Re-Imagining Strategic Planning

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35 Years On …. One Man's Thoughts & Opinions about Strategic Planning

A Philosophical and Practical Re-Imagining

Prelude

35 years on, I have some strong opinions about all this banking stuff. What "stuff" you ask? Internal controls, enterprise risk, compliance, business continuity, efficiencies, metrics, safety, soundness … you name it. And above all, and springing from all, strategic planning.

My during and post-college working life started with a decade and a half of public and private accounting - tax returns, non-profit audits, and small company CFO-ing. My introduction to banking came as the result of an invitation to be a director at Gloucester Cooperative Bank. My initiation provided two enduring memories, both involving "the Chair". First, the foundation of my board education was being shown which chair would be my forever place with a stern warning not to transgress and sit elsewhere. The second, more valuable instruction came from the Board Chair who told me that there are only two things to being a successful banker: "Do the right thing, and do things right". His name was Alexander Guittarr and he was an old-time banker with timeless, albeit stodgy values that still resonate today. That was 1985 and 35 years on …

As I have facilitated strategic discussions for banks over the years, both formally and in informal chats, the art vs. science question comes to the fore. My opinion stands at 60-40 art over science, but clearly both are necessary as well as complementary. Methodologies vary, but really only in nuanced ways. The who, what, where and when vary, but also only in nuanced ways. The consultant-as-facilitator view has some interesting facets. I think that most of the fraternity of strategic planning providers would agree that most banks have a narrow and insular view of themselves and struggle to see through new lenses. Our job as facilitator, of course, is to challenge these views, poking holes in long-standing barrier walls and afford at least a tiny view of alternatives. Example: "Our unique strength is our outstanding reputation and attention to customer service as evidenced by our delighted customers/members." Counting both banks and credit unions, it might be a good guess that this "unique" quality has been cited in excess of 10,000 times in SWOT analyses. Clearly not unique nor a meaningful strategic planning element.

The aforementioned fraternity of strategic planning providers compete and commune in a very distinctive way. It is generally healthy that institutions switch providers occasionally in order to stimulate new viewpoints. Here in the northeast, I have often succeeded the "dean" of strategic planning, Dr. Jim Clarke, or my good friend Jim Jones, recently retired, as well as others, so we all get to see the work of other professionals. The written strategic plans speak to process and approach, and provide different reporting modes, disparate scopes and weights, differing focus on actionable items and so forth. We have learned from each other.

What prompts the writing of this opinion piece as the prelude to a suggested re-assessment is my renewed focus and introspection relative to strategic planning as I succeed Jim Jones as a member of the faculty of the New England School for Financial Studies, sponsored by a consortium of New England banking associations, and conducted at Babson University. I've inherited numerous sessions focused on strategic planning elements, and in my first rodeo here in 2020 (virtually – yuck!) I will be teaching to Jim's 100+ Powerpoint slides, team quizzes and assignments. Eventually, I'll put my own stamp on this, but the exercise of teaching another's methodology provides a personal challenge and re-imagining which is why I'm purposely taking that approach in year one.

"Re-imagining" is largely what this document is all about. Let's dig in.

No …. Wait …. Digging in, as in "digging in your heels" is not what we want to do here. Let's move forward.

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1 TRADITION

Formal strategic planning has a very traditional and expected flow. Elements of most plans include:

Introduction
- Methodology – Documenting the Process
  - Background / History
    - Some subset of Mission, Purpose, Vision, Values

SWOT Analyses (Strengths, Weakness, Opportunities & Threats)
- Internal Environment Scan to identify the bank's strengths and weaknesses
  - External Environment Scan to identify industry opportunities and threats

Objectives leading to …
- Goals leading to …
  - Action plans supported by …
    - Objective or goal-specific metrics supported by …
      - Budget and/or three-year financial projections

Appendices such as …
- Demographics
  - Branch deposit details
    - Product details
      - Peer group analyses
        - Meeting agenda and notes
          - Surveys – questions and results

The SWOT has seemingly morphed to a best-practice "right-size" of five of each.

This treatise, in looking at each of these traditional elements, takes a "could we do it differently and thereby better" approach. Similar to the COSO/FDICIA/SOX Playbook that we wrote a few years ago, and maintained on a regular basis, I've strived to deploy mostly "one-pagers" to be succinct and to allow the document to serve as a bit of a reference book. But unlike the playbook, "whitepaper" seems a better moniker for this piece, as it serves not so much to recommend a methodology but rather to examine and re-imagine the approach. As such, the one-pagers (some old, some new) serve as short essays on specific topics, all elements of our traditional strategic planning process, each of which might be regarded in a fresh manner.

2 RE-PLACING INTRODUCTION / HISTORY

Throughout this document, I'm looking at ways that we might bring our strategic plan document from 20-30-40-50 pages back to less than 10 (see subject 10 - The 4' x 8' White-board), to achieve a goal of clarity and utility, as well as efficacy of purpose.

Let's start with asking who we are writing the strategic plan for. If it's for us (which it is!) why are we taking 2, 4, 8 or more pages to describe us to us. And then tweaking how we describe us to us every time we update the plan for us. Sure, you may want the rookie FDIC examiner to gain some insight from this as they look at our plans, but, in my opinion, it should reside elsewhere.

So how about "placing" this information where it might actually be of some value.

The history of the bank and some introduction to our entity is really valuable to have articulated and communicated. And perhaps if it resides elsewhere, it needn't be reflected redundantly in our strategic plan. Many of the same elements we write into our plans are also reflected in some of our more robust annual statements, which help to demonstrate provenance, community and such in both a marketing and educational manner.

My thought? A stand-alone document that may in fact be a little meatier than what we put in the strategic plan. The first readers? Every new employee HR on-boards. Every new director, trustee, incorporator.

An apropos story. In 2010 and again in 2011, I conducted Business Continuity Planning {"BCP"} mock disaster programs for Kentucky Bankers Association. At one of the sessions, the regional director of the FDIC attended the day-long event. As we wrapped up our day, I asked her if she wanted to offer any observational commentary or advice for me or the bankers. Her words of simplicity have stuck with me since. I paraphrase her comment that often, rather than a BCP hundreds of pages long, she would place more weight on four pages of hand-written, yellow legal-pad-size information that actually was meaningful and actionable. A strategic plan "short-form" example follows on the next page.

Hence, never write a strategic plan specifically for someone else. Make it useful and write it for the benefit of your bank and your leadership team. Refer to it routinely and use it to guide decisions and to guide how valuable resources are allocated, especially everyone's time.

