2021

Realigning for Success

MACHIAS SAVINGS BANK

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Executive Summary

This capstone strategic project was carried out to study the effects of merging the leadership of Machias Savings Bank's salesforce including Retail Banking, Business Banking, and Cash Management. This will be implemented through the introduction of a Chief Banking Officer role to be filled by an existing Senior Manager as well as four Regional Sales Managers to oversee four markets across the state of Maine. The merger of existing leadership within the Bank will lead to the elimination of costs through salary and benefit expenses. In addition, there is opportunity for major efficiency gains by leveraging more streamlined decision-making processes through central leadership and a more hands-on understanding of each market. This will line up with the Bank's mission statement of "Financial Health, One Person, One Business, One Community at a Time". The assigned Regional Sales Managers will have a better understanding of their respective markets and can make solid, informed decisions around loan, deposit, and donation/volunteer efforts within their communities.

The investment needed for this proposal are time-based as opposed to cost-based. The Bank will not need to incur additional costs in terms of new expenses but will need to assign existing employee hours around training and communication. There are risks involved as there are with any major changes in an organization. Those risks largely relate back to the time being put into the project being wasted if one of the Regional Sales Managers is not successful in their new role. Once the time has been put into training this person, it is always possible to have either voluntary or involuntary turnover based on performance. It will be extremely important for the Bank's senior leadership to consider the options and choose effectively. It is also important to identify candidates to take these roles in the future.

The culture of the Bank will also be affected. Many employees will be faced with new leadership over their markets which poses risks but many opportunities as well. Using John Kotter's 8-Step Process of Change Leadership is a proven method to offset risk and embrace opportunity. These are established steps to follow to get employees to buy-in to the decisions that the Bank has made. Getting employees to believe in the changes that have been made will lead to future cultural wins. Engaged employees can then lead the Bank to more success.

Measuring the financial and non-financials risks and benefits is important to this proposal. When comparing the two, there is much more upside by following through with these changes in comparison to the downside. The most likely scenarios lead to positive outcomes. Cost savings and efficiency gains can lead to further growth and success for the Bank, it's employees, and the communities that it serves. Based on the research completed for this capstone project, it is recommended that the Bank move forward with the proposal and implement it in 2021.

Part I: Introduction and Background

The History of Machias Savings Bank

Machias Savings Bank (MSB) is a Maine-based bank that has a footprint strictly within state lines. Since its founding in 1869, the bank has been a mutual savings bank and has had a large focus on improving the community as opposed to shareholder wealth. MSB has fifteen locations throughout the state, located from northern Maine to southern Maine and along the east coast. The only part of the state that does not have a branch location is western Maine which could be within sight over the coming years.

MSB was initially created to serve the people of the Machias area in 1869. It took over 100 years before any additional locations were added. In the late 1970s through the 1980s, two additional locations were added within the home county of Washington (Calais and Columbia). One location was also added in Hancock county, that being Ellsworth. Through the early 90s, another three branches were added, including the first location in Aroostook County, Houlton. Since 2000, MSB continued its branch growth by adding an additional nine branches. MSB has had a long-term growth model with a primary focus on loans but has shifted resources and focus onto deposit sales with continued loan growth over the past five years. The proposed project has a large focus on efficiency by cutting employee-related expenses and consequently streamlining the ability to increase sales and deposits.

Financial Overview

Machias Savings Bank's statement of condition from 2019 was used to compare the Bank's balance sheet between FYE 2018 to FYE 2019[1]. The results for both fiscal years are displayed in Table 1.

Table 1:

ASSETS	**12/31/19**	**12/31/18**
Cash and Deposits Due from Banks	33,940,000	191,563,000
Federal Funds Sold	0	0
U. S. Government and Agency Securities	88,775,000	59,027,000
Other Bonds, Notes and Debentures	8,752,000	7,120,000
Corporate Stock and Other Marketable Securities	14,536,000	10,878,000
Real Estate Loans	976,455,000	858,448,000
Other Loans	355,258,000	324,877,000
Allowance for Loan and Lease Losses	(17,122,000)	(17,106,000)
Bank Premises and Fixed Assets	27,572,000	24,431,000

[1] Machias Savings Bank. (2019). *Statement of Condition.* Machias.

Other Assets	37,694,000	39,423,000
Total Assets	1,525,860,000	1,498,661,000
LIABILITIES AND RESERVES		
Savings Deposits	438,172,000	418,201,000
Time Deposits	220,168,000	253,552,000
Non-Interest Bearing Demand Deposits	160,619,000	191,394,000
Interest Bearing Demand Deposits	493,181,000	442,546,000
Total Deposits	1,312,140,000	1,305,693,000
Borrowed Funds	1,354,000	984,000
Other Liabilities	13,430,000	11,390,000
Surplus and Undivided Profits	198,115,000	179,619,000
Net Unrealized Gains on Marketable Securities	821,000	975,000
Total Liabilities and Reserves	1,525,860,000	1,498,661,000

A review of the Bank's assets from FYE 2018 to FYE 2019 shows cash & cash equivalents have had a significant decrease of $157MM. This is largely due to the Bank's focus to reinvest in loans and other high earning assets as opposed to holding cash at the Federal Reserve. Investments have increased by $35MM. There was a shift away from holding cash in 2019. Loans have increased $148MM with the largest portion being attributed to an increase of real estate loans of $118MM. The remaining $30MM increase is from C&I loans as well as consumer loans. The Bank's allowance for loan and lease losses remained steady from FYE 2018 to FYE 2019 at $17MM. The Bank's premises and fixed assets increased by $3MM with much of that being attributed to the start of construction on a new Operations Center. Other assets decreased by $2MM leading to an overall increase of $27MM in assets from FYE 2018 to FYE 2019.

A review of the Bank's liabilities from FYE 2018 to FYE 2019 shows several large changes as well. Customer deposits have increased $6.5MM. Core deposits, which consist of demand deposits and savings increased by $40MM while time deposits decreased by $33MM.

This has been a shifting strategy of the Bank to pursue more low-cost deposits and allow some of the more expensive deposits to leave the Bank such as certificates of deposit. Borrowed funds and other liabilities increased by 2.4MM while the surplus and undivided profits increased by $18.5MM. Like the assets, this led to an overall increase of $27MM in liabilities from FYE 2018 to FYE 2019. The Bank is required to maintain a Tier 1 capital ratio of 6% per policy. Regulators consider a well-capitalized bank to have a Tier 1 capital ratio of 6-8%. As of FYE 2019, the Bank's Tier 1 capital ratio was 14.86% meaning that the Bank is well-capitalized and above requirements.

Machias Savings Bank's statement of condition from 2019 was used to compare the Bank's income statement from FYE 2018 to FYE 2019. The results for both fiscal years are displayed in Table 2 below.

