

AGENCY THEORY

agency theory

A set of ideas on organizational control based on the belief that the separation of the ownership from management creates the potential for the wishes of owners to be ignored.

agency costs

The cost of agency problems and the cost of actions taken to minimize them.

moral hazard problem

An agency problem that occurs because owners have limited access to company information, making executives free to pursue their own interests.

adverse selection

An agency problem caused by the limited ability of stockholders to precisely determine the competencies and priorities of executives at the time they are hired.

Whenever there is a separation of the owners (principals) and the managers (agents) of a firm, the potential exists for the wishes of the owners to be ignored. This fact, and the recognition that agents are expensive, established the basis for a set of complex but helpful ideas known as **agency theory**. Whenever owners (or managers) delegate decision-making authority to others, an agency relationship exists between the two parties. Agency relationships, such as those between stockholders and managers, can be very effective as long as managers make investment decisions in ways that are consistent with stockholders' interests. However, when the interests of managers diverge from those of owners, then managers' decisions are more likely to reflect the managers' preferences than the owners' preferences.

In general, owners seek stock value maximization. When managers hold important blocks of company stock, they too prefer strategies that result in stock appreciation. However, when managers better resemble "hired hands" than owner-partners, they often prefer strategies that increase their personal payoffs rather than those of shareholders. Such behavior can result in decreased stock performance (as when high executive bonuses reduce corporate earnings) and in strategic decisions that point the firm in the direction of outcomes that are suboptimal from a stockholder's perspective.

If, as agency theory argues, self-interested managers act in ways that increase their own welfare at the expense of the gain of corporate stockholders, then owners who delegate decision-making authority to their agents will incur both the loss of potential gain that would have resulted from owner-optimal strategies and/or the costs of monitoring and control systems that are designed to minimize the consequences of such self-centered management decisions. In combination, the cost of agency problems and the cost of actions taken to minimize agency problems are called **agency costs**. These costs can often be identified by their direct benefit for the agents and their negative present value. Agency costs are found when there are differing self-interests between shareholders and managers, superiors and subordinates, or managers of competing departments or branch offices.

How Agency Problems Occur

Because owners have access to only a relatively small portion of the information that is available to executives about the performance of the firm and cannot afford to monitor every executive decision or action, executives are often free to pursue their own interests. This condition is known as the **moral hazard problem**. It is also called shirking to suggest "self-interest combined with smile."

As a result of moral hazards, executives may design strategies that provide the greatest possible benefits for themselves, with the welfare of the organization being given only secondary consideration. For example, executives may presell products at year-end to trigger their annual bonuses even though the deep discounts that they must offer will threaten the price stability of their products for the upcoming year. Similarly, unchecked executives may advance their own self-interests by slacking on the job, altering forecasts to maximize their performance bonuses; unrealistically assessing acquisition targets' outlooks in order to increase the probability of increasing organizational size through their acquisition; or manipulating personnel records to keep or acquire key company personnel.

The second major reason that agency costs are incurred is known as **adverse selection**. This refers to the limited ability that stockholders have to precisely determine the competencies and priorities of executives at the time that they are hired. Because principals cannot initially verify an executive's appropriateness as an agent of the owners, unanticipated problems of nonoverlapping priorities between owners and agents are likely to occur.

The most popular solution to moral dilemma and adverse selection problems is for owners to attempt to more closely align their own best interests with those of their agents through the use of executive bonus plans. Foremost among these approaches are stock option plans, which enable executives to benefit directly from the appreciation of the company's stock just as other stockholders do. In most instances, executive bonus plans are unabashed attempts to align the interests of owners and executives and to thereby induce executives to support strategies that increase stockholder wealth. While such schemes are unlikely to eliminate self-interest as a major criterion in executive decision making, they help to reduce the costs associated with moral dilemmas and adverse selections.

