Talent Retention at Community Banks: A Case Study

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ABSTRACT

Community banks pride themselves on relationship banking. These relationships are the core strength of community banks. Employee talent development and retention are integral to the success of community banks. The purpose of this paper is to examine a talent retention, training, and succession planning at community banks through a case study of The Murray Bank.

Keywords: community banking, succession planning, talent retention

INTRODUCTION

The Murray Bank (TMB) was established in 1999 to create a bank that would focus on investing in the local community of Murray, KY (Murray). There were many initial concerns with the founding of TMB, as there were fifteen other banks within the Murray city limits. However, TMB quickly incorporated its efficient and effective business strategies to give it a competitive advantage and retain clients through a more personalized approach. TMB turned its smaller size and smaller service menu into a strength by doing what other banks could not or would not: service their clients on the ground level of their operations, prioritize the community above the interests of their profits, and engage their staff to invest in the community.

TMB's motto, "That's *My* Bank," exemplifies the business philosophy, as they prioritize the community of Murray more than any other bank. It is unsurprising that, despite being such a young bank, TMB has won the Murray-Calloway's Choice Award of "Favorite Bank" for the past nineteen years; a testament to their customer service.

FINANCIAL ANALYSIS

With its longstanding history and commitment to serving the local community, TMB has established itself as a trusted financial institution. We conduct a quantitative approach by examination of the bank's financial position employs the use of Uniform Bank Performance Report (UBPR), FedFis report data, and a peer group curated with regional and size-specific data to provide a more transparent and accurate comparison (developed using FedFis data. Banks within a $300 million to $500 million total asset class ending in December 2022 were included in the initial sample. The sample was then narrowed to include banks in the geographic vicinity of Murray Bank. These states included Kentucky, Tennessee, Mississippi, Ohio, Illinois, Missouri, Alabama, Arkansas, Georgia, Indiana, Virginia, South Carolina, and North Carolina. This results in a total of 265 banks in our peer group labeled the "Midwestern Peer Group" abbreviated MWPG. Additionally, interviews with The Murray Bank's executives, managers, and the bank's primary regulator Thomas Grasch were administered to gather necessary information and clarify the different business strategies used.

Based on our financial analysis of Murray Bank and the MWPG, the bank has performed comparably well in recent years. Murray Bank has reported consistent and above-average growth in its assets, loans, and deposits, indicating an expanding portfolio and client base. Murray Bank's profitability has also been stable through the past five years (Figure 1), as it has seen consistently high returns on its investments despite enduring such financially concerning times. Furthermore, the bank's credit quality appears strong, as evidenced by its low non-performing asset ratios and adequate loan loss provisions. Finally, its liquidity, while relatively risk-driven, has produced much growth for Murray Bank's profits.

Murray Bank's high capitalization and low liquidity means that the bank has a strong financial position in terms of its capital reserves, but it may face challenges in meeting short-term payment obligations or converting its assets into cash quickly. Murray Bank has expanded immensely due to aggressive strategies.

In the last five years, Murray Bank's net income increased by 37%, going from $4,142,000 in 2018 to $5,697,000 in 2022. Net income has consistently grown since inception, reaching its career peak in the December 2021 quarter, as seen in Figure 2.

Capital levels for Murray Bank signify a strongly capitalized stance (Figure 3). The bank's current capitalization adequacy ratio (CAR) has been consistently higher than 8%, the mandated minimum CAR amount as of January 2023's Basal 3 Accord. As of the most recent financial statement, Murray Bank reported a CAR of 14.62% (BIS, 2023). This increase indicates the bank has sufficient capital to support its growth and absorb potential losses in a stressed economic environment. Moreover, the bank's Tier 1 capital ratio, which measures its core capital against its risk-weighted assets, is well above the regulatory requirement. This additional increase shows that the bank has a solid financial base to support its operations and absorb losses. Overall, Murray Bank's capital levels appear healthy and well above the regulatory requirements, indicating its strong financial foundation to support its growth and withstand potential economic downturns.