Table 2:

INTEREST INCOME		
Interest and Fee Income on Loans	68,452,000	61,675,000
Interest and Dividend Income on Securities	4,471,000	3,563,000
Total Interest Income	72,923,000	65,238,000
INTEREST EXPENSE		
Interest and Dividend on Deposits	12,452,000	9,099,000
Interest Paid on Borrowed Funds	2,000	239,000
Total Interest Expense	12,454,000	9,338,000
NET INTEREST INCOME	60,469,000	55,900,000
Other Operating Income	10,663,000	10,470,000
Other Operating Expense	51,537,000	45,511,000
Provision for Loan Losses	1,769,000	2,882,000
Income Before Taxes and Security Transactions	17,826,000	17,977,000

Realized Losses on Securities	(75,000)	(72,000)
Unrealized Gains on Equity Securities	2,873,000	---
Income Before Income Taxes	20,624,000	17,905,000
Income Taxes	4,047,000	3,483,000
NET INCOME	16,577,000	14,422,000

From FYE 2018 to FYE 2019, interest income increased by $6.8MM. While interest rates began to drop towards the end of 2019, effects of these drops did not have the time to show a large impact on the income statement. Interest income also continued to increase due to the loan growth experienced throughout the year. Interest and dividend income also increased by 900M. Interest expense increased from FYE 2018 to FYE 2019 as well. Going into 2019, it appeared that the industry was in a rising rate environment. Deposits were onboarded aggressively, and higher deposit rates were offered. Due to this, interest expense on deposits increased by $3.3M. While the deposit rates were higher than normal, there was still a significant cost savings when compared to borrowed funds at this point in time. Interest paid on borrowed funds was nearly eliminated in 2019. This all led to an overall increase of $4.5MM in net interest income.

Other operating income from FYE 2018 to FYE 2019 increased by $193M while other operating expenses increased by $6MM. The starting construction of a new operating center plays a large role in the increase in expenses. The provision for loan loss decreased by $1.1MM. Income taxes increased by $564M. Net income increased by $2.1MM going from $14.4MM in FYE 2018 to $16.5MM in FYE 2019.

A review of the Bank's balance sheet and income statement as of August 31, 2020, indicates that COVID-19 has caused several changes. A significant part of this is due to the

Payroll Protection Program which increased commercial loan volume as well as fee income. In terms of liabilities, the Bank is also seeing a significant increase in deposits. This includes a large portion of the PPP proceeds that have been deposited over the last several months as well as increased unemployment benefits and government grants. There is also natural seasonal growth that factors into the increase which is typical for the late summer months and early fall. The Bank's total non-performing assets has had a slight decrease of $586M in loans since FYE 2019. There has been a record-level of loan deferrals during this time, however. The Bank has also shifted an additional $6.5MM into the Loan Loss Reserve to prepare for potential COVID-19 related losses. The Bank has also closely reviewed and dropped deposit rates during this time due to the influx of cash. Non-interest expense is $3.2MM less than budgeted. In considering all of the above, the Bank is still on track to have a solid 2020.

Part II: Strategy & Implementation

Sales Restructure

With the current state of the sales force within Machias Savings Bank, there are various leaders with differences in expectations and focus. The current structure is set up in multiple silos. The Retail side of the Bank has three separate Regional Managers covering the branch network. There are also mixes of other operational departments that are managed by these same Regional Managers that do not fit in the sales structure of the Bank. The business side of the Bank has another three Regional Managers that manage the Business Banking team specifically. This includes the sales-focused Business Bankers as well as the Business Banking Assistants which are more operational. There has also been a Business Relationship Banking department added to the sales team over the last couple of years. This team was originally added as an extension of the Business Banking team in many ways but has yet to truly differentiate itself. This is a small team run by one other manager. Finally, there is the Cash Management team which is also composed of both sales and operational roles. This team has its own separate manager as well. A chart depicting the current sales hierarchy of the Bank is attached in Appendix A.

As the structure currently stands, there are sales teams broken down into regions that are composed of members from each of these teams. In any given region, there could be up to four managers giving direction or setting expectations for these separate sales team members. In addition to this, each sales team is assigned its own Team Leader. These leaders could be one of the Regional Managers mentioned above, a Branch Manager from a specific market, or even an individual Business Banker. These Team Leaders do not have a true managerial role in many cases and are assigned more based on the composition of the team.

As can be imagined, all these differing opinions and messages can lead to a great deal of confusion and inefficiencies. There is an opportunity to streamline the Bank's hierarchy leading to efficiency gains and cost savings. The goal of this project is to suggest the following: the introduction of a Chief Banking Officer, a consolidation of roles primarily focused on the Regional Managers of both Retail and Business Banking and the managers of the Business Relationship Banking and the Cash Management teams, and to re-evaluate how each sales market is currently structured. The Chief Banking Officer (CBO) would be the Senior Management lead for these teams moving forward.

When considering the current Senior Management team, it would make the most sense to shift the current Executive Vice President of Business Banking into this role. The CBO would be responsible for contributing to the strategic plan and direction of the Bank. They would oversee customer relationship growth and would lead the entire Retail and Business units forward. [2]The other managerial roles would be consolidated and merged from eight separate roles currently, to four more cohesive roles in the future based on the re-evaluation of markets across the state of Maine. These would be known as Regional Sales Managers (RSM). Employees not reassigned to this new RSM role would be assigned to resources throughout the Bank as needed. This may be a sales role in some instances as needed or an operational role in others. A chart depicting the proposed sales hierarchy for the future is displayed in Appendix B.

There are several important changes to point out that differentiate the current and proposed structures that are not in the Appendix. The Business Relationship Banking team would be disbanded. The two Business Bankers that are currently within this team already serve as Business Bankers and the Team Leader will either be an RSM or Business Banker moving forward. Business Relationship Banking will be reviewed as a tool for all sales members moving forward. The Customer Service Manager and the Retail Operations Manager, currently under the sale hierarchy, will be reassigned to an operations-based manager. The Cash Management support team members will be reassigned to Customer Service as they are currently supporting customers via telephone. A manager will be assigned for all Business Banking Assistants and Portfolio Managers based on experience and capacity. This new manager will report to one of the new RSM's based on their location. These changes would lead to more cohesive sales teams and the potential to cut employee-related costs, whether that be immediately or in the future.

[2] Roden, B. V. (2018, February 13). *Chief Banking Officer & President.* Retrieved from Van Roden Associates: http://vanrodenassociates.com/cbo-president/

Future Alignment

The realignment and consolidation of duties brings Retail Banking, Business Banking, and Cash Management onto the same page for the first time. Before looking further into these specifics, it is important to discuss the project leader's role in this alignment of duties. The project leader, Jonathan Alley, currently holds the role of Regional Manager on the Retail side of the Bank. This is one of the roles being looked at for consolidation. There is direct knowledge of what the day-to-day sales process looks like and what challenges and opportunities could present themselves. The project leader will have a significant role in the realignment of positions with the opportunity to present ideas for the future of the entire Bank's salesforce as well as an opportunity to shift into a new RSM role with Retail, Business Banking, and Cash Management focuses.

The primary goals that the Bank can expect to achieve through this realignment are decreasing expenses and streamlining operations and processes. The achievement of these goals can then lead to the potential impacts of both a decrease in efficiency ratio and an increase in sales and deposits. By placing RSM's over each market, it will essentially create four regions with local and streamlined decision-making abilities. The most important piece of streamlining an organization is to make those decisions based on what matters most for the customers.[3] The localized decision-making plays into this perfectly. A regional structure will be more beneficial than separate lending or deposit structures, or a business or retail structure. This will allow the Bank to grow market by market. It is extremely important for the Bank to grow while maintaining a consistent brand and culture within each market which is where the introduction of

[3] Bradley, J. (n.d.). *Streamlining an Organizational Structure.* Retrieved from Chron: https://smallbusiness.chron.com/streamlining-organizational-structure-59693.html

a CBO comes into play. The CBO will promote the necessary consistency from one Regional Sales Manager to the next. The RSM's will work in collaboration together and with the CBO, not in silos. The consolidation of roles will increase sales by scaling the organization to keep its culture and small-town feel while continuing to grow at a rapid pace. Sales numbers will also benefit from an improvement in teamwork and consistency within each market.

