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Financial Services

POINT OF VIEW

MASTERING TALENT

"MONEYBALL" COMES TO RETAIL BANKING

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"If gross miscalculations of a person's value could occur on a baseball field, before a live audience of thirty thousand, and a television audience of millions more, what did that say about the measurement of performance in other lines of work? If professional baseball players could be over- or under-valued, who couldn't?"

Michael Lewis,
Moneyball: The Art of Winning an Unfair Game

MARSH & McLENNAN COMPANIES

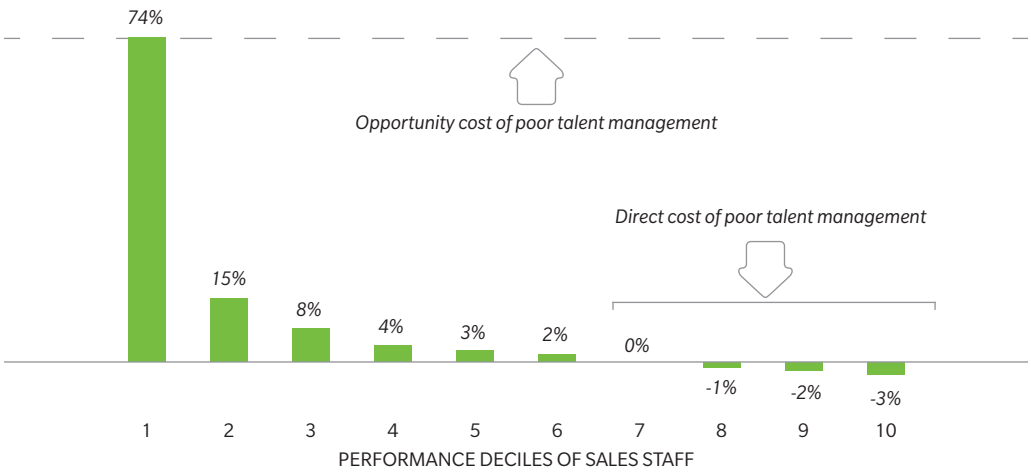
The Oakland Athletics (the A's) have a venerable history in Major League Baseball (MLB), dating back to the franchise's 1901 founding. The A's have won multiple World Series, but the latest, in 1989, is a thing of the distant past. Over the past three decades, the A's have been steadily overtaken by franchises with superior spending power. In 2002, however, the A's had a regular season which made history with a 20-game winning streak, the longest in MLB's American League history – all with a team whose payroll of $40 MM was the third lowest in MLB, paling in comparison to the Yankees' $120 MM. How did they achieve this? While the other teams were selecting players based on subjective judgment, collective wisdom, and little real science, the A's adopted a data-intensive approach to player selection. They ran rigorous analyses to identify which player statistics most highly correlated to best offensive performance to find top talent that had been overlooked and was available cheaply, thus creating a winning team. The A's strategy was described in a book by Michael Lewis called Moneyball: The Art of Winning an Unfair Game. In this paper, we argue that retail banks often resemble the MLB teams of old in their talent management strategies – favoring art over science. The upside opportunity in terms of attracting, developing, and retaining better talent is huge. People are one of the most important assets in retail banking; it is time for a better, more rigorous approach to talent management. The "Moneyball" approach.

TALENT MATTERS

Customers are becoming increasingly comfortable with digital channels, but people remain at the heart of sales and service in retail banking. Whether you focus on sales, customer service or customer retention, your best staff typically outperform the rest by a factor of 3 to 5. So getting and keeping more of the best people really matters.

Exhibit 1 shows the distribution in value creation across a large retail network, adjusted for local market attractiveness. In this example, the top 10% of sales staff accounted for over 70% of the total value created in the network. Put another way, they accounted for *nearly triple* the total value added by the other 90% of staff combined. That's a lot of leverage. Replacing staff in the bottom half with top performers can increase overall performance by an order of magnitude.

Exhibit 1: Share of value creation by network sales staff



Source Oliver Wyman analysis

Obviously, no one deliberately hires weak performers – but the selection process does not work. Future high performers can be identified upfront in the hiring process using relatively simple modeling, even if the data environment is not best-in-class. That allows banks to beat the market at no added cost.

