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# GUIDE FOR THE DEVELOPMENT OF A STRATEGIC PLAN INTRODUCTION

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## INTRODUCTION

Bank and thrift organizations are beginning to devote a considerable amount of time and effort each year to the process of establishing goals and objectives and developing profit and operational plans for the ensuing year (2). This type of planning is generally characterized as operational or tactical planning since it is concerned largely with building on and improving the status quo. It is generally the responsibility of the Asset/ Liability Committee (ALCO) to administer and monitor the tactical plans within a financial institution. A major component of the ALCO's responsibility is the management of interest rate risk.

Another dimension of planning is that which is termed as **strategic planning**. Strategic planning is the process of planning for change in the organization. It typically involves an on-going program of an objective assessment of the organization's current position; its strengths and weaknesses; the opportunities and threats presented by external forces such as the actions of competitors, political and regulatory changes, social and technological changes, etc.; and finally, the development of plans or strategies and the commitment of resources to implement these strategies in order to bring about significant and positive changes in the organization. The objective is to capitalize on strengths and opportunities, to overcome weaknesses, and to anticipate the effect of changes brought about by external forces rather than being overwhelmed by these forces. One of the major benefits derived from strategic planning is the ability that it affords managers to make better decisions in their day-to-day operations by virtue of having thought out what it is they are attempting to accomplish in the longer term.

The purpose of this paper is to present a guide which is being used by banks and thrifts in the development of their strategic planning. The approach of the paper, though broad in nature, allows detailed implementation procedures as well as analysis and forecasting on the microcomputer.<sup>1</sup>

Financial institutions can be viewed as an aggregation of a diversified number of separate and distinct businesses offering many different products

and services to different customer groups. The approach to strategic planning is to first develop functional Strategic Plans for each organizational product or unique area of service. The overall Strategic Plan is then developed through the process of approving or modifying these individual Strategic Plans in order to channel the organization's resources into those areas which offer the greatest potential for achievement of the institution's goals, i.e., profit, quality, service, growth, etc.

Each functional area of the organization should prepare a Strategic Plan centered around its products and services. The resulting Strategic Plans should be viewed as long-range plans for the organization's major areas of business (service) and not merely the plan for an individual division or group (3). In most instances, each of the various lines of business (services) involves the interaction and cooperation of a number of different functional areas or groups. The final plan for a given line of business (service) should reflect input from all of the areas involved in providing that service. As a follow-on process, individual divisions and departments may then develop their own Strategic Plan to support the overall line of business or service. In some instances, support areas, i.e., data processing, personnel, etc., will not be able to complete their strategic plans until after the plans for the major lines of business (service) have been completed and approved.

Strategic planning, as opposed to opportunistic decision making, is an on-going process and should be thought of as a cycle, a cycle that occurs in an organization on an annual basis. The results of the first year strategic planning cycle should produce both a one-year plan and a five-year plan. On subsequent years the strategic planning cycle should produce the long range plan with a one-year update. The initial cycle will be the most time consuming and the most difficult to accomplish because of the learning and management discipline required.