The Bank can also decrease employee-related expenses in more ways than one. For starters, by consolidating the three Vice President of Retail Lending roles, the three Vice President, Business Banking Team Leader roles, the Vice President, Business Relationship Banking Team Leader role, and the Vice President, Cash Management Manager role into four roles instead of eight, the direct expenses can either be eliminated through attrition or used to fill other gaps within the Bank's structure. These roles are all middle management roles with competitive salaries and benefits. There are opportunities to cut some of these costs. It is not typical of the Bank's culture to downsize and outright fire somebody for a reason such as this. The proposal would be to evaluate other needs within the Bank and shift roles accordingly, and where possible. To simplify the purpose of this proposal, all four roles would switch to sales-based Business Bankers. This will not only fill gaps in markets that currently need assistance, but it would also further increase sales within each market. As mentioned previously, attrition could lead to the elimination of the cost entirely.

It will be important to re-evaluate the Bank's needs based on potential market changes and not rehire if deemed unnecessary. It is not an uncommon practice for other community banks to review these necessary job cuts. Over the last ten years it has become more of a focus as bank branches close and digital banking becomes more popular. In 2013, Citigroup announced a plan to eliminate 11,000 jobs to save $1 billion. This is a much larger scale, but community banks took note. Seattle-based Sound Community Bank, with about $355 million in assets, reduced its workforce by roughly 10% during the same period.[4]

Although it is difficult to currently measure, increased efficiency and streamlined processes will allow further savings on employee-related expenses. The efficient use of time mixed with streamlined decision-making will allow sales-related employees to spend less time on bureaucracy and more time on customer and prospect appointments and calls. Not only will the structure allow for quicker decision-making, but it will also prevent time being wasted on deals that the Bank cannot or do not want to do. In addition, support-related roles will also reap the benefits of streamlined decision-making. They will find less need for bureaucracy and will be able to use their time more wisely and efficiently by moving through loan files more quickly and dealing with less back-and-forth discussions.

Financial Health & Sales Strategy

When considering how these proposed changes would fit into the overall strategy of the Bank, it's important to recognize the mission statement of Machias Savings Bank: "Financial Health, One Person, One Business, One Community at a Time". The Bank has put a strong focus on how to develop individual relationships, business relationships, and community relationships in a way that they truly move the needle on the well-being and financial health of others. It is important that these changes have no negative impact on the mission and vision of the Bank and only continue to aid the progress of promoting financial health in the communities.

[4] Judd, E. (2013, February 28). *Rearranging the Org Chart.* Retrieved from Independent Banker: https://independentbanker.org/2013/02/rearranging-the-org-chart/

As mentioned previously, this realigning of duties will put four RSM's in place over markets and communities that they are familiar with and know well. These people are essentially the "President" of their markets with a strong understanding of the local economy, the people who live there, real estate prices, and common struggles or issues that the citizens face. With the current Bank's footprint in Maine and the focus on "staying small while growing big", this is entirely possible for Machias Savings Bank and frequently happens now in smaller pockets. Because of all of this, the RSM's will have the advantage of knowing where to primarily focus to move the Bank's mission statement forward.

Starting with an individual, the RSM can help review their situation and suggest steps on how to improve their financial health whether that be from a focus on budgeting their money more effectively or shifting more money into a retirement account. With the RSM overseeing the Retail side of the Bank, they can work with the Branch staff and internal training team to promote this knowledge across their markets. When it comes to a business, the RSM can identify the life cycle stage that the business is currently in. They can use this information to suggest appropriate services, products, or potential next steps to increase their business revenue or guide them into whatever may be next. With the RSM overseeing the Business side of the Bank, they can work with their Business Bankers and internal training team to promote this knowledge as well. The combination of these two will add to the final layer of the Bank's mission which is the community itself. By improving the lives of the local people and the local businesses, the community will be able to further thrive. However, the RSM's will also need to work closely with the internal Marketing/Community Impact teams and local community leaders to uncover what the Bank may be able to do on a larger scale whether that be hosting community events or strategically making donations to nonprofits that will push the community forward. By combining all of these, the introduction of the RSM role will help promote financial health for each person, business, and communities he or she serves.

The proposed changes will also have a large effect on the Bank's daily sales strategy and operations. As things currently stand, there are nine sales teams based on the location of their branches. Considering the large portion of Maine that the Bank covers and how separated many of those branches are, this continues to make sense. The RSM role will oversee these sales teams on a higher level based on where each market is located, but they will not lead each meeting themselves. It will be up to them to put a trusted member of the sales team in charge of holding weekly meetings and driving the day-to-day sales efforts while maintaining a presence and deeper understanding of each of their markets. This should be an improvement to the current structure which has a mixture of current Regional roles, Branch Managers, and Business Bankers leading the weekly sales meetings. By having an individual RSM become familiar with each market, it will better drive consistency in expectation and technique among all sales teams. The four RSM's will be expected to have regular meetings with one another to confirm they are on the same page and the entirety of the Bank's salesforce is working in a similarly with understandable differences based on each market.

The biggest competitive advantage that will come from the proposed realignment is not only maintaining the speed at which the Bank currently makes decisions but improving upon that very model. The Bank has already avoided extra bureaucracy by allowing localized decision-making and trusting its people to make the appropriate decisions. One fear that the Bank has had is the idea of being unable to maintain this structure as the Bank grows. This project will open up the discussion of loan approval authority from the RSM's, CBO, Loan Committee, and finally the Board of Directors leading to a streamlined approval process that is more efficient. The proposed change will also promote a level of teamwork that is quite rare in the industry. The RSM's will push a vision of team-based goals as opposed to individualized numbers. Branch Managers should find more opportunities in warm hand-offs to Business Bankers and Mortgage Specialists. Meetings with existing clients and prospects can be completed in teams with sales members knowing that any potential win is a win for their market and not just for one person or the other. It will help eliminate the "us vs. them" mentality that holds so many institutions back.

Future Opportunities

The proposed realignment opens many opportunities in terms of cost savings, efficiencies, and future sales. As mentioned previously, sales within the Bank will become less about the individual and more about the market or team. This is going to be a big lift in terms of changing the mindset of some of the current sales team, especially those that have been in the role for many years. The combination of the CBO and RSM's promoting a team-first mentality from the top down will be the most effective way to push those mindsets into acceptance and then truly embracing the changes. This realignment will also give a natural boost in sales numbers by adding Business Bankers to each market as needed. The consolidation of the previous regional roles shifts four other high-level and knowledgeable employees into a strictly sales-focused role with no managerial duties taking their time. An estimated amount of increased sales numbers will be discussed in Section III.

The idea of attrition was mentioned earlier in terms of employee turnover. In this scenario, one of the repurposed employees would enter a market as a Business Banker and work in sales for a certain period. It is possible that employee would not like the role or end up being a bad fit, leaving the Bank. It could then be determined that it is unnecessary to replace this employee and maintain the savings on salary and benefit expenses instead. This would eliminate a relatively high salary and save some non-operating expenses. In turn, this would improve the Bank's efficiency ratio and profits. It is also possible that the employee thrives in the role and adds a solid loan and deposit portfolio to the market. If another member of the sales team leaves the Bank in the future, the need to replace that employee could then be evaluated and potentially lead to the same results.