Problems That Can Result from Agency

From a strategic management perspective there are five different kinds of problems that can arise because of the agency relationship between corporate stockholders and their company's executives:

1. Executives pursue growth in company size rather than in earnings. Shareholders generally want to maximize earnings, because earnings growth yields stock appreciation. However, because managers are typically more heavily compensated for increases in firm size than for earnings growth, they may recommend strategies that yield company growth such as mergers and acquisitions.

In addition, managers' stature in the business community is commonly associated with company size. Managers gain prominence by directing the growth of an organization, and they benefit in the forms of career advancement and job mobility that are associated with increases in company size.

Finally, executives need an enlarging set of advancement opportunities for subordinates whom they wish to motivate with nonfinancial inducements. Acquisitions can provide the needed positions.

2. Executives attempt to diversify their corporate risk. Whereas stockholders can vary their investment risks through management of their individual stock portfolios, managers' careers and stock incentives are tied to the performance of a single corporation, albeit the one that employs them. Consequently, executives are tempted to diversify their corporation's operation, businesses, and product lines to moderate the risk incurred in any single venture. While this approach serves the executives' personal agendas, it compromises the "pure play" quality of their firm as an investment. In other words, diversifying a corporation reduces the beta associated with the firm's return, which is an undesirable outcome for many stockholders.

3. Executives avoid risk. Even when, or perhaps especially when, executives are willing to restrict the diversification of their companies, they are tempted to minimize the risk that they face. Executives are often fired for failure, but rarely for mediocre corporate performance. Therefore, executives may avoid desirable levels of risk if they anticipate little reward and opt for conservative strategies that minimize the risk of company failure. If they do, executives will rarely support plans for innovation, diversification, and rapid growth.

However, from an investor's perspective, risk taking is desirable when it is systematic. In other words, when investors can reasonably expect that their company will generate higher long-term returns from assuming greater risk, they may wish to pursue the greater payoff, especially when the company is positioned to perform better than its competitors that face the same nominal risks. Obviously, the agency relationship creates a problem—should executives prioritize their job security or the company's financial returns to stockholders?

4. Managers act to optimize their personal payoffs. If executives can gain more from an annual performance bonus by achieving objective 1 than from stock appreciation resulting from the achievement of objective 2, then owners must anticipate that the executives will target objective 1 as their priority, even though objective 2 is clearly in the best interest of the shareholders. Similarly, executives may pursue a range of expensive perquisites that have a net negative effect on shareholder returns. Elegant corner offices, corporate jets, large staffs, golf club memberships, extravagant retirement programs, and limousines for executive benefit are rarely good investments for stockholders.

5. Executives act to protect their status. When their companies expand, executives want to ensure that their knowledge, experience, and skills remain relevant and central to the strategic direction of the corporation. They favor doing more of what they already do well. In contrast, investors may prefer revolutionary advancement to incremental improvement. For example, when confronted with Amazon.com, competitor Barnes & Noble initiated a joint venture Web site with Bertelsmann. In addition, Barnes & Noble used vertical integration with the nation's largest book distributor, which supplies 60 percent of Amazon's books. This type of revolutionary strategy is most likely to occur when executives are given assurances that they will not make themselves obsolete within the changing company that they create.

Solutions to the Agency Problem

In addition to defining an agent's responsibilities in a contract and including elements like bonus incentives that help align executives' and owners' interests, principals can take several other actions to minimize agency problems. The first is for the owners to pay executives a premium for their service. This premium helps executives to see their loyalty to the stockholders as the key to achieving their personal financial targets.

A second solution to agency problems is for executives to receive backloaded compensation. This means that executives are paid a handsome premium for superior future performance. Strategic actions taken in year one, which are to have an impact in year three, become the basis for executive bonuses in year three. This lag time between action and bonus more realistically rewards executives for the consequences of their decision making, ties the executive to the company for the long term, and properly focuses strategic management activities on the future.

Finally, creating teams of executives across different units of a corporation can help to focus performance measures on organizational rather than personal goals. Through the use of executive teams, owner interests often receive the priority that they deserve.

Summary

Defining the company mission is one of the most often slighted tasks in strategic management. Emphasizing the operational aspects of long-range management activities comes much more easily for most executives. But the critical role of the mission statement repeatedly is demonstrated by failing firms whose short-run actions have been at odds with their long-run purposes.

