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LEADERS BANK: CREATING A GREAT PLACE TO WORK

Leaders Bank (Leaders), headquartered in Oak Brook, Illinois, provided commercial, industrial, and real-estate lending, as well as treasury-management and retail-banking services for privately held businesses and their owners. The bank was founded in 2000 by five industry veterans—Patrick Kelly, James Lynch, Steven Schuster, Laura McGrath, and Gordon Fitzsimmons—whose vision was to create a personalized banking experience for entrepreneurs and small businesses.

In an industry fraught with mergers and acquisitions and the resulting depersonalization of service, Leaders offered a refreshing alternative. As its name implied, the bank treated its customers and employees as leaders, focusing on their strengths and professional competencies and on developing long-term relationships based on communication and trust. The bank's officers were given the authority to take risks and make autonomous decisions, which resulted in the customized solutions and fast responses that business owners valued.

In addition, because of a workplace culture centered around respect, Leaders kept its employee turnover rate close to zero; consequently, its clients were able to work with the same banking professionals, who understood their businesses and goals. Therefore, it was not surprisingly that in a 2005 independent customer survey, Leaders received an overall satisfaction rating of 94%—no small feat considering that few financial institutions could claim a client satisfaction rating above the 75% industry average, reported by the American Customer Satisfaction Index.[1]

With CEO Lynch at the helm, the number of Leaders' employees grew within eight years from 9 to 72, and three new banking centers were established in the Chicago area. Revenues grew 85% in three years, reaching $30.5 million by 2007. The bank's holding company, Leaders Group, Inc., saw its assets balloon from $37 million in 2000 to $646 million in 2008 (**Exhibit 1**).

[1] "Leaders Bank Demonstrates How Deeper Relationships Help Private Businesses," Leaders Bank press release, 2009.

In 2008, during the most challenging economic environment in decades, *Entrepreneur Magazine* ranked Leaders number 51 on its list of the Hot 100 Fast-Growth Businesses in the United States. The company also won Chicago's 101 Best and Brightest Companies To Work For award three years in a row and was a finalist on the *Wall Street Journal*'s 2008 Top Small Workplaces list.

By building a strong culture that fostered high employee engagement and loyalty, the bank was able to thrive in good times and weather the bad ones. Reflecting on the bank's success, Lynch said:

> [We've] stuck to our model, communicated effectively, and made Leaders Bank a great place to work every day…We put our employees in a position where they can utilize their strengths, and we make sure they are supported well. This approach nurtures personal job satisfaction, which translates to low turnover and high levels of employee and customer satisfaction.[2]

Starting Out

The founding of Leaders coincided with a slowing of the U.S. economy in the second half of 2000 that ended the banking industry's string of eight consecutive years of record annual earnings. When Leaders opened its doors in 2001, the economy was showing signs of the first recession in a decade. Then came the terrorist attack on 9/11, and the stock market plummeted. The Federal Reserve feverishly slashed short-term interest rates to the lowest level in four decades.

Reflecting on the bank's early days, Steve Ritter, senior vice president and director of human resources, thought that market conditions had always been among the biggest challenges facing the company. Ritter said, "Certainly, in the first few years of our operation—2001 and 2002—there were a number of Fed rate reductions similar to what we've experienced in 2008." Ritter continued:

> But because we are focused on the low end of the middle market our typical customer is an entrepreneur, a small business owner; that's a customer who often doesn't make the radar of a big bank anyway. In some ways, this economy makes our niche customer the perfect customer, because these are folks who are being challenged to grow their businesses as well. So there we were in 2000, a de novo bank with a vision of treating employees well and treating customers well. And there were businesses out there, looking for someone just like us.

[2] "*Entrepreneur Magazine* Ranks Leaders Bank as One of the Hot 100 Fast-Growth Businesses in the U.S," Leaders Bank press release, 2008.

Building a Strong Foundation with a Common Thread

James Lynch had wanted to build a bank around a culture with the vital elements of respect, leadership, quality, partnership, communication, and integrity (**Exhibit 2**). Ritter emphasized that Lynch started to lay the foundations for that culture long before his bank opened its doors in 2001. Ritter explained:

> When Jim began looking for investors to start the bank, he was selling that vision about the way you treat others with respect as part of what he wanted people to understand would grow. Similarly, when he started looking for partners for the executive leadership team, he looked for people who got it. Respect, transparency, communication, partnership, and integrity were the values that people had to live and embrace on a day-to-day basis. And as diverse as our team was, Jim's vision resonated with all of us—it was our common thread.

