in the pursuit of what their consultants are telling them is low-hanging that will generate short-term cost savings. The short-term cost savings are real, but the long-term deterioration to corporate culture and the bank's relationship with its customers may also be real.

Here's a way every bank can take out costs.

1. Identify any standalone business lines.
2. Blow them up.

Many banks operate with strong individual line units, including a small business or middle market group, the mortgage business, a credit card unit, private banking, equipment finance, among others. Banks formed these specialized business units because of their correct view that customer groups are unique, that is, selling to and monitoring small businesses differs from the requirements of selling to and monitoring middle market companies, etc.

In some cases these individual groups are responsible for the entire value chain from product development to sales, underwriting, operations, and similar activities, allowing these banks to emphasize that their bankers are knowledgeable and operate with an emphasis on relationships and an excellent customer experience. This autonomy requires higher personnel cost, but the level of knowledge and service these units provide can generate revenues that exceed incremental costs. Of course overseeing all this independence sits Credit, Risk, IT, and other central units that make sure the businesses do not operate outside the lines.

At some banks, top management, aided and abetted by large consulting firms, is destroying the relationship model that once defined these institutions with their customers and deconstructing the culture that held their employees together. Near-term cost considerations drive these changes, with the customer experience becoming secondary. The consultants generate cost savings by eliminating or reducing specialized sale staff and moving sales groups, operations, credit, et al into central utilities. Recommendations include exiting senior managers who lead these groups, a big cost win.

To be clear, there is nothing wrong with a well-designed centralized model. We know many banks operating very successfully with a centralized approach, and any bank starting up today would probably follow such an approach from inception with a central utility providing support and leverage to business units.

But what may be occurring involves some banks turning on a dime without due consideration of the impact of these changes on their culture. In some cases they are abandoning a decades-long operating model for what? To become a pale imitation of the much bigger bank next door? Yes, these banks, mouthing their consultant's words, will all say that they are taking these steps to enhance the client experience, but is that true?

Top management and the BODs need to push back when appropriate. Too often we hear bankers say they have been told to follow consultant's recommendations because top management tells them to, even though they do not agree with them. They may be following that path to save their jobs, but at what cost to their integrity? And to the bank?

One major difference exists between traditional seppuku and what banks and their big consultant helpers are pursuing as they pull apart their organizations to save dollars. Samurai committed seppuku to maintain their honor. Banks that are eviscerating their traditional approaches and abandoning their cultures may be acting out of management weakness and desperation, and whatever customer or employee loyalty remains as they become more like every other bank.

Moving more unit tasks to centralized groups can save costs, and functions can be moved without harming the customer relationship. But banks need to follow a surgical approach to any change rather than a using a shotgun.