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## SETTING STRATEGIC OBJECTIVES

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**Quick** - What are your bank's top 3 to 5 priorities, in order, for 2011? Is it to lift a regulatory order, build core deposits by 10% or double small business lending growth over last year? One reason banks fail to achieve objectives is because they don't have any that are clearly set in stone. If your objectives are not laid out and communicated to the entire organization, the good news is that you cannot fail. Conversely, the bad news is that you can't succeed either. Hopefully, at your strategic offsite, your number one priority was to produce a list of prioritized objectives. If not, there is still time. Here is a list of characteristics bankers should consider to achieve a high degree of success:

**Be Clear** - "Renovate the Main St. Branch" is too tactical. Good strategic objectives should be broad enough to impact the whole organization, yet specific enough to understand when they are achieved. "Increase marketing" is too broad, while "Identify and rollout a new brand" is probably just right.

**Be Aligned** - Make sure all of your priorities and potential risk reward tradeoffs are aligned. A common goal "to achieve greater loan volumes or net interest margins," without any regard to profitability or risk won't get it done. "Doubling loan originations" is a clear objective, but may come at the expense of profitability. "Increase small business lending profitability by 20%" strikes the perfect tone.

**Achievability** - This ties into #1 in that the goals should be specific enough so you know when you achieve them. "Be the best community bank" really says nothing. How do you measure that and what does it mean. Instead, consider picking a more measurable trait, such as customer satisfaction or deposit market share, and select an achievable percentage improvement.

**Aspirational** - It is hard to get fired up about the same things you did last year. The industry is changing quickly, so in every list of objectives there should be a priority that staff and customers can get emotionally connected to. Part of strategic development is not only to set the priorities for the bank, but also execute them. To do that, you need to appeal to people's emotions. Even if you have to break the above recommendations, make sure you have at least 1 core priority that you can rally the troops around.

**Number and Communication** - Many business schools, as well as famous business author Jim Collins, promote "the rule of 3." Focusing on 3 key objectives achieves clarity, but may lack the comprehensiveness that you need. Sometimes you might need a single objective, while other banks may need 5 to do the trick. For us, the real objective of objectives is to make sure everyone in your organization clearly understands them. Management should also be honest and open about the path required to achieve those objectives.

If you have nailed down your objectives for 2011, send them in because we would love to hear about them.

## FDIC BOARD MEETING

Next Monday the FDIC Board will meet to vote on the final assessment rule basing the deposit-insurance assessment base on total assets minus tangible capital (instead of on domestic deposits);

incentive-based compensation arrangements (required under Dodd Frank and expected to require more deferred compensation); and required banker training for deposit insurance coverage.

## **BANK NEWS**

### **Deposits**

Roughly 85% of bank deposits have a maturity of 3 months or less. Given that, banks should take care to monitor the amount of fixed rate loans and fixed rate securities going onto the books to limit the risk to rising interest rates.

### **Good Jobs News**

Outplacement firm Challenger, Gray & Christmas reported companies planned the lowest number of job cuts on record (since 1993) in the month of January.

### **Wall Street Pay**

A WSJ analysis of 25 publicly traded Wall Street bank and securities firms with a stock-market value of at least \$1B each finds that in 2010, total compensation and benefits hit a record of \$135B, up 5.7% from 2009. Of note, regulatory pressure has shifted the amount of deferred compensation to 50% of total pay (up from 33% previously).

### **Lending**

Stuck in homes they cannot sell, people are beginning to spend money to fix leaky roofs and finish kitchen remodeling projects they put off when the recession was in full swing. Given that, home improvement is projected by IBISWorld to continue its upward trend (2010 was 5% better than 2009 and 2011 is expected to be nearly 14% higher).

### **Patience Required**

Moody's projects some markets will have to wait decades for home prices to return to pre-recession levels. In order, the 10 worst are Naples, FL and Salinas, CA which will take until 2038 to recover. They are followed by Detroit, MI; Hanford, CA; Punta Gorda, FL (2037); Palm Bay, FL (2036); North Port, FL; Phoenix, AZ; Stockton, CA; and Modesto, CA (2034). The best areas include Pittsburgh, PA; Syracuse, NY; Rochester, NY; Clarksville, TN and Spokane, WA, which are expected to return to peak levels in 3Ys.

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