

Community Bank of the Chesapeake

Maintaining a Culture of Excellence in a Post- Pandemic World

Stonier Capstone Project

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Executive Summary

The Community Financial Corporation is a publicly traded company headquartered in Waldorf, Maryland and is the bank holding company for Community Bank of the Chesapeake, a full service commercial bank with assets of approximately \$2.3 billion. Community Bank offers financial products and services to individuals and businesses with 11 branches and four loan production offices located in Southern Maryland and Virginia. The Bank enjoys a strong market share in Southern Maryland, its legacy market. Expansion into Virginia is a more recent endeavor for Community Bank, so market share is small but there is great opportunity in that market for further growth and expansion. The Bank's existing culture supports its banking model by fostering a customer-service oriented environment focused on exceeding expectations by delivering innovative products and services using technology with a personal touch.

The pandemic has changed the way that many companies do business. Digital adoption curves accelerated, and employee and customer expectations have permanently shifted. Employees expect more flexibility, the ability to work remotely for all or part of their work week, and additional opportunities to achieve balance between work and life responsibilities. While many companies experienced increased productivity from employees working remotely during the pandemic, there are challenges and concerns around what the future of remote work should look like and how culture and employee engagement can be maintained in a remote or hybrid work environment. Whether or not Community Bank can adapt well to this new post-pandemic environment will influence employee engagement. Employee engagement has the potential to impact employee retention and productivity, which in turn affects employee and customer satisfaction, as well as the company's financial health and profitability. Employees who feel

valued, respected and heard are more likely to be highly productive, actively engaged and committed to the company's purpose and mission. Community Bank must develop strategies for maintaining a high performing, service oriented culture with a high level of employee engagement and effectiveness in a remote or hybrid work environment.

It is recommended that Community Bank take a three pronged approach to maintaining a culture of excellence in a post pandemic world.

- 1) It is recommended that Community Bank develop and implement a hybrid work model which allows employees to work from home two days per week, while maintaining three days in the office to enhance team collaboration and effectiveness. This approach will provide employees with flexibility to help them achieve a better balance between work and personal obligations. Community Bank should develop a remote work program policy and an agreement for remote workers to outline specific parameters for participation as well as expectations of participants and the Bank.
- 2) Community Bank should refresh the components of its Culture of Excellence program to ensure that the mission, vision, values and behavioral standards remain relevant based on the evolution of the Bank and its workforce. It is recommended that the Bank involve a group of employees in this process to benefit from the perspectives and ideas a diverse group. Once refreshed, the Bank's HR team will need to incorporate the changes into employee onboarding, ongoing training and performance evaluation processes.
- 3) Finally, it is recommended that Community Bank implement a tool and process to measure, monitor and enhance employee engagement. Management should

implement an engagement survey tool and conduct surveys at least twice per year. A few areas for improvement should be targeted after each survey, and specific goals and action plans should be communicated across the organization.

Implementation of these recommendations will involve employees from various functional areas across the company. These initiatives can be completed concurrently in the span of three to five months. Expenses associated with these recommendations include equipment costs for remote work equipment, training, facilitation of the culture refresh process and the cost of the engagement survey tool. In total, the recommendations can be implemented for an initial cost of \$202,750 and an ongoing annual cost of \$25,000. The initial costs are significant, but outweigh the costs and risks associated with the inability to recruit and retain talented employees and maintain an engaged and productive workforce.

Introduction and Background

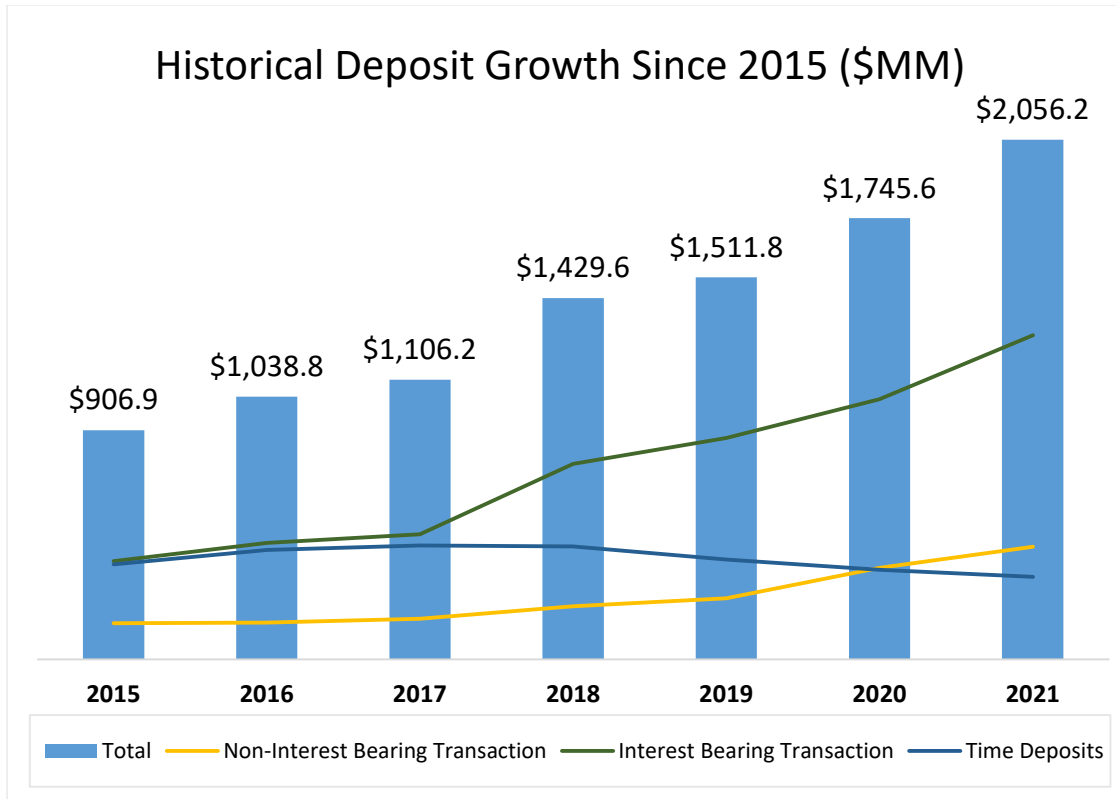
The Community Financial Corporation (“TCFC”) is headquartered in Waldorf, Maryland and is the bank holding company for Community Bank of the Chesapeake (“Community Bank”), a full service commercial bank with assets of approximately \$2.3 billion and market capitalization of approximately \$225 million. TCFC is a publicly traded company listed on the NASDAQ exchange.

History

The Bank was founded in 1950 by Leo Middleton and other community leaders as a mutual savings and loan association called Tri-County Building and Loan. Mr. Middleton’s vision was to help his neighbors and community during a time following World War II when many working class families had a hard time getting the credit they needed to buy or build a home. In 1986, the Bank converted to a federal stock savings bank and adopted the name Tri-County Federal Savings Bank. In 1997, the Bank converted to a state chartered commercial bank and adopted the name Community Bank of Tri-County. In 2013, Community Bank changed its name to become Community Bank of the Chesapeake to reflect its expanded geographic footprint.

Over the years, the Bank changed from a thrift business model to a commercial bank with an emphasis on transactional deposit accounts and a commercial loan portfolio. Increases in transactional deposit accounts have lessened the Bank’s dependence on higher-cost funding, including CDs and borrowings. The chart below reflects the growth in deposits over recent years, as well as the change in the composition of the Bank’s deposits over time¹.

¹ The Community Financial Corporation. (2022). Earnings Release 2021.



The Bank has been open to both organic growth and acquisitions. In 2018, Community bank acquired County First Bank in an in-market transaction. The acquisition helped to increase the Bank’s rate of growth, especially in retail consumer deposits. The Bank has grown to become one of the largest independent banks headquartered in Maryland.