Because the modus operandi at Leaders had always been inclusion and participation, the defining elements of the workplace culture were fine-tuned by the employees themselves, mostly during leadership retreats conducted and described by Ritter: "We sat in retreat session after retreat session and hammered out the mission and the philosophy and the values." Ritter continued:

> The rule was to challenge every word, and we did not move forward on the definition of these things until everyone in the room was comfortable that this is what we live and this is the way we behave. So there's a real values-in-action model to what we do because when that is what defines your culture, then any kind of its violation stands out in a big way.

To ensure that the human factor did not get pushed to the sidelines and the culture did not get diluted as the organization grew, Lynch invited Ritter to join the company's senior leadership team, whose members, besides Lynch, included the chief financial officer and chief credit officer. Since the company's inception, Ritter had conducted leadership retreats, team-building workshops, and career-path coaching sessions to help employees discover their strengths; he was also responsible for the most of the company's recruitment efforts, in addition to presiding over a three-person HR group.

A culture of respect

In an effort to recruit and retain top talent, Lynch and other Leaders executives worked hard to foster a corporate culture in which employees felt appreciated and were rewarded for exceptional performance. Lynch remarked that "employees need to believe they are valued and that the quality of the work they do makes a difference." He continued:

> Those who don't feel valued or respected are more likely to go off and seek greener pastures…A sincere compliment for extra effort or a job well done takes

> nothing away from the bottom line and pays big dividends, especially for smaller companies, which are generally less able to afford the time and cost of hiring and then losing an employee. It's also important to routinely acknowledge workers as individuals with a smile, a handshake, a pleasant comment. And we always make a point to remember their birthdays.[3]

Viewing employees as leaders

Lynch attributed his company's success in large part to its unique philosophy of treating employees and customers as leaders. "Because we view our employees as being leaders themselves," Lynch said, "we give them the authority to make decisions without always having to check with their superiors. In staff meetings, we consider all ideas good ideas."[4]

Maintaining a healthy equilibrium between employee empowerment and internal controls can be a tough balancing act for many companies. While Leaders' employees were encouraged to take risks on behalf of their customers and were empowered to make their own—sometimes fast—decisions, the company's top management ensured that controls were in place, but that they did not stifle employee decision making or entrepreneurial spirit. According to Ritter, "The balancing factor is a sense of shared accountability." Ritter continued:

> If somebody wants to bend the rules on behalf of the customer, they know how far they can go. The underpinning of everything we do is the credit quality, so there are parameters that people don't spread beyond. They hear what kinds of deals are being negotiated in the pipeline meetings every week, and they understand what our norms are. The fact that our CEO has a strong lending background and is involved in every deal establishes an unspoken set of parameters based on loan policy.

To encourage employee commitment to the success of the business even more, top management implemented a Leaders' stock-purchase plan so that 75% to 80% of the employees had ownership in the organization through stock ownership. "We want everyone to function like an owner of the organization," Ritter said.

Open communication

An important factor in employee empowerment was communication, which Lynch described as an "open, two-way street." Because he believed that some of the best ideas for improving operations, cutting costs, and gaining efficiencies came from front-line employees, he stressed the importance of soliciting their continuous feedback in meetings and with company-wide surveys. Lynch also valued employee feedback about organizational health and culture and suggested asking employees: "What can be done to make this a better place to work?" He gave

[3] Jim Lynch, "Appreciation Ranks High with Employees," *Bank News*, July 1, 2001.
[4] Milton Zall, "Empowering Employees," *Independent Banker*, January 1, 2002.

employees the option of making suggestions anonymously and advised implementing the best ideas immediately. “Employees will notice and appreciate a sincere, ongoing effort to improve the work environment,”[5] he said.

Leaders employees participated in a confidential survey twice a year. “It is designed to measure the kind of distress that you would expect to see in organizations that are growing and changing,” Ritter said, and explained that the survey asked for feedback in the areas of leadership, vision, collaboration, communication, commitment to excellence, morale, learning, and how well the company managed change.

