Scoring Branch Performance

A workable branch scorecard system needs to assess three components of growth: new customer acquisition, cross-sell of new accounts to existing customers, and the retention of existing accounts.

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by Steven Reider

Despite the growth of the Internet, ATMs and other remote channels, banking remains fundamentally a person-to-person business. And while alternate channels now support a significant share of consumer transaction activity, the physical branch remains the overwhelming choice for account openings. In this environment, it remains critical for banks to both develop strong branch staffs and to retain top employees. The branch performance scorecard can assist in both of these critical efforts.

A branch performance scorecard is a reporting tool used to measure performance across various retail banking activities and to award incentive payments to personnel at top-performing branches. Though the scorecard offers a useful reporting tool and can assist

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branch administrators in comparatively evaluating their branches, these represent ancillary benefits. At its core, an effective scorecard has two primary functions:

- Reinforces the behaviors taught in the bank's sales training program (and if your institution lacks a formal sales training program, you can stop reading right now; a scorecard absent a sales training program simply reinforces random chance).
- Rewards super-normal performance. Note the word "super" in the prior sentence. A sound scorecard program will allow a bank to identify top-performing branches and reward them accordingly; but these rewards should accrue only for performance above baseline performance. Remember, rewarding employees for the baseline performance that's already reflected in their salaries simply raises costs with no benefit.

Though there are numerous approaches to a performance scorecard, a sound program should address three areas: new customer acquisition, cross-sell of new accounts to existing customers, and the retention of existing accounts.

Characteristics of an effective scorecard

Before considering what specific elements to measure on your institution's scorecard, there are six principles to keep in mind:

- The scorecard must be *simple*, with a limited number of measured categories. Limiting the number of measured performance attributes (for example, number of new checking accounts sold) serves to focus the branch staff on those few behaviors that are responsible for the bulk of the branch's success or failure.
- Similarly, an effective scorecard is *understandable,* to the point that branch personnel can replicate the calculations on which their incentive payments are determined.
- The scorecard should contain goals against which performance is measured, and these goals must be *attainable*. Performance targets set beyond a reasonably attainable reach will create a disincentive, as personnel are unlikely to pursue an unattainable goal.
- All measures on the performance scorecard must be *controllable*. Remember that the purpose of the scorecard is to reinforce desired sales and service behaviors, so anything beyond the control of branch staff is inappropriate. Thus, neither a profit component that includes noninterest expense such as occupancy costs, nor a loan loss component is appropriate on a branch scorecard. Not that credit quality isn't important; but it is the responsibility of the credit committee and not something that should affect incentives paid for properly executed sales and service behaviors.
- A scorecard should be *stable*.
- A scorecard should be *timely*.

These last two things mean that the items measured on a scorecard should remain constant over time so that branch personnel understand how they will be evaluated and which skills are most important, and incentive payments should be disbursed at least quarterly so that employees see a direct link between their activities and their paychecks.

Elements to include on a branch performance scorecard

A scorecard need not be complicated. As long as it addresses the three major categories of branch growth—new customer acquisition, cross-sell and retention—a scorecard can provide an effective tool for measurement and incentive management. Notice that there is no measure of profitability. Profitability is not the responsibility of the branch staff; it is the responsibility of product management. The branch's goal should be to sell the products the customers need and support those customers with outstanding service. If some products are unprofitable, then product management should reconfigure the offerings. But the branch staff should be confident that any product they sell benefits the bank, as long as it is appropriate for the purchasing customer.

The scorecard should measure each of the three components—acquisition, cross-sell, and retention—and offer a corresponding incentive payment for meeting goals in each.

Address the *acquisition* component through simple tallies of accounts sold, rather than through measures of new balances. Units remain within the control of the branch staff; bal-

Performance Scorecards Made a Difference at Mississippi Bank

When Christopher M. Burgess was named executive vice president of M & F Bank (assets: $1.5 billion) Kosciusko, Miss., in the late 1990s, he made a point of meeting with the front-line employees. He was surprised that no one could answer him when he asked what the bank's strategic goals were.

Having written his thesis for the ABA Stonier Graduate School of Banking on the topic of implementing balanced scorecards in a community bank, Burgess set about developing a scorecard that could be used at M & F. He developed it gradually and "made a lot of mistakes" along the way, but eventually he came up with a series of both qualitative and quantitative measures that were used to gauge pay for performance.

Loans officers, for example, were scored not just on the growth of their loan volume, but also for their leadership efforts, such as how often they mentored junior loan officers.

After three years of using the scorecard, Burgess noted that the net income for each full-time equivalent employee had risen from $44,000 to $82,900. "It was significant," he says. "The most impressive thing was that the measures for employee satisfaction and employee retention improved as well."

Two of the keys for the success of a scorecard are that the measure is perceived by employees to be fair and that it is easy. "If the process is too time-consuming or complicated to track, employees are not going to bother with it," he notes.