Locations and Market Share

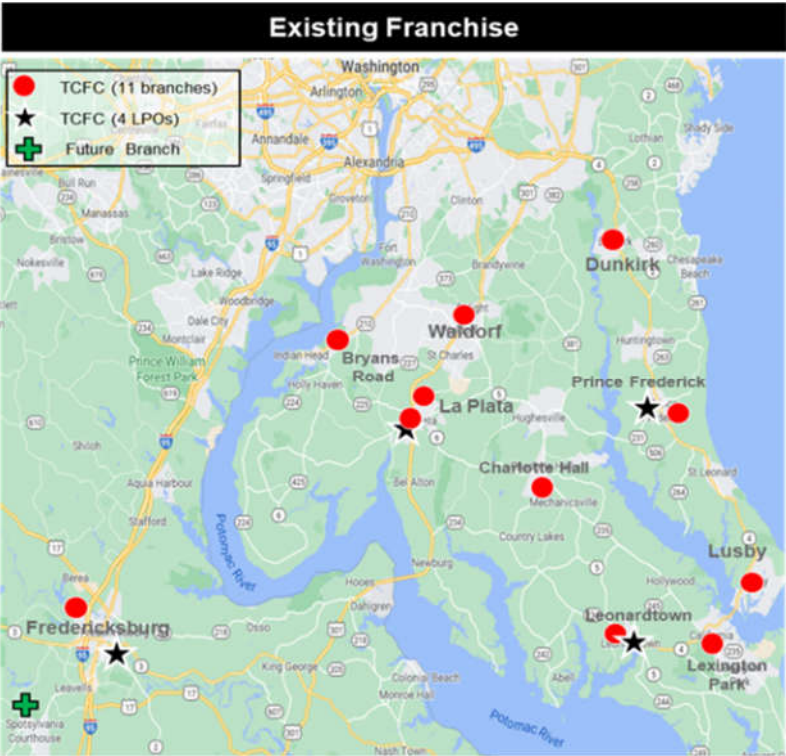
Community Bank offers financial products and services to individuals and businesses with 11 branches and four loan production offices located in Southern Maryland and Virginia. This market area is one of the fastest growing regions in the country and is home to a mix of federal facilities and industrial and high-tech businesses. Characteristics of this market area include a strong median household income, low unemployment and projected population growth higher than national averages. The economic health of the region is stabilized by the influence of the

federal government and facilities operated in the area including the Patuxent River Naval Air Station in St. Mary's County, Maryland, the Indian Head Division Naval Surface Warfare Center in Charles County, Maryland and the Naval Surface Warfare-Naval Support Facility in King George County, Virginia. In addition, there are several major federal facilities located in adjoining markets including Andrews Air Force Base in Prince George's County, Maryland and the US Marine Base Quantico, Drug Enforcement Administration Quantico facility and Federal Bureau of Investigation Quantico facility in Prince William County, Virginia. The Southern Maryland market consists of Charles, Calvert and St. Mary's Counties and is considered the Bank's legacy market. Offices in this market include the headquarters campus, 11 branch locations and three loan production offices. The Bank enjoys a 26% deposit market share in Southern Maryland, which is the number one position in that market. In Southern Maryland, the Bank continues to gather deposits and loans; however, the high market share means that growth in the traditional areas of emphasis will be more difficult to attain than in other markets. The Bank's efforts for expansion in Southern Maryland will be focused on widening the targeted customer and product types.

In Virginia, the Bank has one branch location and a loan production office in Fredericksburg, both of which opened in 2013. The Virginia market has the highest potential for growth for the Bank because of our current small market share in that area combined with the high level of new economic activity in that market. In 2020, the Bank hired a commercial loan officer to develop a team to expand further west toward Charlottesville, Virginia. The Bank is opening another branch location on Plank Road in the Fredericksburg area of Virginia in the fourth quarter of 2021 or early in the first quarter of 2022. The Bank's current deposit market share in Virginia is 4.48%. As of September 30, 2021, loans in the greater Fredericksburg, Virginia

area accounted for approximately 45% of the Bank’s outstanding portfolio loans, and Fredericksburg branch deposits were \$94 million with an average cost of deposits of four basis points.

Major competitors in the Virginia and Maryland markets include national, regional and community banks as well as credit unions and non-financial institutions. There has been some market disruption due to M&A activity in both markets, which has created opportunities for Community Bank to gain business from its competitors. Community Bank’s branches in Maryland and Virginia have an average size of \$175 million and a median size of \$160 million in deposits as of September 30, 2021. The charts in Appendices 1 and 2 illustrate Community Bank’s deposit market share in Maryland and Virginia based on FDIC data. The map below shows the geographic locations of the various branches and loan production offices.²



² The Community Financial Corporation. (2021). Investor Presentation Materials Q3 2021.

Financial Performance

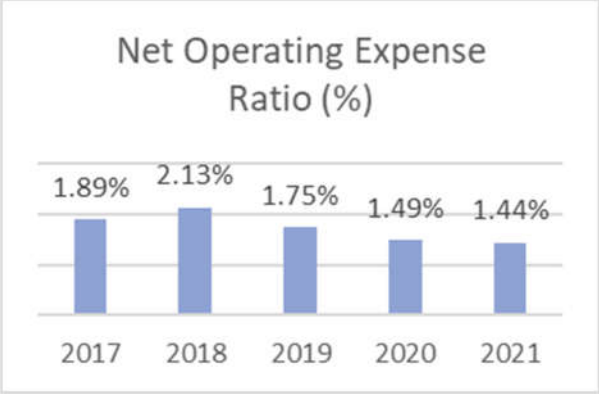
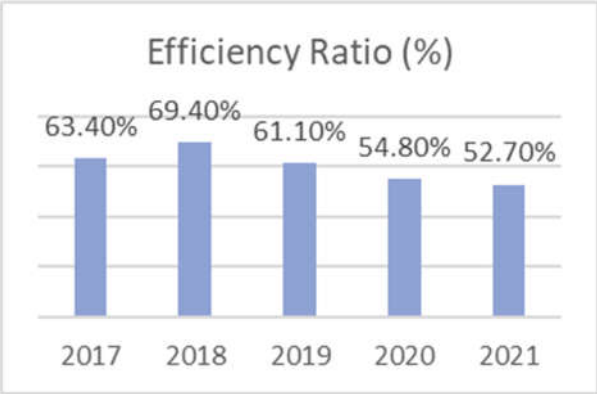
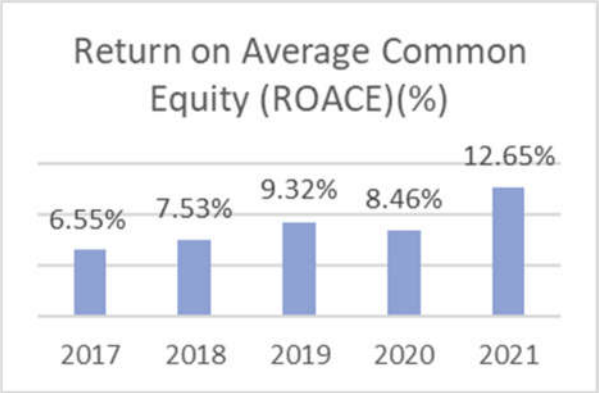
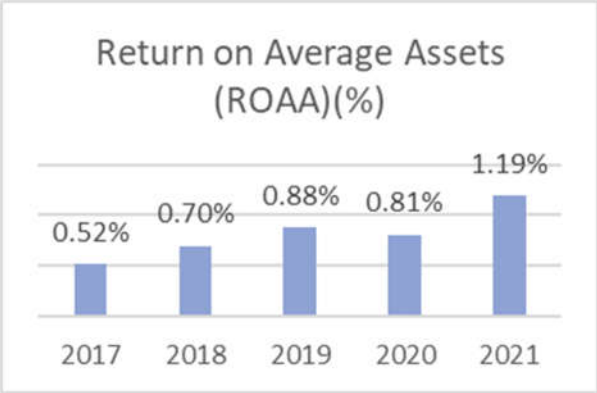
The Bank is performing between the median and 75th percentile in its peer group in most performance metrics. Expense discipline, continued organic growth and increased noninterest income have produced steady improvements in performance in recent years.