The principal value of the mission statement is its specification of the firm's ultimate aims. A firm gains a heightened sense of purpose when its board of directors and its top executives address these issues: "What business are we in?" "What customers do we serve?" "Why does this organization exist?" However, the potential contribution of the company mission can be undermined if platitudes or ambiguous generalizations are accepted in response to these questions. It is not enough to say that Lever Brothers is in the

business of “making anything that cleans anything” or that Polaroid is committed to businesses that deal with “the interaction of light and matter.” Only if a firm clearly articulates its long-term intentions can its goals serve as a basis for shared expectations, planning, and performance evaluation.

A mission statement that is developed from this perspective provides managers with a unity of direction transcending individual, parochial, and temporary needs. It promotes a sense of shared expectations among all levels and generations of employees. It consolidates values over time and across individuals and interest groups. It projects a sense of worth and intent that can be identified and assimilated by outside stakeholders, that is, customers, suppliers, competitors, local committees, and the general public. Finally, it asserts the firm’s commitment to responsible action in symbiosis with the preservation and protection of the essential claims of insider stakeholders’ survival, growth, and profitability.

Key Terms

adverse selection, *p. 35*
agency costs, *p. 35*
agency theory, *p. 35*

board of directors, *p. 34*
company creed, *p. 25*
company mission, *p. 21*

moral hazard problem, *p. 35*
vision statement, *p. 33*

Questions for Discussion

1. Reread Nicor Inc.’s mission statement in Exhibit 2.1, *Strategy in Action*. List five insights into Nicor that you feel you gained from knowing its mission.
2. Locate the mission statement of a company not mentioned in the chapter. Where did you find it? Was it presented as a consolidated statement, or were you forced to assemble it yourself from various publications of the firm? How many of the mission statement elements outlined in this chapter were discussed or revealed in the statement you found?
3. Prepare a two-page typewritten mission statement for your school of business or for a firm selected by your instructor.
4. List five potentially vulnerable areas of a firm without a stated company mission.
5. Mission statements are often criticized for being lists of platitudes. What can strategic managers do to prevent their statements from appearing to be simple statements of obvious truths?
6. What evidence do you see that mission statements are valuable?
7. How can a mission statement be an enduring statement of values and simultaneously provide a basis of competitive advantage?
8. If the goal of survival refers to ability to maintain a specific legal form, what are the comparative advantages of sole proprietorships, partnerships, and corporations?
9. In the 1990s many Nasdaq firms favored growth over profitability; in the 2000s the goal of profitability is displacing growth. How might each preference be explained?
10. Do you agree that a mission statement provides substantive guidance while a vision statement provides inspirational guidance? Explain.

Chapter 2 Appendix

BB&T Vision, Mission, and Purpose

BB&T Vision

To create the best financial institution possible: *"The Best of The Best."*

BB&T Mission

To make the world a better place to live by: helping our clients achieve economic success and financial security; creating a place where our employees can learn, grow and be fulfilled in their work; making the communities in which we work better places to be; and thereby: optimizing the long-term return to our shareholders, while providing a safe and sound investment.

BB&T Purpose

Our ultimate purpose is to create superior long-term economic rewards for our shareholders.

This purpose is defined by the free market and is as it should be. Our shareholders provide the capital that is necessary to make our business possible. They take the risk if the business is unsuccessful. They have the right to receive economic rewards for the risk which they have undertaken.

However, our purpose, to create superior long-term economic rewards for our shareholders, can only be accomplished by providing excellent service to our clients, as our clients are our source of revenues.

To have excellent client relations, we must have outstanding employees to serve our clients. To attract and retain outstanding employees, we must reward them financially and create an environment where they can learn and grow.

Our economic results are significantly impacted by the success of our communities. The community's "quality of life" impacts its ability to attract industry for growth.