Another added benefit and future opportunity is the idea of internal growth for employees and future succession planning for the Bank. Shifting a member of Senior Management into the CBO role and four other employees into RSM roles will better prepare them for high-level openings that will eventually need to be filled as people retire. It will give these employees the opportunity to learn more now and create a stronger knowledge-base for banking in the future. Today, it is extremely important to be well-rounded in the industry and this will only help these employees. It is difficult to find high-level talent in the banking industry without typically having to pay a premium to gain that talent. By focusing more on internal employee growth, it will end up less costly in the long run to invest in existing employees now.

Added efficiencies have been mentioned throughout this proposal, mostly focused on streamlined decision-making. There is future opportunity beyond the day-to-day loan approvals and deposit offerings, however. By bringing employees into RSM roles that have experience in all areas of sales leadership, it will also allow new thoughts and opinions to be expressed with other internal processes. Internal processes need to be consistently reviewed for clarity and improvements. There could be large time savings related to the way a responsible loan officer may be reassigned, how a premium rate on a new account is approved, or other similar bureaucratic processes. It will be important for the new RSM's to keep an eye on this sort of thing and actively think outside of the box for ways to improve a process or eliminate unnecessary work.

Process Changes

The proposed realignment will add many opportunities for process changes and improvements. For starters, this includes the structure of the Bank's current Loan Committee. As things currently stand, Loan Committee meets weekly to discuss potential commercial deals that involve customers with high-risk ratings, loans with exceptions to policy, and loans greater than $250,000 without proper financial documentation. In most cases, however, loans tend to go to Loan Committee if they are over $250,000 in most circumstances. There are times that a loan will be "read-in" even when it has already obtained the proper approval.

Loan Committee consists of higher-level decision-makers, but all Business Bankers and Business Loan Underwriters across the institution spend up to 90 minutes every Tuesday attending this meeting. It can be a great learning experience for many, but the amount of time and money in just salary dollars would be quite eye-opening if putting it to paper. The RSM roles would be given the appropriate lending authority to approve most of the deals in their market areas. This would eliminate the need for a weekly Loan Committee consisting of every Business Banker at the Bank and save nearly 80 hours a year for each of them. When considering the number of people that regularly attend, this would be equal to roughly 2,000 hours for the organization that could go back into other items. Loan Committee would still be needed in some capacity. In this case, it would only review the riskiest and highest dollar amount deals and would be held on a weekly basis in place of the existing Loan Committee. Loans of $1MM or more would be reviewed or deals involving Borrowers with a risk rating of 5 or higher. Instead of having all Business Bankers attend, it would be composed of 5-6 senior lenders and the Business Bankers would attend only when they are presenting something for approval.

There will also be changes necessary in the current process for market sales teams. As mentioned previously, the sales teams are run by a variety of levels across the organization based on the composition of the team itself. This should consistently be reassigned to either an experienced Business Banker or Branch Manager. The sales teams are currently required to duplicate several efforts in reporting to keep the current regional management structure updated as well as the Senior Management team itself. Putting the RSM's in place will allow this process to require less duplication and more streamlined communication.

Sales teams are currently required to put information in a weekly spreadsheet, an email to other Sales Team Leaders, and a Customer Relationship Management (CRM) tool. All the potential RSM candidates are trained to use the CRM with in-depth knowledge and capacity. Moving forward, the sales teams would only be required to enter data into the CRM so efforts are not duplicated. The RSM's would access the CRM and pull reports on what they need as opposed to making the Sales Team Leaders send out any emails or enter data into any spreadsheets. This would also spread the duty out amongst all members of the sales team and not put these couple of items on just one person. There is the potential for more efficient use of the time normally taken to do this every week.

Implementation Schedule

There is no doubt that this proposed realignment will need several internal resources to implement and plan for all these changes. This will include the project leader, Senior Management team, current regional leaders for Retail and Business, the Cash Management

Manager, the Customer Service Manager, Human Resources, and the Training department. The individual activities, participants, and dates are included in Table 3 below.

Table 3:

Activity	Participants	Proposed Date
Project Leader proposes plan to Senior Management team for Board Approval.	Project Leader, Senior Management, Board of Directors	January 2021
Senior Management makes selections for CBO/RSM roles.	Senior Management	February 2021
Board of Directors reviews Senior Management decisions.	Board of Directors	February 2021
Senior Management relays decisions to existing Regional Managers and Cash Management Manager. CBO is selected from the existing Senior team, four RSM's from the existing regional managers	Senior Management, existing Regional Managers (7), Cash Management Manager	March 2021
Communication will go out to the remainder of the Bank on the changes starting with Middle Management and working into remaining employees.	All Machias Savings employees (250+), Middle Management & Training being first.	March 2021
Training Develops Plan for employees with new roles, specifically the RSM's and new Business Bankers.	Training Team	March 2021
New RSM's/Business Bankers begin to train and transition into new roles.	New RSM's/Business Bankers & Training Team	May 2021
All employees with new Managers or roles are reassigned and officially begin new duties.	Human Resources, CBO, RSM's, sales teams, Cash Management support, Customer Service Manager.	July 2021

The table includes a broad stroke of the major activities that will need to take place to make this transition successful. The project leader will propose the plan to Senior Management for acceptance. Senior Management would then push this proposal to the Board of Directors. If accepted and approved, Senior Management will move forward with selecting the four new RSM roles out of the eight proposed candidates. The Board of Directors will review the changes and give the stamp of final approval. The remaining four candidates will be reassigned as Business

Bankers in their respective sales markets. Senior Management will also shift the existing EVP of Business Banking into the CBO role. Senior Management will then need to communicate the changes to those affected and explain the why behind that reason.

Communication will then need to follow to the entire Bank in a similar way, being sure to explain why this is all happening. The Senior Management team will relay information to their Middle Management reports to start as well as the Training team. Middle Management will then give the same information to their existing employees to cover the remainder of the Bank. The Training team along with the project manager will begin preparation of a transition and training plan for the affected employees, largely focusing on the roles of RSM and reassigned Business Bankers. The project manager will work with the existing Regional Managers and Cash Management Manager to create a job description including the expectations and requirements around the new roles. Upon completion, the RSM and Business Bankers will begin their training over two months. This will need to be hands-on and fast-paced. There is room to add additional time if deemed necessary.

Finally, Human Resources will reassign all employees to their new roles or their new managers officially. The CBO and RSM's can then truly start their new roles and direct the sales teams of MSB as directed. This is a strategy that some of the largest banks in the United States have shifted to such as Wells Fargo. On a much larger scale, Wells Fargo was able to consolidate and eliminate 70 positions across the organization and was pushed forward as a way to streamline its operations and create Region Bank Presidents.[5] The Bank should not strive to

[5] Burns, H. (2017, June 9). *Wells Fargo Eliminated Managment Roles in Embattled Community Bank.* Retrieved from Charlotee Business Journal: https://www.bizjournals.com/charlotte/news/2017/06/09/wells-fargo-eliminates-management-roles-in.html

become Wells Fargo, but more so to reap the benefits of a proven system. While the implementation schedule may seem aggressive and this restructure could feel like a large amount of work, the long-term benefits will have a long-lasting effect on the Bank's finances.