Compared to MWPG, Murray Bank's Tier 1 capital ratio surpassed the MWPG in 2020 and has continued that pattern (figure 4). Murray Bank has prioritized the safety of their customer's assets above all else in their company. Similarly, Murray Bank's leverage ratio has consistently been lower than MWPG's. As per the Basal 3 Accord, the leverage ratio rose to 3% for banks within Tier 1 status. Murray Bank exceeds this standard with an average leverage ratio in the past five years of 9.05%, while the MWPG averages 11.39%, as seen in figure 5. These numbers suggest that the bank's competition is less protected than Murray Bank. This safer approach may limit the bank's ability to expand its operations or exploit growth opportunities. President Bob Hargrove emphasizes that the bank's goal of protecting clients is of greater importance than potential higher returns in his statement, "While Murray Bank wants to advance its profits to the best of its ability, keeping its reputation as a safe and trustworthy bank is its top priority. The financial board of Murray Bank wants to take every precaution before making risky decisions like decreasing capital so as not to worry shareholders and customers."

TALENT RETENTION

According to Catherine Lanier, the HR representative of Murray Bank, Murray Bank's hiring philosophy has been to adapt to the changing times. They have increased benefits, prioritized better work-life balance with employees, and raised wages to keep up with inflation. In addition, Bob Hargrove emphasized that their retirement package match has increased from 4% before the pandemic to 6% to keep up with the inflation and keep competitive for their employees. Murray Bank's goal is for its employees to know they take precedence over the profits and numbers. This "others before self" environment have established a welcoming and encouraging atmosphere for the staff that makes people want to stick around.

Executive leadership

Many of Murray Bank's executive team have been with the bank since inception. For example, the CEO and CFO are both approaching retirement and have been with the bank since its second year of business. In being able to grow alongside the bank, upper-level management has learned the bank's ins and outs and have gained valuable experience to reach their current level of success. This future transition to retirement, has increased the need for a quality succession plan.

The institution's succession planning is driven heavily by its shareholders. Hargrove outlines how the current Board of Directors and bank founders are deeply invested in the bank's success and work to ensure all succession planning. The bank uses a combination of internal succession planning alongside leadership succession planning since they are responsible for filling such an essential role in the company. They strive to find the best candidates within the company and train them so they can confidently take over and excel in the new leadership role.

Lower level management succession planning falls under the responsibility of the CEO and senior management. When undergoing the selection process, “I stay firm in my senior management philosophy to surround myself with good people who can allow you to stay out of their way and let them do their job. We look for individuals who will excel individually while also strengthening our core values and mission to build a culture of teamwork” (Hargrove, 2023). These values have been very advantageous over the years. Current employees are encouraged to learn and competently perform multiple tasks should the need arise or a position suddenly open.

Biggest obstacle to current succession plan

In of the majority of TMB’s 24-year span, the institution has been under the leadership and guidance of both Hargrove, CEO, and Marla Geib, CFO. However, the time has come for Hargrove and Geib to retire. This has resulted in TMB preparing for its first significant change in corporate management. With upcoming retirements, TMB’s biggest challenge in succession planning will revolve around replacing these two top positions, a challenge the board has worked to complete for several years.

In the case of President, TMB decided to make an internal hire, a true testament of the institution’s servitude mindset towards everyone, including its employees. There were three trusted executives currently employed at TMB whom Hargrove felt comfortable enough to recommend to the board to fill the role of President. With any of these three, he knew he would be leaving the company in good hands (Hargrove, 2023; Greib, 2023). All candidates have had in-depth interview discussions amongst the Board of Directors. The board began an elimination processes amongst nominees to narrow their selection and completed all due diligence to ensure a smooth transition to a qualified individual

Replacing the CFO has been a notable challenge for Hargrove because there is still uncertainty regarding filling this role. Rather than internal succession planning, Murray Bank may resort to external succession planning and “hire someone out of the market to work remotely. That may be the first step in this transition regarding remote workers replacing the position at Murray Bank.” (Hargrove, 2023). Despite the challenge, TMB’s executives work diligently to ensure the company is well-prepared for change and choose candidates who will leave the company in a better state than it began.

At the end of the day, Hargrove and the Board of Directors rely heavily on their succession planning skills to find the best-suited individual. They remain open to outside applicants within Murray or remote to find the most qualified candidate for the role. They recognize the importance of hiring the right person to ensure TMB stays within both its success levels and its core values (Hargrove, 2023).

