

## Strategy & Your Human Capital

Around this time of the year, groups of bankers huddle around a conference table at some offsite hotel and start talking “strategy”. While it may feel productive while you are there, and you may love that you can think strategically, statistically you are likely to fail in achieving this strategy.

According to a 2005 article in the *Harvard Business Review*, the average strategic plan only delivers 63% of its potential financial returns, and more than 1/3rd of the executives interviewed placed the figure below 50%. The performance loss of 37% was attributed to everything from inadequate resources (7.5%), to a poorly communicated strategy (5.2%), to unclear accountabilities (4.1%), and to 8 other reasons. The article shows the importance of strategy execution, as only 5% of the performance loss was attributed to poor strategic design, while 32% was linked with failed strategic execution.

At Human Capital Banking, we believe there are 5 reasons that strategies fail.

- 1) **The Market Barrier** - 9 out of 10 business strategies fail due to an inability to translate market conditions into real strategic actions. Some business leaders are like horses with blinders on, just running forward as fast as possible without knowing what is going on around them. While other leaders get into analysis paralysis, and cannot take nimble actions to address a changing market. Success means being quick enough to respond to market changes, while simultaneously not taking action without seeing the whole picture.
- 2) **The Resource Barrier** - 60% of organizations don't link their budgets and resources to long term strategy. The budgets and resource plans are just rolled over from the previous year, and no thought is given to the assets that are needed to execute the strategy.
- 3) **The People Barrier** - Only 25% of managers have incentives linked to the long term strategy. Most of the managers have short term incentives, and are focused only on yearly performance objectives. In fact, some researchers have claimed that less than 15% of companies make it a regular practice to compare the business's results with the performance forecast from the prior year's long term strategic plan. In the end, the average manager is not held accountable for the long term performance of the organization.
- 4) **The Management Barrier** - 85% of managers and the executive team spend less than 1 hour per month discussing strategy. In most organizations, a vision and a strategy are matters which are discussed once per year at an offsite meeting. When the managers return to the office, they place the newly crafted strategy in a drawer, and there it sits.
- 5) **The Communication Barrier** - Since none of the managers are talking about the strategy on a regular basis, less than 5% of the employees actually understand the strategy. In the end, the strategy becomes corporate jargon, and either it is forgotten or soon replaced by another hollow strategy.

In order to deliver on a winning strategy, you need to address these 5 Barriers. For the rest of this year, the Human Capital series will be talking about your bank's Strategic Plan and the process you can undertake to ensure it is a success. To start this discussion we will use this month's and next month's articles to present simple but strong way of designing your strategy, and highlight the critical aspect your Human Capital fills when creating your strategy. To support this discussion, we will be using the book *Playing to Win: How Strategy Really Works* by A.G. Lafley (Former CEO of P&G) and Roger Martin (Dean of University Toronto School of Management).

**What is a Strategy, and What is NOT a Strategy?**

Strategy is one of those words that means something different to every single business leader, and everyone thinks their version of strategy is correct. At Human Capital Banking, we have chosen to use the definition in *Playing to Win*: “Strategy is an integrated set of choices that uniquely set positions the firm in its industry so as to create sustainable advantage and superior value relative to the competition.” Lafley and Martin continue to define Strategy, by examine what is NOT a Strategy:

- A Mission / Vision is not a Strategy - Your mission and vision statements are elements of strategy, but they aren’t enough. A strategy provides clear milestones and clearly guides the action of your bank. Your mission and vision are your high level ambitions on what you want to become; they aren’t a replacement for a real strategy.
- An Action Plan is not a Strategy - While it is critical in any strategy to have a clear plan of action, your strategy is more than just a plan. Just having a plan of action doesn’t mean the actions will deliver strategic differentiation from your competitors and superior value.
- Focusing on the Short Term is not a Strategy - When the house is burning down, focusing on the long term strategy may be pointless. But how many of your banks are truly burning down? As a banking leader, you need to make sure you are not sacrificing the really important (long term strategy) to address the urgent (firefighting). Let your competitors worry about today, you should be focusing on how you are going to be putting them out of business tomorrow.
- Optimizing the Status Quo is not a Strategy - Too many banks we have seen have a strategy of slight improvements to their current state. They say “We already have a great bank. Let’s just make it more efficient.” While this will definitely create value in the short term, it is not a long term strategy. The danger you face is that by focusing on optimization, you lose focus on the transformative. Why spend all your energy on optimizing your brick & mortar processes, if you know the future for your market is online?
- Following the Market Best Practices is not a Strategy - Within the banking world, there are best practices and ways of doing things we all know. Improving yourself from the hard lessons of others is smart, but relying solely on them going first is not a strategy. It is a recipe for mediocrity.

### **The 5 Questions of a Successful Strategy**

At the heart of any good Strategy, there are critical questions that you need to answer. When you are building your strategy, each question you have should build off your previous answers, until you have gone from your high level goals to a practical plan of action. In *Playing to Win*, there are 5 strategic questions that, when properly answered, will give you a clear plan for sustainable advantage.

What is our winning aspiration? - What is the purpose for our bank? What are our guiding principles?