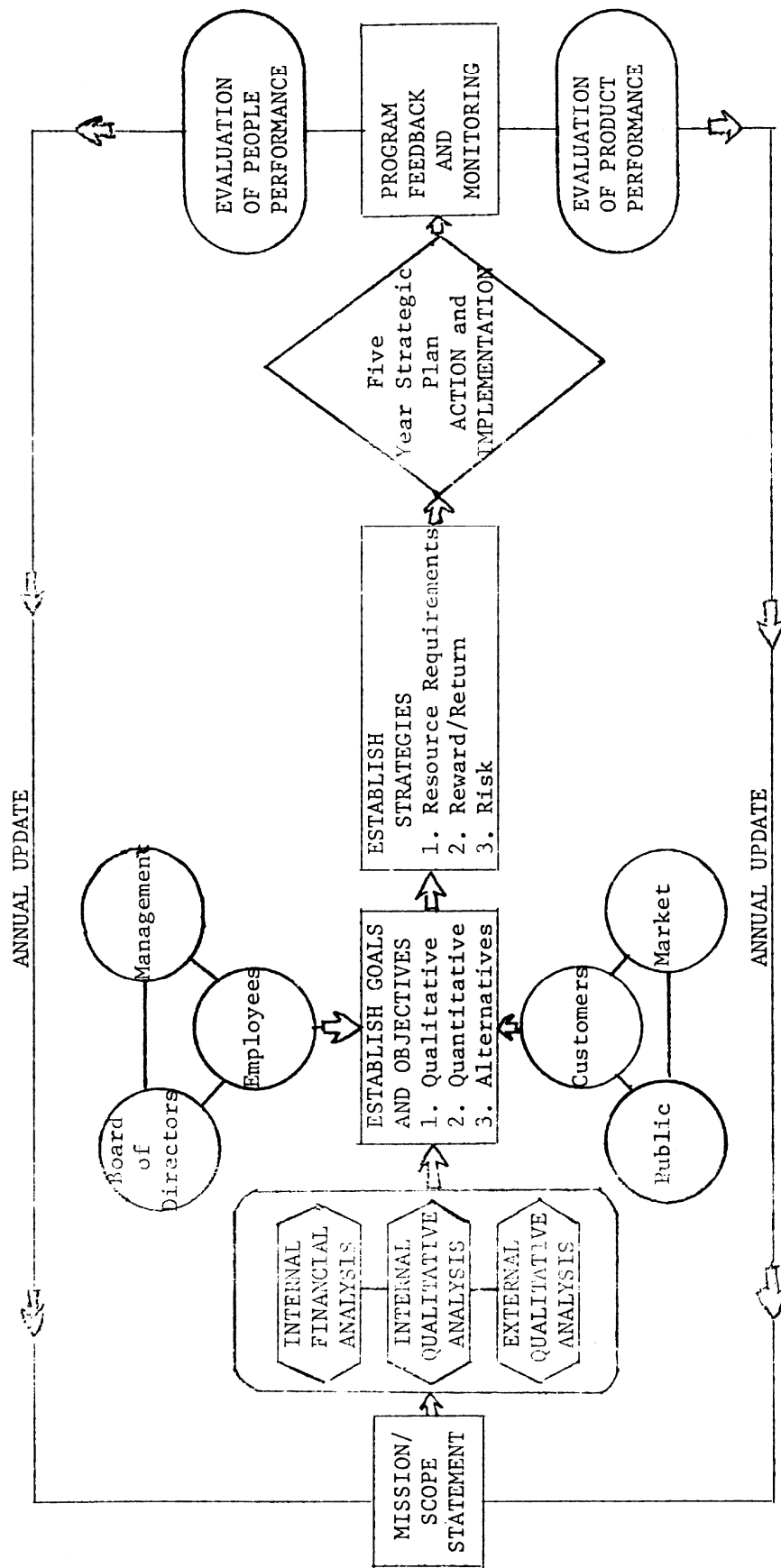
### **STRATEGIC PLANNING CYCLE**

The Strategic Planning Cycle for a particular line of business or functional activity should consist of at least the following eight planning elements:

- I. Mission Statement
- II. Internal Analysis
- III. External Analysis
- IV. Goals and Objectives
- V. Strategies For Action
- VI. Management Review Action
- VII. Implementation
- VIII. Evaluation

The development of the strategic plan for a particular line of business of service should be coordinated with, and have the benefit of, the input from all departments/groups involved in providing the service involved. Care should be exercised to select the most talented people for key planning

**Figure 1**  
**STRATEGIC PLANNING CYCLE**



positions, no matter where they are in the organization hierarchy. It is important to keep planning as separate as possible from the organizational structure.

