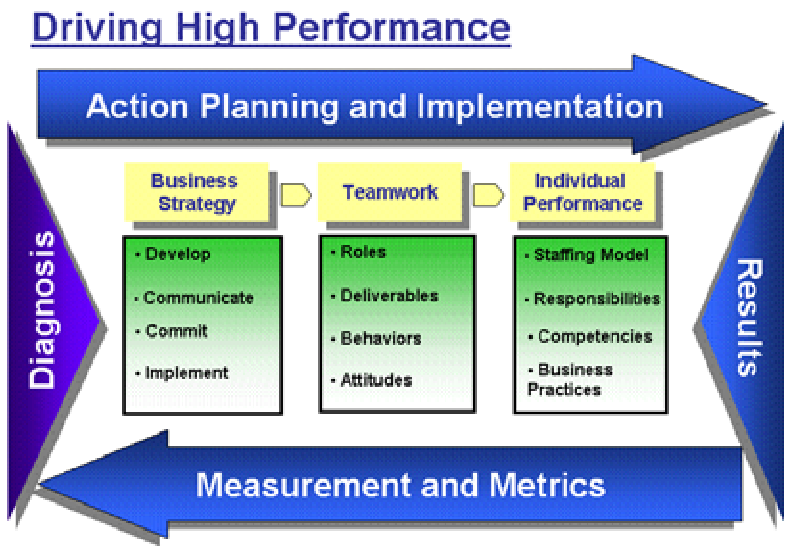
STRATEGIC PERFORMANCE PARTNERS LLC
Linking Business Strategy, Teamwork and Individual Performance

DRIVING HIGH PERFORMANCE

It has been 70 years since the financial services industry has experienced change at such a rapid pace. Today's rate of change is faster than at any time since the Glass-Steagal Act was instituted in the U.S. in 1933. Current challenges are driven by consolidation, regulation, competition, innovation, mergers and acquisitions and many other factors. Banks unable to manage at this pace of change are destined to encounter mediocrity and declining performance. In this environment, mediocre performance is not sustainable. Reducing the volatility of business success enhances the ability to stay at the head of the curve; achieving growth and profitability in excess of peers.

Great business leaders know that the direction and speed of change – and the results produced – are directly influenced by their actions. Producing superior results requires the participation of <u>everyone</u>! In periods of rapid change, employee satisfaction, engagement and commitment become critical areas of focus for senior management. Without employees' effort and energy nothing gets done. This has been proven through multiple studies, both practical and academic. Note the oft cited 1998 Rucci, Kirn & Quinn study of the <u>employee-customer-profit chain</u> for Sears:



"…developed a model linking employee attitudes, customer satisfaction and financial measures. Statistical analyses revealed ***that a 5 point increase in employee attitudes corresponded with a 1.3 point increase in customer satisfaction and a .5 percent*** *improvement in revenue growth. For Sears, targeting units with lower employee attitude scores translated into more satisfied customers and millions in revenue."* (recent article published by the International Society for Performance Improvement)

Satisfied, committed and engaged employees, in other words ***'employees that are involved in the bank's success,'*** take action to solve problems; they focus on customers and expand profitable relationships because they want to, not because of outside direction or required 'processes.'

These employees are proud of their organization, foster customer satisfaction and loyalty; and actively participate in driving exceptional business performance. This strong connection was cited in a recent article by practitioner Steve Ginsburgh in the article; *Employee Engagement "Marries" People and the Bottom Line:*

> **"A mortgage lender discovered that revenue for account executives was 38% higher for the highly engaged over their peers with lower engagement scores.** A large multi-industry study revealed that highly engaged employees are three times more likely to want to stay with their present employer than those who report lower engagement levels."

