



THE BANK EXPERIENCE REINFORCEMENT STRATEGY

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Executive Summary

Bank Holding Company (BHC) is a \$20 billion multi-bank holding company, which is publicly traded. BHC owns 100% of the common stock of six community banks – XXX, XXX, XXX, XXX, XXX, and XXX. BHC has made a significant investment in the company culture over the past few years. A third party, XXX, was engaged to assist the company in “unfreezing” the culture and introducing key concepts to shape the culture. This is known internally to employees as the Bank Experience. These in-person “unfreezing” sessions have now reached over 73% of the company’s employees, with the number continuing to grow through the end of 2018.

A reinforcement strategy is now needed to determine how to keep these concepts fresh and alive in the culture. Reinforcement will be needed to embed the concepts within the fabric of the company. Overall, the Bank Experience has been making a great impact on the culture of the company. Employees are using the concepts in their daily language. In addition, many behaviors, such as playing the role of the victim, rather than taking accountability, have changed. However, without a strong, agreed upon reinforcement strategy, there is risk that the focus on the culture will decrease, concepts will be lost, and the culture will shift backward.

The reinforcement strategy will be a multi-faceted strategy, including the following 8 key components:

1. **Purpose Statement and Values** – Evaluate the purpose statement and values to ensure they are reflective of BHC and meaningful to the employees.
2. **Concept Branding** – Redesign the visual elements of the Bank Experience to be consistent with the Bank branding in order engrain them as part of the Bank culture.

3. **Culture Champion Network** – Support the Champion network with appropriate resources to reinforcement the culture throughout the company every day.
4. **Website Resources** – Enhance and combine the Bank Experience and Champion websites to become more user friendly and visually appealing. Also, ensure the website includes useful information.
5. **Culture Conversations** – Enhance the culture conversation emails to be more visual and engaging and include key points to reinforce the concept.
6. **Onboarding of New Employees** – Develop a digit delivery of the Bank Experience for new employees to receive. In addition, continue to hold in person sessions for new managers.
7. **Session to Reinforce Concepts with Senior Leadership** – Hold a reinforcement session with senior leadership, facilitated by XXX, to re-engage senior leadership in understanding the importance of their shadow.
8. **XXX User Forums** – Continue to participate in the XXX user forums and bring new ideas back to Bank.

By implementing the above strategy, employees will feel more ownership of the Bank culture. The concepts that have been learned will continually be reinforced and become embedded into everyday activities.

The direct cost of the reinforcement strategy is estimated at approximately \$50,000, which is not significant to the organization. The true financial impact relates to the savings and growth incurred as a result of an effective culture. An effective culture can improve employee engagement and customer satisfaction, which can lead to improved financial results. Conversely, if the company does not continue to reinforce and built an effective culture, there could be a

negative financial impact. If employees are disengaged, it will increase employee turnover which leads to increased cost. Also, if the culture is not conducive to attracting talent, positions would be open longer and may be filled with the wrong talent. In addition, if employees are disengaged, it will impact the experience they provide to their customer. These factors would lead to a long-term decline of competitiveness in the market and allow competitors to attract dissatisfied employees and customers.

The Bank Experience has allowed the company and the culture to become “unfrozen”. It has been making a great impact on the culture of the company. To continue to gain the benefits of an effective culture, a reinforcement strategy is needed. A strong, agreed upon reinforcement strategy will ensure the concepts are embedded into the fabric of the company. ***Reinforcement is needed to prevent a refreeze.***

Introduction/Background

Overview

Bank Holding Company (BHC) was incorporated in 1982 and became a bank holding company through the acquisition of all of Bank's outstanding stock. Bank opened its doors in 1882 and was organized by a group of local merchants and farmers in XXX, with initial capital of \$200,000. The bank's name was chosen to honor XXX County native, XXX. Mr. XXXX, an inventor, engineer, and artist is best known for designing and building the Clermont, the first successful commercial steamboat.

Bank's first president was John Bitner. While his training was as a cabinetmaker, community leaders recognized him as one of XXX's most progressive and sound businessmen. During the first World War, manpower shortages decimated the banking workforce as men either enlisted or took alternative jobs to support the war effort. As a result, for the first time, women began to enter the banking profession, albeit in behind the scenes clerical roles. Although many banks did not survive the Depression, Bank came through positioned in the industry by conservatism. This was what many customers sought after the painful financial lessons of the 1920s. In the 1940s Bank began to expand its presence by acquiring other local banks. Between 1948 and 1974 Bank acquired eight banks.

In 1982, coinciding with its 100th anniversary, Bank formed a holding company and became a wholly owned subsidiary and the flagship bank of BHC. The formation of the holding company paved the way for 25 in-state and out-of-state bank acquisitions, with the last being XXX in 2006.

Today BHC is a \$X billion multi-bank holding company, which is publicly traded. BHC's stock is listed on NASDAQ under the symbol XXX. BHC owns 100% of the common stock of

six community banks – XXX, XXX, XXX, XXX, XXX, and XXX. These six banks are located primarily in suburban or semi-rural geographic markets throughout a five state region: XXX, XXX, XXX, XXX, and XXX. They currently operate 243 branch locations. The community banks range in asset size from \$X to \$X. BHC remains headquartered in XXX.

The following chart shows the coverage of each of BHC’s affiliate banks over XXX, XXX, XXX, XXX and XXX as of June 30, 2018:

XX

Each of the banking affiliates delivers financial services in a highly personalized community - oriented style that emphasizes relationship banking. Where appropriate, operations are centralized through common platforms and back-office functions. The affiliate banks are located in areas that are home to a wide range of manufacturing, distribution, health care, and other service companies. Each of the affiliate banks offers a full range of consumer and commercial banking products and services in its local market area. XXX, a division of Bank, offers investment management, trust, brokerage, insurance, and investment advisory services. XXX provides its clients life insurance products and residential mortgages are offered through XXX.

BHC has announced its plans to begin the process of consolidating its six banks. Regulatory approval has been obtained for the merger of XXX and XXX into Bank during the fourth quarter of 2018. As a result of the plans to consolidate the affiliate banks, BHC has structured itself internally into four geographic regions: XXX, XXX, XXX, and XXX. However, it is also transitioning to a business model that is less oriented on geographic boundaries and will

instead focus more on alignment with the customer segments that BHC serves. The segments have been identified as the commercial and consumer lines of business. This multi-year process is expected to result in BHC conducting its core banking business through a single bank, Bank.

Market Share

According to the June 30, 2017 FDIC Deposit Market Share report, BHC's deposits and market share ranking for each market are as follows:

Region	Deposits (\$000)	Market Share %	Market Share Rank
XXX	\$6,211,497	14.25%	1 st
XXX*	\$3,101,585	2.89%	9 th
XXX	\$3,363,309	1.95%	12 th
XXX	\$2,616,235	0.42%	18 th

* Excludes XXX County as BHC did not have any branches in the county as of June 30, 2017.

BHC has the highest market share in the XXX region as this is where Bank originated over 100 years ago. It is ranked first within two of the twelve counties within this region. In contrast, BHC is ranked 18th within the XXX region. BHC entered the XXX market in 2004 as the result of an acquisition. However, expansion has been slow within the state and it is farthest from the flagship headquarters.