In a recent strategic planning engagement, in which I inherited last year's plan, I went looking for those "four pages". I found six pages worth leveraging for the current year's plan and set the rest aside as filler. They stated their mission-vision, SWOT, objectives and goals embedded in a larger 42-page document. They also spent a lot of time and effort to "glitz-up" a plan that only management and the board would eventually see.

Matching up the reason for the plan, the audience for the plan and expectations for the plan are really important. And that match-up should, in my opinion, result in a succinct document. In my work with internal controls over financial reporting ("ICFR"), and in my risk classes, I teach the CUSS method. Clear, Unambiguous, Succinct & Supportable. No different here as well.

Memorandum - Composite Bank

To: Executive Management
From: The CEO
Re: The five most important things to get done in 2021

1. Growth

We need to keep growing the bank to be sustainable. We should plan to grow assets by 5% in 2021. As part of that growth target, we'll need to grow commercial loans by 8%, and maintain the level of residential and consumer loans, while growing core deposits by at least 4% so that we can minimize our reliance on brokered deposits and FHLB borrowings.

2. People / Talent:

Succession planning needs to be a particular focus for 2021 to ensure that the bank has tomorrow's leaders in place. Our middle management group does not necessarily represent our leaders of tomorrow. By year's end we need to come up with a plan for 2021 with respect to investing in folks we expect to move up the orgchart, or bring in talent to fill our leaderships gaps.

3. Call Center

We need to get this call-center thing figured out once and for all this year and make a "go" or "no go" decision. By March 1, let's form a small committee to analyze the costs and logistics of a call center; we all recognize the benefits. The idea would be to make a decision by Labor Day such that if we are going to move forward, we can include the Call Center in the 2021 budget.

4. Technology

Our current core contract expires in March of 2023. A thorough search, decision and implementation will take at least 12 months. By September of next year, let's set in motion the machinery to make such a decision, such that the costs (including consulting costs) for the search may be included in the 2021 budget.

5. Efficiency

We're getting squeezed with rate compression and can no longer rely on our net interest margin to carry us. We need to find ways to work smarter and cheaper heading into 2021. I'll work with the CFO, COO and HR to come up with a roadmap as to how we might grow by 50% without adding to staff. That analysis may well require hiring an outside consultant to perform an efficiency study especially for our struggling loan operations group. All recommendations should be finalized by September 30 for inclusion in the 2021 budget.

Note: none of strategic planning's magic words were used: mission, vision, values, objectives, goals, strategies, or action plans (it does still work without all the traditional labels!).

3 MISSION, PURPOSE, VISION, VALUES

Some over-arching generalized descriptions of the four terms as we cite them in our strategic plans …

Mission	Why we exist, what we do
Purpose	Why we do it
Vision	What we want to be
Values	What's important to us

Must we have all four? Is one of four sufficient? Maybe a couple? What's it matter? Any chapter & verse to guide me on whether I need this? What's best practice?

Try this on for size …

> Based on a solid foundation of integrity, excellence, teamwork and mutual respect, we strive to continue to delight customers and be the best and most versatile bank in the communities we serve, preserving our traditional offerings and superior service while consistently and concurrently embracing new technologies, products and services, as faithful stewards in furtherance of the original intentions of the founders of our long-lived and respected institution.

How does this statement fit into our traditional structure? Break it down …

Mission
Preserving our traditional offerings and superior service in furtherance of the original intentions of the founders of our long-lived and respected institution

Purpose
Consistently and concurrently embracing new technologies, products and services, as faithful stewards

Vision
We strive to continue to delight customers and be the best and most versatile bank in the communities we serve

Values
- Integrity
- Excellence
- Teamwork
- Mutual Respect

Maybe a single statement does the trick. Remember, it's more art than science.

4 IN SUPPORT OF A STRONG LIVING VALUES STATEMENT

Of the four horsemen, mission, purpose, vision and values, I'm a big fan of values statements as foundational, inspirational, team-building, common-ground rallying points.

In 2018, on of my client banks created a thoughtful values statement and then created a challenge between "buildings" as to remembering and embracing each of the elements. Their values: Integrity, Relationships, Development, Empowerment, Clients, Community. Each value was articulated at some length. An example …

> Integrity
>
> We act with integrity: Doing the right thing because it's the right thing to do.
> - We lead by example.
> - We honor our commitments.
> - We hold each other accountable.
> - We are part of the solution when we uncover a problem or an error.
> - We take responsibility for our actions and learn from our mistakes.

Strong words. Strong leadership.

If I recently rode an elevator in a client's location, I was presented with a floor to ceiling poster extolling their values as follows …

> Our Core Values form the foundation on which we perform work and conduct ourselves. They reflect how we want our customers and colleagues to describe their experience of interacting and doing business with us. Our bank celebrates five core values:
>
> - Deep Commitment to Excellence
> - Grounded in Integrity
> - Passionate about Creativity
> - Limitless Compassion and Caring for Others
> - Dedicated to Collaboration

Another client of mine has a great dual set of standards, cultural and professional, celebrating a "cultural hero" on a regular basis as voted by the entire staff.

My point? You can teach, cajole, assess and lead based on a set of values far better than you can lining up behind a mission statement that states that we'll be the community bank of choice. In a world where ethics and integrity go missing all too often, values, in my opinion, if well articulated and communicated, can be a guiding light to a superior team and a superior institution.

5 SWATTTO – STRENGTHS, WEAKNESSES & THREATS TARGET TOMORROW'S OPPORTUNITIES

Opportunities spring from leveraging and building strengths.

Opportunities spring from recognizing and eliminating weaknesses.

Opportunities spring from identifying and meeting threats head on.

Strengths
Weaknesses → Opportunities
Threats

We might identify a particular strength to help us conquer a threat. We might see a threat looming larger because of a weakness. Traditional SWOT sort of pigeon-holes things in a formulaic construct that may not always be instructive or beneficial.

At its core, isn't strategic planning all about opportunity, prospects, advancement, sustainability? In short, tomorrow?

How about SWaTtO instead? Strengths, Weaknesses and Threats target Opportunities.

So what really constitutes an opportunity?

My short list includes the bigger "stuff", outside of normal growth and organizational planning:

- Find an alliance to build size, strength and sustainability
- Ditch the current core system
- Move to work-flows – Accounts Payable; Commercial LOS; Resi LOS
- Find and deploy a Fintech partner and/or a new delivery channel
- Develop a Call Center
- Overhaul corporate governance
- Conduct efficiency studies; implement positive changes therefrom
- Ditch the main office – no one comes downtown anymore anyway
- Create a whole new non-interest income earning engine for the institution

6 BIG SWOT – SUPER-POWERS AND KRYPTONITE

In topics 7 and 8, we'll examine the beneficial clarity and consistency that setting growth and personnel apart as long-standing strategic planning objectives might bring. The biggest impact on our plans may then well be simplification and emphasis on just one or maybe two big, big things. Growth is always important (even if shrinking the balance sheet is this year's objective), and people development, retention and planning isn't an annual event, it's continuous.

