

Too Many Generals? by Charles B. Wendel

Last time I highlighted Citicorp's announcement that, once again, it is undergoing a cost reduction event, this time with the help of BCG. It seems to involve taking out layers of management and changing spans of control. Projects of this type eliminate costs but can destroy internal morale and erode customer service. At big banks cost reduction projects seem to occur every three-five years. The fact is that most bank expenses are tied to personnel and, no surprise, much of that expense goes to senior personnel and their support staffs.

In recent years we've seen expansion of the senior ranks and longer senior titles at many banks. As banks look to reduce operating expenses, banks might first examine the top levels of their organizations to capture savings.

This being written just after Veterans' Day, let's look at the growth in senior military personnel. An analysis from 2017 states published in National Defense University Press states: "There are approximately 900 Active-duty general/flag officers (GO/FOs) today of 1.3 million troops. This is a ratio of 1 GO/FO for every 1,400 troops. During World War II, an admittedly different era, there were more than 2,000 GO/FOs for a little more than 12 million Active troops (1:6,000). This development represents "rank creep" that does not enhance mission success but clutters the chain of command, adds bureaucratic layers to decisions, and costs taxpayers additional money from funding higher paygrades to fill positions. As end-strength fluctuates, force structure and strength projections for the next decade show the uniformed Services maintaining substantial excess capacity at senior ranks. Although historical numbers are inexact guides and future threats could radically change circumstances, the case for reduction is strong. The Department of Defense (DOD) should reduce the numbers, billets, and percent of GO/FOs in each Service to increase efficiency, streamline decision-making, achieve modest cost savings, and enhance accountability of decision-making."

A side note: the US now has 44 four-star generals versus seven during WWII.

I have no basis for critiquing the number of generals, but the comments above illustrate issues related to what happens when companies in any business have too many senior executives, including:

- Cluttered chain of command
- More bureaucracy
- Slower and more complex decision making
- Reduced accountability
- Less flexibility
- Dampening of morale
- And, of course, higher costs

I'd add to rank creep, at least one other organizational problem that needs to be addressed.

Avoidance. Too often, we've seen top management avoid dealing with ineffective senior managers who should be replaced. Some banks (fewer in number these days) remain paternalistic

and don't want to risk harming their banks "feel good" internal culture. In other instances, perhaps they are waiting for a Pauline-like moment that transforms a poor leader into a good one. That doesn't happen. I also remember another bank that was in the process of hiring a top manager whose first assignment was going to be to fire an errant exec; in other words, let the other guy do it. That approach is not a path to success.

But personnel is not the only cost area that needs examination. Here's a story that surprised me. It involves consultants consulting on the use of consultants. The headline in a November article in Canada's *The Globe and Mail* states "Ottawa paid nearly \$670,000 for KPMG's advice on cutting consultant costs." The article explains, "The department said this work involved developing "recommendations that could be considered as options to ensure that Canadians' tax dollars are being used efficiently and being invested in the priorities that matter most to them." In other words, cut the overuse of consultants.

I know of a situation in which a young analyst questioned the value of the very high-priced consulting firm that his struggling company was using. He was quickly warned off by his boss who made clear that the head consultant and the top of this company were close. But now is a good time for an independent assessment of the cost/benefit of all consultant and third-party relationships.

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