The proposed goals, objectives and strategies are reviewed in detail by a planning group or a strategic planning committee. It may modify goals as a result of capital constraints on the organization, the need to give priority of resources to other areas of the organization or for numerous other reasons. Once the various functional Strategic Plans have been approved, appropriate individuals will assume responsibility and accountability for the attainment of the goals and objectives established. Figure 1 is a flow diagram of the Strategic Planning Cycle.

**I. MISSION STATEMENT** — This is a carefully thought out, concise statement of the central purpose of the organization as it currently exists. The mission statement should clarify the nature of the organization's business describing its scope and long-range intent. It should provide the focal point around which all the organizational effort revolves and supports. Like the total organization's mission statement each division or department of the total organization should also have a mission statement briefly describing that organizational unit's purpose, scope and intent.

**II. INTERNAL ANALYSIS** — A logical point of departure in any attempt to plan where we go in the future is to review our progress over the past three to five years and take an objective look at how well we have performed. We need to analyze our strengths, weaknesses, products/services, customer base, staff, anticipated constraints and the costs involved. A committee will be established and assigned the responsibilities of researching the following aspects of each product:

**1. Past Performance.** Depict the trends of your product(s) over the past five years in terms of dollars, volumes of activity, profitability, growth or other significant measures. Comment on any significant factors that have impacted the year-to-year trends.

**2. Strengths/Weaknesses.** As objectively as possible, list the strong points and the weak points of your organizational unit. What do you think is the image of your unit internally and in the eyes of its customers?

**3. Staffing.** Present an analysis of your current staff in terms of age of key personnel, experience and expertise in their field and the degree of stability or turnover experienced in the staff.

**4. Product/Services.** Describe briefly each of the major products or services your organizational unit offers. Discuss the year-to-year growth in each of these products or services and its relative profitability.

**5. Customer Base/Potential.** Present an analysis of your present customer base considering such matters as the number of customers served, the degree of concentration and diversity of the customer base, geographic

dispersion of customers, etc. If a significant portion of your unit's profitability is dependent on a few key customers, give an objective evaluation of your position with each of these customers, i.e., relationship with key individuals, factors which could cause you to lose that customer, etc.

**6. Constraints.** What factors within our organizational unit keep you from doing a more effective job? This could be current organization policies and the quality of performance by other organizational units upon whom you depend. Also consider the way your unit is organized in terms of work assignments and the adequacy of physical facilities.

**7. Cost to Produce the Products/Services.** Determine to the degree possible the cost to produce your product or services. How much per unit? Is it profitable and by how much?

**III. EXTERNAL ANALYSIS** — In addition to looking in the organization and assessing past performance, it is also essential to look outside at various external factors that influence productivity. To supplement your committee's efforts it may be necessary to seek assistance from the Strategic Planning Committee which will be able to offer guidance and suggestions on fact finding and analysis. Principle areas of research should include:

**1. Competition.** List banks, S&Ls, and other firms that you consider to be the major competition in your market area. Analyze to the degree possible their strengths and weaknesses and your best guess of the share of the market they currently hold.

**2. Market.** Describe in terms of geographic area and total dollar volume the current and potential market for your unit's services. Estimate the share of this potential market you currently serve. Indicate portions of this potential market that appear promising for further cultivation.

**3. Environment.** Any attempt to develop plans for the future of any business must take into consideration external forces and the environment in which you will be required to operate. A close examination of past trends and current developments can give you considerable insight into what you may be faced with in the future.

The major external forces which will impact the bank and all financial institutions in the future can be grouped under the general headings of:

- Political/Regulatory
- Social
- Technological
- Economical

The major probable developments in each of these areas need to be researched and applied each time the organization completes the Strategic Planning Cycle.

**IV. GOALS AND OBJECTIVES** — Up to this point we have reviewed past performance, assessed current operations with emphasis on strengths, weaknesses and position in the competitive marketplace, and attempted to

anticipate the factors in the environment which may impact our business in the future.