When Burgess left banking in 2006, he founded a company called PerformanceDelta LLC, Ridgeland, Miss. One of the services he provides to the financial services industry is help in developing customized performance scorecards. His observation is that only a minority of community banks use them today. "There is no doubt that they make a difference," he adds. E-mail **Chris.Burgess@PerformanceDelta.com**

—*Walt Albro*

ances less so. And, the opening balance of a new account may not be indicative of its mature balance level. Performance, and corresponding payments, can be based on absolute units sold, performance against a market-potential-based sales goal, or performance against historic benchmarks. The market-potential-based goal is the most difficult to implement because it involves estimating market potential, but it is also the fairest approach because it treats all branches equally relative to the opportunity in their respective market areas.

Do not pay differential payments for sales of one product over another. Though there is an understandable tendency to want to align incentive payments with product profitability, this gives branch staff an incentive to sell one product over another based on their own compensation and not on an assessment of the customers' needs. Anything that contradicts the principle of needs-based selling will ultimately lead to attrition as customers close inappropriate accounts.

The acquisition component can be divided into multiple categories, for example: consumer checking accounts sold, business checking accounts sold, loan accounts sold. But if your institution offers a free checking product, be sure to embed some accountability for needs-based selling. Because free checking is often the easiest product to sell, customer service representatives (CSRs) may offer this first, irrespective of customer needs. A simple rule, such as "free checking accounts above 50 percent of total checking accounts don't count toward the performance total," will force branch personnel to consider whether they're offering free checking because it's an easy sell or because it is actually the product best suited to the customer.

Bank managers usually address the *cross-sell* component in one of two ways. Either they measure the change in the branch's overall cross-sell ratio each month, or they measure the number of products sold to existing customers. The latter method is preferable in that it is simpler for the branch

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staff to calculate, drives directly to the desired action, and is less susceptible to manipulation (consider that if the branch seeks to raise its cross-sell ratio from 2.0 to 2.2, it could accomplish this either through broadening existing relationships or by driving off enough single-service households that the ratio is diluted to the point that it reaches the goal; obviously only one of these tactics benefits the bank).

For both the acquisition and cross-sell components, a bank must determine which products to count. A few simple guidelines follow. Count all products that can stand alone but not services that require another product to use. A checking account stands alone—it counts; a debit card requires a checking account to use and thus does not stand alone—it does not count. Further, omit certificates of deposit (CDs), as the ability to sell CDs is dictated far more by the rates the asset-liability committee allows than by any efforts by branch personnel.

The *retention* component remains essential for two reasons: for new customers, retention reflects how well the CSR matched the product to the customer's needs and how well the CSR explained the product features, as the overwhelming proportion of new product attrition arises from mistakes in the sales process. For existing customers, measuring retention ensures that customer service receives as much attention as sales.

Retention can be measured indirectly through qualitative measures such as customer satisfaction tracking surveys or mystery shopping (since scores on these instruments are highly correlated with retention), or directly by measuring the proportion of accounts that defect in a given measurement period. Most institutions measure retention across transaction products only, since retention is less controllable in products such as certificates of deposit and loans. Some banks measure retention only across recently opened products (where recent is usually defined as somewhere within the last three to 12 months). The argument for this method is that it frees the branch staff from responsibility for accounts opened before their tenure at the branch and sharply focuses attention on accurately assessing customer needs during the sales process.

Finally, because ancillary services such as debit cards, direct deposit and online banking improve retention, a count of these sales also warrants inclusion in the retention component of the scorecard.

Implementation considerations

There are three important decisions to consider before implementing a performance scorecard program.

Will performance be measured and payments distributed at the branch level or at the individual level? Because skill levels vary at each branch, it is important for top salespeople to mentor those less experienced. A scorecard that measures branch sales performance against goals encourages a collaborative environment and leads top sales performers to coach colleagues who still need additional training. Keep in mind that the scorecard serves to reinforce the bank's sales training; it is not a proxy for a sound human resources management. A team approach to the scorecard should not prevent the bank from rewarding top individual performers through the normal human resources evaluation process.

Will incentive payments be unlimited or capped? If a branch faces a goal of selling 100 accounts and sells 200, should it receive an extreme bonus payment that period? Unlimited systems expose the bank to unanticipated payouts; and further, the employees who reach caps are likely motivated by more than just dollars and are least likely to "shut down" just because they've reached some maximum payout level.

What other performance criteria must branches satisfy to realize incentive payouts from performance against the scorecard? The performance scorecard reflects only sales and service behaviors, which are not the only responsibilities of branch staff. No level of sales volume can offset poor administrative oversight or failure to meet minimum standards on fundamental operational measures such as audit scores, over/short balancing accuracy and employee attendance. Deficiencies in these areas should negate any earned payouts.

As long as a bank is committed to simplicity, transparency and reinforcement of its primary sales training goals, it can implement a successful branch performance scorecard and incentive system in short order. ■

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