# TAKING CARE OF EMPLOYEES ONE SOCK AT A TIME

by Steve Brown

It was John Wooden, perhaps the greatest coach in history, that used to start the first practice of the season by making all the players take off their shoes and learn how to put their socks on right. The Coach knew that in an effort to get to practice on time, players would throw on their socks any which way, which could result in blisters. He also knew blisters are a distraction that no one needed. Few coaches took care of their player's emotional and physical composition as much as John Wooden. It also follows that few coaches achieved 10 national titles in any sport.

If you have been to one of our Executive Management Conferences or Tactical Workshops, you have most likely seen our statistics on profitability comparing brick and mortar branches to employees or to technology. The truth is, a good employee is worth multiple times the value of a good branch or a profitable piece of technology. As an industry, we say employees are our most valuable resource, but what are we doing for employees in this time of economic crisis. We asked banks across the country what they are currently doing for employees and then compared ROE performance to see if we could uncover some trends. While we are not ready to state a direct cause and effect relationship, we can say that since successful banking is doing a lot of little things right, how you treat your employees may be a mark of superior management.

For instance, about 80% of banks we talked to admitted that their employees are working harder and longer hours in this economic downturn compared to 2Ys ago. Our follow up question was - if you ask your employees to work harder, what are you doing for them? Most banks drew a blank when faced with that question, although many admitted it wasn't additional compensation.

As we polled management, we found that "Tending To Employee Needs and Moral" ranked at the bottom of the top 10 most important items that managers are focused on (credit quality, capital, financial metrics, etc. all rank ahead). This is a mistake in our opinion, as employees produce the greatest profitability. It makes sense to spend more resources on them, in order to help drive performance.

Delving down, when banks do said they were spending more time on employees, it turned out that bank managers most often motivated by talking about their companies' values or direction and financial performance. More information is good in a time of stress, but few managers we talked with took the time to express interest in their employees' lives outside of work or otherwise try to make individual connections with employees. Only a small percentage of managers that we contacted rolled out additional education in the last year and almost 20% actually cut programs (such as benefits, sales rewards and company perks).

This brings us to our point today - crises management begins with employees, not with managing credit quality or financial metrics. Uncertainty abounds and employees that are distracted and not motivated may not be as effective as they can at getting the bank turned around. Your average bank employee knows the road to recovery will not be easy and most are willing to give it their all, knowing that there is no bonus around the corner. If true, then don't we owe it to our employees to find other ways to take care of their needs and inspire them? With downsizing, cost cutting and negative news, making employees a top priority seems like the right thing to do.

As Wooden used to say, "Winning is not about points, but people." Build people up and the points will follow. If he cared about the little things like socks, his players knew that Wooden cared a lot about them.

## BANK NEWS

**FRB Outlook**

Bernanke said yesterday the "recession is very likely over at this point." However, he also noted the weak job market and tight credit conditions will be difficult to overcome.

**FDIC Outlook**

FDIC Chairman Bair said bank closings would continue "at a good clip" through 2010. The agency will decide on funding plans before the end of this month and has not ruled out using the Treasury as a source.

**TARP**

According to Reuters, regulators don't expect to grant the next wave of TARP refund approvals until the end of 2009.

**School Loans**

Defaults on student loans climbed 150bp to 6.70% over 2008 - a 10Y high.

**Regulatory Speeches**

FRB Vice Chair Don Kohn (voting FOMC member) said a sharp increase in short-term rates is "unlikely" and "quite improbable" given the weak economy. He also said the FOMC is unlikely to raise rates for "an extended period" of time and that raising the rate paid on bank deposits would likely be a main way to tighten credit. FRB Atlanta President Dennis Lockhart (voting FOMC member) said the economy "has started to recover" but is "still fragile" and that the "first stages of recovery are under way."