As a result, you should have a reasonably clear perspective on how effectively you are presently conducting the principal activities, how productively the resources are currently employed, what your capacities are, how external factors will influence future performance, and where, in general terms, the organization is headed. This all comes down to the primary managerial challenge of the long-range planning process — what do we **want** the organization to be and where **should** the organization be heading, and then what must you as a manager do, and when, if you are to attain the desired results.

The first step in this process is the development of goals and objectives for the organization. **Goals** are defined as the ideal end or outcome of purposeful action. They are the important conditions and outcomes that you wish to attain, and toward which you direct your efforts. These can include such matters as improving profitability, increasing share of market, providing the best in services, challenging the human resource, accepting community and industry responsibilities, etc.

**Objectives** represent the translation of goals into measurable terms. They are primarily quantitative performance targets designed to strive for the achievement of a goal. Objectives are accompanied by specific assignments of responsibility and achievement dates. Objectives should be both realistic and challenging. Objectives are supported by statements describing measures of effectiveness.

**Measures** are a means of determining whether or not an objective (and eventually, a goal) is being achieved. A measure indicates the progress made at any point in time toward reaching an objective; i.e., the degree to which a tangible impact on a specific situation is being realized. Measures also help you determine the rate at which resources are being expended in reaching objectives and whether or not you are operating within your planned budget. There are measures of efficiency and measures of effectiveness.

**1. A Measure of Efficiency** reflects an ability to perform certain tasks with skillful use of resources or to accomplish desired results with little wasted resources. Measures of efficiency indicate how economically resources are being utilized. They are usually expressed as cost per work unit produced, cost per customer, cost per employee hour, units produced per hour, or as some other expressed relationship between production and resources. Measures of efficiency do not usually provide an indication of the quality of output. Example:

- Employee Compensation (salary) as a % of revenue.
- Percent reduction of operating costs over the past six months.

**2. A Measure of Effectiveness** reflects the value or quality of the product or service provided. Not in itself concerned with how efficiently resources are being utilized, an effectiveness measure provides an indication of how successfully resources are being applied to the objectives. Effectiveness

measures tend to be more subjective than efficiency measures since value judgments are involved, but should be quantifiable when possible. Example:

- % of market gain over the past year.
- % increase in ROA during 19\_\_\_\_.

**V. STRATEGIES FOR ACTION** — Strategies are defined as the specific action plans, programs and projects selected from among alternatives by means of which an organization intends to attain its goals and objectives. They are the commitment to specific action aimed at capitalizing on strengths, correcting weaknesses, solving problems, grasping opportunities and improving performance. This is the who, what, where, and how phase of the planning process in which goals are translated into action plans and individual responsibilities through formal planning decisions and communication sessions.

In reaching the decision point of the strategy, it is important that the range of feasible alternative courses of action available to reach a given objective be evaluated. The strategy (action plan) selected through this process of evaluation will be the one which is expected to produce optimum results in the most efficient manner, consistent with corporate goals and objectives, without affecting undesirable trade-offs or levels of risk, such as short-term profits versus long-term asset quality. Not only does this evaluation of alternative strategies expose all facets of a decision to analysis, it also leads to the development of **contingency plans** which are useful in the event conditions change and strategies need to be altered.

Among the factors to be considered in determining what course of action will be adopted and how it will be carried out are:

1. Corporate performance goals and priorities.
2. Anticipated competitor strategies/responses.
3. The specific levels and types of resources required, together with their cost and availability.
4. The means of deploying new resources (or redeploying existing resources).
5. The cost/benefit implications.
6. Acceptable trade-offs in terms of profit, risk and customer relations.
7. The impact upon market or internal relationships.
8. The probability of success.
9. The assignment of responsibility for the completion of specific tasks by required dates.