Part III: Financial Impact

Investment Requirements

When considering the size and type of investment that will need to go into this realignment, the upfront costs revolve around people's time as opposed to money directly. There are no purchases, hiring of new employees, or direct expense involved with this proposal. The true cost is how much time and effort it will take to appropriately move people into new roles, train them to be prepared in those new roles, and appropriately inform and communicate to the rest of the organization.

There are also no recurring costs from this project. However, the roll-out and adoption of a new organizational structure for the sales teams of the Bank will likely take a full year or more before all involved employees settle into their roles. The project manager specifically will invest his salary hours in preparation of the realignment and learning a new role for the entirety of the project. This will also hold true for the other seven potential RSM candidates to a lesser extent. The current Training department of the Bank, currently consisting of three full time employees, will have to invest most of their salary hours in the project for roughly six months. The Bank will need to recognize the cost of shifting the Training department's focus from other projects to the specific realignment project.

While they will spend less time than the previously mentioned employees, the Senior Management team, currently consisting of nine employees, will spend roughly six months of their time on making decisions around the realignment and effectively communicating these changes to the organization. Salary expenses in terms of time spent on the project will be estimated based on average salaries of similar positions in the state of Maine.

Financial Estimates

There are many factors to take into consideration to determine the effects of this project. To determine the effects on the revenue and expenses of the Bank, the following categories will be the primary focus: Efficiency Ratio, Salary & Benefits, Sales Growth, and Net Income. The focus will be on a three-year timeframe from 2021 to 2023 with comparisons to current and previous financials.

The first measurement to focus on will be the Efficiency Ratio of the Bank. Many items factor into the efficiency ratio but the biggest contributors to it from this project would be savings to noninterest expense largely consisting of salary and benefit costs, effective time savings from efficiency gains, and using that time in a more effective way. The specifics of these contributing factors to the efficiency ratio are discussed throughout this section.

The Bank has historically had a high efficiency ratio compared to peers. Some of this can be attributed to MSB being a community bank. The efficiency ratio has fluctuated in recent years increasing slightly from 68.36% in FY 2018 to 69.86% in FY 2019, then decreasing to 63.69% in FY 2020. The decrease in FY 2020 was due to a major reduction in operating expenses with employees working from home and traveling less. Having this knowledge, it is most effective to take a three-year average of 67.30% as a measuring point. With this proposed realignment, efficiencies will be seen across the organization which will lead to an ongoing improvement for the overall efficiency ratio of the Bank. This will largely come from more effective uses of employees' time as well as cuts to Salary and Benefit expenses as discussed below. Based on these items, it would be assumed that the efficiency ratio could improve by roughly 1% to an average of 66.30%.

The next thing to look into with more detail will be the Salary and Benefit costs. The primary objective is to consolidate eight high-level roles at the Bank into four. In order to do this, an average salary will need to be assigned to these roles. Based on data from Payscale.com, the most similar role to the RSM is a Market President in Banking. The median salary for this role is roughly $127,000 annually.[6] Total salary expense for these eight positions would be just over $1.016MM. Additionally, there are benefit expenses that need to be considered. Based on a very conservative figure from internal Bank data, the average benefit expense would be roughly $15,000 annually. This adds an additional $120,000 to the total cost figuring to roughly $1.136MM. When strictly reviewing the Salary & Benefit costs involved and removing four of the eight positions, the Bank would save roughly $568,000 annually which would have an immediate impact on the Bank's net income.

There are many additional considerations around the Salary & Benefit costs. One of the biggest advantages of transforming the current organizational hierarchy is to use the RSM role as a funnel to streamline the loan approval process and better localize decision-making. There is a massive amount of time saving potential for the Bank's entire salesforce because of this. Using Loan Committee as an example, assuming all employees in that meeting make a very conservative $75,000 annually, that is $72,000 worth of time that would be reinvested into different activities.

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[6] Payscale.com. (2020, November 10). Retrieved from Payscale: https://www.payscale.com/research/US/Job=Market_President/Salary

There are other time savings that need to be considered. In the current structure, individual lending authorities are fairly conservative based on the experience of the salesforce. With the changes to Loan Committee mentioned beforehand, there would also be changes to individual lending authorities, authority for exception requests, and underwriting requirements. There is currently a lot of back and forth conversation that happens between the Lender, the Underwriter, the Processor, the Assistant, and even a Senior Lender based on the dollar amount of the loan and qualifications of the Borrower. The proposed project would streamline the process for the Lender to make more decisions upfront and then reach out to their RSM as needed. It would also promote better communication with the support side of the equation with the Business Banking Assistants reporting to a specific manager as opposed to individual Business Bankers across the Bank.

When considering this process and how much time is put into it, this would likely save at least an hour of time per deal. This would cover roughly 1200 commercial loans annually. Using the same assumptions above regarding a $75,000 salary, this would be an additional $43,000 salary hours invested back into potential sales growth. Adding loan modifications to the equation would add an additional 780 commercial loans that have to be touched or worked on. These typically take less time overall but making an assumption that 30 minutes could be saved per modification would add back another $14,000 salary hours.

These are just a few examples of time-saving activities, but the pattern becomes clear. The introduction of the RSM roles would cut costs immediately and better align the salesforce. Commercial requests have specifically been focused on above but there are additional possibilities with residential mortgage requests as well. The realignment of the salesforce would lead to internal efficiencies to further cut costs and invest salary hours in more meaningful ways.

By refocusing the time and efforts of the Bank's salesforce, it will become possible to put more time into other important measurements, primarily Deposit and Loan Goals as well as Sales Growth. These, in turn, would have positive ramifications on the Bank's net income.

When considering the potential Sales Growth of the Bank, it will be important to estimate a sales productivity number. Based on internal Bank growth data from 2014 to 2019[7], the Bank has had average loan growth of $67.8MM and average deposit growth of $73MM. There is a total of nineteen Business Bankers currently working for the Bank that drive much of this growth. Reviewing the number of hours across the activities above, which includes time saved with adjustments to Loan Committee and the internal communication gains, creates a total of 3,580 hours saved across the Business Banking team. Splitting these hours evenly across the Business Bankers would give everyone back roughly 9% of their time for the year. In this scenario, if each member of the team were to put that 9% of their time back into sales specifically, it can be assumed that loans could grow by an additional $6.1MM and deposits by an additional $6.6MM by using the averages above.

Adding an additional 9% growth in loan and deposit sales would have a substantial impact on the Bank's net income. Not only will it show the gains from the more efficient use of employees' time, but it's also a gain without adding additional sales staff. There would be improvements to the Bank's balance sheet and income statement without additional Salary & Benefit expenses. A three-year projection for balance sheet items can be seen in Table 4 below with comparisons to FY 2019 numbers from Section I. It's important to note that 2020 has been omitted due to the extreme fluctuations in both loan and deposit growth due to PPP loans, grant funding, and other items related to the coronavirus pandemic. Including 2020 numbers would

[7] Machias Savings Bank. (2015-2019). *SNL Banker - 5 Year Deposit/Loan Trend.*

cause projections of unrealistic future growth as it is unlikely that level of growth would occur in a normal year. The focus is on the categories of loans and deposits that will be specifically impacted with an assumption that all else remains the same.