Strategic Performance Partners LLC (SPP) facilitates the achievement of high performance for financial services clients. SPP applies its expertise to accelerate the alignment of business strategy, teamwork and focus to improve role clarity and individual performance. Customized measurement approaches provide management with tools to assess progress and actively manage change.
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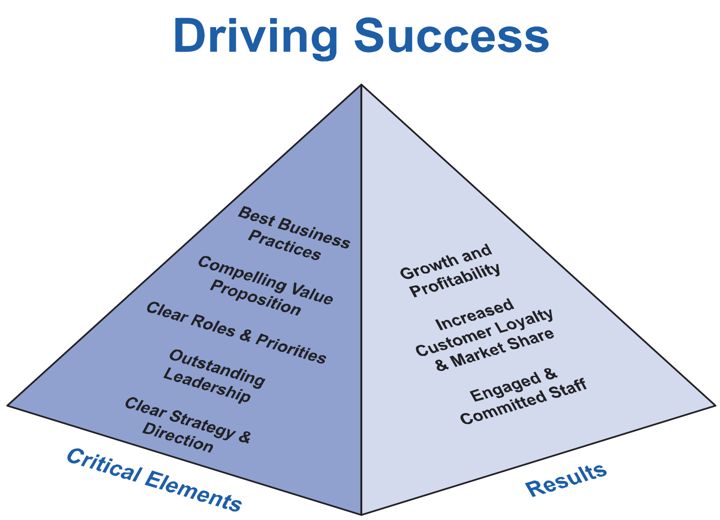
Measuring the elements that **drive** financial performance rather than only measuring financial performance is essential. Getting behind those measures to understand the actions required by management to establish or sustain high levels of performance is KEY! In fact, it may be said to be the only role of the Leadership Team in driving change at this breakneck pace. Measuring the right, actionable elements allows management to make mid-course corrections, promote success and be in control of the organization's destiny.

Most research agrees that the key **leading indicators** of success have to do with the people in the organization. Are they committed to the business, engaged in what they do and satisfied with the organization for which they work? Whether the measure used is satisfaction, engagement, commitment or others, the point is that the degree to which employees believe they can participate in driving the success of the bank makes the major difference!

Business leaders must not only watch these measures, but also get behind these indicators of success. Senior management needs to clearly understand the performance factors that drive the indicators of success. This understanding allows for focused action-planning and enables the organization to drive high performance.

Behind the indicators

Whether the path to success is incremental or occurs through a major event, such as a reorganization or acquisition, financial organizations need to focus on several key elements to achieve a high representation of involved employees. The figure on the right, 'Driving Success', provides a simple model of basic ingredients required for sustained, high performance.



Elements:

- *Direct involvement of line management and professional staff.*
- *Increasing participation throughout the organization, as initiatives progress from design to implementation.*
- *Open feedback on what has worked, been accomplished, been delayed or scrapped – and WHY!*
- *Ensuring an external focus – improving service for customers and exploiting lessons-learned from competitors.*
- *Balancing the focus on clients, staff and shareholders. (The most successful organizations in the world do this well , and continuously.)*
- *Application of measurement tools – quantitative and qualitative – to assess and stimulate progress.*

It is equally important to understand that "one size does not fit all." There is no single solution that can be defined and mandated from the top. Organizations with multiple business units or teams experience a great diversity in experience and results. Some teams may be enthusiastic and fully involved in the process of driving high performance. Others may be scarcely functional or barely able to cooperate with other internal units to competently transact business for the customers. Identifying the teams and work units and the degree to which the employees are participating in driving performance provides the vital management information required to guide the creation and implementation of the right action plans.

Under the Surface: Measuring the 'Right Stuff'

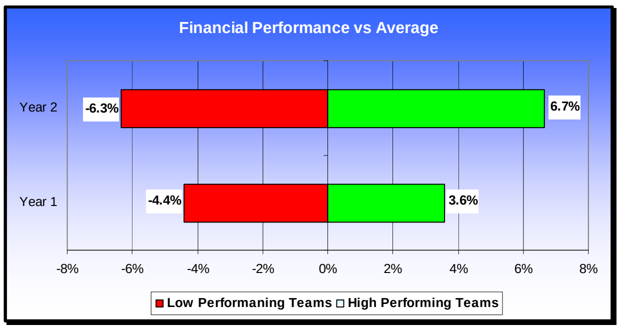
Jack Welch, the retired CEO of General Electric, stated that *"Simplicity applies to measurements . . . Too often we measure everything and understand nothing."* The ready availability of information in today's banking environment is beneficial. Improved accuracy of information, increased speed of delivery, the routine ability to obtain a 360-degree view of a customer relationship all hold the potential for enhancing performance at every financial institution. Yet the vast amount of information can easily obscure what is meaningful. Organizations are inundated with useless information – measuring everything and unable to use the data to produce the desired results. One primary challenge executives face is the ability to convert information into actionable knowledge that can be used to produce superior results.

Best practice suggests that the work groups which consistently meet or exceed objectives and out-perform their peers have a common element to their approach. The managers of these groups are focused on the elements that drive financial success, **not** solely on the outcomes. Conversely, work groups that rarely meet objectives tend to overly emphasize short-term results. This short term focus works to the detriment of elements that drive the success, and hence the achievement of the desired outcomes, on a long-term, sustainable basis.