In describing each strategy adopted, these supporting elements should be spelled out clearly. A **brief summary** should be prepared to state the case for each proposed strategy (e.g., new program or project, new product, change in pricing, different approach to existing markets, new market thrust). It should set out clearly the contribution (performance impact) the strategy will make toward attainment of the related objective(s), the resources re-

quired, the estimated **incremental costs** and **incremental benefits** of such programs, projects, markets and products, and the alternatives which were considered and why they were rejected. Be certain to describe not only what you plan to accomplish, but **how specifically** you plan to do it. The following general questions are provided as guidelines:

**1. Basic Profitability and Performance:**

- How will you monitor product (service) profitability? By what criteria?
- How specifically do you plan to increase income? Fees? Service charges?
- Are there new opportunities to increase income? Where? How?
- How do you monitor the profitability of a customer relationship? At what point do you drop a relationship?
- What programs can be initiated to better control and/or reduce staff expense and other operating costs?
- Which unit expenses are fixed and which are variable? How variable? How will you manage variable expenses more effectively?
- Are there operating efficiencies that can be realized?
- What programs should be emphasized to capitalize on the strengths of your unit previously described? Minimize the impact of weaknesses? How do you plan to correct these weaknesses?

**2. Marketing and Competitive Position:**

- What particular market segments and customer groups offer the greatest opportunity for profitable growth?
- Based upon your recognition of the services and products you provide, and the feasible limits of your ability to cover the market, what mix of services should we offer to meet the needs of these markets most profitably?
- How can the profitability of existing markets be increased (improved margins, reduced expenses, greater penetration/volume, culling, de-emphasis or abandonment of marginal or unprofitable markets or products)?
- How do you view the profit potential of new markets and/or new products/services?
- Are certain markets likely to be vulnerable to competitive rate/price cutting in the future?
- How can you enhance the quality, service and pricing of your products/services to customers (**product management**)?
- What types of customers should you concentrate your calling efforts upon? Which are the most profitable? Least profitable? What are your priorities?
- What needs to be done to improve business development activities and calling officer skills? How can you better structure your calling program?
- How can you cross-sell other banking services more effectively?



- What changes are planned to improve the customer appeal of your services and products? Your delivery systems?
- How can you improve the effectiveness of your advertising and promotional programs?

### **3. Innovation:**

- What new products, programs or services do you plan to introduce? When? How? Results anticipated?
- How can your unit be more responsive to customer needs for new products or services?
- How can we encourage and implement the development and design of innovative services, programs and products?
- What research, EDP and/or operations support do you require?
- What is your plan for implementation? Who? How? When?
- What services do you plan to delete or change? When? Impact?

### **4. Productivity and Efficiency:**

- What programs do you plan in order to promote productivity increases, superior competitive performance and profitability? How will you measure/monitor results?
- How can the organization handle increasing volumes with existing staff and facilities?
- What programs do you plan to implement in order to improve the quality, quantity, efficiency and timeliness of your operations?
- Do you have under-utilized capacity (e.g., people, equipment, facilities) in any area? What do you intend to do about it?
- How efficient and effective is the organization structure and divisional working relationship communicated? Do they support your plan? What needs to be done?
- What new systems do you require in order to implement your plans?
- What research is required?

### **5. Financial Resources:**

- What price/cost relationships do you require to meet your profit projections?
- What is your estimate of net funds required (provided) over the planning period?

### **6. Human Resource:**

- What are the personnel needs required to fulfill your profit objectives? To implement your programs? What categories and when?
- What changes, if any, do you require in recruitment, training or evaluation of performance, and how do you expect to achieve this?
- How can you develop managerial/supervisory personnel more effectively?
- What administrative, operational or structural changes are necessary to meet your profit goals?

## **7. Capital Expenditures:**

- What new facilities and/or equipment will you require to attain your profit objectives and over what time frame?
- How will this be accomplished, and what are the cost/benefits?
- What are the trade-offs?
- What space requirements do you foresee over the next three to five years? Cost? Benefits?

## **8. Social Responsibility:**

- How do you intend to contribute to achievement of the organization's Equal Employment Opportunity Compliance and Affirmative Action program? What is your specific program?
- What things can you do to promote the growth and development of your market area?
- What programs can be developed to respond more effectively to the consumer movement? What profit potential can be developed in doing so?

