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COMMUNITY BANKING

When Outside Help Is a Good Idea

COMMENT/ BY PAUL NADLER It is no secret that many consulting firms have had to downsize since the dot-com bust, but not The Kafafian Group, a New Jersey firm that helps measure community banks' profitability.

Its chief executive, Bob Kafafian, recently told me that business has doubled in the last year and that he is looking to hire more consultants to join the 15 he has on board at the Parsippany firm.

We all know what consultants are hired to do. They provide expertise that the bank does not have on board. They offer an outsider's look at what a bank is lacking or could improve. But, most importantly, they help to stimulate change in an organization.

But what intrigued me as we talked about the banking industry and Mr. Kafafian's role in it is what he says makes a bank decide that it is the right time to bring in a consultant.

It may be a year after Mr. Kafafian begins talking to a particular bank when, all of a sudden, the CEO says, "Come on in and get started," and The Kafafian Group, where all the consultants are former bankers, is hired.

What motivates such a change?

First, it must be recognized that bank executives often have trouble welcoming a consultant. When they do call in an outside expert, the top officers will have to explain to the board why they did not think of taking the recommended steps themselves.

This is why many consultants assert a bank has to have a CEO with a strong self-image before it will bring in an outsider, unless it is forced to do so.

A consultant has to show that the operation was not at its best. This can be taken as a putdown of the top management, but a good set of managers can accept it as constructive criticism; people who are less self-assured try to avoid such assessments by avoiding the use of outsiders.

Here are the top reasons to bring in consultants, according to Mr. Kafafian.

• If regulators and examiners have uncovered problems that must be addressed — fast.

• If the bank has hired a new CEO who wants to improve performance markedly.

• If there are complaints from board members — or, in many cases, just one strong member — that the bank needs to be shaken up.

• If the bank wants to start a major service or initiative and lacks the time or talent to implement it.

• If there are people, either on the board or on the staff, who are creating dissent and breaking up the staff into partisan teams over basic issues. Sometimes an outside mediator can be helpful.

• If the bank has faced a major problem, like a serious defalcation or credit issues, that has threatened its existence.

• If peer group analysis shows that the bank is behind others of its size in major areas of service or performance.

• If it is determined that services, processes, or functions can be handled more efficiently by outsourcing them to people with specific experience and expertise.

So often it is only when some of these issues come to the fore that a consultant is brought in to be the agent of change.

But if Mr. Kafafian's experience is similar to that of other consultants in financial services today, it augurs well for the industry's future. It indicates a desire and need to end the complacency that has led many banks to follow the same procedures year after year, to the detriment of themselves and the entire industry.

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