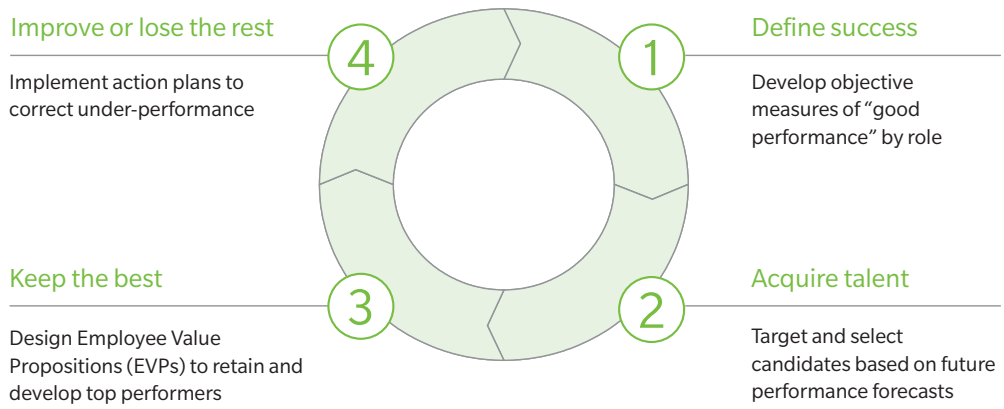
At the same time, talent management is not just about getting the right people in; it is also about motivating and retaining them. In many markets, the cost of attrition is brutal. New hires typically take up to 6 months to achieve average performance; add in a 1-2 month lead time to fill vacancies and the opportunity cost of attrition is often worth over 10% in lost business – and this excludes the direct costs of recruitment and training. With analytically rigorous approaches, attrition can be fixed too, and without increasing the cost of benefits. A combination of smarter selection, better-aligned incentives and refined internal policies can result in a massive reduction in the impact of attrition at no added cost to the bank.

HOW TO WIN

Smart talent management is really no different from good risk management, CRM or any other key process in a bank. It should start with robust analytics. However, while banks have embraced the use of data in many of these other functions, talent management remains more art than science.

This can be fixed though. We have worked with many clients to bring science to talent management, in the spirit of *Moneyball*. Starting from a clear definition of what "good performance" represents, we have helped improve talent acquisition, development, and retention across multiple retail roles, leveraging analytical models and structured processes. Our *Moneyball* approach to talent management is based on four stages, as shown in Exhibit 2.

Exhibit 2: *"Moneyball"* approach to talent management



Note: There are many of different roles in retail banking. You cannot fix them all. You should start with the ones that have the biggest impact on financial results; often these are the same roles where you have a large number of people with a wide range in performance. In a retail bank, that means starting in the network and the call center, then moving on to other operational functions.

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1. DEFINE SUCCESS

Start by defining objective measures of "good performance" for each role. After all, you cannot manage for success if you don't know what success is. This may seem obvious, but it is often the most challenging part of the process. It may be easier to define success for a sales employee, but defining a metric which allows you to unambiguously classify one call center operator as better than another can involve heated debate. Our advice: start with the simple roles and move on from there.

Even in the simple roles, once you have defined the basic metric, measuring it usually needs a fair amount of work. For example, for a pure sales employee role, we would typically look at the total revenues attributable to the employee, less their direct costs, *over their expected tenure* and *netting out the effect of location*. Netting out the effect of location is critical to ensure employees in less attractive markets are not penalized for lower sales, and the other way round for employees taking advantage of markets with strong demand.

Measuring success ultimately means combining a number of different data types:

- Sales volumes
- Product economics (revenue streams and costs)
- Employment costs and tenure estimates
- Local market potential