Therefore, we manage our business in a long-term context, as an integrated whole, with the ultimate objective of rewarding the shareholders for their investment, while realizing that the source of this result is quality client service. Excellent service will be delivered by motivated employees working as an integrated team. These results will be impacted by our capacity to contribute to the growth and well-being of the communities we serve.

Values

"Excellence is an art won by training and habituation. We are what we repeatedly do. Excellence then is not an act, but a habit."—Aristotle

The great Greek philosophers saw values as guides to excellence in thinking and action. In this context, values are standards which we strive to achieve. Values are practical habits that enable us as individuals to live, be successful and

achieve happiness. For BB&T, our values enable us to achieve our mission and corporate purpose.

To be useful, values must be consciously held and be consistent (noncontradictory). Many people have conflicting values which prevent them from acting with clarity and self-confidence.

There are 10 primary values at BB&T. These values are consistent with one another and are integrated. To fully act on one of these values, you must also act consistently with the other values. Our focus on values grows from our belief that ideas matter and that an individual's character is of critical significance.

Values are important at BB&T!

1. Reality (Fact-Based)

What is, is. If we want to be better, we must act within the context of reality (the facts). Businesses and individuals often make serious mistakes by making decisions based on what they "wish was so," or based on theories which are disconnected from reality. The foundation for quality decision making is a careful understanding of the facts.

There is a fundamental difference between the laws of nature (reality), which are immutable, and the man-made. The law of gravity is the law of gravity. The existence of the law of gravity does not mean man cannot create an airplane. However, an airplane must be created within the context of the law of gravity. At BB&T, we believe in being "reality grounded."

2. Reason (Objectivity)

Mankind has a specific means of survival, which is his ability to think, i.e., his capacity to reason logically from the facts of reality as presented to his five senses. A lion has claws to hunt. A deer has swiftness to avoid the hunter. Man has his ability to think. There is only one "natural resource"—the human mind.

Clear thinking is not automatic. It requires intellectual discipline and begins with sound premises based on observed facts. You must be able to draw general conclusions in a rational manner from specific examples (induction) and be able to apply general principles to the solution of specific problems (deduction). You must be able to think in an integrated way, thereby avoiding logical contradictions.

We cannot all be geniuses, but each of us can develop the mental habits which ensure that when making decisions we carefully examine the facts and think logically without contradiction in deriving a conclusion. We must learn to think in terms of what is essential, i.e., about what is important. Our goal is to objectively make the best decision to accomplish our purpose.

Rational thinking is a learned skill which requires mental focus and a fundamental commitment to consistently improving the clarity of our mental processes. At BB&T, we are looking for people who are committed to constantly improving their ability to reason.

3. Independent Thinking

All employees are challenged to use their individual minds to their optimum to make rational decisions. In this context, each of us is *responsible* for what we do and who we are. In addition, creativity is strongly encouraged and only possible with independent thought.

We learn a great deal from each other. Teamwork is important at BB&T (as will be discussed later). However, each of us thinks alone. Our minds are not physically connected. In this regard, each of us must be willing to make an independent judgment of the facts based on our capacity to think logically. Just because the "crowd" says it is so, does not make it so.

In this context, each of us is responsible for our own actions. Each of us is responsible for our personal success or failure; that is, it is not the bank's fault if someone does not achieve his objectives.

All human progress by definition is based on creativity, because creativity is the source of positive change. Creativity is only possible to an independent thinker. Creativity is not about just doing something different. It is about doing something better. To be better, the new method/process must be judged by its impact on the whole organization, and as to whether it contributes to the accomplishment of our mission.

There is an infinite opportunity for each of us to do whatever we do better. A significant aspect of the self-fulfillment which work can provide comes from creative thought and action.

4. Productivity

We are committed to being producers of wealth and well-being by taking the actions necessary to accomplish our mission. The tangible evidence of our productivity is that we have rationally allocated capital through our lending and investment process, and that we have provided needed services to our clients in an efficient manner resulting in superior profitability.

