IMPROVING SQUISHY MANAGEMENT REPORTING

by Steve Brown

This is wine country, so when we think of things that are squishy, we often think of stomping grapes into wine. As bankers prepare, plan and otherwise get ready for next year, we thought some might appreciate thinking about the squishier side of performance metrics Â– namely, measuring non-financial performance.

There can be many reasons to measure non-financial performance, but one of the main reasons is improved profitability. It is true that studies show financial executives are 3x more confident in their bank's ability to measure employee and company performance with financial metrics than with non-financial metrics. Yet, both are important and ignoring the non-financial side can lead to potential issues with employees, which in turn can spill over to customers.

One way to solve this problem, believe it or not, is by increasing the type of reporting executives receive. We know what you are thinking Â– "who needs more reporting?" But that isn't want we said. We said bankers should increase the type of reporting they receive. In fact, the same study as above found most financial services executives agree that they could improve performance if they could get better information and reporting in some very specific areas, which we will detail later in this article.

In short, surveys find boards and management teams are tired of weak reporting and the vast majority feels performance could be enhanced if they could get better information that includes non-financial metrics. Look around your own bank and think about the reports you generate. Ask yourself, "is this report helping us make decisions that can improve performance?" If the answer is no, there is room for improvement. Don't worry, because 87% of financial services companies surveyed said they could also improve.

Which metrics to capture and how to do that can be a struggle, but some of the most obvious include capturing declines in customer satisfaction or retention levels, service quality, loan processing times, new sales calls, cross-sale rates, employee performance, operational results and community to name just a few. While some of these are admittedly quite "squishy," when properly structured and tracked, they can also significantly boost performance.

There is no easy and consistent way to measure many non-financial metrics, so most banks will simply have to find their way. One of the best ways to do this is by deciding what metrics are important and then thinking through/setting up tracking and reporting methods. Some of the most popular examples could include capturing and reporting on employee commitment (measure the competitiveness of compensation/benefits, retention levels, and success of recruitment programs); customer satisfaction (satisfaction with new product or service quality, customer loyalty and pricing levels); innovation (number of new products/services, impact on financial performance, cost to deliver and customer relevance); and corporate governance (board composition, roles, responsibilities, quality of performance, quality of strategic decision-making, performance of individual members and the quality of risk management controls).

Companies now routinely include non-financial information in their financial reports and many also have begun working them into compensation packages. No matter what non-financial metrics your bank eventually decides to measure or how those metrics will be incorporated into the reporting process; the time has come to begin looking for ways to do so. Bankers love numbers and financial metrics, but providing high-quality service and measuring "squishy" metrics, such as customer satisfaction, can also boost returns and make 2008 a vintage year.

BANK NEWS

Bond Insurer Update

Moody's confirmed the "AAA" ratings on MBIA (but with a negative outlook), AMBAC and FSA, but put the ratings of FGIC on review for a downgrade. S&P still has the insurers "under review."

FHLMC

The GSE has posted a video, in all places, on YouTube to tell delinquent borrowers the problems of foreclosure rescue scams. While it is not as popular as the Japanese Dancing Cat, it still garnered more than 8k hits in less than 6 days, making it the most popular FHLMC related video ever.

Fed on Mortgages

The Fed's Board of Governors will meet today over the current subprime issues. Some likely outcome will be that the Fed will make it tougher for lenders to impose fees for early repayment of subprime home loans and that borrowers should have more flexibility in choosing a new amortization schedule to fit their requirements.

Housing

A survey of national homebuilders finds most believe the sector will continue to deteriorate in 2008. So far this year, new home sales are down 23% while delinquencies have reached a 5Y high.