The top management at Leaders treated employee feedback as a call for immediate action. “Whenever the aggregate data rises above even the smallest measurable level of distress, we get together as a group and plan around that,” Ritter said. He remembered the time, when the company experienced an intense growth spurt, going from 33 to 47 employees in six months, and survey data indicated concern about company-wide communication. Ritter continued:

> We added dinners with the CEO, breakfast with the board of directors, an employee newsletter, and a couple of different summer events, and the number went down to nearly zero within six months. We’re proactive about getting folks’ opinion about the strength of the organization, and then we address these things before they have a chance to take root and influence our culture.

Part of the company’s open-communication policy involved financial transparency. The details of the company’s financial performance were shared with all employees on a monthly basis during staff meetings. In addition, “the company newsletter has a performance dashboard in the corner that shows what our gross level is, what the return on equity is, tracking the major financials month to month,” Ritter said. “So that’s as open-book management as we can get.” As Ritter explained, the data on how individual lenders were doing relative to their targets was not available to all employees, but individual contributions were transparent within each team.

On those rare occasions when employees did not live up to the company’s high expectations in terms of performance or upholding its cultural values, they were asked to leave; however, the terminations did not have a negative effect on employee morale precisely because of the company’s emphasis on open communication. Leaders’ management worked hard to convey what was expected of its employees and made sure they understood how their individual contributions affected overall company performance. Ritter explained:

> Whether you’re a bank teller or a chief credit officer, you know what it is about your work each day that moves the needle of the organization in some way. And everyone experiences a collective responsibility for linking all those strengths and talents together to achieve successful results. When someone isn’t holding up

[5] Lynch, “Appreciation Ranks High with Employees.”

> their end of that shared responsibility, everyone understands that it's costing the rest of us money.

Recruiting—the Culture Fit

Lynch gave Ritter a mandate to screen out prospective hires who did not share the company's values. From the beginning, "Jim wanted to have a threshold of culture evaluations on the front end of every interview," Ritter said, admitting that some of that evaluation was subjective. "We talk about what's important, the way we treat people, and what our values are, and we see pretty quickly whether people get that or not." Nevertheless, whether a job candidate realized it or not could make or break an interview. Ritter explained:

> While there is a technical aspect of evaluating a prospective employee, there has been a culture-fit evaluation on every single hire from top to bottom, including very experienced, high-level people. And if I give the culture a "thumbs down" that decision will be respected. It has only happened a handful of times, but when we miss the mark on the subject of culture in the recruitment process and the person gets on board after having had a good interview but they don't fit, it becomes evident to everyone in a short time. And, generally, Jim will stand up as the CEO and apologize to the entire organization for missing that one.

A typical interview process for a midlevel job candidate started with a culture-fit screening with Ritter, followed by an interview with the leader and select members of the team that had the job opening. Ritter described the second interview as "a team screening for technical ability and fit with the team." The last leg of the recruiting process involved a leadership interview with a member of the executive team—often the CEO—"to kind of embrace the fit," Ritter said.

Leaders viewed the job interview as an opportunity to present the best features of the company to a candidate. For that reason, Ritter and the HR team tried to ensure potential hires had a chance to meet Lynch. Ritter said:

> We really want people to hear the Leaders Bank story from Jim's perspective since he started it. So to the extent that we are measuring the candidate, we know that the candidate is measuring us, too, and we want them to know fully what the culture is about and what's expected of someone who works here. And Jim does a wonderful job relating that. He also has a real good assessment competency for understanding whether people fit our culture or not.

Benefits Package

To attract and retain talent, Leaders offered its employees an attractive benefits and compensation package. "We are very attentive to the compensation surveys for our industry and our geographic area, and we pay people competitively," said Ritter. He added that the company offered a "better-than-competitive" benefits package with medical and dental coverage. "We've got a very strong 401(k) with an employer match. But all that is typical," Ritter said.

Less typical were other job perks—such as the ability to adjust hours—designed to cultivate healthier work and home environments for the staff. "A corporate culture of respect means also helping workers succeed as individuals in their private lives," said Lynch.[6] He acknowledged that because Leaders was aware that the number of employees taking care of elderly family members or small children had increased, it encouraged flexibility in scheduling whenever possible. "It is not difficult to accommodate an employee who has a family emergency or occasional daytime appointment, and we've found that the modest inconvenience is greatly offset by the loyalty and goodwill such gestures tend to generate,"[7] Lynch said. The company was particularly attuned to the needs of Leaders employees who were single parents.

