WHAT ARE BUSINESS MODELS AND

HOW DO THEY WORK?

A CASE STUDY OF COMMUNITY BANKING

By

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Title of Study: WHAT ARE BUSINESS MODELS AND HOW DO THEY WORK?

A CASE STUDY OF COMMUNITY BANKING

Major Field: BUSINESS ADMINISTRATION

This study provides a definition of the construct of business model, including its component parts from a practitioner's point of view. It describes how a business model works, including the interaction of its component parts, and why it changes over time. It utilizes community banks in Oklahoma as a context and describes a generic community bank business model with a menu of options for its component parts. The study found that creators of a business model start by defining their important stakeholders, which might include investors, employees, customers, community, and regulators. As the aspirations or goals of stakeholders are defined, the business model components are organized to achieve the stakeholders' goals. The principle driving component was found to be where the focus of stakeholder interests were on a continuum ranging from maximizing current year net income (efficiency) to achieving rapid quality growth. The composite focus of stakeholders on this continuum appears to drive how other components are organized. A case study of First Oklahoma Bank is provided to illustrate the findings. Data were collected by conducting 34 in-depth interviews and two focus groups of six participants each with bank managers, owners, and industry experts, with an analysis of FDIC data on all banks involved in the study and internal documents of First Oklahoma Bank. These findings might benefit scholars studying entrepreneurship and community banking and provide guidance to practitioner's seeking to create and implement business models for their organizations.

Keywords: *Business model, community bank, resource based view, financial capital,*

human capital, social capital

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CHAPTER I

INTRODUCTION

> Community Banks aggregately are a different business model than mega banks and they have a wide variety of differences within their individual bank business models. In future research, we need to explore what is working and why and are these successful business models replicable. (D. Savarese, personal communication, October 2, 2013)

> We must gather the necessary data to better understand the realities of our banking system and the role community banks play in economic development, job creation, and market stabilization. (Ryan, 2013, p. 5)

> The best way to understand the challenges that community bankers face is to talk to the banker's themselves. (Bernanke, 2013, para. 5)

Since 2013, calls for additional research on the community bank business model have come from the Federal Reserve System, the Federal Deposit Insurance Company, and the Conference of State Bank Supervisors, and the academic community has responded. However, a major problem in discussing the community bank business model is a lack of agreement in the academic community in defining the term "business model."

Business models have received much attention in both academic and practitioner literature since 1995, "with at least 1,177 articles published in peer reviewed academic journals in which the notion of a business model is addressed" (Zott, Amit, & Massa, 2011, p. 1019-1020). In spite of several scholarly attempts to propose a consensus definition (George & Bock, 2011; Morris, Schindehutte, & Allen, 2005; Osterwalder, 2004; Zott, Amit, & Massa, 2010), there is a lack of agreement in the academic community about how to define a business model. As Teece (2010) noted, "Like other interdisciplinary topics, business models are frequently mentioned but rarely analyzed: therefore they are often poorly understood" (p. 192).

In addition, the conversations going on in the academic and practitioner communities differ dramatically about the nature of business models. While academics seem more focused on how to define the concept of a business model and what constitutes its components, practitioners are more focused on how a business model works and how and why it might be changed over time. This study sought to bridge these two conversations by analyzing the conversation taking place in the academic literature; developing a definition of business model, how it works, and how it changes over time from a practitioner's perspective; and explaining how this construct can be used to better understand the community banks of the United States.

Background of the Study

"Every company has a business model, whether they articulate it nor not" (Chesbrough, 2007a, p. 12). Banks, like other businesses, utilize business models either formally or

informally. Community banks are unique in their usefulness in analyzing business models in two respects:

1. They are required by their primary bank regulator to submit a written business plan (a relative of the business model – see definition in the literature review in Chapter 2) to the regulator for approval of new activities. As a result, most community banks have had to address in writing many aspects of what it means to have a business model.

2. All banks are required to submit call reports, which are detailed quarterly financial information, to their primary federal regulator. These call reports are then made available to the public. As a result, it is possible to see how the financial aspects of a business model of any given bank is performing, both compared to their original plan and compared to other banks.

It is believed that no prior study of the business model construct has used community banks generally as a context. As a result, this research is expected to contribute to both the entrepreneurial literature on the topic of business model and to the community bank literature on how business models drive the outcomes of the bank.

Purpose of the Study

The purpose of this study was two-fold: first, to seek a clear and useful definition of what constitutes a business model and how a business model works in mobilizing the resources that drive the outcomes of an organization; and second, to describe a community bank business model with optional component parts. The author intended to create a bridge of understanding between the academic community and the practitioner

community on the construct of business model and to help define what constitutes a community bank business model.

Research Questions

1. What is a business model from a practitioner's perspective?

What stories do business managers and others tell to describe the economic logic of their business (Magretta, 2002)?

2. How does a business model work?

Who creates a firm's business model? What are the components of a business model? What is the interaction of these various component parts? How does the business model influence the mobilization and utilization of resources? How is a business model communicated to the firm's various stakeholders? How does it guide the outcomes of the company? As the organization matures and learns, how does the business model change? Is there an element of creativity or uniqueness within each organization's business model?

Theoretical Framework for the Project

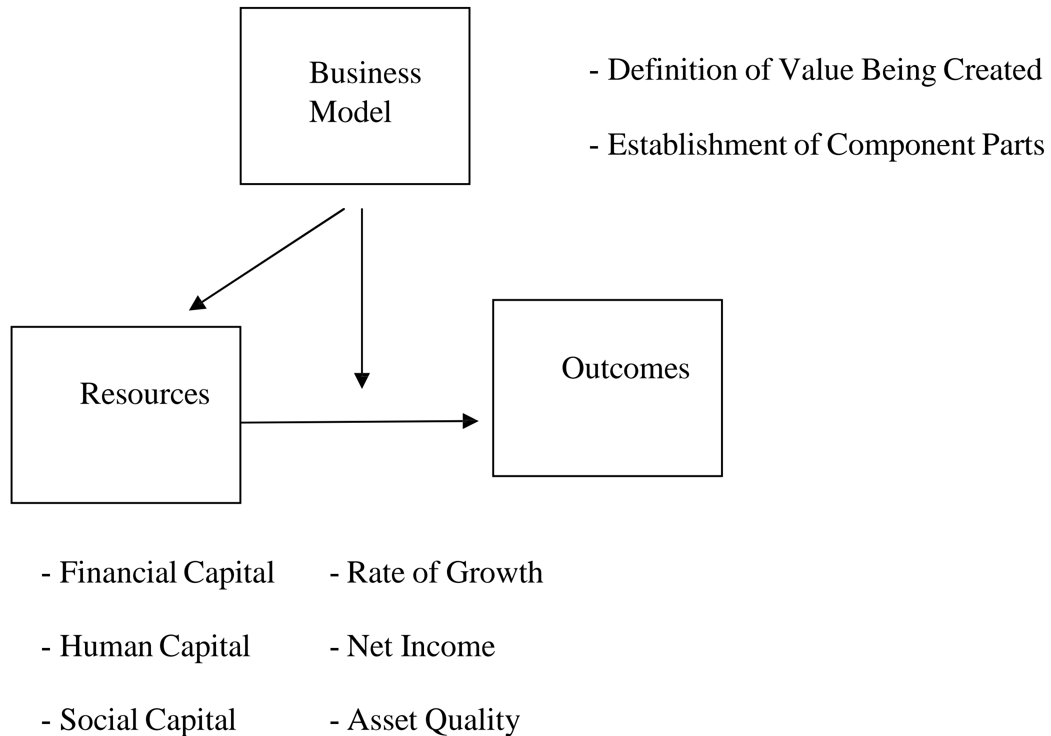


Figure 1. Initial business model

This research sought to discover how a company defined its business model and its combination of optional component parts, and how a firm's business model defines what is defined as value and how value is created (see Figure 1). It explored how these definitions of value facilitate the organization and development of resources necessary to implement the model (notably financial, human, and social capital) and in what ways the business model influences how the resources are utilized, thus driving the outcomes of the company.

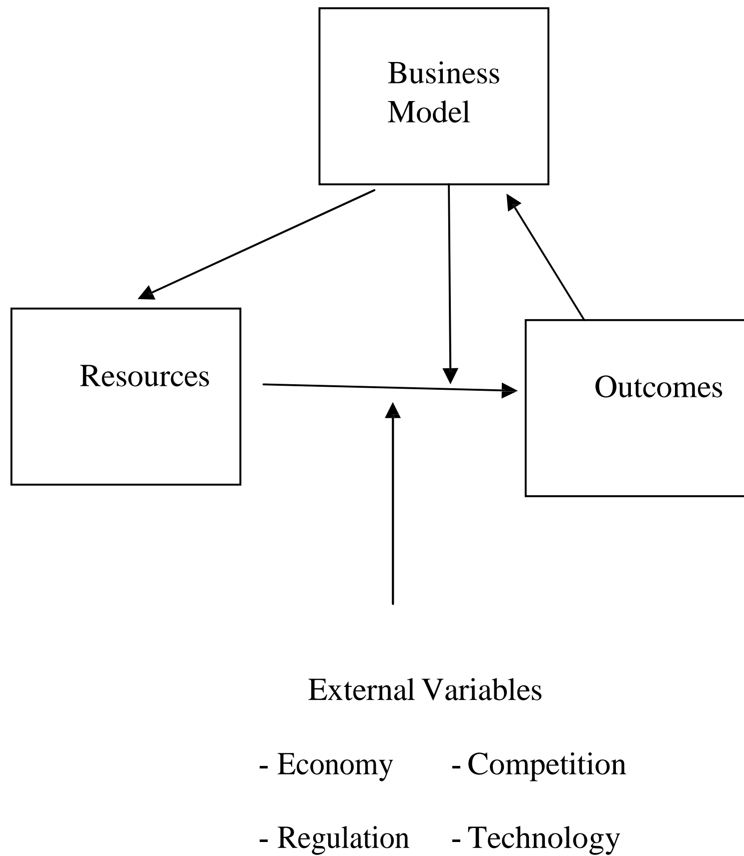


Figure 2. Changing business model

Further, the researcher sought to discover why the firm's business model changes over time as the firm makes adjustments based on analysis of outcomes and the impact of external factors, including changes in the economy, regulation, competition, and technology.

Contribution to the Academic Literature

This study was designed to contribute to the literature on business models. This research proposes a definition of the construct business model and its component parts from a practitioner's point of view. It also describes how those parts interact with each other and why the business model might change over time. In addition, it describes how the business model impacts the mobilization of key resources (equity capital, human capital, and social capital). All of these are contributions to the entrepreneurship literature, especially the resource base view.

In response to the observation by Federal Reserve Chairman, Ben Bernanke (2013) that "the best way to understand community bankers is to talk to them" (para. 5), this paper aimed to contribute to the community bank literature a rare qualitative research study on the performance of a community bank that goes beyond what happened based on financial data to explore why and how it happened by, as Bernanke recommended, talking to the bankers who made it happen. In addition, this research was intended to contribute a description of a generic community bank business model and menu of alternative component parts that may be utilized in analyzing the differences between the business models of individual banks or groups of banks.

Contribution to the Practitioner Community

This study sought to contribute to practitioners by helping business executives generally and community bankers specifically understand how to create a business model and embed it in their organization to drive their performance toward desired outcomes and change it, as necessary, over time. It was hoped that in-depth interviews with veteran

business executives would result in converting some of their tacit experienced knowledge about how business models work to written explicit knowledge that can be used by other business executives.

This research hopes to help business executives generally and community bankers specifically understand how a business model creates focus and limitations on how a business will grow as it impacts how the organization mobilizes resources that drive the organization's performance. In addition, the research describes how the business model impacts raising financial capital and development and utilization of human and social capital.

Organization of the Dissertation

The dissertation proceeds as follows. Chapter 2 includes a review of literature relevant to the topic of business models in the contexts of academic and practitioner communities. In Chapter 3, the methodology and research design are discussed. In Chapter 4, the findings are presented and discussed. Chapter 5 presents a summary and conclusion. Appendices are also provided that include a table of quotations, the interview guides, and the consent forms.

CHAPTER II

REVIEW OF LITERATURE

The purpose of this study was to define and explore how a business model works and to describe a community bank business model, in particular. In this literature review, the construct of business model and the current state of the conversation about what is meant by business model is discussed, including how a definition of the construct might be developed from a practitioner's point of view. The next section discusses the context of the community bank: what it is, how it differs from other kinds of banks, and the current conversation in the community banking literature. Possible components of a community bank business model are also discussed. Next, resource based theory is discussed as a lens through which to examine the functioning of a business model. Three types of resources are defined, including financial capital, human capital, and social capital. The development and use of these resources as a part of the business model will be explored.

Business Models

This research is positioned at the intersection of two areas of research in the literature. The first area is entrepreneurship research using the construct of business model. The second area is in community banking literature, especially as it applies to the community bank business model.

What Is a Business Model?

Zott, Amit, and Massa (2011) found that between 1975 and 1994, only 166 articles referenced business models; from 1995 to 2009, 1,011 were published in peer-reviewed academic journals that included the notion of business model (pp. 1-4). In these articles only 44% explicitly defined business model, 19% referred to definitions of other scholars, and 37% had no definition at all (Zott, Amit, & Massa, 2011, pp. 1-4). Despite the efforts of several scholars, a consensus definition of business model has not yet emerged.

The term *business model* has been widely used to describe quite different phenomena. In some cases, business model is used to describe different parts of an industry. This application might be considered the macro, or broad, view of the term. In this usage regarding the banking industry, the FDIC has described three generic business models including (a) national or multinational banking companies, (b) regional or super regional banks, and (c) community banks.

In other cases, business model is used to describe the economic logic of individual firms. This application might be considered the micro, or narrow, view of the term business model. In this usage, the focus is on the story that describes the economic logic of individual firms (Magretta, 2002), often comparatively to other firms of similar size in the same industry.

This study primarily focuses on the micro use of business model and its focus on individual firms. However, some of the same features of the definition of individual firm's business model may also be applicable to the macro view.

Scholarly efforts to define business model. This section of the review details examples of researchers' efforts to reach a consensus definition of the micro view of business model.

Zott et al. (2011) explored a wide range of definitions. Although they did not propose a specific definition, they identified

> four areas of common themes among scholars, which include: 1) the business model is emerging as a new unit of analysis, 2) business models emphasize a system-level holistic approach to explaining how firms "do business," 3) firm activities play an important role in the various conceptualizations of business models that have been proposed, and 4) business models seek to explain how value is created, not just how it is captured (as might be the case in a strategic plan). (p. 2)

Additionally, they observed that one area of particular interest among scholars is the study of business model and firm performance, noting, "Business models can play a central role in explaining firm performance" (p. 12). They noted, "The business model perspective involves simultaneous consideration of the content and process of doing business" (Zott et al., 2011, p. 19).

Johnson, Christensen, and Kagermann (2008) defined business model as "consisting of four interlocking elements that, taken together, create and deliver value" (p. 52). These four components are as follows:

1. Customer value proposition: Finding a way to help customers get an important job done, that alternative offerings do not address.

2. Profits formula: The blueprint that defines how the company creates value for itself while providing value to the customer. It consists of revenue model, cost structure, margin model, and resource velocity.

3. Key resources: Assets such as people, technology, products, facilities, equipment, channels, and brand required to deliver the value proposition to the target customer.

4. Key processes: Operational and managerial processes that allow the firm to deliver value in a way they can successfully repeat and increase in scale. These may include training, development, manufacturing, budgeting, planning, sales, and service. They also include the firm's rules, metrics, and norms.

George and Bock (2011) defined business model as "the design of organizational structures to enact commercial opportunities" (p. 97-99). They observed existing literature at the time of their study yielded six broad themes regarding business models in the vocabulary of organizational theory:

1. Business model as organizational design: This theme concerns the role of managerial agency in determining organizational structures and the configuration of the firm's products, activities, and markets.

2. Business model and the resource based view: They found business models linked to resource acquisition and allocation, with Hamel (1999) suggesting that firms must acquire resources concomitantly to the implementation of new business models and Mangematin et al. (2003) presenting a business model typology

within the French biotech sector based on financial, human, and social capital resources that drive organizational forms.

3. Business model as organizational narrative: “Stories open valuable windows into emotional political, and symbolic lives of organizations, offering researchers a powerful instrument for carrying out research” (Gabriel, 2000, p. 2).

4. Business model as innovative form: Many studies have assessed the relationship between technology innovation and business models or change in business models. The business model is conceived as a focusing device that mediates between technology development and economic value creation.

5. Business model as opportunity facilitator: The business model has been described as the link between innovation and value creation (Chesbrough & Rosenbloom, 2002) and has been viewed as the mechanism for opportunity exploitation (Zott & Amit, 2001). The business model is sometimes equated to the underlying “business idea” or the firm’s value creation mechanism.

6. Business model as transitive structure: The most vigorous and engaging construct definitions in the literature focus on transitive structures such as the streams of logistics and revenue. The business model is proposed as a unifying mechanism describing the content, structure, and governance of transaction.

George and Bock (2011) surveyed 192 managers of Indian firms with two questions: (a) What is a business model? (b) What is your business model? Using discourse analysis, they found that

> practitioners believe business model represented a relevant concept, linked closely to a firm's performance, survival, and especially relevant to the underlying opportunity that the firm exploits. They found that a business model is an organization-level phenomena, an architecture or design that incorporates subsystems and processes to accomplish a specific purpose. It is not equivalent to that purpose nor is it the reason the organization exists. It is not a process. The business model is not fully explained by a firm's revenue model, though aspects overlap. Practitioners apply both resourced-based and transitive elements to the business model. The business model does not subsume nor is it subsumed by corporate strategy. (p. 97)

Further George and Bock (2011) explained,

> Business models narrow entrepreneurial ideation to a delineable opportunity, establish the relevant goal set that drives entrepreneurial actions and organizational investment, and bounds the implementation of organizational activities that enact the opportunity. The business develops in parallel with the entrepreneur's knowledge and resource base as the organizational structures are developed that will ultimately create value by exploiting the underlying opportunity. In this framing, the business model is both an enabling and limiting structure for the firm's deployment of resources. (p. 99)

Morris, Schindehutte, and Allen (2005) defined business model as "a concise representation of how an interrelated set of decision variables in the arena of venture strategy, architecture, and economics are addressed to create sustainable competitive

advantage in defined markets" (p. 727). They observed that a business model is more than the sum of its parts; it captures the essence of how the business system will focus. The growth and profit aspirations of entrepreneurs vary considerably. They identified the following questions that business leaders at an organization must answer to create a business model:

1. How do we create value? A focus on primary products and services,nature of standardized versus customized, distribution system, and so on.

2. Who do we create value for? Who are our target customers; are they local, regional, national; broad or niche market; transactional or relational.

3. What is our source of competence? Which areas demonstrate strengths (e.g., selling/marketing, packaging, financial transactions, networking, technology).

4. How do we competitively position ourselves? Issues of concern include image, reputation, intimate customer relationship, low cost/efficiency.

5. How do we make money? Topics in this category include pricing and revenue sources, operating leverage, volumes, margins, fees.

6. What are our time, scope, and size ambitions? Considerations include subsistence, current income, growth, or speculative model.

Casadesus-Masanell and Ricart (2009) defined business model as "a reflection of the firms realized strategy" (p. 6). In their research about how business models impact a company's performance, Casadesus-Masanell and Ricart observed that business models are composed of two different elements: (1) concrete choices made by management on

how the organization must operate and (2) the consequences of these choices. Choices include, but are not limited to, compensation practices, procurement contracts, location of facilities, assets employed, extent of vertical integration, or sales and marketing initiatives

Chesbrough and Rosenbloom (2006) wrote,

> A business model fulfills the following functions:
>
> 1. Articulates the value proposition (i.e., the value created for users by an offering based on technology),
> 2. Identifies a market segment and specifies the revenue generation mechanism (i.e., users to whom technology is useful and for what purpose),
> 3. Defines the structure of the value chain required to create and distribute the offering and complementary assets needed to support it's position in the chain,
> 4. Details the revenue mechanism(s) by which the firm will be paid for the offering,
> 5. Estimates the cost structure and profit potential (given value proposition and value chain structures)
> 6. Describes the position of the firm within the value network linking suppliers and customers (including identifying potential complementary and competitors), and

7. Formulates the competitive strategy by which the innovating firm will gain and hold advantage over rivals. (pp. 533-534)

Chesbrough (2007) wrote, “At its heart, a business model performs two important functions: value creation and value capture” (p. 12). However, the authors noted, “There are real tensions between the aspects of a business model that creates value and those that help to capture a portion of that value” (p. 12). A key construct to explore is what constitutes “value” from the perspectives of business owners and managers.

Osterwalder (2004) defined business model as “An abstract representation of the business logic of a company” (p. 14). He explained business logic as “an abstract comprehension of the way a company makes money, including what it offers, to whom it offers this, and how it can accomplish this” (p. 14). He added, “A business model is a layer (acting as a sort of glue) between strategy and processes. But, the business model is not a guarantee for success as it has to be implemented and managed” (p. 15). In addition, he noted,

> A business model is a conceptual tool that contains a set of elements and their relationships and allows expressing a company’s logic of earning money. It is a description of the value a company offers to one or several segments of customers and the architecture of the firm and its network of partners for creating, marketing, and delivering this value and relationship capital in order to generate profitable and sustainable revenue streams. (p. 15)

Teece (2010) wrote,

> The business model describes the design or architecture of the value creation, delivery and capture mechanism it employs. The essence of the business model is

> in defining the manner by which the enterprise delivers value to customers, entices customers to pay for value, and converts those payments into profit. It thus reflects management's hypothesis about what customers want, how they want it, and how the enterprise can organize to best meet those needs, get paid for doing so, and make a profit. A business model embodies nothing less than the organizational and financial architecture of the business. (p. 25)

Teece outlined a wide variety of examples of successful business model innovations ranging from Gustavus Swift's changed business model for the meatpacking industry in the 1870s to more recent examples. Teece's recent examples included Southwest Airlines eschewing the hub and spoke model, not allowing passengers to interline, and not selling tickets through travel agents; Dell Computer's business model of going straight to the customer; Walmart's business model of "putting good sized stores into little one horse towns others were ignoring" (Magretta, 2002, p. 179); Google's heavy investment in computing power and new ability for its search engine to take more factors into account than others in the market; and major changes in the music industry business model with the low-cost downloading of music. Teece (2010) noted, "A business model cannot be assessed in the abstract; its stability can only be determined against a particular business environment or context."

Magretta (2002) wrote,

> Business models are, at heart, stores - stories that explain how enterprises work. A good business model answers Peter Drucker's age-old questions: Who is the customer? And what does the customer value? It also answers the fundamental questions every business manager must ask: How do we make money in this

business? What is the underlying economic logic that explains how we can deliver value to customers at an appropriate cost? A robust business model with all the elements of a good story: precisely delineated characters, plausible motivations, and a plot that turns on the insight about value. Creating a business model is a lot like writing a new story. Part one includes all the activities associated with making something: designing it, purchasing raw materials, manufacturing, and so on. Part two includes all the activities associated with selling something: finding and reaching customers, transacting a sale, distributing the product or delivering the service. Business model is the managerial equivalent of the scientific method - you start with a hypothesis and you then test in action and revise when necessary. Business models must pass two critical tests: the narrative test (does it make sense) and the numbers test (does the P & I add up). A business model's great strength as a planning tool is that it focuses attention on how all the elements of the system fit into a working whole. (p. 45)

As described in Table 1, the most common elements of a definition of business model are

1. A description of how firms do business or of the firm's business or economic logic. This detail might be a description of what the business is going to do and why.

2. A description of the firm's activities or architecture, such as a description of how the business is going to operate.

3. A description of how the firm creates value (in some cases focusing on customers and in other cases focusing on other stakeholders) and captures or retains value.

4. The firm’s market positioning, such as how the firm is positioned in a defined market against known competitors.

5. The firm’s resources, rules (norms), and relationships. This detail might describe who is involved, what are their roles, and how will they relate to each other.

6. The firm’s processes, which could indicate how the firm is going to do business.

7. The firm’s governance. This information might describe how investors will oversee the management of the firm in resolving agency issues (Jensen & Meckling, 1976) and facilitating stewardship (Donaldson & Davis, 1991).

8. Other elements: narrative, innovation, facilitator of opportunity, competence, time horizon, scope, site ambition, position in the value chain, and relationships to others.

Each of these describes some aspect of the story of the firm.

Table 1

Components of Scholarly Efforts to Define Business Model

	Amit, Zott, & Massa 2011	Johnson, Christenson, & Kagermann, 2008	George & Bock, 2011	Morris, Schindehutte, & Allen, 2005	Casadesus - Masanell & Ricat, 2010	Chesbrough, & Rosenbloom, 2002	Osterwalder, 2004	Teece, 2010	Magretta, 2002
1. New Unit of Business Analysis	X								
2. How Firms Do Business/Business Logic	X	X	X	X	X		X	X	X
3. Firm Activities/ Architecture	X		X	X	X		X	X	X
4. Value Creation/Capture	X	X		X	X	X	X	X	X
- For Investors		X		X			X	X	X
- For Customers		X		X			X	X	X
5. Resources, Rules, and Relationships		X	X						X
6. Processes	X	X							
7. Narrative			X						X
8. Innovation			X						X
9. Facilitator of Opportunity			X						
10. Competence				X					
11. Market Positioning				X	X	X			
12. Time Horizon, Scope, Size Ambition				X					
13. Position in Value Chain/Relationships to Others	X								
14. Governance			X		X				

Business model definition that connects academic and practitioner communities. The definition of business model that appears to be most useful in discussions with practitioners is Magretta's (2002), who defined business models as "stories that explain how businesses work" (p. 4). It is useful because it connects to practitioners' experiences of telling their company's stories to regulators, potential investors, staff, customers, and the media as they have gone about building their companies. Magretta stated,

> A good business model answers Peter Drucker's age-old questions: Who is the customer? And what does the customer value? It also answers the fundamental questions every manager must ask: How do we make money in this business? What is the underlying economic logic that explains how we can deliver value to customers at the appropriate cost? (p. 4)

Magretta's (2002) definition of business model as storytelling connects with narrative paradigm theory (NPT). NPT is about how human beings exchange information that has meaning to the group and is shared throughout an organization. Stories, like those of the Bible, are memorable and easy to understand and they help establish a common understanding of important values and help explain how life works. NPT assumes that listeners will analyze stories and think about how to apply the moral to their individual and collective circumstances. (Barker & Gower, 2010)

To arrive at a definition that bridges the academic and the practitioner communities, this study sought to integrate the various elements of other definitions into a story format as suggested by Magretta (2002)—a story that explains how the business works. This was done by drawing insights from interviews with practitioners and focus groups, or group

interviews where practitioners are able to work together to develop useful chapters of the business model story. In some respects, this type of story is told in a private placement memorandum utilized by companies to raise capital.

Other constructs/theories related to business model. To understand and arrive at a definition of the construct business model, it is useful to consider constructs or theories that have similar or overlapping meanings. They might be considered synonyms as constructs. These may include the following:

1. The concept of sense making being about contextual rationality; or "how people construct what they construct, why and with what effects" (Weick, 1995).

2. Prahalad and Bettis' (1986) concept of dominant logic, defined as "the way in which managers conceptualize the business and make critical resource allocation decisions - be it in technologies, product development, distribution, advertising, or in human resource management" (p. 490).

3. The concept of paradigm, defined as "the entire constellation of beliefs, values, techniques, and so on shared by the members of a given community" (Kuhn, 1970)

4. Heifetz's (1994) concept of leadership from a position of authority in which it is necessary to enforce order. Heifetz defined enforcing order as giving direction, assigning roles, developing and enforcing norms and values, resolving internal conflict, and organizing for protection from external threats.

5. The concept of business strategy, defined as the pattern of decisions in a company that determines and reveals its objectives, purposes, or goals, produces the principle policies and plans for achieving those goals, and defines the range of business the company is to pursue, the kind of economic and human organization it is or intends to be, and the nature of the economic and non-economic contribution it intends to make to it's shareholders, employees, customers, and communities. (Andrews, 1999)

6. The FDIC's definition of business plan as

A written summary of how the business will organize its resources to meet its goals and how it will measure progress. It should realistically forecast market demand, customer base, competition and economic conditions. The business plan should cover three years and provide detailed explanations of actions that are proposed to accomplish the primary functions of the institution. The description should provide enough detail to demonstrate that the institution has a reasonable chance for success, will operate in a safe and sound manner, and will have adequate capital to support the risk profile. (FDIC)

7. The concept of organization "vision," defined as "seeing clearly where we want to be, telling the truth about where we are, and describing the creative tension between the two" (Senge, 1990, p. 9).

These constructs or theories all address the need for human beings to create a sense of order to be able to accomplish meaningful work. The development of a sense of order is a way of making sense of the world around them, creating a business model, paradigm, or

dominant logic by which they will process information about the world around them and make decisions about what business strategy or business plan to follow at a given time and then to enforce the prescribed order on the organization to allow the desired work to be done.

All of these constructs/theories could fit into the proposed story about the business model of the firm.

Business models in other contexts. While this study is believed to be the first study that used community banking as a context for defining business model and how it works, there have been a number of research papers written about business models in other contexts. This section describes those other contexts.

Xerox Corporation (Chesbrough & Rosenbloom, 2002): Empowerment and limitations of a business model. Chesbrough and Rosenbloom (2002) discussed the role of business models in the Xerox Corporation with examples of how business models enable the development of technology and how they limit its commercialization. Notably, they described how Xerox Corporation's original business model led management to become a very successful major corporation. However, using their original business model, management screened out projects like the personal computer from going to market because those projects did not fit in their existing business model. Thus, their utilization of their existing business model limited the firm from leading in the development of a completely new industry.