Mid- and lower-level employees

TMB has also sourced employees from younger generations in recent years. Holding true to its business philosophy of prioritizing the community, TMB is known for providing Generation Z with both part-time jobs and internships. “One of the biggest things that have assisted us has been the University [Murray State University] and students wanting part-time jobs in finance, as a teller, or whatever is available, position-wise. Having these opportunities takes away a lot of the pressure and helps us find well-driven and stable candidates as new positions within the company become available" (Hargrove, 2023). Such a hiring approach has been one of the institution's most significant advantages is having a wide range of workers of all ages to target each generational audience of customers.

While TMB typically sources upper-level management from inside the company, the institution does not have a set program to channel lower-level employees directly to executive positions. Employees at TMB who show themselves invested in their job are recognized by leadership quickly and are given a chance to advance their knowledge and rank within the bank. Training costs and banking schools are expensive; employees who wish to grow within the organization must be very self-motivated and show initiative. For example, Eleisha Brown, Compliance Officer, began her journey with TMB as a teller but "learned the ropes" of the business and was promoted as leadership recognized her potential (Brown, 2023). She believes it is essential for all of her employees to have a broad knowledge of banking. Such knowledge enables employees the freedom to advance in many different directions within the company. Ty Holtgrewe, a Vice-President loan officer, spoke of how important it has become for a new person to learn not only the basic principles of banking but also the latest technological advances to succeed (Holtgrewe, 2023). The bank does offer hands-on training and shadowing to help employees learn and retain new skills. TMB ensures employees are self-sufficient while keeping their new hires manageable. This is especially important with the employees interacting directly with customers.

In the last five years, the bank has established a mid-management training group to help focus specifically on effective and efficient training for new hires. They have also established that they will meet leaders within a new mid-management group, allowing them to engage employees more directly and personally.

The upcoming retirement of the CFO and CEO are opening doors for younger generations, such as Millennials and Generation Z, to take over and further transform the local institution (Holtgrewe, 2023).

CONCLUSION

The staffing report shows The Murray Bank's (TMB) generous and innovative spirit begins with leadership and influences the entire company's operations. With the upcoming exit of their most prominent executives, TMB will certainly be tested, but within the company lies a sturdy foundation. A solid succession plan ensures continuity in leadership. With the support of the community and the board, TMB is well placed to weather this move well.

