

## STRATEGIC PLANNING

by [Steve Brown](#)

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By this time in the year, banks should be halfway through updating their strategic plan for the next 3+ years. A bank's strategic plan is a roadmap to success. While regulators require a plan, banks that act like it is "just something to be done," are doing themselves a disservice. Every bank not only needs a plan, but should follow it throughout the year - or risk drifting off course. At our next High Performance Banking Workshop coming up on June 7th, we will be spending time on bank strategic initiatives with emphasis on the future of banking. Moving to imaging, development of more cash management tools, credit scoring, centralized underwriting, branching, debit cards, customer segmentation, delivery channel changes, M&A, charter/organizational shifts and human resource initiatives are just some of the items that we will discuss. For banks looking to boost their strategic planning process, here are some tips from our last several workshops. For starters, successful banks know that strategic planning is an ongoing process and not a single event. If you are waiting for your annual meeting, most likely the bank is not giving the process its full attention. In our estimation, strategic planning is so important that every bank should spend 100 employee hours throughout the year doing so (if not double that amount). This may seem like a lot of time to devote to any process, but is nothing when compared to pursuing a poor strategy, not advancing an important initiative or missing out on a significant opportunity. Further, while we are all for getting away from the office and blowing off a little steam, planning is a serious endeavor and arguably the most important task a management team can do. Conducting a retreat at a resort, while nice, may send the wrong message that management is there to relax. For meetings of more than 3 hours, where there are more than 6 employees (especially from different offices), consider getting a facilitator. For many bank managers, there is an irresistible urge to problem solve and become tactical instead of thinking about larger picture strategic issues at these sessions. An outside facilitator can manage the flow of the meeting, stay on track, encourage participation and challenge conventional wisdom. One area where a facilitator can be of great value is when it comes to uncovering the underlying assumptions of a given initiative. Institutional memory being what it is, managers either don't document them or just take the underlying factors for granted. In a couple of months time, the environment may change and many employees may forget why the bank entered into the strategy in the first place. Once a plan is produced, it is important to maintain visibility and hold the appropriate parties responsible for implementation. Without frequent, systematic oversight and review by the management team, there will be little execution. To go beyond mere words, management should make the implementation a priority and support the effort with compensation, promotions and milestone celebrations. The job is to not only put the plan into action, but positively change behavior around the initiatives to produce the desired results. CEOs that keep their plan confidential from employees do a great disservice to the organization. Yes, keeping the information secret will protect the ideas, but what are secret ideas really worth? Executing superior strategic plans, however public, remains the best competitive advantage that a bank can gain.

# BANK NEWS

## **M&A**

The HC of Berkshire Bank (\$2.2B, MA) will acquire the HC of Factory Point National Bank of Manchester Center (\$340mm, VT) for about \$82mm, or roughly 2.8x book.

## **M&A**

The HC of Harleysville National Bank and Trust (\$3.2B, PA) will acquire the HC of East Penn Bank (\$436mm, PA) for about \$92.7mm, or roughly 3x book.

## **Selling Coke**

SunTrust Banks sold 9% of its Coca-Cola stock that it has held since 1919. The Bank will use the funds to buy back \$1B of its stock.

## **FRB Appointments**

President Bush announced he is nominating Larry Klane and Elizabeth Duke to fill 2 empty seats on the FRB Board. Klane is president of global financial services at Capital One Financial (\$134B, VA), while Duke is COO of TowneBank (\$2.2B, VA).

## **Foreclosures**

Filings for April dropped 1% for the month (but are 62% over last year's rate). NV, CO and CT lead the nation.

## **Takeunder**

For the first time in a while, the market has seen a couple bank/thrift acquisitions done at a discount instead of a premium. In these transactions, shareholders of the purchased bank hope the stock used to purchase the bank has more long run marketability than its present shares. Characteristics of discount deals include (in order): high cost of funds, low efficiency and concentration in a single lending sector.

## **CRE Concentration**

New regulatory guidance released in December focused on concentration risk in commercial real estate. Using the capital criteria indicated in the guidance, 50% of the banks will need to address this risk (since they exceed the recommended guidance).

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