Community Bank has historically lagged peers in noninterest income. New products have been added to increase noninterest income including further developments of retail deposit accounts, residential mortgages, consumer and business credit cards and interest rate protection agreement opportunities. The Bank had a long history of lower than peer level charge-offs of loans. However, in recent years, nonperforming asset ratios have been higher than peers, mostly driven by Troubled Debt Restructurings (“TDRs”) and performing non-accrual loans. The Bank’s improved performance has provided management with the flexibility to resolve a number of long-term relationships which significantly reduced levels of NPAs, especially in 2019-21.

Noninterest expense control has been a strength of the Bank. Noninterest expense challenges in 2021 and beyond will be to focus efforts and expenses on areas where customer engagement and value is growing. As a result, management will most likely continue to reduce some expenses related to physical branches, including adjustments to employee roles and numbers as well as evaluating whether some branches will be closed.

The following charts highlight consistently improving trends across several key performance metrics³.

³ The Community Financial Corporation. (2021). Investor Presentation Materials Q3 2021.



Business Model and Strategy

The Bank's target customers include small and medium sized businesses, professional firms, non-profits, and governmental units as well as their owners, managers and employees. Business development teams provide customers with specific bank contacts and a support team to address product and service demands. The Bank's focus on these customer segments guides decisions about which products and services will be emphasized. The Bank's primary deposit products are demand, savings and time deposits and the primary lending products are commercial and residential mortgage loans, commercial loans, construction and land development loans, home equity and second mortgages and commercial equipment loans. The Bank's deposit and loan composition as of September 30, 2021 is provided in Appendices 3 and 4, respectively.

The Bank expanded its product and service offerings over the past several years to further support the development of in-depth commercial and retail relationships. This has included remote deposit capture for commercial and consumer customers, ACH positive pay, enhanced digital access to services, new DDA account types with benefits/rewards, Apple Pay integration and more. In 2021, the Bank implemented an in-house credit card program and a residential mortgage origination program by partnering with fintech firms on product and program development. Much of the service and administration of these programs is outsourced.

Community Bank focuses on market differentiators such as local decision making, community presence and relationship banking in competing for core business. The Bank's ability to offer fast, flexible, local decision making enables it to continue to attract significant new business relationships. The Bank's structure provides a consistent and superior level of

professional service and excelling at customer service is an important part of the Bank's culture. The Bank has been building its technology in core products to lessen the technology advantage of its larger competitors. The Bank's suite of retail products helps deepen relationships by offering accounts to employees of commercial customers in a systematic way through the Perks@Work program. The Bank has invested in customer technology projects which are designed to enhance service and to help differentiate the Bank's products and services effectively.

Technology efforts at the Bank include the backbone of networks, data storage and communications as well as customer facing technology and other technology products that make the customer facing products work more efficiently. In recent years, the Bank committed to several important technology efforts including implementing a cloud infrastructure, digital infrastructure upgrades and implementation of the nCino bank operating system which includes loan origination and documentation, treasury onboarding and customer relationship management functionality. The Bank will continue to expand the use of nCino throughout the Bank with next steps focused on automated decisioning for consumer and commercial loans, automated spreading for commercial and consumer underwriting, DocuSign integration, SBA documentation and deposit onboarding. The electronic delivery of banking services will continue to be a focus as they are ever-changing and can be impacted by regulatory and compliance requirements, changes in technology and changes in customer needs and preferences. As mentioned earlier, the Bank recently partnered with fintechs to launch a consumer and commercial credit card program and a residential mortgage program. Both programs are built on

technology platforms which bring the digital customer experience up to par with the strongest competitors and provide scale for future growth in the Bank's existing and new markets.

The Bank's current digital platforms have capacity to support future growth and provide scale. Management's strategy is focused on maintaining low cost funding, driving operational efficiency by optimizing the branch structure and exploring virtual banking operations and automation, opportunistic growth from market disruption and growth and expansion in Virginia.

The foundation for the Bank's Culture of Excellence are the mission, vision and values which are provided in Appendix 5. In 2015, the Bank's Culture of Excellence program was formalized, including the mission, vision, values and standards. Employees participate in culture of excellence training, exercises and activities which focus on the Bank's mission, vision and values, and their performance expectations are linked to the values and behavioral standards. The mission, vision and values guide the Bank's employees and directors in their decisions, actions and behaviors. It is important that the Bank's culture aligns with the corporate strategy to ensure that it supports the business model and strategic goals. Community Bank's culture supports its banking model by fostering a customer service-oriented environment with a focus on exceeding customer expectations through relationship building.

Strategy and Implementation

The pandemic has changed the operating environment for so many businesses. Digital adoption curves have accelerated and employee and customer expectations have changed. Many banks had to close branch lobbies and utilize remote work arrangements to ensure employee and customer safety while still providing essential services to our communities. Community Bank of the Chesapeake responded in a similar way and was able to quickly shift a large number of employees into remote work arrangements. Community Bank has made use of technology to adapt how service is delivered and provided to customers as well as how employees communicate and work. However, there are challenges and concerns around what the future of remote work should look like at Community Bank and how to maintain the Bank's culture and a high level of employee engagement in a remote work environment. Some companies, including financial institutions, have decided to keep workers remote permanently, or have adopted a hybrid remote work approach. This will certainly have an impact on Community Bank's ability to attract and retain quality employees, so evaluating the future of remote work needs to be an important part of strategic discussions. Community Bank must rethink its approach to remote work and come up with strategies for maintaining a high performing, service oriented culture and a high level of employee engagement and effectiveness in a remote or hybrid approach. The following initiatives are proposed to address these challenges:

- 1) Develop and implement a hybrid work model
- 2) Refresh the existing Culture of Excellence program
- 3) Implement a tool and process to measure and monitor employee engagement

Develop and Implement a Hybrid Work Model

Prior to the pandemic, Community Bank had only two employees with partially remote schedules on a regular basis. The IT infrastructure was developed to allow members of management, business development officers and other key employees to work remotely in a disaster situation, or as needed for personal reasons. At the height of the pandemic, Community Bank had about 25% of its employee base working remotely full-time. Currently, only about 10% of employees are working remotely on a regular basis and about half of those employees are in the office two to three days per week. The Bank is currently in the process of replacing all desktop computers with laptops and docking stations to allow for greater numbers of employees to be deployed remotely in the event that the pandemic worsens or some other disaster strikes in the future.

In a survey of Community Bank employees about their feelings on remote work early in 2021, most expressed that they would prefer to work remotely at least part of the time if given the opportunity. Among the group of employees who worked remotely during the pandemic, there are a handful who would prefer to work from home permanently, but most expressed that they would prefer some type of hybrid arrangement. This is supported by various external surveys and studies, including Microsoft's 2021 Work Trend Index which indicated that 73% of workers want flexible remote work options to continue while 67% are craving more in-person time⁴.

⁴ "Hybrid Work: A Guide For Business Leaders," *Microsoft*, 2021. <https://www.seattleu.edu/media/human-resources/Hybrid-Work--a-Guide-for-Business-Leaders.pdf>. (accessed December 1, 2021).

While most remote workers at the Bank indicated that they are more productive from home, management is concerned about the effectiveness of those workers over the long term. Remote workers at the Bank were afforded a great deal of flexibility, especially early on in the pandemic, which resulted in some employees working outside of the Bank's normal business hours and this has resulted in service issues. A lack of consistency in remote work expectations or guidelines across the organization's various functional departments has had some negative impacts on both internal and external service levels and employee morale. Some employees' productivity has been affected by slow internet speeds at home, sometimes impacted by others in the home using the same connection for work, school or personal streaming or gaming, which negatively impacts productivity. The Bank has also experienced some morale issues because not everyone in the various departments was given the opportunity to work remotely during the pandemic.

Gains in efficiency were certainly realized in many ways through increased remote work; however, challenges remain in other important areas including culture, collaboration, creativity, idea sharing, effective onboarding and training, etc. In recent months, several employees have left the Bank for other employment opportunities which provide them with some remote work opportunity. This has been minimal, two or three employees, but could become a larger issue in the future when it comes to recruitment and retention.