Table 4:

ASSETS	**2021**	**2022**	**2023**
Real Estate Loans	1,030,405,000	1,084,355,000	1,138,305,000
Other Loans	375,208,000	395,158,000	415,108,000
Total Loans	1,405,613,000	1,479,513,000	1,553,413,000

LIABILITIES AND RESERVES	**2021**	**2022**	**2023**
Savings Deposits	469,216,000	500,260,000	531,304,000
Time Deposits	220,168,000	220,168,000	220,168,000
Non-Interest Bearing DDA	174,788,000	188,957,000	203,126,000
Interest Bearing DDA	527,568,000	561,955,000	596,342,000
Total Deposits	1,391,740,000	1,471,340,000	1,550,940,000

Judging from the projections above, there is a steady increase to both loans and deposits. These increases are taking both the historical growth into account as well as the additional 9% that would be possible from process improvements. It is important to point out that these process improvements are limited to just the few that have been mentioned. There are many other potential improvements that are likely to happen over time including items such as deposit rate exceptions, consumer loan exceptions, and mortgage loan exceptions. These estimates are also based on the Bank's salesforce remaining the same and no additional people being hired. The total deposits gradually start to make up the difference with the total loans. This will also put the Bank in a position where very little Borrowed Funds would be necessary. An additional three-year projection for the income statement can be seen below in Table 5. As with the previous table, the projections are focused on items that would be directly impacted by the realignment.

Table 5:

INTEREST INCOME	**2021**	**2022**	**2023**
Interest and Fee Income on Loans	75,839,000	83,226,000	90,613,000
INTEREST EXPENSE			
Interest and Dividend on Deposits	16,107,000	19,762,000	23,417,000
NET INTEREST INCOME	62,203,000	67,935,000	71,667,000
Other Operating Expense	50,969,000	50,969,000	50,969,000
NET INCOME	20,128,000	25,860,000	29,592,000

Once again, the projections above show steady growth for the Bank over the three-year period. Interest income and expense are calculated by looking at the growth from FY 2018 to FY 2019 and keeping at that same pace with the 9% increase factored in from efficiency gains. There is also an improvement to other operating expenses which is based on the consolidation and elimination of roles as mentioned above. These lead to very high potential net income growth. These figures are likely high based on expenses remaining the same in this scenario. This would not happen in reality, but the direction is still clear with the potential benefits from the realignment. There are expenses that can be cut to start, followed by efficiency gains to processes across the organization, and ending with the reinvestment of time gained from these efficiencies into more important items such as deposit and loan growth. This all leads to an increase in profit for the Bank.

The Risks of Investment

With any major change in an institution such as this proposed realignment, it is extremely important to measure the risks that are involved. This proposal contains both financial and non-financial risks. This section examines the financial risks, while non-financial risks are covered in section IV. In addition to financial risk, this section will examine several potential outcomes including a best-case scenario, a worst-case scenario, and a most likely scenario.

The financial estimates in Tables 4 and 5 make many assumptions that all other income and expense figures remain the same. This is obviously not possible but needs to be used as a baseline. There will be many shifts based on the local and global economies, the need for additional employees, the aggressiveness of competitors, digital enhancements, and unforeseen circumstances. As the world has seen, 2020 has proven how quickly things can change. Interest margins are likely to shrink, salaries and benefits of remaining employees are likely to increase, and other needs will present themselves. However, for the purpose of this proposal, it is key to focus on the true risks and not risks that are always present.

The first major financial risk is the failure of the new RSM’s. There is a major learning curve with these new roles because they are currently specialized specifically in Business, Retail, or Cash Management. There will be a requirement for the RSM’s to not only be knowledgeable in each of these lanes, but also have the ability to be leaders in these lanes. If an RSM were to fail and be terminated from the Bank, or leave the Bank of their own will, there would have been a tremendous amount of salary dollars wasted on training them. In addition to that, there would be the salary and benefit dollars they would have received. The Bank would then be a in a situation in which the hiring process begins, and progress is set back to the beginning and the realignment, for at least one market, is delayed. The best way to offset this risk would be to have potential replacements in mind. Once the new RSM's have started, future candidates should begin building their knowledge to work their way into those roles. Depending on the age of the RSM's, there is the potential for retirement within a short period of time and contingency plans should be developed.

The same situation could be said for any of the salesforce that the RSM is leading. It is possible that turnover will happen, and effective members of the salesforce is lost. This not only creates the hiring needs as mentioned above, but it also creates the possibility of losing customers and sales numbers based on what that employee does. If they join a competitor because they do not like the direction that the Bank has taken, they may pull a loyal following of customers, or even employees, with them.

There is also potential financial risk in the communities that the Bank serves. It will be important to choose RSM's that represent the Bank well and have a good standing or reputation in the communities they oversee. With Machias Savings being a community bank, this is extremely important. If the selected RSM's are considered unfavorable, biased, or have other underlying issues, the community could boycott the Bank and move on to another financial institution. The Bank is largely in small areas where people are a tight-knit group. There could be major losses to deposits, loans, and reputation that would have an immediate effect on the Bank's income.

When considering the risks and the different scenarios, the best-case scenario would likely be something like the estimates in Tables 4 and 5. Again, because so many assumptions have been made about the trend of the Bank's assets and expenses, it is a very favorable outlook for growth across the Bank. The worst-case scenario would likely be the risks that I've described above. In this situation, the financials of the Bank would likely suffer. Growth could come to a stop or perhaps create losses in certain markets. This scenario is highly unlikely. Because of the experience and reputation that most of the candidates for the RSM roles already have coupled with the Training process over the first 6-12 months in the role, the RSM's should be well-prepared to be successful in the role.

The most likely scenario is a combination of both. While it is unlikely that there would be turnover immediately in the RSM role, it is likely there could be turnover in the salesforce. However, it is most likely that the turnover would be beneficial to the Bank as opposed to losing valuable members of the team. This would come from the evaluation of the current salesforce's strengths and weaknesses by the RSM's. It is also likely that the financials above will not see a level of growth quite as high year over year. While there should be a healthy increase to the financials from the realignment, interest margins and other ongoing risks will create additional expenses and compressed income. The efficiencies that will be gained from the realignment, however, will offset many of these expenses and should lead to creating a successful foundation for future growth.

Financial Recommendation

Based on the evaluation and analysis above and considering the most likely scenario with this realignment, the project manager would recommend moving forward with this investment. In nearly all scenarios, the project will lead to a reduction of expenses and gains to efficiency with the potential to grow sales and deposits. The Bank will have the opportunity to line up the

Retail, Business, and Cash Management areas to deliver success internally to employees and externally to the customer base. The RSM's will give each market the resource for speedy decision-making and local knowledge. The siloed approach to Retail and Business will be broken down and a cohesive team will be brought together to better serve the Bank's markets.

The largest financial risk to consider is turnover. With all the moving parts there are likely to be some losses of employees, but the plan would be to move on from employees as the Bank sees fit and work to retain the employees that are most valuable. In addition, cultural risk must also be considered. There is more of a cultural risk with this realignment in comparison to additional expenses or lost revenue. These risks will be discussed and evaluated further in Section IV.

Part IV: Non-Financial Impact

Organizational Hurdles

MSB will likely see both logistical and organizational challenges by following through with this proposal. Changes in leadership, changes in processes, and cultural issues could all factor into these challenges. A large majority of the Bank's salesforce will be assigned a new manager which will lead to challenges of trust and resistance to change. Employees throughout the Bank will question what this means for their careers and what will change for them on a day-to-day basis. In many cases, the new RSM overseeing the salesforce may not have experience related to some of the employees that they begin to lead. Because of the combination of retail and business employees being combined into one market team, the RSM may come from one field or the other based on the top candidates for these roles. In addition, questions of capacity and knowledge will also come to the forefront. As mentioned previously, training and development of knowledge becomes extremely important for RSM's to be successful in their roles.