A typical, over-scoped list of strengths and core competencies might look like this:

- Local bank with solid reputation (kind of a baseline expectation)
- Reliance on core deposits (reticence to borrow)
- Strong ethnic base of customers (turns out it targeted only the 8th largest local constituency)
- Improving ROA in the last few years (up to 28 bp)
- New employees from outside of the bank bringing different "perspective" (not at management level)
- Willingness to embrace new technologies (but not actually embracing new technologies)
- Management loyalty to the bank (I would hope so)
- Current compliance and risk management policies and procedures (kind of a baseline expectation)
- Solid credit function and culture (judgement call)
- Committed to mutuality (always a strength? or is it a value)
- Loyal customers
- Personalized service (kind of a baseline expectation)
- Multi-lingual staff with multiple languages available
- Ability to adapt products to market needs (but not doing new products)

First of all, way too many pseudo-strengths. Of the 14, maybe only the multi-lingual aspect would set this bank apart from the other 10,000 institutions in the country. The opportunities cited? Maintain the service quality, evaluate staffing, continue director training, and a couple of soft-toss commitments. Training the directors is not an opportunity, it's an obligation.

At second glance, maybe there are really only a hand-full of strengths if we look at this a little differently …

- Local, profitable, safe & sound mutually owned bank, well respected, serving local ethnicity
- Personalized products and services inclusive of multi-lingual capabilities
- Core deposit account strength thanks to customer loyalty
- Our people
- Forward looking with respect to technology

But what is the SWOT analysis providing us in terms of value? If we have a "super-power" such as a unique product, service or technology, have we identified it? Do we capitalize on it? And why would we minimize it through inclusion with 13 lesser attributes? If we have a super-power, why not identify as our unique strength and leave it at that, recognizing that 10,000 other institutions have this same non-unique list of strengths. And if we don't have a unique super-power, what are we going to do about that?

As for Kryptonite and Achilles Heels, more on that in topic 18, Blind Spots & Black Swans.

7 PERMANENT STRATEGIC OBJECTIVE #1 - GROWTH

Growth is a continual sustaining element of bank management. “No growth” or “need to shrink” might be occasional unique strategies, but otherwise every plan should and almost certainly does have growth targets. The growth targets may take various forms - growing the existing portfolio of loans and deposits, growing into new loan or deposit products, growing into new non-interest income producing machinery or growing via alliances.

Growth metrics also come into play during budget season as well as in setting incentive targets, especially in lending, which is why this might better serve as a separate and recurring “chapter” of our strategic plan.

I would suggest that a strategic objective to “grow CRE Loans by 3%” doesn’t tell us everything we might want to know as an executive officer or board member. 3% is a nice, clean, round target percentage, but the underlying assumptions and dynamics are anything but nice, clean and round. Embedded in the final 3% “answer” are the questions of amortization, pay-offs and defaults, estimates that require a fair bit of analytical justification required to back into the new loan originations amount that achieves our 3%.

If this a “standing” item on our plan year-to-year, we might create a rolling table that looks 3 years backwards as well as 3 or more years forward, complete with specific history of actual amortization, pay-offs, re-writes and defaults.

I would also suggest that our “standing” growth item include some generalized cost linkage to help all stakeholders understand what kind of growth year this really is, a slight expansion or a re-building. Also, I’d like to know what the impact on our ROA will be if we do meet this target.

8 PERMANENT STRATEGIC OBJECTIVE #2 – PEOPLE (POETRY)

Game theory, from Mario Kart to the most violent of today's video games, works on a "POET" model: Puzzles, Obstacles, Enemies, Treasure. Our industry's traditional strategic planning model follows a similar POET model: People, Opportunities, Environment, Threats. We solve puzzles, avoid obstacles, slay enemies, all in pursuit of treasure to make it to the next level, where, of course, it always gets harder.

In my strategic planning facilitation experience, "People" seem to be the missed link, the missing conversation. Planning the org chart (if at all) in three-year intervals is myopic and largely ineffectual. Why not think in terms of seven years? Several executive officers and board members will almost certainly be retiring during that time interval, with a core decision (renew, replace?) in play, and at a modest compound growth rate of 4% your institution will be about a third larger in terms of asset size. People all contribute to each of those factors.

When we specify objectives, goals and action plans, there's an implied "we". Who is "we" three-five-seven years from now?

As an agenda, there is some POETry about how we might think about our people ….

People Of Every Type
Personnel Operating @ Each Tier
Properly Organizing Engagement Throughout
Promoting Operational Efficiency Training
Producing Optimizing Energy & Teamwork
Potential Of Early 'Tirements (retirements, as well as moments we "tire" of one another)
Progression Of Exhausted Trustees (Board members)

In April, 2010, Bruce McCuaig wrote a blog (at inside-grc.com) entitled "PEOPLE RISK: THE IMPACT OF HUMAN FAILURE IN GRC ("Governance, Risk and Compliance") AND WHAT TO DO ABOUT IT. PART 1" In his writing, he suggests four categories of potential human assessment that I have taken the liberty of re-stating and expanding to a bakers' dozen as follows:

1. Purpose / Understanding / Alignment
2. Capability / Knowledge
3. Commitment Risk (over/under incented)
4. Integrity / Honesty / Ethics

If we add a few more categories, we perhaps have set of metrics to consider:

5. Performance standards – day-to-day – strategic objectives
6. Teammate / Grown-up quotient
7. Social / Cultural behavior
8. Growth potential
9. Management / Leadership

And a few more attributes to round things out a bit further:

10. Risk level – information security (GLBA)
11. Risk level – corporate / personnel information and strategies
12. Essential? (day-to-day as well as in a business continuity sense)
13. Succession planned for?

How many strategic planning retreats can you spend on loan growth and expanding your tech footprint? Don't forget the secret ingredient: Personnel Operating Effectively Throughout (your institution).

Which brings me to the notion of Permanent Strategic Objective #2 – People.

Here's an extract from a pretty typical SWOT:

STRENGTH:	Strong management and an experienced and loyal team
WEAKNESS:	An aging employee population approaching retirement, resisting change
OPPORTUNITIES:	Find young talent to re-energize the bank; tech-savvy
THREATS:	The local employment market, lack of a large pool of fab folks to draw from

So … if we have a standing component of our plan that addresses the ebb and flow of our organization chart, we can create a narrative that spans the years in a cohesive manner. We might also address and continually update succession planning at all levels, bench strength, performance measurement and training. We might also maintain a futuristic org chart on a 3, 5, or 7-year time horizon serving as a roadmap for organizational planning and improvement.

