QUALITY AS A STRATEGY IN BANKING OPERATIONS

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ABSTRACT

In today's economy, banks are looking for new ways to reduce costs and improve profit; while increasing their market penetration. This paper deals with the following three areas where adoption of quality principles can yield these results.

1. Employing prevention oriented thinking while changing marketing strategy or seeking a significant market shift.

2. Adopting a quality system to minimize failure oriented expenses and loss of customers.

3. Reducing operational expenses, allowing more commercial and retail customer services; thereby increasing market penetration.

The authors discuss how bank management can effectively utilize quality as a strategy, giving examples from everyday business situations. Also identified are positive quality principles whose adoption by management will make quality as a strategy workable.

TEXT

In the current era of tight money, high interest rates and keen competition for the investment dollar, a new awareness is beginning to grow in banking circles. Bankers are realizing that a bank's economic survival is largely dependent on its ability to provide quality products and services to an increasingly sophisticated consumer market, while simultaneously reducing operating costs. In order to achieve these goals, it is necessary for quality principles to permeate corporate strategy from the highest ranks of management to the lowest level of employees. This paper will explain how such quality permeation will enable the achievement of these goals.

Before going too far in defining quality objectives and their attainment, it will be necessary to find out where we are today. What are our current practices as they relate to quality procedures?

It would be helpful at the outset to realize that whether in industry or banking quality-related problems have three major causes:

1. People don't do what they should do.

2. People don't understand what they are supposed to do.

3. People look for shortcuts in doing their job.

With these three problem causes in mind, current procedures in the following everyday processes are examined: manager selection, decision making and problem solving. Finally, solutions are offered incorporating quality principles for these problem areas.

Many times, the best of our current managerial selection processes are based on the reasoning that Joe Teller is a "nice guy" who has worked hard and "deserves" to be promoted. The relation of his current skills to those required in his new position is frequently given minimal consideration. "He's clever", we say. "He'll catch on." And so, blessed only with formal company announcements and the well wishes of his friends, Joe stikes out into unknown territory.

In his first few days as manager, Joe realizes his most important task is educating himself on the operations of the area he now heads. While still struggling to master the working of his department, time catches up with Joe.

All the unresolved problems of the past, plus a host of new questions and developments, come crashing around him. His chances for a thorough job of self-education have now been destroyed. He is instead reduced to the role of "fireman"; most of his time spent in putting out smoldering brush fires. The demands placed on a new inexperienced manager during this hectic period of self-education and "fire fighting", can lead all too easily to a serious error in judgement. Now the bank's risk exposure is greatly increased and Joe's future career is in jeoporady.

While Joe is attempting to cope with his own special set of problems, other managers are faced with the task of daily decisions affecting bank policy, products and procedures. Bill Loaner is such an individual, and he's faced with a tough decision. Bill has an idea for a new service he would like the bank to offer. The new service, which he call the "Silver Lock Program", involves the offering of home improvement loans. Mr. Homeowner applies for a home inprovement loan. The bank appraises Mr Homeowner's house, credit worthiness and financial history. Based on its findings, it offers to loan Mr. Homeowner an amount of money within a specified range --- for example, $3,5000 to $5,000 for needed kitchen remodeling. The bank also tells Mr. Homeowner that if he signs a home remodeling contract within the next 30-60 days, making use of the bank's Silver Lock loan program, it is ready to guarantee a specified interest rate on the loan. Bill Loaner is convinced that the guaranteed availability of funds at a guaranteed rate will be attractive to many potential customers.

Bill's tough decision is not just how to sell his new product idea to management, but how to use the data already available to support his theory that such a new product will be successful at this time. This is a real problem for Bill, as a large share of the available data seems to indicate such a prgram could not be successfully marketed at this time. One of the more serious career-minded men at the bank, Bill is caught in a common dilemma. As a loyal employee he wants to see the bank make proper marketing decisions. But as a loyal employee who isn't getting any younger, Bill also needs an idea that will show his skills to management and give his now-stalled career a shot in the arm. Without his conscious awareness, Bill is suffering from the principle of interocular trauma.

This principle states that if you look at a set of data long enough, it will turn out to support any earlier conclusion you have reached. How does Bill - How does anyone - practice this principle? First, analyze data in all possible ways. Look for the analysis that most closely supports your belief; in Bill's case, that his Silver Lock program will be a real money-maker for the bank. Next assume you are right. Set up some procedure to test your assumption, and then analyze the results of the testing. If the results show the new service does not increase the bank's market penetration, 2 options are available. First, throw away the unfavorable results, and/or secondly, review the data again in many different ways. Then proceed to pick the most favorable analysis of the results, and use this analysis to conclude that the new service will be highly marketable.

Such a strategy is known to have been used in more than one real-life situation. The product was selected, attractively packaged and given great market exposure. Large sums were spent on software development and design of new forms to handle the expected business volume. Only one ingredient failed to materialize. The customers.

This same principle of interocular trauma can have equally negative effects on the problem-solving process, where it canlead to severe cases of myopia. Unfortunately, such was the case of Sam Straight.