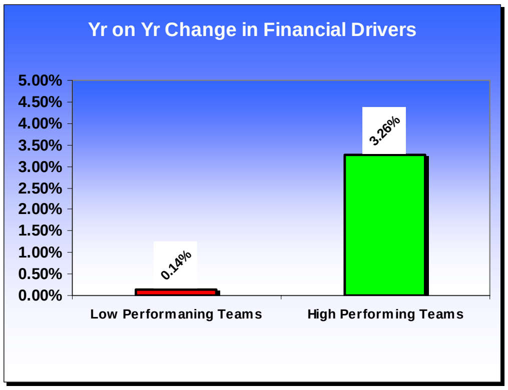
Organizations, teams, divisions or work groups that consistently deliver high levels of performance are focused on key, ***Leading Indicators*** of future performance, **and** the underlying factors that drive those indicators. These are the aspects of performance that can be used to chart a surer path to producing superior results. Note the study by Malcolm Patterson and colleagues that linked overall satisfaction levels to productivity. Variations in overall satisfaction levels accounted for approximately 29% of the variations in levels of productivity. By focusing on the actions required to increase or sustain levels of overall satisfaction, management has the tools required to deliver high performance and superior results.

As an example:

In a recent engagement with a top tier commercial bank, SPP analyzed the two year financial performance of almost 100 business units, and compared these trends with key factors from recent employee survey data.



The financial results: Year-on-year financial measures for all teams increased 2.8% over the previous year (indicated by 0% on the chart to the left). The higher performing teams (90th percentile) outperformed the average of all teams in the first year by 3.58% with regard to achievement of financial targets. The lower performing teams (10th percentile) were 4.42% below the average of all teams in the analysis. During year 2, the high performing teams increased their out-performance of the average to 6.66% while the low performing teams drifted further below.



During this same period, these high performers increased their survey results on key predictive factors of financial targets by 3.26%, from an already high base level. The low performing teams, operating from a lower level increased their results on these same factors by a barely perceptible 0.14%.

This series of surveys, over a three-year period, measured significant elements including; levels of satisfaction, key aspects of leader / follower relationships, collaboration, teamwork, role clarity, customer focus, and many others, at the individual and team level. This analysis explored the survey results, determining that there were a number of key elements that enabled managers to anticipate, and therefore manage proactively, the year-end financial outcomes as measured by the company. Teams that focused on these key elements outperformed the average team results by a considerable difference. Additionally, as the high performing teams sustained their focus on implementing clear actionable elements, the measures increased markedly compared to low performance teams, and the differential in financial success continued to widen.

The difference in success is attributed to the amount of focus and energy placed in key areas.

Indicators of future performance fall into four major areas of action:
- Leadership: providing clarity of purpose and direction, giving feedback – **continuously and in-person**!
- Cooperation and Teamwork: working together for common objectives
- Entrepreneurial Empowerment: being given the requisite authority and responsibility to do the job
- Development of Front-Line Managers: providing the coaching and mentoring necessary to excel as a leader of a sales team.

Some measures of activity that help diagnose which levers are potentially effective in driving high performance include:
- Clarity and understanding of organizational goals and degree to which values are shared.
- Commitment, at all levels, to the organization's direction.
- Expert execution of processes, activities and business practices to achieve results.
- Customer impact and benefit.
- Effectiveness of teamwork and collaboration across teams/units.
- Satisfaction in the quality and nature of the work, including job 'content', work team attitudes, and management practices.

High Performing Teams tend to:
- Place a high degree of importance on teamwork, satisfaction, freedom, focus/efficiency, and independence.
- Value and expect quality line management involvement and guidance.
- Involve everyone in reaching goals and solving issues.

Conclusion

Faced with the volume and complexity of available information there is a tendency to rely solely on personal judgment and leadership style to manage and motivate staff and drive high performance. The unconscious reasoning being: "if it worked to get me this far, I must be doing something right." Management's focus is too often on "meeting the numbers;" – achieving performance objectives for the current quarter or year. Frequently, the approach is to drive staff by the hard numbers on the 'scorecard'.

Using this approach is akin to playing roulette with your organization's performance. Some units may win; meeting or exceeding their targets. But, some will lose; failing to achieve financial objectives. Measuring solely by financial performance against organizational objectives provides a completely accurate measure of success, **in the past**. This, at best, yields inconsistent performance -- it is the trial and error approach to financial performance. Furthermore, a short-term approach to 'meeting the numbers' often conceals longer-term, systemic challenges that inhibit the sustainability of financial results.

Success in the increasingly competitive financial services marketplace requires insightful action that has the greatest likelihood of producing results. Measuring what matters to identify ***Leading Indicators*** of future performance can produce rapid and superior results by focusing on actions that will increase employee engagement and ensure that the organization is moving aggressively toward optimal and sustainable future performance.