I can't imagine a bank having a year in which this would not be of utmost importance, so, to my suggestion, make it a permanent part of each and every strategic update.

Let me emphasize the concept of a prospective org chart. From above: "When we specify objectives, goals and action plans, there's an implied "we". Who is "we" three-five-seven years from now?"

Thoughtfully planning first where gaps in the organizational structure will emerge over the next 3-5-7 years helps frame the question. Filling in as many of those gaps as possible (or merely identifying the reality of whether future leadership for that role is "in-house" already or not), is informative. And when you do this exercise, don't forget the Board; same theory. Also, an honesty and open assessment is a requirement. There's no better place to be frank about existing talent. Nor is there a more important topic.

9 STATUS QUO AS AN OK STRATEGY (GOOD REASONS TO PAUSE)

Years that feature a CEO succession, core system conversion and/or merger, as well as years that follow unexpected results (such as over-heated loan growth), suggest a pause.

The overwhelming sentiment is that to stop and take a breath (or a nap) is somehow inherently wrong, lacks inspiration or portrays management as "doggin' it"; it's not allowed and is a non-starter. Why? Taking a pause can actually be a powerful strategy and lesson in leadership, the equivalent of the Navy's shore-leave policy providing a chance to change your venue, clear your mind and re-charge your battery.

It is my experience that CEO succession (or other significant C-Level changes) more often than not creates a conundrum about decisions made by folks that won't be around to act on those decisions, and new folks further saddled long-term with something or someone not of their choosing. Perhaps a "donut-hole" approach is appropriate. Strategies and actions plans around the edges might still be tee'd up and pursued, while central initiatives relax or pause altogether. Don't forget all the small projects such as departmental process improvements, procedure documentation, or all the other backburner ideas that never seem to happen. Maybe a pause on big initiatives is a good time to let people take care of lot of valuable nuggets that have been on the waiting list.

Core conversions are an intense whirling dervish of activity as we debate, decide and deploy new systems. Twelve to eighteen months are gobbled up by RFPs, demos, site visits, references, contract negotiations, project planning, mapping, training, mock conversions and data validation, all leading to a sleep-deprived conversion weekend. And then, an expectation that we wake up on day one of the new system rarin' to go. We've demanded that our key people forego vacations in the four to six months ahead of conversion. Not only do we take away their "shore-leave", we exhaust them. A common mistake and managerial blunder, in my view, is to set action plans that commence almost immediately once the conversion is complete. The core conversion is clearly the centerpiece of a year or two of our strategic plan.

One way to leverage that event as an aspirational strategy is to critically observe the performance of our troops; looking at the dud-star dynamic. "Dud-star"? My theory is that we regularly find our dead-weight with a full system conversion; perhaps under-achievers who have been hiding in plain site all this time. In this bad news/good news scenario, my experience is that we also regularly find all-stars who rise to the occasion in unexpected ways. For core conversions (or any other full-bank project for that matter), I've observed a somewhat common ratio of 2 stars for every dud. The strategy? Don't overlook the stars during the exhaustion of the overall project.

Mergers? Ditto.

Pauses also make sense sometimes as counter-strategies. Consider this scenario: Year 1 - Ramp up commercial lending, new products, a LOS, with stellar commercial lenders and support staff, and a brand-new snazzy loan center. Six months to get it established, and then six months of initial returns as our expectation. Year 2 - Release the hounds. Year 3 - Great success; let's turn up the heat. Year 4 - Oh-oh! Commercial concentrations went through the roof, ROA grew only slightly due to a low rate environment, and our capital ratio took a dangerous dive. This years' counterstrategy? Slow down, pause, digest the big meal and re-group.

10 THE 4' X 8' WHITE-BOARD

Some years ago, I had a great office across the street from where I live, in what used to be a little community church. I had one big 20 x 24 room, with 10-12 foot ceilings. So I bought a 4' x 8' white-board which acted as my analog command central dashboard. It was big enough such that I could list all of our projects in progress, track prospects, task lists, deadlines, important contacts and an occasional supply list, grocery list or birthday reminder. Everything fit. Who needs Salesforce?

A "CUSS" based strategic plan (you remember; Clear, Unambiguous, Succinct, Supportable), in bullet format should fit also. I envision mission, vision, values in the top left-hand corner. I see SWOT in the bottom left-hand corner. The middle triad of the board would list objective and goal pairs, aligned with action plans and budget notes in the far right third of the board. A terrific big picture view of our bank's roadmap and strategic aspirations. Is it straightforward enough such that each of your senior management team members could share it all in 30 minutes using a single sheet of paper over a cup of coffee?

This, of course, does not include all the "filler", such as history, process, demographics, or peer metrics. But it does focus the totality of the strategic plan in a single glance, the ultimate view from 30,000 feet, taking in all of the landscape.

Is this overly simplifying things? Or simplifying over-engineered documentation? How many times have you read a novel, gotten to the end, and thought to yourself "that book could easily be 150 pages shorter?" Same concept here.

Less might be more.

A single focused view may provide more insight.

Check out the "mock-up" on the next page.

Composite Bank - 2021 Strategic Plan

Mission - "Why We Exist"

Our mission is to help local communities grow by providing sound, robust financial products, services and relationship driven partnerships.

Vision - "What We Want To Be"

- We want to continue to be the leading community bank in each market we serve
- Safe & sound, well-capitalized, competitive and relevant for generations to follow
- Independent as a mutual institution

Our Values - "What's Important To Us"

Integrity
Wisdom is knowing the right path to take, integrity is taking it.
Service
Customers may forget what you said, but they'll never forget how you made them feel.
Teamwork
Simply stated, it's less me and more we.
Excellence
The gradual result of always striving to do better.
Prosperity
Positive thinking and positive attitudes attract prosperity, peace and happiness.

Strengths & Core Competencies

Our "Super-power- Mutuality, Financial Strength, Reputation
Community - longevity, loyalty, involvement
Customer focus - personalized small bank "feel"
Quality of Board, Senior Management Team, Employees
Strong credit culture
Multiple delivery channels on par with megabanks

Internal Weaknesses / Challenges

Reliance on net interest margin
Aging customers - attracting and retaining next generation of customers
Ability to attract and grow next generation of banking professionals
Slow to adapt to technological and process change
Space constraints at main location
Limited branch network

External Threats / "Kryptonite"

Competition, Competition, Competition
Technology - customer expectation and resultant costs
Regulatory environment - growing compliance burden
Information security - breaches - cyber crime - hacking
Retaining key employees
Weakening economy - Loan default increases

Opportunities

Internal:
Staff development, professional development, training
Cross selling - expand share of wallet, tighten relationships
Grow commercial lending portfolio - including C&I
Embrace, Grow ERM-focused culture
Maximize technology capabilities; e-delivery channels
Eliminate / minimize manual processes - improve productivity

External:
Expand to new markets via acquisition/merger
Expand to new markets via fintech partner

Objective #1 - Growth: Keep growing the bank to remain sustainable, focusing on commercial lending and minimizing the Bank's reliance on brokered deposits and FHLB borrowings.