Now that the pandemic environment has stabilized to some degree, it is important to revisit the approach to remote work and develop an effective program for the future which will enable Community Bank to continue to attract, retain and develop quality employees and maintain its culture. For employers, benefits of remote work may include the ability to access a

broader talent pool, increased productivity and reduced costs. From an employee's perspective, remote work programs may increase morale, provide better work/life balance, improve attendance and contribute to a higher level of engagement.⁵

It is recommended that Community Bank expand remote work opportunities using a hybrid work model which includes working in the office on Mondays, Tuesdays and Wednesdays as "collaboration days" and remotely on each Thursday and Friday. Collaboration days are intended to promote effective communication, idea sharing and physical connection amongst and across teams. Some program parameters and decisions will be set centrally, while department heads and supervisors will be empowered to determine others. Most non-customer facing employees in good standing should be eligible to participate in the hybrid work program. Minimum internet requirements should be developed as a condition of eligibility. It is recommended that participation in the hybrid work program be optional. Department supervisors will have discretion to set their employees' schedules within a defined set of core hours, make occasional exceptions depending on employee needs, determine eligibility by position, and determine when new hires are sufficiently trained and ready to begin participating in the hybrid work program.

A remote work program policy should be developed to address the definition and scope of the program, eligibility requirements, employee and employer expectations and administrative requirements. In addition, it is recommended that the Bank develop an

⁵ "It's All About Flexibility," *Mercer*, 2021. <https://www.mercer.com/our-thinking/career/the-new-shape-of-work.html#flexible>. (accessed November 16, 2021).

agreement for remote workers which outlines specific expectations of participants and the Bank. Finally, the Bank should offer remote work training to employees and supervisors.

[Refresh the Existing Culture of Excellence Program](#)

Community Bank's Culture of Excellence Program was developed by a cross functional group of employees from various levels including executives, managers and staff. The group was led by a professional facilitator and the process fostered a sense of ownership and pride which turned those participants into champions for the program. The Culture of Excellence program consists of the Bank's mission, vision, values and behavioral standards, which are currently promoted through various team and bank-wide activities, training and also tied to performance expectations. As mentioned in the background section earlier, this program was introduced in 2015 and the components haven't been revisited or refreshed since then. While the mission and core values of the Bank haven't necessarily changed, there have been significant changes in the Bank's growth, composition and strategic focus over those years. Additionally, changes in the banking industry and shifts like those which have been experienced due to the pandemic may warrant an update or refreshing of certain components of the Culture of Excellence.

A company's culture is a set of beliefs and practices which underpin how people work together. These beliefs and practices are more difficult to maintain when employees are working remotely or in distant geographic locations. While collaboration tools are very effective in many ways, there is no substitute for in person interaction when communication, problem solving, decision making and creativity are required. Interactions through body language, emotions and embodied experiences help us make sense of the world, and these are very different in a virtual

environment.⁶ Company culture doesn't disappear in a remote or hybrid work environment, but cultural norms and beliefs are not necessarily being guided by systems and routines that were previously established in the office.⁷ When the hybrid work model is implemented and more employees are working remotely part of the time, it will be important for Community Bank to highlight and focus on the components of culture that matter most. As practices and norms change to adapt to changing circumstances, managers and leaders must help employees understand how they connect to the company's values and cultural standards. Managers should contemplate ways to foster cultural behaviors, beliefs and practices that will help build strong bonds among existing employees, support the successful integration of new employees, and develop the shared context necessary to convey culture.

It is recommended that Community Bank's Culture of Excellence Program components be reviewed and refreshed using a process very similar to the original one. A diverse group of employees from across the organization should be selected to participate in the process, guided by a facilitator who can help combine the thoughts, ideas and perspectives of all group members into clear and succinct statements. In addition to participating in the refresh process, the following would also be expected of this group:

⁶ Jennifer Howard-Grenville, "How to Sustain Your Organization's Culture When Everyone Is Remote," MIT Sloan Management Review, June 24, 2020, Magazine Fall 2020 Issue.

⁷ Pamela Hinds and Brian Elliott, "WFH Doesn't Have To Dilute Your Corporate Culture," Harvard Business Review, February 01, 2021.

- Act as champions for the Culture of Excellence by helping to communicate components of the program throughout the organization to generate excitement and buy in from others.
- Act as an example to others and hold coworkers accountable to the Bank's values.
- Assist in leading Culture of Excellence training sessions for new employees.
- Participate in planning team and Bank wide Culture of Excellence activities.

HR would be responsible for refreshing the Culture of Excellence training and incorporating any changes to the Culture of Excellence components into employee onboarding, ongoing training and performance evaluation processes.

Implement a Tool and Process to Measure and Monitor Employee Engagement

Employee engagement has the potential to impact employee retention, productivity and loyalty, which in turn impacts employee and customer satisfaction, company reputation and the company's overall financial health and profitability⁸. Employees who feel valued, respected and heard are more likely to be highly productive, actively engaged and committed to the company. Factors which impact engagement include, but are not limited to, team/social dynamics at work, the relationship employees have with their direct supervisor, communication, how clearly the company's goals and vision are articulated and connected to the employee's work, and trust.

Currently, the Bank does not have a good way to measure or monitor employee engagement. Management is able to gather feedback from employees in various ways through exit interviews,

⁸ "Developing and Sustaining Employee Engagement", SHRM Toolkit (2022). <https://www.shrm.org/resourcesandtools/tools-and-samples/toolkits/pages/sustainingemployeeengagement.aspx>. (accessed January 14, 2022).

town hall meetings with employees, and occasional surveys regarding specific topics. Highly engaged organizations have a competitive advantage and get significantly more out of their employees. When implementing the recommended hybrid work program, it will be very important for management to be able to measure and monitor employee engagement. Currently, Community Bank does not have an effective process or tool in place. It is recommended that Community Bank implement a process for administering an employee engagement survey at least once per year. Engagement surveys can help management understand whether everyone throughout the organization has a clear picture of the desired culture, and whether employees can connect their work to the company's mission, vision and goals. Engagement surveys provide important opportunities to solicit feedback from employees, but management has to know what to do with survey results in order to make the effort worthwhile and effect change to improve the employee experience. The following steps should be taken in connection to this recommendation:

- Evaluate and select a tool that will facilitate the administration of engagement surveys.
- Set intentions regarding the process and desired outcomes.
- Make those intentions clear through transparent communication to employees throughout the process; employees should understand why they are being asked to share feedback, how it will be used, and how the results or action items will be shared with them.
- Determine how results will be shared with leaders and how they will be expected to discuss the results with their teams; ensure that leaders understand the connection between survey results and employee perceptions and expectations of leadership.

- Review the results to get a clear picture of what employees are saying and how they are feeling; drill down by team and demographic to identify any trends or potential issues.
- Consider additional listening or feedback sessions following the survey to gain more insight to make meaningful improvement.
- Target a few areas for improvement and establish specific goals or plans.
- Continue to communicate with employees to discuss progress and get additional feedback.

Implementation Responsibilities and Timeline

Community Bank's Chief Operating Officer will act as the executive sponsor for these initiatives and work closely with other stakeholders across various functional areas to implement the proposed solutions. The Human Resources and Information Technology teams will play an important role in the implementation process as well. Community Bank has other existing groups which would be helpful to consult in the evaluation and implementation processes, including a risk team, a customer experience committee, a management and strategic team and the executive management team. Each of the three recommendations do not have to be implemented fully before starting the next one. Tasks and responsibilities associated with the recommendations in all three areas can be done concurrently so that everything is in place by the end of the first quarter of 2022. Below is a proposed schedule of implementation.