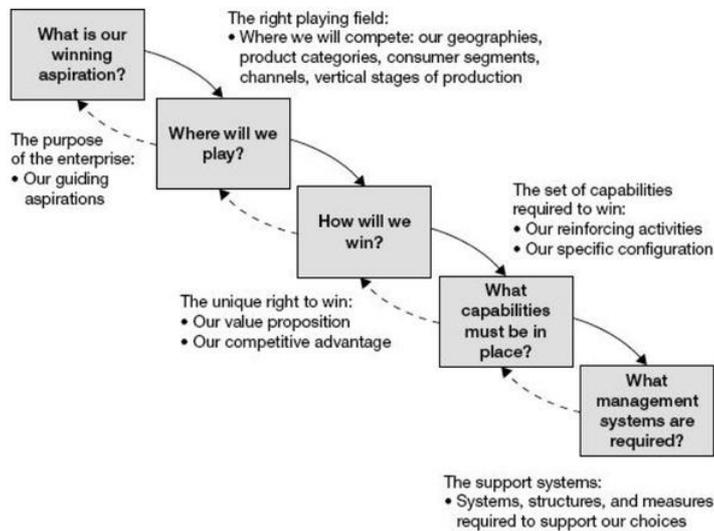
Where will we play? - What is the market we want to be dominant in? What geographies, product categories, consumer segments and channels will we compete in?

How will we win? - What is our bank’s value proposition to our desired customers? What is our competitive advantage in our desired market?

What core capabilities must we have? - What are the activities and core competencies that critically underpin our “Where to Play” and “How to Win” strategic choices? What do we have to be great at?

What management systems are required? - What systems, structures, KPIs and tools are required to support our choices?

### An integrated cascade of choices



The 5 strategic questions logically flow from one to the next, but at the same time there is a strong feedback loop that influences the earlier questions. For example, it is important to know your existing core capabilities when deciding the winning aspiration. These are the kinds of things you should be talking about at your strategic retreats, and you should be using these questions to determine what are the critical focus areas for your bank.

#### Strategic Question #1 - What is our Winning Aspiration?

The rule of thumb when answering the first question is to start with your customers and competitors, and not start with your financials. Many of the banks we have talked to have their primary aspirations based on stock prices or asset size. Wanting to grow from a \$500 million bank to a \$2 billion bank is not a winning aspiration, it is just a financial milestone. Instead, think of who you want to serve, and who you want to beat. For example, “Bank XYZ will be the #1 business bank in the San Fernando Valley.” This is winning aspiration because it sets a more ambitious goal that is connected to the bank’s customers and its competitors.

In addition to thinking about your customers, you need to have a BIG goal. Strategy isn’t about small improvements to the status quo. Strategy is about winning and dominating. Every bank and leadership team needs to be playing to win. Playing to just get by is a recipe for mediocrity, and, soon, business failure. A too modest aspiration is more dangerous than a too lofty one.

When answering this question, you need to be thinking about the Human Capital within your bank. Will your people believe in this winning aspiration? Will they sacrifice for it? Because that is what you want out of your winning aspiration. You want a goal that people get behind, and work as hard as they can to achieve. If they really believe in it, they will push beyond what is normal. If you get your Human Capital behind your winning aspiration, then your bank will be unstoppable.

#### Strategic Question #2 - Where will we play?

Once you know your winning aspiration, you need to start thinking about how you will achieve it. The second strategic question is all about translating your winning aspiration into clarity on where your bank will focus. A winning strategy is narrowing your focus to

specific customer segments, geographies, and distribution channels. And this is where most leadership teams start having difficulty, because choosing where to focus also requires you choose where not to focus. A winning strategy is not doing everything for everybody all the time. Tough choices force your hand and confine you to a path. But they also free you to focus on what matters.

You need to determine where to play in these 3 areas:

- Customer segment - What group of customers will you target? What is the price / service level you want to achieve with them? Meeting which customer needs?
- Geography - In which cities/counties/markets is your bank looking to compete? Which cities/counties/markets do you want to avoid?
- Distribution Channel - How will your bank reach its customers? What channels will you use?

Your Human Capital will have a big impact on where you want to play, and, conversely, where you play will have a big impact on what Human Capital you need to be successful. If you are in very rural areas, then you will be pulling from a different talent base than cities, and even more different than the metropolises. Going after the manufacturing market requires a different loan officer than if you were going after retail. A strategy of online banking requires different customer support than having a brick & mortar strategy. At the same time, you should be thinking about your Human Capital and your current strengths when deciding where to play.

### **How Human Capital Banking can help your Strategic Planning Process**

Over our years of experience, the Human Capital Banking team has seen many banks fail. Sometimes it is because they fail to create a strategy that creates sustainable advantage. Sometimes it is because they get too complacent and too focused on optimizing today instead of building tomorrow. Premier Performing Banks always has an eye on the long term success, and with that in mind they are always building their people towards achieving that future success. A clear Strategy that incorporates their Human Capital is one of the critical ways Premier Performing Banks ensure they have the talent to outperform the market.

With the right mindset, Strategic Planning can help set your bank apart from the herd, and this is what Human Capital Banking wants to support you in. Our partners have led countless strategic retreats over the past 30 years, and can help your bank differentiate itself. From there, our Human Capital services are designed to translate your bank's strategy into clear people actions. We will help you answer the 5 strategic questions. We will help you make sure your Human Capital is aligned to your strategy, and driving towards its success.

We want to be your bank's partner in differentiating yourself from every other bank. Whether it is Human Capital Banking, The Findley Group, or Young & Associates, we can help you build your strategy for success. If you would like to read any of the past Human Capital articles, especially the "Differentiator" series, you can find them all on [www.HumanCapitalBanking.com](http://www.HumanCapitalBanking.com)

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