Chesbrough and Rosenbloom (2002) wrote,

> Established firms as well as startups take technology to market through a venture shaped by a specific business model, whether explicitly considered or implicitly embodied in the act of innovation. The inherent value of a technology remains latent until it is commercialized in some way. In some instances, innovation can successfully employ a business model already familiar to the firm. In other cases, though, such a business model will not fit the circumstances or opportunity. In these cases, managers must expand their perspectives to find the right business model, or the architecture of the revenue, in order to capture value from the technology." They define business model as a "focusing device that mediates between technology development and economic value creation. The firms need to understand the cognitive role of the business model in order to commercialize technology in ways that will allow the firms to capture value from their technology investments, when opportunities presented by its technologies do not fit well with the firm's current business model. (p. 532)

Xerox is a case study in how business models can both empower and result in lost opportunity. In creating a narrative about the business model, Chesbrough and Rosenbloom (2002) observed that the functions of a business model are to

> Articulate the value proposition, i.e.: the value created for users by the offering based on the technology;
>
> Identify a market segment, i.e.: the users to whom the technology is useful and for what purpose, and specify the revenue generation mechanisms for the firm;

> Define the structure of the value chain within the firm required to create and distribute the offering, and determine the complementary assets needed to support the firm's position in this chain;
>
> Estimate the cost structure and profit potential of producing the offering, given the value proposition and value chain structure chosen;
>
> Describe the position of the firm within the value network linking suppliers and customers, including identification of potential complementors and competitors; and
>
> Formulate the competitive strategy by which the innovating firm will gain and hold advantage over rivals. (p. 533)

They noted, "These six attributes collectively serve additional functions, namely to justify the financial capital needed to realize the model and to define a path to scale up the business" (p. 534). In the context of the current study, it is posited that a story about the business model of the firm incorporates these and other attributes and serves to mobilize not only the financial capital needed but also the necessary human and social capital.

The authors went on to describe how the Xerox business model was structured along their six proposed attributes as compared to other technology companies, including spin-offs from Xerox that both utilized elements of the Xerox model and created new business models. They concluded by observing,

> The initial business model (of a firm) is more a proto-strategy, an initial hypothesis for how to deliver value to the customer, than it is a fully elaborated and defined plan of action. It results less from a carefully calculated choice from a diverse menu of well understood alternatives, and more from a process of sequential adaptation to new information and possibilities. Heuristic (experience based) logic is required to discover an appropriate business model and an established corporation's 'sense making' task will be constrained by its dominant logic, which is derived from its existent business model. Hence, that filtering process within a successful established firm is likely to preclude identification of models that differ substantially from the firm's current model. (Chesbrough & Rosenbloom, 2002, p. 550)

Electronic commerce (Timmers, 1998). Paul Timmers observed in 1998,

> Electronic commerce over the internet may be complementary to traditional business, or it may represent a whole new line of business. In either case, in view of the new features of the Internet, some critical questions to answer include: what are the emerging business models, and which strategic marketing approaches are applied, or emerging? (p. 3)

Timmers defined electronic commerce as "doing business electronically, including the electronic trading of physical goods and of intangibles such as information" (p. 3). He defined business model as "an architecture for the product, service and information flows, including a description of the various business actors and their roles, a description of the potential benefits for the various business actors, and a description of the sources of revenues" (p. 4). Timmers went on to explain the need for a marketing model in addition

to the business to describe the marketing strategy of the business actors under consideration.

Timmers' (1998) definitions might be converted into a narrative or story as proposed in this study. Timmers described 11 business models that include some type of electronic commerce: e-shop, e-procurement, e-auction, e-mall, third party marketplace, virtual communication, value-chain service provider, value chain integrators, collaborator platforms, information brokerage, trust and other services.

German biotechnical firms –(Patzelt, Knyphausen-Aufseb, & Nikol, 2008): Moderating effect of business models. In a research project designed to explore the moderating effect of business models on firm performance, Patzelt, Knyphausen-Aufseb, and Nikol (2008) analyzed how the business models of 99 German biotechnology ventures moderated the effect of the venture's top management team characteristics on performance of the firm. They defined business model as

> how firms manage their transactions with other organizations such as customers, partners, investors and suppliers; and therefore constitute the organization's architecture for the product, service, and information flows. Thus, a business model differs from the overall notion of organization strategy in that it emphasizes relationships to stakeholders rather than the organization's overall competitive situation as classical strategy frameworks such as the resource based view do. (p. 206)

Data were gathered from the websites of targeted firms to analyze the qualification of the firm's management. Patzelt et al. (2008) "found that founder-based firm-specific

experience of management team members can have either a positive or a negative affect on performance of the firm" (p. 206). Their results "suggest that in order to realize the full potential of a firm's business model, TMT's [top management teams] should have specific competencies and experience" (p. 205). This current qualitative research project on the moderating effect of business models in the context of community banks was designed to add a measure of richness and depth to Patzelt et al.'s research as it will go beyond website information about managers to in-depth interviews with the managers themselves.

French biotechnical firms (Mangematin et al., 2002). In a research project designed to explore the nature of business models in French biotechnical firms, 60 French small- to medium-sized biotech enterprises were surveyed, followed by interviews conducted the managing director, the research director, or the financial director of the firms. The definition of business model utilized by Mangematin et al. (2002) was that "a business model describes a category of the firm in relation to the market it targets, its expected growth, its modes of governance, and the organization of its activities" (p. 622). They noted,

> The diversity of business models of biotechnology SME's [small- to –medium sized enterprises] are a point that is rarely considered in studies on factors promoting the development of these firms. This approach requires not only the differentiation of the firm's activities, but also an explanation of their resulting position compared to other actors in the industry, and more generally, the institutional framework around the firm. (p. 622)

The authors utilized the lens of resource-based theory to understand the types of critical resources utilized by each organization (notably financial capital, human capital, and social capital) as a means of understanding their business logic.

In their findings, Mangematin et al. (2002) identified two main business models. Type A was small- to medium-sized enterprises that run small projects and target market niches (i.e., small and segmented market in a small geographic areas). The firm was driven by the need to maintain profitability, which limited investments in research. Type B was research-intensive small- to medium- sized enterprises that target broader markets that cover a large geographic area or large or international markets. Their findings supported the hypotheses that

1. The size of the innovation project determines the two business models with internal coherence for each business model; and

2. Each firm in a business model requires different resources to run operational activity. The firm has to convince different kinds of partners to ensure their development.

3. Firms with different business models mobilize different resources.

4. The types of business drives the structure of shareholding and movement of capital. Type B business models require increasing amounts of capital to succeed.

5. Founders characteristics drive business model and acquisition of resources. They distinguished between two types of founders: academics and managers. They

note that founders with extensive experience tend to pursue Type B business models, and founders with little experience pursued Type A business models.

Mangematin et al.'s (2002) research incorporated some of the same elements as the current project. However, the current study significantly expanded this topic by exploring a wide range of business model component parts that may result in describing significantly more than two distinct business models within community banking.

Global banking (Daruvala et al., 2012): A macro view of business model. In the practitioner literature, firms like McKinsey & Company have done research on how the world banking community needs to make changes toward "achieving a sustainable business model" (Daruvala, Dietz, Härle, Sengupta, Voelkel, & Windhagen, 2012, p. 33). They primarily used business model in the macro sense of the term. However, components of Daruvala et al.'s (2012) macro view of the term may be applicable to a micro use of the term as applied to individual firms. Their focus was on the external factors driving the need for change in business models including the economy, regulations, and technology. They noted these specific needs for business model changes: requiring improved capital efficiency (including shifting financing off balance sheets), finding pockets of growth in revenues (including smarter pricing and monetizing the transformation to digital), and streamlining operating models with strategic sourcing and digital processes. They predicted banks shifting away from branches and toward electronic banking, with a reduction in the number of branches by one third by 2020. Four new bank business models of the future were described in their report as new investment banks, flow driven universal banks, new corporate banks, and franchise banks.

Context of Community Banks

The United States banking system is comprised of banks in a variety of sizes. The FDIC has described at least three categories, including national or multinational, regional or super regional, and community banks. The focus of this study was on the community banks. It was the objective of this research to identify characteristics of individual community banks from another. The financial data on all U.S. banks are available to the public so that it is possible to discover the outcomes of each individual bank and then ask the managers and owners what business models produced these results and how it worked. Community banks are like many other types of small organizations. As a result, it is believed that understanding their business models and how they work will be useful to other types of organizations as well.

Nature of the U.S. Banking System

> The United States stands alone among nations in the number and diversity of our banking organizations. These banks range in size and business model from the smallest community banks operating in one town to some of the largest financial firms operating across the globe. This unique diverse banking system may sometimes be called an accident of history, but it is not. It is born from our founders' commitment to decentralization of power and economic self-determination. It is the result of almost 200 years of carefully considered and thoroughly debating policy decisions (Ryan, 2013, p. 2).

The American banking system is the largest in the world. According to the International Association of Deposit Insurers (IADI), which represents 59 of the largest nations in the

world, as of December 2010, there were 19,776 banks headquartered in those countries, and 7,658, or 38.7%, were headquartered in the United States. Putting those IADI data in context, the total number of banks headquartered in the other seven members of the G8 nations was 3,277, or only 43%, as many banks are headquartered in the United States. No other country in the world has even one-third as many banks as the United States. One element of the United States that is different from all other countries, which might contribute to the exceptional nature of the U.S. economy, is the country's number of banks.

One way of analyzing the uniqueness of the banking system of the United States is to consider the number of people served by each bank. Table 2 shows a comparison of the population, number of banks, and number of people served by each bank of the G8 nations as of December 31, 2010:

Table 2

Numbers of Banks and People Served

Country	**Population* (millions)**	**# of Banks****	**# of People Served per Bank (thousands)**
USA	309	7,657	40 thousand
UK	62	747	83 thousand
France	65	651	100 thousand
Russia	143	909	157 thousand
Japan	128	591	217 thousand
Italy	61	276	221 thousand
Canada	33	82	402 thousand
Germany	82	21	3,904 thousand

Note. *Population Source: U.S. Census Bureau
**Number of Bank Source: International Association of Deposit Insurers

Looking at Germany and the United States, the two countries of the G8 with the most differently structured banking systems, and at Hofstede's (2001) dimensions of national culture reveals some interesting differences:

Table 3

Comparison of Hofstede National Culture Scores for USA and Germany

	USA	**Germany**
Individualism Score	91	67
Uncertainty Avoidance Score	46	65

The American national value of individualism may account for each community wanting to have its own bank. Similarly, the German high level of uncertainty-avoidance may account for the small number of large and strong banks.

Hofstede (2001) defined individualism as the degree of interdependence a society maintains among its members: the "I" versus the "We." The very high level of individualism in the United States (its 91 score is the highest in the world) translates into a loosely knit society in which people (and perhaps local communities) are expected to look out for themselves. This self-reliance may be one reason why American communities want their own local banks.

Hofstede (2001) defined uncertainty avoidance as "the extent to which the members of a culture feel threatened by ambiguous or unknown situations and have created beliefs and institutions that try to avoid these concerns." The U.S. score of 46 is low, suggesting the United States is an uncertainty-accepting society. Conversely, Germany's score of 65 is high, suggesting Germany is an uncertainty-avoidant society. As this interpretation translates to bank systems, the United States is a culture unlikely to be concerned about a

large number of diverse banks. Germany is likely to see this diversity as an uncertain system and to prefer a smaller number of very large and very strong banks.

America's 7,658 banks come in a variety of sizes. These size groupings might comprise three business models in the macro sense of the term, broadly defined as national or multinational bank, (156 banks with over $100 billion in assets), regional banks or super regional banks (374 banks with between $1 billion and $100 billion in assets), and 6,524 banks that can be classified as community banks, most often defined by scholars as banks having less than $1 billion in assets and primarily focused on serving local communities (FDIC, 2012).

A key distinction between community banks and larger banks is that owners and managers of community banks usually live and work in the community where the bank is located and, as a result, have a vested interest in their communities. Larger banks, particularly multinational banks, are owned and managed by people who may live very far away from most communities they serve. They have very little knowledge or vested interest in the long-term success of far-away towns and cities that community bankers call home. In smaller communities, local business people get to meet face to face with people who can make final decisions on their proposals. They go to church, attend civic clubs, and attend their children's and grandchildren's activities with the people who own and manage the banks. As Federal Reserve Chairman, Ben Bernanke (2013) said,

> Community banking is fundamentally a local, relationship based business. Community bankers live in the localities they serve; their customers are their neighbors and friends. Their direct personal knowledge of the local community

> enables them to tailor products and services to meet their communities' needs. They can look beyond credit scores and other model-based metrics to make lending decisions in part based on more qualitative information that large regional or national financial institutions are less suited to consider. Community bankers recognize that their own success depends on the health of the communities they serve, which is why so many community bankers contribute locally as citizens and leaders as well as in their capacities as lenders and providers of financial services. (p. 1)

While community banks as a macro business model are similar in their local focus (versus regional, national, or international) and are generally smaller size than multinational or super regional banks, among these 6,524 community banks there are a wide variety of business models in the micro sense of the term. They each have different stories to tell that define their organizing logic, how they operate, and how they create value for their customers, employees, communities, and stockholders. They have distinctively different areas of focus and specialty that create very different outcomes.

Ryan (2013) noted that more research needs to be done on community banks to better inform policy decisions. He wrote,

> Our ability to charter new banks is a strength of our banking system. Organizers bring new capital to the system to meet identified needs. This is how the relationship banking model of community banks impacts economic growth at local levels need to be understood. We must better understand the role

> community banks play in economic development, job creation, and market stabilization. (p. 5)

Using community banks as a context for this research is important because existing research has established that the vast majority of debt financing for U.S. small businesses, who create 60 to 80% of all new jobs in the United States (Mach & Wolken, 2012), is provided by community banks (Keeton et al., 2003) and especially de novo, or newly chartered banks (Goldberg & White, 1998). Yet, in the last 25 years, the number of community banks in the United States has declined by 57% (FDIC, 2012). Discovering how the business models of community banks drive the performance of these banks could be an important contribution to the community bank literature. It could also be important for the long-term impact of community banks on financing the growth of the small-business sector of the United States.

A view of the important role that community banks play in society has been articulated by Bob McCormick, Jr., former President and CEO of Stillwater National Bank and former National President of the Independent Community Bankers Association, who said:

> The role of community banks in society is to take the lifetime savings of an older generation, who no longer wish to take risks with their resources, and promise to return their deposits at a certain rate of interest. Then the community bank invests those deposits in loans to a younger generation who are building homes, educating their children, and building businesses. As such, banks manage the risk in the transfer of wealth between generations within the community. If they do a

> good job, new homes are built, young people get educated, businesses prosper, the community grows in an orderly manner and the bank's investors make a good return on their investment. If they do a good job, lives are transformed inside and outside of the bank and the community is transformed for future generations. If they do not do a good job, either by being too conservative or too liberal, none of those good things happen as they should."

Scholars have observed that larger banking organizations are associated with "transactional banking" and community banks are associated with "relationship banking". They further observe that relationship banking "requires more human input and evaluation and is acquired primarily by working one on one with banking customers" (as cited in Hein, Koch, & MacDonald, 2005, p. 18).

Vargo and Lusch (2008) have proposed a new dominant logic for marketing that has revised traditional marketing logic from a focus on tangible resources, like cars, to a new focus on intangible resources, like service, and the co-creation of value and relationships. Using this new logic for marketing as applied to community banking, it might be said that community banking is about how human relationships are developed, nurtured, and utilized around the use of money in a manner that results in the elements of a bank's balance sheet and income statement.

A great deal of literature has described the nature of relationship banking (Bott, 2000). It is believed that the manner in which banks develop and nurture these relationships is driven by their business model. The literature is primarily focused on the relationships between bankers and borrowers that enable bankers to better understand small businesses

and the asymmetric or opaque nature of their financial information. This is perceived to be a competitive advantage for community banks over large banks, and it is especially important for de novo banks (Goldberg & White, 1998). Berger and Udell (1995) found that there is still

> an important role for community banks who have an advantage over large banks in extending loans to small businesses. Their networks of personal relationships with the owners and managers of local businesses and their understanding of the needs of local communities make them especially well qualified to provide the type of relationship driven loans that many small businesses need.

"Relationship lending provides a niche for community banks that many large banks find less attractive or are less capable of providing" (Hein et al., 2005, p. 19). It is believed that relationship banking is not only about the borrower-lender relationship but encompasses a full range of consumer and business financial needs from loans and deposits to long-term financial planning and investments.

Nature of the Oklahoma Banking System

As of year-end 2013, there were 229 banks headquartered in the state of Oklahoma. Collectively, these banks had $92,759,040,000 in total assets, 22,788 employees, $54,612,262,000 in loans, $83,681,614 in total deposits, and $9,077,430 in total equity. In 2013, 96.07% of these banks were profitable and 49.78% showed improved earnings over 2012. Oklahoma's banks were more profitable than the national average. As compared to neighboring states, banks headquartered in Oklahoma were as noted in Table 4:

Table 4

Comparison of People Served and Average Assets per Bank in Oklahoma and Contiguous States as of 12/31/13

State	Number of Banks	Total Assets (millions)	Total Population	People per Bank	Average Assets Per Bank (millions)
United States	6,812	$14,722,664	315,079,109	46,547	$2,161
Oklahoma	229	$92,759	3,850,568	16,815	$405
Texas	533	$433,612	26,448,193	49,621	$813
Kansas	291	$63,458	2,893,957	9,945	$218
Arkansas	120	$62,058	2,959,373	24,661	$517
Missouri	307	$157,836	6,044,171	19,688	$514
New Mexico	46	$16,234	2,085,287	45,332	$353
Colorado	97	$44,968	5,268,367	54,313	$464
Louisiana	142	$72,076	4,625,470	32,574	$508

Note. Adapted from U.S. Census Bureau

Oklahoma, Kansas, and Missouri all have a very small number of people served per bank, at less than 20,000, compared with national average of 40,000. Similarly, the average Oklahoma bank has $405 million in assets, compared to the national average of $2,161 million in assets. So, Oklahoma has more banks serving its population, and they are smaller in size than the average number of banks and average size of other states.

To consider what percentage of Oklahoma's banking business is done at banks headquartered in Oklahoma requires knowing which banks hold what percentages of the state's total bank deposits. All U.S. banks report their deposits by branch as of June 30 each year. That is the only time and only measure that can be consistently utilized of market share of both locally and nonlocally headquartered banks in each state, county, and city. As of June 30, 2013, 249 banks had offices in Oklahoma. Their deposit market shares were as presented in Table 5.

Table 5

Analysis of Deposits Held in Banks with Branches in Oklahoma as of June 30, 2013

Category	**Number of Banks**	**Total Deposits (.000)**	**Percentage of the States Total**
All banks with branches in Oklahoma	249	$75,889,730	100%
Deposits in banks headquartered outside Oklahoma	15	$14,740,917	19.42%
Deposits in Oklahoma's one superregional bank	1	$10,278,858	13.54%
Deposits in Oklahoma headquartered community banks over $1 billion	7	$16,165,948	21.30%
Deposits in Oklahoma headquartered community banks under $1 billion	226	$33,704,001	44.4%
Total Deposits in all banks headquartered in Oklahoma	234	$61,148,813	80.58%

Taking all of this together, Oklahoma has a very large number of community banks that continue to serve a substantial percentage of the state's citizens. Its banks are less consolidated or have been less often acquired by banks headquartered out of the state than other states, with Oklahoma-headquartered banks still holding 80.58% of the state's deposits as of June 30, 2013.

Bank Regulation and Technology

One of the factors that distinguish banks from other industries is the very high level of government regulation. This is positive for research as it makes information discovered

in one group of community banks more transferrable to another group of community banks who must operate under the same set of regulations. Conversely, it may limit the transferability of information from banking to other industries not subject to the same regulations.

Bank regulations are primarily intended to protect the federal deposit insurance fund, depositors, and consumer borrowers, not the stockholders of the bank. Banks in the United States are all subject to supervision of at least one federal banking regulator and possibly one or more state regulators. The three primary federal bank regulators are the Federal Deposit Insurance Corporation (FDIC), the Federal Reserve, and the Comptroller of the Currency (the OCC). Banks with "national" or "NA" in their titles are supervised by the OCC. All other banks are supervised by a state bank regulator and either the FDIC or the Federal Reserve. If the bank is a state bank and owned by a bank holding company, it may be subject to a state bank regulator and the FDIC at the bank level and to the Federal Reserve at the holding company level. All banks are subject to regular (usually annual) bank exams by their primary bank regulator(s) to ensure their compliance with all bank laws and regulations and their operation within what the regulators determine to be a "safe and sound" manner. The burden imposed on banks by federal and state regulations is expensive and, in many ways, puts banks and bank holding companies at a competitive disadvantage to less regulated competitors such as finance companies, mortgage banking companies, and leasing companies.

Laws and regulations applicable to banks and their holding companies regulate, among other things, the scope of business, investments, reserves against deposits, capital levels relative to operations, lending activities and practices, the nature and amount of collateral

for loans, the establishment of branches, mergers, consolidations, dividends, and distributions. Changes in banking laws and regulations have been enacted following the international recession that began in 2008 including the Dodd Frank Act, the Basel III Accords, and the creation of the new Consumer Financial Protection Bureau. While details of how these laws will ultimately be fully applied are still uncertain, it is clear at this time that regulations are becoming more restrictive, more expensive with which to comply, and require that higher capital levels be maintained in the banks (adapted from the Private Placement Memorandum of First Oklahoma Holdings, Inc., G. Drummond, personal communication, August 23, 2012). One anticipated consideration of this study was to see if bankers would perceive the changing regulatory environment significantly impacting their business models and, if so, how.

The banking industry is heavily dependent on technology both for providing core banking services (like the processing of checks and the preparation of loan documents) and the provision of new innovative e-commerce services like those described by Timmers (1998). Community banks may be at a competitive disadvantage to multinational and super regional banks in the amount of resources they can commit to updating their technology systems. On the other hand, there are three major companies (Jack Henry, FiServe, and EDS), as well as a large number of smaller technology companies, that provide core data processing services to community banks. These service providers enable community banks to be very competitive with each other and to maintain some level of competitiveness with much larger banks. Another interesting anticipated consideration in this study was whether any bank managers would describe technology as a major component of their business model and, if so, how.

Community Bank Literature

There is a large and growing body of literature on community banking, much of which focuses on the community bank business model. An example of the topic's importance was the October 2013 Inaugural Conference on Community Banking in the 21st Century, hosted by the Federal Reserve System and the Conference of State Banking Supervisors. This conference was attended by Federal Reserve System governors, presidents of regional Federal Reserve banks, over half of the state banking commissioners in the country, bankers from around the country, and scholars from around the world. At the conference, 12 scholarly papers were presented regarding the future of community banking in America. A unifying theme of the conference concerned the importance of the "community bank model" to the U.S. economy and how that model needs to change in the future in order for community banks to survive as a critical element of the fabric of America. Some of the research findings that were presented at the conference included the following:

1. Lee and Williams (2003) found that "new businesses' physical distance to its nearest bank affects the businesses' access to credit and its chances of survival. The closer the business is to a credit decision maker, the better its chance of success" (p. 1).

2. Small business lending and the high level of social capital in community banks result in substantially lower levels of loan defaults than those of lenders with lower social capital as a result of being located geographically far away larger banks headquartered outside the community (DeYoung, Glennon, Nigro, & Spong, 2013, p. 3-6).

3. Describing the effect of distance of an acquiring bank from the local community on community bank performance following acquisitions and reorganizations, the findings were that local acquirers enjoyed improved performance and distant acquirers experienced negative performance in the 2 years following an acquisition or merger. It is believed that these findings were the result of the loss of social capital in the acquired banks by the distant acquirers, which was probably retained by local banks (Ferrier & Yeager, 2013).

In addition to this conference, the FDIC conducted a major research project concluded in December 2012, entitled "The Community Bank Study." This project was a follow up to their study conducted under a similar title in 2004. It was noted that in spite of the significant decline in the number of community banks in the country and their total share of the U.S. credit market debt managed from 1984 to 2011, community banks continue to play unique and important role in the U.S. economy as evidenced by the fact that in spite of only holding 17% of the banking industries total assets, community banks hold 46% of the banking industries total loans to small businesses, 35% of commercial real estate loans, and 66% of farm lending.

A major contribution of this study was the effort by the FDIC to more clearly define what is meant by "community" bank. The FDIC community banking study proposed a new definition of the community bank. This is helpful in the macro sense of the term community bank business model. Historically, researchers have simply used the definition of banks with $1 billion or less in assets. The problem with focusing only on assets, or a fixed size limit, as a definition is that it must be adjusted over time because of inflation, economic growth, and the size of the banking industry. For example, to

demonstrate that $1 billion is not what it used to be between 1984 and 2011, the Consumer Price Index rose 2.1 times during that time, while the size of the economy as measured by GDP rose by 3.8 times and the total assets managed by federally insured banks rose by 3.8 times.

As a result of this and other issues, the FDIC proposed a five-step process to define community banks:

1. All banks operating with separate charters but under one holding company which is considered a community bank are each individually considered community banks.

2. All banks with over 50% of their assets in a specialty business, like credit cards, are excluded from being considered a community bank.

3. All banks that engage in basic banking services where their loan-to-asset ratio is greater than 33% and their core deposits are greater than 50% are included in this definition.

4. Banks with geographically limited scope, a maximum number of offices (75 in 2010), and maximum size per office ($5 billion in deposits as of 2010) are included in this definition.

5. Any bank that would otherwise be excluded but has assets of $1 billion or less as of 2010 is included in this definition.

By this definition as of year-end 2010, 6,524 or 94% of the banks headquartered in the United States were considered community banks.

The FDIC noted a number of other common characteristics of these community banks, including the following:

1. They normally focus on traditional banking services in local communities.

2. They obtain most of their deposits locally (rather than through brokered deposits).

3. They are considered "relationship" bankers rather than "transactional" bankers. They lend to base credit decisions on local knowledge and nonstandard data obtained through long-term relationships and are less likely to rely on model based underwriting used by larger banks. One of the challenges community bankers face as their organizations grow is managing relationships at a personal level.

4. Community banks are more likely to be privately owned and locally controlled than larger banks. This situation means that community banks may weigh the competing interest of shareholders, customers, employees, and the local community different than larger organizations more tied to the capital markets.

Possible Components of a Community Bank Business Model

Examples of how community bank literature may help define components of a community bank business model are summarized in Table 6.

Table 6

Possible Components of a Community Bank Business Model Drawn from Community Bank Literature

Possible components	Whalen, 2007	Gilbert et al., 2013a	Kupiece & Lee, 2012	Gilbert et al., 2013b	Amel & Prager, 2013
Lending Specialties	X	X			X
Loan Growth			X		
Management		X	X	X	X
Funding Source		X			X
Investors/Directors		X		X	
Non-Interest Income		X			
Increased capital				X	
Asset size					X

Whalen (2007) described seven potential categories of community bank business models based on the nature of the bank's focus on developing various types of loans. By identifying banks with at least 25% of their loans in a particular category and at least 10% more of their loans in these categories than their peers, the seven prospective business models identified lenders as

- Residential real estate lenders
- Household (or consumer) lenders
- Business (commercial and industrial) lenders
- Business real estate lenders
- Agricultural lenders
- Diversified portfolio lenders
- Lenders with no particular specialty

Whalen noted that

> because community banks have either been unable or unwilling to embrace non-traditional strategies and continue to rely much more heavily on portfolio lending and intermediation income than larger banks, this means that the most important strategic choice community bank management must make is what type of traditional lending to pursue. If they decide to specialize what type of specialty to pursue. (p. 1)

These seven categories will be considered as potential elements of business models in the banks included in this study.

In a study of community banks that maintained a #1 capital adequacy, asset quality, management quality, earnings, liquidity, and sensitivity to market risk (CAMELS) rating by their federal bank regulators throughout the recent recession, Gilbert, Myers, and Fuchs (2013a) identified a number of characteristics that might be included in characteristics of business models. As these aspects apply to this research project, 65 of the 235 community banks in the State of Oklahoma, or 27.6%, met this criteria for the second-best percentage of #1 rated banks in the country (described by the authors as "thriving" banks). The characteristics identified in the study as those of thriving banks included

- Smaller (less than $100 million in assets),
- More rural than urban,
- Less loaned up (lower than normal loan/deposit ratio),

- Less concentrated in commercial real estate loans,
- Less concentrated in loans for construction and real estate development,
- Slightly more concentrated in 1 to 4 family property mortgages,
- Less concentrated in commercial and industrial loans,
- Concentrated in consumer loans,
- Concentrated in agricultural loans, and
- Reliant on core deposits (rather than brokered deposits).

As an addition to their quantitative analysis, Gilbert et al. (2013a) also utilized interviews with bank managers of the banks identified in their study as thriving or identified by researchers at various regional Federal Reserve banks as "healthy" throughout the recent recession (CAMELS ratings of 1 or 2 throughout). The finding from these interviews added the following potential components of successful community bank models:

- Presence of veteran senior management (human capital)
- Commitment to conservative lending principles (processes)
- Emphasis on relationship banking based on detailed knowledge of their markets and customers (social capital)
- Detailed underwriting and credit policies (processes)
- Active and engaged investors and directors (social capital)

- Higher than normal operating expenses to provide superior customer service (human capital)

- Creatively figuring out how to generate noninterest income (innovation)

Kupiece and Lee (2012) explored factors that explain differences in return on assets (a measure of profitability) among community banks and identified a number of components that may be part of successful community bank business models, including

- Higher than average loan to asset ratios

- Strong underwriting and loan administration practices

- Limited use of non-core deposit funding

- Lower than average overall funding costs

Gilbert et al. (2013b) explained how community banks that had been described as "troubled banks" at some time in the recent recession recovered and became rated as satisfactory or outstanding by their regulators. Their objective was "to learn about the community bank business model." Factors leading to recovery included fundamental changes in business models and increasing the available financial, human, and social capital of these banks.