Profitability is a measure of the differences in the economic value of the products/services we produce and the cost of producing these products/services. In a long-term context and in a free market, the bigger the profit, the better. This is true not only from our shareholders' perspective (which would be enough justification), but also in terms of the impact of our work on society as a whole. Healthy profits represent productive work. At BB&T we are looking for people who want to create, to produce, and who are thereby committed to turning their thoughts into actions that improve economic well-being.

5. Honesty

Being honest is simply being consistent with reality. To be dishonest is to be in conflict with reality, which is therefore self-defeating. A primary reason that individuals fail is because they become disconnected from reality, pretending that facts are other than they are.

To be honest does not require that we know everything. Knowledge is always contextual and man is not omniscient. However, we must be responsible for saying what we mean and meaning what we say.

6. Integrity

Because we have developed our principles logically, based on reality, we will always act consistently with our principles. Regardless of the short-term benefits, acting inconsistently with our principles is to our long-term detriment. We do not, therefore, believe in compromising our principles in any situation.

Principles provide carefully thought-out concepts which will lead to our long-term success and happiness. Violating our principles will always lead to failure. BB&T is an organization of the highest integrity.

7. Justice (Fairness)

Individuals should be evaluated and rewarded objectively (for better or worse) based on their contributions toward accomplishing our mission and adherence to our values. Those who contribute the most should receive the most.

The single most significant way in which employees evaluate their managers is in determining whether the manager is just. Employees become extremely unhappy (and rightly so) when they perceive that a person who is not contributing is overrewarded or a strong contributor is underrewarded.

If we do not reward those who contribute the most, they will leave and our organization will be less successful. Even more important, if there is no reward for superior performance, the average person will not be motivated to maximize his productivity.

We must evaluate whether the food we eat is healthy, the clothes we wear attractive, the car we drive functional, etc., and we must also evaluate whether relationships with other people are good for us or not.

In evaluating other people, it is critical that we judge based on essentials. At BB&T we do not discriminate based on nonessentials such as race, sex, nationality, etc. We do discriminate based on competency, performance and character. We consciously reject egalitarianism and collectivism. Individuals must be judged individually based on their personal merits, not their membership in any group.

8. Pride

Pride is the psychological reward we earn from living by our values, that is, from being just, honest, having integrity, being an independent thinker, being productive and rational.

Aristotle believed that "earned" pride (not arrogance) was the highest of virtues, because it presupposed all the others. Striving for earned pride simply reinforces the importance of having high moral values.

Each of us must perform our work in a manner as to be able to be justly proud of what we have accomplished. BB&T must be the kind of organization with which each employee and client can be proud to be associated.

9. Self-Esteem (Self-Motivation)

We expect our employees to earn positive self-esteem from doing their work well. We expect and want our employees to act in their rational, long-term self-interest. We want employees who have strong personal goals and who expect to be able to accomplish their goals within the context of our mission.

A necessary attribute for self-esteem is self-motivation. We have a strong work ethic. We believe that you receive from your work in proportion to how much you contribute. If you do not want to work hard, work somewhere else.

While there are many trade-offs in the content of life, you need to be clear that BB&T is the best place, all things considered, for you to work to accomplish your long-term goals. When you know this, you can be more productive and happy.

10. Teamwork/Mutual Supportiveness

While independent thought and strong personal goals are critically important, our work is accomplished within teams. Each of us must consistently act to achieve the agreed-upon objectives of the team, with respect for our fellow employees, while acting in a mutually supportive manner.

Our work at BB&T is so complex that it requires an integrated effort among many people to accomplish important tasks. While we are looking for self-motivated and independent thinking individuals, these individuals must recognize that almost nothing at BB&T can be accomplished without the help of their team members. One of the responsibilities of leadership in our organization is to ensure that each individual is rewarded based on their contribution to the success of the total team. We need outstanding individuals working together to create an outstanding team.

Our values are held consciously and are logically consistent. To fully execute on any one value, you must act consistently with all 10 values. At BB&T values are practical and important.

