GETTING THE MIKE WALLACE MINDSET

by Steve Brown

The passing of Mike Wallace reminds us that in order to get the right answers, it pays to ask the right questions. Part of what made him a great journalist was his ability to objectively probe any topic and drill down to the facts that mattered. Sometimes, the questions were tough, making the subject uncomfortable, but his candor and focus on getting to the facts is a lesson we can all learn from and leverage. We have all been in meetings where participants avoided tough questions and left the facts behind - and hence problems untouched. The desire to avoid conflict within a meeting is understandable, but good managers recognize that it comes at the cost of longer decision times and wasted resources. Taken to the extreme, an organization that is too polite often drives conflict away from the open where it can be transparently dealt with and to closed doors and private meetings (where it can result in organizational dysfunction). Consider recent research by Ferrazzi Greenlight, an HR training and research company. Ferrazzi recently looked at how 6 large US banks dealt with tough loan workout decisions. The study interviewed executives, sat in meetings and tracked how asset management, lending and loan workout decisions were made. What Ferrazzi found was that the banks that scored the lowest on candor saw the lowest financial performance during the recent economic downturn. In low candor banks, problems were slow to be recognized and then when they were, they were slow to be resolved. Lending, no surprise, is one area of a bank that seems to derive the deepest emotional investment (due to subjective decisions and attachment to both project and client). The lack of candor seems to hurt this area more than others. The good news is that there are ways to promote candor and it starts with understanding that risk is a natural part of banking. CCOs, for instance, don't have the luxury of not making a decision on a loan. Mistakes are going to get made and credits are going to go bad that are completely outside the bank's control. The important step here is to have a team that takes an objective view of the credit not through an historical perspective, but with the current facts presented before the team. This emotional detachment helps promote an honest conversation. Here, probing, Mike Wallace-type questions are helpful. One first exercise is to have everyone agree on the "facts" required to make the decision and then set out to gather those facts. Once those facts are aggregated, participants need to go through to determine the quality of the facts and group them to see if they are known (can be documented), unknown (they can't be known within the decision time frame) and/or assumed. Sometimes it is helpful to appoint a "Mike Wallace" to take the other side of the discussion, in order to objectively get to the facts. Another good technique is to break large groups of 8 or more people into smaller groups. Then have each small group make a decision and present it to the larger group. There is less room to hide and it forces more participation. In addition, smaller groups promote a higher degree of risk taking, so more team members tend to speak up. Another best practice to promote honesty in meetings is to teach "caring criticism." Direct negative feedback can hurt, but if all team members are supportive, constructive feedback can be successfully delivered in the manner in which it was intended. Using phrasing like "I might suggest," "Consider this approach" or "Have you thought about this" helps recipients take into account alternative views and suggestions on how to improve. In like manner, those receiving ideas or caring criticism should attempt to take the feedback as honest and generous, rather than critical. True collaboration is impossible when team members don't trust each other to speak honestly in meetings. To solve problems, it helps to carry on the legacy of Mike Wallace and be unafraid to ask tough questions. For improved risk management, collective knowledge must increase and institutionalized. This can only happen if bankers are honest and open with problems that occur and how to fix the issues. Review decisions and processes, while admitting mistakes to go far toward creating a superior culture of risk management. It takes work to create a candid environment where this can occur but it is a challenge every bank leader should embrace.

Related Links:
PCBB 2012 Executive Management Conference

BANK NEWS

M&A

Washington Federal ($13.6B, WA) will acquire South Valley Bancorp ($868mm, OR) for stock of $33.7mm and a cash earn-out up to a maximum of approximately $39mm based on collections of a specific pool of assets. The transaction enhances WA Fed's presence in southern and central Oregon.

C&D Lifted

Mountain Pacific Bank (WA) announced regulators have terminated a C&D with the Bank dated March 5, 2009.

Bank Earnings

1Q earnings reports begin this Friday, as JPMorgan and Wells Fargo both report. Of note, financial firms in the S&P 500 are forecast to grow earnings 13.1% in 2012, faster than any other sector.

Branching

Bucking the trend, Toronto Dominion Bank said it would open 50 branches in New York City over the next 4Ys (pushing it to the 3rd largest in the region).

SEC Charges

The SEC charged failed Franklin Bank Corp's former CEO, Anthony Nocella and its CFO, J. Russell McCann with fraudulently concealing the deterioration of the loan portfolio and inflating earnings. The bank holding company filed bankruptcy in 2008.