Another organizational hurdle will be the change to common processes. As an example, this project makes the proposal of revamping the process used by the Loan Committee. The current Business Banking teams have attended Loan Committee for the duration of their careers at MSB. It is a process that's always been in place and has always been done in a certain way. This is one of many processes that will be challenged by following through with this realignment. The salesforce will likely question these changes and approach them with uneasiness. Doing something different or new when a team is used to a process can often be challenging. The benefits of these changes will need to be shared and discussed in depth.

Underlying cultural issues will also pose a problem for the Bank once this realignment takes place. The current list of candidates is limited to specific roles that currently work in some form of leadership capacity either on the Retail, Business, or Cash Management side of the Bank. Once communication begins around the upcoming changes, there could be members of the salesforce that become disengaged because they weren't considered for the role. This could lead to anger, frustration, and negativity within themselves with the potential to spread to other members of their team. Argumentative discussions could begin to happen behind the scenes and the buy-in and engagement of employees throughout the Bank could be affected if precautions and communication do not take place in an appropriate manner.

It is extremely important for MSB to lay the foundation of success by communicating and selling this idea as a positive influence on the Bank's culture and process. This entire project will not succeed without helping employees understand the "why" behind the decisions that are made.

Overcoming Objection

The big question that comes when considering the challenges mentioned so far in Section IV is: How does the Bank overcome objection or doubt? The Bank cannot simply flip a switch and make all the proposed changes without leading into it with effective communication from the top down. Information needs to be shared to describe the benefits of the changes and what this does for the Bank's future. It is a true alignment for growth, teamwork, positivity, efficiency, and effectiveness. The effective communication truly needs to be strategized and developed. John Kotter's 8-Step Process for Leading Change is a great focus point for how this communication and change can be carried out.[8] The first four steps of his plan work as a great reference point as to how the Bank can overcome the hurdles mentioned above.

The first step in Dr. Kotter's process is to create a sense of urgency. The project manager, Jonathan, will be primely responsible for this. By following the needed steps in Section II, a sense of urgency will be created with the Board of Directors and the Senior Management team through this proposal. It will be extremely important to sell the efficiency gains and the financial gains that can happen very quickly. These are already at the Bank's fingertips and the realignment will set these gains in motion. There is no sense in waiting to put the Bank in a better situation when these opportunities can be moved forward now.

The next step will be to build a guiding coalition. The realignment most effectively moves forward by having very specific people driving the changes that believe in what those changes are doing. Creating positivity around the changes by clearly communicating the benefits is the key to this. The communication needs to come from the Senior Management team, starting

[8] Kotter, J. (2014). *The 8-Step Process of Leading Change*. Retrieved from Kotter: https://www.kotterinc.com/8-steps-process-for-leading-change/

with the President & CEO. The rest of the organization looks to senior leadership for direction and it is only appropriate that they be the primary team on this front. As part of the communication effort, clarity will need to be provided through forming a strategic vision and initiatives that come with that vision. Communication needs to be clear in why the changes are happening and what thought process went behind making them. The project leader and the senior team will both need to drive this vision. They will need to communicate what the current structure looks like and show the immediate benefits of the new structure and the future of the Bank.

The fourth step in Dr. Kotter's outline is to enlist a volunteer army. By this step, communication has taken place with the entirety of the Bank. The key here is to get the employees to believe what the guiding coalition believes. This is no simple task and can only be done through effective leadership. It is not only important to sell the idea for its efficiency gains, but to also sell it for its alignment of leadership and future potential. People will be put in the RSM roles for many reasons, but perhaps the most important is because of their leadership skills. They are placed in the role to help move each individual and team forward by guiding them to success. If the volunteer army begins to believe in the initiative, the other steps in the process will continue to fall into place.

Effective Measurements

Once the proposed changes are put into motion, it will be important to detail key performance indicators around the effectiveness of these changes. One major thing that will push the improvement for all of these is the removal of inefficient processes and hierarchies that will enable employees to break down silos and work across departments within the Bank. This is

John Kotter's fifth step in leading for change.[9] It is also one of the most important pieces of this entire proposal. There are four key measurements to consider placing value in: productivity, days to closing, customer satisfaction, and joint calling efforts. Each of these measurements could see a distinct difference based on the number of changes that will happen from this proposal.

Productivity will be measured in many different areas, but primarily employee productivity. Many questions will need to be considered including the amount of time saved on processes and how that time is re-allocated. Days to closing is the second measurement and will see improvement based upon the ability for the employee to be more productive and the streamlined decision making that is put in place. These two items will help move the third measurement forward, customer satisfaction. The final measurement is joint calling efforts. One major component and reason for this proposal is to improve the teamwork throughout the Bank, bringing the Business and Retail teams closer together.

By accurately measuring these four items, the Bank can quantify some of the benefit that has come from the proposal outside of simple dollar amounts. Each of these measurements will have some kind of impact on the employees, the customers, and the Bank as a whole. The ideal scenario would lead to John Kotter's 6th step, generating short-term wins.

Immediate Impact

The immediate impact of the proposal will need to be communicated early and celebrated often. By helping employees recognize the positives from the proposal, it will further bolster the changes and expand the reach of the "volunteer army". It is important to dig deeper into the non-

[9] Kotter, J. (2014). *The 8-Step Process of Leading Change*. Retrieved from Kotter: https://www.kotterinc.com/8-steps-process-for-leading-change/

financial measurements listed above. Productivity will be immediately impacted by the streamlining of processes. Bureaucracy is often considered to be one of the most significant items to negatively affect productivity. The proposed realignment eliminates a significant amount of un-needed bureaucracy across the organization. It is important to note that checks and balances are still needed, especially in a highly regulated industry such as banking, but outdated or un-needed processes can often create a hindrance to the people that have to deal with them every day. The Bank will need to embrace the changes. If the Bank buys into the idea on an organizational level, that will effectively trickle down to all employees over time. The employees will need to let go of their attachment to known processes and look at the positive improvements moving forward.

Once the streamlined decision making is solidly in place, productivity of employees should begin to improve quite quickly. A process or decision that is typically run through a hierarchy of managers such as a Branch Manager to their current Retail Manager, to the Senior Management team on one side while potentially going from a Business Banker to their Team Leader, to a separate Senior Manager on the other side can now be run through one RSM at the same exact time. The process is streamlined into one clear line upwards as opposed to multiple processes going on at the same time. The decision has gone from involving six people to two people by embracing a change in process.

The days to closing metric is a measurement on loan closings. With the productivity improvements resulting from streamlined processes, customer loan requests will more effectively move through the pipeline, getting to the right person in a quicker way and also having a decision made in a much quicker time period. Loan officers take a lot of pride in being able to close a loan quickly if needed, and it is truly a competitive advantage if a Bank can do it well enough. The effect on these employees is a massive improvement to their day to day. They will now be able to move loans in and out of their pipeline more quickly, leading to further improvement in their own personal productivity as well as giving them an opportunity to more effectively hit their loan goals. The organization can recognize immediate benefits from this change through increased engagement by lending personnel and word of mouth advertising from happy loan customers.

