

# COMMUNITY BANKING

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PRACTICAL INSIGHTS FOR TODAY'S MARKET

COMMENT / ROBERT KAFAFIAN

## What Works and Doesn't in MIS Development

Over the years poor planning, systems and staffing problems, and other factors have doomed many community banks' attempts to develop management information systems.

Here are things to keep in mind in building management accounting and information systems, which have become increasingly popular and, for a lot of companies, essential:

### **Get senior management's support.**

Maybe you've heard the axiom "There are management solutions to technical problems, not technical solutions to management problems."

Management information systems must provide enough of the right information to help senior managers do their jobs better. Management accountants by themselves cannot determine how this will be done.

To put it another way, profitability measurement must be top-down before it can be bottom-up. Senior management has to go in with an open mind and a realization that the bank needs

better management information, though financial and marketing staff members can open their minds some.

### **Reflect management's operating philosophy.**

A management information and reporting structure should complement your bank's operating style. This may mean, for example, that reports mirror your organizational structure and that customers are assigned to market segments.

Banks are using all sorts of management information. Certainly, larger ones might use all types, but smaller ones may not have the wherewithal to do this. It is vital that the system and process fit your functional needs and output needs.

### **Focus on management information, not just regulatory information.**

Historically, accountants have concentrated on preparing 10Ks, 10Qs, call reports, and annual reports. Very little time has been spent on managerial

accounting issues; in fact, many community banks' charts of accounts were set up to facilitate the completion of call reports.

Banks lacking a solid understanding of the relative profitability of their lines of business, products, and customers may not be long for this world. Remember, the regulators are concerned about capital, asset quality, management, earnings, liquidity, and sensitivity. These are all areas that a good profitability analysis system will address and enhance.

### **Make results understandable to all end-users.**

Unfortunately, many of the reports circulated throughout an organization end up in the circular file. This is a result of creating information that, while accurate, is most likely useless. Moreover, staff and line personnel tend to be skeptical of the reports.

A profitability measurement process cannot work unless all employees are on board.

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### Consistently apply profitability criteria.

That is essential to employee buy-in and the key to measuring results and taking action. Banks that regularly change methodologies or allocation and assignment criteria may find themselves with useless output.

Keep these three things in mind as you evaluate systems and approaches:

- Rank.* The ranking of slices of profitability such as organizational units, branches, products, and customers can be more important than the absolute bottom line of these slices.

If profitability, funds-transfer pricing, and cost assignment methodologies were skewed so that all of a given bank's branches were money-losers, should all those branches be closed?

Let's hope not. Certainly, they would have the opportunity to retool, but even if all criteria were left unchanged the branches would still rank from best to worst — at the spread, in fee income, in cost of operation, and, most important, at the bottom line. This would be highly useful information in under-

standing how the best and worst branches were performing and why, as well as highlight the fundamental components of profitability.

- Compare.* Resist making decisions using data presented in a static environment. Without the ability to compare results — current month, quarter, or year against prior month, quarter, or year; actual to budget; branch, product, or customer X to branch, product, or customer Y — reasons for fundamental change will not be readily apparent. The more points of comparison, the better.

- Trend.* Perhaps the most important component of these three is the ability to trend profitability results. For example, a static look at a bank's commercial real estate product might show very favorable performance, but a closer look at its five-quarter trend might highlight five consecutive quarters of decline. Trends can equally highlight both improvement and decline, as well as unmask erratic areas and find component problems or opportunities.

### Provide value as well as benefit.

Benefits can often easily justify a course of action, but you have to consider the cost or value of the action. The combination of the two should determine the ultimate direction.

For example, some banks have spent three years developing detailed activity-based costing studies. At the end of that period, they've determined that it costs 3 cents to clear a check, \$120 to maintain a checking account, etc. Unfortunately, during that process there was no related improvement to the bank's bottom line.

You don't need a bazooka to kill an ant. Get the system up and running utilizing the resources, data, and statistics that are currently available. Then let the results of the output determine the focus and direction for performing more-detailed research and analysis, while all along creating trust, employee buy-in, and benefit to the bottom line.

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