Recommendation	Responsibility/Task	Deadline	Responsible Person(s)
Hybrid Work	Finalize parameters of hybrid work model	11/1/2021	Chief Operating Officer
Hybrid Work	Complete replacement of desktop equipment with remote capable equipment	11/30/2021	Director of IT
Hybrid Work	Develop remote work policy and forms	11/30/2021	Director of IT Director of HR
Hybrid Work	Update acceptable use policy, and other related policies and procedures to address remote work where appropriate	12/6/2021	Director of IT Director of HR Policy Administrator
Hybrid Work	Deliver remote work training for employees and supervisors	12/6/2021	Director of HR Training Coordinator
Hybrid Work	Implement hybrid work model	1/3/2022	Chief Operating Officer
Refresh Culture	Select facilitator to lead the process	12/17/2021	Chief Operating Officer
Refresh Culture	Select champions	1/3/2022	Executive Management Team
Refresh Culture	Conduct facilitator led sessions	1/17/2022	Facilitator Executive Management Team Champions
Refresh Culture	Finalize changes to program	1/31/2022	Chief Operating Officer
Refresh Culture	Update Culture of Excellence materials, training programs, etc.	2/14/2022	Director of HR
Refresh Culture	Develop champion guidelines/handbook	2/28/2022	Director of HR Training Coordinator
Refresh Culture	Develop schedule of training and events	3/14/2022	Director of HR Training Coordinator
Engagement	Implement technology tool for conducting surveys	11/15/2021	Chief Operating Officer Director of HR
Engagement	Set intentions and finalize survey questions	11/22/2021	Chief Operating Officer Director of HR
Engagement	Communicate to employees and release survey	11/29/2021	Director of HR
Engagement	Close survey; evaluate results	12/13/2021	Chief Operating Officer Director of HR
Employee Engagement	Review results with executive management; select areas of focus for improvement	1/3/2022	Chief Operating Officer Executive Management Team
Engagement	Share high level results with employees and team results with leaders	1/10/2022	Chief Operating Officer Director of HR
Engagement	Work on target areas; communicate with employees about progress	Ongoing	Chief Operating Officer Director of HR Other leaders

Financial Impact

The recommendations outlined in this proposal include the development and implementation of a hybrid work model, refreshment of the Bank's Culture of Excellence Program and implementation of a tool and process to measure and monitor employee engagement. There are financial and non-financial impacts associated with these recommendations, which will be discussed in this and the next section.

Cost to Implement Hybrid Remote Work Model

The development and implementation of a hybrid work model will involve costs associated with the purchase of computer equipment as well as employee time. Because of the work that was done over the past several years to migrate most systems to the cloud, and due to the already robust systems in place for disaster recovery and remote work capabilities, future costs related to expansion of remote work capabilities are less significant. Policies and forms will need to be modified, but the only cost associated with this aspect would be employee time. The Bank has a subscription to a policy update service and has access to a remote worker policy and forms which would require just a little effort to customize. This would be completed with existing staff during normal work hours, so there would not be any extra cost to the Bank. For administrative employees with existing desktop computers, this proposal would include replacing the desktop units with laptops and docking stations at the Bank's locations. Each laptop costs about \$1,200 and the docking station and cables cost about \$50, which brings the total for replacing a desktop with a laptop setup to about \$1,250 for each employee. In addition, the Bank would provide each employee eligible for remote work with a home equipment package to

include two monitors (or one large monitor), a docking station, keyboard and a mouse. The dual monitors or an ultra-wide monitor cost about \$400, the docking station and cables cost about \$50 and the keyboard/mouse set costs about \$50, bringing the total home equipment package cost to \$500 per employee. Approximately 135 employees would be eligible for remote work. Of these 135, about 80 already have workstations which include a laptop and docking station, leaving about 55 to upgrade. All employees already have dual or ultrawide monitors at their workstations.

This proposal also includes a cost for training supervisors to enhance their ability to effectively manage remote workers. This training would be facilitated by an external provider and take place in one six-hour session. The cost for this training is \$400 per person. Approximately 20 employees would participate in this training. Training for remote employees will also be provided, but the Bank will utilize a training module already available through an online training subscription. There will be no new cost to the Bank for this aspect of the training.

Based on the proposal, employees will still be expected to come into the office three days per week. At this time, there will be no cost savings related to the reduction in physical space or facilities; however, this is something that could change over time if full time remote work is ever considered.

A summary of the projected cost for the remote work component of the proposal is below:

Description of Cost	# of Employees	Cost per Employee	Total Cost
Equipment: At Home Setup	135	\$500	\$67,500
Equipment: At Work Setup	55	1,250	68,750
Supervisor Training	20	400	8,000
			\$144,250

Cost to Refresh Culture of Excellence Program

The second component of the proposal includes refreshing the existing Culture of Excellence program. This would consist of the cost for facilitator-led sessions to review and refresh the Bank’s mission, vision and values. These sessions would take place during normal work hours, and wouldn’t cost any additional money in employee time. The Bank incurred similar costs in 2015 when the Culture of Excellence program was first implemented, which provide a basis for the estimates in this section. The facilitator cost is expected to be around \$25,000. This would include two to three (2-3) in-person sessions to refresh the mission, vision and values, two (2) train-the-trainer sessions for the group of culture champions, and meetings with the executive sponsor for planning and to provide progress updates. In addition to the facilitator cost, the Culture of Excellence training materials will need to be updated and new training booklets will need to be printed and bound. This can be done using the same vendor that was used to create the existing materials. This is estimated to cost about \$6,000. Finally, there are a few other Culture of Excellence related employee materials that may need to be refreshed, including wallet cards, desk placards, mousepads. This is estimated to cost about \$2,500.

A summary of the projected cost for the Culture of Excellence refresh component of the proposal is below:

Description of Cost	Total Cost
Facilitator	\$25,000
Training Materials	6,000
Employee Materials	2,500
	\$33,500

Cost to Implement Employee Engagement System

The final component of the proposal includes implementing a tool and process to measure and monitor employee engagement. The HR team will be responsible for evaluating various tools, including Glint, Lattice and Qualtrics. The annual cost of the engagement system is estimated to be about \$25,000. Some of these systems have other capabilities and features in addition to the engagement tools, so the HR team will evaluate the options and select the system that best meets the Bank’s needs for this proposal, as well as other needs that may exist. Implementation and system training for administrators and users will be included in the cost. Communication with employees about why the Bank is implementing engagement survey tools and how the information will be used to enhance the employee experience will be a very important consideration, but won’t create any additional cost.

The total anticipated cost to implement all three components of the proposal is provided below:

Proposal Component	Initial Cost	Annual Cost
Hybrid Remote Work	\$144,250	
Culture Program Refresh	33,500	
Employee Engagement Tool	25,000	25,000
	\$202,750	\$25,000

The recommendations in this proposal are intended to enhance employee engagement and satisfaction. The initial cost to implement the recommendations is significant, but are worthwhile and outweigh the costs and risks associated with the inability to recruit and retain talented employees and maintain an engaged, satisfied and productive workforce. After implementation, the ongoing annual costs are very reasonable.

Cost of Employee Disengagement

One other factor to consider is the cost of disengaged or dissatisfied employees. A disengaged employee base leads to higher turnover, decreased productivity and higher absenteeism. While more difficult to quantify, these factors do certainly have a tangible financial cost. According to Gallup, disengaged employees have 37% higher absenteeism, 18% lower productivity and 15% lower profitability, which translates to about 34% of a disengaged employee's annual salary.⁹ Community Bank has approximately 200 employees. Recent data from Gallup states that 36% of U.S. employees are engaged in their work and workplace, so about 128 employees at Community Bank may be disengaged and/or complacent in their work.¹⁰ A single disengaged employee at Community Bank at the average salary level of \$62,000 is going to cost almost \$21,080. 128 disengaged employees could be costing the Bank \$2,698,240!

Other Financial Considerations

While this recommendation only proposes that employees work from home for two days per week, this could be reevaluated in the future to consider expanding the remote days. If the company gets to a point where workers are fully remote, there could be opportunities to reduce office space. In that scenario, real estate and utility expenses could be reduced as well.

⁹ Karlyn Borysenko, "How Much Are Your Disengaged Employees Costing You?" *Forbes* (May 2, 2019). <https://www.forbes.com/sites/karlynborysenko/2019/05/02/how-much-are-your-disengaged-employees-costing-you/?sh=6d641f443437>. (accessed December 1, 2021).

