White Paper

Financial Industry Workplace Trends

Facing pressure to reduce real estate costs, redefine the role of branches, and manage consolidation, financial institutions are in the midst of a transition in how they think about their work environment.

Herman Miller's experience with multiple financial institutions indicates the quandary is especially challenging because it involves distinct types of real estate. Unlike most organizations, banks have to deal with customer-facing branch operations, back-office administrative areas, and sometimes a combination of both in one location.

What issues are at the forefront? Here's a look at some of the leading considerations for financial institutions looking to get more value from their real estate.

Support collaboration. Any discussion of the future workplace must acknowledge the increasingly collaborative nature of work itself. There's a growing realization that people work better together, so what's the point in keeping them apart in high-paneled workstations and private offices?

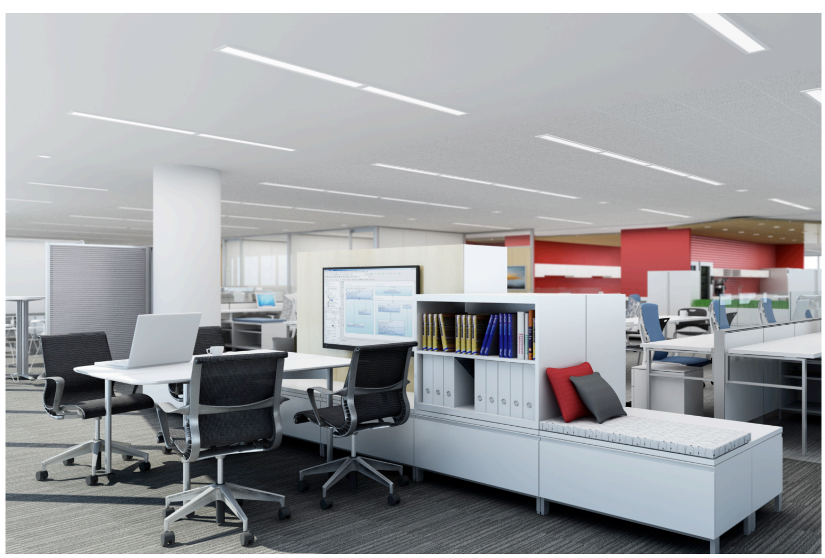
In part, the shifting balance between individual and collaborative space is a response to an evolving definition of collaboration itself. Time was, collaboration implied a deliberate—and temporary—work style aimed at achieving a specific goal. Folks collaborated on certain projects for a while, then resumed business as usual.

Now, collaboration implies a completely new way of work life. Explains Betty Hase, advanced knowledge and applications lead for Herman Miller: "The idea is that a steady diet of interaction produces a richer yield of innovation and productivity than if everyone stays hunkered in their own space."

Besides, work has become more complex. Nobody has all the answers anymore, so the easier people can come together—whether scheduled or spontaneous—the faster problems get solved.

Making collaboration work involves giving people easy access to a variety of spaces in assorted sizes and styles—not just conventional conference rooms where everyone sits around a table.

Try a mix of formal and informal, open and enclosed, large and small—a few high tables, some casual sitting areas, maybe a café or coffee bar. Even circulation space can be put to work, perhaps outfitted with lateral files topped with a collaborative surface, making it possible to coax some bright ideas out of chance interactions.



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Compress and enrich. Where does all this collaborative space come from? Typically by trimming the size of workstations and private offices. Herman Miller research indicates that many financial personnel can manage with less square footage than they had a decade ago. That's partially due to smaller technology (laptops, flat screens) and the emergence of mobile work styles.

Less individual square footage, however, doesn't necessarily mean less elbow room overall. Often, employees who move to smaller individual workspaces wind up with a net gain in overall space after factoring in the new collaborative areas available to them.

Think of this strategy as "compress and enrich." By compressing the size of individual workspace, you make it possible to add the collaboration space needed to enrich employee engagement and interaction.

Will there be resistance? Probably. When it comes to workspace, most everyone thinks bigger is better, especially in the traditional culture characteristic of financial services. Resistance can be overcome, though, by changing the mindset of what constitutes one's work area: It's not just the few square feet assigned to me; it's the entire space available to me. Often, there's an educational process involved in letting employees know it's OK to choose where they want to work.

Compress and enrich also offers compelling financial benefits. Compression may allow for greater density—accommodating more people on the same floor plate. Even so, with multiple collaboration zones available, no one will feel squeezed. That increased density can go a long way toward reducing real estate costs, especially for financial institutions that find they can move to shared workspace for certain back-office functions.

Of course, adopting a collaborative work environment doesn't have to be all or nothing. Confidentiality concerns mean that some banking operations are better suited to privacy than collaboration.

A large credit union in Florida opted for Herman Miller's open Resolve system in its quest for a contemporary, energetic work environment. First chosen for the call center, Resolve was such a hit that planners specified it for three other buildings on the headquarters complex as well. To allay concerns about confidentiality, small glass meeting rooms on each end of the buildings are available for

private conversations.

