Targeting Layoffs
by Charles B. Wendel

Daily media reports detail personnel cuts at previously high flying fintechs like Chime, Varo, Upstart, Stripe, Blend, and Brex, among others. Most notably, Twitter has announced cuts in the 50% range and Amazon is cutting 10,000 people. Virtually all the banks I know have conducted or are considering "reductions in force."

Why the cuts?

Overhiring and Wronghiring. In good times most companies overhire. That's particularly true of fintechs with their aggressive growth plans and banks with their sudden focus on all things digital and their increasing IT, compliance, regulatory and related needs. And let's not forget ESG. During growth times we see bank staff increasing, with a tendency for assistants to have assistants. That period is over.

By now many banks have been evaluating their ongoing HR needs in light of slower growth and, for some, a switch in focus from loans to deposit generation. Many of the steps they should be taking are straightforward to analyze but tricky to implement:

- Cut mediocre employees. At many banks 5-10% of the staff can be exited without harming performance. In fact, we've worked with managers who believe that eliminating subpar employees boosts overall productivity and morale because of the weight lifted from the staff when these employees depart.
- Cut the bureaucracy. Bank management often seems to allow non-revenue generating support groups to increase the requirements they set for the revenue generating units without push back. It is past time to evaluate areas like compliance and many others to streamline processes and requirements without harming the bank's operating integrity. These require deep dives into these areas, their activities, and value.
- Break silos. I've probably made that suggestion in dozens of newsletters. That's because doing so is both important and difficult to achieve. Example: One marketing group we know that was focusing on creating digital capabilities seemed to treat traditional line bankers (revenue generators) with something approaching disdain. They operated with the view that they were the future of the bank while the old guard was just that, old. Silos kill culture and, in this instance, resulted in the loss of good bankers to competitors.

Change in the marketplace. Areas like mortgages, auto loans, and other credit areas, including small business lending are slowing down. In some cases, units can be shut down or dramatically reduced; in others, like middle market banking, the best bankers are being targeted by strong competitors. The challenge here involves selective area cutting while keeping (and maybe repurposing) the best sales staff while reinforcing other groups like workout. Management faces many moving pieces to manage.

Reduction in non-revenue producing activities. As noted above, in recent years support group staffing has increased dramatically. It's difficult for an executive not expert in compliance, IT, legal, marketing, or myriad other areas to make cuts if they lack expertise in that area. The functional groups themselves are expert at job preservation and warning that the sky will fall if cuts occur. Top management needs to exercise courage, conduct rigorous analysis, maybe bring in an “independent” outsider before making possibly significant cost reduction whether by outsourcing, eliminating people, and/or dropping unnecessary or low value activities.

Need to reshape the sales staff. I’ll keep this short. Pay the best sales staff more to retain them, drop the second rate, and use compensation and market focus to steal the best sale staff from other banks. This is a great time to beef up your sale staff in key areas. In some instances, salespeople in out-of-favor businesses may be able to adapt to new areas.

Time to shrink ESG. You may have read that FTX had a high ESG score from the World Economic Forum and others. I will freely admit that I may be jealous that I did not come up with this scam- like concept to pull money from virtue signaling banks and others, but it’s time for banks to pull back from the ESG precipice. Only certain aspects of ESG merit serious consideration; some of it, to use a great British expression, is bollocks.

Reduced tolerance for home-based workers. I know I grew up during the last century, but I don’t believe that most (not all but most) people are as productive working from home as in the office. Most cannot effectively contribute to team efforts, help to build a coherent culture, or grow their skill base while petting the dog or burping the baby. Five days a week in the office may never return as the norm but, for sure, three-four should become an immediate standard for most employees. Salespeople are one exception to this as many should be with clients and not behind their desks. Other exceptions also exist.

I hear more senior bankers muttering about their inability to get the same level of quality performance from home-based workers. My point is that this area merits special focus.

Final thought. In the mid-1940s Winston Churchill said, “Never let a good crisis go to waste.” Banks can and should emerge from our currently volatile economic environment leaner and smarter. Many won’t, but the best players will.

FIC works with senior management and Boards on issues that are critical to a bank’s sustainability and growth. We emphasize practical solutions that we customize to a company’s capabilities and culture. Reach FIC at cwendel@ficinc.com.