Amel and Prager (2013) explored the important role played by management in the performance of community banks in both good times and bad times. Exploratory variables in the study that may represent elements of business models included asset size, composition of loan portfolio, use of brokered deposits, and "big shifts" in any of

these variables. Findings were that community bank profitability is strongly positively related to bank size (bigger is better); that local economic conditions have significant effect on profitability; that the quality of bank management matters a great deal to profitability, especially during times of economic distress; and that small banks that make major shifts to their lending portfolios tend to be less profitable than other small banks (Amel & Prager, 2013). Drawing from this literature and interviews in the current research, a generic community bank business model with possible component parts was created.

One distinct group of community banks are de novo or new community banks. DeYoung's (1999) theory of the life cycle of de novo banks explains the probability of failure at first rises and then declines with the age of the new bank. DeYoung found that

> the average de novo bank was initially less likely to fail than the average established bank, largely because of very high levels of initial startup capital. However, after about 4 years, the average de novo bank had become just as likely to fail as the average established bank, as fast asset growth and negative earnings ate into its cushion of excess capital. At 8 years, the estimated failure rate for the average de novo bank climbed to twice that of the average established bank but began to decline after that as the average de novo bank became more financially mature. However, the probability for failure of any given de novo bank strongly depended on how its life cycle was positioned visa versa the business economic cycle. (as cited in DeYoung, 2003, pp. 8-9).

In addition, DeYoung's life cycle theory found that de novo banks that do survive for 10 years tend to perform more like established banks.

This current research explored how the business models of community banks serve to facilitate the organization of their investors, directors, bank managers, staff and outsourced professional services; how these resources result in the financial, social, and human capital of the company/bank; and how these resources drive the performance of the bank during various stages of this first decade in business by providing qualitative detail to support DeYoung's (1999) quantitative data.

DeYoung's (2003) research on the survival of community banks "unexpectedly found that high levels of overhead spending were positively related to the long run survival of banks (suggesting greater labor inputs devoted to risk management and more diversified product mix)" (DeYoung, 2003, p. 27). Similarly, Jeon and Miller (2002) found that "increasing non-interest portion of total expenses significantly associates with fewer births, marriages and deaths." This current study explored whether the "high levels of overhead spending" noted by DeYoung (2007) and "increase in non-interest portion of expenses" by Jeon and Miller (2002) are explained by a greater investment in human capital as new banks are started and as they grew. Further, it explored the relationship between this "higher investment in a larger number of more qualified managers and employees," the growth rate of the bank, the quality of the bank's loans, and the long-term profitability of the bank. This appears to be reflected in the number of staff members hired and their average total compensation compared to other banks in the community.

Financial Aspects of a Bank Business Model

In Table 7, comparative data drawn from the FDIC website describes possible financial aspects of a bank business model. Columns A and B describe average financial data on all banks headquartered in the United States as of June 30, 2013, and June 30, 2003. These data includes all sizes of banks and may serve to describe how the world's largest banks affect the total banking community. Columns C and D describe average financial data on all banks headquartered in the State of Oklahoma as of June 30, 2013, and June 30, 2003. Only one bank headquartered in Oklahoma is a super regional bank (the Bank of Oklahoma). As a result, these data may serve as a proxy for general community banks. Columns E and F describe average financial data on all banks headquartered in Tulsa County, Oklahoma, as of June 30, 2013,and June 30, 2003, with the exception of Bank of Oklahoma. These banks are all community banks in an urban setting. Columns G and H describe financial data on First Oklahoma Bank as of June 30, 2013, and ONB Bank as of June 30, 2003, reflecting both the same time period in each bank's life cycle (31/2 years old) and different economic circumstances 10 years apart.

Table 7

Comparative Financial Aspects of Bank Business Models

	A All U.S. Banks 6/30/13	*B* All U.S. Banks 6/30/03	*C* All Okla. Banks 6/30/13	*D* All Okla. Banks 6/30/03	*E* Tulsa Co. Banks 6/30/13	*F* Tulsa Co. Banks 6/30/03	*G* First Okla. Bank 6/30/13	*H* ONB Bank 6/30/03
LOAN PORTFOLIO								
1. All RE Loans/Assets	22.1%	34.1%	38.4%	38.6%	45.9%	42.5%	62.9%	62.0%
2. Constr. & Dev. Loans/Assets	1.4%	2.9%	3.8%	4.3%	6.1%	7.6%	7.0%	16.1%
3. Comm. RE Loans/Assets	7.5%	7.3%	16.3%	12.6%	23.8%	17.6%	29.0%	25.3%
4. Multi-Family RE Loans	1.7%	1.6%	1.3%	1.8%	1.3%	1.9%	2.3%	4.9%
5. 1-4 Family RE Loans	16.5%	21.9%	14.9%	18.3%	13.8%	14.9%	23.1%	14.9%
6. Comm. & Ind. Loans	10.9%	10.5%	13.8%	12.9%	25.9%	24.0%	14.2%	19.7%
7. Consumer Loans	9.1%	8.5%	2.8%	5.5%	1.6%	5.3%	1.4%	2.5%
DEPOSITS								
8. Core Deposits	58.3%	48.5%	71.3%	55.1%	73.0%	66.2%	67.4%	59.1%
9. Brokered Deposits	5.0%	3.3%	3.3%	2.9%	9.9%	.6%	5.9%	.1%
INCOME & EXPENSE								
10. Net Int. Inc./Assets	2.9%	3.3%	3.2%	3.6%	3.6%	3.7%	3.6%	3.5%
11. Non-Interest Income	1.9%	2.3%	1.6%	1.3%	1.1%	1.2%	2.1%	.5%
12. Non-Interest Expense	2.8%	3.2%	2.9%	2.8%	3.6%	3.5%	4.7%	3.3%
13. - Employee Comp.	1.3%	1.4%	1.7%	1.5%	2.2%	1.9%	3.3%	2.1%
PERFORMANCE RATIOS								
14. Pretax ROA	1.7%	2.1%	1.7%	2.1%	.8%	1.2%	.6%	.3%
15. After Tax ROA	1.2%	1.4%	1.5%	1.7%	.6%	.9%	.4%	.2%
16. Net Charge Offs/Loans	.8%	.8%	.2%	.3%	.5%	.2%	.04%	0.0%
17. Efficiency Ratio	58.8%	56.5%	62.2%	57.5%	77.6%	72.0%	82.0%	82.0%
18. Assets/Employee	6.9 mil	4.3 mil	4.1 mil	3.1 mil	3.9 mil	2.9 mil	3.1 mil	2.9 mil
19. Loans/Deposits	90.3%	119.4%	81.5%	109.6%	83.6%	88.6%	90.6%	97.3%
20. Equity/Assets	11.2%	9.1%	10.0%	8.5%	10.4%	8.9%	10.8%	8.1%
21. Leverage Ratio	9.3%	7.9%	9.5%	8.3%	9.5%	8.9%	10.4%	8.2%
22. Asset Growth Rate	2.7%	11.0%	2.6%	3.4%	2.8%	8.9%	25.2%	23.5%
23. Loan Growth Rate	3.3%	9.0%	1.8%	10.6%	.02%	12.1%	31.8%	28.5%

In analyzing these comparative data, distinctions that can be identified as potential elements of business model by groupings include the following:

- Lines 1–7: All of these loan portfolio factors reflect different aspects of a bank's model as it has to do with investments in loans. As prior research has shown, banks may specialize in one or more types of lending as part of their model (Whalen, 2007). In these data, both First Oklahoma Bank (FOB) and ONB Bank specialized in real estate loans generally, with ONB specializing in construction and development loans (16.1% compared to FOB's 7.0%, Tulsa County's average of 6.1%, and Oklahoma's average of 4.3%) and First Oklahoma Bank specializing in 1-4 family housing loans (23.1%, compared to ONB's 14.9%, Tulsa County's 13.8%, and Oklahoma's 14.9%).

- Lines 8 and 9: Core Deposits to Assets and Brokered Deposits to Assets: Also potential elements of the banks funding model, a factor identified as significant in being correlated to receiving a #1 CAMELS rating (Gilbert et al., 2013a).

- Line 11: Non-Interest Income: First Oklahoma Bank has one of Oklahoma's highest ratios of noninterest income to assets, almost twice as high a ratio as Tulsa County or Oklahoma County and 4 times as high as ONB. Interviews with management were designed in part to identify how their business model has enabled them to achieve such a high ratio of noninterest income. It was also anticipated to be interesting to discover what had changed between the business models of ONB Bank and First Oklahoma Bank that resulted in this big change in income.

- Line 12: Non-Interest Expense: First Oklahoma Bank has a very high ratio of noninterest expense a percent of assets compared to other banks, especially in employee compensation (Line 27). This feature was identified by prior research (DeYoung & Rice, 2004) as an unexpected finding that had a positive correlation to firm survival. Interviews with management were designed to help identify what element of managers' business model leads them to a noninterest expense ratio (and especially employee compensation) that is so high.

- Lines 14 and 15: Return on Assets (ROA) pretax and after tax: In these data, both FOB and ONB are high (reflecting in part their de novo status as predicted by DeYoung's [1999] life cycle theory), and Tulsa County headquartered banks have generally lower ROAs and pretax ROAs than other bank groupings. Interviews with bank managers were expected to explore what elements of their business models result in these outcomes.

- Line 17: Efficiency Ratio: This generally reflects what percentage of the bank's income is spent to earn net income. Again, both First Oklahoma Bank and ONB Bank have higher than normal ratios. Interviews with management were intended to explore what elements of their business model led to these outcomes. It was expected this may be correlated with the two banks' rates of growth.

- Line 19: Loan to Deposit Ratio: This ratio would reflect a bank's model for being "loaned up," a factor identified as having a positive correlation to being rated a CAMELS #1 by bank regulators (Gilbert et al., 2013b).

- Lines 20 and 21: Equity to Assets and Leverage Ratio: A clear difference between 2013 and 2003 is that on average all banks have significantly more equity capital as a percentage of assets in 2013. First Oklahoma Bank has a 27% higher leverage ratio than did ONB. Interviews with managers were designed in part to explore why the business models changed regarding equity ratios and how that was accomplished.

- Lines 22 and 23: Asset and Loan Growth Rates: In these ratios, it is clear that FOB and ONB have dramatically higher growth rates than any bank groupings. Interviews with bank managers were designed in part to explore what elements of the bank's business model resulted in these very rapid rates of growth. (Lines 26 and 37 were thought to provide some evidence of how the growth is achieved.)

All of these ratios can be separately analyzed to distinguish differences in various banks' financial outcomes that reflect different components of their business models. Interviews with bank managers were intended to lead to understanding of what specific different elements of business models were pursued, why, and how. Comparisons of performance data from 2003 to 2013 with very different economic circumstances were also anticipated to yield information about bank managers changing their models as economic circumstances change.

Qualitative Research on Community Banks

Virtually all research on community banks is quantitative in nature. This situation may be due to the vast amount of public data available about all banks from their quarterly reports published by bank regulators. In spite of the statement by Federal Reserve

Chairman, Ben Bernanke, “The best way to understand community bankers is to talk to them” (p. 1), very few papers on community banks reflect any discussions with bankers about why they did what they did or how they did it. Filling the gap in community bank literature by using qualitative research methods, this research explored the role of individual bank business models on organizing and utilizing the key resources of the bank and how that drives the bank’s outcomes. Insight was sought through interviewing individual bankers and bank directors (investors) to gain their perspectives borne out of experience about the who, what, when and why the use of the banks business model guided the mobilization and utilization of key resources that drives the performance of community banks. It was anticipated that in spite of banks being more highly regulated than other businesses, much of what would be discovered would be generalizeable to the use of business models by start-up companies in other industries.

Resource Based Theory

Resource based theory holds that

> firm resources include all assets, capabilities, organizational processes, information, knowledge, etc. controlled by a firm that enables a firm to conceive and implement strategies that improve its efficiency and effectiveness. Firm resources are strengths that firms use to conceive of and implement their strategies (Barney, 1991, p. 101).

Barney went on to note, “These numerous possible firm resources can be conveniently classified into three categories: physical capital resources, human capital resources, and organizational capital resources” (p. 101).

Many types of capital have been described by scholars. This research utilized the constructs of financial capital, human capital (Becker, 1975) and social capital (Coleman, 1988) as key resources on the banks. Financial capital includes the equity capital invested in the company. Human capital includes the training, experience, judgment, intelligence, and insight of individuals associated with the bank. Social capital includes the networks of relationships and social structures in which the bank's employees and investors are engaged and through which they are able to secure benefits.

Barney (1991) found that "sustained competitive advantage derives from the resources and capabilities a firm controls that are valuable, rare, imperfectly imitable, and not substitutable." This research explored how community banks utilize a business model to define and mobilize their resources and capabilities in a manner that provides them a competitive advantage in their local markets.

Sirmon, Hitt, and Ireland (2007) noted that

> the primary pursuit of business is creating and maintaining value. To realize value creation, firms must accumulate, combine, and exploit resources. Unfortunately, there is minimal theory explaining "how" managers/firms transform resources to create value. Resource management is the comprehensive process of structuring the firm's resource portfolio, building the resources to build capabilities, and leveraging those capabilities with the purpose of creating and maintaining value for customers and owners. However, the processes by which firms obtain or develop, combine, and leverage resources to create and maintain competitive advantage are not well understood. (p. 1)

They further noted,

> The resource portfolio is the sum of the firm-controlled resources (tangible and intangible). The resource portfolio establishes the upper bounds of a firm's potential value creation at a point in time. Structuring the resource portfolio is the process by which firms acquire, accumulate, and divest resources. (p. 1)

Firms mobilize resources to build the capacity to exploit market opportunities and gain competitive advantage. The current research explored how the business model of the firm impacts the definition of the resources that need to be mobilized and then how it impacts the coordination and deployment of those resources over time and how this impacts the outcomes of the firm.

Financial Capital: Entrepreneurial Finance

Dennis (2004) observed, "One of the most important issues facing entrepreneurial firms is their ability to access capital" (p. 304). Yet, "studies in entrepreneurial finance were nearly nonexistent until the early 1990s. Since that time, the number of articles has increased, but never exceeded six articles in one calendar year" (Dennis, 2004, p. 303). He found that a primary source of equity capital for entrepreneurial firms is "angel investors," whom he defined as "high net worth individuals that invest their own funds in a small set of companies" (p. 307). Dennis noted, "The National Venture Capital Association estimates the size of the angel investor market to be roughly $100 billion in 2000" (p. 304). He continued, "These investments tend to be $500,000 to $2,000,000 in size and are private investments not subject to public disclosure" (p. 308).

In a study of 1,600 small manufacturing firms, Carpenter and Peterson (2002) found,

> The growth of most small firms is constrained by the availability of internal capital. The typical firm retains all its income, raises relatively little external finance, and has an average growth of assets similar to its cash flow to assets ratio. (p. 20).

This restriction is similar in community banks, as 42% have never raised additional equity capital after the bank was founded, and 40% have only raised equity capital once in the last decade (FDIC, 2012). The availability of additional external capital is even more important to community banks' ability to stay in business and grow. While banks as an industry are much more highly leveraged than other industries, banks are limited in their ability to use leverage by regulation that requires them to keep regulatory defined minimum capital ratios. In recent years, banks have been required by regulators to significantly increase their equity capital as a percentage of total assets and thus reduce the leverage of the industry. This research explored how the limitations on increasing equity capital other than retained earnings impacts growth of the bank. It further explored how the bank's business model was impacted by the bank manager's perception of a lack of access to additional external capital. It also explored why bank managers may have intentionally not pursued additional investors and as a result experienced a self-imposed lack of additional equity capital.

Human Capital

Becker (1975) opened his first book on human capital with a quote by Marshall stating, "The most valuable of all capital is that invested in human beings" (p. 13). Becker went on to define human capital as investments in human beings that influence future monetary and psychic income including schooling, on the job training, medical care, migration, and searching for information that is useful in the performance of the job. According to Becker, all these investments improve skills, knowledge, or health, and thereby raise money or psychic income. In his studies, it was clear that people with better education almost always make more money than those with less education. As this applies to community banks (and other small- to medium-size companies), this research explored the thoughts of bank managers about whether and why their business model led them to invest in a larger number of highly qualified (education and experience) bankers when they hired management and staff. It also explored how their investment in staff members is reflected in their average total compensation compared to the average total compensation of all banks in the market and how they think these factors may have affected the performance of the bank.

Social Capital

Adler and Kwon (2002) wrote that "social capital" is understood as roughly the goodwill engendered by the fabric of social relations and that can be mobilized to facilitate action. The breadth of the social capital concept reflects a primordial feature of social life, namely, that social ties of one kind (i.e., friendship) often can be used for different purposes. Coleman (1988) called this the "appropriability" of social structure. The core intuition guiding social capital research is that goodwill toward others is a valuable

resource. If goodwill is the substance of social capital, its effects flow from information, influence, and solidarity such goodwill makes available. Social capital sources lie in the social structure within which the actor is located"(pp. 17-18).

Adler and Kwon (2002) provided various definitions of social capital used by various authors include the following:

- Adler and Kwon (2002): The goodwill available to individuals or groups. Its source lies in the structure and content of the actor's social relations. Its effects flow from the information, influence, and solidarity it makes available to the actor.

- Fukuyama (1995): The ability of people to work together for common purposes in groups and organizations.

- Inglehart (1997): A culture of trust and tolerance, in which extensive networks of voluntary associations emerge.

- Burt (1992): Friends, colleagues and more general contracts through which one receives opportunities to use one's financial and human capital.

There is debate about whether social capital can be counted as capital. While it is true that social capital does not seem easily quantified or measured, Adler and Kwon (2002) developed the following explanations of why social capital is very useful capital:

Like other forms of capital, it is a long-lived asset into which other resources can be invested, with the expectation of a future flow of benefits; it is appropriable (Coleman,

1988); and it can be a substitute for or can complement other resources (e.g., actors can sometimes compensate for a lack of financial or human capital by having "connections").

Like physical capital and human capital, but unlike financial capital, social capital needs maintenance. Social bonds need to be periodically rewarded and reconfirmed, or they lose efficacy. Like human capital, social capital is built on trust and normally grows and develops with use. Like clean air and safe streets, some forms of social capital are collectively goods in that they are not the private property of those who benefit from them.

Adler and Kwon described three major benefits of social capital:

1 Information: Social capital facilitates access to broader sources of information and improves information's quality, relevance, and timeliness;

2 Influence, control and power: Who one knows often makes all the difference in what one can do.

3 Solidarity: Strong social norms and beliefs, associated with a high degree of closure of the social network, encourage compliance with rules and customs and reduce the need for formal controls.

Florin, Lubatkin, and Schluze (2003) "use social capital theory to explain how human and social capital affect a venture's ability to accumulate financial capital during its growth stage, and it's performance during the two-year period after going public.". Their core thesis is "that social capital contributes directly to a venture's resource base, by allowing it to better attract human and financial resources, and also contributes indirectly,

through its ability to leverage the productivity of the venture's resources." Their research found that "the relationships between human resources and performance, and between financial capital and performance, both vary with the level of social resources. In other words, social resources leverage the productivity of a venture's resource base."

DeYoung et al. (2013) found that loans originated by rural community banks had a substantially lower rate of default than loans originated by urban banks in urban or rural areas. They concluded that the rural banks' high stock of social capital improved their ability to underwrite and collect loans. This is an example of the improved information, influence, and solidarity of social capital in the banking business.

This study sought to discover how many investors were thought to be an optimum size by those who organized the investor group and whether or not they were open to allowing new investors to join the group after its founding. The choice to limit the number of investors in a new bank may inhibit the growth of the bank as a result of limited access to additional equity capital and to investors' social capital. As noted by Portes (1998), "to possess social capital, a person must be related to others, and it is those others, not himself, who are the actual source of his advantage" (p. 7). To limit the size of the investor group is to limit the number of "others" with whom the bank has a close social relationship to draw on for the bank.

In interviews with bank managers, this study sought to understand what elements of Adler and Kwon's (2002) definition of the benefits of social capital were important in identifying from whom to solicit funds and how to use or engage the angel investors in driving the performance of the firm. Those benefits include the following:

- The flow of information about opportunities for business that would not otherwise be available.

- Exerting influence (or putting in a good word) with individuals in firms with whom the bank seeks to do business.

Building solidarity in the community that establishes and enhances the firm's reputation.

The amount of financial capital invested is a tangible fixed resource available to the bank. The social capital that exists among its investors, however, is not fixed or automatically available. It must be developed over time by continuous engagement of the investors. As Coleman (1988) noted in introducing the concept, "Social capital comes about through changes in the relations among persons that facilitate action" (p. 100). Coleman described this phenomenon in a family such that

> the social capital of the family is the relations between the children and the parents. That is, if the human capital possessed by parents is not complemented by social capital embodied in family relations, it is irrelevant to the child's educational growth that the parent has a great deal, or a small amount, of human capital. (p. 110)

Similarly, if a new bank has a large number of investors who each have significant social networks, but it does not engage those investors in helping build the bank, it is irrelevant that the large number of well-connected investors exists. This study aimed to discover how new banks have utilized the social capital of their investors by engaging them in the work of promoting the bank over time.

Summary of Literature

A useful metaphor for explaining the purpose of research is that of "conversations." It was the intent of this research to join two distinct conversations taking place in the academic and the practitioner communities. The first conversation is that taking place in the entrepreneurship literature on the topic of the construct business model: what does it mean, how is it created, how does it work, and how does it change over time. The second conversation is in community banking literature, specifically literature about the community bank business model: what is it, what are its component parts, how does it work, and how does it change over time.

In this literature review, the researcher has described the conversation taking place in the academic community regarding the construct of the business model. The construct of the business model has emerged as a new unit of analysis with over 1,000 articles published in peer reviewed journals including the notion of business model from 1995 - 2009 (Zott et al., 2011). However, in spite of many definitions being proposed, no consensus definition of the construct currently exists. The most common components of proposed scholarly definitions include a description of how firms do business or the economic logic of the firm; a firm's activities or architecture; how the firm creates value (and for whom); a firm's market positioning; a firm's resources, rules, and relationships; a firm's processes; and a firm's governance. The definition seen as most useful to practitioners is that of the business model as "the stories that explain how businesses work" (Magretta, 2002, p. 4). Several contexts for discussing business models have been utilized including: Xerox Corporation (Chesbrough & Rosenbloom, 2002); electronic commerce

(Timmers, 1998); German biotechnical firms (Patzelt, et al., 2008); French biotechnical firms (Mangematin et al., 2003); and global banking (Daruvala et al., 2012).

The clear gap in the literature is a lack of consensus definition of what is meant by the construct business model. This research began as an extension of Magretta's (2002) definition of the construct of business model as a story to make constructive contributions to this conversation by attempting to add a practitioner's perspective to the nature of the story. This approach would answer the first research question: What is a business model from a practitioner's point of view?

Beyond "what is it," the question of "how does it work" was explored. Several articles discussed above have described how a business model works in various industries, but none have yet explored its application in community banking. In addition, existing research has not gone inside the black box of the business model to see from a practitioner's point of view how the business model influences the assembly and utilization of resources and its use to guide the outcome of the company. This research aimed to fill those gaps in the conversation.

Secondly, this literature review has included description of the conversation taking place in both the academic and the practitioner communities on the topic of the community bank business model. The nature of the U.S. banking system was discussed, including its unique structure of over 6,500 locally owned and managed community banks. The community banking literature was explored, including recent emphasis by the Federal Reserve system, the Conference of State Bank Supervisors, and the FDIC describing community banks. Work by DeYoung (1999, 2004) and Jeon and Miller (2002) about

the nature of community banks were discussed. Literature that discussed potential components of a community bank business model was explored, including lending specialties, rate of growth, types of practices of management, funding sources, alternate sources of noninterest income, and ways of developing equity capital. Data on possible financial components of a community bank business model were presented.

The biggest gap in this literature is a lack of qualitative research drawn from the conversations with the managers of community banks that describe how they created their business models, why they chose various component parts, how their model worked (or did not work) and why it was changed over time. This research attempted to fill this gap in the literature.

Thirdly, there is an extensive conversation in the literature about resource based theory and various key resources utilized by companies to gain competitive advantages in their markets served. Resource based theory, which holds that "sustained competitive advantage derives from the resources are valuable, rare, imperfectly imitable, and not substitutable" (Barney, 1991, p. 105), was discussed as a lens through which to analyze how a firm's business model guides the development and management of its resources to build capacity to exploit market opportunities and gain competitive advantage (Sirmon et al., 2007). Theories about the specific resources analyzed in this study were noted, including financial capital (Carpenter & Peterson, 2002; Dennis, 2004), human capital (Becker, 1964), and social capital (Adler & Kwon, 2002; Coleman, 1988;; Portes, 1988).

Mangematin et al. (2003) utilized resource based theory as a lens to understand the same major resources described in this study as they applied to biotechnical firms in France,

resulting in their finding of two distinct types of business models. The current research extended the work of Mangematin et al. both by utilizing a new context (community banks in the United States) and by seeking to discover multiple component parts of a community bank business model that may be organized in a variety of combinations creating many different kinds of community bank business models, rather than just two as described by Mangematin et al. To some extent, Mangematin et al. were using business model in the macro sense of the term, describing two size categories of French biotechnical firms, and the current research aimed to more fully develop the micro sense of the term, describing various components that may be pursued in a community bank.

CHAPTER III

METHODOLOGY

As presented in the literature review in Chapter 2, much research on community banks has been quantitative in nature. This study of a community bank business model was designed to contribute qualitative data to the literature on this topic. This chapter includes details about the study's method, design, and data collection and analysis procedures. In this study of community banks, a qualitative approach based on the social construction perspective and a case study approach has been taken. The case study was designed in two parts: (a) an in-depth case study of First Oklahoma Bank as the base model and (b) in-depth interviews and focus group interviews with managers or directors of other community banks to be used for comparative purposes.

Qualitative Methodology Approach

Qualitative research grows from a perspective known as social constructivism (Creswell, 2013). The social constructive perspective contends that

> individuals seek understanding of the world in which they live and work. They develop subjective meanings of their experience - meanings directed toward certain objects or things. These meanings are varied and multiple, leading the researcher to look for the complexity of views rather than narrow meanings into a

> few categories or ideas. The goal of this type of research, then, is to rely as much as possible on the participants' view of the situation being studied. (Creswell, 2013, p. 8)

In this research, questions were broad so that participants could tell their stories about the elements of their business model, how it was constructed, how resources were mobilized, who played what roles, and how the business model changed over time. Special effort was made to draw out participants on their own role and background and the processes in which they participated. As Creswell wrote,

> Social constructivist researchers recognize that their own backgrounds shape their interpretation, and they "position themselves" in the research to acknowledge how their interpretation flows from their own personal, cultural, and historical perspective. The researcher's intent, then, is to make sense of (or interpret) the meanings others have about the world. Rather than starting with a theory (as in post positivism), inquirers generate or inductively develop a theory or pattern of meanings. (p.8-9)

The goal of qualitative research is to understand what people say about what happened concerning a specific topic or phenomenon. This includes understanding the context in which the action or event was done, and their motivation for doing what they did, or their explanation of why they did it. This can only be discovered by talking to people and getting them to tell their stories. "It is only by talking to people or reading what they have written, that we can find out what they were thinking, and understanding their thoughts go a long way toward explaining their actions" (Myers, 2009, p. 6). This is

true of exploring what business models are and how they work. According to Myers (2009),

> Interpretive (or interpretivist) research is not as common as positivist research in business and management, but has gained ground over the last 20 years. Interpretive researchers assume that access to reality (given or socially constructed) is only through social constructions such as language, consciousness, shared meanings, and instruments. Interpretive researchers do not predefine dependent and independent variables but focus instead on the complexity of human sense making as the situation emerges (Kaplan and Maxwell, 1994). They attempt to understand phenomena through the meanings that people assign to them. Hence, interpretive researchers tend to focus on meaning in context. They aim to understand the context of a phenomena, since the context is what defines the situation and makes it what it is" (p. 38).

The perspective of this researcher is that of an interpretivist. Accounting provides an example why. One might think that accounting is an exact science and that numbers speak for themselves (a positivist view). However, it is the belief of this researcher that accounting is an art form used by accountants and others to tell a story. There are many aspects of accounting in which the numbers do not speak for themselves. In banking, there is an art to accounting for intangible assets (i.e., tax loss carry forward or mortgage servicing asset), and allowances for loan losses that inherently exist in a loan portfolio but their exact amount is not known. These numbers reflect both the accountants' and managements' assessments of a variety of unknowable factors such as future economic conditions and their impact on the bank's loan portfolio. So, they are using numbers to

tell a story where 1 + 1 may equal less or more than 2 if XYZ happen. It is their financial interpretation or story about a dynamic situation.

Rationale for Case Study Approach

Creswell (2013 noted three primary criteria for selecting an approach for research: "The match between the problem and the approach, the researcher's personal experience, and the audience whom the research is being reported" (p. 21). In this case, the problem was figuring out how to define a business model and describe how it works in practice. The audience to whom the research is being reported certainly begins with the dissertation committee and then extends to the academic community. However, it is the researcher's ultimate desire to report his findings to the practitioner community, especially bankers, as a primary audience.

A case study methodology is appropriate for this project because it will provide a more in-depth or holistic view of the complexity and variation of what business models are and how they work in different organizations in the same industry than exists in the current literature (Patton & Appelbaum, 2003). As noted by Hein, "It is important that researchers start talking to community bankers" (S. Hein, personal communication, October 2, 2013) This project also provides a rare look at "how" and "why" community banks operate based on conversations with community bankers as an extension to the existing literature, which is primarily quantitative focusing on "what" community banks have done. This is particularly important because community banks' primary competitive advantage over larger banks is their ability to build relationships with their customers and understand soft information. While larger banks are known for their risk models and credit scoring models, community bankers are known for their relationships

born out of conversations. This distinction is best explored by research methods that are relational as well.