"One of the lessons learned is that we just don't need enclosed offices anymore," said the vice president who oversaw the project.

So it is at another financial institution in Michigan, where private offices and closed doors have given way to open workstation clusters, collaboration zones, and a glass boardroom. The implication: "We're transparent, we're accessible, and we have nothing to hide."

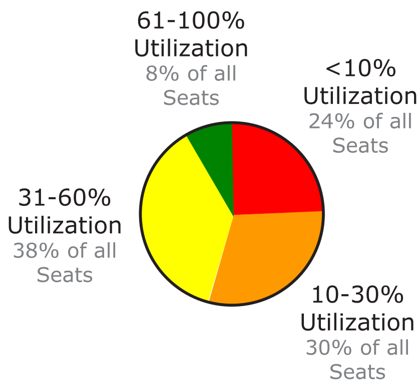
Surprising space utilization. The degree to which collaboration makes sense can be determined through a formal discovery process that first identifies exactly how space is currently being used. And how is that? Not as effectively as it could be, according to Herman Miller research.

Herman Miller has discovered a vast disconnect between presumed and actual space usage in the financial services industry. The evidence comes from data collected through Herman Miller's proprietary Space Utilization Service.

The service uses wireless sensors that attach unobtrusively beneath chairs within a workplace during a three-week study period. The sensors track occupancy by detecting movement, and the resulting data provides insight into better ways of using the space.

In analyzing studies conducted at the corporate offices of multiple national banks, Herman Miller found alarmingly low utilization for every category of workspace. For dedicated workstations, overall utilization averaged just 35 percent—that is, the workstations studied were collectively occupied only about one-third of the time they could have been. Overall utilization for dedicated offices was even lower—about 30 percent.

The story tends to be much the same for



This pie chart from the Space Utilization findings shows how much the dedicated workstations are used.

conference rooms. The average size of all conference rooms studied was 12 seats, but only five of them were occupied for the average meeting. What's more, conference rooms had no occupants whatsoever more than 60 percent of the time.

Herman Miller data also indicates that reservation systems are ignored 40 percent of the time. Scheduled meetings aren't kept, leading back-office employees to assume that conference room availability is far scarcer than it actually is. What's more, over half of the meetings held in conference rooms occur spontaneously without an advance reservation, suggesting that ad hoc collaboration is already prevalent.

"The conclusion seems inescapable," says Tracy Brower, director of Herman Miller Performance Environments. "If private offices, open workstations, and conventional conference rooms are all underused, a work environment that offers more informal collaboration areas might better support how people are actually doing their work."

A nod to hierarchy. Even as financial institutions seek to encourage back-office collaboration through workplace design, they're reluctant to jettison all notions of hierarchy. More than most industries, banking tends to retain a traditional culture that still sees value in rewarding people with space.

Some financial organizations may be comfortable with an egalitarian approach that all but ignores status. But most prefer to find at least some way to link workspace to job title. The question for all is how far to push: What's right for our organization?

Before embarking on any significant workplace change, financial institutions need to figure out where on the spectrum they fall. One way to do so is through a formal program—workshops, surveys, and the like—that defines the preferred culture and builds consensus for how the workplace should support it.

In working through the process, one thing often becomes clear. Higher status doesn't have to equate to more square footage. There are plenty of other ways to reflect hierarchy in the work environment—a better chair, higher panels, a central location, upscale finishes, maybe even a fancier nameplate.

Nowadays, technology can play a role, too. Many a bank VP might be happier with an employer-issued iPad than a window and walls. The main point is this: The traditional look and layout of the back office might be ripe for an overhaul, but that doesn't mean the traditional culture has to go with it.

Branching in new directions. Remember when ATMs and online banking were supposed to make branches obsolete? So much for the prognosticators. Instead of shunning branches for technology, customers seem to view them as more indispensable than ever.

Research from Deloitte & Touche found that the branch network is used by more than 80 percent of all bank customers and is the preferred channel for more than half. It also contradicts the entrenched belief that young consumers prefer the Internet, finding that 78 percent of account holders aged 16-24 would rather visit a branch.

Blame it on distrust of technology, a reluctance to let go of social interaction, or perhaps the sense of security that only humans can provide. Whatever the reasons, it has become clear that branches are here to stay. The question now becomes how to get more value from them.

Perhaps the main thrust of modern branch design revolves around the notion that their purpose is to build relationships, not only conduct transactions. With competitors just a click away, the physical branch needs to give customers a reason to stick around in a way the virtual branch can't.

Toward that end, financial institutions are trying to figure out how to turn their branches into the sort of place where people want to hang out, not just drop in. This effort is still a work in progress, but there's no shortage of experimentation going on.

