Strategy Vs. Strategically Focused?

2-Minute Test Reveals Key Performance Profiles.

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Most banks have strategies, but that doesn't mean they're strategically focused. The former often reflects a cursory approach for doing business, the latter a corporate culture.

One with a high degree of leadership and accountability driving the organization. Where the *board* provides senior management with a corporate vision and well-defined goals, and holds them responsible. Employees understand company direction and how their performance contributes to it. Strategically focused banks readily achieve improved customer service and productivity objectives, perform above industry average and provide value to shareholders.

The *board* and management cooperatively set the culture in four ways: planning right, policy development, measuring performance and rewarding results. Unsure how your bank rates? This simple test will tell whether you are strategically fit, or need some fine tuning.

1. Describe your bank's annual/long-term plans?

❒ A. The vision is understood at high levels, but may not be recorded. The plan is more a detailed budget with cost and revenue expectations.

❒ B. Strategic planning is just a formality. Once produced, the plan goes unused.

❒ C. The business plan has short-term operational and budgetary goals, but no "visionary" direction. It's followed carefully by the organization.

❒ D. Strategic planning involves the entire company. It ties objectives to specific action plans down to divisions, product groups or departments, and is used to steer the organization.

2. Describe your approach to policy development and implementation.

❒ A. Policies are driven by regulatory requirements, only address main operations and not customer areas.

❒ B. Policies are loose interpretations of company goals, secondary to budgets and action plans.

❒ C. Policies are exactingly defined and seemingly applied to every situation.

❒ D. Policies are specific, understandable and useful especially for customer service delivery. They're aligned with plan goals and significant in guiding operations.

3. Describe how you use information to measure performance?

❒ A. Reports contain historical financial data to convoluted to have value in evaluating performance.

❒ B. Performance based on broad financial ratios such as return on assets, asset growth rates and efficiency.

❒ C. Performance evaluations incorporate complete reports, measuring historical (lagging) performance. Key factors are used [those involved with operational measures], but all information is historical.

❒ D. Lagging and leading performance measures are considered. [Lagging factors are historical such as revenues; leading ones predict performance such as growth in loan applications or sales calls made.]

4. Describe how you reward management, employees and departments?

❒ A. Rewards are either discretionary or across-the-board and not based on performance.

❒ B. Rewards based on reaching broad ratios such as return on assets or return on investment.

❒ C. Rewards based on reaching profit goals for the company, or individual divisions, product groups and departments.

❒ D. Rewards based on profit goal achievement and reaching strategic objectives such as increased productivity and improved customer service.

To see how well you're performing, tally your score as follows: [A] answers worth 5 points; [B] answers worth 10 points; [C] answers worth 15 points and [D] answers worth 20 points.

Banks typically have one of four highly defined cultures. Many have hybrid tendencies in one or more areas. It takes a deeper consultative analysis to profile accurately strengths and weaknesses, but your score offers a useful starting point.

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20 to 30 Points
Vision-Oriented Corporate Culture

Vision-oriented banks have low level leadership and accountability. Strategic goals are poorly understood outside of select senior managers and directors, who use a *seat-of-the-pants* management style. They think they know where the bank is headed and consider planning a waste of time. There's negligible corporate communication so employees either don't understand the strategic vision or know how it effects job responsibilities and performance.

Management is clueless about the information to analyze and typically provides the board with a raw data overload that wastes time and resources. Performance rewards are based on nebulous, unquantifiable factors such as *overall contribution*, confusing employees further about the right actions to take to maximize compensation.

Ironically, an exciting vision exists, but it's disconnected from operations—resulting in poor customer service and shareholder value.

35-50 Points
Directionally-Focused Corporate Culture

Directionally-focused banks have high level leadership and low accountability. Planning becomes an opportunity to *circle the wagons* annually and reinforce corporate strategy, while verifying the board and senior managers still agree with company direction. The strategic plan comes almost exclusively from senior executives, and though understood throughout the organization, employees ignore it because goals and reporting systems are overly broad and lack operational detail.

This type of company favors broad financial ratios—return on investment, return on assets, asset growth rates and efficiency—to direct corporate activities and reward performance. Policies are *necessary evils* offering vague interpretations of operational goals. Bonuses are based on how ratio performance compares to competitors. Without accountability, the firm finds it difficult to achieve goals, or understand why it's underperforming.