Myers (2009) wrote,

> Case study research in business uses empirical evidence from one or more organizations where an attempt is made to study the subject matter in context. Multiple sources of evidence are used, although most of the evidence comes from interviews and documents. Case study research is one of the most popular qualitative research methods used in the business disciplines. One of its main advantages is 'face validity', which is a real story about real people in a real organization, with which most researchers can identify. (p. 76)

Where positivist researchers tend to talk about the generalizeability of research to a population, qualitative researchers tend to talk about transferability and understand the concept of theory to be generalizeable despite method (Mason, 2013). Walsham (2006) declared, "Does access to a limited set of organizations, or even one organization only, necessarily remove the possibility of generalization? My answer is a clear no, as generalizations can take the form of concepts, theories, specific implications, or rich results" (p. 322)

Tulsa, Oklahoma: Community Bank Context

This research primarily used an in-depth case study of one Tulsa, Oklahoma community bank: First Oklahoma Bank (2009-2014), with comparative observations from other Oklahoma community banks. This bank was used for the following reasons. First, the researcher is the Chairman and Co-CEO of First Oklahoma Bank, and so the in-depth

information usually difficult to obtain in a case study is readily available to this researcher. Second and similarly, all of the CEOs, former CEOs, or principle owners of the other banks were friends of the researcher and willing to participate. So, access to information was excellent. Third, using banks located in the same community at approximately the same time reduces the element of different economic circumstances as an element of analysis. While it is true that individual banks located in the same market at the same time may experience the economy differently based on the unique characteristics of their business model, it is believed that there will be more commonality of economic experience of banks located in Oklahoma from 2000 to 2013 than in comparing banks located in different regions of the country (i.e., Oklahoma and Georgia or California).

While the results of this case study may not be generalizeable to the total population of all banks in all communities in all times, they are very likely to be generalizeable to theory. Then further research by others might explore other contexts to see if they find similar results. With over 6,500 community banks nationwide and a constant fluctuation in the emergence, prospering, and floundering of de novo (or new) banks, this case study situated in Tulsa, Oklahoma can provide rich insights to guide managerial actions and provide theoretical insights about business models.

Data Collection and Triangulation

> The logic of triangulation is based on the premise that no single method ever adequately solves the problem of rival explanations. Because each method reveals different aspects of empirical reality, multiple methods of data collection and analysis provide more grist for the research mill, (Patton, 1999, p. 1192)

Triangulation involves a combination of different data collection methodologies to arrive at a more complete understanding of the phenomena and build trustworthiness in the data interpretation. In an attempt to achieve triangulation, this research involved the collection of data primarily through interviews, focus groups, and personal observation enhanced by the researcher's embedded knowledge of the context. Triangulation was achieved through the review of secondary documents such as FDIC data, corporate documents, and newspaper articles on the subject companies. Expert interviews with several bank executives and officials were also conducted to enhance triangulation.

The process of triangulation involved "comparing and cross checking the consistency of information derived at different times and by different means within qualitative methods" (Patton, 1999, p. 1195). A special focus on comparing perspectives of people from different points of view within the base organization and between different organizations was utilized. Further triangulation of the spoken perspectives was achieved by utilizing FDIC data reported over time, corporate documents used to describe the bank's processes and progress to investors over time, and newspaper articles about the banks. Triangulation of the research was accomplished by the use of a researcher other than the primary researcher to conduct the focus groups. This use of a different researcher served to expand the perspectives of the research questions being asked. Finally, the last draft of their dissertation was reviewed by industry experts for the validity of its content and description of the context.

Role of a Participant Observer

In this project, the researcher was a "participant observer" serving as Chairman and Co-CEO of First Oklahoma Bank. It is believed that the researcher's role in this bank

provided a unique and exceptionally rich amount of data on the topic. Putting this in context, Walsham (1995) discussed the role of the participant observer or actor researcher in being a member of the field group or organization. He noted, “The merits of this are the participant observer will get an inside view and will not normally be debarred from confidential or sensitive issues” (p. 77). In 2005, Walsham updated this insight by adding, “The advantage of being an involved or participant researcher are in-depth access to people, issues, and data. It enables observation or participation in actions, rather than merely accessing opinions as in the case in an interview-only study” (p. 321). It was believed that this would be the case in this research.

Sequencing of Data Collection

The sequencing of the data collection is important in both describing and analyzing the construct of business model and how it works. The sequencing has proceeded as follows:

1. FDIC Data Analysis: A detailed case analysis was built from FDIC data that described the many financial or numeric aspects of each firm compared to the average for all banks in the United States and all banks in Oklahoma. These data were utilized to understand the differences in outcomes of the various participants from the average bank in the nation and state.

2. Semistructured in-depth interviews were conducted with fifteen individuals from First Oklahoma Bank: These interviews took an average of 1-2 hours each. Individuals from a wide range of perspectives within the bank were recruited. They included interviews with the Co-CEOs, Chief Financial Officer, Chief Lending Officer, Chief Credit Officer, and Chief Operations Officer and from the

managers of each of the different functions within the bank. In addition, interviews with three outside directors from the bank were conducted. To provide further context, 12 in-depth interviews were done with CEOs, former CEOs, and directors of other Oklahoma area community banks. These interviews took an average of 1-2 hours each. Follow-up interviews were done with these participants to clarify comments or gain additional information based on comments from other participants.

3. Semistructured in-depth interviews were done with five investment bankers who serve as consultants to community bankers: These interviews provided very useful context and perspective to those of the bankers. Once the in-depth interviews were fully analyzed, focus groups or group interviews both with people sharing common views and people with different views were organized. Focus groups of approximately 12 bank managers and principle owners/directors from other Tulsa area banks were organized. The questions for these different focus groups were drawn from the in-depth interview stage of this project. In order to triangulate the data from various participants in this project, a researcher other than the author was utilized to facilitate the focus groups.

4. Additional semistructured in-depth interviews were conducted with a bank regulator and an attorney specializing in regulatory matters to provide additional context.

5. Corporate documents and media reports on the banks have been analyzed to support and give context to the data gathered in the interviews and focus groups.

In Depth, Semi-Structured Interviews

In depth, semistructured interviews are defined as “the use of some pre-formulated questions but no strict adherence to them” (Myers, 2009, p. 124). New questions emerge in the conversation based on the informant’s responses. The goal is not to gain a set of responses to established questions but to open up areas for exploration that enable deeper themes and theoretical insights to unfold. The tone of the interview tends to be conversational, enabling an open, engaging dialogue in which the informant feels comfortable to express his/her views. There is typically some consistency across interviews, given that the interview begins with a similar set of questions (Myers, 2009). An initial set of structured questions was asked of each participant that served to guide the conversation. A draft of the interview guide is included in this study (see Appendix B). However, as the conversation and research evolved, new areas of inquiry were included.

Focus Groups

A group of from First Oklahoma Bank and CEOs and directors of other Tulsa-area community banks were utilized for the focus group discussions. The purpose of the focus groups was to gain a richer understanding as it may evolve from the group discussion of the business model of a bank. As is usually the case in academic classroom discussions, in focus groups the comments of one participant can elicit responses from other participants such that the shared discussion yields insights not available from individual interviews. The process of formulating ideas, presenting them to the group, receiving feedback, and then responding to that feedback can produce insights beyond any individual’s thoughts.

After conducting the individual interviews, it was useful to gather groups of individuals with different perspectives on important banking topics to explore how their discussion enriched the data analysis and interpretation. Participants in these focus groups were asked their views based on questions in the interview guide as well as on themes that emerged from the analysis of the individual interviews. The groups served as an expert check on the findings, enhanced triangulation, and provided even richer insights.

Recruitment of Participants

The goal in recruiting participants was to gather a wide range of perspectives of senior managers and directors of First Oklahoma Bank and CEOs and directors from other banks. Participants were contacted by phone to be informed of the study and asked if they were interested in participation. Upon their agreement, interviews were scheduled in a mutually agreed upon location.

The following interviews were conducted:

First Oklahoma Bank Managers: 12

First Oklahoma Bank Outside Directors: 3

Managers/Owners of other Banks: 12

Investment Bankers: 5

Other Experts: 2

Total: 34

Two focus groups were utilized with six participants in each group. The total of twelve participants included nine managers or investors who had participated in the in depth interviews and three new participants who added the perspective of three additional banks to the research. In fact, given the long tenure in banking of the participants in the interviews and focus groups, at one time or another one or more of the participants had worked at virtually all of the banks in Tulsa. The focus groups were facilitated by a member of the OSU faculty in an effort to triangulate the research and add additional perspective to the questions that were asked. To complement the interviews and focus groups, interviews with a senior banking regulator and an attorney whose practice is focused on managing regulatory relationships for bankers were conducted. These expert interviews added important perspectives regarding the role bank regulators and regulations play in the development and utilization of community bank business models.

Secondary Data: FDIC Data, Corporate Documents, and Newspaper Articles

Each bank in the United States submits extensive financial data in call reports on a quarterly basis to their primary federal regulator. These reports contain a vast amount of data describing what happened (as measured by financial outcomes) at each bank. This information is available to the public. This public information about all the banks in the study was utilized in the study. The data from the banks were compared to each other (and to others in the national, state, and local markets) to illustrate how the different business models resulted in different performance outcomes over time.

Corporate documents and newspaper articles about First Oklahoma Bank were utilized as well. These included the business plan submitted to regulators for approval of the bank's charter, private placement memorandums given to prospective investors to raise capital,

and the bank's strategic plan. Copies of speeches given at annual stockholder's meetings and copies of the quarterly newsletters sent to the bank's respective investors reporting on the performance of the bank were also utilized as secondary sources of data.

Each of these documents provided additional data that were important supplements to the interviews and focus groups. They enabled the research to be triangulated and the development of the bank's business models over time to be explored.

Data Analysis

Consistent with the definition that business models are "essentially stories people tell about how enterprises work" (Magretta, 2002, p. 4), narrative analysis was used for analyzing the data. Ultimately, all business models are "a form of fiction in the sense that they are created or made up in a way that is intended to persuade others toward certain understandings and actions" (Barry & Elmes, 1997, p. 433). Narrative analysis was defined by Myers (2009) as "a qualitative approach to the interpretation and analysis of qualitative data" which can take many forms (p. 212). As it applies to organizations, Czarniawsk (1998) wrote, "Organizational narratives are the main mode of knowing and communicating in organizations and their construction and reproduction must be documented and their contents interpreted" (p.2). Narrative is a distinct way of making sense of the world. Barry and Elmes (1997) wrote that "narrative emphasizes the simultaneous presence of multiple interlinked realities" (p.430), and it is thus a suitable form for pulling together multiple perspectives of key players in an organization to explain what their business model is, how it was developed and utilized, and how it changed over time.

As Myers (2009) noted,

> Chase (1995) writes narrative is retrospective sense making - the shaping and ordering of past experience. Narrative is a way of understanding one's own and other's actions, or organizing events and objectives into a meaningful whole, and of connecting and seeing the consequences of actions and events over time. (p.215)

Barry and Elmes (1997) added,

> A narrative - a view of strategy stresses how language is used to construct meaning; consequently it explores ways in which organizational stakeholders created discourse of direction (whether about becoming, being, or having been) to understand and influence one another's actions. (p.432)

Myers went to explain that

> in management, narrative is a common way of presenting data about organizations and organizational actors. Management and organizational researchers have considered how stories symbolize aspects of organizational culture or the role of storytelling in organizational sense making. The narrative is in effect a compilation of data from interviews, documents, and so forth, telling the story of what happened. (p. 212)

Czarniawska (2000) quoted Bruner as having noted that "narrative knowledge tells the story of human intentions and deeds, and situates them in time and space. It mixes the objective and the subjective aspects, relating the world as people see it" (p. 2).

Myers (2009) also noted that

> constructivist narratives assume that the narrator constructs events through narrative, as opposed to simply describing them. Constructivist narratives are usually portrayed as subjective or partial views of reality. Instead of arguing for the representative nature of the narrative (as a realist or positivist might do), constructivists tend to emphasize their uniqueness. (p. 214)

This situation was true of this research as it sought for distinctness or differences among various components of each bank's business model and how they led to different means of mobilizing and utilizing resources to drive the outcomes of the organization.

In this study, in-depth interviews with executives in charge of different aspects of First Oklahoma Bank (CEO, CFO, Chief Operations Officer, Chief Lending Officer, Chief Credit Officer, and Chief Marketing Officer) were conducted to discover how each of participant understood how the business model was developed, embedded, utilized, and changed overtime, and how this impacted the outcomes of the organization. The similarities and differences of their perspectives added depth to understanding a total organization view of the story. In addition, semistructured in-depth interviews and focus group interviews were conducted with managers or directors of other Tulsa-area community banks and were used for comparative purposes to the First Oklahoma Bank story.

As the data were gathered, the progression of analysis suggested by Czarniawska (1999) was followed:

The interview process

- Learning how stories are being told.
- Provoking storytelling and collecting the stories.

Analysis

- Interpret the stories (what do they say?)
- Analyzing the stories (how do they say it?)
- Deconstructing the stories (unmake them and restructure them with the assistance of NVIVO software).

Interpretation

- Put together the story of First Oklahoma Bank.
- Set it against/together with stories of other Tulsa area community banks.

In addition to the in depth interviews and focus groups, a journal of observations was kept in response to comments by the participants. This step enabled the researcher to "put together the story" about the community bank business model as the process developed. In conducting the analysis, the conventions outlined in Gioia et al. (2012) were followed:

- Each transcript was read and perceptions noted.
- Data were coded into meaningful categories in what may be considered first order concepts.

    - First order concepts will be supported by quotes from different participants, reflecting their points of view as “knowledgeable agents” (Gioia et al., 2012).

- First order concepts were combined into meaningful second order themes, which are reflective of the researcher’s interpretation (as a knowledgeable agent) of how first order concepts are connected.

Second order themes were combined into overarching aggregate dimensions.

- At each stage, the researcher discussed the concepts, themes, and dimensions being developed with one or more members of his dissertation committee. (Sutter, Webb, Kistruck, & Bailey, 2013).

NVivo 10 was utilized to manage the data collection, analysis, and interpretation process. NVivo 10 was a useful tool for collecting all the sources (i.e., interviews, research articles, transcriptions, etc.) and storing them on the computer where they were accessible as well as manageable. The interviews were transcribed and coded as compiled with a node for each major question. From this compilation of data, answers to the same question were collected in one place, which facilitated the analysis process. Once the data were structured in a useful manner, accounting for the major emergent concepts, themes, dimensions, and interrelationships, (Gioia et al., 2012), the story about what had been found in this research was written.

In a sense, an effective means of bridging the conversations between academics and practitioners about the topic of business model might be to say, “Let me tell you a story

about an organization and its business model as compared to the business models of other similar organizations and see what can be learned."

Trustworthiness

Trustworthiness in qualitative research involves establishing the following aspects:

- Credibility - Confidence in the truth of the findings. Similar to internal validity or reliability of quantitative research.
- Transferability - Showing that the findings have applicability in other contexts. Similar to external validity/generalizeability of quantitative research.
- Dependability - Showing that the findings are consistent and could be repeated. Similar to reliability in quantitative research.
- Conformability - A degree of neutrality or the extent to which the finding of a study are shaped by the respondents and not researcher bias, motivation, or interest. Similar to objectivity in quantitative research. (Mason, 2013; Shenton, 2004).

Lincoln and Guba (1985) described a series of techniques for establishing credibility, transferability, dependability, and conformability. These strategies applied to this study:

- Prolonged engagement: The researcher spent a prolonged period of time in the field to understand the phenomena of interest. There were interviews with a wide range of people from differing experiences and perspectives.

- Persistent observation: The researcher developed detailed characteristics of participants' conceptualization of business model.
- Triangulation: This step was achieved by methods triangulation (using FDIC data, in-depth interviews, focus group interviews, and secondary data), triangulation of sources (people from different perspectives within the same organization and from different organizations, in both private interviews and public discussions) and triangulation of analysts (using a different researcher for the focus groups).
- Peer debriefing: This step was achieved by additional interviews with key experts other than bankers (i.e., a bank regulator, a regulatory attorney, and investment bankers) and by discussions with committee members.
- Negative or deviant analysis: This detail was achieved by gaining diverse perspectives of bank managers and directors from banks other than First Oklahoma Bank who utilized a wide range of different business model components.
- Member checks: These checks were utilized by having participants edit or add to transcripts of their interviews.
- Thick description: This detail was achieved by describing the business model in sufficient detail to evaluate the extent to which conclusions drawn are transferable to other times, settings, situations, and people.
- Audit trail: The audit trail was established by the transparent description of the research steps taken from the start of the research project to the development and

reporting of findings. Records were kept regarding what was done in the investigation so that an external auditor who becomes familiar with the research, its methodology, findings, and conclusions can audit the research decisions and the methodological and analytical processes of the researcher, thus confirming the findings (Carcary, 2009).

Trustworthiness of the data was developed and maintained through method triangulation, analysis triangulation, and researcher triangulation as discussed. The researcher was deeply embedded in the context and developed an audit trail through notes taken during interviews. There were expert audit checks from the researcher's dissertation committee checking the work, checking findings with experts like focus group participants and investment bankers, and member checks by letting some informants see transcripts and respond thus building a thick description. Finally, the last draft of this dissertation was reviewed for content and context by two industry experts: one former bank regulator who is now President and CEO of the Oklahoma Bankers Association and one former bank CEO and former National President of the Independent Community Bankers Association of America.

Anticipated Findings/Pilot Study

As business models are "the stories business managers tell to describe how their businesses work" (Magretta, 2002, p.4), the nature of storytelling is to tell stories of hope. Business managers tell multiple audiences stories of what they hope to do and how they hope to do it. No one knows for sure if their business model will work. To some extent, business managers, and particularly business managers creating new businesses, are like

the famous Don Quixote who dared “to dream the impossible dream, to fight the unbeatable foe, to bear with unbearable sorrow, to run where the brave dare not go.”

In a pilot study in the summer of 2013, managers from eight banks who had pursued the Quixotic quest of building community banking organizations in Tulsa, Oklahoma in the last decade were interviewed. They were willing to discuss at great length their conceptualization of their bank’s business model, how it was created, how it worked (or did not work), and how it changed over time. They also discussed how their business model impacted their development and utilizations of key resources, including financial capital, human capital, and social capital. Observations from this pilot study are detailed in this section.

1. It appears that business models did impact which banks had the largest amount of financial capital, social capital, and human capital as described by equity capital raised, number of employees, number of investors, number of directors, and use of outsourced professional services and that these banks achieved the most rapid growth.

These data were supported by observations from CEOs of all the banks involved in this study. The CEO of a conservative growth bank observed that the day he opened for business, he only had a small number of new accounts from his small number of local investors and that ONB Bank had a lot of new accounts from its large number of local investors. The CEO of one of the moderate growth banks observed that he started with a small number of managers who wore multiple hats and had to hire additional mangers as the bank grew, while ONB hired a full set of managers and eventually grew into them.

The CEO of one of the conservative growth banks observed that his bank's growth was limited to his small amount of equity capital, and the principle owner of one of the conservative growth banks observed that his bank's growth was limited to their ability to earn and retain earnings because he did not want to raise additional equity capital.

CEOs of the rapid growth banks noted that they were focused on a long-term vision of the bank's size and market share and mobilized the necessary types of capital to get there both from the very beginning and continuously as the bank grew. They consciously recruited a large number of investors that represented the targeted markets they intended to serve as "centers of influence" to help build the bank.

2. Banks that focused their business model on maximizing current year income did achieve their objective but limited their growth due to limited resources.

3. An unexpected finding was that the slowest growing bank CEOs acknowledged that they did not really follow a strategic plan but operated on an annual budget and followed their instincts and experience to accomplish growth. All three of the most rapid growing banks followed well developed strategic plans.

4. All of the bankers interviewed noted their business models target market focus was commercial business (i.e., small businesses), rather than consumer business. This focus was an effort to distinguish themselves from multinational banks (i.e.: Bank of America) and credit unions.

5. In both of the most rapid growth banks, the CEOs were able to attract a large number of employees to join them at their new bank from their prior banking organizations. This represents a strong level of social capital.

6. All bank CEOs perceived that people who invested in their banks were primarily investing in them as managers and as influenced by their prior experience at other banks (and education).

Based on these findings, the literature, and the researcher's experience, it was expected at the outset of this study that it would find:

1. Business model is a term widely used by practitioners. However, their definitions and use of the term may be different than those of academics.

2. There are very likely to be at least five distinct components of community bank business models, including

    a. Differences in defining how to maximize value for investors, whether it is perceived to be determined by maximizing current year net income (and limiting growth) or by maximizing growth and focusing on long term value from greater future earnings. To some extent, this would be like Mangematin et. al (2003) finding two distinct business models based primarily on size, or in the community bank model, size ambition.

    b. Differences in types of loans pursued and therefore the value proposition to different groups of borrowers (Whalen, 2007).

    c. Differences in types of funding utilized and therefore the value proposition to different groups of depositors (Kupiece & Lee, 2012).

d. Differences in organizational structure from number of investors to number of employees and the use of outsourced professionals (Gilbert et al., 2013b).

e. Differences in how to develop and manage both human and social capital (Amel & Prager, 2013).

f. Other differences may include use of technology, response to changes in the regulatory environment, self-imposed limitations (i.e., small number of investors or limited geographic outreach), and differences in desirability of organic growth versus growth by acquisition.

g. The combination of these various components will likely produce significant diversity in business models of individual banks.

3. Organizations focused on more rapid growth are more likely to have a more detailed business model and strategic plan than those with more conservative growth models. Growth is usually purposeful, expensive, and hard to achieve. A business model of rapid growth may cause bank managers to be clearer about how to utilize resources to achieve a competitive advantage in order to achieve the desired growth. These organizations may also have more contact, and possibly more tension, with bank regulators, who perceive more rapid growth as riskier business model. These organizations are also more likely to provide incentives to staff members to achieve their desired growth.

Summary

Based on conversations with community bankers, this research provides a rare look at "how" and "why" community banks operate. It utilized an in-depth case study of one Tulsa, Oklahoma community bank: First Oklahoma Bank (2009 - 2014). A special focus on comparing perspectives of people from different points of view within the organization was utilized. Following the compilation of the in-depth interviews with key executives and directors of First Oklahoma Bank, and the writing of a draft of their narrative, additional in depth interviews with CEOs of other community banks in the same market and elsewhere were utilized to draw contrasts and comparisons of the First Oklahoma Bank story. These were included in the narrative to add perspectives of alternate business model components that either were not pursued or were pursued differently by other banks.

Following the interviews with other bank CEOs and their integration into the bank narratives, focus groups were organized with groups of CEO's and directors from other banks to discuss their different experiences and add insight and dimension. In-depth interviews with a bank regulator, a bank attorney specializing in regulatory matters, and investment bankers were conducted to gain their perspectives on the community bank business model and how the various components of bank's business models were viewed and responded to by bank regulators and the investment banker community. The next chapter reports this study's results and data analysis.

CHAPTER IV

FINDINGS

Introduction

One participant in the study observed, "There is not one business model that is superior to other business models." Stakeholders in any organization have a range of interests they endeavor to pursue. These are often articulated as goals they want to achieve. Business models are structured to facilitate the pursuit of interests and goals of the stakeholders. This chapter presents data from interviews conducted for this study of a community bank business model. The chapter includes definitions of the various components of a business model and explains why a group of stakeholders might choose to develop and utilize particular combinations of business model components to pursue their different interests and achieve their goals. It is followed by a menu of business model components for banking leaders to choose from with reasons why one or another might produce different results. It explains how a business model works and changes over time to enable stakeholders to accomplish their various goals. It also includes a menu of options for creating a community bank business model. Finally, it presents a case study on how First Oklahoma Bank developed and utilized its business model as an illustration of the major points in the findings.

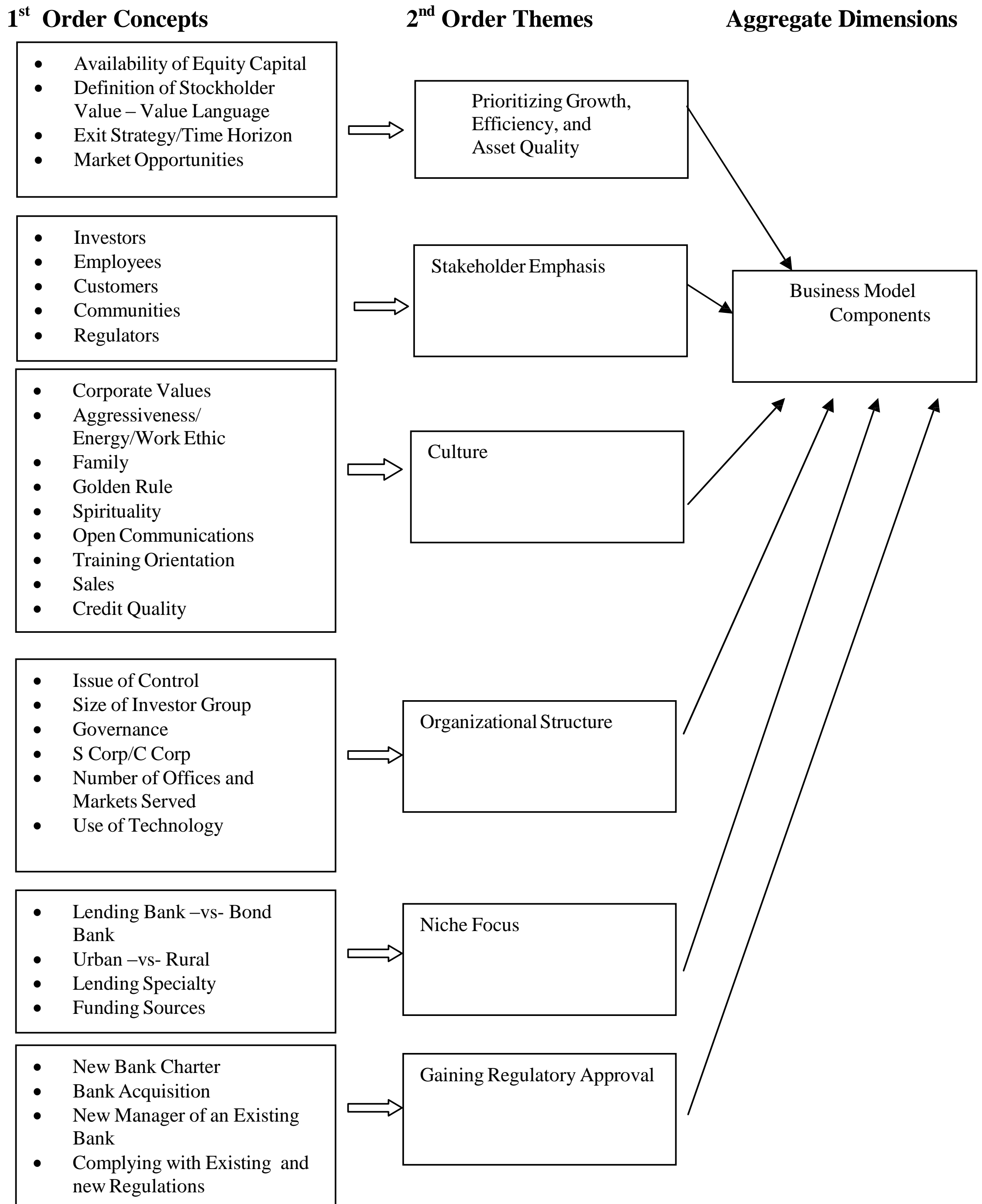


Figure 3. Business model components.

What Is a Business Model?

Since one major component of a business model is how it creates value for its stakeholders, it is useful to begin with a discussion of how the theory of investment value creation is understood and utilized by practitioners.

Williams (1938) established the theory of investment value that defines the value of an investment as “the present worth of future dividends or the future coupons and principal” (Williams, 1938, p. 1). Williams’ theory may be paraphrased in modern terms as the present worth of all future revenues from a stock that may include either all dividends up to and including a future sales price or all dividends in perpetuity. Perpetuity has been defined by Ross et al. (2008) as “a constant stream of cash flows without end” (p. 107). They further defined growing perpetuity as “a stream of revenues that are expected to increase in the future without end” (p. 107). In a similar manner, Gordon (1962) stated that “the value of a firm is a function of its expected future income” (p. 1) and that future income is a function of the corporation’s investment and its anticipated future revenue in excess of the cost associated with the risk of the investment.

In interviews for this study, it was clear that most practitioners do not fully understand the theory of investment value. In spite of the admonition of Copeland et al. (2005) that “the object of the firm should never be to simply maximize growth in earnings or cashflow, the objective should be to maximize the market value of the firm, which is equivalent to maximizing wealth” (p. 501), when asked to define the present value of their company’s stock, most participants spoke in terms of a multiple of their present earnings or last 12 months net income. This understanding would naturally yield a focus

on maximizing current earnings as a means of maximizing present value. The sentiment of one participant in the study was as follows: "If you maximize net income every year and add those successful years back to back, over time you will maximize your company's value." However, there are many reasons (discussed herein) why that situation is not likely to be true. In general, it is not true because only focusing on maximizing current year net income will result in not making investments in human, physical, and social capital that will be needed to increase the earning capacity of the company in the future.

Many corporate executives and investors in community banks do not consider the possible future sales price of their bank when they think about maximizing its present value. They explain that they are building their company to create a perpetual stream of future revenue for their grandchildren in this consideration of value. It is not clear that they have considered the growth in future revenue as a function of the growth in assets of the company and how that might impact the present value of the company as discussed by Gordon.

An analogy to this issue might be a recent high school graduate thinking about how to maximize her long term financial value. Should she focus on maximizing her current income in jobs available to a high school graduate, or invest the time, money, and energy in earning a college degree? Which would yield the greatest long term financial value? Statistics show that on average college graduates make substantially more long term net income than those with only a high school degree. However, she will make more money this year and for each of the next 4 years if she focuses on going to work full time now, rather than incurring the expense and loss of income in getting a college degree. It will

very likely take her many years to break even on deferring her full time work while getting a college degree. So, what should she do?