The Role of Emotions

Often people believe that making logical decisions means that we should be unemotional and that emotions are thereby unimportant. In fact, emotions are important. However, the real issue is how rational are our emotions. Emotions are mental habits which are often developed as children. Emotions give us automatic responses to people and events; these responses can either be very useful or destructive indicators.

Emotions as such are not means of decision or of knowledge; the issue is: How were your emotions formed? The real question is, Are we happy when we should be happy, and unhappy when we should be unhappy, or are we unhappy when we should be happy?

Emotions are learned behaviors. The goal is to "train up" our emotions so that our emotions objectively reinforce the best decisions and behaviors toward our long-term success and happiness. Just because someone is unemotional does not mean that they are logical.

Concepts That Describe BB&T

1. Client-Driven

"World class" client service organization.

Our clients are our partners.

Our goal is to create win/win relationships.

"You can tell we want your business."

"It is easy to do business with BB&T."

"Respect the individual, value the relationship."

We will absolutely never, ever, take advantage of anyone, nor do we want to do business with those who would take advantage of us. Our clients are long-term partners and should be treated accordingly. One of the attributes of partnerships is that both partners must keep their agreements. We keep our agreements. When our partners fail to keep their agreements, they are terminating the partnership.

There are an infinite number of opportunities where we can get better together, where we can help our clients achieve their financial goals and where our client will enable us to make a profit in doing so.

2. Quality Oriented

Quality must be built into the process.

In every aspect of our business we want to execute and deliver quality. It is easier and less expensive to do things correctly than to fix what has been done incorrectly.

3. Efficient

"Waste not, want not."

Design efficiency into the system.

4. Growing Both Our Business and Our People

Grow or die.

Life requires constant, focused thought and actions towards one's goals.

5. Continuous Improvement

Everything can be done better.

Fundamental commitment to innovation.

Every employee should constantly use their reasoning ability to do whatever they do better every day. All managers of systems/processes should constantly search for better methods to solve problems and serve the client.

6. Objective Decision Making

Fact-based and rational.

BB&T Management Style

Participative
Team Oriented
Fact-Based
Rational
Objective

Our management process, by intention, is designed to be participative and team oriented. We work hard to create consensus. When people are involved in the decision process, better information is available to make decisions. The participant's understanding of the decision is greater and, therefore, execution is better.

However, there is a risk in participative decision making: the decision process can become a popularity contest. Therefore, our decision process is disciplined. Our decisions will be made based on the facts using reason. The best objective decision will be the one which is enacted.

Therefore, it does not matter whom you know, who your friends are, etc.; it matters whether you can offer the best objective solution to accomplishing the goal or solving the problem at hand.

BB&T Management Concept

Hire excellent people
Train them well
Give them an appropriate level of authority and responsibility
Expect a high level of achievement
Reward their performance

Our concept is to operate a highly autonomous, entrepreneurial organization. In order to execute this concept, we must have extremely competent individuals who are "masters" of BB&T's philosophy and who are "masters" in their field of technical expertise.

By having individuals who are "masters" in their field, we can afford to have less costly control systems and be more responsive in meeting the needs of our clients.

Attributes of an Outstanding BB&T Employee

Purpose
Rationality
Self-esteem

Consistent with our values, successful individuals at BB&T have a sense of purpose for their lives; that is, they believe that their lives matter and that they can accomplish something meaningful through their work. We are looking for people who are rational and have a high level of personal self-esteem. People with a strong personal self-esteem get along better with others, because they are at peace with themselves.

BB&T Positive Attitude

Since we build on the facts of reality and our ability to reason, we are capable of achieving both success and happiness.

We do not believe that "realism" means pessimism. On the contrary, precisely because our goals are based on and consistent with reality, we fully expect to accomplish them.

BB&T'S Obligations to Its Employees

We will do our best to:

Compensate employees fairly in relation to internal equity and market-comparable pay practices—performance-based compensation.

Provide a comprehensive and market-competitive benefit program.

Create a place where employees can learn and grow—to become more productive workers and better people.

Train employees so they are competent to do the work asked of them. (Never ask anyone to do anything they are not trained to do.)

