Strategic Planning – 9 Lessons from the Facilitator

Gary J. Young, CEO

For 30 years, I have had the pleasure of working with community banks across the country in developing strategic plans. I recently completed a strategic plan for a great bank in Alaska, another for a $1 billion bank in Idaho. These relatively new clients are compared with two banks in Ohio that I have been facilitating strategic plans since the mid-1980s, and another bank in New Mexico in which I am approaching 20 years. I hope and believe that I have helped those banks succeed in the way they define success. **I, also, have learned from all of my strategic planning clients**. Those main items are the subject of this article. Regardless of how you approach strategic planning, I believe these concepts will help make your plan meaningful to the management team the board of directors, and ultimately improve profitability and shareholder value.

The following are the 9 lessons learned from the facilitator.

1. **There is no value in a strategic plan.** I know this is a strange thought coming from a strategic plan facilitator. But, I have learned that *value is achieved only when the plan is **implemented to the benefit of the bank***. It is absolutely critical to build consensus and buy-in. If participants believe the plan is from the facilitator, you have lost. The facilitator is there to achieve consensus on what is your bank's plan, then write what management and the board want to achieve.

2. **A strategic plan is not about predicting the future, *but making the future*.** Nobody can predict the future. But, that's not what strategic planning is about. An effective strategic plan is about making the future not predicting it. That's why I often ask plan participants, "If you could envision the perfect future for your bank, what would it look like, or be like in five years." The goal is to then build strategies and tactics to deliver the consensus of that perfect future. Of course, there will be deviations from which a change-in-course will be made. We call that **good management**.

3. **There is no one best plan.** I have seen successful banks run in an extremely conservative manner and in an extremely aggressive manner. There is never one best way. Whatever the strategy, I can give you an example of a successful bank that took a different position. The **key is to have a consensus** in strategy that exists between the board of directors and senior management. I don't mean there needs to always be agreement on issues, but agreement on the basic core values that lead to a focused direction.

4. **Every good community bank needs to ______fill in the blank___.** However, you might answer this question, it is wrong. Community banks are incredibly unique. While Bank A may have 80% of issues in common with Bank B, the remaining 20% can make them incredibly different in their plans. To the facilitator, **EYES WIDE OPEN.** Only in that way, will you see the nuances that provide the real positive impact to the participants

5. **Banking is about risk.** Without risk there is no bank. This relates to 3 and 4 above. But, it is critical that the facilitator help define the risk appetite of the directors. This will then help define capital adequacy which ultimately is at the heart of every strategic plan. Management and the board of directors need to understand there is no right answer. Your risk appetite is all that matters. But, I will tell you one thing that is

absolutely wrong. Taking risk that is beyond your appetite and that you don't fully understand. Please, never do that.

6. **Define your goal for capital.** This is a part of 5 above, but it is critical. Define what your target or goal is for capital. Let's assume that capital adequacy based on risk is 7.5 percent, but the Board wants to maintain 9.5 percent. This is certainly OK, but understand there is a cost to the excess capital. Excess capital could be viewed as an insurance policy against potential losses. Many banks that had excess capital during the Great Recession were certainly happy they did. Excess capital could also be used as Opportunity Capital in case it is needed for a branch purchase, bank purchase, etc. But, also remember, as the tier-1 leverage ratio increases, the return on equity decreases, all other things being equal. And, a decrease in return on equity is a drag on shareholder value.

7. **Asset quality can kill you.** Discussing asset quality is not as exciting as many other issues. But, nothing will derail a bank's plans quicker and more completely than problems in asset quality. Even though loan growth drives asset growth which is a key component of bank success, we must remember to *aggressively seek and conservatively underwrite*, and thoroughly understand the risk associated with the loan growth.

8. **Cybersecurity is the fastest growing threat.** This is a new one. There are regulators that believe cybersecurity is the greatest risk facing community banks. While I still believe it is asset quality, the fact that regulators have this opinion, provides an indication of the direction for your next exam. There will be much more emphasis on technology. This should be discussed during the strategic planning process, and I would recommend a separate Technology Strategic Plan.

9. **A facilitator will never know your Bank or your market like you do.** I am like most other facilitators. I have had the experience of working with hundreds of community banks and in seeing how things work positively and negatively. That is my perspective and it is good to have that voice at the retreat. And, I recently facilitated a strategic plan with a strong Wisconsin bank. But, I always remind new clients that while I have an experienced perspective, I will never know your Bank, nor your market, like you do.

I hope that you will consider these concepts as you complete your next strategic plan. If you would like to discuss this article, please call my cell 330.283.4121, or send me an email at gyoung@younginc.com.

Gary J. Young is the CEO of Young & Associates, Inc. a team of management consultants who provide consulting, outsourcing, and educational services to community financial institutions nationwide and overseas. The company provides educational seminars through affiliations with state and national banking associations including the Wisconsin Bankers Association.