Improvements to productivity and days to closing around a customer request can lead to improvements in the third measurement of customer satisfaction. A customer wants to feel that they are valued. Loan requests that get bogged down in the underwriting or decisioning process can lead to a very slow turnaround time, which can cause the customer to feel unimportant or undervalued by the Bank. By pushing forth the proposed realignment, customers can begin to feel that they are better taken care of and have a true relationship banker. This will lead to the customer feeling more valued and experiencing the interpersonal service will create further customer satisfaction and loyalty. Not only does the customer see improvements to service, but once again the Bank as a whole can experience a better brand image, an uptick in requests, and an overall positive movement in the Bank's financials. The employees themselves also reap the benefits of a more positive customer experience, eliminating some potential anxiety around existing customer issues.

Finally, joint calling efforts should begin to happen much more often. One of the primary goals of the proposed project is to eliminate the Retail vs. Business mentality that plagues many banks. Having these teams report to the same leadership in the RSM positions will create much more consistent and positive communication. Teamwork will be extremely important and pushed forward from the RSM's. From a day-to-day standpoint, the Us vs. Them mentality can have a very negative impact on company culture and employee engagement. Joint calling efforts helps bring these people together. Employees will feel empowered by improving on existing relationships and developing new ones. A positive working environment is an important piece of employee engagement and success. By bringing these two lanes of the Bank under one leader, these teams can begin to feel that they are on the same page and are not fighting to be better than the other. It is truly about creating joint efforts with rewarding experiences for all parties involved. Once again, the Bank sees the benefit by having happier employees, which leads to an improved culture.

The measurements discussed all factor into potential short-term gains that can happen very quickly. The key will be that the Bank does not fall back into old habits and continue the momentum. This plays into John Kotter's 7th step, sustaining acceleration. The proposal only works if these improvements can be sustained and create long-term profitability.

Long-Term Effects

Each measurement that was previously discussed will have the opportunity to help create long-term profitability, but the Bank will need to be sure it focuses on and drives these measurements as something that is important moving forward and not simply a short-term gain. It will be extremely important to continue to press harder after the initial success. To further define Dr. Kotter's 7th step, it will be important to use the increasing credibility to improve systems, structures, and policies. Being relentless with initiating each change will continue to drive towards the new reality of this proposal.

The final step in Dr. Kotter's process is anchoring new approaches in the culture. This is where the connections between the new behaviors, processes, and structure need to be aligned with the Bank's success itself. This is how the Bank will be able to sustain the profitability and efficiency gains into the future. It will not only have the opportunity to do this, but it will also have the ability to pivot to additional efficiencies as time goes on. The separate measurements of productivity, days to closing, customer satisfaction, and joint calling efforts are just the beginning.

Conclusion

MSB has a golden opportunity to do something different with this proposal. It is an opportunity to bring the Bank together in a way that has not happened in its history. While MSB has had a successful past, it must look to ways to improve itself for the future. This proposal can do just that. It can streamline decision-making and processes while bringing the Retail, Business, and Cash Management sides of the Bank under one umbrella. The benefits for the future start with the efficiency gains.

The merger of high-level roles sets the Bank up with an opportunity to cut salary and benefit costs right away. Moving beyond that is the streamlining of decision-making and processes. This is where the Bank's salesforce will see the benefits with faster turnaround times and more capacity in their current roles. The time they may have taken to deal with a process, working back and forth with other employees, or attending additional meetings will now be able to be refocused into additional business or consumer relationships. The Bank's efficiency gains, and cost savings can lead to future sales growth if leveraged the right way.

While it won't be easy, there can be many positive changes sparked within the Bank's culture with this realignment. Bringing the separate sales-related areas of the Bank under one central leadership in the CBO will greatly improve communication and consistency. The RSM's will be driving forces of their markets, promoting teamwork in joint calling efforts and encouraging the team to build relationships together as opposed to alone. Through John Kotter's 8-Step Process of Leading Change, employees will be brought to embrace the changes, leading to positive changes now and through the future.

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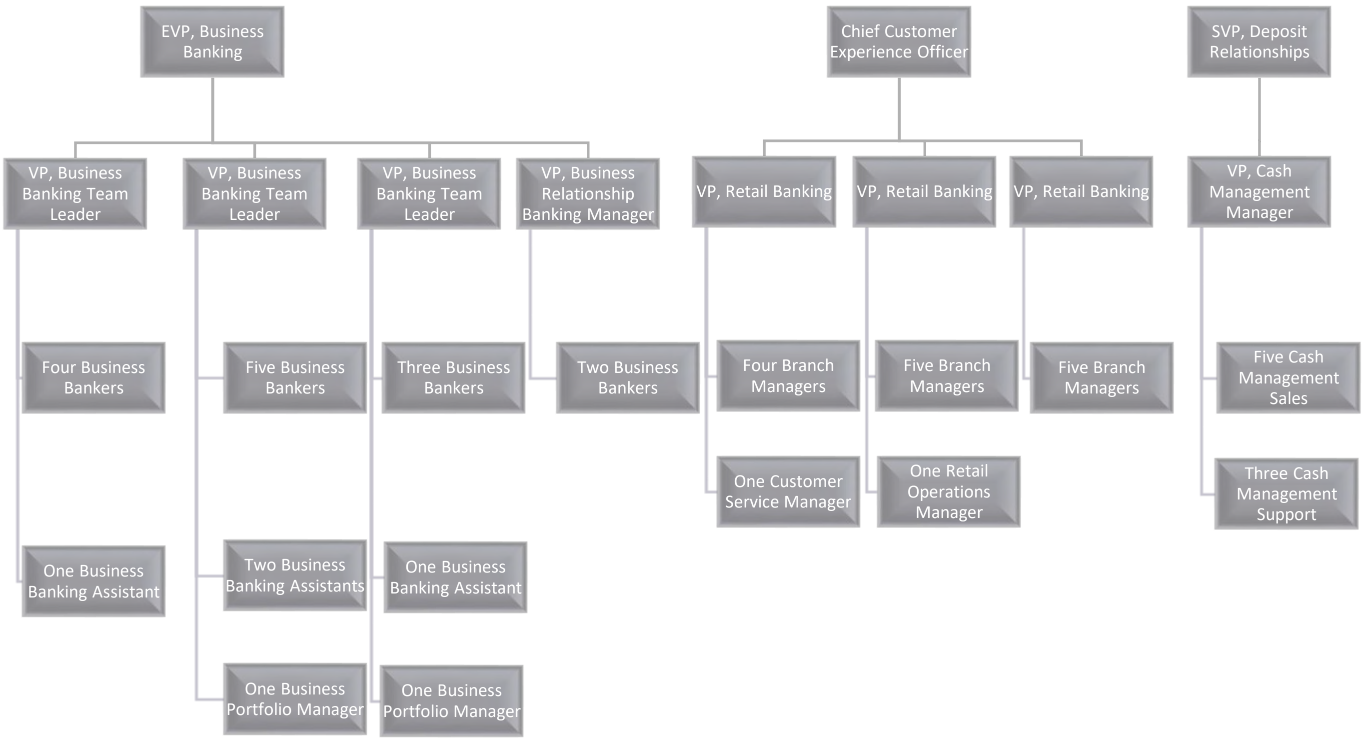
Appendix A

Current Sales Hierarchy



Appendix B

Proposed Sales Hierarchy