55-70 Points
Goal-Oriented Corporate Culture

Goal-oriented banks are opposite those directionally-focused—high accountability, poor strategy. As the name implies, the spotlight is exclusively on short-term success measures and they lack the strategic vision to help them respond to changing customer needs or industry dynamics. A detailed business plan identifies specific bottom-line goals, including an explicit diagram of next year's operating requirements and complete action steps for every division, product group and department. Policies are secondary and everything gets reduced to numbers.

The company has thorough reporting, but includes only limited historical financial information—making it difficult to identify trends or diagnose problems. Rewards come when profit goals or lower budget totals are achieved.

These banks are slow to introduce products or apply new technologies, and can suffer from low customer satisfaction because numbers come first. They're always putting out fires that with foresight could have easily been prevented.

75-80 Points
Strategically-Focused Corporate Culture

Strategically focused banks combine high leadership and accountability. Planning involves all organization levels. Senior management and the board agree on strategy and communicate it to everyone. Employees understand the objectives and their role in achieving them. The plan is used at all executive sessions, changes to meet emerging needs and is usually output for easy reference—scorecard or diagram—with key leading and lagging measurements.

Reports detail these parameters with financial results, closely evaluating current profits and noteworthy future performance indicators: customer service complaints, turnover ratios and loan delinquencies among them.

Officers share the scorecard frequently and openly so employees know how well they're meeting performance objectives. Compensation is linked to profits and strategic goal accomplishment.

Management creates a positive working environment that unifies the organization to pursue goals, yet remains flexible and responsive to anticipate change.

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The Leadership-Accountability Grid

Leadership shapes strategy, accountability makes it effective. The chart below suggests how varying degrees of each quality dictate bank development, reflected by the four basic corporate culture types. High levels of both foster a strategically-focused organization.

Vision-Oriented

New or newly reorganized banks are typically vision-oriented, but established firms can be too. Stagnating in either trait, makes the bank highly prone to damage from conventional challenges such as market changes, mistakes by managers, competition, even an overly generous loan officer. Directionally-focused and goal-oriented banks can enjoy success, while only a strategically-focused bank sustains growth on a long-term basis.

A revamped eastern bank with poor lending practices and low financial performance illustrates turnaround of a vision-oriented scenario. A talented [but non-banking] board of directors came under fire from regulators and determined new leadership was absolutely necessary. Strategic planning created a vision supported by policies and processes that placed emphasis on customer value. Compensation systems were aligned with strategic objectives. Today, operations remain significantly improved.

Directionally-Focused

A directionally-focused culture scores high in leadership and low in accountability. It's managed by ratios and ignores strategic vision. A large community bank suddenly saw profitability slipping and hired consultants to discover why. Senior managers learned their directional emphasis made it difficult to change because relevant operational performance measures were lacking. They shifted style to a strategically-focused environment—instituted a planning process, improved policies, built a financial scorecard to track key performance factors and based compensation on new business objectives. Profitability improved shortly after first-phase changes were implemented.

Goal-Oriented

Conversely, goal-oriented companies [high accountability, low leadership] are profoundly behind the change curve because they look only at the past. A Midwest bank's annual budget, generated by a *death march* approach, was its principal strategy document. Most banks enjoyed strong deposit in-flows in 2002, but this one had a decline. Without a strategic process, the company couldn't react. If it were strategically-focused, information systems could have generated the reasons for deposit downfall. Or, had it rewarded customer service and financial goals, it might have avoided the problem.

Strategically-Focused

Many banks altered their culture to one that embraces a strategic focus. Change starts by isolating where you are on the grid. The test gives you an idea, but addressing transition challenges requires more extensive study.

Next, use the strategic planning process to understand your business approach, policy development, information gathering and pay-for-performance program. Gain an independent, unbiased perspective by employing a seasoned banking consultant—who can also recommend solutions to inject better, more vigorous leadership and accountability standards.

The board also plays a vital and two-fold role: 1) takes charge by setting the vision and strategic goals, then communicating them to senior management; 2) holds them responsible by requiring lagging/leading indicators to measure goal accomplishment, and tying rewards to performance. Like strategically-focused banks, directors must demonstrate high levels of leadership and accountability.

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