2. ACQUIRE TALENT

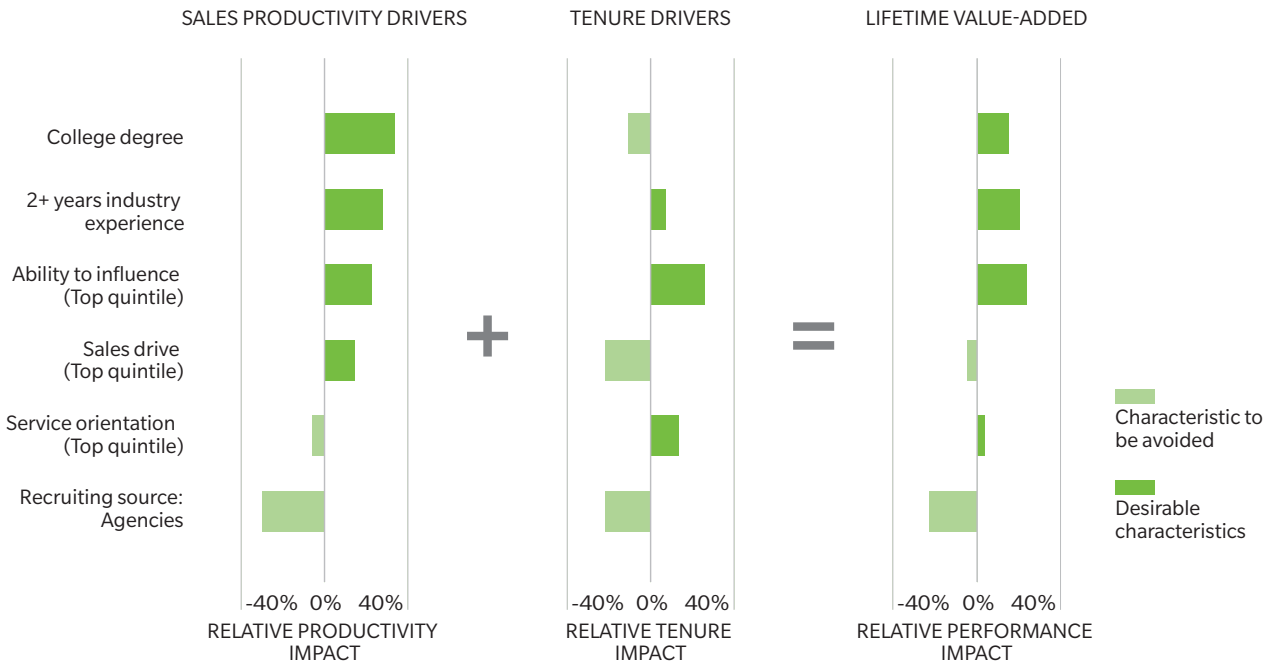
Step two is to improve recruitment by identifying what information available upfront can be used to predict future success in a given role. The analytical process for this is relatively straightforward, and aims to isolate the impact of different characteristics by comparing the data against the observed performance of current and past employees. This allows a bank to improve both candidate targeting and selection – you will be receiving stronger applications and be able to screen for the very best staff by role.

Part of the challenge here is the lack of data available to banks during recruitment. We can only model with what is available. Luckily, we have found that even with the simplest data, it is possible to improve substantially on the status quo. At the same time, we broaden the information collected so that over time the models become increasingly powerful.

In baseball, the best offensive players aren't necessarily the most valuable defensive assets. For example, there is often a trade-off between power - which allows you to hit the ball harder - and agility - which allows you to react faster to catch the ball. Similarly, 'future success' models in retail banking should help optimize the productivity/tenure trade-off, as shown in Exhibit 3. Characteristics which drive high productivity may also drive the likelihood of early attrition, voiding the initial investment in recruiting and training.

Note: Many banks already use some form of screening tool to assess the quality of different candidates. However, while these tools may appear to be scientific, we have found very few cases where these models have been calibrated against the bank's own success metric and almost none where the models are back-tested and recalibrated over time. As a result, they rarely perform as intended. For example, in recent work at a large retail bank with over 50,000 employees, we found that their model had a predictive power of less than 3%. That is effectively random. A redesign of their models used characteristics that substantially improved predicted future performance. Using the improved model to hire the right candidates resulted in improvements of up to 44% in employee productivity and up to 32% in employee retention.

Exhibit 3: The productivity/tenure trade-off



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Built correctly, these 'future success' models provide key support for recruitment:

- For any given role, they reflect the characteristics of candidates who are more likely to succeed in the role. This information can then be used to ensure the role is appropriately advertised through the right channels as well as providing an initial screening – reducing costs while increasing success.
- For any given candidate, the models can help determine which role would best suit the candidate. This is useful in circumstances where the bank is looking to ensure that the workforce matches the overall population on key criteria and also in cases where an employee is underperforming or is unhappy in a given role and is looking for a new challenge.

