Doing It All…Badly
by Charles Wendel

Companies need to pick their spots, deciding where to focus and whom to focus on. Inevitably, banks that do not focus and act selectively in what they do and how they do it, that try to define themselves too broadly or grow too big in an attempt to grasp more revenue, will fail. Let’s look at some examples, both outside and within banking.

Wells Fargo. A bank I once considered America’s best has sunk to running a PR campaign basically saying that got caught doing bad things, learned their lesson, and are now on the straight and narrow. OK, that’s an exaggeration, but the fact is a once pristine name may have been forever destroyed. I recently received an email from a long-time Wells employee that excoriated his own top management and called for their removal. Both many customers and employees seem united on their distrust of a once impeccable name.

Blaming their problems on the desire to grow is probably too simplistic, but size and a US expansion program as well as moving into new product areas certainly played a role in Wells’ problems. Norwest, the predecessor bank to Wells, had a great, positive, customer-centrique culture; somewhere along the way it was lost.

Deloitte and McKinsey & Co. Recently, two consulting firms, firms that promote their ability to tell others what to do, have had some major management issues. In the last week Deloitte announced its Board had failed to renominate the CEO of its $15B revenue company. Deloitte’s website features its capabilities in auditing, consulting, and advisor areas such as M&A. An article on firmsconsulting.com focuses on one of the issues that may be a problem at Deloitte:

> “**Deloitte Consulting tries to be everything to everyone.** Deloitte Consulting’s moniker of being the largest consulting firm does have one major, gaping caveat. Deloitte Consulting consists of strategy, operations, etc. as well as a very large technology consulting business. In terms of sheer numbers, there are a lot of technology consultants. They do not do high-end management consulting work. There are lots of code writers, etc.
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> Deloitte Consulting tries to be everything to everyone. Therefore, its brand worldwide really stands for very little. Think about it for a minute? Worldwide, what do people think of the Deloitte Consulting brand? In some places it means technology consulting, in others operations, etc. There is no consistent brand and it is very difficult to build one if the activities of regions cannot be controlled.”

In short, if you try to stand for too much, you risk standing for nothing. In addition, another article reports that Deloitte’s offices in different countries operate relatively independently of others. Therefore, a uniform culture is likely impossible to achieve.

McKinsey & Co., widely viewed as the world's preeminent consulting firm (and where I began my consulting career), may be in even greater jeopardy. If a firm like McKinsey loses a senior client's trust, the firm will die like Arthur Andersen died. Last week's *New York Times* reported on a story that in South Africa had been well known for about a year.

Last Wednesday, the Times Deal Book reported:

How McKinsey stumbled into an illegal project — and a huge scandal

"It is perhaps the world's most prominent consultancy, one that has shaped government policy and helped Wall Street conquer new markets. But McKinsey blundered when it took on a project at South Africa's state-owned power company, Eskom. It promised a payout of up to $700 million, but proved to be deeply unpopular, probably unsuccessful — and illegal."

The net result is that its South Africa operations are under investigation by the government with some former South African clients no longer using the firm. In the Times interview, McKinsey's soon to be replaced head Director in my view appears either ill informed or feckless in his comments about the scandal. Please read the story for yourself.

Many of the comments that appeared on the Times website contrast the McKinsey of today with the firm of 20 years ago in which the man who in effect created the firm, Marvin Bower, held great sway over its culture and ethics. A Wikipedia article mentions a memo he wrote summarizing what once guided McKinsey: "The memo said McKinsey consultants should put the interests of clients before McKinsey's revenues, not discuss client affairs, tell the truth even if it means challenging the client's opinion and only perform work that is both necessary and that McKinsey can do well." The South Africa story as well as other incidents in recent years (including the jailing of McKinsey's former firm head) seems to belie the Bower approach that resulted in McKinsey's once unparalleled reputation. Clients that McKinsey and FIC have in common suggest that McKinsey's political maneuvering plays a greater role in their work than it should.

As the Times article indicates, the McKinsey of today may no longer be aligned with those old values, instead acting more like investment bankers with a deal focus and a huge upside that may put their own economic benefits before their client's. Beyond growing dramatically in employees and operating in 120+offices, McKinsey has also made a number of acquisitions including a data analytics firms and a design company, all to better serve their clients and/or increase revenues. But what of the client?

Of course non-consultants can readily agree that consultants deserve to be trashed. But what do the actions of these consultants and Wells have to do with your bank? Quite a bit, actually.

1. Banks need to decide the areas that will drive their growth and focus on excellence in their execution. One bank we know continues to operate several below scale businesses in which they offer mediocre expertise and generate mediocre returns. Also, they can be a threat to the bank as management does not spend sufficient time understanding these businesses and often lacks sufficient knowledge about them.

   Why continue in them? Inertia and ego plays more of a factor that strategy or the belief that they distinguish the bank in any way. Both capital and, maybe even more important manage time, is spent there when it could be better used elsewhere. Many banks may need to get more targeted to generate higher returns.

2. Build and maintain your culture. Here are the three keys to success in banking and other industries provided absolutely free (Please do not tell McKinsey): Discipline, focus, and culture.

   Discipline demands that you are confident enough in your strategy and market approach that you do not stretch too far to make your numbers. One of FIC's best clients from years ago blew itself up by accepting too much concentration risk and losing its credit discipline.

   Focus means knowing what you are and what you are not. Who do you want to serve and what do you want to deemphasize? Which segments, industries, product types, loans types, etc. are right for you? We recently completed a best practices assessment of a particular business line. Of the 15 banks we interviewed only two said they had no industry focus; one of those banks was huge and, therefore, their approach may make sense; the other was, in our view, making a mistake.

   A vibrant, strong positive culture is the third key. Over the past 25 years, the best

> banks we have worked operate with a unifying, customer-oriented culture. Similarly, years ago when I was at McKinsey there was a sense of esprit and pride that seems to have been replaced by something ugly. The anger from a Wells employee that I mentioned earlier was sad to read coming from a person who has invested decades there and loved the bank.

One senior bank manger we know commented that he had succeeded in his career by taking over underperforming businesses and applying basic (but often overlooked) management practices in those groups: instill discipline, keep focused, build a positive culture. Simple, huh?