Quantitative Goals: Assets +5%; Commercial loans +8%; Resi loans stable; Core deposits +4%

Strategies	Action Plans
1. Grow commercial loans	a. Hire one commercial lender and support staff (Q1, 2021) Project lead: CLO; Hire KLR to do exec search (budget $30-40k) b. Search for and deploy a commercial loan origination system (LOS) (by June30) Project lead: Credit Admin Officer - budget $24K for consultant to aid search
2. Grow core deposits	a. Roll out sales-culture initiative - April, 2021 Project leads: EVP-Retail; SVP-HR - budget $50k for training b. Target 12-24 month CD products/rates - EVP-Retail

Objective #2People / Talent: Succession planning ensuring that the bank has tomorrow's leaders in place

Quantitative Goals: n/a

Strategies	Action Plans
1. Create the 12/31/26 Orgchart	a. Analyze current staffing needs vs. forecast 2027 staffing needs b. Assess potential retirements, departures - Project lead: SVP-HR

Objective #3 - Call Center: Analyze the costs and logistics, and thereby the feasibility of opening a Call Center

Quantitative Goals: Occupancy, equipment, system, HR costs

Strategies	Action Plans
Cost/Feasibility Analysis	a. Occupancy, system, people, equip costs Project Leads: SVP-Retail; VP Ops

Objective #4 - Technology: The core system contract expires in March 2023. Set in motion the steps necessary to debate, decide and deploy.

Quantitative Goals: current costs; potential cost savings; consultant $$

Strategies	Action Plans
Core System Project Plan	a. Form Committee by Labor Day b. Commence demos by November 1 c. Decision March 1 (then implmentation plan)

Objective #5 - Efficiency: find ways to work smarter and cheaper.

Quantitative Goals: improve efficiency to 68% in 2021; 66% in 2022

Strategies	Action Plans
1. Operational efficiencies	a. Efficiency study - budget $75k Project leads: CFO, COO

11 FINANCIAL TARGETS VS. FINANCIAL STATEMENTS

Three-year financial forecasts in strategic plans are inherently incorrect within months of their creation. I recommend removing them from our plans.

First off, financial forecasting ought to be an on-going (if not monthly, quarterly) task. If I'm a CEO, I'm looking for my CFO to roll-forward the forecast as soon as the last period closes, ad infinitum. Three months at the outside is probably the most reasonable length of time for management and the Board to expect forecasts to maintain their freshness date.

As to our strategic plan, we're looking for vision, not pre-ordained financial flows. As such, I look to selected targets as the preferred metric. In a simple one-page view, we might set targets (3 years? 5 years?) for a dozen or so key measurements. Our suggested baker's dozen ….

1. Asset size
2. Commercial loan portfolio (and perhaps concentration ratio)
3. Resi loan portfolio
4. Loan to deposit ratio
5. Investments to assets ratio (and perhaps liquidity ratio)
6. Borrowing / brokered deposit dependency
7. The credit quality metric(s) of your choosing
8. Yield on earning assets
9. Cost of funds
10. Net interest margin
11. ROA
12. Efficiency Ratio
13. Capital ratio

And yes, you might certainly have specialized targets for specialty loan products, non-interest income targets, cost reduction targets and such, but the message is simple: *keep it simple*. And think in terms of targets instead of trying to create a GAAP-compliant financial statement.

How about a target for People/Talent Performance such as an improvement to the average of all performance review scores? Maybe add in an employee engagement survey score improvement? Maybe an employee turnover score for high performers vs low performers. Are we retaining the best and encouraging low performers to find a better fit elsewhere? If People and their talent matter as much as we know they do, how do we know we are truly advancing the overall talent of our team?

Did you notice what might have just happened here?

Targets instead of financial statements means that this isn't necessarily the purview of the CFO.

12 STRATEGIC METHODOLOGY – WHO, WHAT, WHERE, WHEN

I have a strong informed opinion about who ought to be "in the room" for strategic planning. I'll get to that. Over the last 10 years, here are all the configurations of strategic planning participants I've encountered …

- Board only
- Management only
- Executive Committee + Executive officers
- Board + CEO only (usually a succession moment, especially if there are internal candidate(s))
- Management for half, then Board joins second half
- Board and management with an executive session for the Board
- Board holds regular meeting, management joins later for planning

In each of these configurations, management is a variable unto itself. Top 5 officers, top 10 officers, all 37 that have a title of VP and higher? In one instance a few years back, I recommended Board plus executive management (spoiler alert! – that's my opinion) as I met with the President for the first time to discuss our services. He chuckled, letting me know that that wouldn't work. He told me that he wouldn't put the team in the same room together because they didn't get along. I declined to bid on that engagement and that bank has mercifully merged itself out of existence.

So what's best practice, optimal? Given the list above, it's clear that one size does not fit all, but what's best?

Let's turn to William of Ockham in the 14th century. Occam's Razor is the principle that, of two explanations that account for all the facts, the simpler one is more likely to be correct. The Board meets regularly by itself. Management meets regularly by itself. The two bodies are responsible for the care and conduct of the institution as a whole. Strategic planning is the ideal (and necessary) moment to bring them together. Simple enough.

Where? Anywhere but the bloody room where directors or trustees must absolutely sit in their regular seat! Said less sarcastically, I would recommend getting off site, where a new venue might bring renewed vigor and ideas.

The agenda and flow? I like a mix of education, management presentment and board/management conversation, led by an independent facilitator (whether opinionated or not). Do it over two days. Noon to 5:00 on day one. A reception leading to dinner where directors and officers break bread together is always a plus in my mind. Come back in the morning and work through lunch. The overnight gives the facilitator and the CEO a chance to huddle to make half-time adjustments if need be (which is one of the reasons I like the 2 sorta-half-day schema). This all assumes preparation of course. We shouldn't walk into the strategic planning session without doing our homework. Thoughts and analysis in advance are important. And if you have something to present at the session, make sure everyone has that in advance. No last minute surprises!