The wellness program

A fringe benefit that attracted the attention of the Society for Human Resources Management, which listed it among its best practices in January 2007, was the company-sponsored wellness program. Every year, Leaders designated a pool of money—$1,500 per employee—to encourage its workforce to make healthy lifestyle choices. Ritter explained how the program worked:

> You can earn these dollars by lifestyle changes, such as quitting smoking or losing weight. You can earn these dollars by getting your annual physicals, your dental cleanings, or through fitness/health related things. People are getting immediate financial rewards for their choices to be healthy, and then they can cash in the money they make on a monthly basis for any numbers of things. They can hire personal trainers, buy exercise equipment, get wellness coaching, health club memberships, or nutritional consultations. They can even buy things like musical equipment or iPods to help them relax.

Since being implemented in 2005, the wellness program had shown measurable return on investment. In 2007, Leaders' employees used only 31% of their available sick-leave time. "Basically, they're leaving seven out of ten days on the table each year," Ritter said. But he added that the program also had less tangible benefits. "There're some obvious positive things that have happened in terms of morale and things like that," Ritter said.

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[6] Lynch, "Appreciation Ranks High with Employees."
[7] Lynch, "Appreciation Ranks High with Employees."

Part of the wellness program included an annual health-risk assessment for everyone, which Ritter credited with detecting potentially serious medical problems facing two Leaders employees early on. "In addition to gathering aggregate return on investment data from better wellness, we've had a couple of good catches with folks who were closer to major medical issues than they thought they were," Ritter said, referring to the health-risk assessment. "Their participation in the wellness program saved them a lot of medical trouble."

Training and Education

Aware of the high cost of recruitment and training, Leaders took great care in finding the right person for the job in the first place and then spared no effort to engender employee loyalty. According to Lynch, one of the best ways to ensure that the most talented and valuable employees stayed with the company was to offer them the kind of support that helped them succeed in their jobs. "We are always inviting people to sit down and have discussions about how their natural strengths fit their career path, and how we can grow and develop them," said Ritter.

Leaders' employees received training not only at the beginning of their employment when they developed an annual training plan with their supervisors. In addition, they learned new skills by attending conferences, seminars and workshops, or took advantage of a tuition reimbursement program to take courses that increased their professional capabilities.

Focus on individual strengths

Lynch believed that the key to unlocking employee potential was to see them as individuals with unique strengths and weaknesses. All senior staff at Leaders was required to read the management book *First, Break All the Rules*,[8] which recommended that companies take advantage of people's strengths by placing them in areas where they could succeed, instead of merely identifying their weaknesses and working to overcome them. Lynch elaborated:

> Take, for example, someone good at organization but lacking interpersonal skills. We would not expect that person to do well in sales; we would place the individual in a operational support position, where he or she would have the opportunity to excel, and provide one-on-one support to mitigate weaknesses.[9]

Employees at Leaders used the Gallup Organization's Web-based StrengthsFinder Instrument to pinpoint their five signature strengths, which were then analyzed during so-called strength sessions, which were part of the performance-evaluation process. "We look at the StrengthsFinder results, and we tie it to people's career-path plans," said Ritter. "We make sure

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[8] Marcus Buckingham and Curt Coffman (New York: Simon & Schuster, 1999).
[9] Lynch, "Appreciation Ranks High with Employees."

that we grow and develop people in a way that's aligned with their natural strengths and competencies."

Performance evaluation

The performance evaluation process at Leaders ensured that all employees got the training they needed to improve their performance. Even though official performance reviews at Leaders took place once a year, in many cases performance evaluation was a year-round process. "Often, the learning goals that come out of the evaluations are things that you follow up on an ongoing basis," said Ritter.

To get a comprehensive look at how its officers and executives were performing, the company implemented the 360-degree feedback review, which included feedback from three co-workers—one selected by the individual's supervisors and two selected by the employee being evaluated. In addition, an employee was evaluated by his or her supervisor and also submitted a self-evaluation. "All that feedback becomes a written document, and then we associate a merit increase with that depending on the performance," explained Ritter, adding, "We track it throughout the year to make sure that we're moving in the ways that we agreed to move."

Leaders also used the 360-degree feedback system, part of a leadership competency tool developed by Lominger International, to evaluate its executive team. "It's a three-year cycle where we all get 360-degree evaluations through Lominger," said Ritter. "We all receive executive coaching on a monthly basis. And then the cycle ends with another 360-degree to measure our growth."