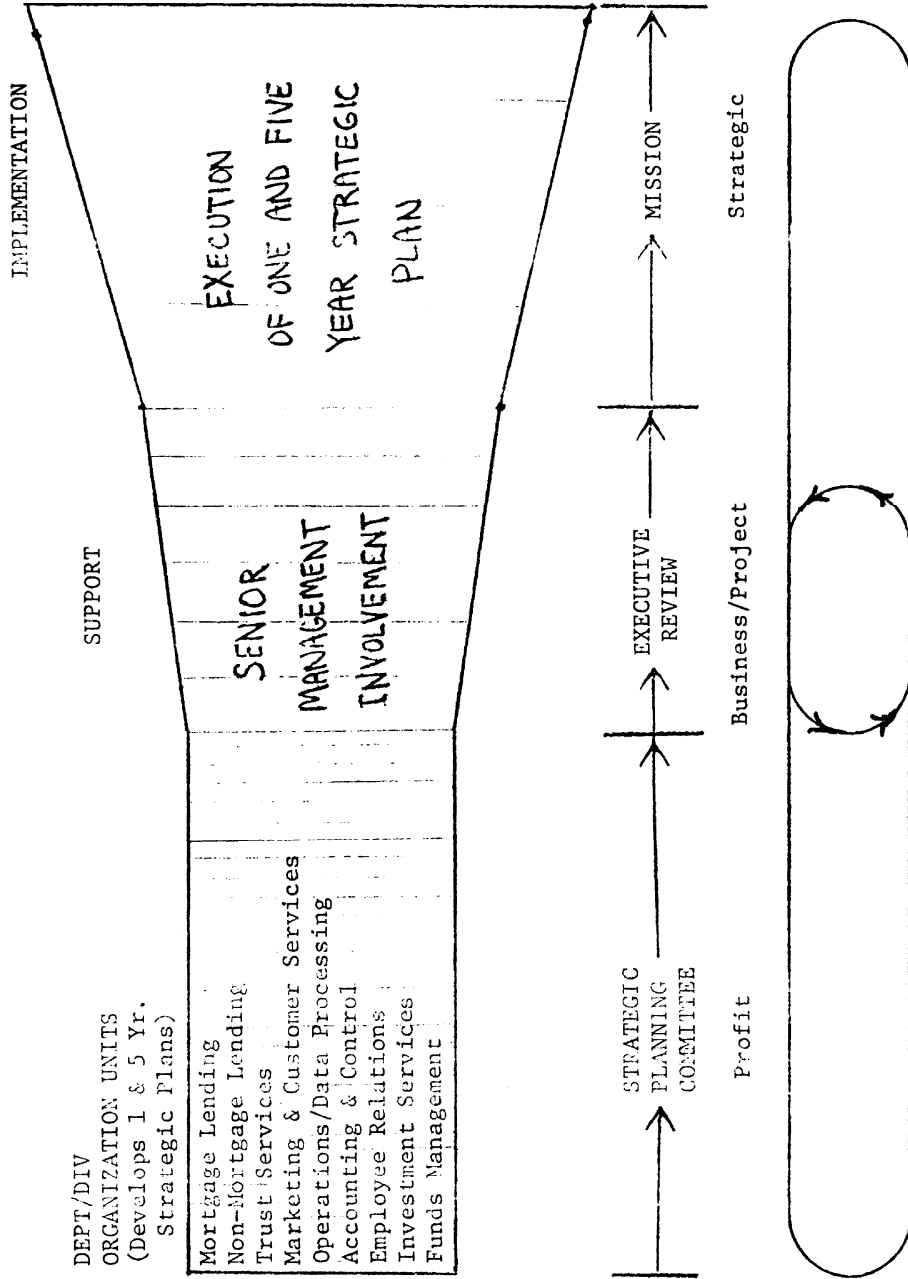
It is important that planning efforts be coordinated and integrated among all line and/or staff units which will be involved in the implementation of a plan. A review program is intended to assess the advantages and risks of each plan, assure coordination between units of the organization in the development of related elements of their plans, evaluate the trade-offs, and provide consistency between corporate and unit goals and objectives throughout the organization.