Competition across the footprint varies from large financial institutions, such as Wells Fargo, to small community banks. The following competitors are consistent across the four regions:

- Wells Fargo
- M&T Bank
- PNC
- BB&T

Within the XXX region where BHC ranked 18th, the six top banks held over 75% of the market share. These banks, as noted below, are all large financial institutions:

- Capital One
- TD Bank
- Discover Bank
- Chase Bank
- Bank of America
- Wells Fargo

Financial Summary

BHC has a strong balance sheet as of June 30, 2018 with XXX in assets. Assets primarily consist of net loans of XXX and investments of \$XXX. As a result of the acquisitions over the years, there is \$XXX of goodwill and other intangible assets on the balance sheet. BHC generated \$XXX of net income through June 30, 2018. Interest income has increased as a result of the Federal Reserve interest rate increases. BHC's balance sheet is asset sensitive. A reduction in income taxes was also generated due to the Tax Cuts and Jobs Act of 2017, which reduced the corporate tax rate from 35% to 21%.

BHC is well capitalized with total capital to risk weighted assets of X%. The capital ratios exceed all regulatory capital adequacy requirements, even with the fully phased-in capital conservation buffers.

Culture

BHC has made a significant investment in the company culture over the past few years. A third party, XXX, was engaged to assist the company in “unfreezing” the culture and introducing key concepts to shape the culture. This is known internally to employees as the Bank Experience. These in-person “unfreezing” sessions have now reached over 73% of the company's employees,

with the number continuing to grow through the end of 2018. See the map below for statistics as of June 30, 2018:

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A reinforcement strategy is now needed to determine how to keep these concepts fresh and alive in the culture. Reinforcement will be needed to embed the concepts within the fabric of the company. Overall, the Bank Experience has been making a great impact on the culture of the company. Employees are using the concepts in their daily language. In addition, many behaviors, such as playing the role of the victim, rather than taking accountability, have changed. However, without a strong, agreed upon reinforcement strategy, there is risk that the focus on the culture will decrease, concepts will be lost, and the culture will shift backward.

Strategy/Implementation

An organization's culture plays a significant role in its ability to achieve its goals and to successfully execute its strategic plans. It is a critical component of a company's operations that influences decisions and actions taken in response to the challenges and opportunities it faces. Successful companies shape their cultures instead of allowing their cultures to shape the company. An effective culture will drive organizational results by creating high-performing teams and shifting the mindset and behaviors of leaders and employees. Companies with healthy and well realized cultures are also more innovative. Culture creates the strongest performance when employees know what the culture is and it is strongly and consistently reinforced in multiple ways, starting from the hiring process.

BHC's priorities per the Strategic Plan are as follows:

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An effective culture will support all of these priorities, as it encompasses everything the company does. It will also directly impact two key areas of the strategy: investing in talent which drives the growth blue chip and focusing on employee engagement which drives the operational excellence blue chip.

The author's role will be to develop the reinforcement strategy. The strategy will be reviewed by the Culture Leadership Team, which consists of the author and four members of Senior Management. Once the strategy is agreed upon the author will coordinate the appropriate resources within the organization to execute the strategy. Development of this strategy provides a significant opportunity to take an enterprise wide leadership role outside of the author's normal Internal Audit responsibilities. It will be an opportunity to collaborate and lead colleagues from across many different areas of the bank.

Reinforcement Strategy

The reinforcement strategy will be a multi-faceted strategy. The following outlines the eight key components of the strategy:

1. Purpose Statement and Values

The basis of a culture needs to start with the purpose and values of a company. During the initial journey with XXX the Purpose Statement and Values were revised. Bank's Purpose Statement is as follows:

**We care about our relationships,
we listen to what truly matters,
and we deliver beyond what is expected
to change lives for the better.**

Until recently, Bank leadership has not used the Purpose Statement in many venues, such as town hall meetings or other senior management speeches. As a result, employees are not aware of the Purpose Statement. The Statement is not easily found on the intranet, the HUB, or within the company headquarters either. However, recently senior management has been making reference to the purpose of "changing lives for the better". It is recommended that the Purpose Statement be updated to:

We change lives for the better.

This is much easier for employees to remember and to truly understand and appreciate.

Employees will feel more connected to the company when they know the purpose and can see how they support the purpose in the work they do every day.

Values are simply what is important to an organization and they define expectations for internal conduct and for interactions with customers and others outside the organization. Bank has the following six values with underlying guiding behaviors:

Change: We innovate by continuously learning and improving with a spirit of curiosity.

- We look for new ways to reach our goals
- We encourage each other to share individual perspectives on topics
- We strive for continual learning

Collaboration: We work together. We win together.

- We create trusting, respectful relationship
- We challenge each other to be the best
- We work toward a common goal

Customer Focus: We Care, Listen, Understand, and Deliver.

- We understand and anticipate the future needs of our customer
- We consider the impact of decisions on customers
- We deliver an exceptional experience

Ethics and Integrity: We do what is right.

- We demonstrate the highest professional and ethical standards
- We deliver on commitments
- We are honest with people

Performance: We are driven to out-perform our competitors. I own my results.

- We know and understand our objectives
- We live our values while we deliver results
- We provide and accept feedback
- We do what needs to be done – even when it is hard

Organizational Health: We bring positive energy to all we do.

- We are purpose-driven and passionate
- We recognize and celebrate effort and accomplishment
- We support one another

These are very lengthy and as a result difficult for employees to remember. If they don't remember the values, they cannot be used to drive the culture. The recommendation is to reduce

the number of values and use phrases the employees can remember and that have meaning to them. The following three values are recommended:

Work together. Win together.
Care, Listen, Understand, and Deliver.
Do what is right.

All of the current six values and guiding behaviors can be summarized into these three easy phrases. The first one – **Work together. Win together.** is the most recognized and most used within the company. It summarizes the importance of collaboration, which leads to performance and financial success. The second one – **Care, Listen, Understand, and Deliver.** was a marketing slogan that was used for several years. Therefore, this is also well known and supports the company’s commitment to the customer. Finally – **Do what is right.** summarizes the overall ethics and integrity of the bank. It supports the community banking relationship based model.

In addition to updating these items, they need to be more prevalent within the Bank environment. For example, the Purpose Statement should be hung on the wall within the lobby of the buildings. It should be highlighted on the HUB page. Also, the values of the company should be worked into power point and agenda templates. These need to be continually socialized to employees for them to be instilled into the culture.

2. Concept Branding

A key element to the Reinforcement Strategy will be to “brand” the concepts as Bank’s. XXX’s materials, such as posters, Blue Chip tokens, and Be Here Now plaques are currently utilized. The posters are a visual reminder of the key concepts of the culture. To truly engrain these concepts into the Bank culture, they need to look and feel like everything else within Bank. Therefore, the posters and other materials should be redesigned to be consistent with the Bank

branding, such as coloring and logos. The overall concept and message of the posters will not change.