¹⁰ Jim Harter, "U.S. Employee Engagement Holds Steady in First Half of 2021" *Gallup* (July 29, 2021). <https://www.gallup.com/workplace/352949/employee-engagement-holds-steady-first-half-2021.aspx>. (accessed December 15, 2021).

Non-Financial Impact

Community Bank should consider the non-financial impacts associated with the proposed recommendations. Non-financial considerations related to this project include the impact on employee engagement, the Bank's ability to attract and retain talent, and potential impacts on the customer experience.

Implementation of an employee engagement survey and system to measure and monitor progress will provide leadership with an indicator of how employees perceive their experience and overall engagement. Currently there is no formal way in place for Community Bank to collect information about how employees feel about specific aspects of their employment experience, other than through informal feedback and comments and the existing exit interview process. Engagement survey results will allow leadership to identify trends, potential issues and themes or areas of needed development or improvement. Survey results can be benchmarked against other financial institutions as well. If executed well, the survey responses should provide leadership with powerful information and real opportunities to improve employee engagement and overall satisfaction. While it can be difficult to quantify how these non-financial factors may translate into financial impacts, employees who are engaged, happy and supported by their employers are more productive and likely to stay with the company longer. Studies have shown that there is a positive correlation between employee satisfaction and customer satisfaction, meaning that happy, productive employees have a positive impact on the customer experience¹¹.

¹¹ Al Kurdi, Barween & Alshurideh, Muhammad & Alnaser, Ahmad. "The impact of employee satisfaction on customer satisfaction: Theoretical and empirical underpinning" *Management Science Letters*. <https://pdfs.semanticscholar.org/cd57/eeb4644d7b46ecd34a013d7156a5545fc29f.pdf>. (accessed February 17, 2022).

When it comes to implementing a hybrid remote work arrangement, many studies indicate that employee turnover decreases by about half when companies offer a remote work option. Generally, employees feel that remote work makes them feel more trusted and less stressed, and they appreciate the lack of commute which helps them achieve greater work-life balance. These factors enhance employee satisfaction and happiness, which in turn, can positively impact the customer experience as well.

If Community Bank can strengthen its culture, successfully implement a hybrid remote work program and enhance employee engagement, the company will become a great place to work and an employer of choice. Employees will highly recommend the Bank as an employer to their friends and acquaintances, which will strengthen the company's reputation and create new opportunities for the Bank to attract talent. In addition, employee retention will increase and in turn, employee turnover and other related costs will decrease. Employees will feel that their work is connected to the vision and mission of the company, and their productivity and satisfaction will increase, resulting in a more profitable and healthy company in the long run.

Challenges and Hurdles

Unfortunately, when implementing any change, whether it is viewed as positive or negative, there will inevitably be challenges or hurdles that must be overcome. Some examples of hurdles may include:

- Lack of support from leadership in terms of commitment to culture initiatives and taking ownership to bring about change
- Resistance to change by individuals or groups of employees

- Lack of communication and transparency about changes, action plans and progress
- Failure to get employees involved to achieve support or buy in
- Resistance from employees to provide honest, open feedback and suggestions
- Difficulty in maintaining connectedness to culture

When working to refresh the culture of excellence program, it will be important for leadership to communicate the purpose of the exercise and expected outcomes. It will also be helpful to get the team involved in the process. The CEO can articulate his strategic vision and the facilitator can guide the group's discussions, but inviting a group of employees to participate in the process of updating the company's values and setting some behavioral standards and expectations will allow those employees to take ownership in the process and will ultimately create champions who can help get other employees on board with the change.

The same ideas also apply to the engagement survey. Communicating the purpose of the survey and being transparent about the goals and how the results will be used will be extremely important in overcoming employee fears about providing open, honest and constructive feedback. The engagement survey responses should be anonymous and include anonymity thresholds to ensure that employees feel they can share their thoughts and concerns openly without fear of consequences. In order for the survey process to be effective, it will be important to solicit feedback, listen to what employees have to say and respond appropriately to employee feedback. The leadership team must make efforts to show real change by sharing results, increasing transparency and reporting on progress so employees know that their feedback and effort is being taken seriously. After each survey, a few actions or areas of focus should be

identified and prioritized. Consider allowing employees to contribute to the process and share ideas. Focus groups may be an effective way to determine the level of significance of specific feedback from the survey, and to explore issues and concerns more deeply. Regardless of the approach, it will be imperative for leadership to share survey results and communicate with employees about what will be done to address areas of concern.

Challenges related to the implementation of a hybrid remote work program include maintaining and measuring productivity and addressing concerns about the perception of fairness across the organization. At the Bank, not all employees will be eligible for remote work based on roles, individual performance, internet requirements, and other factors. Most of the customer facing employees will not have the opportunity to work remotely, and maintaining high morale among those employees may be a challenge. While general employee retention may improve because the remote work opportunity is available for many, employees in the customer facing positions may begin to seek opportunities either within the Bank or with another employer where remote work is an option. This could lead to higher turnover in those positions. Effective communication with employees about the reasons for implementing a hybrid remote work program, parameters for the program and expectations can help overcome challenges and difficulties. The Bank should consider ways to recognize the efforts of the front line staff so those employees feel valued and appreciated. Special treats, rewards or programs geared toward those employees who aren't eligible for remote work might be effective in overcoming some of those negative feelings. The Bank may also consider evaluating the pay for front line employees to make sure that it is competitive; raising the minimum wage level for branch staff may also help

compensate for the lack of remote work opportunity; however, this could result in a significant financial impact which should be considered in the evaluation of the overall recommendations.

Another potential hurdle related to remote work has to do with acclimating new hires. It can be difficult for new hires to get to know their coworkers and experience the culture of the company when they are working remotely. Orienting employees to their new roles can also be more challenging in a remote environment. These factors contributed to the recommendation for a hybrid remote work environment for Community Bank. Employees would be expected to work in the office Monday through Wednesday, which will help new hires interact with team members in person, get acclimated in their new roles and become connected to the culture of the company. Employees who feel connected to the culture and to their peers are more productive and engaged. The Bank must be committed to providing the tools and resources for remote workers to be successful and connected, including technology to support communication and collaboration. Leadership must be dedicated to creating opportunities for employees to interact with coworkers and teams throughout the organization.

Measures for Evaluating Non-Financial Impact

Community Bank's leadership team is concerned that remote employees won't be as productive or effective as when they are in the office. Some studies indicate that remote workers are more productive than their office counterparts.¹² In part, this may be due to employee satisfaction and engagement and the positive impacts on productivity, but there are other factors. Remote employees tend to work more than employees in the office. They don't show up

¹² RC Victorino, "The Financial Benefits of Remote Work for Companies" *Knock Down Silos by Slab* (May 28, 2020). <https://slab.com/blog/financial-benefits-remote-work/>. (accessed December 23, 2021).

late to work because of traffic, sometimes don't take lunch break and have the flexibility to schedule appointments without losing a full or even half-day of work. In addition, some workers are less distracted at home because they can create their ideal workspace. Evaluating and measuring the effectiveness of a hybrid remote work arrangement will be challenging. While certain employees use systems and tools that make it easy for supervisors to monitor employee productivity, that doesn't not apply to all employees who would be eligible for remote work. Community Bank will rely on supervisors to monitor the productivity of employees working remotely and hold them accountable to the same standards as those employees working in the office environment. Supervisors will be responsible for setting expectations and addressing any issues or concerns regarding remote worker availability, productivity or timeliness of completing work. Supervisors should receive training to prepare them to more effectively monitor the performance of employees who are working remotely. Other measures or indicators of the effectiveness of remote work will include feedback from employees about the level of support and assistance received from remote employees as well as customer feedback.