Sam is manager of the Savings Department in a medium-sized commercial bank located in a major metropolitan area. The once-prosperous economy of the area is now in a definite decline. When two of the clerks in Sam's department resign to look for greener economic pastures, Sam is informed they will not be replaced. He immediately begins looking for ways to perform the same amount of work with fewer people. Then inspiration strikes. Sam remembers the variable interest bearing accounts that, until now, have been processed manually. If he can place these accounts on the computer, Sam reasons, it won't take as many department man-hours to maintain them. This in turn will ease the effect of the imposed staff reduction. Sam is satisfied he has found the answer to his problem, and without hesitating moves to initiate his plan.

Before long, reality sets in and Sam's myopia becomes apparent. The Systems and Programming manager informs Sam he, too, is suffering from manpower shortage and can't possibly accept any new projects unless he receives additional personnel. Forms Control advises Sam they are in the middle of a forms inventory ordered by the bank president, and couldn't possibly convert the current manual process form to an automated data entry form for at least the next 10 weeks. The Methods Department gets wind of the proposed change from Forms Control. Sam receives a call from the manager in Methods to say that if his new form is going to require a new procedure to be written and published to all branch personnel, Sam can then count on at least a 6-month wait. The supervisor in the Data Entry area hears of Sam's idea from the Methods Department. She informs her boss that any additional work load now will have to result either in a staffing increase or in work being contracted out to a service bureau. And last, but not least, the Data Center Officer informs Sam that any delay in receiving input data from Data Entry to the Computer Room will mean a delay in processing Savings work. This will result in Sam's department not receiving its own work on time. In the last case, at least, justice has been served. By not analyzing his own ideas thoroughly enough, Sam has now endangered the orderly operation of hiw own department, not to mention the severe dislocation of schedules in 5 other areas.

Sam's problem is not new. He has fallen into the trap of believing that he can operate in a vacuum. He failed to communicate in advance with those very areas he must depend on to implement any change and still provide him his daily work. He completely failed to recognize the extensive effects of what he saw as a simple change in operations. Consequently, he never sat down to calculate the cost in terms of new forms, new procedures, extra keypunching, software modification, additional computer time, training of branch and Savings Department personnel, etc.. Sam was fortunate, in a way. He was stopped from a short-sighted, expensive mistake. The problem becomes more acute when this kind of myopia strikes at higher levels of management. Then there many not be anyone around to veto such an erroneous decision.

Now let's review these three problen areas, this time incorporating quality principles into their solution.

In the case of Joe Teller, four "preventive services" come to mind. These services are provided by a Managerial Support area within the bank's Personnel Department. This area's first responsibility is to identify all potential management candidates and to candidly assess the background and administrative experience of each: Foreseeable weaknesses in an indiviual's managerial skills receive early diagnosis, and the second preventive service then brought into play, i.e., proper training.

This training is tailored to the needs of each individual and satisfactorily completed before placing that individual in a management candidate pool. The third preventive service begins when an individual is selected as a candidate for an open management position.

The third service consists of careful scrutiny and comparison of each person's qualification versus the stated requirements of the position for which he/she is being considered. A formal analysis is prepared on all nominees and sent to the individual responsible for final candidate selection. If the candidate ultimately chosen is in need of any more specialized training to successfully fill the new position, such training is provided before the candidate assumes his/her new responsibilities.

The fourth service is offered to all managers, though with special emphasis on newer members of management. It is a management consulting service, whose function is to provide additional data, insights and viewpoints to those managers faced with difficult decisions, troublesome personnel situations, etc.. This service is entirely advisory in nature, with all fianl authority and responsibility resting with the manager served.

In the case of interocular trauma in marketing strategy, bank management has many defenses available. One such defense is the requirement that all data submitted in support of any new product proposal be subjected to careful scrutiny. If at all possible, a neutral third party should conduct an independent marketing survey. The results of this survey should then be closely compared with all data submitted in the new product proposal. Causes for any significant differences should be researched diligently, and reported to those empowered with final decision-making authority.

In addition to these measures, some serious questions should be considered, of which the following is but a brief sample:

1. How does the proposed product mesh with the bank's long-term goals? For example, is the bank striving to reach more corporate borrowers or the individual consumer market?

2. How large a market is it reasonable to expect for this new product?

3. How much competition is expected for this market?

4. What is our share of this market likely to be?

5. What returns can be expected over the life of the product?

6. How do such returns compare with those of other possible products/services?

Such wide-ranging analysis will help guard against a dangerously narrowed perspective.

Myopia in problem solving can also be prevented by following a few simple procedures:

1. All changes in work flow or methods of operations should be evaluated for possible bank-wide impact.

2. The operations of all affected departments must be considered with management in those areas before any decision is reached.

3. Proposed changes of any magnitude should be subjected to a cost-effectiveness survey.

4. Once changes are proven cost-effective, then an implementation schedule is drawn up with input from all areas involved.

5. Continuing communication among all areas will result in a smoother, more timely implementation.

SUMMARY

Quality Principles dictate the following:

1. Before hiring or promoting any individual, the position requirements must be compared with attributes of the candidate in order to assure that he/she is properly educated and committed to following proven procedures.

2. Bank organization in developing new marketing plans and/or solving operational problems will not use the principle of interocular trauma.

3. Bank organization will have definite procedures to examine possible side-effects of solutions to any known problem.

Practicing the above principles will result in:

1. Increase in operational productivity and service to existing markets and customers.

2. Avoidance of short-lived, high-promise marketing plans.

3. Providing competitive edge as a result of lower operational cost and higher success ratio of new marketing plans.

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