

Valuable Reflections II

by Charles Wendel

This week we continue our conversation with Sandy Berry in which he comments on leadership in banking and the changes bankers should consider. As with the [last newsletter](#), I make some comments in parentheses. Sandy's comments follow.

What makes a great leader in banking?

I read the following recently: "Knowledge makes you proud of what you know. Wisdom makes you humble about what you don't know." This sums up what it takes to be a great leader in banking based on my experience over 51 years.

- Great leaders know the business of banking in enough depth so that they understand what it takes to be successful. They understand how to make money, how to compete, and how to assess risk.
- Great leaders have extraordinary vision. They can sense the trends in the business of banking and how other economic trends and conditions can create opportunities and/or risk. This may be the critical factor that separate great leaders from good leaders. *(CBW: Vision is in short supply in a world focusing on the next quarter.)*
- Great leaders are team builders. The enterprises today are too large for the "know everything, make all decisions" leader. This great leader builds a solid team and trusts them to run their areas. *(CBW: Unfortunately, too many banks allow silos to form and dominate.)*
- These leaders embrace people. They don't just "like" people or are, to use the buzz word, "people persons." They genuinely enjoy the challenge and the rewards of leading people to individual and team success. Caring about people does not mean that these leaders are hesitant to make tough people decisions when required. It does mean that even these decisions are done with respect and based on excellent management practices.
- These leaders are decisive. In the world of banking rarely can decisions be stretched out over time. Conditions, competition, or immediate opportunities won't allow it. Great leaders know how to make decisions and are not afraid to say yes or no. *(CBW: Too often, everyone at a bank can say no; no one can say yes.)*
- Great leaders exude confidence, trust, respect and credibility whether it be to the local chamber of commerce, a bunch of Wall Street analyst, to their shareholders, or to the tellers in a branch.

Based on your experience, what would you change about banks or bankers?

What is the greatest challenge(s) that banks face today?

Basic commercial banking, the acceptance of deposits and the making of loans plus managing the relationships of high value customers is not a rapid growth business. It is a steady upward trending business, but in every instance in my career that banks have reached for rapid growth, they have suffered extraordinary losses. I won't list all those instances here but just for a few examples:

- Excessive exuberance in the early forays in credit card lending
- Commercial real estate lending not understanding the cycles of this business

- And the granddaddy of them all: mortgage-backed securities

There may be concern about whether banks can attract required capital if they are not go-go growth. Maybe the answer is to achieve steady growth and to pay good dividends with a slower growth in share price.

The result of the growth mentality is that banks have lost the personal touch that made the business pleasing to the customer and satisfying to the banker. Customers use more technology today instead of branch visits but when they do need to talk to a banker it is difficult to find someone who knows how to deal with the problem. Banks have down sized the capability of the people who work in the branches. A lot of this has been driven by cost, but the great need to vigorously control cost is driven by the need for rapid growth.

Summary: Banks need to regain their personal touch (and this is not just a consumer issue but commercial and small business as well) by using technology to make the opportunities for personal touch more effective. I know that I sound like an old banker wishing and hoping for the good old days. However, I bank with a local bank that is accomplishing this. It can be done.

Much of your banking career was in retail and small business. At many banks small business remains an outlier rather than a key business. Why?

Most bank leaders do not take the time to truly understand the nuances of small business banking so that they know how to build this business. Many can't even decide whether it is a retail business, a commercial business, or a free-standing business. By attaching it to retail or commercial it is managed as an appendage and forced fit into either retail or commercial, often violating the key success drivers in the process.

I think executive management has a tendency to look at the size of these relationships compared to middle market and ask, "Is it worth it?" Also, the lack of value in deposits over the last decade has not helped since small business profit is deposit driven. Finally, a career as a small business banker does not have the appeal of being a commercial account officer. It has become difficult to build a stable team that can learn the market and have sustained success. Interestingly, information technology should make small business more effective, more exciting, and more profitable.

As an aside, at my first bank, State Planters, small business was the responsibility of the branch manager and his/her staff. Credit decisions could be made at the branch because we were all extensively credit trained. We were highly successful and helped to fuel the rapid growth the bank enjoyed. *(CBW: Stripping credit authority from branch managers and RMs may have had some unexpected negative consequences.)*

How has the role of line and support staff changed over the years?

Two of the banks I worked for were line driven banks. Both had able bankers in staff positions, but the line drove the business and made the key decisions. The third was the most staff driven bank that I have ever encountered with those in staff positions able to veto things that the line might want to do.

In my consulting career, almost all of the really able banks I worked with were line driven. However, it seemed the larger the institution, the greater the decision power of the staff. At banks and credit card companies that had become information technology driven, the staff groups providing the information insights had great influence on line strategies and tactics, most often with effective outcomes.

Two related occurrences have increased the power of staff: increasing regulation and the growth of the risk management discipline. In all banks that I encountered in my ten years with Teradata, compliance and risk could veto almost anything. It usually took a C-level executive and sometimes the CEO to overrule compliance and risk, and CEOs did not overrule either without lots of thought.

In staff driven organization much of the excitement and spontaneity is removed from line managers. The staff driven banks I consulted with were not as agile in the market as those with the line in charge with the possible exception of true information driven institutions. But because of compliance and risk, staff power is growing. *(CBW: Sandy touches on a huge issue here. The pendulum has swung too far in the staff direction.)*

What advice would you give to a graduate considering banking as a career? Is commercial banking a good career choice today?

I would not encourage a graduate to pursue a career in retail banking. The large banks do not have programs to help them learn and advance their careers. In many instances, bankers are mere order takers. I would encourage a graduate to pursue a career in bank marketing with an emphasis on information technology and AI. The opportunities here are limitless.

Commercial banking as a career varies so much from bank to bank. A graduate would have to examine the training program, the level of responsibility the commercial bankers are given, how the bank is attempting to grow the business, and the base of customers the bank has. Does this customer base offer opportunity to learn about a variety of businesses and would it be exciting to be a part of this business? If the answers to these questions are positive, I think commercial banking can be a great career.

Thank you, Sandy!