Once the recommendations are implemented, it will be important to measure and monitor the various aspects of non-financial impact outlined in this section. When it comes to the customer experience, management can measure the impact by monitoring: 1) customer complaints, 2) submissions made through the customer feedback program, 3) issues identified through the Bank's Customer Experience Committee and 4) results of customer surveys which are conducted every other year through the Bank's Marketing Department. To evaluate the non-financial impact on the employee experience, management can measure and monitor: 1) employee turnover rates, 2) employee retention, 3) employee engagement survey scores,

including the net promoter score component, 4) information received through the employee feedback program, 5) feedback received through the executive one-on-one meetings with employees, 6) absenteeism rates, and 7) time to hire or other recruitment metrics.

Conclusion

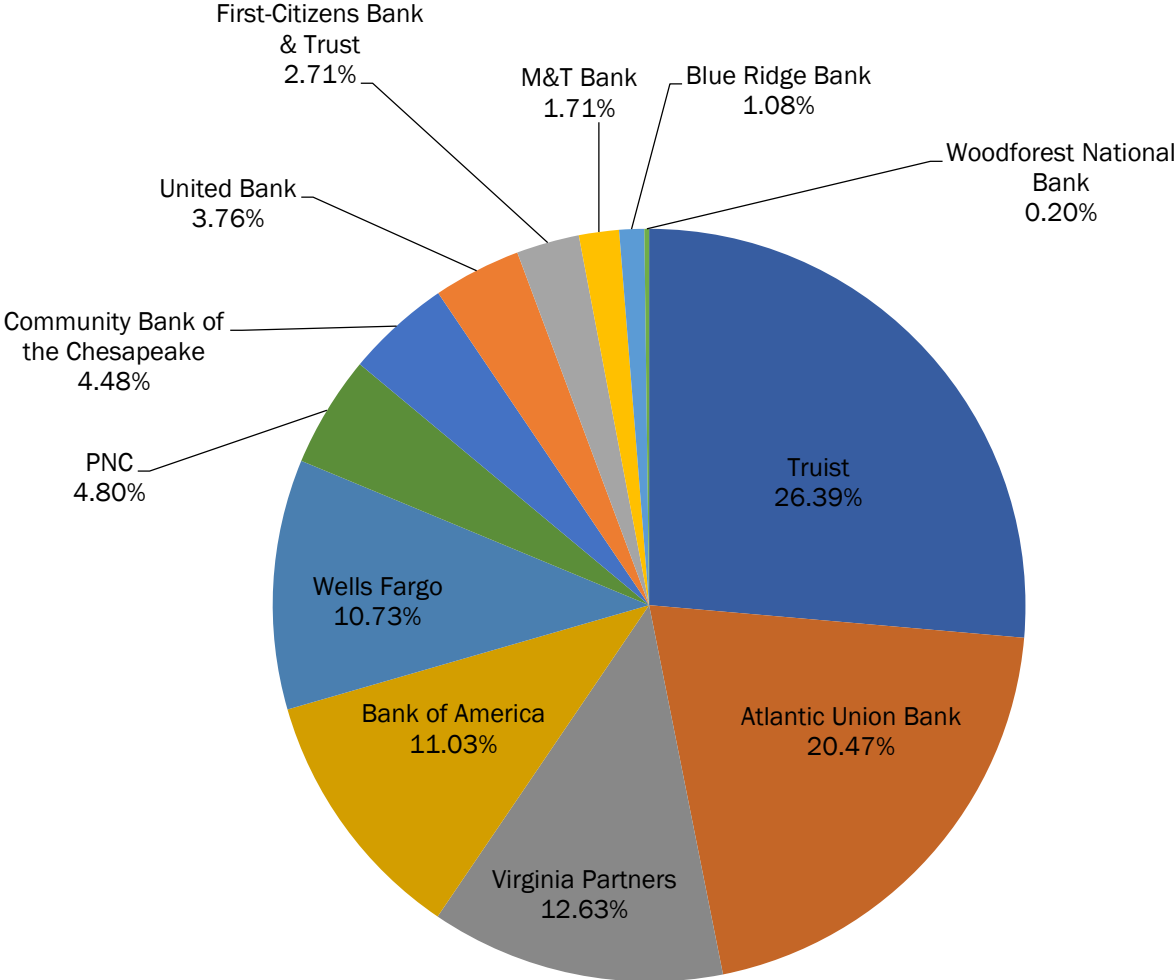
The COVID-19 pandemic had a profound impact on many aspects of life. It changed the way that customers engage with businesses as well as the needs and expectations of employees. Along with many other businesses, Community Bank must continue to be adaptable in the post pandemic environment to attract and retain valuable human resources. Employee engagement correlates to the customer experience as well, so in order to continue exceeding expectations, Community Bank must focus on the employee experience as well. Employees expect to keep some or all of the flexibility they had during the pandemic in terms of remote work and opportunities to balance work and life obligations. Expansion of remote work capabilities, revitalization of the mission, vision and values and the implementation of tools for measuring and monitoring employee engagement must be priorities for Community Bank to maintain its culture of excellence and competitive edge in the post pandemic world.

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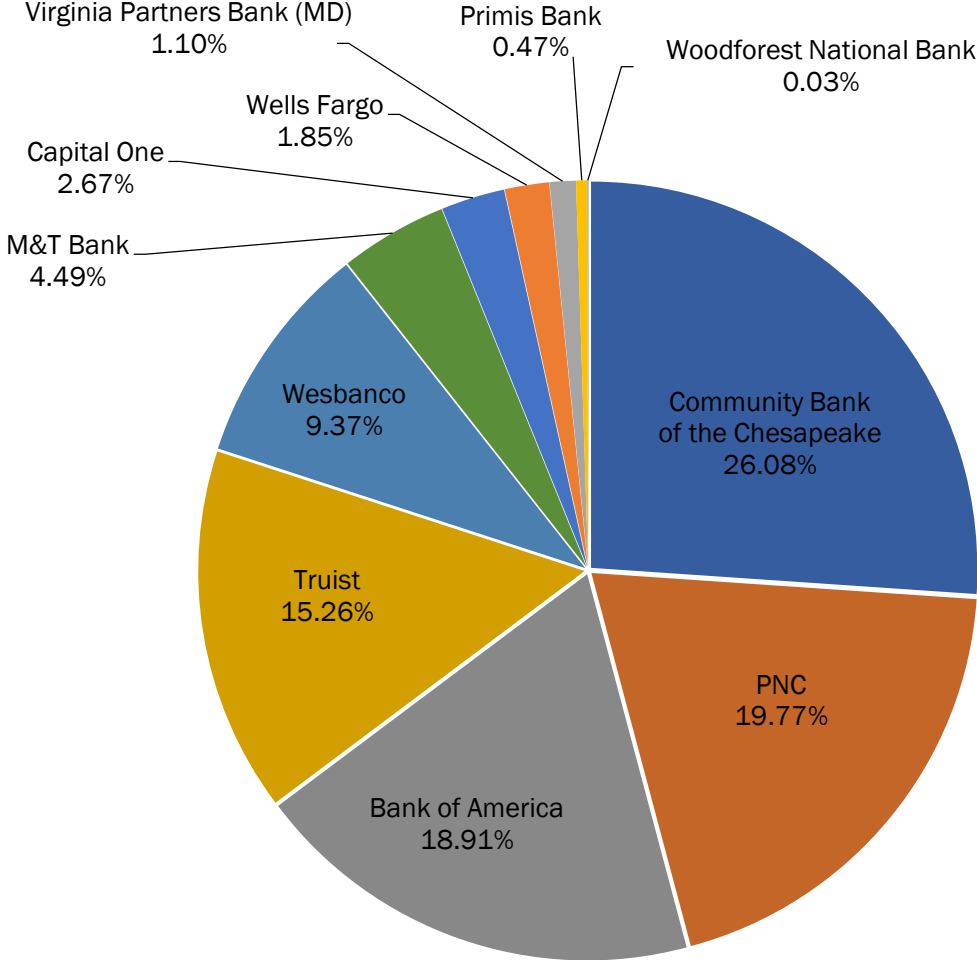
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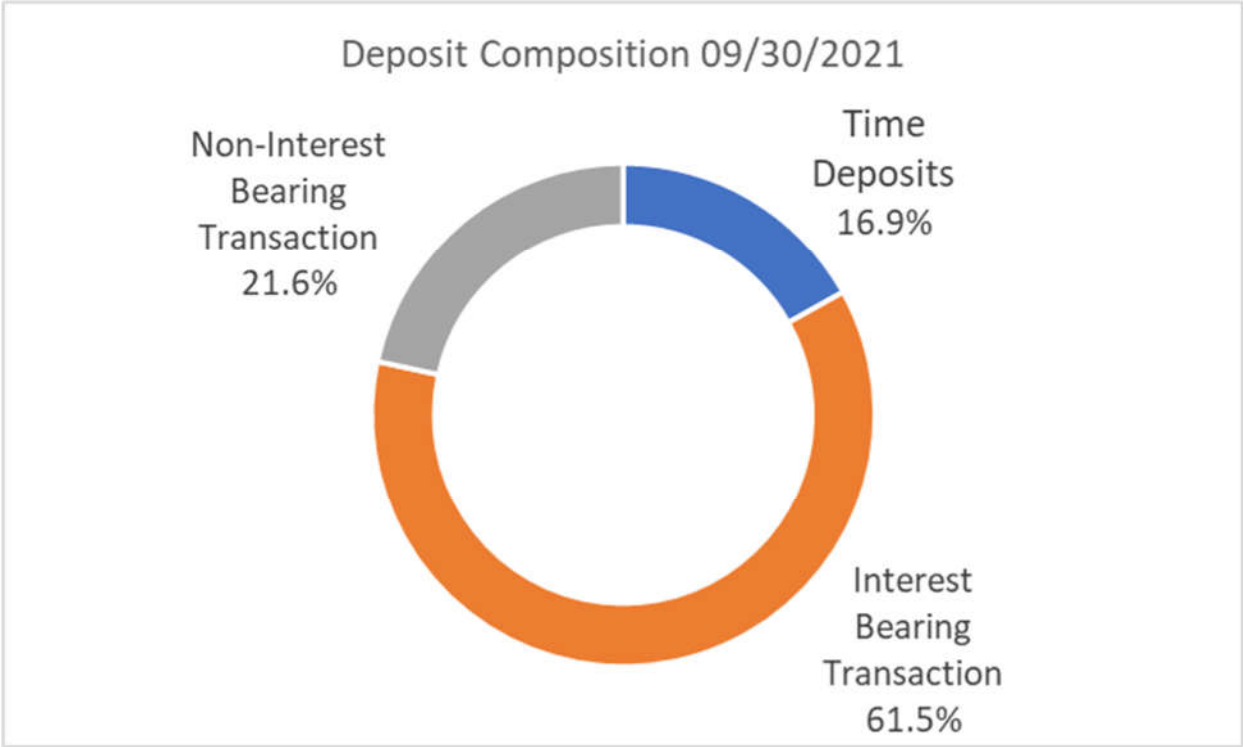
Appendix 1: 2021 Fredericksburg City Market Share