Finally, as part of the rebranding, a token to symbolize the culture should be created. The Culture Champions (see section three of the strategy for more information on Culture Champions) have used a puzzle piece to symbolize their role as a Champion. As Champions they are the essential “piece of the puzzle”. This has been used in various ways, such as pins, email signatures, invitations, thank you cards, and gifts. Bank needs a symbol for the entire employee base to rally behind.

3. Culture Champion Network

Currently the main vehicle for reinforcement is through the Culture Champions. When leaving the unfreezing sessions, an employee has the opportunity to sign up to be a Champion. The role of the Champion is to help the leader of the department reinforce and maintain awareness of the concepts. They also serve as a role model for the concepts. To support the Champions in their role, there is a Champion Culture Action Team (CAT). The CAT is made up of fourteen people from different areas of the organization. The goal of the CAT is to provide the network of Champions resources, information, and tools to support and foster an inclusive environment of teamwork and collaboration.

As the CAT plays such an important role, it is key to ensure the appropriate people are on the team. Therefore, a review of the team members will need to occur. Some team members have been more involved than others. In addition, ensuring that there is appropriate representation from both the commercial and consumer lines of business and also shared service to represent the needs of each line of business.

To enhance engagement and accountability of the CAT, each member will be assigned to a sub-committee which will have ownership for a component of the program. Ownership areas will include the following:

- **New Champions and Champion Coverage** – When new Champions join the team, there is a call held to educate them on their new role. A CAT member will be responsible for leading those calls. Also, a CAT member will review the resources the new Champions are currently provided and update them as needed. They would also serve as a resource for new Champions as they have questions. In addition, as there will no longer be in person “unfreezing” sessions, it will need to be determined how new Champions will be identified. Also, continuously reviewing the Champion network to ensure all areas of the organization have appropriate representation.
- **Concept Resources** – There is a resource document on the HUB for each of the twelve culture concepts. These documents include activities Champions can conduct with their teams and quotes that emphasize the topic. A member of the CAT will be responsible for ensuring that the resources are updated to ensure there are fresh ideas for the Champions to use. Focus groups could be formed to get input from the Champions throughout the organization.
- **Annual Champion Meeting** – For two consecutive years, a Champion meeting has been held. This is a daylong event where all Champions are brought together. The event serves as an opportunity for Champions to network with other Champions. Activities are held to reenergize them around the concepts and their role as a Champion. For the first time in 2018, a Champion’s Champion award was presented. As this event takes significant planning, a member of the CAT will be responsible for creating a planning committee

and executing the event. They will serve as the Chair of the Committee. An additional CAT member will serve as Vice-Chair to be prepared to Chair the event the following year.

- **Communication** – Currently there is a monthly Champion collaboration call. A few members of the CAT serve as facilitators for the call. A member of the CAT will be responsible for setting the agenda for the monthly call and organizing the facilitator schedule. In addition, consideration is needed of how we communicate with the Champions. Currently emails to the team come from various members, which can be confusing to the Champions. They also do not know who to contact with questions. Therefore, a Bank Experience email mailbox should be created. This will allow all communications to come from this email and questions can be submitted there as well. This also allows meeting makers to be sent from the mailbox and not from an individual's email. In the past, when the meeting coordinator left the organization, the meeting makers had to be deleted and resent by someone else. This would alleviate the administrative burden.

Finally, there will be consideration of what additional communications there will be with the Champions. For example, developing posts on the HUB related to monthly concepts and mid-month Champion emails. Periodic “Champion Coffee” sessions would also be an opportunity to bring Champions together. These would be informal, non-mandatory sessions where Champions can gather for an hour to share ideas and network with each other.

- **Website Update and Maintenance** – As discussed further below in number four of the strategy, the websites related to the Bank Experience need to be redesigned to be more

user friendly. A CAT member will need to develop a focus group to share ideas of how to improve the site. They will also be responsible for updating and maintaining it going forward. For example, uploading a summary and pictures from culture activities that take place across the company.

Strong leadership on the Champion CAT and execution of components of the program are instrumental in ensuring the Champions are engaged throughout the company.

4. Website Resources

Currently there are two main web pages within the HUB, the Bank Experience page and the Culture Champion Community of Practice collaboration page. The Bank Experience page is available to all employees and is accessible from the main page of the HUB. The page is currently owned by the Corporate Communications department. The page is somewhat visually appealing. It contains boxes for each of the key concepts and links to the supporting XXX poster and a brief explanation of the concept. There is a tab that includes the list of BHC's values and guiding behaviors and the purpose, mission, and vision statement. The next tab is for Culture Champions. It provides a list of the current Champions and the concepts of the month for the next quarter. Overall, this page provides limited information, but highlights the basic concepts which may be helpful to newer employees.

The Culture Champion Community of Practice page is a collaborative page for the Champions. All Champions have the ability to view and edit the page. The page includes the following key areas: meeting agendas, culture concept resources, and other team documents. The page is not user friendly and not visually appealing. It is primarily a list of documents. However, the information within the documents is valuable. For example, there is a resource document for each of the twelve culture concepts. These documents include resources for the Champions to

find ideas to use with their teams. The page also includes the meeting agendas and minutes for the monthly Champion collaboration calls.

In addition to the visual and organizational challenges of this website, there are also challenges with allowing all Champions the ability to edit the documents. On numerous occasions, employees have accidentally overridden the documents. It is recommended that the two pages be reviewed to determine how the pages can be merged into one page. This will eliminate confusion of which page to go to. Also, review the content and invest time to make the pages more user friendly, inviting, and informative. In addition, currently only Champions are able to access the Champion Community of Practice page. This requires administration to ensure new Champions are added and old Champions are removed. Therefore, it is recommended that all employees have access to the new combined site.

5. Culture Conversations

On a monthly basis, each employee who has attended an unfreezing session receives a culture conversation email. The culture conversations are based on the concept of the month and there is a calendar that determines the concept for each month. They consist of three questions and are used to start conversations with teams related to the concept of the month. In the beginning, these culture conversations were developed by XXX. However, in 2017 Bank began creating the questions. This is currently performed by the Champion CAT. The questions are created by Bank to ensure they are different each year since many employees have been receiving them for several years. The questions are also tied to Bank's values.

However, these emails are not visually appealing. In addition, there are no additional resources within the email to reinforce the concepts. XXX has recently previewed an expanded version of the culture conversation email. It is more visual and engaging, and includes key points

to reinforce the concept. It is recommended that these new culture conversations be explored. If it is determined it is not cost effective, then the Champion CAT should evaluate redesigning the culture conversations.

It is also recommended that once a quarter a concept be highlighted. One day per quarter can be designated where the whole company explores that concept. This can be achieved via the HUB and team activities. In addition, brief cards can be generated to support that concept that are handed out to employees as they enter in the morning.

6. Onboarding of New Employees

While the organization will be unfrozen by the end of 2018, new employees will continue to join the company. Therefore, they will need to be introduced to the culture. XXX has previewed a digital delivery that provides a summary level introduction to each of the concepts. This could be delivered as part of the training assignments new employees receive when joining the organization. It is recommended that this new digital delivery be explored. If it is determined it is not cost effective, then a group should be formed to evaluate creating our own digital delivery. However, for those new employees that will manage people, it is recommended that they continue to receive the in-person sessions. By delivering our culture concepts digitally to new employees, it will reduce the cost of in-person sessions and allow them to receive the material quickly upon their arrival.

