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Retail Banking's Secret Weapon

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Even as financial-services organizations are reemphasizing the local branch, they continue to overlook the performance impact of successful branch managers. A recent study reveals how banks can recruit, retain, and develop the branch managers who will be sales leaders.

by Paul Hyde and Seamus McMahon

Remember when the branch manager at the local bank was a pillar of the community, a friendly loan officer, and a trusted investment advisor? Those days seemed gone forever, hurried to their demise by changes in the banking industry. Banks closed branches and promoted online banking in hopes of cutting costs; separated the roles of branch manager and investment advisor; centralized many activities historically carried out in branches, such as making decisions about credit, issuing checkbooks, and counting coins; and sometimes eliminated branch managers altogether.

And although the local branch has made a comeback in the past few years — witness the success of such branch-oriented banks as Commerce Bank and Washington Mutual — branch managers have not. Many banks, large and small, have renewed their focus on retail banking and on the structural factors that make it work, including branch location, the look and feel of branches, the customer experience, and the skills of the branch sales force — even going so far as to hire staff from traditional retailers. But branch managers themselves — even the successful ones — have received little credit for the resurgence.

That's a big oversight, because exceptional branch managers can have a huge impact on a branch's performance. In a recent Booz Allen Hamilton analysis of more than 4,000 bank branches, just 5 to 10 percent of branch managers demonstrated consistent top-quartile performance over a sustained period. But those branch managers delivered three times the growth of their local competitors. On a three-year, net-present-value basis, a great branch manager is worth between US$500,000 and $1 million in incremental revenue to his or her bank, the study found.

Because most banks don't yet recognize the impact of the branch manager in building successful local operations, churn is high and few employees aspire to the position. Clearly, banks need to do a better job of realizing that the branch manager is, at his or her best, a sales leader, and they should identify, develop, and retain people who aptly fit the characteristics of the job. The Booz Allen study suggests several ways to approach this task — ideas that are valuable not just for the banking industry, but for all retailers.

Much of the conundrum lies in the fact that banks don't really know what makes branch managers tick. So they treat them all alike, devising one-size-fits-all career models that automatically move successful managers to larger and larger branches, or to regional management positions, to which they may not be well suited. According to the study, 66 percent of such moves lead to a decline in performance at the manager's new branch. Branches with managers who have stayed put

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or who have moved only once enjoyed an average growth in deposits of 13.2 percent, whereas those with managers who have transferred to new positions more than five times had an increase of just 3.2 percent.

What are the traits shared by top-performing branch managers? They are willing to be held accountable for both their successes and their failures. They are proud of their bank, their branch, and their employees. They are creative in coming up with new ways to drive business. They are driven to succeed and motivated by their branch's success, not just their own salary and bonus packages. They are confident in their ability to meet their goals. And they typically hold an integrated view of all aspects of their business — sales, service, people, and the core operations. In short, they run their branches as if they were their own businesses.

Just as important, however, are the differences among successful branch managers. Interviews conducted in conjunction with the Booz Allen study found that they perceive themselves, accurately or not, to be in one of two categories: as "town mayors," who identify more strongly with their branches and their communities than with the overall organization, strive to maximize their branch's performance and their communities' ability to prosper, and have few ambitions to move beyond their current position; or as "find the next challenge" types, competitive about their role within the bank as a whole and desirous of moving to larger branches as a way to take on positions of greater importance within the organization.

Some branch managers have the basic skills to succeed in their current position, but they may not be capable of managing a larger branch or possess the depth of product knowledge to do so — whatever their ambitions. Some lack the confidence to manage several branch managers, as they would have to in a larger venue, whereas others have stronger management abilities and the skills to understand complex products, including commercial banking, that are required to handle more lucrative clients. Some stick to their branches, whereas others look at the bigger picture, understanding their region and more general financial-services trends.

Understanding these differences in both ambition and talent offers banks an opportunity to manage the career paths of their top-performing branch managers more effectively, getting the most out of those high performers and making sure they put the right manager in the right branch.

Highly skilled town mayor managers, on the one hand, typically don't want to move to new branches, so augmenting their value to the overall organization should involve training them to act as mentors to younger managers. High-performing but less skilled town mayors, on the other hand, should be provided with the tools to keep on performing well. Talented next challenge types should be groomed for their next job at a larger branch, while the expectations of less-talented but no less ambitious managers need to be managed, and even if they can't be moved up, they should be rewarded for their ongoing success and continuity.

Given that the attrition rate among branch managers industry-wide is between 20 percent and 30 percent every year, rigorous, thoughtful career planning is essential to the retention and continued success of the best branch managers. But that must be coordinated with new approaches to every aspect of human resources processes relating to the branch manager, including recruitment, training, and performance assessment.

Recruitment, whether in-house or from outside the bank, has long been an ad hoc, primarily qualitative process with no clear method or goal in mind. Hiring managers, for instance, are typically responsible for different regions, and their hiring policies aren't consistent from region to region. Hiring decisions should indeed be optimized locally, but the criteria need to be expressed explicitly. And managers of the top branches in every region should be tracked and contacted, with the goal of keeping them "warm," in human resources lingo, in case an opening turns up.

The training of branch managers is another industry-wide blind spot, and getting the best out of people remains a challenge. Current systems have not been designed to help managers succeed — it's not culturally important, and few banks have allocated resources to the problem. Yet industry benchmarking has demonstrated that determined training efforts can make a difference in terms of both retention and performance, and anecdotal evidence suggests that well-trained branch managers produce significantly higher customer-service and customer-satisfaction scores.

Performance assessment also remains a problem. Our study of bank branches shows that senior managers rarely agree about their performance criteria, or about assessments of individual branch managers. Consistency varies from region to region, and one result is that managers are placed where they don't want to go or where they will struggle to succeed. Assessing performance must be made more objective, with consistent, clearly defined criteria and goals that are more closely tied to financial metrics.

Taking an objective approach to managing the managers will work in any retail sector, or any business at all, for that matter. For banks, it will produce a significantly better return on the investment that they make in their branch managers. But it will work only if high performers are given the tools, the goals, and the incentives to maintain their impressive pace. +

Resources

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