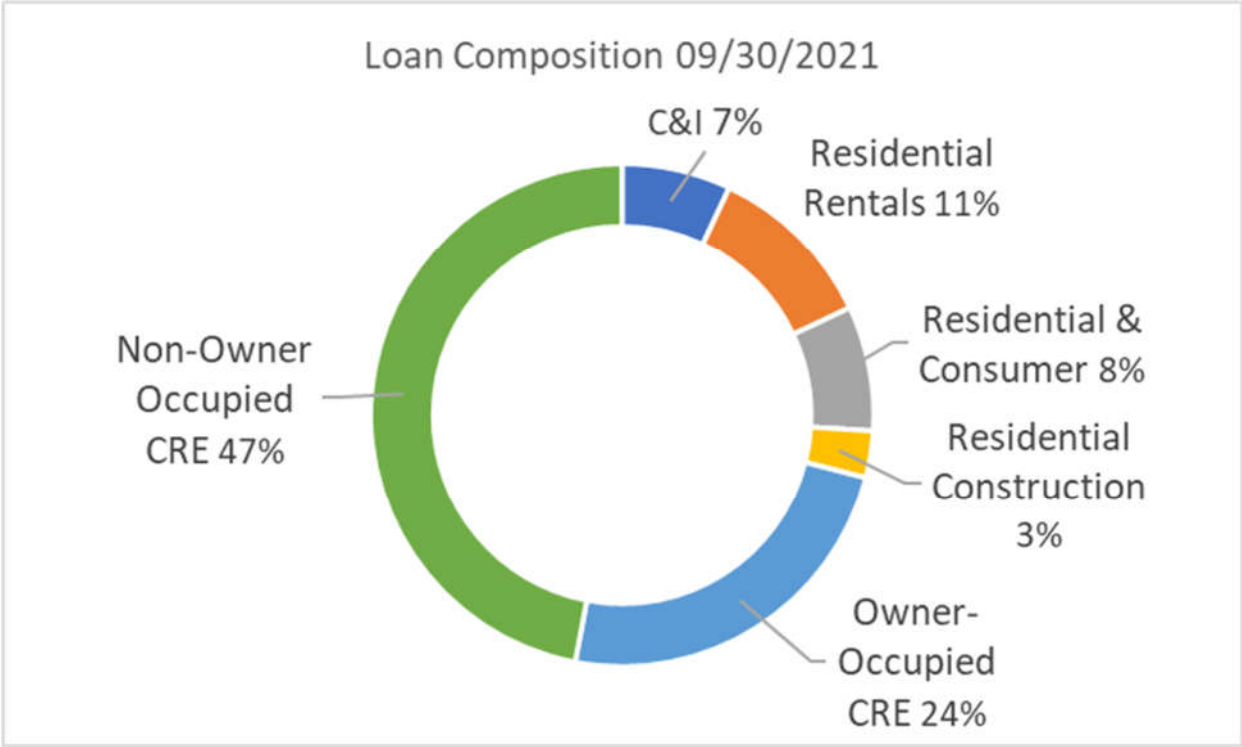
Appendix 2: 2021 Maryland Market Share (Tri-County)



Appendix 3: Deposit Composition



Appendix 4: Loan Composition



U.S. Small Business Administration Payroll Protection Program of \$56.4 million as of September 30, 2021 are excluded from the above metrics due to their temporary nature.

Appendix 5: Culture of Excellence – Mission/Vision/Values



CULTURE OF EXCELLENCE

OUR MISSION

To exceed the expectations of our community, today and tomorrow.

OUR VISION

We will provide our customers, employees and shareholders the innovative resources and solutions to achieve personal and financial success.

OUR VALUES & BEHAVIORAL STANDARDS

Elevate Your Community: We are always *community-focused*.

- We will invest our time, talent and resources in the communities where we live and work.
- We will build relationships that will benefit our communities.

Xtend Respect To Everyone: We embrace *diversity* and appreciate differences.

- We will treat all customers and employees with fairness, respect and equality.
- We will not tolerate any form of discrimination.
- We will respect the differences of our employees and customers.

Communicate Clearly: We are *communicative* and timely.

- We will share accurate, thorough and organized information.
- We will respond within one business day to customer and employee inquiries, concerns and complaints.
- We will commit to being responsible communicators and will not initiate or participate in gossip, instead we will ask the appropriate people.

Embody Professionalism: Your *professionalism* reflects our bank's identity.

- We will be the role model for others to follow by representing the Bank in a way that reflects our core values.
- We will project a positive image through our behaviors, attitude and appearance.
- We will be aware of our surroundings and maintain clean and organized facilities and records at all times.

Embrace Accountability: *Accountability* means accepting responsibility.

- We will accept the responsibility for all of our mistakes and corrective actions.
- We will accept responsibility for our actions and hold employees accountable to our values at all times.
- We will accept ownership of all opportunities, problems and challenges.

Do the Right Thing: Have *integrity* because it's the right thing to do.

- We will act honestly and ethically to protect the interests of our customers, employees and company at all times.
- We will initiate proper and appropriate actions regardless of who benefits.
- We will be truthful at all times.