In business, the issue is more complex, but the principle is the same. In order to maximize a company's (and its stock's) long term value, investments must be made in the current year that will not result in maximizing current year net income. How a company thinks about these current investments in terms of maximizing its long term shareholder value will have a major impact on how their business model is constructed, what components are chosen over others, and why. This chapter includes exploration of issues that impact this thinking, how that thinking impacts a company's business model, and ultimately how it drives the outcome of the company.

As one participant observed,

> I think most community bankers are not so much focused on maximizing their present value or their future value. They are simply trying to build a good bank. They are not planning on selling the bank but leaving it to the next generation.

Another participant observed,

> People have bought bank stock because they think they're safe and they can get a dividend stream off the bank stock. That was what motivated the purchaser. It was not so much the idea of I'm going to buy this stock with the expectation that the bank is going to be sold and I will get a premium when it is sold.

This challenges the theory of dividend irrelevance (Miller & Modiglini, 1961), in which "the value of the firm is unaffected by dividend policy in a world without taxes and transaction costs" (p. 646). While this theory demonstrates that the present value of the

firm is the same whether or not the firm pays dividends, it is not clear that managers and investors in community banks perceive this to be true. Based on interviews with practitioners, meeting the cash flow expectations of investors by payment of dividends is an important part of the thinking of managers focused on an efficiency model. As one participant observed, “What is important is not the market value of the firm. What is valuable to the owners and how do we achieve that value?” If the owners value dividends, then that is what the business managers will focus on achieving.

In summarizing managers’ or owners’ objection to the theories of present value (Williams, 1938), as may apply to an anticipated future sales price, and “dividend irrelevance” (Miller & Modigliani, 1961), as may apply to the impact of dividends on the value of the company, one participant observed,

> Those theories may apply to publically traded stock in large companies that people expect to sell in the future. But, it may not apply to privately owned companies. Many owners of privately owned companies, particularly family owned companies, do not plan to ever sell their company. They think of it as a future stream of dividends in perpetuity that will continue to pay income to their grandchildren and great grandchildren. So, to these owners the only issue that matters regarding value is if the bank is able to keep generating perpetual dividends into the future.

Managers of firms pursuing a quality growth model are more likely to understand the theory of investment value (Williams, 1938), the impact of growth on the value of stock (Gordon, 1962), and the theory of dividend irrelevance (Miller & Modigliani, 1961).

They are very likely to be focused on making current investments in order to achieve a particular future size to maximize a future sales price or transfer value and will probably not pay dividends but reinvest retained earnings to support their growth as they build their company.

Prioritizing and/or Balancing Growth, Efficiency (Current Year Net Income), and Asset Quality

An overarching finding of these data is that all three second order themes (growth, efficiency, and quality) are very important to maximizing value (wealth) as may be achieved through the business model, but the firm cannot maximize its focus on all three of these themes at the same time. The themes must be prioritized or balanced. Banks can achieve rapid growth and good asset quality with reduced current year net income (efficiency); or they can achieve maximizing current year net income (efficiency) and good asset quality with little or no growth; or they can achieve rapid growth and maximized income (efficiency) with poor asset quality albeit for a very short time period. Banks cannot, however, achieve rapid growth, maximized current year net income (efficiency), and excellent asset quality all at the same time. They cannot maximize all of these themes at the same time.

Instead, firms must prioritize or balance these concepts at any given time. However, a firm may change the prioritization of the concepts at different times in the life cycle of the organization. The prioritization and/or balancing decisions of the firm will guide how the firm develops and utilizes key resources to drive the outcomes of the firm. How the owners and managers of the firm think about the future revenue streams from the stock of

the firm, including its dividends and future value when the stock is ultimately sold or transferred to one's heirs, has a major influence on how they will prioritize or balance these themes. Why is this scenario true? Reasons are described in the following paragraphs.

Rapid quality growth scenarios. First, if a bank is to achieve rapid growth and good asset quality, then it must invest in the human capital necessary to generate and support the growth, and this human capital does not immediately generate net income. In addition, the firm must build a reserve for possible loan losses that is a charge to net income to insure that any inherent risk in a growing loan portfolio is anticipated. For each $10 million in loan growth, there is a $100,000 charge to net income. In addition, when a firm is trying to grow rapidly, it is likely to pay higher deposit rates to attract funding and negotiate lower rates on loans, and as a result, earn a lower net interest margin than if it were not trying to grow fast.

A rapid growing organization also needs an increasing availability of facilities and technology to house and support its staff. This needs to be provided before the earning assets are acquired to offset the cost. In order to achieve rapid growth, a significant amount of money needs to be spent on marketing. Finally, a firm must hire a sufficient number of qualified credit quality staff members to insure that the rapid growth in loans is well underwritten, properly booked, and monitored to insure asset quality. All these investments in human resources, reduction in net interest margin, reserve for possible loan losses, facilities and technology, marketing and credit department personnel must be made before the bank has booked any earning assets. As a result it is not possible to

maximize current year net income while growing rapidly and desiring excellent loan quality.

Second quality efficiency and conversely, if a bank desires to maximize current year income (efficiency), it may choose to reduce (or at least not increase) human capital, not have loan growth so no charge will need to be made to current income for possible loan loss reserve, reduce interest paid on deposits, increase rates on loans, reduce or eliminate marketing expenses, reduce its use of facilities and technology, and reduce (or at least not increase) its credit department personnel. In the current year that would maximize net income. However, it would also reduce (or eliminate) the possibility of increased future income because there is not growth in earning assets and as such reduce the future value of the stock in a sale or transfer to others.

The third scenario of rapid growth and maximizing current net income by increasing the firm's willingness to take risk is unlikely to be allowed by bank regulators. This was the business model of Penn Square Bank in Oklahoma City in the 1970s. Penn Square was rapidly growing and the most profitable bank in the country in 1978 because it made large high-risk, high-yield loans in the oil industry. Penn Square Bank failed on July 5, 1982, as the oil industry crashed. In a micro sense, this model is followed by multinational banks who make high-risk, high-yielding credit card loans. The theory of large numbers of small credits with a wide net interest margin is that loan losses of 10 times the industry average or more on normal loans can be sustained because of their wide net interest margins. However, very few community banks initiate credit card loans, and the total dollars committed to this market are a small percentage of major banks loans.

In a fourth scenario, some (perhaps most) banks attempt to balance their focus on these three themes so that they achieve modest but not rapid growth, solid but not maximized current year net income, and good asset quality. However as they do, they understand that there are tradeoffs between these three themes, and over time, they will tend to prioritize one over the others as they assess external factors such as changes in the economy, the competitive landscape, and regulations. This process of change is discussed more fully later in the chapter.

During the life cycle of an organization, different themes may be more or less important than the others. Over time the priorities and/or balancing may change. It is very likely that in the life cycle of a de novo bank, growth will be more important in the beginning (DeYoung, 1999) and maximizing current year net income (efficiency) will be more important either as the bank matures or shortly before a sale. As described elsewhere, there is more than one type of rapid growth model. The rapid growth premise described in this section concerns loan growth, funded by growth in core deposits.

Alternatively, a bank may pursue rapid growth by purchasing government or corporate bonds instead of making loans. This model was utilized by two community bank participants in the study who were trying to achieve maximum leverage of their equity capital without incurring significantly increased human resource costs. The trade-off is accepting a lower net-interest margin as government or corporate bonds are normally at lower yields than loans. This strategy is more profitable in a high yielding period in the economy than in the low yielding period prevailing in 2014. Another rapid growth model may be growth by acquisition of other banks. This is an approach increasingly utilized

by some community banks to achieve greater scale. Only one bank participant in this study had grown by acquisition. All others had pursued organic growth.

Maximizing current year net income (efficiency), not rapid growth. The clear tension among the three major areas of priority is growth versus current year net income. All of the banks are going to choose asset quality as one of the two top priorities. This section describes what drives the difference between choosing a growth/quality model versus efficiency/quality model.

Regulators and CAMELS ratings. As one participant observed,

> Bank regulators do not like rapid growth models because they have seen banks end up with greater problems with a high growth model. If you grow more than 30%, you are going to get some regulatory inquiries. For regulators, the issue is safety and soundness, not maximizing present value.

Regulators rank current year net income as one of their most important criteria for evaluating the quality of a bank. Bank regulator's capital, adequacy, asset quality, management, earnings, liquidity, and systemic risk (CAMELS) ratings rate all banks on six measures of quality. A strategy that reduces current earnings reduces the "E" rating. In addition, from a regulatory perspective, rapid growth may result in increased risk in each of the CAMELS ratings. If a bank is growing fast, then

- It may not have sufficient capital "C" to support its increased asset size,
- It may increase the risk in loans (assets), both because it books a high volume of new loans (which have not been proven by performance over time) and because it

may be perceived as lowering its quality standards to achieve the rapid growth "A",

- It may not have enough well qualified management "M" to properly manage the rapid growth,
- It will reduce current year earnings "E",
- It may have difficulty gathering a sufficient amount of deposits to fund its growth (liquidity), "L", and
- It may represent greater sensitivity to market risk "S" risk as a result of mismatching the pricing of its assets and liabilities.
- As noted by Gilbert, et al. (2013a) research has found that the characteristics of #1 CAMEL rated banks included: they are smaller (less than $100 million in assets), more rural than urban, less loaned up (lower than normal loan to deposit ratio), and less concentrated in commercial real estate and construction and real estate development loans. None of these characteristic are typical of a quality rapid growth business model.

When regulators have analyzed past bank failures, they have found that rapid growth has often been a factor that has led to failure. This was especially true in de novo bank failures in the recent recession in major metropolitan areas like Atlanta and Phoenix. As a result, rapid growth raises a red flag to suggest a need for greater regulatory scrutiny of the firm's performance. As one participant observed,

> If bank regulators become concerned about a bank's rate of growth they can require more frequent bank exams, they can adversely classify loans they might otherwise have graded as pass, and there are other ways they can mess you up.

> Essentially safety and soundness is whatever the regulator wants it to be. If they say you are growing too fast, then you better listen.

Given the negative view of rapid growth held by bank regulators, many banks will not choose a rapid growth strategy, either because they agree with the regulators about the perceived increased risk or they do not want to pursue a strategy that is likely to increase regulatory scrutiny. In addition, a focus on maximizing current year net income will result in a higher "E" rating.

Industry definitions of top performing banks. Industry definitions of top performing banks focus on current year net income as a percentage of average assets (Return on Average Assets - ROA) or as a (Return on Equity - ROE) and do not mention growth as a significant performance metric. The June 2014 edition of *Independent Bank Magazine* highlighted a "Best of the Best" list of banks, and the only measure that qualified a bank to be on the list of "best banks" was its ROA. Most ratings used by industry analysts to rate banks do not list growth as a measure of success.

For example, in the quarterly publication *Performance Report* by Financial Management Consulting Group and utilized by community bankers across the country to compare their performance to peers', banks in each state are ranked by net interest margin, noninterest income, noninterest expense, efficiency, nonperforming assets divided by equity plus reserve for loan loss, an asset quality index, return on average assets, return on equity, and a composite ranking of all these factors. Growth is not included as a factor in the calculation. As one participant observed,

> Growth is enticing because it is numbers and we're all driven by numbers and growth. However, the mere pursuit of growth is often an Achilles heel because it becomes a dictator in the sense that you want more and more. Banks can lose their focus by pursuing only growth and not continuously thinking about profitability.

If bankers either agree with the industry definition of top performance, which is focused on an efficiency/quality model, or desire to have the respect and admiration of their peers, they are very likely to focus on current year net income (efficiency) as their priority and achieve growth if it does not hurt income too much.

Limitations on Equity capital. As described in this research, it takes more equity capital, and raising it more often, in order to support a rapid growth strategy. Based on FDIC (2012) data, 82% of bankers are not actively engaged in raising additional equity capital. They are likely to choose to keep their growth within the limits of their ability to make current year net income, pay anticipated dividends, and then retain equity. Even in a good economy, this approach will not support a rapid growth strategy. Advocates of this approach state primary concerns as not wanting to add new stockholders; not wanting to dilute current stockholders; and/or desiring to be a good steward of the equity capital invested at the beginning of the venture and doing so by limiting growth to that which can be supported by increased capital as a result of retained earnings after dividends. Maximizing efficiency was believed to maximize the return on the original investment. Apparently many managers and investors do not consider a future sale or transfer value as an important consideration in building their business model. To them, success is defined by maximizing current earnings.

Quality challenges. Rapid growth is hard to do in a quality manner. One participant observed that "if you are growing too fast you cannot get to know all your customers by name (or know them well enough to know provide quality service)." It is easier to slowly grow one's own reliable staff members from the entry level through senior officer status to retirement than it is to go out into the market place and recruit the best and the brightest. It is less expensive to provide a steady annual percentage increase in long term employees' pay than it is to provide incentives to high-powered sales personalities. Many managers/directors simply prefer a low and steady approach to business growth. One participant observed that "we didn't have an appetite for high growth. We want to grow at a rate that allowed us to sleep more easily at night."

Another expressed a concern that high growth can be like driving a car really fast. "If you don't maintain firm control, you will hit the wall at 100 miles per hour." From an external owner/director's or regulator's perspective, it is easier to monitor a more slowly growing organization. Current year net income is certain, and long term growth that may result in greater future value is uncertain. Sometimes companies spend a lot of money on a new growth idea, and it does not work out. There is a perception of lower risk in maximizing current income (efficiency) and growing slowly than spending money to achieve uncertain growth in an uncertain future. As one participant noted, "The easiest way to increase net income is to not spend money."

Meeting investors expectations of dividends. Fifth, most community banks have been established for a long time and their current managers are not their original mangers. The owners have long established expectations of annual dividends from their investment. If the manager can meet those expectations year after year, then he or she will be able to

enjoy a prestigious job for a long time. Satisfying shareholder expectations of consistent and modestly increasing dividends year after year and maximizing efficiency will drive the manager's business model. Considering a possible future sale is not in the plans of the owners and not in the interest of the managers. All of these reasons argue for a business model focused on efficiency with modest growth.

Pursuing Quality Rapid Growth, not Current Year Net Income (Efficiency)

Size matters in future investor value. Four of the five investment bankers interviewed for this project observed that the number one factor in increasing value in community banks' stock is growth. Growth is important for stockholder value for a few reasons. First, larger bank stocks trade at higher multiples than smaller bank stocks. Second, larger banks sell for a higher premium than smaller community banks and are more profitable than smaller banks because they can enjoy economies of scale and can more easily absorb the cost of regulation. Evidence of this point can be drawn from the actual sale of banks prior to the recent recession and more recently during the recovery (excluding the large number of bank failures during the recession). Bankers normally talk about the value of their banks as a multiple of the tangible book value. Using that measure in evaluating all of the bank sales (mergers) in the United States, both pre recession (2000 to 2007) and post recession (2013), it is clear the total asset size of the bank made a significant difference in the average price paid for the bank as shown in Table 8.

Table 8

Comparison of Actual Bank Sale Prices as a Multiple of Tangible Book Value by Asset Size and in Different Time Periods

Asset Size	Pre Recession 2000 - 2007	Post Recession 2013
$0 to $250 million	183.81%	116.54%
$250 to $500 million	246.00%	119.50%
$500 million to $1 billion	254.88%	134.26%
Over $1 billion to $5 billion	261.79%	159.56%
Over $5 billion	307.59%	169.42%

Note. Adapted from SNL Financial LLC; provided by Commerce Street Capital

Generally, smaller banks sell for a lower average multiple of their tangible book value than larger banks. Based on these data, it is clear that size matters in the final sales price of a bank, and larger banks are more valuable than smaller banks. If a smaller bank can grow to a larger size category, then it can reasonably expect to sell at a higher multiple of its tangible book value than if it did not grow to the larger category. Strictly from the investor's point of view, growth is more important than current year net income because stock value is based on forecasted future earnings, plus an ultimate end value (sale or transfer value) discounted back to present value (Williams, 1938). Larger banks can forecast higher future earnings and a greater future sales price more readily than smaller banks.

As a detailed illustration of this point, the case study of First Oklahoma Bank presented later in this chapter shows how a faster growing $150 million bank that makes less current year net income compared to a slower growing bank that makes more current year net income will make more net income over 10 years and be worth substantially more

money (as a multiple of earnings) than the slower growing bank that is more focused on maximizing current year net income. Using this approach to applying Williams' (1938) theory of investment value, a focus on growth is demonstrated to create greater present stockholder value because of the increased future value of the stock.

In a quality growth model where the focus is on the future value of the stock in a potential sale or transfer of ownership rather than maximizing current year net income, the primary utility of current year net income may be making a sufficient level of net income to service debt that may be utilized to leverage the equity of the company to enable more rapid growth. In other words, the current income is utilized to maximize growth to a greater asset value category to maximize shareholders' future value. In this conceptualization of future value, it is believed that a future acquirer is primarily focused on buying a revenue stream and will make its own future adjustments in expenses to maximize future net income. The goal is maximizing the future quality revenue stream that will result in a discounted current value greater than that possible by a smaller bank's future revenue stream discounted to its present value. This conceptualization does follow the logic of Williams' (1938) theory of investment value including "a future selling price."

Finally, as Gordon (1962) observed, if a firm can reasonably expect to increase its future revenues from current investments in resources, that will generate increased future income, then it can define a higher net present value than a company that is not investing in income generating resources and can only reasonably project flat or slightly increased revenues. This assumes that the current investments of the growth oriented firm are able to generate increased income streams from relatively low risk assets.

Benefits for employees, customers, and the community. Many employees see better career opportunities in a rapidly growing bank than a slow growing, highly profitable bank. They will not have to wait for someone to retire or die to be promoted as a rapid growing bank creates new jobs to support its growth. In addition, banks that desire rapid growth are likely to provide incentive compensation for those employees who achieve the growth. Therefore, employees may maximize their personal income and their career opportunities in an organization focused on rapid growth. Likewise, customers may find that rapidly growing banks pay higher rates on deposits to attract depositors and negotiate better deals with borrowers to attract loans.

Moreover, in as much as literature has demonstrated that small business creates 60%-80% of all new jobs (Mach & Wolken,2012), and community banks provide the vast majority of financing for small businesses (Keeton et al., 1998), it can be argued that a rapidly growing bank making a higher volume of small business loans is better for the economy, in particular the local economy, than a slow growing bank maximizing current year net income (efficiency).

Relatively low risk of failure. In spite of the Inspector General of the Board of Governors of the Federal Reserve's (2011) findings that rapid growth was a factor in the failure of some banks during the recent recession, and the Government Accounting Office findings that "failed banks also had often pursued aggressive growth strategies", (2013, p. 1) an analysis of all 1,043 de novo (new) banks established from 2000 through 2010 found that while 16.3% of the banks that grew faster than $50 million in assets per year failed, 12.9% of those that grew more slowly also failed. In addition, as noted by the Federal Reserve IG and GAO reports, a high percentage of those rapid growth banks

that failed were located in local economies that collapsed (Florida, Georgia, Illinois, Michigan, and California) and had concentrations in commercial real estate and construction and development real estate loans. As a result, it is possible that their failures were more driven by the collapse of local economies, and the values of real estate and speculative housing developments rather than because they were growing rapidly. These government reports were only focused on common factors of failure and did not consider the success of many other rapidly growing banks.

Further, the average return on average assets (ROA) of the faster growing banks in Year 4 was .25%, while the average ROA of the slower growing banks in year 4 was -.15%. (Finn, 2012) In addition, when subtracting both the banks that failed and those that were acquired from the total in both groups, 78.8% of the faster growing banks were still active in 2011, and 78.3% of the slower growing banks were still active (Finn, 2012). So, faster growing new banks on average make more money, and because they are larger, sell at higher multiples than slower growing new banks. While a slightly higher percentage failed, it is not a dramatically higher percentage, and about the same percent remained active after 4 years.

Being efficient does not necessarily increase future value. Maximizing efficiency may not maximize value. As one bank manager observed, being a little fat is not such a bad thing. When a big bank wants to come in and buy a bank, they want to see what ‘fat’ can be eliminated from the expenses. If they see an easy opportunity to reduce expenses, that makes the present value worth more.

As another manager noted, "If you are already operating at maximum efficiency, then there is not really a way for a purchaser to improve your profitability. So, operating at maximum efficiency may not maximize your value."

Value of personal goals for investors. For many investors, making more money is not the only thing they value. As one participant observed,

Most investors in banks already have made a lot of money. Investing in a local community bank has an intrinsic value for local investors. They will give up some net income to be part of a company that is making a difference in the community, a company they can be proud of. Investing in a community bank is more emotionally driven that you might think.

For many bank owners, part of the fun of owning a local bank is being able to know what is going on in the community and being able to make loans to local businesses to create jobs and to real estate developers and home builders to provide housing for community growth. For many of these investors, a quality growth business model more effectively accomplishes their personal goals. They want to make a difference even more than they want to make money.

A reasonable group of bankers can make a good case for choosing either side of the spectrum between rapid growth and maximizing current year net income (efficiency). The key seems to be a combination of factors including the combination of growth, quality, and net income in a manner that the managers of the firm believe will best serve the interests or achieve the goals of their various stakeholders. It appears that if a bank focuses only on current year net income and not the future value of its stock, then it will

likely pursue an efficiency/quality model. If bank managers are primarily incented by bonuses tied to current year income, they will likely pursue an efficiency model. If a bank focuses on income plus an anticipated future value of its stock when it is sold or transferred, then it will likely pursue a more rapid quality growth model. If bank managers are primarily focused on a substantial amount of stock options, they will likely pursue a quality growth model. The choices a bank or firm makes in regards to these factors will drive many other factors in their business as well.

Firms' Prioritization of First-Order Concepts

Having explored the reasons why firms pursue or avoid second-order themes of growth and efficiency, this section of the findings chapters concerns the impact of first-order concepts on a firm's prioritizing of second-order themes.

Availability of equity capital. Availability of equity capital is a major factor in how a firm analyzes growth options. According to the 2012 FDIC Community Bank Study, 40% of all community banks never raised additional equity capital after they received their charters. As a result, their only source of increased capital is retained net income. Since bank regulators require certain minimum levels of capital to support the bank's asset size, their growth options are limited to their ability to retain net income. According to the same study, another 42% of all community banks have only raised capital once in the last decade. The growth options for these banks are limited to retained earnings and the one-time increase in equity capital. Only 18% of all community banks have continuously raised equity capital to support rapid growth. These are the only banks

that can pursue a continuous strategy of rapid growth, as continuously increasing equity capital is necessary to meet minimum regulatory capital levels to support rapid growth.

Some bank owners do not want to invest any additional equity capital in their bank and do not want to add any new investors. This approach limits their growth options and was found to be especially true of banks with a small group of investors and banks owned by a family for multiple generations. These investors may see the bank as more of an annuity-like stream (dividends) and are less interested in the potential future increased value of their stock, as it is not their intent to sell the bank but to pass it on to their heirs.

The banks represented by this study's participants that actively had more than two rounds of raising equity capital were also the fastest growing banks. Two of these three banks were supported by a first-generation group of investors who either created a de novo bank or bought an existing bank and changed its business model. The focus of these investors was not maintaining a current revenue stream but being able to sell or transfer their bank stock in the future at some multiple of its original value. This sale or transfer might take the form of selling the bank, taking the bank public, or transferring the increased value to their heirs. These investors perceived the best way to maximize the future value of the stock was a quality growth model.

Definition used for shareholder value. Definition of shareholder value is another factor driving the prioritization of these themes. If the bank's focus or metrics used for describing shareholder value are primarily maximizing current year net income (efficiency), the bank will probably not grow fast. If the bank's focus is on growth, and the metrics used for describing shareholder value are focused on achieving some desired

future optimum size, then the bank will grow faster than normal and not maximize current year net income (efficiency). This definition of shareholder value is more fully explained in Chapter 4 (see the section, "Stakeholder Emphasis"). However, the truism that appears to apply concerning the prioritization of efficiency versus growth is that "what you measure and reward management for doing is what you will get." So, it is very important to be careful about what managers measure and reward. It appears that the combination of metrics that create the greatest net cash flow to the stockholders in the form of either dividends and a future selling price, or a perpetual stream of future dividends is perceived differently by practitioners based on their focus on maximizing efficiency or achieving some future optimum size.

Exit strategy. Exit strategy or where a bank is in its life cycle is a major element of decisions on how to prioritize these elements. As one participant observed,

> If your exit strategy is long term (3 or more years) or you do not ever plan to sell, then it is best to focus on growth. Spend money to hire key personnel to build long term revenue streams to increase your future value. If you plan to sell your bank in the next year or two then you should focus on maximizing current income and cleaning up asset quality issues. That would maximize its present value.

Market opportunities. Market opportunities are another real issue for many banks. If a bank is located in a rural market with a declining population, and the bank's managers do not want to expand into a larger growing urban market, then their growth opportunities may be limited. In addition in these declining markets, it is hard to recruit new managers who want to work in companies with growth scenarios or whose families prefer the

amenities of urban life. These banks will likely focus on maximizing current year net income (efficiency), as this is an achievable goal and increasing loans to local customers may not be. On the other hand, banks in growing urban markets can choose either to grow as rapidly as their market allows or to focus on efficiency. Either are achievable goals. They have more options when prioritizing these variables.

Stakeholder emphasis. In describing the component parts of a business model (the story that explains the economic logic of the firm), it is important to define what value is being created and for whom. Which stakeholder is being emphasized? The story of the firm told depends on which audience is being addressed. These include investors, employees, customers, regulators, and communities.

Investors. Who owns or will own a firm is a critical factor in the value proposition. Participants in this study described a variety of possible types of investor groups and how their perspectives on value were different. In some cases the firm is owned by one family or a very small group of investors. This might be described as a traditional community bank model. What constitutes value is impacted by the interests of the family (or small group). It makes a difference if one or more members of the family are managing or working for the firm or if a nonfamily member professional manager has been hired. If one or more members of the ownership work at the bank, then the family may consider a part of the value to be the good jobs and monthly income paid to its family members who work at the bank. As a result, they will probably be less likely to think of selling the bank because it may result in the loss of good jobs for family members. It makes a difference if this generation of owners is repaying bank stock debt and need dividends for loan payments. It will also make a difference to later generations who inherited their

stock and see their investment as a source of revenue from dividends like an annuity. In this structure current year net income is more likely to receive primary focus as a means of generating dividends and as a definition of value.

In other cases the firm is owned by a larger investor group. The number of investors in a larger group varied among the participants from as few as 28 to as many as 238. This situation might be described as a more modern or nontraditional form of ownership group. It is very likely composed of owners who represent the type of customer base the firm intends to serve. As such they represent both equity capital to support the firm's growth and social capital to facilitate or enable the firm's growth. This type of firm is more likely to be focused on growth in the value of their stock rather than on current year net income as a definition of value. They are also more likely to contemplate an exit strategy (or a liquidity event) as the investor group matures as compared to a family-owned bank intending to pass ownership to future generations.

Employees. An essential element of the success of any organization is the human capital or employees of the firm. This group of stakeholders is likely to hold a different view of what constitutes value than the investors in the firm. Employees are likely to place greater value on current income to themselves, long term career growth and stability, and the culture of the organization (e.g., is it a fun or enjoyable and rewarding place to work). How to align the interests of investor and employees is an important aspect of managing the firm.

The qualifications, experience, and world view of the employees hired will impact their perception of what constitutes value. Highly educated employees with strong work

experience will probably have a wide range of job opportunities and are likely to be motivated by more complex incentives ranging from base pay, perks, and incentive bonuses to stock options and other educational opportunities. They are likely to be drawn to a growth model that creates increased career opportunities. Less educated employees with less work experience have fewer job opportunities and will probably be drawn to a solid job with acceptable pay and benefits. They will probably not be driven by a growth model and be more interested in stability and security. Firms that have higher than average total employee compensation are more likely to be pursuing a growth model of value than firms with lower than average total employee compensation.

Customers. One participant in this study described the range of customer focused value proposition from “all things to all people, to a niche institution focused on commercial banking.” Another participant added to the later definition “a bank focused on small business lending plus some type of real estate lending.” These views were supported by interviews with all the bank CEOs. On the “all things to all people” side of the continuum, the customer value proposition included a wide range of services, with a real focus on consumers. It may be perceived as much wider and less deep than the niche-focused firm. On the niche-focused side of the continuum, the customer value proposition is more likely to be narrowly focused on the needs of small businesses (which probably includes professionals, such as doctors, lawyers, etc.) and is a more in-depth offering that may be more customized or personalized to the needs of the customer.

Communities.In many cases (perhaps most) community bankers see their destiny and their well-being intertwined with the success of the communities they serve. As a result, the economic well-being (value proposition) for the community is as important as the

value proposition for all other stakeholders. This is especially true in rural communities. In these communities the bank is functionally the economic heart of the community, deciding who does or does not get loans for various projects and funding (or not) for local school and government bonds for community improvement. In rural communities the banker often sees the interests of his or her investors (who are very likely their family) as overlapping with the interest of the community. In urban areas that is less likely to be the case, as there are many banks serving the needs of the community. Community bankers as a group are much more likely than super regional or multinational banks to see the value proposition (or interest) of their community as a vital part of the banks mission. As a result, they are more concerned about the development of residential and commercial properties as an economic development need of the community and not simply a transaction yielding a profit to the bank.

Regulators. Bank regulators are primarily concerned with protecting the FDIC fund from risk of loss in a bank failure and with insuring that community banks are complying with the myriad of bank regulations. As this relates to a bank's business model, a bank must organize itself to address these concerns (or value propositions) of bank regulators, or they will be required by regulators to stop what they are doing until these concerns are addressed.

Culture

While there was skepticism expressed by some of the participants about whether there is really any difference between the cultures of community banks, Barney (1986) found that "firms that have cultures with the required attributes (valuable, rare and imperfectly imitable) can obtain superior financial performance from their cultures" (p.656).