3. KEEP THE BEST

Once you have recruited the right employees into the right roles, the next challenge is to ensure that they stay and continue to perform. That means developing Employee Value Propositions (EVPs) to optimize performance/tenure in a cost-effective manner.

There are many EVP levers, most of which have a cost to the bank. The challenge is to balance the improvement in productivity against that extra cost.

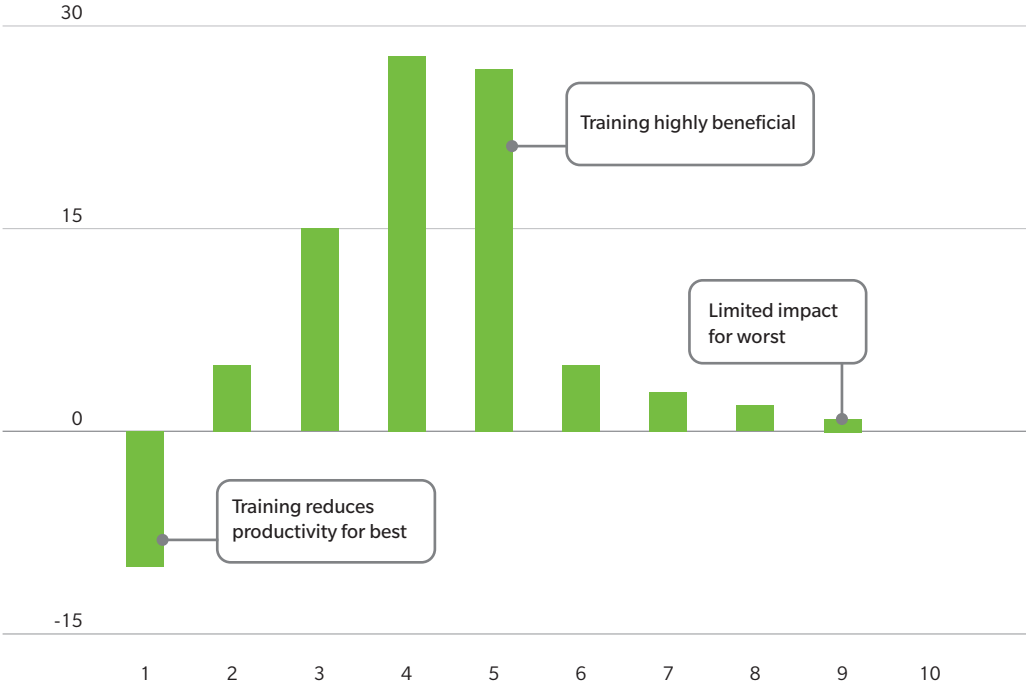
The most obvious EVP lever is remuneration (salary and other non-financial benefits). However, headline salary is rarely an efficient way to create competitive advantage. First, it is expensive – all employees get it, even the underperformers; second, it is public – your competitors know what you pay and will react as required; third, it quickly becomes an acquired right. We advise using aggressive pay-rises for high performers or simply using a better, more results-oriented reward and recognition program. We have written numerous papers on reward and recognition and so will not focus on that here. Suffice to say a well-designed incentive program can have a huge impact if it aligns correctly with your agreed measure of "good performance". It will encourage talented staff to work to the best of their ability as well as identify for you which staff need additional help or need to leave the bank.

Beyond remuneration, there are many more subtle levers that can be used to boost performance and retention. This might include training, relocation, hours-worked, job rotation, team sizes, etc. As before, the challenge is to analyze what the empirical effect of each lever is (not just what you think it might be) and so design optimal propositions based on fact.

As part of this, it is worth noting that some levers should be applied in a targeted fashion: what is good for some staff may not be relevant to others. Training is a great example of this. Many banks focus heavily on training and firmly believe that "more training is good". However, as Exhibit 4 shows, sometimes training is only helpful for part of the population and can actually damage the performance of your most talented staff.

Exhibit 4: Unexpected consequences of training

PRODUCTIVITY IMPACT OF TAKING A TRAINING COURSE
BY ADVISOR PERFORMANCE DECILE (1=BEST, 10=WORST)



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At the same time, it is important to actually apply lessons learned from EVP deployment. As an example, one of our recent clients identified commute time as a clear lever on attrition and put in place a policy to recruit branch staff locally. Sadly, this good intention was quickly undermined as employees were relocated to backfill other branches. The average account manager ended up working in three different branches in his or her first two years.