When? Annually. Or if a three -year cycle is traditional for your institution, increments of big, little, little, meaning that after a full strategic planning event in one year, lesser sessions might still occur in the succeeding two years. This fits with my opinion that action plans span 18 months; the last 3 months of our

current year; all of next year; the first three months of the following year; on a rolling basis. More about that in Topic 16.

Obstacles to success? The soap opera factor.

- The domineering Chair (even if not in the room)
- The wishy-washy indecisive President
- The rogue director (hidden, intrusive personal agendas)
- Management contention
- Ignored weaknesses
- Over-stated strengths
- Cell phone fever
- Lack of preparedness
- Lack of inclusion
- Commitment - plan gets watered-down w/ no concrete objectives

13 STRATEGIC METHODOLOGY – LIMITING (SHARPENING) THE OBJECTIVES

The traditionally defined flow of objectives defining goals delineating strategies shaping action plans begs the question of simplifying the "root" of that flow: objectives. Perhaps starting with a "thematic" view serves better than a departmental view. Example: A) Profitability/Efficiency, B) Growth, C) Identity/Branding, D) Customer Engagement, E) Talent Management & Communication. All of these objectives straddle multiple departments begging collaboration. Growth is the best example. Its components? Loan growth, deposit growth, market share, wallet share, branching, loan production offices, e-channels, fintech collaboration, M&A.

Objective/goal sets inform strategy/action plan sets, but the over-arching "objective" articulation drives the bus. Objectives versus goals. Sure, there are very formal definitions about both, but isn't it really a distinction without a difference? The same might be said for the strict definition of strategies versus action plans. You might even align objective, goal and strategy and view only nuances.

I need to find some elegant words for this recommendation, but in gruff and rough terms, isn't the idea of this whole planning exercise to articulate "stuff we wanna do" and "how we're gonna do the stuff"?

I'm not suggesting we throw away time-honored traditional approaches or definitions and end up with a plan that sounds like it was written by a second grader, but I am emphasizing that less might be more. In Topic 10, I suggested that a good-sized whiteboard might suffice. The mind-set that it could suffice might be an attitude we carry into the strategic planning process, and not having the plan "be" the project, but rather have the plan set forth, in CUSS terms, what we have in mind to do in the next year or three.

Objectives, as they appear across our industry's strategic plans, might be better served to be fewer in number, but also might benefit from a more clarifying sharpness. In the next topic we'll look at prevarication (fuzzy words) but what I'm trying to get at here is clarity. Loan growth objectives might serve as an example. The objective might read as, "Increase the loan portfolio at least 3% per year, aggregating to a compound growth of 10% over the next three years." Very specific about the growth without addressing the "why grow" question. Topic 7 touches on this a bit as we recognized the elements of pay-offs and amortization combined with new originations as the combined factors for this objective. Topic 15 will look at objective-level budgets. But we're focusing here on clear articulation of the objective. Is the growth a goal unto itself? Or is it increasing yield on earning assets leading to greater ROAA? How about language such as, "Finish year +3 with a loan portfolio 10% larger than today, with an increased yield, and a demonstrable contribution toward a greater ROAA." The components matter. If we grow and increase the yield, but do so in a mode that requires costly funding, staffing or resources, ROAA might be impaired, not improved. If we met the stated targets, but are worse off, has our objective succeeded or failed?

14 STRATEGIC ARTICULATION – LIMITING THE PREVARICATION

"Explore", "Consider", "Look into", "Think About", "Study", "Analyze", "Contemplate", "Research".

None of these concepts stand on their own as strategies. In strategic planning sessions we might do all of the above, but these aren't the action verbs that fulfill our aspirations.

Neal Stephenson's novel "Cryptonomicon" lampoons start-up business plans. Excerpts follow …

> MISSION: At [name of company] it is our conviction that [to do the stuff we want to do] and to increase shareholder value are not merely complimentary activities – they are inextricably linked.
>
> PURPOSE: To increase shareholder value by [doing stuff].
>
> INTRODUCTION: [This trend], which everyone knows about, and [that trend], which is so incredibly arcane that you probably didn't know about it until just now, and [this trend over here] which might seem, at first blush, to be completely unrelated, when all taken together, lead us to the [proprietary, secret, heavily patented, and trademarked] insight that we could increase shareholder value by [doing stuff]. We will need $[a large number] and after [not too long] we will be able to realize an increase in value to $[an even larger number], unless [hell freezes over in midsummer].
>
> SPREADSHEETS: [Pages and pages of numbers in tiny print, conveniently summarized by graphs that all seem to be exponential curves screaming heavenward, albeit with enough pseudo-random noise in them to lend plausibility].
>
> RESUMES: Just recall the opening reel of The Magnificent Seven and you won't have to bother with this part; you should crawl to us on hands and knees and beg for the privilege of paying our salaries.

You get the point. Short on specificity. Long on vagary.

More to our purpose. Consider the strategic objective of "Consider the feasibility of developing call center capabilities." OK. Call Centers are good ideas, service quality enhancers. But where does a management team go with this objective? And how does the Board (or even management for that matter) exact accountability around this?

Action plans would hopefully flesh this out a bit more, but here's how I'd rather see that objective articulated: "Make a decision by [date] whether to proceed with a call center, complete with action plans and next steps."

So stated, we might move to identify a decision team, and articulate criteria, inclusive of space planning, budgets, staffing, and such. The action plan might allow 3-4 months for fact finding and set a deadline for a recommendation.

In short, keep the fuzzy action verbs out of the plan.

15 MEASURES & TARGETS – METRICS DEFINING SUCCESS OR WHEN TO BAIL

Alignment of objectives and metrics are important and often missing from our plans. I have a book to highly recommend. In "Strategy Maps" by Kaplan & Norton (The Balanced Scorecard guys), we see activity-based measurements on display. Here's an excerpt from one of their scorecards, a bank looking to increase net income. The combination of perspective, objectives, measures and targets illustrates the simplicity we've been exploring.

Perspective	Strategic Objectives	Strategic Measures	Targets
Financial	Increase earnings per share Add & retain high-value customers Increase revenue per customer Reduce cost per customer	Net income Revenue mix (by segment) Revenue per customer Cost per customer	+ $100m 30% (A); 70% (B) $300 $75
Customer	Become trusted advisor Provide superior service	Customer satisfaction (survey) Customer retention	90% 90%

They go on to list some internal perspectives (Customer Management, Product Innovation, Operations Management, Responsible Citizen) as well as learning and growth perspectives (Human Capital, Information Capital, Organization Capital). Another example …

Perspective	Strategic Objectives	Strategic Measures	Targets
Human Capital	Ensure readiness of strategic jobs	Strategic job readiness	100%

Note how crisp and clean, how measures are delineated, how targets are clearly defined. This would fit on my whiteboard and I'd still have room for my grocery list.