Barney's definition of culture is "a complex set of values, beliefs, assumptions and symbols that define the way in which a firm conducts its business" (p. 657). In this sense "culture has pervasive effects on a firm because a firm's culture not only defines who are relevant employees, customers, suppliers and competitors are, but it also defines how the firm will interact with these key actors" (p. 657). Observations by respondents were very consistent with Barney's definition. Barney also observed that while culture might be a source of competitive advantage, it also might not either by having a very normal ordinary culture or by having a poorer negative culture.

The reality is that all organizations have a culture, whether they define it as such or not. It appears that some managers also believe that developing a strong and vibrant culture is a conscious part of their business model and a key source of their competitive advantage in the market. Different aspects of culture may be more or less common in a bank prioritizing growth or current year net income in their model. This section presents first-order concepts that may be part of the second-order theme of culture.

Corporate values. A subset of culture is often described as the company's distinctive values. According to Posner (2010a), "Values are the core of who people are, they are influenced by the choices they make, the people they trust, the appeals they respond to and the way people invest their time and energy. They are the heart of the culture of the organization" (p. 457). Most participants in this study described corporate values as an important element of their culture. Corporate values have been defined as a corporations institutional standards of behavior (Lee, Fabish, & McGraw, 2005) and the beliefs held by an individual or group regarding means and ends organizations 'ought' to do or 'should' do in the running of the enterprise (Amis, Slack, & Hinings, 2002). In a 2001

survey of 365 companies by Booz, Allen, Hamilton, Inc. the following common elements were found in corporate values statements: ethical behavior/integrity (90%), commitment to customer's (88%), commitment to employees (78%), teamwork and trust (76%) commitment to shareholders (69%), honesty and openness (69%), innovativeness/entrepreneurship (60%), and drive to succeed (50%). Posner (2010) wrote,

> Values are the core of who people are. They influence the choices people make, the people they trust, the appeals they respond to, and the way people invest their time and energy. Values provide the foundation for the purpose and goals of the enterprise. (p. 536)

Work ethic: High energy versus low key. Some organizations may be characterized as laid back or low key, while others are high energy and exciting. Some people come to work to log the necessary hours to draw a pay check, while others come looking for a challenge, for an opportunity to stretch themselves and grow. Some organizations are quiet and subdued, while others are full of energy, activity and laughter. Some workers feel like a cog in the machine, while others, according to a participant in this study, "join arms together, march forward, and push the Winnebago up the hill." Some workers just want to get their job done and be left alone, while others see their job as linked with their coworkers and want to get their work done plus help others get theirs done too. Some workers seem to spend a lot of time complaining, and others are excited about what they are doing. Some people feel as though they are going to the salt mine for one more day, so to speak, while others get up in the morning and are excited about going to succeed at work they enjoy with their friends.

How people perceive or feel about their work environment is an important part of the culture. Managers play an important role in establishing the corporate culture. They set the tone, and their colleagues follow. It also makes a huge difference in what kind of personalities are hired among the employees. If people have happy or negative dispositions, it can be contagious in the organizational culture. As one manager in the study noted,

> You have to hire personalities that enjoy serving other people. That cannot be trained. You can train people who care about others how to do the details of banking. However, you cannot train someone good at details how to care about serving others.

Family as cultural element. Family as a cultural element can be taken in at least two ways: The entire group functions like a family, or one or more nuclear families work together at the bank. This second sense would be especially true of a family owned bank (or firm).

Family as a whole group experience. The idea is building a fully functioning family of people who care about each other and help each other not only make a living but also live a quality life, creating a sense of "we" rather than simply a focus on "I," a sense of the collective rather than a group of individuals. Family may include providing employees time to be with and take care of their own families at home and attend their children's activities. In some companies, employees are treated like a number, and senior managers do not know their names. In others employees are treated like a valued member of the family, and senior managers take time to get to know them and care about how they are

doing. If someone is sick or injured, the group not only organizes to cover their work at the office but to also deliver meals to them at home and see how they are doing. In this sense, the family culture may function like a "band of brothers" that might be experienced in the military in a time of war. It fulfills the meaning of internal social capital as a culture of trust and tolerance in which networks of voluntary association emerge. (Inglehart, 1997).

Families working together in the organization. Some organizations do not allow family members to work together in the same company. If one employee marries another, one has to leave. The real or perceived risks of nepotism in the company keep families from working together. Other organizations welcome multiple members of the same family to work for the company. This is especially true in family-owned banks. In these cases, it seems important for family members to have real jobs for which they are qualified, have the compensation set for the market value of that job, and to agree to leave family problems at home. It can be observed that while concerns about nepotism or family problems impacting the work place are real, many organizations in America have some element of family members working together: in business, in government service (police forces, fire departments, etc.), in union organizations, in sports, music, and in politics. A family working together was the most normal form of work environment in agricultural societies, and it remains an important part of the American work place today.

The Golden Rule. "Do unto others as you would have them do unto you" (Matthew 7:12). This is an important central tenant of the Christian faith, and a principle similar to it is common in most major world religions. Some organizations endeavor to apply this principle to the work place as a central element in their culture. Taken literally, it is a

paradigm for evaluating how to establish human resource polices and customer service practices. It is different than a paradigm of how to maximize personal profit or benefit from a particular situation. It tries to evaluate how other persons are impacted by policies, procedure, practices, or prices and seeks to make sure that other people are treated fairly, or as the person enforcing the policies would like to be treated in similar circumstances. It tries to treat all people with the respect with which one would want to be treated and seeks to build an atmosphere of trust among all parties.

Spirituality in the workplace. Spirituality in the work place can be a tricky matter. Some organizations would prefer that employees keep their religion and politics to themselves and not have them as a practice in the workplace. Other organizations welcome and even encourage employees to express or practice their spirituality in the workplace, as long as it is not imposed on their coworkers. The idea is for employees to be real whole people (including their religions) while being respectful of other employees being the real whole people that they are. Employees who share religious beliefs may choose to pray together or practice other aspects of their faith at appropriate times at the work place. There is an evolving literature on the topic of spiritual capital in the work place that is beyond the scope of this research.

Open communications. Open communications can be an important part of a culture, and lack of open communications can be a cultural weakness. Communications includes management explaining what is going on, why it is going on, and what is expected from all parties as well as listening to colleagues/employees explain how they are experiencing what is going on and to their suggestions about how to make things better. As this tenet applies to a business model, has the CEO created the model by himself or herself, written

a memo explaining what it is and expecting everyone to comply, or has the CEO engaged the whole group (or major parts of the group) in developing the model, discussing how it is working and making adjustments based on what the group has learned? The latter description is an open rather than a directive means of communications.

Training orientation. Do people know what to do, how to do it, why they are doing it, and how it relates to the work done by others in the organization or not? How often is training held? Is there a training curriculum? Are employees required to participate in in-house training and/or encouraged to participate in training from outside the organization? Does the company pay all or part of the tuition for employees getting college degrees, and are they awarded for achievement? Answers to these questions will describe whether or not an organization is focused on training as an important element of their culture.

Sales and impact on growth. Do some, most, or all employees believe their job includes sales? Are employees out actively looking for and soliciting new business, or are they waiting for customers to come to them? Are employees trained in how and what to sell and rewarded for selling? Is selling a part of employees' job descriptions? Is there a formal "calling" program for new business opportunities? Sales cultures can be either relational or transactional in nature. One manager participating in this study described his approach to sales as "encouraging employees to participate in activities they enjoyed." This strategy enabled them to develop relationships with a broader range of people who shared common interests. As one participant observed, these relationships create sales opportunities.

Developing positive relationships. As one participant said, “Really, culture is all about relationships. They can be good or bad and people get a lot more done when there are good relationships.” Another CEO explained, “Recognize people’s good work. You can’t over value praise and knowing people’s names. Give a lot of high 5’s and manage by walking around and connecting.” Still another CEO observed, “It costs nothing to be nice. People want to know that you’re genuine and believe you really care.” Finally, an outside director noted, “It comes down to leadership. Managers are the heartbeat of the company. If they’re not out and engaged, it’s not going to work. If they are then engaged people will follow them.”

Credit quality. As noted in Gilbert, et al (2013a) a key characteristic of banks with a #1 or #2 composite CAMELS rating is commitment to conservative lending principles and detailed underwriting and credit policies. Similarly, Kupiece and Lee (2012) found that community banks with higher than normal profitability have strong underwriting and loan administration practices. The quality of a bank’s credit culture may be discovered in their answers to the following questions:

How are loans underwritten? Who is involved in the underwriting, and how are loans approved or declined? Once they are approved, are they closed within the parameters of the approval, and are exceptions noted and monitored? Once they are booked, how are the loans monitored? Is ongoing financial information received, evaluated, and responded to? If problems arise, how quickly are they reported to management and responded to with the customers? Are problem loans clearly identified and monitored? Is the quality of a loan officer’s loan portfolio an important part of their performance review? Is appropriate training utilized for weaknesses? In short, is there a strong or

weak credit culture? Does the bank's leadership understand the risks they are taking and possess the expertise, discipline, and systems to manage the risk? Answers to these questions help define the quality of a bank's credit culture.

Organizational Structure

Organizational structure is an important aspect of a company's business model, and it needs to address a wide range of issues.

Control. Issues of control influence how CEOs think about the structure of their organization. According to a participant in this study, some owners/managers want to own more than 50% of their company in order to be "the master of their own destiny, to rise or fall on their own merits, and to be able to make changes in their business model that they think are necessary quickly, and with relative ease." A key aspect of their motivation may be that those desiring to own more than 50% of a company often borrow part of their investment and, as a result, want to control dividend pay outs to be able to service their personal debt. Other aspects of why someone would want to own more than 50% may include negative prior experiences as a minority owner and wanting to pass a legacy for their family.

Most of the managers/owners interviewed did not want any one owner or small group of people to have a controlling say in what is done, and as a result they limited the percentage ownership of any one individual or family to 10% or less of the total stock of the company. Persons creating new business models should consider how important the issue of who has what control is to them and incorporate that issue in their new model structures to address their concerns.

Size of investor group. Is the investor group small (perhaps one family) or large? Are investors considered a necessary evil to raise equity capital (like cats, and the fewer there are the easier they are to herd), or are they considered an integral part of the bank's

marketing efforts? As such is their social capital considered as important as their equity capital? One manager may find investors to be very helpful in marketing the bank, while another participant did not want investors involved in marketing "because the first time we turn down one of their referrals, we have a problem with them as investors." Does one person or family want to own 51% or more of the company (absolute control), or is there a rule that no investor or investor family may own more than 10% of the stock in the company so that no one (or family) can have "too much" control?

Organizational governance. How is the company's Board of Directors selected and utilized to oversee the functioning of the company? Do the directors operate with a sense of independence from management such that they can address agency issues and insure that management is acting in the interest of the shareholder and not merely their own interests? Do they have the expertise and adequate information to properly monitor the organization's performance, or are they really only figureheads who, as one participant said, "are treated like mushrooms, kept in the dark and fed a bunch of crap?" Do the directors play a meaningful role in the strategic direction of the company, or are they simply a rubber stamp of the decisions of management? Do the directors engage qualified independent auditors to assess the system, controls, and outcomes of the company and receive and act on meaningful recommendations for improvement? Are the directors actively engaged in helping managers be good stewards of the company's resources?

S Corp or C Corp decision. Will a company choose to be an S Corp or C Corp? Tax laws make a distinction between being an S Corp (where the corporation does not pay taxes but passes on any tax liability to investors) or a C Corp (where the corporation pays

taxes directly). Being an S Corp is often considered a tax-efficient way to organize but has limitations in size of investor group (maximum 100 investors) and kinds of investors (i.e., no IRA or 401(k) investors). Observations about this issue by participants included favoring an S Corp. As one participant said, "A C Corp adds tax burden and an S Corp doesn't. All of the investors had to be S Corp qualified (no IRA's) and with a fewer number of investors there are fewer people in the boat." Another participant, however, spoke in favor of C Corp:

> We were a C Corp primarily because we wanted to maximize our number of investors and did not want to be limited to 100, and because we wanted to allow people to invest their IRA and 401k money in the bank, which you can't do in an S Corp.

Number of offices and markets served. Some banks operate from only one office as a matter of efficiency. Other banks operate from multiple offices (or branches) as a means of reaching out to a broader audience of customers in one market (i.e., the Tulsa Metropolitan area). Some banks make up for a lack of a large number of branches by providing courier services for customers. Still others operate with multiple offices in multiple markets. In some cases there are multiple metropolitan markets (like Tulsa and Oklahoma City); in other cases, there may be one metropolitan market (i.e., Tulsa) and one rural market (i.e., Glencoe). In these cases, the rural market presence maybe the result of a group of investors buying a bank charter in a rural market and branching into (or moving its headquarters) to an urban market. It is unlikely that an urban-based bank will purposefully branch into a rural market. However, a case can be made for an urban

based bank acquiring a rural bank primarily for the purpose of acquiring lower cost funding in rural areas in order to invest the funds in higher yielding loans in urban areas.

Technology. As noted by one participant in the study, "Technology in a lot of ways is a great equalizer among community banks and their big brothers (the super regional and multinational banks)." Technology is broadly available to all banks and can be utilized both for achieving internal efficiencies and providing dramatically improved customer services. According to another participant, 'Technology has advanced so rapidly that it is now affordable and can be implemented in smaller environments." For those banks focused on efficiency, technology enables a bank to do dramatically more work with fewer people. Those banks focused on growth are able to provide their customers services at ATMs (automatic teller machines) worldwide, via the Internet on their websites, via remote deposit capture, or even via cell phone apps that can take deposits.
A large percentage of younger bank customers rarely go to a bank branch, instead option to do most of their banking electronically. Some community banks have organized their office so that file cabinets are rare because of electronic data storage, and many employees do not need to come into the bank to work but can work via laptop from home or in their customer office.

How quickly and effectively a company adapts to changes in technology is a highly significant factor in their business model and may determine their survival in the future. At the same time, technology systems present a whole new range of risks for banks to define, assess, and manage. It has been observed that in the 21st century bank robbers are more likely to rob the bank via the Internet than with a gun at the teller window.

Niche Focus

As Magretta (2002) described, “A Good Business Model answers Peter Drucker’s age old questions, ‘Who is the customer?’, and ‘What does the customer value?’” (p. 4) Community banks need to decide who the customers are that they want to serve and how do they can serve them at a profit. Concepts tied to this theme include the following.

Lending bank or bond bank. Managers need to consider whether they are lending a lending bank or a bond bank. That is, as they gather deposits, are they primarily going to invest them in loans or in bonds? According to the FDIC, as of December 31, 2013, the average bank in America invested 69% of its deposits in loans and 31% in other assets (like cash, bonds, and fixed assets). This 69% is considered the bank’s loan-to-deposit ratio. The average bank in Oklahoma invested 73% of its deposits in loans (FDIC, 2013). So, will a bank focus on being a lending bank with about 70% or more of its deposits invested in loans, or invest a much lower percentage of its deposits in loans and a higher percentage in bonds (or other investments)? Among the participants in this study, the answers varied widely from First Oklahoma Bank’s (FOB) 92.5% or ONB’s 116% loan /deposit ratio to Stock Exchange’s (SE) 30% or First National Bank Altus’ (FNB) 45% loan-to-deposit ratio. FOB and ONB (and most of the other banks) were lending focused banks with average or higher loan-to-deposit ratios, while SE and FNB were bond banks with lower than average loan-to-deposit average loan to deposit ratios. The decision to be a lending bank or a bond bank may be impacted by the location of the bank (urban versus rural).

Urban or rural niche focus. As a participant in this study observed, “All performance is relative. It’s relative to the economic cycle. It’s relative to your competitive environment. It’s relative to the growth in the community.” This observation is especially true in considering the market opportunities and therefore the business models of banks located in rural rather than urban communities. As one participant from a rural bank explained,

> Banks located in truly rural markets are mostly facing declining populations and as a result have fewer opportunities to make loans to new people buying homes or starting new businesses. To a great extent, rural bankers are often fighting to maintain their market share in a declining pool of loan opportunities.

Another participant from a rural bank had a similar explanation: “In this market his top customers had very few borrowing needs and were increasingly becoming large depositors.” He found investing in local school and government bonds his best opportunities to invest deposits in ways that benefited the community. On the other hand, two urban banks in the study were able to experience $700 million and $200 million loan growth respectively from 2009 to 2013 because their local economy was strong and growing and because both banks were pursuing quality rapid growth models to a greater extent than other community banks headquartered in Tulsa.

It is fair to say that banks in urban markets have better opportunities to be lending banks than those in rural markets. This claim would be supported by the average 80% loan to deposit ratio of community banks headquartered in Tulsa as of December 31, 2013, to the overall states average of 73% loan-to-deposit ratio (FDIC, 2013).

Lending specialty. Community bankers' lending focus, according to one participant's observation, can range from "all things to all people" (when the bank is very likely more focused on consumer lending than average, and does not have a particular other specialty) to being "niche focused in commercial lending to small businesses, wealthy individuals, and professional" or "small business lending and some type of real estate lending."

The banks in this study fit these definitions perfectly. Those in rural markets were more likely to be focused on "all things to all people" and have a specialty in agricultural lending, while the banks in the urban markets were very much focused on making commercial loans to small businesses and professionals and some type of real estate lending. Other types of specialties included a focus on accounts receivable financing, loans to the energy industry, construction and development lending, government guaranteed loans (SBA/USDA), and loans on real estate leased to U.S. government entities (i.e., U.S. Post Office).

Funding sources. Funding sources also created distinctions in business models from those who were totally funded by local core deposits to those with a high percentage of brokered deposits or funding from the Federal Home Loan Bank.

Gaining Regulatory Approval

Banks are a highly regulated industry. In order to call a company a "bank" in the United States, the company must have insurance from the FDIC. In addition the bank must be granted a charter from one of three federal regulatory agencies (the FDIC, the Federal Reserve, or the Comptroller of the Currency) or a state banking department. Each bank is subject to periodic safety and soundness bank exams by its regulators that may vary in

frequency based on the age (de novo or not) or condition (high risk or low risk profile) of the bank. Generally bank exams happen about once per year, with more frequency in de novo or high-risk banks and less frequency in long established low-risk banks. Each bank also has periodic compliance bank exams to monitor the compliance with the many compliance regulations. As a result of these many and intense interactions with regulatory authorities, banks must have as part of their business model how to gain approval from regulators to be in business, remain in business, and purse new business opportunities such as establishing branches or moving the bank's headquarters. Banks are also subject to meeting a number of minimum capital ratio measures to support their asset size. As a result, whether or not a bank is considered by banking regulatory authorities to have adequate equity capital is a major component of gaining approval.

Gaining approval to charter a new bank. A number of banks in this study went through the process of gaining approval to charter a new bank. This process requires the bank to have a detailed 3-year business plan, complete with bank policies on a wide range of topics and detailed biographical and financial information on key bank managers, directors and any owner of more than 10% of their stock, to be submitted to bank regulators for review and approval. This is a long and arduous process that involves substantial negotiations with regulators. Once the application is approved, the bank must hire a staff, establish a fully functioning facility, and undergo a preopening bank exam before they can offer any services to the public.

As a result of the foregoing process, a lot of de novo banks' initial business model is established as a function of the desires of the bank owners and managers and a negotiated agreement with the banks regulators. Managers must consider what they want their

banks to do and what they can gain approval to do. For the first 3 years, any deviation from the approved plan must be approved by bank regulators.

Gaining approval to acquire a bank. Generally the process for gaining approval to buy the controlling interest in an existing bank is similar to gaining a new bank charter, except the existing bank already has an approved business plan, approved policies, and usually a track record of earnings. If the new owners have good reputations, banking experience, and adequate equity capital and do not plan to make any major changes, the process is less arduous for securing approval than a de novo charter.

On the other hand, if the new owners are buying a rural bank charter and plan to either relocate the bank's headquarters or expand into an urban market as a decision to create major change in the bank's business, the process for gaining approval is very much like getting a new de novo bank charter. The bank is treated by bank regulators as if it is a de novo bank for the first 3 years.

New manager of an existing bank. Bank regulators must be notified of a new president of an American bank, and if the bank is considered a problem bank, then the new president must be approved by the regulators. When there is a change in the president position, the individual chosen for the job must submit detailed biographical and financial information to the bank regulators. It is important for any bank president to have the trust of the bank regulators, or they will not be approved. If they should ever lose the trust of the bank regulators, the Board may be strongly encouraged to get a new President. This impacts how and what kind of business model a bank president will pursue. It is clear

that it must be a business model acceptable to bank regulators or it will be considered unsafe and unsound banking practice, and changes will be required.

Complying with existing and new regulations. Part of the reality of life in the banking world is that there are already a lot of existing banking regulations with which the bank must comply, and these regulations are subject to nearly constant change, and new banking laws and regulations are always possible when Congress and state legislatures are in session. Many participants in this study believe that banks are overregulated. Some expressed the concern that the current high level of regulation is driving some banks out of business. As a result of this reality, all banks must take into consideration current and potential banking laws and regulations when they consider changes in business models.

At each annual bank examination, each bank receives a grade of 1 to 5on the six components of its CAMELS ratings as well as a composite score of the five grades. All bankers must keep their current and potential CAMELS rating in mind as they consider components of their business model. If they do not, they are likely to find themselves required to enter a memorandum of understanding about how they will change in a manner satisfactory to the regulators, or be subject to a cease and desist order to stop what regulators believe to be unsafe and unsound banking practices.

How a Business Model Works

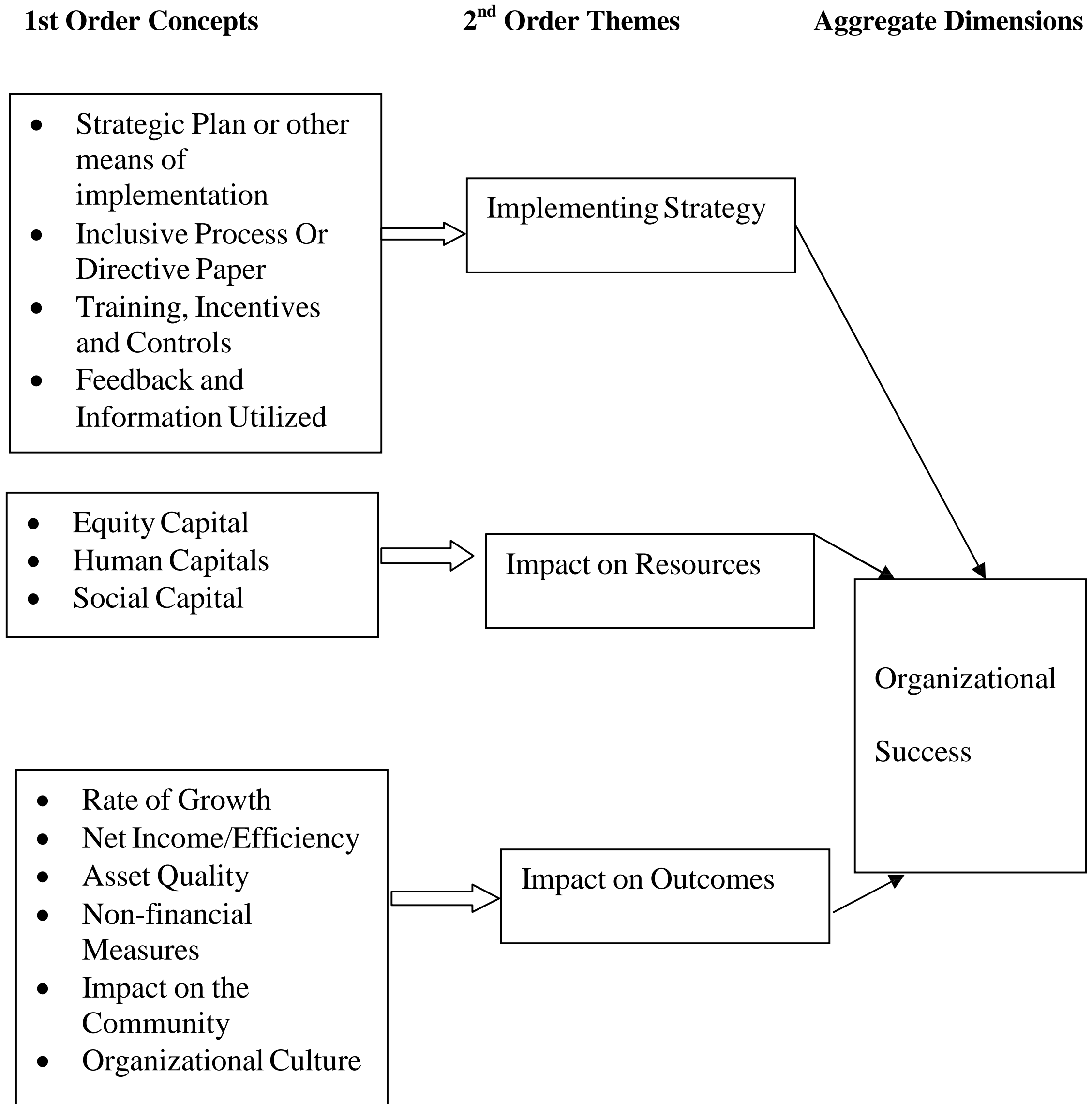


Figure 4. How the business model works

Implementing Strategy

Once a business model is conceived, how is it implemented? This section discusses aspects of business-model implementation.

Use of strategic plan. Many banks do not utilize strategic plans. It appears that the more a bank is focused on either being on the extreme of maximizing growth or maximizing income or having a need to accomplish major changes, the more important they believe it is to have a dynamic inclusive strategic planning process. The more a bank is either in the middle of the continuum or focused on efficiency by improving what they are already doing, the less it is perceived to have a dynamic strategic planning process. Banks focused on efficiency are more likely to have a strategic plan created by the CEO as a tool to help employees determine how to maximize income and reduce costs. Banks focused on growth are more likely to have an inclusive process.

All banks are required to submit a business plan to the bank regulators. However, many participants observed that often these plans are simplistic or “cookie cutter” in nature and appear to have been done because “it’s a check the box kind of thing.” Many banks do not have any creativity or customization to their plans. They often use the same consultants to draft the plan so they are all pretty much the same.

As one banker in this study described the situation, “We didn’t have a strategic plan. We had a plan. I wouldn’t call it a strategic plan. In essence we were flying by the seat of our pants.” Another banker added, “We did have a strategic plan, we had to write it to get approval. But honestly we didn’t have a strategic plan.” Still another added, “The strategic plan we had was something we really pulled together for the chartering process more than anything else.” Finally another banker said, “My plan was to get the basic bank operating day to day, and make a profit. I thought as long as I’m making 10-12% on equity I get to keep playing. It wasn’t a long drawn out strategic plan.”

So, how did these bankers implement their business models? It was a more relationship-driven process of taking care of business day-to-day, relying on their experience, expertise, and intuition to do what needed to be done. Why did they not use a strategic plan? One participant observed,

> There are a lot of CEOs who just really don't want to ask their board for their opinions on these kinds of things because they don't want to give up control. They figure the minute they ask a question, 'It's out of my control and it could go someplace I don't want it to go.' I know where I want to go and as long as nobody bothers me, this is what I'm going to be doing for the next 20 years.

Another observed that, "Some bank CEOs do not know how to create a strategic plan and are not willing to spend the time to do something they don't understand."

Many banks consider strategic planning to be an integral part of implementing the business models and managing their companies. The CEOs most outspoken about the importance of their strategic plans (and planning processes) were those of the fastest growing banks, those needing to use a strategic planning process to take charge of an existing bank and change its business model, or those intently focused on maximizing efficiency. It may be that strategic plans are most important for companies with significant growth aspirations, those needing to accomplish significant change in their business models, or those using their plan to drive efficiency. Those using a strategic plan were more likely to have outcomes on the extremes of growth or profitability, and those who did not were more likely to be in the middle. One bank manager observed,

> Generally, a budget is focused on one year and a strategic plan is focused on 5 years or longer. A strategic plan requires you to go beyond the day to day work of the company and being in a reactive mind set. It requires you to think long term and to be proactive. This changes your way of thinking and is a very important way for an executive to run their company. It's even better if you can get everyone in the company thinking proactively.

One participant said,

> I like the whole process of the long term objective, the strategy to achieve the objective, the tactics to do that, the metrics for measuring how we're doing, and how that translates into human beings. We all need to be pulling on the rope in the same direction and our strategic planning has evolved into that. We know where we're going, we know what it takes to get there, and we're operating within our capacity.

Another participant observed,

> Ours is an entrepreneurial management operating system. It takes your plan which is updated annually and breaks it down into 90 day increments. We actually update our strategic plan every quarter and live by it. It's not a plan you sit on the shelf and come back a year later.

Another bank CEO focused on maximizing efficiency utilized his strategic plan to

> give employees tools to see how their individual performance affected the net income of the bank. My goal was to be able to say here is how your performance

> impacts the net interest margin of the bank; here is your goal for the coming years and here is how I am going to pay you for reaching or exceeding your goal.

Strategic plan creation: Inclusive process or directive paper. If a company does have a strategic plan, how is it created? Is it a small group (i.e., one or two person process), or is it a large, inclusive group, even a whole group process? Is the goal an inclusive implementation process or a directive written paper to give directions from the CEO to others?

Often, CEOs either created a strategic plan either by themselves or with the help of the CFO and then used it as a personal road map to guide their management team. It was more of a command and control (or military) process of "I will decide what to do, and you need to do it." In those cases where the plan was not really followed, usually it was created by a small group of people (or one person) as a checking-of-the-box exercise. On the other hand, all of the plans that were actively used to drive a quality growth model were created by a much larger group of people. At First Oklahoma Bank, nearly all employees participated in providing input. In these cases, the plan was not just an end product written on paper but a shared vision and set of understandings about where the company was/is going and how they plan to get there. It was a process of gaining the best ideas of all participants and resulted in a plan created and "owned" by the participants. This process was described by one FOB Manager as follows:

> It is very much a part of input from all different parts of the employee base. Emails go out soliciting input. Working groups are established to focus on different components of the plan. Then it all comes together with the

management committee taking the best ideas, assessing priorities, and assigning roles. Finally, it is approved by the Board of Directors. Progress is monitored monthly by management and discussed quarterly with the board and at all staff meetings.