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APPENDIX

FIGURE 1
MURRAY BANK VS MWPG: ROE

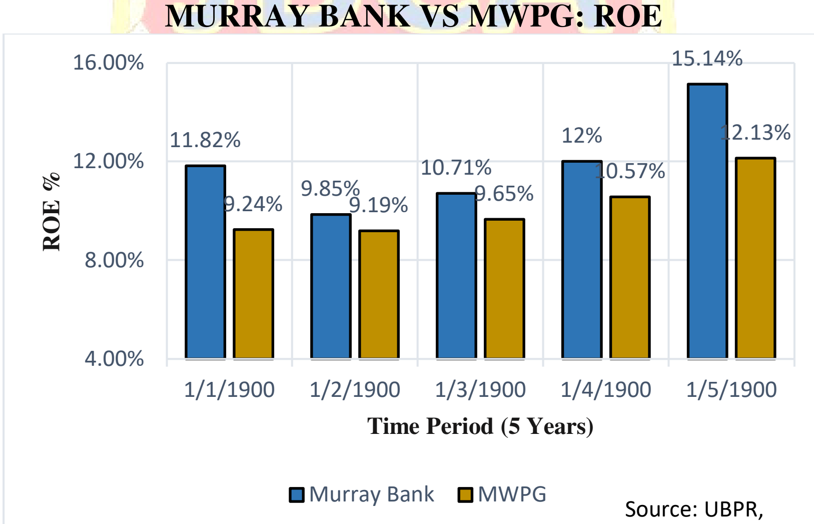

FIGURE 2
Murray Bank Net Income

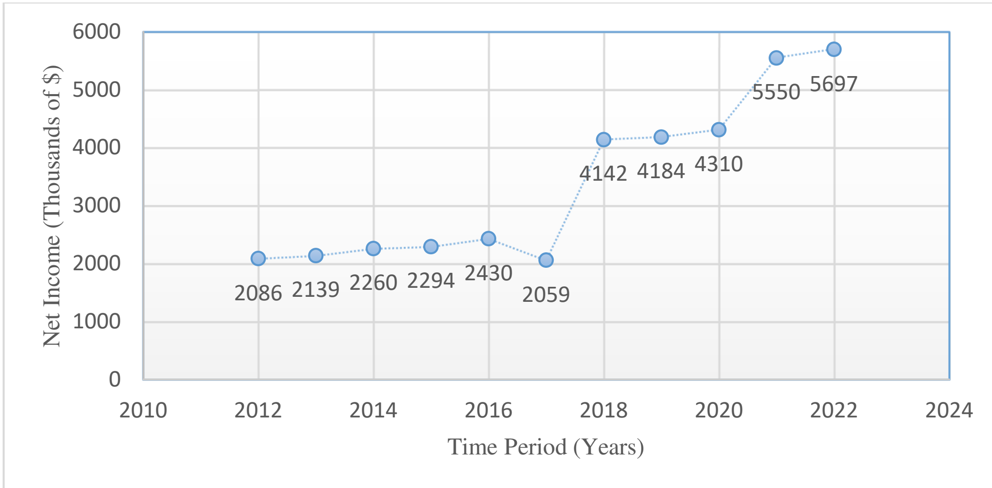

FIGURE 3
Murray Bank Capital Adequacy Ratio

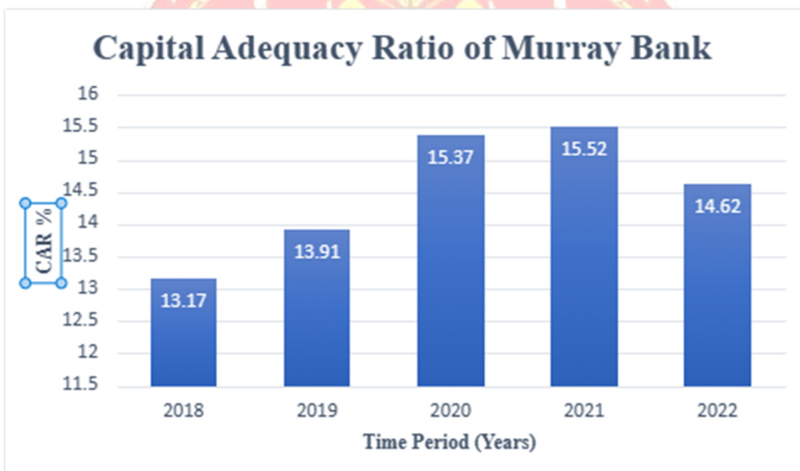

FIGURE 4
Murray Bank vs Peer Tier 1 Capital Ratio

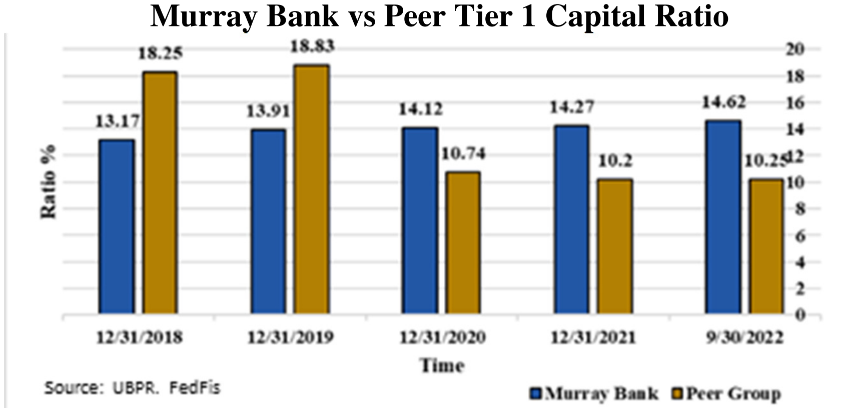

FIGURE 5

Murray Bank vs Peer Leverage Ratio