**Contingency Planning:** It is important to consider what impact such variables as price, competition, economic conditions, technological change, and the like, could have upon performance. In developing strategies and programs, these critical variables should be identified, responsibility should be assigned for monitoring them, and an effective means (contingency plan) for dealing with each should be formulated. At minimum, consider the impact of economic/monetary oscillations, and build sufficient flexibility into the plans that will allow for their change or modification.

**VI. MANAGEMENT REVIEW ACTION** — The management review action is the process of presenting, reviewing and deciding upon the Strategic Plans. Each staff department or divisional manager will present his Strategic Plan to Executive Management for a review. The written plan is to be submitted to Executive Management at least one week prior to an oral presentation. Each Strategic Plan is to be presented in a standard format which includes the following elements:

1. Mission Statement
2. Products/Services
3. Internal Analysis
  - Past Performance
  - Strengths

**Figure 2**  
**STRATEGIC PERSPECTIVE**



- Weaknesses
- 4. External Analysis
  - Competition
  - Market Potential
  - Threats
- 5. Recommended Goals and Objectives
  - One Year
  - Three to Five Years
- 6. Strategies for Action/Resources Required/Follow-Up Plan
- 7. Recommendations for Decision

Figure 2, Strategic Perspective, clarifies the functions and responsibilities of each portion of the strategic planning process.

**VII. IMPLEMENTATION** — The responsibility for implementation of a management decision rests with the managers accountable for affected functional areas. If the plan is approved, the resources required to implement the plan should be identified and their expenditure approved. It will be the responsibility of individual managers and their employees to implement their plans on a day-to-day basis in order to achieve their objectives within the resources approved. Throughout this day-to-day management/implementation process, records must be kept and observations made to evaluate the effectiveness of the Strategic Plan.

**VIII. EVALUATION** — The evaluation process should take place on a continuous basis throughout the implementation phase of the cycle. A formal evaluation is to be made each year on how well the organization has performed against its plan and established objectives. The evaluation process is divided into two formal assessment activities:

**1. Evaluation of People Performance.** This is carried out by each boss/subordinate during their annual performance planning and performance review discussions. Employee Relations Department assists management in this area by providing performance evaluation forms and coordinating the activity.

**2. Evaluation of Product Performance.** This activity is monitored by each manager against his department's goals and objectives. Emphasis is given to sales performance, market share, and profits.

## SUMMARY

Strategic planning and strategic thinking have become necessities for increasing profits in that they provide a means to deal with change. Changes in economic conditions, regulatory requirements, legal structure, growth and diversification, and increased competition must be projected and dealt with effectively. Without prior planning and preparation there is little chance one will utilize change to any extent.

Upon completion of the Strategic Planning Cycle, management will have a basis for:

- Making better decisions regarding
  - Budgets
  - Space
  - People
- Improved communication to all employees through the context of the job.
- Motivating employees through responsibility and achievement.
- Rewarding employees through performance.
- Achieving the organization's goals and objectives.

A word of warning is in order. Strategic planning is a highly creative process. To be successful, planning requires imaginative thought rather than mechanistic procedure. Without flexibility in the planning process there is little chance that the organization will be able to adapt to unanticipated external and internal conditions. Finally, without regularity there is little chance that planning will be anything more than a "quick-fix."

#### NOTES

<sup>1</sup>Computer programming is available from the American Bankers' Association for use on the microcomputer which allows low cost strategic information. The primary manual, *Microcomputer Modeling to Improve Community Bank Financial Performance*, brings both modeling and analytical powers to users for approximately forty dollars (\$40.00). In addition, the basic model is easily adaptable for thrifts as well as asset/liability (tactical) modeling.

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