Monthly executive coaching was a huge cost commitment, and Leaders decided to implement a more cost-efficient model by investing in the training and certification of a team of internal coaches who would provide professional coaching to everyone in the organization. "The research supports the fact that your return on investment is much greater when you can get coaching into the organization internally as opposed to hoping that coaching of the executives will trickle down," Ritter said.

Celebrating Success

While Leaders understood that one of the ways to keep the enthusiasm and emotional engagement of its employees consistently high was to honor their achievements, "the fact that we've been the recipient of a sequence of awards also helps," said Ritter. "Recognitions have been coming in regularly enough that it gives us reason to stop and celebrate" (**Exhibit 3**).

Keeping the morale high and energy up was a day-to-day effort that Leaders' management took very seriously. When the bank surpassed $500 million in assets in early 2008, Leaders' top management decided to treat its entire workforce to a White Sox game, renting a luxury sky box at U.S. Cellular Field. "Putting everyone in one bus and driving downtown together, singing karaoke, and going to a ball game was a nice way to celebrate that. We try to recognize, acknowledge, and celebrate whenever we can."

Investing in Workplace Culture and Measuring ROI

Such fringe benefits as the wellness program, various companywide initiatives, and dinners with the CEO were designed to create a strong workplace culture at Leaders, but they were not cheap. To justify the expense to the board of directors, Ritter and his team demonstrated the impact of workplace culture and retention on Leaders' bottom line. "When we took the subjective, soft, philosophical approach to culture and translated that into metrics and numbers that affected shareholder value by virtue of retention, the light bulb went on and the board understood it," said Ritter.

Ritter and his team first looked at the data from a companywide employee survey conducted by the Best Places to Work organization. Most Leaders employees (97%) had responded in the affirmative to such statements as: "I would invest my own money in this organization"; "Senior leadership models the organization's values"; and "I know how my job contributes to the organization's success." Next, Ritter's group identified the concrete, measurable results of having a strong workplace culture: a 4% turnover rate in 2006 versus a 30% industry benchmark and the 30% of unused available sick days. "Then, we did a little exercise," said Ritter. He explained:

> If you look at 4% retention in an industry that experiences 30%, if half of those people were business developers, what would be the cost to an organization and what would be the impact on shareholder value? We made an assumption that the average business developer is making $120,000 and he's got a $12 million annual loan target, and we lose 4% of those versus the industry's 30%, and there's a vacancy rate of 90 days to get them replaced. And so we calculated a little bit of recruitment expense and then we looked at the opportunity costs that that person is not making 25% of their target because they were gone for three months and you can multiply that by a 2.48% average yield on a current loan. The opportunity cost is about $75,000, and there's another 30-odd thousand dollars in recruitment and training expense. And so we calculated the turnover costs conservatively at $111,000. Now the ROI Institute says that a business developer's turnover cost is about 125% of annual salary. So we're going slightly under—about 95% of annual salary. We said, "Leaders Bank's losing two business developers at a 4% turnover costs the bank $222,000." And if it were six business developers and a 30% impact, that would end up costing $445,000, and saving nearly $300,000. If you multiply our earnings, our number of shares, it ends up being nearly $3 a share that it earned the shareholders by virtue of maintaining good, solid retention and low turnover.

Managing Growth

With the opening of three new banking centers in the Chicago area in 2008, the company started experiencing the challenges associated with organizational growth; however the Leaders executive team and the HR group worked to identify and address problems before they grew roots. To ensure that the culture was strong in all Leaders' locations, "we are trying to have as much leadership team visibility in all locations as is humanly possible," Ritter said. He and his vice president of HR visited all bank centers regularly. Each location had an HR person, a compliance person, trainers, and access to the leadership team. In addition, instead of having one companywide staff meeting every month, each location had its own with an agenda especially tailored to each group.

Ensuring that the bank's employees had access to the members of the leadership team was particularly important because as Ritter said, "We are modeling the culture from the top down." He continued:

> We know that our behavior has to model mutual trust, inclusion, ways to take risks, conflicts being invited and addressed rather than avoided, accountability, inviting and welcoming feedback, direct communication, group interest versus individual interest. We know that if we take care of those things and model it from the top, that's the way the teams will behave as well.