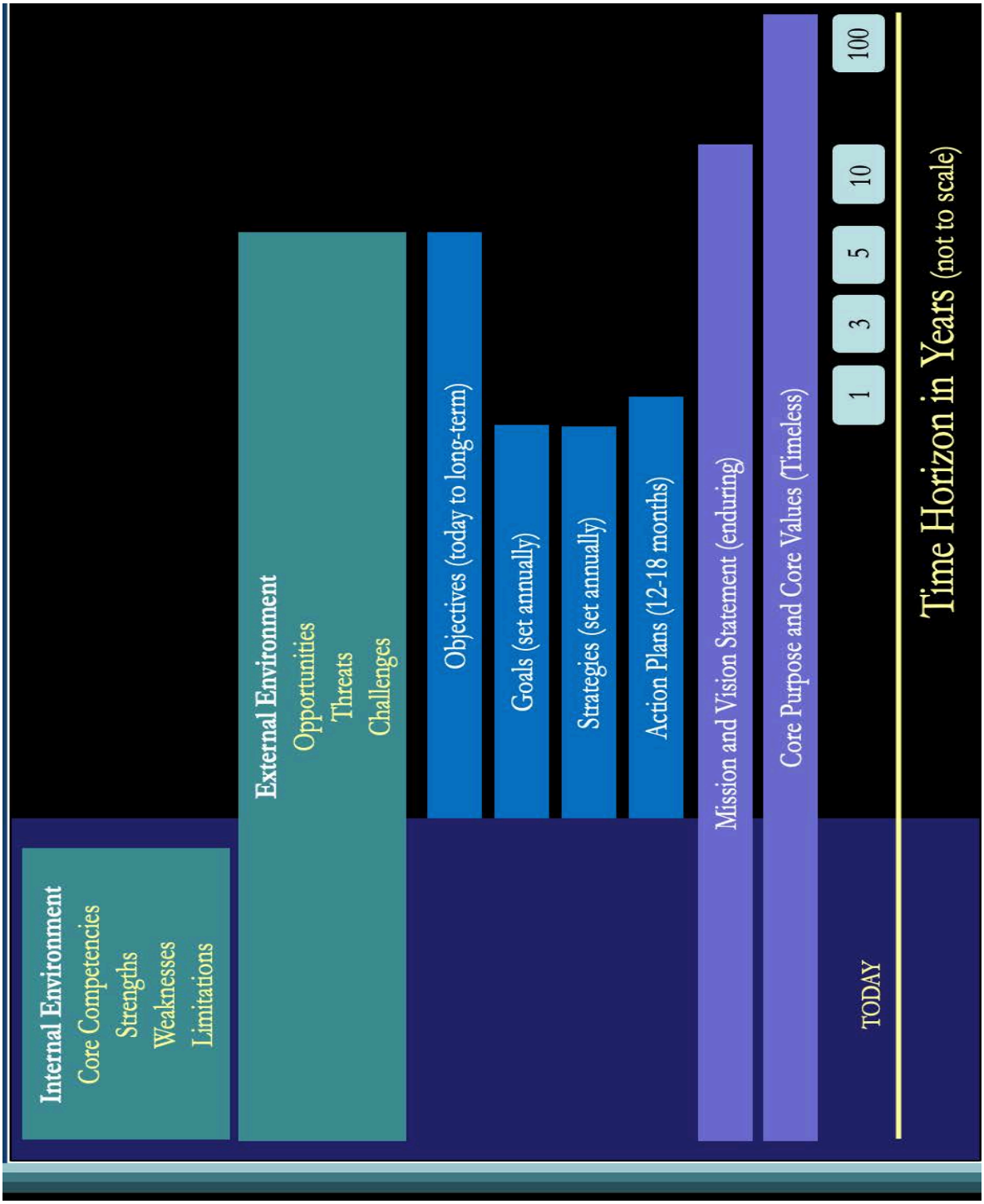
The last perspective amplifies my Topic 8 people focus. We have this objective. We have these success metrics. Do we know that our human capital is up to the task, now or in the future?

In the book, they provide some great insight and some real-world examples from both the commercial and non-profit realms. They never stop reminding us that metrics give us our guard-rails so we know if we are succeeding, and, perhaps more importantly, how we might know to abandon ship.

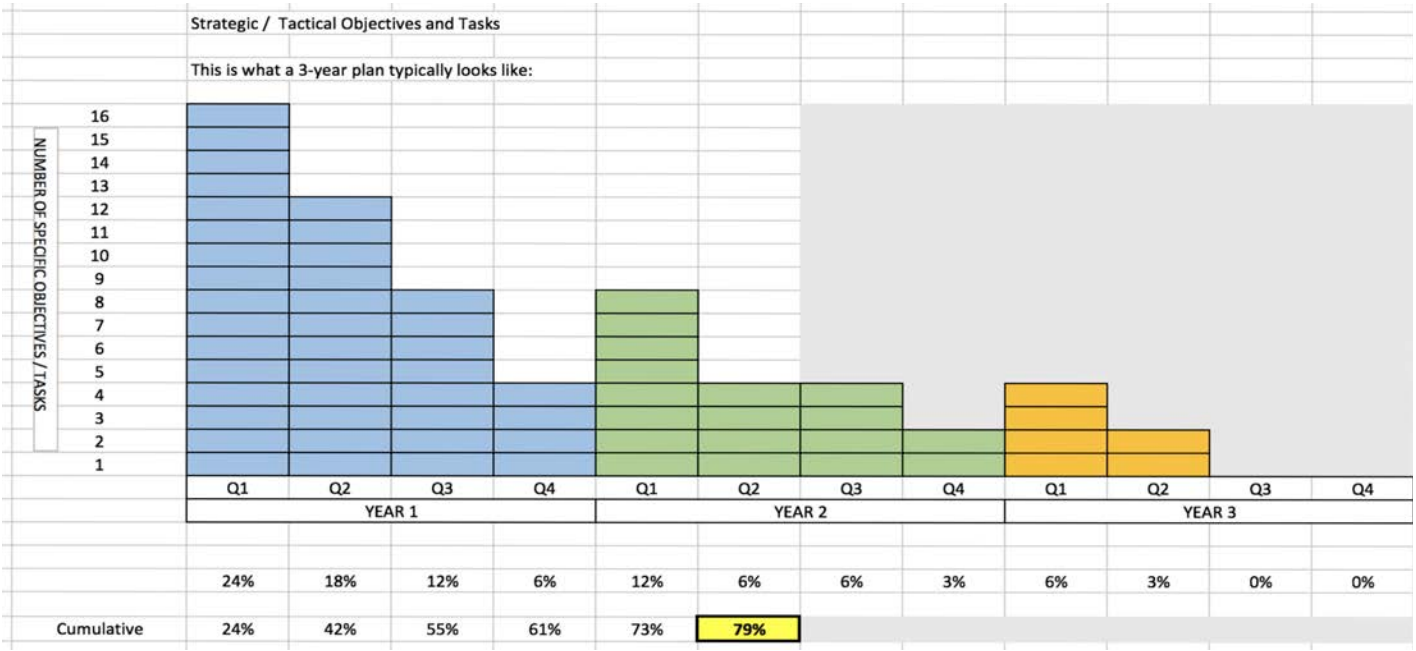
This simplicity is extremely difficult to achieve. To have this staccato-type presentation leaves little ambiguity but demands a great deal of disciplined attention to the simplicity and the meaningfulness of the measures and targets.