In addition, as the unfreezing sessions are completed throughout the remainder of 2018, there will ultimately be some employees who did not attend a session. It has been challenging for branch personnel, particularly part-time tellers, to attend an in-person session due to their schedules and coverage within the branches. This digital solution can also be provided to them.

7. Session to Reinforce Concepts with Senior Leadership

The tone at the top and example that senior leadership of the company sets are what drives a culture. Leaders need to clearly articulate and reinforce the core values in their communication to employees, but this is not enough to maintain a culture. If behaviors that differ from the values are permitted, such communications will not matter. Therefore, senior leadership needs to set the example of behavior consistent with the values everyday through the shadow they cast. It is recommended that a reinforcement session be held with senior leadership and XXX to re-engage senior leadership in understanding the importance of their shadow.

8. XXX User Forums

In early 2018, XXX held its first user forum. It was hosted by two companies that have been through their own culture transformation with XXX. They shared the successes and failures they have experienced along their journey. In addition, the companies in attendance all shared ideas throughout the session. It is recommended to continue to participate in the XXX user forums. The information learned through the user forums will be brought back to Bank and shared with the Culture Leadership team.

Implementation Schedule

The goal is to relaunch the Bank Experience in early 2019; therefore, the detailed work within the reinforcement strategy needs to occur in advance of that. See the following summary of the components of the strategy and the responsible parties:

Strategy Component	Responsible Party	Due Date
1. Purpose Statement and Values	Corporate Communications	October 2018 January 2019
2. Concept Branding	Marketing	March 2019
3. Champion Network - establishment of sub committees - execution of plans	Champion CAT	October 2018 Throughout 2019
4. Website Resources	Champion CAT	January 2019
5. Culture Conversations	Human Resources	January 2019
6. Onboarding of New Employees	Human Resources	January 2019
7. Senior Leadership Reinforcement Session	Human Resources	January 2019
8. User Forums	Champion CAT	As XXX schedules

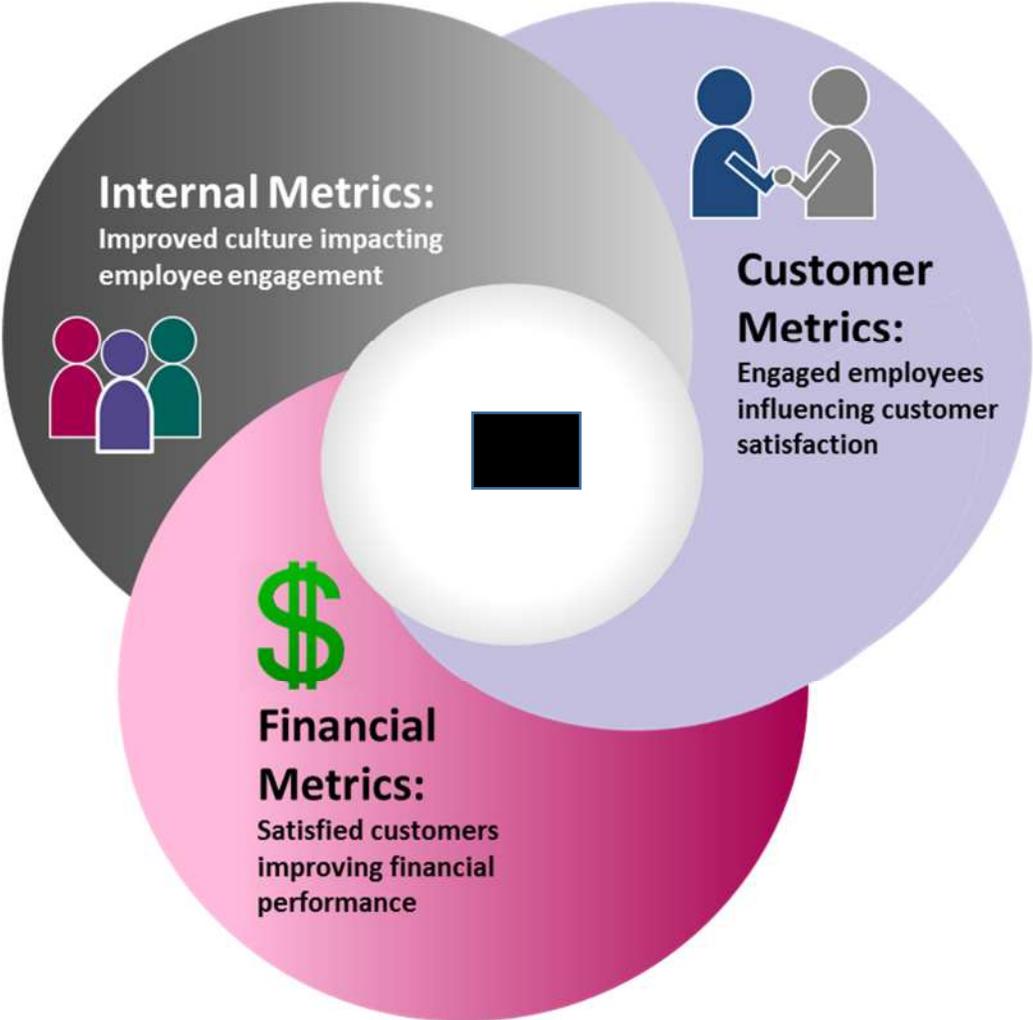
By implementing the above strategy, employees will feel more ownership of the Bank culture. The concepts that have been learned will continually be reinforced and become embedded into everyday activities. The investment that BHC has already incurred over the last year alone of approximately \$221,000 will see further return in the future. Overall a strong company culture has many benefits including, increased employee engagement and retention, improved customer loyalty, and improved financial results. These factors all lead to a competitive advantage for the organization. These factors are explored more within the Financial and Non-Financial Impact Sections below.

Financial Impact

There are few direct costs related to the reinforcement strategy. Costs will be incurred for branding materials such as the purpose statement signs, culture symbol, and new posters. The Champion Annual Meeting will incur expenses to rent the venue, provide lunch, and materials for the event. The senior leader reinforcement session will also incur direct costs to rent a venue and pay a fee to XXX to facilitate the session. However, overall these costs are estimated at

approximately \$50,000, which is not significant to the organization. The true financial impact relates to the savings and growth incurred as a result of an effective culture. Conversely, there will be expenses and losses incurred from not having an effective culture.

The success of the corporate culture initiatives can be measured in three ways: Internal Metrics, Customer Metrics, and Financial Metrics. While company culture is certainly not the only influence on these metrics, it is a way to measure the impact on the company as a whole. Also, shaping a culture is a journey over multiple years and therefore the metrics need to be measured over several years.



Internal Metrics: A strong company culture has an impact on employee engagement.

Employee engagement is the strength of the mental and emotional connection employees feel.