Evaluate and recognize performance objectively, fairly and consistently based on the individual's contribution to the accomplishment of our mission and adherence to our values.

Treat each employee as an individual with dignity and respect.

Virtues of an Outstanding Credit Culture

Just as individuals need a set of values (virtues) to guide their actions, systems should be designed to have a set of attributes which optimize their performance towards our goals. In this regard, our credit culture has seven fundamental virtues:

1. Provides fundamental insight to help clients achieve their economic goals and solve their financial problems: We are in the high-quality financial advice business.
2. Responsive: The client deserves an answer as quickly as possible, even when the answer is no.
3. Flexible (Creative): We are committed to finding better ways to meet the client's financial needs.
4. Reliable: Our clients are selected as long-term partners and treated accordingly. BB&T must continue to earn the right to be known as the most reliable bank.
5. Manages risk within agreed-upon limits: Clients do not want to fail financially, and the bank does not want a bad loan.
6. Ensures an appropriate economic return to the bank for risk taken: The higher the risk, the higher the return. The lower the risk, the lower the return. This is an expression of justice.
7. Creates a "premium" for service delivery: The concept is to provide superior value to the client through outstanding service quality. A rational client will fairly compensate us when we provide sound financial advice, are responsive, creative and reliable, because these attributes are of economic value to the client.

Strategic Objectives

Create a high performance financial institution that can survive and prosper in a rapidly changing, highly competitive, globally integrated environment.

Achieving Our Goal

The key to maximizing our probability of being both independent and prosperous over the long term is to create a superior earnings per share (EPS) growth rate without sacrificing the fundamental quality and long-term competitiveness of our business and without taking unreasonable risk.

While being fundamentally efficient is critical, the “easy” way to rapid EPS growth is to artificially cut cost. However, not investing for the future is long-term suicide, as it destroys our capability to compete.

The intelligent process to achieve superior EPS growth is to grow revenues by providing (and selling) superior quality service while systematically enhancing our margins, improving our efficiency, expanding our profitable product offerings and creating more effective distribution channels.

The “World Standard” Revenue-Driven Sales Organization

At BB&T, selling is about identifying our clients’ legitimate financial needs and finding a way to help the client achieve economic goals by providing the right products and services.

Effective selling requires a disciplined approach in which the BB&T employee asks the client about financial goals and problems and has a complete understanding of how our products can help the client achieve objectives and solve financial problems.

It also requires exceptional execution by support staffs and product managers, since service and sales are fundamentally connected and creativity is required in product design and development.

“World Standard” Client Service Community Banks

BB&T operates as a series of “Community Banks.” The “Community Bank” concept is the foundation for local

decision making and the basis for responsive, reliable and empathetic client service.

By putting decision making closer to the client, all local factors can be considered, and we can ensure that the client is being treated as an individual.

To operate in this decentralized decision-making fashion, we must have highly trained employees who understand BB&T’s philosophy and are “masters” of their areas of responsibility.

Commitment to Education/Learning

Competitive advantage is in the minds of our employees.

We are committed to making substantial investments in employee education to create a “knowledge-based learning organization” founded on the premise that knowledge (understanding), properly applied, is the source of superior performance.

We believe in systematized learning founded on Aristotle’s concept that “excellence is an art won by training and habituation.” We attempt to train our employees with the best knowledge/methods in their fields and to habituate those behaviors through consistent management reinforcement. The goal is for each employee to be a “master” of his or her role, whether it be a computer operator, teller, lender, financial consultant or any other job responsibility.

Our Passions

To create the best financial institution possible.

To consistently provide the client with better value through rational innovation and productivity improvement.

At BB&T we have two powerful passions. Our fundamental passion is our Vision: To Create The Best Financial Institution Possible—The “World Standard”—The “Best of the Best.” We believe that the best can be objectively evaluated by rational performance standards in relation to the accomplishment of our mission.

To be the best of the best, we must constantly find ways to deliver better value to our clients in a highly profitable manner. This requires us to keep our minds focused at all times on innovative ways to enhance our productivity.