16 TIME HORIZONS

From my strategic planning classes, here's the traditional "visualization":



Overall, I've come to appreciate that the traditional 3-year model for strategic planning falls short. As an exercise a few years ago, I "stacked" a number of plans that I had been involved with and analyzed the timeline for objectives and goals. Here's what that looked like.



79% of the objectives fell within the first 18 months of the timeline. None fell in quarters 11 and 12. Makes perfect sense. Tactical action plans really only should be looking at an 18-month time horizon. For calendar year institutions, I recommend a 'flow" such that the 18 months straddle 3 fiscal years; the last 3 months of the current year (concurrent with our planning and budgeting); the full 12 months for "next" year; and then the first 3 months of the succeeding year. If there is a rolling annual update of goals and objectives, this flow resets itself pretty naturally and logically.

As to financial forecasts, three years is also traditional. As I write this during our COVID experience, we find that all financial prognostications during the last planning season are "toast". Working from home, loan modifications and forbearances, PPP loan volumes and the resultant liquidity glut will likely soon be followed by increased loan defaults. The three-year forecast provides little remaining insight. But, that said, if your objectives and goals span a three-year period, then it is best practice that the "numbers" follow (as discussed in Topic 15).

I strenuously advocate forward looking organization charts. The timeline? Again, match with objectives and goals. Three-year plans beg the question of "who" the "we" is in our narrative.

What's often missed is the big picture and I suggest a 7-year vision. As noted previously, in a seven-year period the bank will almost certainly have changes in executive management, the Board, and will be faced with a significant technology decision (even if just renegotiating a new contract with the incumbent). At an annual growth rate of 4%, the bank is also at least a third larger than today. We all too often focus short-term and miss this important horizon.

17 FILLER – DEMOGRAPHICS, BRANCH DEPOSIT DETAILS, PEER STATS

Neil Stephenson's "Pages and pages of numbers in tiny print, conveniently summarized by graphs that all seem to be exponential curves screaming heavenward, albeit with enough pseudo-random noise in them to lend plausibility" might describe the endless pages of appendices that, too often clutter our plans.

Demographics, branch deposit details, loan trends, and peer statistics all serve as important foundational analytics supporting our strategic discussions. But do they belong in the plan?

Consider the reader of the plan.

If we have a very specific objective to target a particular demographic as the cornerstone for a wide-sweeping growth initiative, then perhaps the underlying data is important to be included in the plan, especially if it can be simplified in a manner similar to that described by the Balanced Scorecard guys. But if we're a community bank that serves certain demographics, newly updated census charts perhaps add little to the mix. We live in this community, we know the mix; we serve this community, we know the mix; these are our customers, we know the mix.

Branch deposit details are very often included as an appendix. I would opine that if they are important, a summary might serve the purpose rather than cluttering the plan with a page for each branch.

Peer statistics in my view also only serve as analytics leading up to strategic planning discussions, but the details, while important to have available for review, needn't reside in the written plan.

This "filler" discussion fits well with our underlying theme that less may be more.

18 BLIND SPOTS, BLACK SWANS & BLACK ELEPHANTS

In an opinion piece in the New York Times on April 25, 2020, Thomas Friedman introduced me to the concept of a "black elephant" as follows:

> "this virus … was anything but a black swan that no one could have expected. It was actually "a black elephant." The term "black elephant" was coined by environmentalist Adam Sweidan. It's a cross between "a black swan", an unlikely, unexpected event with enormous ramifications, and the "elephant in the room", a looming disaster that is visible to everyone, yet no one wants to address."

If COVID has taught us anything, it's that change sometimes comes in major ways that we can't control. Last year's strategic plans didn't see the virus coming. In fact, recent years' plans make little reference to DRP or BCP as we've taken some of that readiness for granted. Last year's strategic plans didn't foresee a 175 basis drop in rates in Q1, nor the stock market dive as COVID shut us all down for a while. Last year's plans didn't foresee wide-scale loan modifications and payment forbearance. Last year's plans didn't know about PPP cash flows, bloated balance sheets and extra fee income. This year's plans will certainly take all of that into effect with an added focus on loan defaults. As the Bob Dylan song title describes, "Things Have Changed".

Strategic plans aren't designed to expect significant interruptions. They have been, and should remain, as the roadmap for the bank's "Plan A", even if, like this year, Plan B may intercede.

Blind spots and willful blindness are another matter entirely.

Examples ….

- Organizational weaknesses no one wants to talk about
- Worries about highlighting a weakness only to have an examiner read the plan and drill deeper
- Worries about highlighting a weakness only to have a director read the plan and drill deeper
- Citing strengths that are, in truth, weaknesses (examples: the strength and expertise of the management team, bank-wide communication)
- Metrics "yeah buts" such as …
    - Our yields are significantly lower than peer, but there are pseudo-unique conditions that skew that
    - Our efficiency ratio doesn't match up well, but we calculate it a little differently than others do so as to capture our more unique business model

As an editorial comment, I've worked with a number of sub-par boards or dysfunctional management teams or organizational structures but have never encountered recognition of such in a plan.

The true black swan event is as unpredictable as it is scary. By definition, the black swan can't be forecast. But a black swan event, once revealed does, of course, influence and change plans going forward. Although really a black elephant, COVID blew up most 2020 plans. However, the reaction time is key. Six months into a plan that is now "toast", do you wait for the normal cycle of re-planning to play out? Or escalate? This year I have witnessed many banks abandoning the 2020 plan, replacing it with a 2020-21 eighteen month re-cast commencing at the half-year.

POST-SCRIPT NEXT STEPS – LET'S SUM IT UP

What might tomorrow's plan might look like if we adopt some or all of these alternatives?

S Shorter, succinct, supportable

U Useful, usable, and unambiguous

M Measurable, "make-able" and monitorable

Stay tuned.