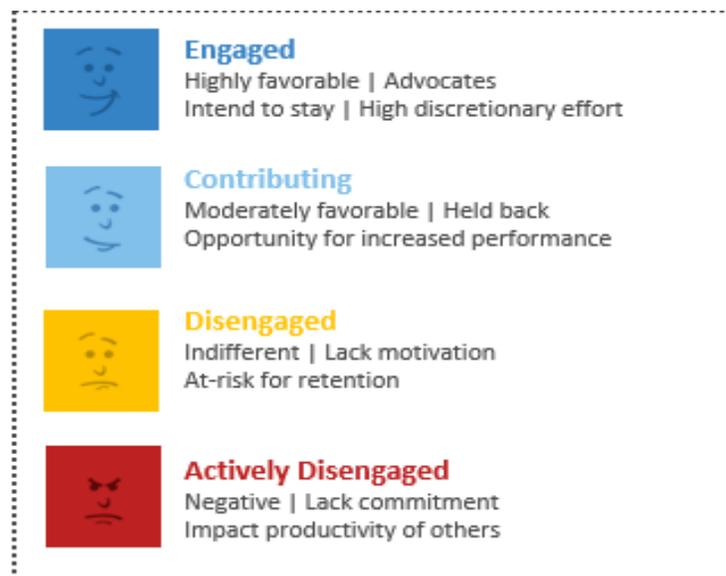
BHC completes an engagement survey on a periodic basis, approximately annually. The survey includes several questions that relate directly to the company culture, such as:

- I feel that I am appreciated by others that work for the organization.
- My manager leads by example.

There is also a question to measure the net promotor score of employees:

- How likely is it you would recommend BHC as a great place to work?

Based on the answers provided by employees to the survey, they are classified into four categories as seen below:



If employees are actively disengaged, their negative outlook impacts other employees. This increases the risk of turnover and losing strong talent. An effective culture can mitigate the risk

of actively disengaged employees and increase the amount of engaged employees. Engaged employees are advocates for the company and are positive influences to those employees around them.

An overall employee engagement index score, which is based on a subset of key questions within the survey, is then calculated based on the answers to the survey. BHC’s employee engagement index for the past three years is as follows:

February 2016	February 2017	December 2017
62.8	68	67.8

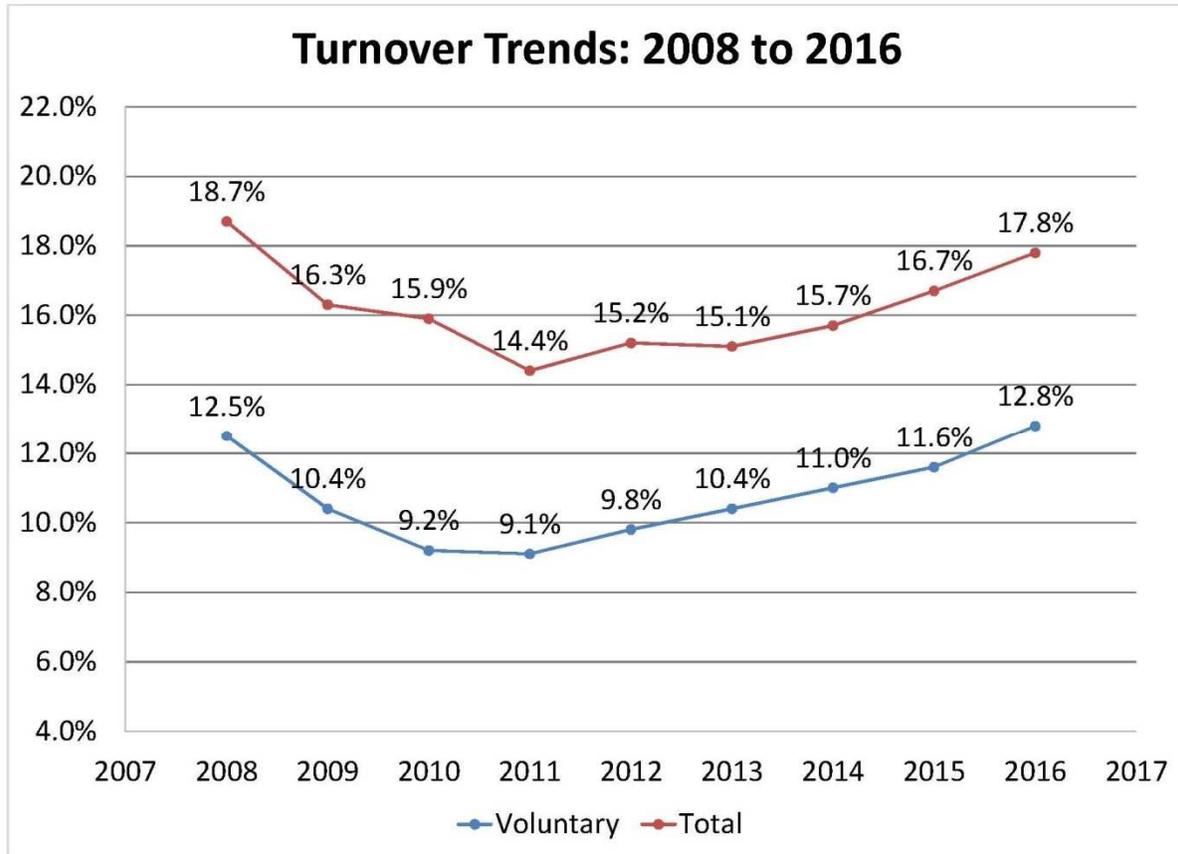
The large increase in the index from February 2016 to February 2017 corresponds to the time period when the Bank Experience began reaching a larger percentage of the employee base.

A company with a strong culture will also be able to retain talent better. When people feel like they belong to an organization, they are more likely to stay with the organization. There is a wealth of data through various studies showing the cultural fit impacts employees retention and performance. ¹ As a result, there is lower employee turnover and happier employees. BHC’s turnover percentage for the past three years is as follows:

2016	2017	2018
17.67%	16.17%	Estimated to be 19%

¹ Larry Alton, “Why Corporate Culture is Becoming Even More Important,” *Forbes*, February 17, 2017, <https://www.forbes.com/sites/larryalton/2017/02/17/why-corporate-culture-is-becoming-even-more-important/#4f0f73169dac> (Accessed August 18, 2018)

Based on information from Compensation Force, in 2016 voluntary turnover for the Banking and Finance industry was 15.3% and total turnover was 18.1%.² BHC’s data is very similar with a 17.67% turnover rate in 2016. The following chart shows turnover trends for all industries from 2008 to 2016.



Source: 2016 Turnover Rates by Industry

² Ann Bares, “2016 Turnover Rates by Industry,” *Compensation Force*, April 21, 2017, <https://www.compensationforce.com/2017/04/2016-turnover-rates-by-industry.html> (Accessed October 13, 2018)

Based on the chart, industry turnover rates have been steadily increasing since 2011. BHC saw a reduction in turnover in 2017, which deviates from the industry trends. However, BHC turnover is expected to be at its highest rate over the last three year period in 2018. This data is not surprising give the success of the current economy and growing job marketplace, despite the culture shaping initiatives.

