CAN YOU GET YOUR BOARD BACK FOR PLANNING NEXT YEAR?

Second of a series: Why more isn't better and too much is really too much
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Editor's note: This is the second in a series Jeff is writing about mistakes banks make in the planning process. You can read Part 1 here. * * *

How do you avoid the typical "recoil" from your directors when you mention long-term planning? How do you avoid your directors scheduling their annual physical for the same day as the planning meeting, because they would prefer to go through that?

The answer is that you make the planning session meaningful for them and not a waste of time.

Understanding the game you're playing

Doing so means remembering these two key points about planning:

1. Keep in mind, the board's obligation, as it relates to long-term planning, is to allocate human and financial capital that the bank has or can obtain toward the goal of enhancing shareholder value.

Generally, enhancing shareholder value is determined by comparing a baseline of the bank's financial performance versus a projected financial performance if the long-term plan is implemented.

For example, if part of the plan is to establish a branch in the neighboring town, then if I am an outside director, I want to know why that is going to be better for the shareholders from a financial point of view than if the bank does not establish that branch.

The usual metrics that I suggest boards consider is earnings per share growth, return on equity, share liquidity, i.e., the ability of a shareholder to sell a share at a fair price at the time they desire, and cash flow to the shareholders. If the long-term plan positively impacts all or several of those, then the strategy is probably appropriate.

2. Keep in mind also that the plan will soon become a plan of plans.

For example, the Comptroller's Office, for those of you who are national banks, has recently come out with "guidance." (We all remember the commercial real estate "guidance.") The guidance means that you must, as part of your planning process, have a capital plan and a liquidity plan, sub-plans in the planning process.

Also in connection with the planning process, board members need to understand that while change for change sake is not good, a change in the way the bank has done things for the last 75 years may be appropriate in the "new normal."

Watching multiple horizons

When contemplating planning for the long term, I generally segment it into three separate categories.

First, the long-term vision of where the bank is going to be 10 years from now.

As difficult as it often is to figure out where the bank is going to be three years from now, it is still imperative for the board to contemplate where the bank may be in a decade. This is because the board needs to see if a majority of the board members are at least on the same train track heading toward the same city, or if they are on totally separate tracks heading in separate directions.

For example, does most of the board think that the community bank should grow up to be a billion dollar bank listed on Nasdaq or do most of the board members think the long, long-term plan is to be a Subchapter S, stay fairly local to its community, and be a cash cow for the shareholders?

The goal of the long-term, ten-year look is to see if the board is on the same page as to where the bank should be ten years from now.

Second, there's the working planning horizon to consider.

Regular planning, as mentioned in the previous blog, is usually a two- to three-year timeframe these days, with a five-year horizon on a few things such as geographic expansion.

And, then, tactical and operational planning--how the bank actually implements the long-term strategies established by the board--is management's job.

So, are you wasting your time?

Remember the point of my first blog on this: Are you wasting your time on planning? To me, your current strategic planning may be a waste of time if:

1. There is no buy-in from the directors and officers.

I was discussing planning with the senior officer group of a larger bank. I had asked the group what they did for planning.

I recall the answer from one senior officer, "I am assigned to prepare the plan and sell it to the officers and the board."

Bad idea!

If there is no buy-in, the plan will never get implemented. If it goes right, everybody takes credit. If it goes wrong, the

individual who prepared the plan gets the blame.

So, how do you get buy-in?

It really depends on who attends the meeting and participates in the planning. What baffles me is when whoever is arranging the meeting asks "Should the senior officers be present?"

If the board is allocating management time, i.e. human resources, how is the board going to do that if management is not present?

So, who should attend?

Certainly the board of directors and the senior core officer group, however your bank defines that. Also, the decision-making process needs to have input from all participants. This generally, in my practice, involves distribution of confidential questionnaires to get everybody's input and formulate an agenda. The facilitation process should also involve driving the group collectively toward consensus and result in specific action plans or plans related to the decisions made.

2. It is not enjoyable for the participants.

If the process itself or the location involves total drudgery, then nobody is going to want to participate.

I always say that the Ritz-Carlton is nice. But so is the local hotel in your hometown. The operative point is you must get everyone out of the bank.

My general recommendation is to get offsite. It does not have to be far, but everybody needs to be out and focused, and be someplace where they can have fun.

Don't underestimate the importance of having fun during planning.

I remember talking to one community banker who indicated the group spent three full days from 7:00 in the morning until 10:00 at night planning.

I, of course, suggested to him that there must have been some time in there playing golf. His answer was, "No, we spent the entire time planning."

Other than the fact that had that had to involve operational and tactical planning, I cannot imagine keeping your board of directors' attention span for three full days. In some circumstances, I have seen the attention span last about 30 full minutes.

True strategic planning (at a 30,000 foot level) should be accomplished by your board within one day (six to eight hours).

In any event, get offsite, make it fun, let the directors bond a little bit. A lot of planning sessions are held a half day one day and the morning of the next day with a nice dinner in between, etc.

Remember, if it is not enjoyable for the participants, they are not going to want to participate the next time.

About Jeff Gerrish

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