How about free donuts on Fridays? Or free family photos at Christmas? Or community rooms open to all? Such hospitality initiatives abound in the industry—whatever it takes to turn a branch into a destination.

Coffee bars are becoming a staple, persuading customers to at least stay long enough to finish a cup. Lobbies are homey, stocked with plush seating to encourage customers to relax and remain. And children's play areas and free Wi-Fi are common, subtly telling customers "hey, what's the rush?"

The retail look is popular, too. New branches often invite customers to linger and shop for financial products by emulating the look and feel of a department store, complete with attractive displays and roaming clerks. The result is such a striking departure from the ordinary that it's not unusual for customers to do a double take when visiting such a branch for the first time.

Also anything but ordinary is a prototype branch created by a financial institution in Alberta. Here, a concierge immediately greets customers, identifies their needs, and escorts them to a lounge in the heart of the branch, where they can grab some coffee, peruse the Internet, or prepare their transaction.

Teller counters? There aren't any. Instead, customers sit alongside a personal banking specialist with no desk between them. Conversations are easier without a barrier. Consequently, customers tend to be more relaxed—and likely to spend more time on their business.

Branding the branch and beyond. The shift toward a retail approach in many bank branches has been accompanied by a parallel trend—a greater emphasis on using real estate to communicate brand identity. For years, most banks gave little thought to the unavoidable link between physical space and brand. They tended to view their real estate holdings as a

commodity, even though most of those holdings are customer facing and inevitably make some impression on visitors.

Consider: Even the most carefully crafted brand campaign can't compete with the impact of a quick glance around the branch or back office. After all, that glance doesn't communicate what you want to be; it communicates what you are.

Credit unions and community banks have been on the leading edge of branch branding. At a credit union in North Carolina, for instance, lazy rocking chairs on a long front porch communicate a theme of Southern casual. At another in Ontario, the theme of community is captured in an interior that resembles a streetscape. And at a third in Atlanta, custom images on workstation screens and tiles replicate the organization's colors and reinforce its community-oriented brand with strategic messages.

Branding gets a big boost from technology at a financial institution in western Canada. A 90-square-foot wall of video screens faces the street, flashing brand messaging that grabs the attention of passersby. Similarly, a welcome wall inside does its part, transitioning among scenes of beach holidays, new homes, and other financial dreams as customers draw near. The branding lures people in, both physically and emotionally.

But branding isn't just about branches anymore. Little by little, it's creeping into the back office as well, areas unlikely ever to host customers. The look and feel of the back office can demonstrate whether a financial institution is grave or relaxed, stuck in a rut or on the vanguard.

Nowadays, branding even extends to technology. For those customers and prospects who prefer Internet banking, the online experience becomes the de facto front door. Make a less than perfect impression and they'll click to a competitor in a hurry.

An environment for growth. According to the FDIC, the number of U.S. commercial banks has dropped to about 6,400, half as many as two decades ago.

In this climate of mergers, acquisitions, and failures, plenty of banks have tenuous futures, while a fortunate few are looking to expand. For the latter, the prospect of growth opens up a vault of considerations from a real estate perspective.

For starters, industry consolidation may be an argument in favor of lower panels, fewer private offices, and more collaborative space. It stands to reason that breaking down the physical barriers between newly combined organizations could be an important step toward fostering a collegial atmosphere.

Workstation systems in lieu of fixed drywall also can make sense in a growth culture. Reason: The flexibility of systems adapts to growth more readily—they're easy to reconfigure, move, and repurpose. A Florida credit union initially specified Herman Miller's Resolve system for a call center at its headquarters complex, but is now using the space for its real estate lending team. Making the switch was a simple matter of attaching higher screens and larger worksurfaces to the existing Resolve infrastructure.

Any financial institution pursuing growth would do well to view its work environment as a strategic tool for attracting and retaining the people it needs. For newcomers who join an acquiring employer, an appealing work environment can make the difference between "I want to work here" and "This place isn't a good fit for me."

The absorption of one organization by another also involves the assimilation of culture and brand. A systematic change management process can go far toward setting expectations, lowering resistance, and deflating the us vs. them mindset.

One other thing: It pays to think creatively about workplace and work style, rather than just assume a bigger organization will lead to a bigger real estate portfolio. Often, shared workstations, work-at-home programs, and workplace redesign can accommodate growth without requiring a huge investment in additional space.

Of course, regulatory and privacy issues inherent to financial services place some constraint on flexible work arrangements. Example: It might not be prudent to encourage employees to work at home if their laptops are packed with client-sensitive data.

In the final analysis, the collision of trends affecting the financial workplace calls for a fresh look at the role of physical space in supporting business objectives. Evolving attitudes toward collaboration, space utilization, hierarchy, branches, and brand are percolating throughout the industry. How they ultimately take shape will vary from one organization to the next, but one overriding trend is worth banking on: Workplace reinvention is the new currency of financial services.