Currently, BHC does not track the cost to onboard a new employee. However, based on data from Bersin by Deloitte, in 2017, the average cost per hire for U.S. organizations was \$4,598.³ Therefore, a reduction in employee turnover can result in a direct savings for the company. Employee turnover in 2017 was 16.17% (717 employees left the organization out of 4,433 employees). To demonstrate the financial impact a reduction in turnover can have, if turnover was reduced by 2 percentage points to 14.17% (decreasing the amount of terminated employees by 89), it would result in savings of approximately \$400,000 (89 employees * \$4,598).

An effective culture not only helps retain employees, but it also helps with employee attraction and selection. Companies that take their culture seriously actively market their culture to candidates. This allows candidates to understand more about the company culture to attract people that will thrive in the culture. One study found college students would accept an average

³ Ben Carroll and Raju Singaraju and Robin Erickson, "Talent Acquisition Benchmarking: Top 5 Findings," *Bersin, Deloitte Consulting*, <https://digital.bersin.com/article/talent-acquisition-benchmarking-top-5-findings-5704/> (Accessed November 27, 2018)

seven percent less starting pay to work for companies with cultures they value and appreciate.⁴

Attracting and selecting the candidate that is the best fit with the company culture will also have an impact on employee engagement and turnover.

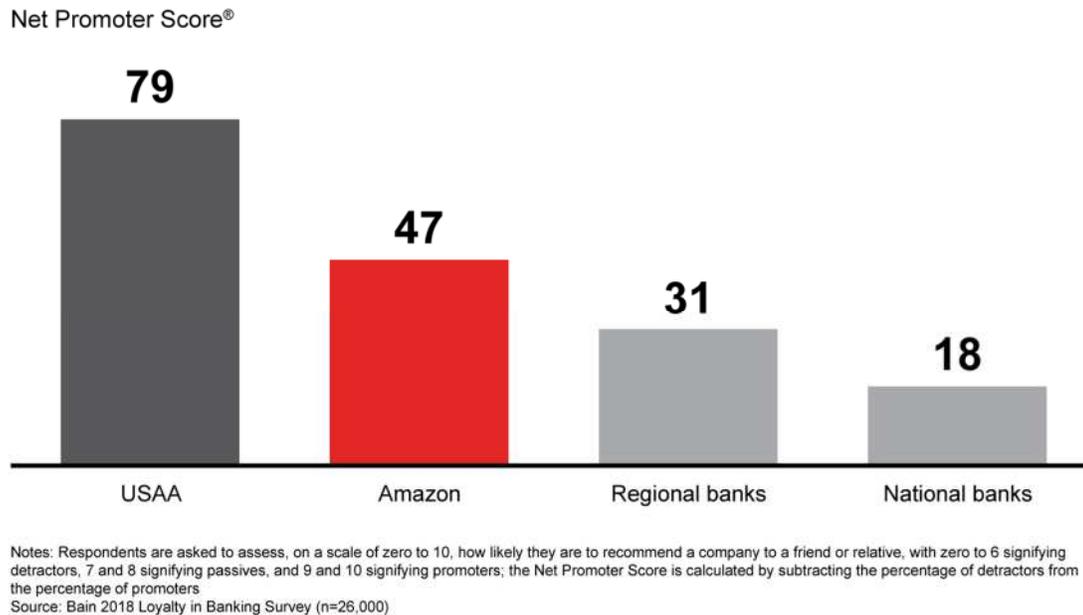
Customer Metrics: An effective corporate culture with engaged employees also influences customer satisfaction. If employees are engaged and believe in the purpose and values of the company, this will come through in customer experiences. BHC measures customer satisfaction through customer surveys. The results of the surveys are used to calculate a customer loyalty score, also known as a net promoter score. A separate score is calculated for consumer and commercial customers. The loyalty scores for the past three years are as follows:

	2016	2017	2018
Consumer Loyalty Score	48%	42%	47%
Commercial Loyalty Score	49%	50%	42%

Based on the Bain 2018 Loyalty in Banking Survey, the average net promoter score for regional banks is 31 and for national banks the score is 18. BHC's score is much more favorable averaging in the mid-40s. However, the survey also discussed the promotor score for others such

⁴ Steve Hunt, PhD, "How to Hire With Company Culture, Not Just the Job," *Monster*, <https://hiring.monster.com/hr/hr-best-practices/recruiting-hiring-advice/strategic-workforce-planning/Hire-for-the-organization.aspx> (Accessed October 13, 2018)

as Amazon, which has a much higher score at 47, and the impact Amazon could have on the traditional banking industry.⁵



An increase in customer loyalty has many benefits. Customers are more likely to bring their full banking relationship, including deposits, loans, and other fee based services to their bank. This will also be very important as nontraditional companies such as Amazon begin to enter the banking industry. This can lead to many positive financial results including growth of the balance sheet at low funding costs and increases in fee income.

To demonstrate the financial impact an increase in customer loyalty can have, if customer deposits increased by 3%, as of June 30, 2018, this would increase deposits by \$468.0 million (total deposits of \$15.6 billion * 3%). Assuming half of those deposits were interest bearing and

⁵ Gerald Du Toit and Aaron Cheris, “Can Amazon Take Customer Loyalty to the Bank?,” *Bain & Company*, September 18, 2018, <https://www.bain.com/insights/can-amazon-take-customer-loyalty-to-the-bank/> (Accessed December 29, 2018)

half were not, BHC would incur \$1.2 million in interest expense, based on the average rate of deposits of .50%. ($\$468.0 \text{ million increase in deposits} / 2 * .50\% \text{ average rate of deposits as of June 30, 2018}$). As of June 30, 2018, BHC had \$983.8 million of short-term borrowings at an average rate for the quarter of 1.18%. Therefore, if BHC would be able to use the increase in deposits of \$468.0 million rather than short term-borrowings, the cost of borrowings would be reduced by \$5.5 million ($\$468.0 \text{ million in deposits} * 1.18\% \text{ average rate of short-term borrowings}$). This would result in a net savings for BHC of \$4.3 million after the cost of the interest bearing deposits was subtracted ($\$5.5 \text{ million reduction in cost of funds} - \$1.2 \text{ million cost of the interest bearing deposits}$).

Increased customer loyalty could also lead to an increase in loan growth, as customers turn to the bank for their funding needs. If loans increased by 1% as of June 30, 2018, this would increase loans by \$157.9 million (total loans of \$15.8 billion * 1%). Assuming the new loans had an average rate of 4.32%, which is the average yield of the loan portfolio as of June 30, 2018, this would generate \$6.8 million of interest income for the year. Also, assuming short-term borrowings were used to fund the additional growth at an average rate of 1.18%, this would cost \$1.9 million ($\$157.9 \text{ million} * 1.18\%$). This would result in a net income increase of \$4.9 million ($\$6.8 \text{ million increase in interest income} - \$1.9 \text{ increase in cost of funding}$).

Non-interest income before investment security gains was \$94.9 million as of June 30, 2018. If this increased even 1% as a result of increased customer loyalty which led to increased use of products BHC offers, this would result in an additional \$950,000 of non-interest income.

