

"Jack Welch didn't like my plan" (May 21, 2009)

Veteran director on how best to use your board for strategic planning

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Elmer Gates has been a director at three different Pennsylvania banks for a total of more than 16 years. In addition, he's been a director and nonexecutive chairman of one of two industrial company boards. He opened the recent ABA America's Community Bankers Council telephone briefing, "Boards and Strategic Planning in a Challenging Environment," and the following column is based on his presentation. To purchase CDs of the entire 90-minute briefing, go to www.aba.com/teleweb/tb040809.htm For more information about the series, click here. For other questions, contact Traci Leiva.

By Elmer Gates, founder and chairman, Embassy Bank of the Lehigh Valley, Bethlehem, Penn.

I've served on several bank boards, in addition to the Advisory Board of the Export/Import Bank, and I've co-founded a bank, and lead several industrial companies.

In my view, being a director has changed a great deal over my many years in the business. Twenty years ago, most directors looked at their board role as an honorary one—so they could have a longer and more prestigious obituary. There was little attention or commitment to fiduciary responsibility. And, in many cases, they didn't have a clear understanding of what "fiduciary responsibility" even meant.

The job of a director has changed in more recent years, but not enough. Even today, despite the enormous focus on the financial sector, too few directors understand the critical processes and measurements in banking. Too few understand risk management—and too few really understand the bank's strategic plan.

But, permanent change is slow and progress is being made. So I'm encouraged.

ROOTS OF PLANNING

I was in the industrial world when the strategic planning process was introduced. In fact, in the industrial sector, I saw strategic planning grow into a function with a life of its own, with separate strategic planning departments formed. The work these departments did had no relationship to reality. They developed pretty prose and fancy graphics that substituted for clearly stated, desired outcomes and strategies to get there.

Let me tell you a personal story that illustrates my point.

I got caught up in this strategic planning frenzy myself. I was at General Electric and Jack Welch was my sector executive.

Welch came in to review our strategic plan. We had the fanciest book you could imagine. A nice, white, three-ring binder. It included pretty graphs, and we welcomed Jack Welch, by name, on the front page.

Welch thumbed through the binder, and he put the book down.

He said, "Gates, you just did all this to fill up the book. Tell me what you really think."

PLANS COME DOWN TO EARTH

Fortunately, real strategic planning is earning a place on the agenda of businesses, and banks, and I've observed a number of important points in this process firsthand.

First—and foremost—the best strategic planner is the person running the business. Consultants can play an important role in helping formulate the plan. They can lead planning sessions and help the board and executives develop possible goals and strategies. They can also bring best practices and ideas from across the country, and add valuable third-party perspective.

However, to achieve the goals, the strategic plan must be written by bank people, after the board and executives agree on the strategic direction of the bank. Bank people have to take ownership of the plan if it is to succeed. This is true also of the annual operating plan. Taking ownership is key.

Second, as I touched on in my anecdote about Jack Welch, your bank's strategic plan should be clear, with concise bullet points—not complicated prose. The document should be no longer than two pages—two sides, that is—with another two sides for financial results.

Third, remember, the plan will not implement itself.

This is where the real breakdown generally occurs—no one owns the plan. So the document is created and then put on a shelf. Regular and active participation by the board and senior executives, and every employee of the bank, is critical. This must be led from the top!

Fourth, if the strategic plan includes change—changed behavior will be required, which has implications. That is, a subset of the strategic plan must include human resources strategy, so that you can change behaviors or, if need be, change the person. To this point, banks historically get a low grade for meaningful training. You need to train well and include succession planning as a permanent component of your strategic plan.

WHICH FUTURE TO PLAN FOR?

There is also a critical need to take a hard look at your organization and ask yourself: "Are we organized for the past—or the future?"

You shouldn't necessarily develop a new strategic plan with an old organizational chart. It may not be the right configuration to achieve your forward-thinking goals.

For example, if you're working on deposits, be sure that you are assessing and methodically implementing the right tools and human resources in that area.

My present bank uses the services of consultants m.rae resources, inc., and I've often heard m.rae's Jay Brew and Michelle Gula say in their strategic sessions, "Think like the bank you want to be."

In other words, put the right infrastructure in place to support your building process and growth.

When looking at the timeframe of the plan, you need to remember that you get to the future gradually—one week, one month, and one year at a time. So don't ignore the present in your strategic plan, because you need to know where you are—right now.

Today is your starting point. Don't delay starting the implementation of your strategic plan.

And, as for your annual budget, it is the first step in implementing your strategic plan.

DOES RECESSION CANCEL OUT PLANNING?

I've heard about many bankers who are struggling to understand how their strategic plan should change—given our current economic crunch. In our case, at Embassy Bank of the Lehigh Valley, the strategic plan won't be altered. We will add three branches in 2009 and increase employment by about 20%.

However, what will change is our annual operating plan.

We have sharpened our focus on the existing customer and are doing everything possible to help them be successful during this recession (or depression).

Developing "customers for life" is part of our strategic plan. We are a relationship bank—not a transaction bank. How we develop relationships, so we can keep them for life, however, is constantly being assessed. Everyone at our bank works tirelessly to develop and revise plans to help our customers accomplish their goals in these rapidly changing environments.

OPPORTUNITIES DURING THE STORM

In terms of the outlook for community banking, on the whole, I believe it's extremely bright. Most community banks have refused federal TARP money, so they can continue to control their own destiny and make their own decisions. Most community banks know their customers very well—and have managed risk better than the bigger banks. And, most community banks have earned the trust of their customers and shareholders. Trust is the most important asset for any business.

For the first time in a long time, community banks have a public relations advantage—especially with younger generations, who, in the past, on the whole, believed that bigger banks were naturally better. There's an important and fleeting opportunity for community banks presently, especially as the public's memory is historically short, and the sins of the bigger banks will eventually be forgotten. So strike while the iron is hot. Leverage your enhanced reputation.

The bank that will prosper now and into the future will be the bank with viable strategic and succession plans; a well-defined risk profile; and the ability to manage within that profile. The bank will remove functional silos; develop much better horizontal communication and cooperation; and will live by these three principles:

1. Maintain an unusual focus on the customer.

2. Ensure that quality is present in all the bank does. And by quality, I don't just mean in the paperwork—but in every phone call, every interaction, and every decision.

3. And, never make a commitment that you don't intend to keep.

The only qualifier, I want to add, is that if the government continues to penalize those of us who have managed our banks responsibly by subsidizing failed leadership, our future will be less bright. But bright, despite meddling bureaucrats.

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