If a large group participates in creating and owns the plan, it seems to make a major difference how well it is utilized and followed.

Training, incentive, and controls. Once a plan is developed and approved, the process of implementation often includes training, incentive, and controls. It should be noted that not all banks provide financial incentives beyond base salaries and benefits, but some do. Financial incentives are often related to banks pursing more of a rapid growth model than an efficiency model focused on maximizing current year net income.

Training can focus primarily on compliance and core skills or go beyond to training on product knowledge and sales techniques. An important aspect of training programs is assessing where the staff is now, defining what they need to know, creating a training program to get there, and reassessing where they are after training. It is a continuous loop process. Training can also include a focus on management skills. FOB utilizes the Predictive Index personality profiles to train managers to understand the personality of each of their employees and what techniques might be most useful to motivate them to achieve individual and group goals. Training can be internally developed and delivered and/or external. Many banks utilize banking schools to develop/train current and future managers. As all this applies to implementing a company business model and strategic plan, the key issues are these: Do the staff members know what they are supposed to do

(or not do) and how to do it? Both companies focused on efficiency and those pursuing rapid growth are likely to have training programs, but they are likely to include a different topic for that training, one emphasizing efficiency and the other sales.

Some bankers think employees should just be happy to have a job and that should be adequate incentive (i.e., not getting fired). However, others provide a wide range of incentives tied to performance to motivate employees to achieve superior results. These incentive programs, particularly those that extend beyond the CEO to most senior managers, appear to be a function of the bank's adoption of a growth model. Incentives may include (a) stock options or stock grants, usually only to senior managers; (b) incentive bonuses tied to achievement of specific goals (i.e., loan growth goals), sale of particular products or services (i.e., making SBA loans or growing noninterest bearing deposits or making a successful referral to another department); and (c) incentives available to a large group of employees (even all) (such as FOB's annual incentive program for all employees tied to achieving or exceeding the banks net income budget for the year).

Banks by their nature have a range of controls in place to avoid the risk of theft, fraud, or error. As these apply to implementing a business model, the key is to have clear goals for each area and individual, measure performance and react promptly when performance is not achieved or something goes wrong, address issue of performance clearly, and set short term review periods. If performance issues are not corrected, then action needs to be taken up to termination of employment. All employees need to know that nonperformance has negative consequences. Everyone really knows when someone is not making it, and they wonder why managers do not respond.

Use of feedback and information. Banks all generate a large number of reports on different topics. These range from the detailed quarterly "call" reports that bankers are required to submit to their regulators to daily balance sheet income statements, overdraft reports, new account reports, major change in balance reports, past due loan reposts, and exception reports. All of these reports are efforts to stay on top of what is happening and provide comparative data for different time periods to monitor positive and negative trends.

Banks are required to have monthly meetings of their directors, to get annual director's audits from CPA firms on the financial performance, and to receive an annual bank exam by regulatory authorities followed by a detailed report to the Board of Directors. Banks gather and analyze a lot of financial data and customer information on a constant basis. This analysis helps them understand whether the financial metrics of their model are working.

Some banks also receive reports from consulting companies and /or generate their own analytical reports comparing their performance to various peer groups that may include similar size banks, banks about the same age (especially for de novo banks), and banks in their local or state markets. These help monitor their performance relative to these groups. Some banks get annual appraisals of their bank stock value as a measure of the value being created for their investors through implementation of their model. Some banks provide feedback to all of their investors and employees on a quarterly or periodic basis to keep them informed on how the bank is doing and what they can do to make things work better.

Feedback systems other than financial reports may include employee surveys to measure how their employees feel about their company; 360° evaluations of officers so they can understand how their managers, peers, and subordinates perceive their performance; and marketing research firms to assess their bank's image in the marketplace and to test various products or services with consumer focus groups. Moreover, most banks that utilize a strategic plan for managing their companies utilize at least an annual (sometimes quarterly) retreat of managers and /or directors to assess how the plan is working and how it needs to be improved for the next time period.

Business Model's Impact on Resources

One of the points of interest in this research is to what extent a business model impacts the mobilization and utilization of key resources that drive the outcomes of the firm. There was broad consensus among all participants that the business model has a direct correlation to the company's development and utilization of key resources notably equity capital, human capital and social capital.

According to one participant, the three-legged stool of a successful community bank is (a) a strong CEO able to recruit a strong management team to run the bank (human capital), (b) a connected board of directors (social capital), and (c) equity capital. "If you can't bring these three things to bear," the participants said, "you should not start a bank." The manager of another community bank observed,

> The very nature of a business model should be something that touches every one of those resources in a slightly different way. It's probably easiest to see with financial capital. You know where you want to go and you know what you've got

> to have. The trickier part is the amount of human capital that you have to have whether it's with our employees, the number of employees, type of employees, the amount that you expect of them and they expect of you. Social capital in the form of your customers and the good will that you have in your community and the way you're perceived. Those are all things that take a lot of time and attention and are extremely important to not be overlooked because if you need money you can usually go get more. If you need good will, if you need someone to give you the benefit of the doubt, if you need someone to try a little harder, or come in on a Saturday, that can be a little harder to come by. Sometimes if you lose it, it can take a long time to get it back. You better have a little focus there.

A community bank manager added,

> The business model requires a lot of activity in those areas. First of all if you're going to grow fast, you must raise a lot of equity capital. You will have to have good people in place to manage the growth and manage the risk associated with it. Without financial capital and human capital, your business model can't be successful. If you're not going to grow fast then you don't have to focus on as much on social capital. There is a direct correlation between the nature of the business model and how much financial capital you need because when you start looking at asset growth and maintaining minimum regulatory capital ratios, you see how much equity capital you will need. We also have to be able to hire people to cause the growth. There is a cause and effect relationship. Some people we've hired to produce those assets. There is a combination of needing people to

> produce and support the creation of assets. You need to plan this out over several years.

Another participant observed,

> Absolutely, the business model and key resources are all interconnected. If you have difficulty with one, it will impact the others. With the best people in the world, if they don't have the resources they need, and they are not properly led with the right goals and objectives, they are going to lose their sense of humor and not be with you. So you must motivate people well. You have to give them what they need, and deal with them in such a way they feel like part of the team. The best most highly motivated people will quickly lose their sense of humor if you don't have the right resources to do their tasks. I see it as all interrelated. It's kind of like the nerves around the spinal cord, you can't pull them apart and try to deal with them individually because they interact.

These observations and many others support and help to demonstrate Barney's (1991) resource based theory that "firm resources enable a firm to conceive and implement strategies that improve its efficiency and effectiveness" (p.101). The business model affects specific key resources in ways described in this section.

Financial or equity capital. This resource has the most obvious direct correlation to the business model of any resource in the bank. If a potential bank manager and/or investor group does not have enough equity capital, the bank regulators will not let that person or group start or buy a bank. If the manager does not maintain acceptable minimum equity capital to asset ratios, the regulators will not allow that manager's bank to grow. So, if a

potential manager's plans include starting, buying or growing a bank, that manager must either have or raise minimum acceptable equity ratios.

In a related manner, some well-established banks have substantially more equity capital than they can leverage with loans in their local markets. This is especially true in rural markets with declining populations. As a result of this excess capital, these banks usually adjust their business model to either investing in government or corporate bonds or they shrink the bank to reflect the declining local markets opportunities and distribute excess capital to their investors.

It may be noted that banks using a growth model are most likely to have the largest group of investors. As one First Oklahoma Bank executive noted,

> Our growth plans require us to raise a substantial amount of equity capital. When you count both the banks needs for more capital and assisting investors to sell their stock who want out, it seems like we are raising capital all the time. We never stop looking for investors.

On the other hand, banks that are not primarily focused on growth do not need additional equity capital to simply maximize current year net income with their current asset structure. They are more focused on maximizing current year net income to be able to continue or increase their dividends paid to existing investors. This may be more common when there is a small group of investors or the bank is owned by one family. It would be especially true in a bank owned by third- or fourth-generation family members who are not involved with bank and may no longer live in the community. Their primary focus is probably current revenue (dividends).

Human capital. In any business model it is important to hire, train, motivate and retain key people. However, the components of the business model are likely to guide what kind of and how many key people are needed. As one participant observed,

> It's kind of like playing tennis. In a slow growth model you can focus on one ball going back and forth across the net. You only need one or two people to keep the volley going. In a fast growth model you have 10 or more balls coming back and forth on a continuous basis, so you need a lot more people to keep the volley going.

The experience of both ONB and FOB is that in order to achieve growth, bank leaders have to add new people continuously to create and manage the growth or the growth will not happen. Management cannot grow first and then hire the people. The experience of changing to a rapid growth model bank from a long standing efficiency business model was described by one participant as follows:

> We made major changes in human resources. We brought in key people from bigger banks in lending, cash management, finance, and human resources. We also hired one of the strongest credit officers around to insure the regulators that we would have excellent credit quality. Essentially, we built the high growth machine and hoped that efficiency would come later. It's expensive to build a growth model. You cannot be concerned about your efficiency ratio. You have to be committed to making the change because you will make mistakes and get push back from various people. So, you have to be committed to the value proposition of getting larger. And you need to celebrate your achievements in

growth, and provide incentives for people to do the hard work to accomplish the growth.

Previous research found that high levels of overhead spending were positively related to the long-run survival of banks (DeYoung 2003). Four ways in which this situation can be described are according to (a) how many roles an executive is expected to fill, (b) how many outsourced professional resources are engaged, (c) how many bank directors are actively involved in the company, and (d) how much growth the company experiences in number of employees hired over time. The positive effects of these elements of high overhead are explained in this section.

Number of roles for executive to fill. One characteristic of a slow growing bank's focus on maximizing current year net income is that there are fewer executive officers and each executive is expected to wear many hats. As a result, the CEO may also be in charge of marketing, human resources, and even lending; the CFO may also be in charge of operations, compliance, and technology; and the Chief Lending Officer may also be the Chief Credit Officer. In these scenarios, no matter how good the officers might be, they only have 24 hours per day, and some of that is spent sleeping, so there is only so much they can do in any area of their responsibility.

On the other hand, banks pursuing a growth model usually hire more executive officers who are specialists in their areas of expertise and can focus on those issues in order to get more done faster and with better quality than if their attention is divided. In these models, the number of executives is often established in anticipation of the size the bank wants to become, and the bank grows into its management team's abilities. An example

of roles filled by one individual executive officer in a growth model might be chairman and CEO (or co-CEO), president and non-CEO (or co-CEO), CFO, chief lending officer, chief credit officer, chief operations officer, chief technology officer, chief marketing officer, chief audit executive, human resources manager, in-house legal counsel, and managers of major sections of the bank (Deposit Sales, Home Mortgage Sales/Service, Private Banking, etc.). Most of these roles existed and were filled at both ONB Bank and First Oklahoma Bank, two of the banks pursuing a quality growth model in this study.

Number of outsourced professional services engaged to support executive officers. A bank focused primarily on maximizing current year net income is going to be reluctant to spend a lot of money on outsourced services, consultants, and attorneys. If they are growing slowly, there is not as much need to review or support new projects. CEOs in slower growing banks often use one outside attorney (sparingly) and one accounting firm (for a required annual audit), and unless a specific problem arises, these are the only outside resources utilized.

On the other hand, banks pursuing a rapid growth model want to acquire the very best talent available or subject matter expertise to plan for, generate, and manage new business, and sometimes that talent may be acquired most efficiently on an as-needed basis as outsourced professional services. In both ONB and First Oklahoma Bank, outsourced professional services included more than one law firm (general counsel, HR specialists, and regulatory specialists), an HR consultant and recruiting firm, a strategic planner, an outside loan review firm, an outside audit firm and an inside audit firm, consultants/auditors and technology and compliance matters, and marketing consultants to help develop ads, signage, and marketing campaigns. As one executive at FOB noted,

“We realize that there are people with very special expertise and can probably do things better, quicker and faster than we can so let’s engage that person to get the job done.”

In the middle are banks who are balancing their focus on current year net income and growth, and they may utilize more outsourced professional service than slow growing banks in order to fill those jobs in their organization until they can grow large enough to feel ready to hire that expertise on a full time basis. Using outsourced professional services is one way smaller community banks are able to manage the compliance requirements of recent regulations.

Bank directors as sources of human, social, and equity capital. Bank directors are normally chosen because of their business expertise (human capital), networks of relationships and influence in the community (social capital), and investment in the equity capital of the bank. They are usually among the largest investors in the banks. Not all Board of Directors are utilized in the same way: Some are more active than others. Often, directors are utilized as part of the bank’s human capital, lending their expertise in strategic planning, audit, accounting, human resources and management, approval of banks largest lending relationships, and facilities and technology. There are also key elements of the banks’ social capital as they, their families, friends, and business acquaintances are usually among the bank’s largest customers. They are routinely utilized to make introductions to new customers and often play a role in helping the bank raise equity capital, both as individual investors and by introductions to their friends and family. The directors’ collective reputations in the business community often represent the public image of the bank. The active participation in the human and social capital of

the bank is more likely to be important in a growth model than in a model maximizing current year yet income.

Growth in employee numbers over time. One can see a direct correlation between the growth in assets of a bank and its growth in number of employees over time. In reviewing FDIC data on the banks in this study, there is a clear correlation between the growth in number of employees and the growth in assets of the bank. Slow growing banks had slow growth in their number of employees, and rapid growth banks had rapid growth in their number of employees. That is true because it takes a growing number of employees to create asset growth (loans and deposits), to manage the increasing business, and to ensure its quality. If a firm does not add new employees over time, it will limit its growth to maximizing the output of a fixed or slow growing number of employees.

Social capital. The social capital of a company begins with the network of relationships of the people who run the company. If they have strong networks of wide reaching relationships, they will know people who might invest in their company. In entrepreneurial companies, investors are often investing in the people they know and trust who are running the company rather than basing decisions on a clear understanding of the company and its business model. Leaders will have relationships with employees they might recruit to join them and with customers who trust them to provide excellent service. Their social capital should also extend to positive trusting relationships with bank regulators who must approve their plans. This network of relationships is normally based on long years of successful service and integrity that can be trusted to get the job done.

The public image or reputation of a company normally begins with the collective reputation of its managers and directors. Good reputations and the development of strong social relationships go a long way to building a successful company. The extended relationships of the employees and investors in the company also represent the potential of a dynamic marketing machine if their networks are harnessed and utilized to build business.

In evaluating the development and utilization of the social capital of a company one may begin by assessing how many managers, directors, and investors the company has who are centers of influence in the markets they aspire to serve. A greater number of these types of people represent a greater potential marketing impact. In this study more rapid growing banking organizations had the largest number of managers, directors, and investors. Those bank CEOs with a small number of managers, directors, and investors also had the slowest growing organizations. So their number of managers, directors, and investors did provide some measure of their social capital potential.

The attitudes of CEOs and principle owner towards investors varied greatly. In the more rapidly growing banks, the CEOs saw the investors as helpful partners in building a successful bank, following the tenet "the more the merrier." In the slower growing banks, the CEOs often saw investors as hard to manage, much "like herding kittens," and even found them uncooperative/unhelpful a group of people that might be useful to have if the CEO was willing to give up control. One bank CEO was clear that "the fewer the better, it takes less of my time."

One of the senior managers of FOB observed,

> It's kind of funny getting together at those shareholder meetings. It has the effect of bringing people together and refocusing on just what it is that we set out to do. Everyone is there and you can feel the energy, there is a bond, there is a group, and there is a common ground on which there have been some really amazing things happen.

Another FOB executive explained,

> We have over 200 families of accredited investors who have all been successful in their careers. However, Tulsa is a large enough city that often they know about each other but they do not personally know each other. Our approach is to build community among our investors so that they personally know each other and share a common interest in building a successful bank. When that happens, we have a marketing machine that is hard to beat.

Still another FOB executive added,

> It's like a mathematical progression. One person's network adds two relationships and as they become connected, if they each add two more, you have four, who then each add two more, and you have eight. Eventually through a process of building and nurturing these relationships your bank's name and reputation can spread to a great many people over great distances that are helping to promote the bank.

Another way social capital is evidenced in a company is to inquire how many employees followed a new CEO or senior manager to the company from their former company. A large number of people wanting to work with a new CEO or senior manager is a good

sign of strong social capital. A small number of people wanting to join the new CEO or senior manager (or none) is a sign of poor or weak social capital. To the extent that a new executive brings a lot of people with him or her, they bring a strong network of trusted loyal supporters who have "muscle memory" from previously successful work done together. This principle also applies to hiring people who have strong networks of relationships with former customers at other banks. It has been observed that loan officers with strong social capital who leave one bank to join another can often bring two thirds of their former customers within 3 years.

Some CEOs see themselves personally as the primary "rainmaker" or business development agent of the company. While CEOs usually are good personal marketers, in rapid growth companies, they often were also effective at helping other employees, directors, and investors be successful at marketing their company. As one executive put it,

> If I am a solo artist, I can paint a pretty small number of really good paintings. If I learn to paint murals with other people's hands then we can make beautiful art everywhere. Even though it may not be what I would have done alone, it will be dynamic, plentiful and impactful and that will be more exciting than being a solo artist.

Another aspect of developing social capital is purposefully getting officers and employees of the firm engaged in volunteer community activities from the Chamber of Commerce and United Way to coaching Little League sports and working in local

programs for the needy. Employees are often encouraged to get involved, given paid time off to be involved, and rewarded for successful community service.

All of these approaches to developing broad, strong, and engaged networks of social capital is drawn from the business model of the firm, which defines the development and utilization of social capital as important work of the firm. It is pursued purposefully and continually, not incidentally or in a haphazard manner. It is priority work to get done and not "something we will do when we have time."

Business Model's Impact on Outcomes

With ongoing discussion of growth, current year net income, and quality (particularly loan quality), managers must ask themselves the extent to which the company's business model impacts the outcomes of the company by driving the mobilization and utilization of key resources. Based on data from this study's interviews, the answer appears to be "a lot!" This topic returns to the discussions presented earlier in this chapter about the need to prioritize the company's focus on pursuing growth, current year net income, and quality.

Details important for growth priority. If a company sets growth as its priority goal, then its managers must determine the following information concerning different kinds of capital. They must consider, for example, how much equity capital is necessary to support growth at various stages of asset size. Managers must have a plan to raise that level of equity capital from existing and /or new investors. As one bank executive said in interviews for this study,

> You cannot grow your bank without adequate equity capital. If you don't think raising equity capital is fun, then you are going to restrain your growth to that which can be supported by your current capital plus retained earnings. If you plan to pursue a growth strategy, then you need to decide you enjoy raising equity capital.

Managers must also determine how much human capital (or how many people) is necessary to create and support growth in assets and funding and how can they be recruited, hired, organized, trained, and motivated to achieve the growth goals. In a rapid growth scenario, the company must understand the need to hire more staff than needed for the current level of assets in order to create and manage the new assets needed to achieve their growth objectives. Likewise, questions of social capital matter, too. Bank leaders must determine how can social capital be acquired or developed through the activities of existing staff and/or investors or through the addition of new staff and/or investors who bring new networks of social relationships to create and support the growth objectives. In evaluating the success of a company focused on growth, the participants will naturally establish metrics for measuring rate of growth as a priority over other metrics.

Details important for current year net income priority. If a company identifies its priority goal as current year net income, then the considerations facing its leadership differ from those concerning the prioritization of growth. These leaders are concerned with how to deploy existing equity capital to develop earning assets at the least possible costs. This approach may result in buying bonds rather than making loans (which need to be developed and supported by expensive human capital).

Managers concerned with current year net income also consider how to get the maximum current work out of existing staff or make reductions in staff in order to maximize net income benefit from human resources expenses. A normal question asked when one bank acquires another is which expenses can be cut in order to increase current year net income. A participant in this study explained the model such that "if the acquiring bank can cut costs by 40% and only lose 20% of the business, then they have gained 20% in net current year income." In this model, clearly net income is the priority not organizational growth.

In a model focused on net income, the development of social capital may not be a priority. It can be observed that when a larger bank (particularly from out of state) acquires a smaller bank, there is not a great concern for how the current staff members feel about dramatic reductions in staff or even how the customers feel about changes in products and services or departure of staff members with whom they have relationships. While it is certainly true that they attempt to retain staff members with the highest percentage of customer relationships, the concern appears to be more damage control than growth. If a company sets current year net income as a priority, metrics for evaluating success will include ROI, ROE, efficiency rate, assets per employee, and other measures of earnings and efficiency.

Details important for quality priority. As expected, a company that pursues quality as its priority goal must attend to different considerations than do managers at companies with priorities aligned with growth and current year net income. These managers must consider what kind of loans they completely understand and are able to properly develop, underwrite, close, and manage. They must also address control systems that need to be in

place to insure quality control in underwriting, booking, and monitoring loans. Managers prioritizing quality must look to diversify their range of investments (loans) so that they are not overly concentrated in one or a few industries and understand which industries are cyclical in nature and the state of the current economy in regard to those cycles. If there is an inadequate demand for loans in the current market, should those managers consider expansion into a new market and if so, how do they insure that they do so only in pursuit of quality investments (loans)? In this scenario, the metrics used for measuring success are broad: past due or problem loans as a percentage of total loans and as a percent of equity capital, net charge offs, reserve for loan loss as a percentage of loans, and levels of exceptions. The more rapid the growth, the more important it is to have strong quality control systems and a strong number of well qualified credit department and loan processing personnel on staff.

Details for a balanced priority. Managers interested in balancing their priorities among growth, current year net income, and quality will analyze a combination of these metrics in each area in evaluating success. They will understand there will need to be a tradeoff between the various priorities over time.

Important non-financial outcomes or measures. Most community bankers consider an important part of their success to be the impact they make in the community. They effect this impact by making loans or buying local bonds for people to buy a home, build a business, and educate their children. They also consider the role members of the bank staff play in local, civic, charitable, political, educational, religious, and other organizations to be an important measure of their company's outcomes. As one participant observed,

> Banking is a business and a public trust. Bankers think both of building their company and helping create and build other businesses. Banking is an enabler of other things to happen. The really good bankers believe in the importance of banking and understand the role they play in the community.

Another participant stated, “Community banks are the drivers in the local community.” Bank managers in this study talked with great pride about the role their banks played in helping to build the community, specifically by advocating for new roads and highways; supporting school bonds; working in organizations to help the needy; and teaching in local high schools, colleges, and universities. It was observed that bankers and utility company employees are among the few business professionals who get paid by the day, not by the hour, and so they are better positioned than other professionals to provide leadership in their communities. Similarly, if a veteran banker were to give a tour of his or her city, that tour would include a day of local business success stories and local housing developments. Bankers serve in leadership roles in the Chamber of Commerce, United Way, Habitat for Humanity, local school boards, and city councils.

Building an organizational culture that makes a positive difference in people’s lives is an important outcome for most banks. As previously stated in the discussion of culture, some banks focus a great deal of energy on creating an organizational culture that acts as a fully functioning family. As one bank executive noted,

> A lot of people come from broken homes and have experienced a great deal of dysfunction in their lives. We strive to create a culture where people can come to work and feel safe, valued, respected, and an important part of a winning team.

Many banks help their staff members finish college by paying their tuition. They provide important benefits, such as health care and time off. First Oklahoma Bank provides a sabbatical program for all employees, after each 5 years of service. This provides them an extra two months of paid vacation to spend as they so choose, such as spending time with family or taking an extended vacation. Organizational cultures can be measured to some extent by employee surveys and may also be described in terms of turnover rate. Many executives feel that an important part of their job is helping members of their staff with opportunities for a better life, along with the chance to support their families. As one executive noted,

> When I run my company, I feel like my first responsibility is to make sure that people who work for our company have a good long term job to support their families. I place more value on people than I do making money. Because there are 200 families and they've got kids, they've got aspirations. I believe that if you take care of the employees, they will take care of business.

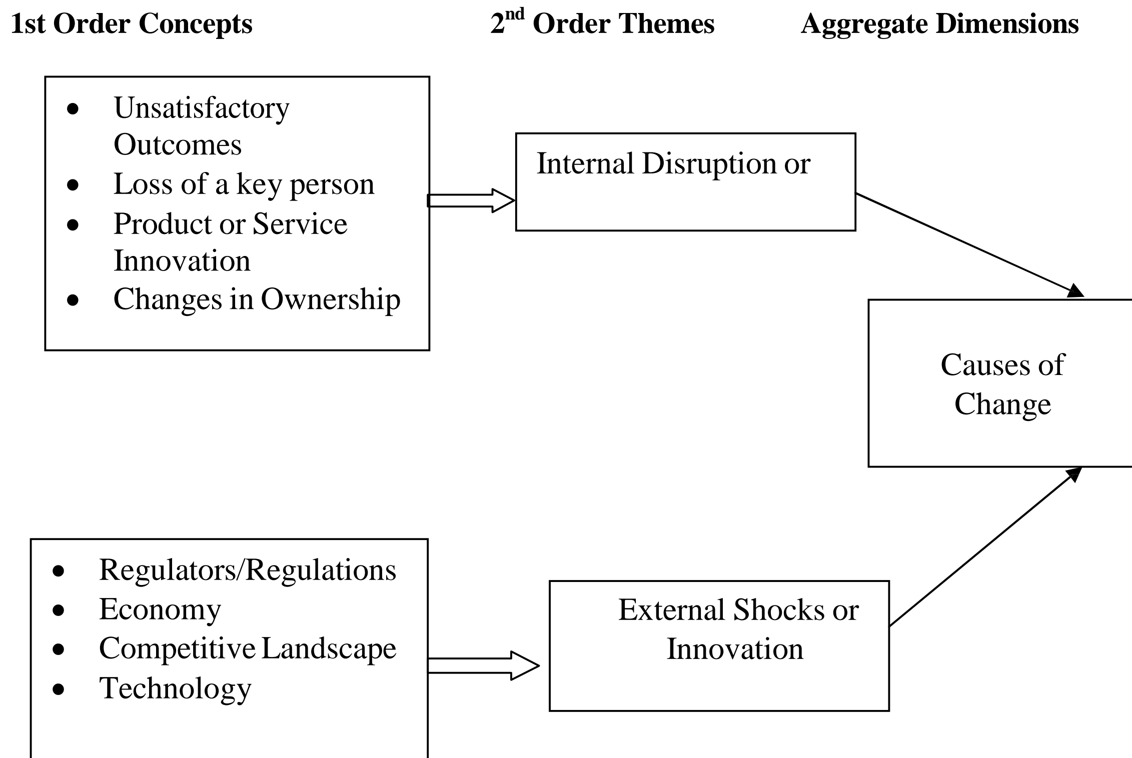


Figure 5. Why a business model changes over time.

While most participants observed that changes in business models are slow to take place (even "glacial" in changing), there are a range of factors that force an organization to stop and evaluate its business model and determine how to change. As one participant observed, "The banks that don't change won't survive."

Internal Disruption or Innovation

Unsatisfactory outcomes/performance. If a company begins to experience adverse outcomes, it will very likely consider adjustments in its business model. An example in this research was the management committee that began forming First Oklahoma Bank, based on their prior experience as managers of ONB. At early planning meetings, the

group considered what worked well in the old model and should be replicated and what did not produce the desired outcomes or performance that should be changed. The two key elements of change in the business model were structural (adding a strong credit department prior to opening the bank to insure excellent credit quality) and niche focus (not pursuing the volume of construction and real estate development loans that had been a primary focus of ONB). Examples from other banks include the experience of loan losses in 2009 that led to strengthening the credit culture of the organization, and one bank's inadequate growth in the rural market where they were located, leading to the bank's change in niche focus and expansion into Tulsa.

Product or service innovation. Some banks change their business model as a result of new product or service innovations. These new innovations may include new services enabled by technology such as medical lockboxes, third party payment processing, remote deposit capture, and deposits by cell phone apps. They may also find new ways of providing service using old methods, such as a free courier service for business depository accounts, rather than building a multiple branch system.

Loss of a key person. One of the realities of organizational life is that key personnel can be lost due to age, health, death, or going to another company. Loss of key personnel who had unique or hard to replace knowledge or an exceptional network of social relationships can lead to changes in a business model. This situation would be especially true if the person lost was the CEO. In that case, a new CEO with new ideas about business model components and a different range of social capital is very likely to change the current business model. Many executives who were interviewed noted they left their former employer because of a change in the CEO, resulting in a change to the business

model, especially the culture. Another observed that one of the major challenges facing community banks today is management succession. This is especially true in rural banks. Many banks are perceived to have good current managers who are in their 60s or older but do not have well qualified successors in place to take charge when the current managers retire.

Change in ownership. A number of bankers who participated in the study had been managers of banks that had experienced a change in ownership. In each case, this resulted in major changes in the bank's business model, often shifting from a growth model focused on personal relationships to a model focused on maximizing current year net income and transactions. In some cases the change was a focus on different markets either geographically (rural/urban) or customer type (from small-business generalist to focus on medical customers).

External Shocks

Regulators and regulations. Bank regulators can make a bank change its business model. This is especially true in the creation of a de novo bank when the bank's business plan must be approved by the bank regulators. In recent de novo bank charter approvals, banks have been required to limit their use of brokered deposits, to have a specific maximum loan to deposit ratio, and to limit their investment in certain types of loans.

Another way regulations change community bank business models is the increased requirement for minimum equity capital that were part of the Basel III capital guidelines. Major changes were both an increase in equity capital ratios and a decrease in long term debt like instruments (like Trust Preferred Stock) that had been utilized to supplement

bank equity capital in prior years. This had the effect of banks either slowing their growth (sometimes actually shrinking) so their existing equity capital supported their balance sheet or going into the market to raise additional equity capital.