Financial Metrics: As engaged employees lead to more satisfied customers, more satisfied customers lead to improved financial performance. As a public company, financial

metrics and providing a return to shareholders needs to be a focus. A key financial performance measurement is Earnings per Share. BHC's Earnings per Share for the past three years is as follows:

2016	2017	YTD 6/30/2018
\$0.93	\$0.98	\$0.48

If culture improves the first two metrics, internal and customer, there should be a correlation to financial results improvement. Using the examples above of decreased expense due to increased employee engagement and decreased employee turnover, increase in customer deposits, increase in loans, and an increase in non-interest income; the result would be a \$9.4 million increase in net income.

Net Income Impact	
Reduction in Employee Turnover	\$400,000
Increase in Deposits	\$4,300,000
Increase in Loans	\$4,900,000
Increase in Non-interest Income	\$950,000
Total Increase in Income Before Taxes	\$10,550,000
Income Taxes*	\$1,171,050
Total Increase in Net Income	\$9,378,950

* Using an effective rate of 11.1% as of June 30, 2018

As a result of a change in net income, earnings per share would also be impacted:

Earnings Per Share Impact	
Adjusted Net Income	\$94,055,950
/ Shares Outstanding	175,847,000
Net Income Per Share (Basic)	\$0.53

Adjusted net income would increase to \$94.1 million (\$84.7 of net income for the six months ended June 30, 2018 + \$9.4 million of additional net income). As such, earnings per share would increase from \$0.48 to \$0.53, therefore increasing the return to shareholders.

Based on the analysis above, for a small investment of \$50,000 in expense plus the effort of employees, there is an opportunity to increase shareholder return. By reinforcing the culture, improvement can be generated in employee engagement which leads to less employee turnover. It can also increase customer loyalty which leads to increased sales. Improvement in these metrics will both lead to increased financial results.

Conversely, if the company does not continue to reinforce the culture, there could be a negative financial impact. The investments that have already been made would be wasted. If employees are actively disengaged and turnover increased, the cost to onboard new employees and the cost related to the “learning curve” for new employees would increase. Also, if the culture is not conducive to attracting talent, positions would be open longer and may be filled with the wrong talent.

If employees are disengaged, they will not provide the best experience to customers and will not be active in cross selling. This can lead to decreased customer loyalty scores and decreased profitability in both net interest income and non-interest income. These factors would lead to a long-term decline of competitiveness in the market and allow competitors to attract dissatisfied employees and customers.

Non-Financial Impact

BHC’s ability to continue on the journey of culture shaping is primarily driven by the employees of the company. As discussed above, the financial investment is not significant

although improvement in non-financial measures such as employee engagement and customer satisfaction can have a significant financial impact. The key to the reinforcement strategy is employee dedication and commitment to the culture. This employee dedication is most significant in three areas: tone at the top, the Champion network, and employee recognition.

Tone at the Top: Senior leaders of the company must set the tone at the top and the appropriate example of the culture every day. If this is not occurring there is a risk that the employee base will not support the cultural change. They may view it as an “initiative” or “project” rather than a true shift in the overall company culture. To mitigate this risk, the senior leaders will be participating in a reinforcement session with XXX to refresh and re-energize them around core culture concepts. It will also allow them to identify successes and current challenges and re-commit to focus on those challenges.

There is also a risk that senior leaders no longer support the investment in the culture shaping. To ensure that the leaders see the benefits of a strong culture on the overall company, the success metrics will be reviewed with them. Another measure of the success of the culture shaping is the Corporate Culture Profile. This is a survey that is administered to the top leaders of the company, approximately 25 people. Participants are asked to rate the essential behaviors on a scale of 1-7. It was administered at the beginning of the culture shaping journey and then two additional times over the past few years. This has been a way to see the impact the culture shaping has made on the essential behaviors of a company from the perspective of the leadership team.

See the chart below that represents the Corporate Culture Profile of BHC each time the survey was administered:

Corporate Culture Profile

XX

The profile was first administered in 2014 at the start of the journey (represented by the **black** line), and again in 2016 (represented by the **blue** line), and most recently in June of 2018 (represented by the **light blue** line). The profile is based on the leadership team’s view of the overall company. The line stays in a fairly consistent shape during each survey and generally moves to the left each time, which is a positive direction. The profile shows a tremendous amount of improvement from 2014 to 2018, as there are no longer any essential behaviors that are in the red category. Several behaviors have moved into the green. However, it also shows that more work is needed, as only six of the 22 essential behaviors are in the green.

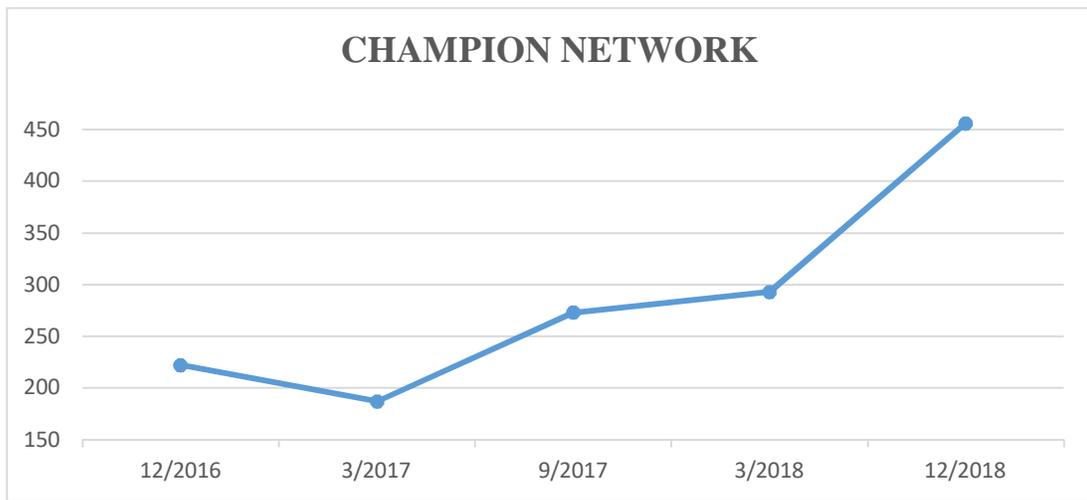
The following chart takes the essential behaviors and categorizes them into overall essential values of a company.

Points out of 100	2018	2016	2014	Change since 2014
Ethics	93	89	86	7.3
Customer	83	83	76	7.6
Positive Spirit / Organizational Health	80	72	65	15.0
Collaborate	79	73	69	10.5
Performance	77	76	70	7.6
Change/Agility/Innovation	72	65	58	14.0

Of the six essential values, all have improved each time the profile was conducted. The largest change, 15 point increase, occurred in the positive spirit/organizational health value. However, only one of the values, ethics, is in the green.

By reviewing the results of the Corporate Culture Profile with the senior leaders, it can demonstrate that the efforts and investment into culture shaping are making an impact in the behaviors of the overall company. It will also assist it putting focus on the areas where the most improvement is still needed.