Traditionally, insight into EVP effectiveness is gathered through employee engagement and exit surveys. That's not good enough. If asked, employees always ask for more. Instead, banks should put in place ongoing test-and-learn experiments to test the impact of different options before applying the findings more widely.

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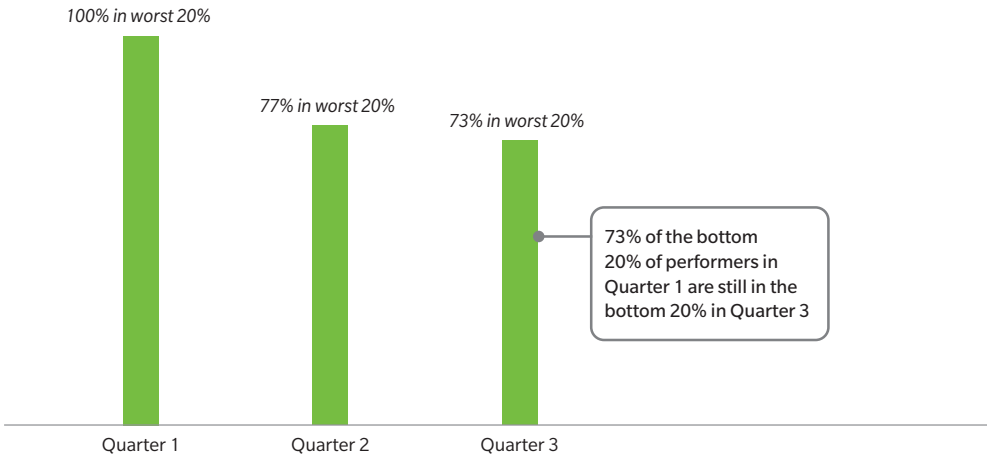
4. IMPROVE OR LOSE THE REST

The fourth step is to deal with underperformers. Even with better models, you will frequently get it wrong. In retail banking we estimate that anywhere up to 50% of employees are in the wrong role and at least 20% are directly destroying value. Just as importantly, they are stopping someone with more talent from performing the job.

Despite this, there is often little systematic effort to address the problem. Line managers are not provided with much guidance on how to address underperformance or pressured to deal with it. As a result, they default to simply relying more on their stronger performers and the problem festers, as shown in Exhibit 5.

Exhibit 5: Underperformers keep underperforming

EVOLUTION OF THE WORST 20% OVER TIME



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The solution is to use data better and to be more disciplined in network management.

- Identify who the underperformers are – this is straightforward once you have an unambiguous measure of good performance but is next-to-impossible when you do not.
- Ensure that line managers develop an appropriate, documented action plan for the employee, drawing on the management handbook.
- Confirm that the action plan is executed. If it is not, shift the focus to the line manager who is failing.
- If performance does not improve sufficiently, apply the "3 strikes and you're out" rule – either managing the underperformer out of the bank or into a different role.
- Add the action plan, plus the result, into the management handbook to support future line managers.

Executed properly, this data-driven, disciplined approach can improve direct performance as underperformers leave and, more importantly, help change the culture of the organization towards performance.

CONCLUSION

Talent can be a major differentiator in retail banking performance, but most banks do not manage it well. To check where you stand, ask your team the following questions:

A. Do you have a clear definition of value-added for your most important roles? Can you unambiguously rank-order your employees on that metric?
B. Do you know how value is concentrated within a role? If more than 50% of value comes from the top 10% of performers, you have an opportunity.
C. What are the top drivers of performance in your top 5 roles? How does talent in those roles measure up on those drivers?
D. Do you know the predictive power of your candidate screening tools? When were they last back-tested?
E. Can you clearly articulate EVPs for your top 5 roles, and the associated costs and benefits?
F. What proportion of Q1 underperformers are still underperforming six months later?
G. Do you have a periodic process in place to refine talent management metrics and practices?

If you are happy with the answers, congratulate your team and move on. If the answers leave you unconvinced, congratulate yourself – you have just uncovered a great source of performance uplift.

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