

Thoughts About Effective Planning

Every financial institution plans for the future in some form or fashion. But while much has been discussed regarding the proper use of various planning techniques, little is known about how planning is *actually practiced* within many organizations today. For instance:

- ◆ How *important* is planning to various banks, credit unions, et al.?
- ◆ How is planning *practiced* by the institutions?
- ◆ What is the relative *satisfaction* and *effectiveness* among planning organizations?

Such information would be very useful to the executive management and the boards of directors of financial institutions in understanding the actual value received from such planning efforts, the most effective methods for planning and in identifying areas to improve upon.

Recently, in collaboration with marketing specialists from the University of San Diego, and partnering with M. J. Barney Associates, a marketing research firm, CS Consulting Group sought answers to these questions. Using our database of more than 300 financial institutions, primarily community-based with assets of less than \$1 billion, we surveyed 65 such institutions in detail about their planning practices and experiences. Our key findings:

1) Although planning is important and significantly influences their profitability, only about one-third of financial institutions are highly effective and/or highly satisfied with their planning efforts.

2) While one of the fundamental responsibilities of the board of directors (BOD) is to provide overall planning guidance and direction, more than a third of the institutions report insufficient involvement and input by their BODs in this function. About 58% of the boards of directors sincerely embraced the resulting plan's strategies and directions, while 41% only somewhat embraced it. As the amount of involvement and input increased, so did the likelihood of their eventual support of the plan.

3) Over 58% of financial institutions have a planning horizon of at least three years; approximately 41% plan for too short a period (i.e., two years or less) to proactively address and implement meaningful, desired changes.

4) About 40% of respondents use the completed plan extensively to guide the institution; another 40%-45% use the plan on only an occasional/moderate basis.

5) Effectiveness in planning varies by the particular process or step involved. While environmental scanning appears especially difficult, a majority of financial institutions excel in linking their plan to the budget and corresponding resource allocation. However, it is noteworthy that only 11% of the respondents consider themselves "highly effective" in all five key steps involved in planning.

To be certain, the responding financial institutions are doing many things correctly when it comes to plan-

COMMENTARY



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ning. For the most part, planning is important to them and is being done for the right reasons and motivations, and most institutions have completed all of the necessary components. Nonetheless, several key opportunities exist for improvement, as evidenced by the shortcomings in effectiveness and satisfaction, using one example.

It appears from this study's key findings that it is the *execution* of the planning process that proves the downfall of a majority of organizations. Moreover, the benefits from improving execution and optimizing a planning process is clear: Those institutions in the survey with the highest effectiveness also had a greater influence on their profits, had higher satisfaction, experienced fewer changes to their planning process and had a higher return on assets (ROA). Therefore, we offer the following explanations and important recommendations to improve in these key areas:

1) **Plan for planning.** Given the high level of importance and strong influence on profits that planning has—vis-à-vis the knowledge that 68% of these financial institutions are not fully effective or satisfied with their own efforts—it is indeed surprising that only 40% expect to change their planning process. This suggests that a sizable number of banks are either willing to accept mediocre planning or perhaps believe that inherent limitations prevent them from attaining a higher degree of success.

But planning can be optimized and substantial benefits realized, as is evident by the nearly one-third of respondents reporting such successes. It appears that one key determinant to success is that a bank must actively *plan for planning*. This encompasses placing great importance and attention on planning and designing a process to properly address the four primary steps—

scanning the environment, formulating the plan, allocating resources and implementation. Those institutions that have done so report high levels of effectiveness and satisfaction, greater influence on profits, fewer process changes needed and higher ROA.

It is critical that the planning process fit congruently within the organization. Much like any personal improvement program, you must *customize* the process to your institution's management style and other organizational and industry characteristics. For instance, if your style is informal and operations are simple, be sure that your planning process embodies these characteristics. Be wary of any "one method fits all" approach. In short, know what you want to get out of your planning efforts, and then custom-design your process around these aims. Once your planning efforts are underway, if you are fully satisfied, don't attempt to "fix" what isn't "broken." But if you are not achieving optimal results, take corrective action.

2) Involve the board early and often. As noted earlier, more than a third of the institutions indicated a need to improve their BOD's role in various planning activities. Importantly, this study reveals that focusing serious attention here can yield powerful benefits: The firms in the survey with a greater degree of BOD involvement enjoy higher effectiveness in environmental scanning, formulation and implementation. Where the appropriateness of this involvement is perceived as "just right," the plan is better utilized, generates higher effectiveness and satisfaction, and results in fewer process changes. More BOD involvement during implementation also leads to greater support and use of the plan. And finally, when the BOD embraces the resulting plan, its use, effectiveness and satisfaction are all higher, coupled with fewer changes.

Without question, the BOD should play a major role in most planning efforts. The board is charged with helping establish a general direction for the institution, providing guidance in implementation and monitoring progress toward achieving objectives. Fulfilling these responsibilities can be achieved only by an *appropriate* level of *active* involvement by the BOD. The entire board should be intimately familiar with your institution, its environment and the planning process. Directors' level of familiarity in these areas will probably dictate the appropriate level of input. But remember that this degree of input and involvement in planning is related to, and will likely determine, the BOD's resulting level of support for and use of the completed plan. Moreover, the BOD must *sincerely* embrace the plan and *strongly* support its direction in order to reap the benefits.

3) Lengthen the planning horizon. Earlier we noted that about 41% of the responding institutions have a planning horizon of two years or less. This pattern is even more pronounced among smaller institutions. Why is this shorter-term focus so prevalent? A couple of factors are probably most responsible: Systems for short-term budgeting are already in place, and it is relatively easy to translate this budgeting into "planning," and managers tend to shy from the uncertainty and difficulty in making longer-range projections. Yet many other institutions have achieved a longer planning horizon (three or more years), and are reporting better utilization of their plans and higher effectiveness in many areas, including the problematic task of environmental scanning.

So how long should your planning horizon be? Long enough to allow time to proactively address your critical issues and accomplish your objectives, thereby successfully positioning and operating your firm in your *future* environment. It can often take 18 to 36 months to begin realizing the benefits of these positioning objectives (e.g., profit improvement programs, growth strategies such as branching). Consequently, for most financial institutions, a planning horizon of at least three years is appropriate.

4) Utilize the plan. Frequent use, and keeping the plan at the forefront for management and the BOD, can help the entire organization. Those institutions in our survey that use their plan more frequently and also consider the plan carefully before making significant directional changes report higher levels of effectiveness and satisfaction, and a greater influence on profitability.

To increase utilization of your plan, design and distribute it so that it becomes an *active* working tool in all key discussions and decisions regarding future directions. Focus on the *content* of the objectives and strategies, not the production of a written document. Encourage frequent use and reference to the plan at board and senior management meetings; don't let the plan become "bookcase filler." Ensure through the plan's use that all appropriate strategies are implemented and all corresponding objectives achieved. Finally, be sure that these same objectives and strategies drive the organization and determine its long-term direction, rather than smaller operational challenges or the recurring "crisis of the month."

In sum, while planning does require significant time and attention from management and the BOD, when done well through the use of these recommendations, it can serve as one of the most important and effective tools in managing a financial institution today. ♦

