Silo Management
by Charles B. Wendel

Years ago, I answered a call from the head of a bank with assets below $1Billion. Until then, FIC had focused on regional and what were once termed money center banks. As we consulted with this client we were surprised to find that many of the same organizational hurdles and slow decision making that we found in the biggest banks also occurred in smaller institutions. My incorrect assumption was that a community bank would be faster in making decisions, operating with fewer people and reduced complexity versus the biggest players.

In the years since then we have found zero correlation between the size of an institution and its ability to make faster decisions. Small banks can belabor decisions as if they were $1T institutions; larger players, while unlikely to be fast moving or agile, often make decisions quicker than companies a fraction of their size. What's going on?

Banks are bureaucracies; not much of an observation there. They are also risk management institutions and over the last 20 years or so risk has been redefined beyond its original and, in retrospect, naively simple, focus on credit. Enterprise Risk Management (How big consulting firms love that term!) now includes operations, IT, fraud, ALM, AI, and myriad other areas. As of this year it also should include asynchronous risk such as pandemics and societal demands that banks have wanted to avoid or placate. Each risk area seems to demand its own expert and infrastructure. Hence, an increase in staff and organizational complexity.

Increased decision hurdles are not limited to banks and credit unions. Look at how universities have changed. Pre-pandemic staffing levels and costs are way up at most of them, certainly the ones my sons go to. Are they hiring more teachers and lowering the ratio of students to Profs to improve the educational experience? Nope. They are hiring staff in areas like HR, diversity, and security. They are managing their enterprise risk. Students, like customers at many banks, fall lower in priority versus managing other constituencies, often the loudest internal and external constituencies.

Some bank leaders focus on reducing internal barriers and may even have success for a short period, but the deep bureaucratic state is alive and well within banks. And, we don't believe most of those erecting internal barriers to decision making and change are either venal or mean spirited; they are doing what they think is the right thing, what they believe is best for the bank and also best for their careers. Complexity creates job security.

How does a bank break through silos? Easy and not so easy. Senior management can do it. I've seen top managers say we will get x done by a certain date, follow up to make sure there is no slippage, and get it done. It works brilliantly. The negative is that this approach seems to work only in extraordinary circumstances, rather than become the norm. For example, PPP was an opportunity that many banks responded to with great commitment and speed. However, post-PPP, some bankers took a deep breath, were glad that event was over, and now want to return to their traditional approach to decision making, the approach with which they are most comfortable.

Management taking a firm hand to meet a particular need or an event like PPP does not transform a bank. Instead, bankers respond to top management's focus and once management's focus goes elsewhere, as it inevitably does, people return to their old ways relieved that ‘this too shall pass” turns out to be an accurate appraisal of how things normally work.

Can banks break silos and create easier decision making processes and a culture that encourages rather than stifles innovation? In most cases, no. My observation is that to do so banks need to review current processes, identify and eliminate overlap, give greater specificity to many job descriptions (checklists help), set quantitative performance metrics whenever possible, and …the big one…remove some senior managers. The more top managers, the more turf to protect, the more silos to build and defend.

Right now, banks, no matter their size, should be fierce in their review of personnel roles and responsibilities, including spans of control. A 10-20 percent in compensation dollars can be achieved without a 10-20 reduction in key personnel. Fewer people can lead to improved performance across the bank and at least the potential for chipping away at silos.

FIC is current focusing on these and related issues, leveraging virtual technology. Because of continued uncertainty, financial institutions need to focus on the future as they manage current portfolios and changing customer expectations.