What are the logics driving your firm?

As banks try to redeem themselves after reckless mismanagement that destabilized the global economy, here are useful lessons for any business seeking to reconcile its mission with the needs of society.

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By John Almandoz

In recent decades, many large companies have embraced an extreme financial logic based on short-term profit maximization as the prime driver in their decision-making and operational behavior. In the process, many of them have sacrificed their foundational mission and values for the sake of risky short-term profit-making.

Nowhere is this clearer than in the U.S. banking sector, which was largely responsible for the subprime loans and mortgage-backed securities that threatened to bring down the entire global economy in 2007-08. A direct result of the crisis was that giant banking institutions around the world had to be rescued by taxpayers from the potentially devastating consequences of their own reckless mismanagement.

With the benefit of hindsight, it is clear that businesses and governments were merely reacting to events as they unfolded, desperately trying to shore up a financial system that was frighteningly close to meltdown.

But now, businesses can no longer simply react to events as they occur. Particularly in the banking sector, many rescued firms do not seem to have resolved the root causes of the crisis, lulled by a false sense of security that they are too big to fail. Judging by the number of ongoing scandals, they still appear to be ignoring the most vital equation in any business: their customers.

This will eventually take its toll, as Bank of America learned the hard way when it decided, in 2011, to charge customers a $5 monthly fee for using its debit cards — a move that resulted in as many people joining U.S. credit unions in a single month as usually make the switch in a year. In the end, Bank of America, along with other banks toying with fees, dropped the plan.

As the market has been applying its own painful medicine in the form of drastic financial losses and the disappearance of many financial institutions, consumers have taken the initiative.

Disillusioned by the behavior of banking giants, consumers in North America and parts of Europe have been voting with their feet by divesting from too-big-to-fail institutions and moving to smaller, more locally based ones. It is a growing trend, propelled by grassroots movements such as Move Your Money in the United Kingdom and Move Our Money in the United States.

While the amount of money thus far moved out of big banks and into smaller ones represents a drop in the ocean of the total deposit base, big banks would be well-advised to take the threat of customer defections seriously — as should all businesses tempted to ignore the needs or wishes of their customers.

Take Starbucks, which faced widespread protests at its U.K. branches over its failure to pay tax on $1.2 billion of sales since 2009. In its defense, the company claimed it had met its tax obligations under the law; it had just creatively managed in which country it posted gains and losses. But sometimes companies need to go beyond the letter of the law to consider the wider, long-term ramifications of engaging in actions that could be considered contentious during a period of crisis.

To recapture their *essence de vie*, many companies may need to go back to their roots and ask themselves why they went into business in the first place and who they aspired to serve. Only by embarking on such a journey of introspection can they rediscover their essential purpose and reconnect with their stakeholders.

In this article, I will propose a number of ways that companies can learn from the example of local banking in the United States in order to recapture their mission and reconnect with their communities.

Drawing on extensive research I have conducted into community and green banking, I will discuss how locally based institutions in the United States are successfully meeting the needs of growing ranks of disillusioned customers. I will also extrapolate vital lessons that their examples may yield for other businesses.

There are even cautionary lessons for other countries like Spain, which already had a well-developed tradition of *cajas de ahorros* that functioned like community banks in the United States in the sense of their strong local character and civic-mindedness. However, as a result of the financial crisis, Spain's beloved *cajas* have all but disappeared, as the banking sector undergoes dramatic restructuring and consolidation.

Whether this leads to better governance, fewer risky activities and greater security for conscientious savers will depend on how well the new institutions emerging take on board the lessons of the crisis and the perils of an unfettered profit-maximizing approach.

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