Exhibit 1

LEADERS BANK: CREATING A GREAT PLACE TO WORK

History Chart

2000
- Founding of Leaders Bank
- 9 employees
- $37 million in assets

2001
- $88 million in assets

2002
- $127 million in assets

2003
- $148 million in assets

2004
- 20 employees
- $242 million in assets

2005
- 30 employees
- Exceeded $300 million in assets

2006
- 48 employees
- Compounded annual growth rate of 35%
- $382 million in assets

2007
- 58 employees
- $425 million in assets

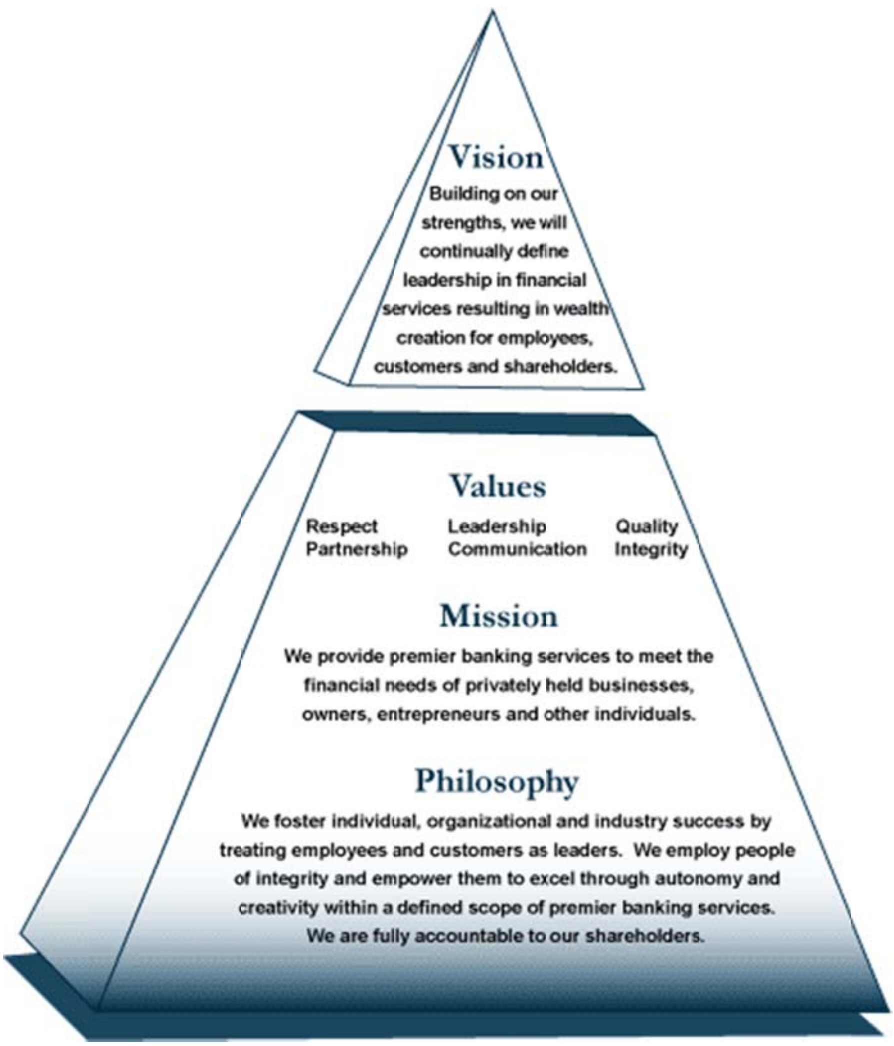
2008
- Opened Hoffman Estates Banking Center
- Opened Naperville Banking Center
- 70 employees
- $646 million in assets

Source: Leaders Bank Web site.

Exhibit 2

LEADERS BANK: CREATING A GREAT PLACE TO WORK

Vision, Values, Mission, and Philosophy



Source: Leaders Bank Web site.

Exhibit 3

LEADERS BANK: CREATING A GREAT PLACE TO WORK

Awards and Recognitions

2003

- Winner of United Way Campaign Platform Award

2006

- Voted No. 1 small/medium-sized company in the Best Places to Work in Illinois award program

2007

- Winner of Chicago’s 101 Best and Brightest Companies to Work For
- Ranked in *Entrepreneur Magazine*’s Hot 500—America’s Fastest-Growing Businesses

2008

- No. 51 on *Entrepreneur Magazine*’s Hot 100 Fastest-Growing Businesses in America
- Finalist of *Wall Street Journal*’s Wining Workplaces’ Top Small Workplaces 2008
- Winner of Chicago’s 101 Best and Brightest Companies to Work For

2009

- Winner of Chicago’s 101 Best and Brightest Companies to Work For