Champion Network: The Champion network is another key component of the reinforcement strategy. If the network does not continue to grow, there is a risk that areas within the corporation will not receive continued reinforcement of the culture concepts. The chart below shows the growth in the amount of Champions:



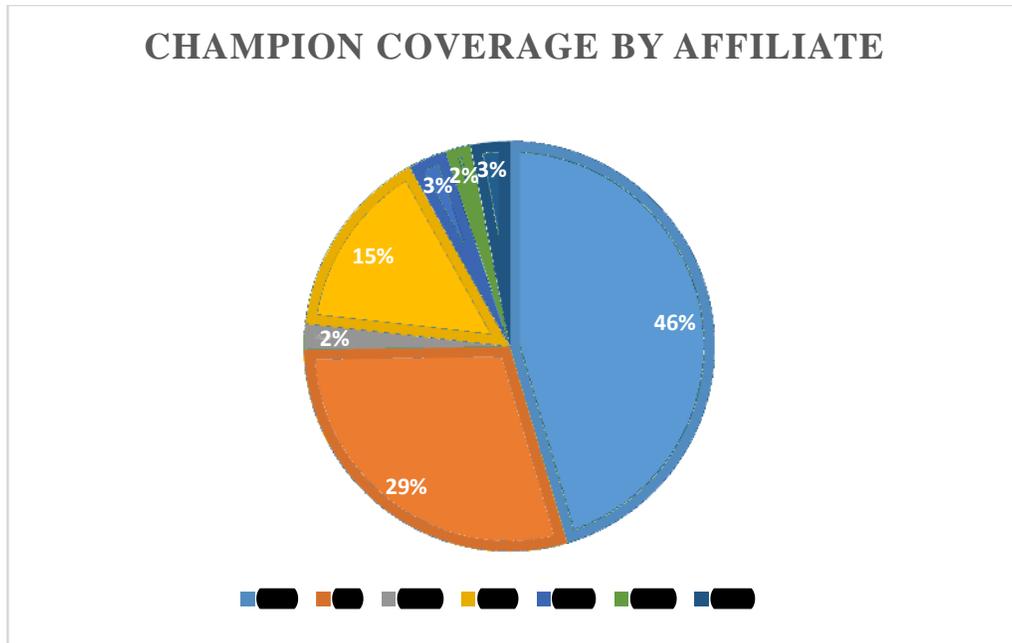
The amount of Champions has continued to grow each year. A large amount of unfreezing sessions occurred in 2017 and 2018 which resulted in the large increase of the number of Champions.

If the Champions are not effective in their role, the same risk exists. To address this risk, there are many aspects of the reinforcement strategy focused on the Champions to ensure appropriate coverage and communication. An annual Champion reaffirmation will also be performed. This allows Champions to decide if they would like to continue in their role as a

champion or not. A reaffirmation was performed in February 2017 and 2018, in which 78% and 80% of Champions reaffirmed, respectively. The reaffirmation process is the reason why a decline in the number of Champions was seen from December 2016 to March 2017. This is also the reason why the increase in champions from September 2017 to March 2018 is less dramatic than other periods.

The annual reaffirmation percentage is tracked and monitored for trending. The reaffirmation process allows less engaged Champions to step down and provides an opportunity for a new Champion to fill the role. Through the Champion coverage review process, which is part of the reinforcement strategy, areas will be closely monitored to ensure that if a Champion doesn't elect to continue that there is another engaged Champion in the area. The Champion coverage review process also monitors coverage by affiliate, until all affiliates are merged, by region, and by line of business. It also monitors coverage by senior management member. This ensures that senior management is setting the appropriate tone and encouraging employees to serve as Champions. See below for a chart of the Champion coverage by affiliate bank as of December 2018.

CHAMPION COVERAGE BY AFFILIATE



Champions are also invited to attend monthly collaboration calls and an annual Champion event. Attendance and participation at these events is another way to monitor the engagement of the Champion network.

Recognition Programs: A focus of the Bank Experience has been developing an employee recognition program. The Corporate Culture Profile showed that employees did not feel appreciated. BHC has implemented three ways to recognize employees:

- Peer to Peer recognition cards
- Spotlight Recognition
- Recognition Badges

The peer to peer recognition cards began in 2016. The cards serve as an easy way to let a peer know what you appreciate about them. Each department is provided a supply of the cards. The cards can also be delivered electronically through a website on the HUB. While the amount of handwritten cards sent to peers cannot be tracked, the electronic cards can be. Since 2016,

1,922 electronic peer to peer cards have been sent. The amount of cards sent will be tracked for trending.

The Spotlight Recognition program also began in 2016. This is a way to nominate a team or teammate that serves as an extraordinary example of living the company's values. This is a formal nomination process and on a quarterly basis a winner is selected by the Recognition Committee. The winner and their story is "spotlighted" on the HUB. The winner also receives a Bank Experience Recognition Certificate and a unique reward/experience. Since July 2016, 410 nominations have been submitted and 156 winners have been celebrated for living the Bank Culture. The amount of nominations are tracked and monitored for trending. It has been more difficult to receive quality nominations, as employees seem unsure as to what would qualify as something worthy of nomination. Therefore, this has been and will continue to be an agenda item for the monthly champion collaboration calls to educate them on the program and share examples of quality nominations that have been received. Champions are encouraged to make nominations when they see teams living the company's values or exemplifying a culture concept.

The final component of the recognition program is the Recognition Badges, which began in January 2018. These are a quick way to show a peer recognition and are accessible from the front page of the HUB. With the click of a button, a peer can be sent a recognition badge as a high five or as shout out, which allows the sender to add a message.



There is also a running scroll on the HUB page, which can be seen by everyone in the company, which shows the last ten badges sent and the name of both the person who received it and who sent it.

Below are an example of some of the badges that are available to be sent. The badges are rotated periodically to keep them fresh and new to the users.



This new program has been very successful with over 30,000 recognition badges sent through November 2018. High fives represent 13,000 of the badges and shout outs represent the remaining 17,000. The most popular badge selected has been “Thanks a Bunch”. There have also been approximately 3,500 unique users who have sent a badge. This is approximately 92% of the company’s employees. The amount of badges sent will continue to be tracked and monitored for trending. This has been an important way to allow employees to feel how appreciated they are. Updates on this portion of the program are also discussed regularly with the Champions on the monthly collaboration calls to ensure they are serving as a role model to use

this program as a way to show appreciation. They can also review the usage of their department with their leaders to ensure the department is utilizing the program effectively.

These three areas are vital to measure how dedicated employees are to shaping and living the culture every day. Senior leaders will need to remain vigilant to ensure they are setting the appropriate tone at the top and setting an example for employees to follow. The Champion network must remain engaged and passionate about the culture concepts and continue to reinforce them on a daily basis. Employees must continue to share what they appreciate about each other. Overall dedication to these areas will improve the three areas of success metrics used to measure the corporate culture initiatives: internal, customer, and financial.

Conclusion

The Bank Experience has allowed the company and the culture to become “unfrozen”. It has been making a great impact on the culture of the company. To continue to gain the benefits of an effective culture including increased employee engagement, customer loyalty, and financial results, a reinforcement strategy is needed. A strong, agreed upon reinforcement strategy will ensure the concepts are embedded into the fabric of the company. ***Reinforcement is needed to prevent a refreeze.***

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