A continuous way in which bank regulators can cause change in a business model is through the annual safety and soundness exam or the periodic compliance exam. In these cases, there is a section entitled "Matter Requiring Attention," which may include either strongly suggested or required changes in the bank's business model.

Many bankers expressed the belief that "regulators want fewer banks because they believe they will be easier to regulate." They believe that "Federal Bank Regulators are actually pushing for bank consolidation." However, these same bankers observed that "the State Banking Regulators are more of an advocate for community banks. They see the value of a large number of well-run community banks to state and local economies."

Many of the bankers expressed a concern that the current regulatory environment is "the worst it has ever been." They believe that banks are over regulated and that "regulators are trying to solve problems that don't exist." It is their belief that "consumers and communities have been hurt by bank regulations. Many of the regulations intended to protect consumers have resulted in services being taken out of the market."

Changes in the economy. One of the realities of economics is that economies go through cycles. Some components of a business work better during the upside of an economic cycle (i.e., a niche focus on construction and development loans) and not so well in the downside of an economic cycle (one of the primary causes of bank failures in the most recent recession was an excessive concentration of investment in construction and

development loans). In the upside of an economic cycle, banks may have little or no need for a “special asset” (problem loan) division, and in the downside of a cycle this may be a very important part of the organizational structure.

As has been previously noted, banks in growing urban markets have much better opportunities than banks in declining rural markets. In this sense, a bank’s business model may require change based on local market economic conditions. If a bank chooses to stay focused on serving the local market, it may require a slower growth or even shrinking business mode. If it desires to grow, it may require a change in niche focus by expanding into growth markets. This shift would also require new and different investments in human capital (knowledgeable in the new markets) and social capital (connected in the new markets).

Changes in competitive landscape. Prior research has established the most likely scenario for creation of a de novo bank is the sale of one or more locally headquartered banks to a very large bank, resulting in disrupted relationships between the bank and its employees and customers (Berger, Bomine, Goldberg, & White, 2004). However, the disruptions of these relationships may also lead to changes in the business models of other locally headquartered banks to take advantage of the changing competitive landscape. Managers of First Oklahoma Bank reported changes in their business model in the third and fourth year as the result of the sale of four of their local competitors to new owners, three from out of state. The sales resulted in new local opportunities for employees and customers that would not have been possible without the changes in the local competitive landscape.

Changes in technology. All bank CEOs interviewed observed ways in which technology has changed their business models. As described by Timmers (1998) and others, dramatic changes in technology over the last 20 years have enabled companies to both become significantly more efficient internally and deliver whole new types of customer services externally. Changes in bank business models driven by technology in recent years have included electronic banking over the Internet, remote deposit capture, the option of making deposits through mobile phone apps, and in some cases the creation of whole new markets (virtual communities) where customers no longer feel a need to go to the banking offices but rather use banking services electronically. The development of the bank website as a virtual branch is an example of a change in the bank business model driven by technology. A recent publication of Daruvala et al. (2012) observed,

> Recent Analysis shows that over the next five years, more than two thirds of banking clients in Europe are likely to be 'self directed' and highly adapted to the online world. In fact, these same consumers already take advantage of digital technologies in other industries – booking flights and holidays, buying books and music, and increasingly shopping for groceries and other goods by digital channels. We estimate that digital transformation will put upward of 30% of the revenues of a typical European bank in play. We also estimate that banks can remove 20 to 25% of their cost base by leveraging this digital shift to transform how they process and service. Put together, the economics of the digital bank will give it a vast competitive edge over a traditional incumbent. (p. 1)

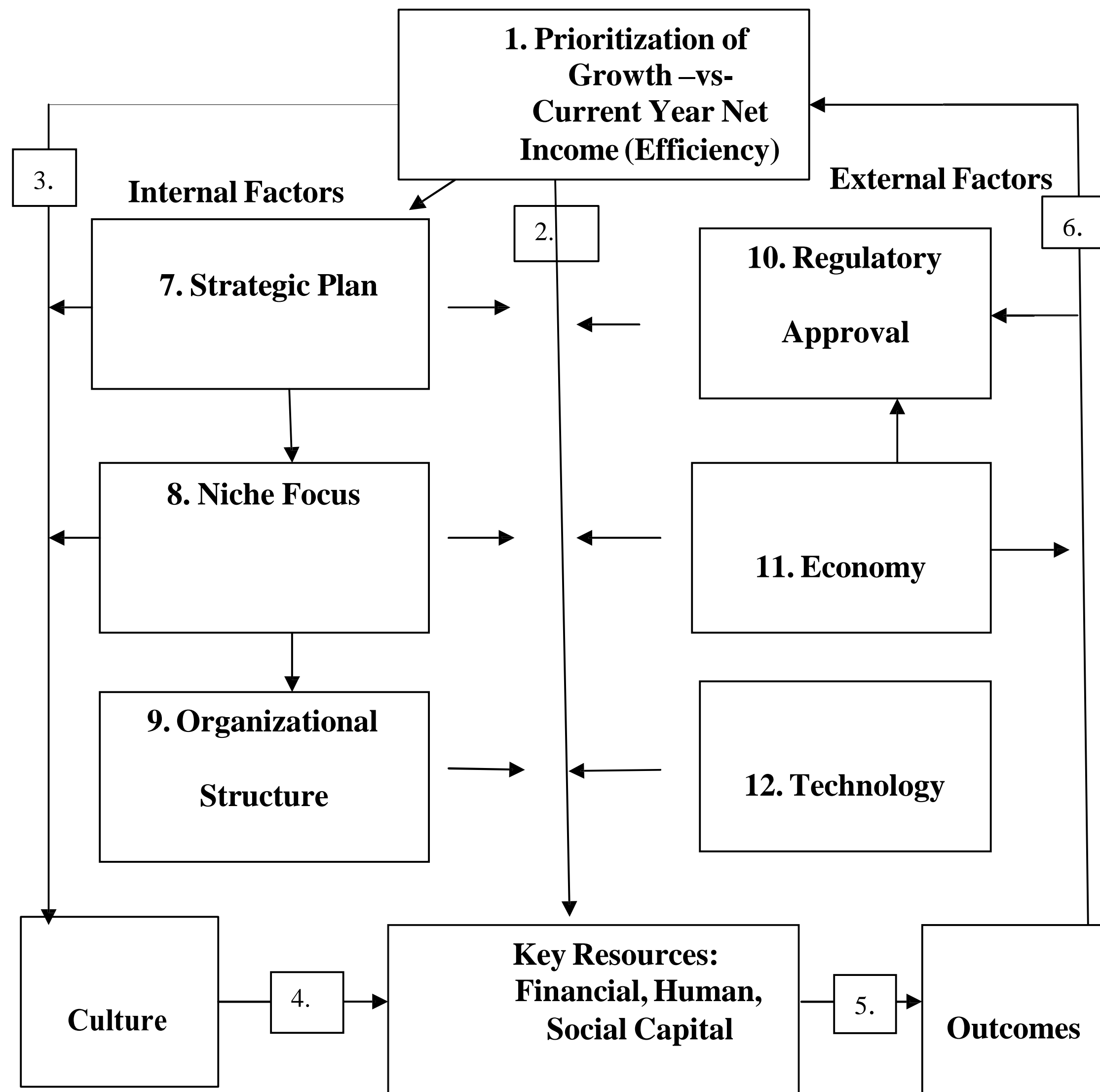
Observations by bank managers included the following:

> Technology is inexpensive unless you don't have it. You should never skimp on technology. Too many things can go wrong if you don't do it right. The cost of your system failing is too high. The technology you buy may determine whether you're building a Chevy or a Cadillac. You really get what you pay for.

Finally, one participant observed that bank leaders have to look like they are providing high quality technological services, noting, "You don't have to be on the cutting edge as long as your customers think you're close."

Key Factors in Development, Utilization, and Changing of a Business Model

Figure 6. Interaction of business model components



Prioritization of Growth Versus Current Year Net Income

1. Prioritization of Growth

–vs- Efficiency (Current

Figure 7. Prioritizing growth versus current year net income

Consistent with the findings of Mangematin et al. (2002), the driving force in the creation and utilization of key resources appears to be how an organization focuses its prioritization of achieving rapid growth versus efficiency or maximizing current year net income. The bank's definition of what constitutes shareholder value is key to its focus. Mangematin et al. defined two types of biotechnical firms: (a) The SMEs that run small projects and target market niches, with a need to maintain profitability to support research; and (b) The SMEs that target broader markets with larger geographical areas, requiring increasing amounts of equity capital to support the growth. This research found a similar divergence of focus. This divergence in community banks appears to run along a continuum from a focus on rapid growth with a reduced level of earnings to maximize current year net income (efficiency) with modest growth. Most banks balance more toward the middle of the continuum. An important consideration in this continuum is the ability of the bank to maintain excellent asset quality in either focus.

Impact of Prioritization Of Growth Versus Current Year Net Income on Development and Utilization of Key Resources

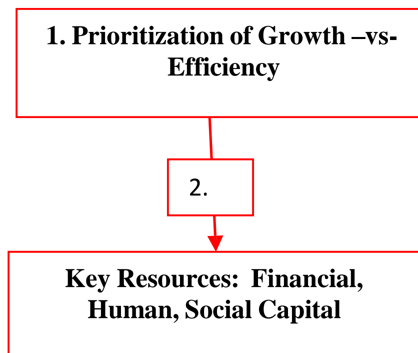


Figure 8. Prioritizing growth versus current year net income and impact on key resources

There appears to be a direct correlation between how fast a company desires to grow and their development and utilization of key resources. The amount of equity capital raised and the number of times it is raised, the number and quality of human resources acquired and utilized, and the amount of social capital developed and utilized all appear to be driven by whether a bank is focused on growth (more in each case) or maximizing current year net income (less in each case).

Impact of Prioritization of Growth –Versus-Current Year Net Income on Culture

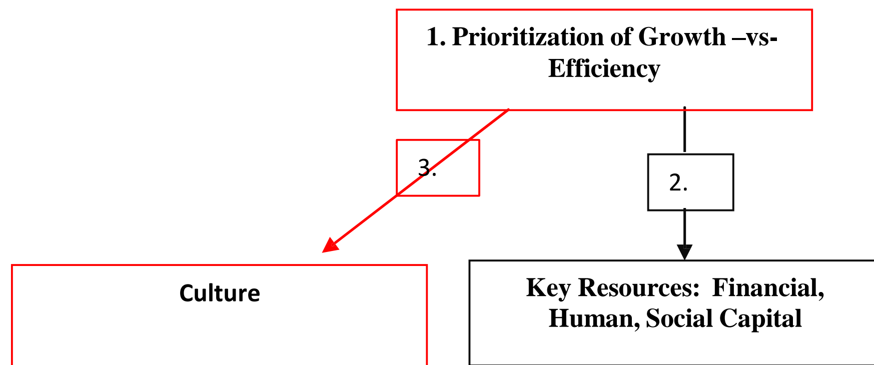


Figure 9. Prioritizing growth versus current year net income and impact on culture

The bank's business model appears to impact the corporate culture. If the bank chooses to focus on growth, the culture will need to include energy and enthusiasm; the communication is more likely to be open; corporate values will include attributes that facilitate growth; aggressive sales will be part of most employees' jobs and a part of the training; and the credit quality will need to be strengthened to manage the growth in a quality manner. If the bank is focused on maximizing current year net income, the culture is likely to be more conservative, cost conscious, slower paced, and communications will likely be more directive than collaborative, and values will focus on hard work and frugality.

Corporate Culture's Impact on Key Resources

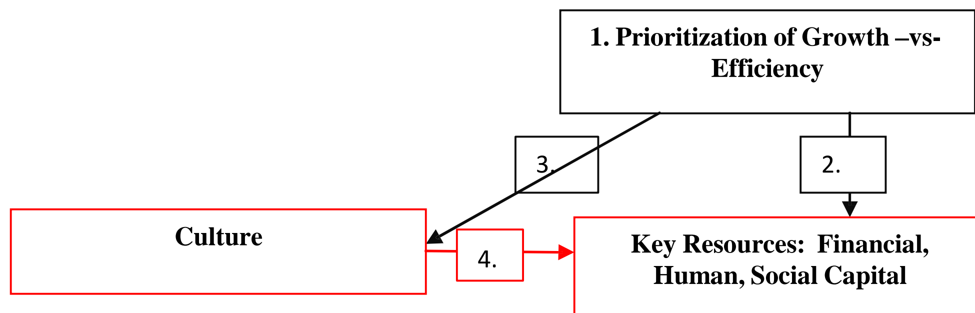


Figure 10. Impact of corporate culture on key resources

Corporate culture appears to drive the utilization of key resources that impact organizational outcomes. While the prioritization of growth-versus- income defines what resources are needed (developed), the culture of the organization will determine how resources are utilized.

Key Resources Drive Outcomes

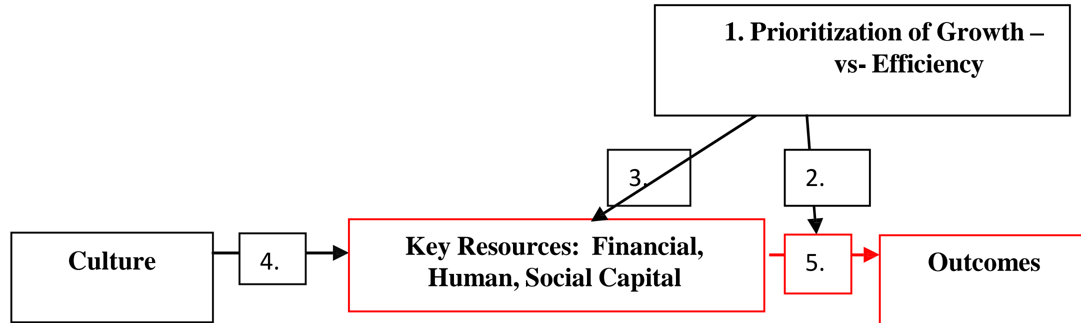


Figure 11. Effect of key resources in driving outcomes

The prioritization of growth –versus- income drives the development of key resources and frames the need for a particular culture. The culture drives the utilization of key resources, and how effectively key resources are developed and utilized drives the outcomes of the firm.

Outcomes of the Firm’s Impact on the Business Model and its Prioritization of Growth –Versus-Income

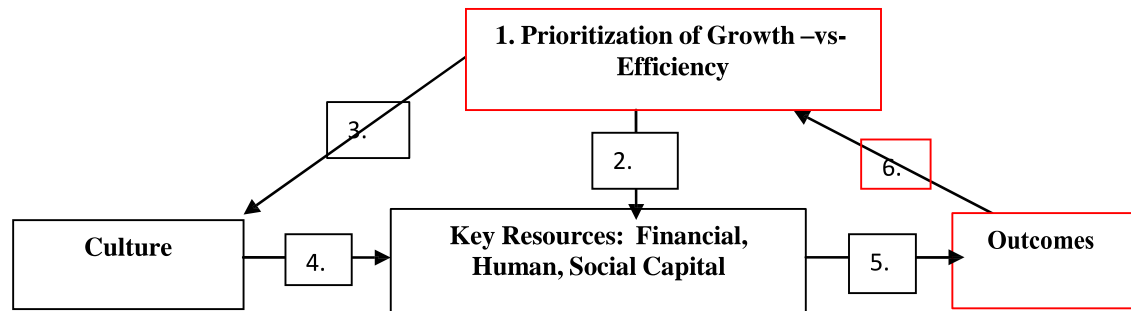


Figure 12. Outcomes of firm’s impact on business model and prioritization of growth-versus-income

As managers of a firm analyze their outcomes to see what is working and what is not, they will make adjustments in the firm’s business model. These may impact the prioritization of growth (which may be going too fast or too slow) and income (greater income may be utilized to increase growth, and inadequate income may result in reduced growth until income increases). If asset quality becomes a problem, both growth and income will be affected. Excellent asset quality will enable increased growth and improved efficiency.

In a model focused on maximizing efficiency, these are the primary factors that work together in defining, utilizing, and changing the firm’s business model. In a model focused on growth (or adaptive change), a more complicated set of internal and external factors impact the business model process.

Internal Factors Impacting the Business Model

Strategic plan.

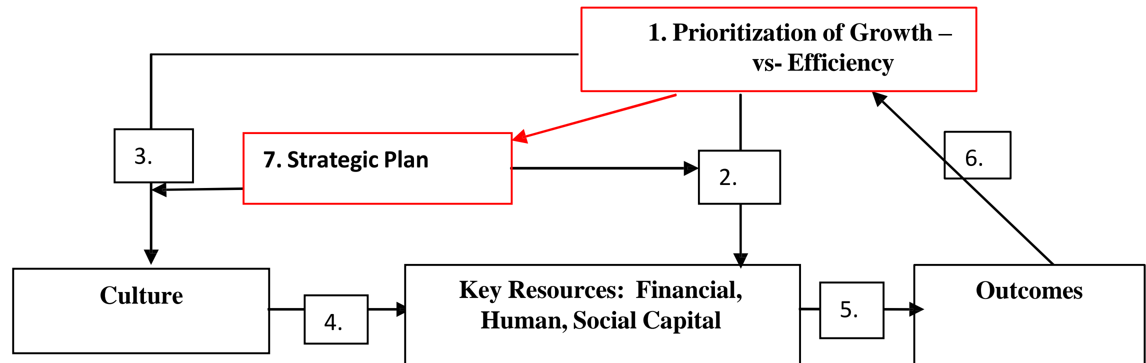


Figure 13. Impact of strategic plan on prioritization of growth-versus-income

Whether or not a bank spends much time and energy on developing and utilizing a strategic plan to impact its development and utilization of key resources and culture appears to depend on whether or not it intends to grow fast and/or significantly change its business model. A rapid growth and/or changing model requires more extensive planning, gaining group buy-in, and utilizing the plan to create focused energy to achieve the desired growth and/or change. Often training, incentives, and controls are important features of strategic plans that help facilitate and manage the growth and/or change.

Consistent with Heifetz (1994), a model focused on maximizing current year net income only requires management to technically improve (change) their utilization of resources in order to maximize current year net income. As a result, there may not be a perceived need for an inclusive strategic planning. As one participant observed, "Some banks need less elaborate strategic plans because they are relying on a very simple and well tested business model." On the other hand, organizations pursuing either rapid growth or other

adaptive changes in their business model will require managers to utilize an elaborate and focused strategic planning process. Management normally utilizes this process to gain stakeholders buy-in (employees, directors, investors, and regulators) in order to manage the conflict and energy inherent in pursuing adaptive change. The strategic plan will have a major impact on both the development and utilization of key resources and the culture. It will also help define the niche focus.

Niche focus.

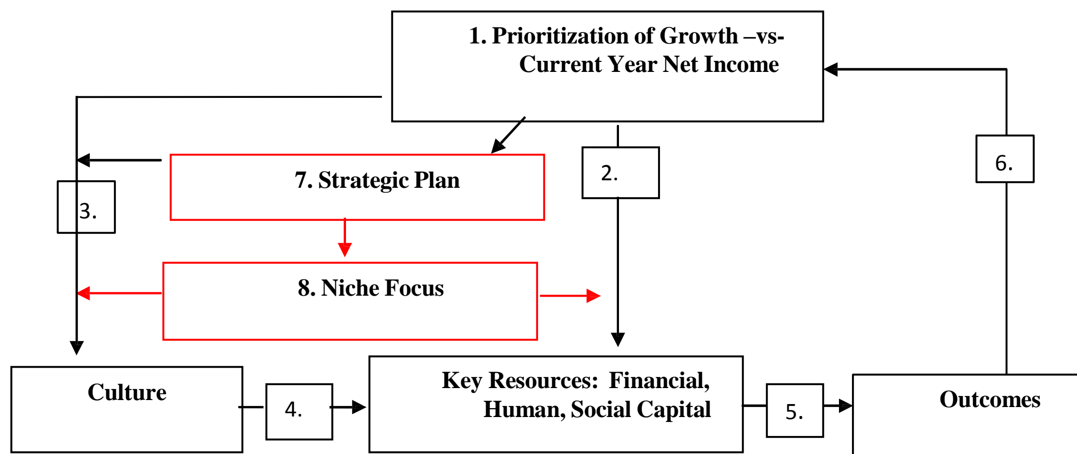


Figure 14. Impact of niche focus on prioritization of growth-versus-income

An organization's strategic plan will define the markets in which they plan to engage and how they will do so. This niche focus will in turn impact the way in which the bank's prioritization of growth or focus on current year net income drives the organization's development and utilization of key resources. For example, a lending-focused bank will define the right type of lenders to be hired, and the prioritization of growth versus current

year net income will define the number and quality of lenders to be hired. Further, the niche focus will impact the organization's culture. For example, if an organization chooses to expand from a rural bank to add an urban focus, the culture will need to shift to incorporate the differences in rural and urban cultures.

Organizational Structure

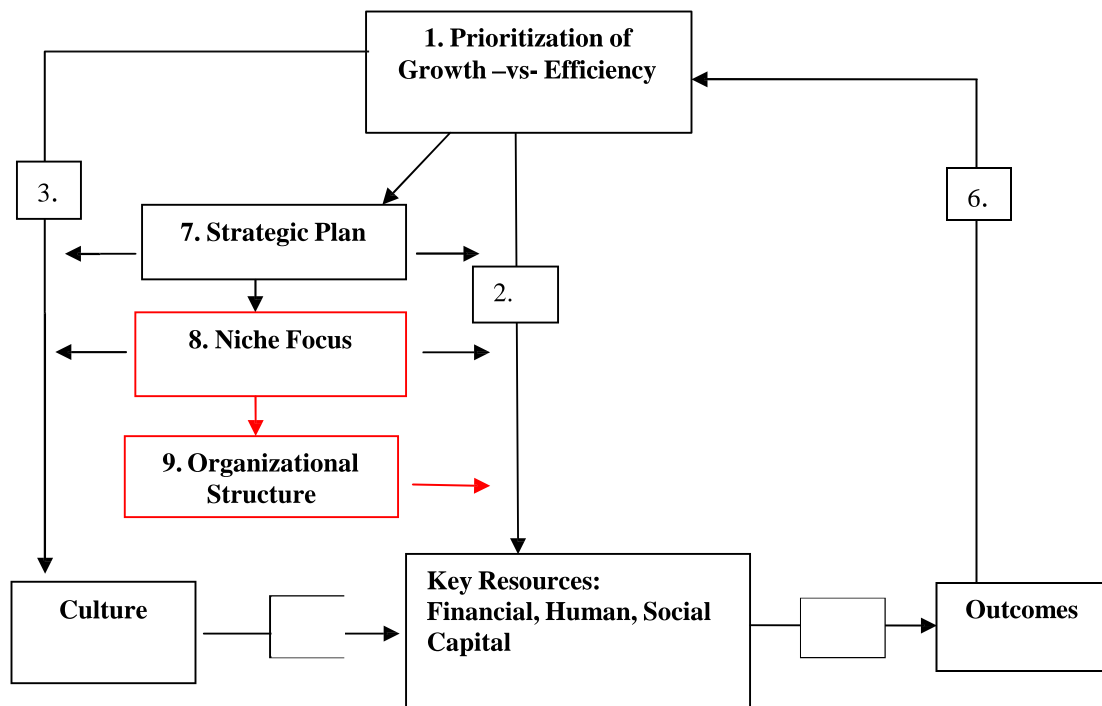


Figure 15. Organizational structure

The manner in which an organization is structured will have a significant impact on its development and utilization of key resources and is impacted (perhaps defined) by the organization's strategic plan and niche focus.

If the organization is focused on growth, it will very likely have a larger organizational structure put in place to maximize the opportunities for growth. If it is focused on efficiency, it will more likely reduce the scope of its organizational structure in an effort

to reduce distractions and eliminate or reduce expenses. In an organization focused on growth, more managers and staff, more investors and equity, more offices and technology are needed. In an organization focused on efficiency, such resources are not. The specific markets in which the organization plans to engage will have a major impact on the organization's structure.

External Factors

Regulatory approval. The regulatory approval process and regulations of the banking industry will impact the manner in which a bank prioritizes its focus on growth versus efficiency. The impact of regulators who are primarily concerned with minimizing risk rather than maximizing value are very likely to negatively impact the bank's growth ambitions and positively impact its focus on efficiency.

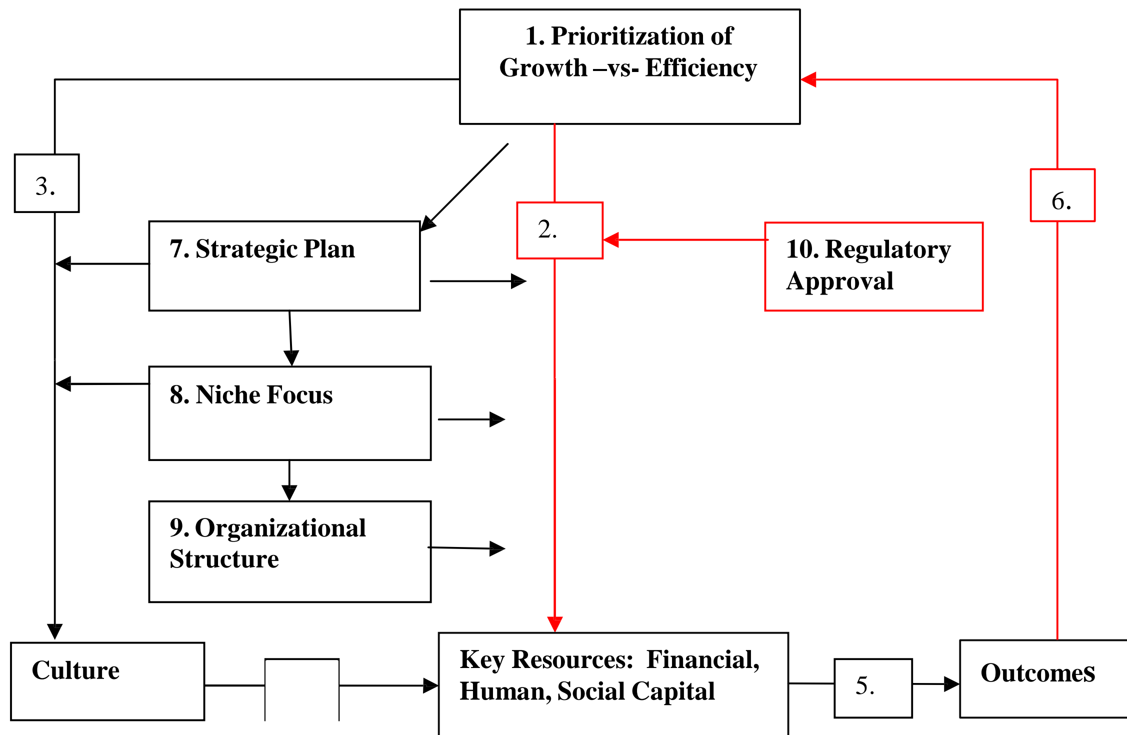


Figure 16. Regulatory approval

The outcomes of the bank will impact its regulatory scrutiny. If the outcomes are good, then the regulators will be inclined to allow the bank to pursue the business model it desires. If the outcomes are not good, then the regulators will very likely require changes in the business model. This requirement will negatively impact the bank's growth aspirations until the bank's outcomes improve. It may result in the bank's shrinking in size so that its existing equity capital supports its size in light of asset quality problems.

The economy. The economy and its current condition will impact a bank's prioritization of growth versus current year net income. In most cases, growth will be negatively impacted by a recession and positively impacted by a growing economy. In a similar manner, it will also impact the bank's outcomes.

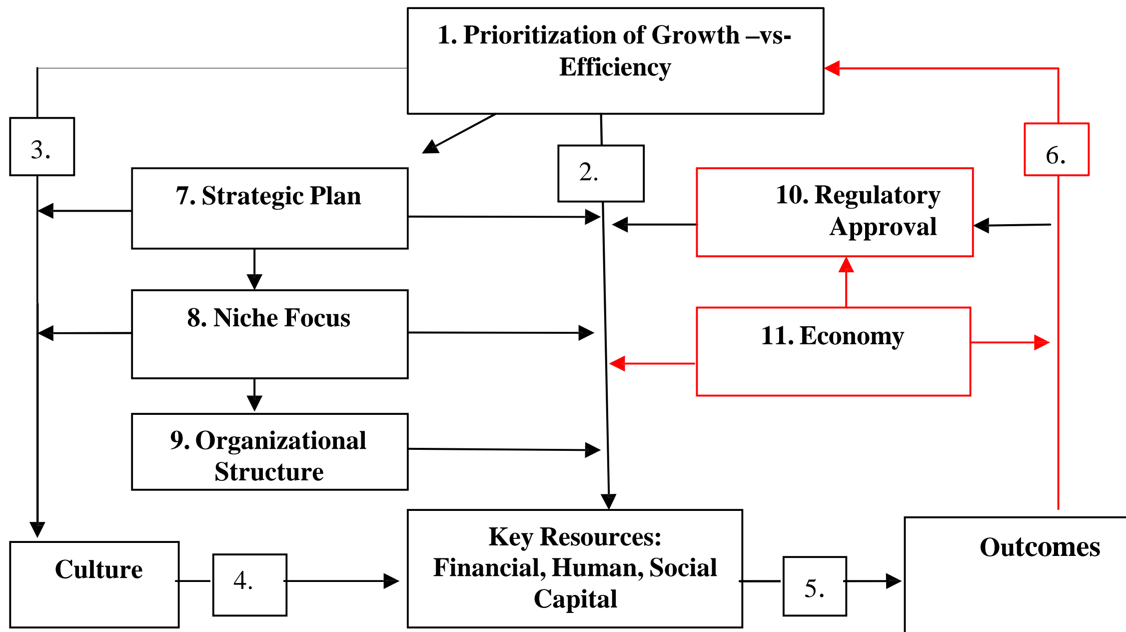


Figure 17. The economy

In addition, the economy has a major impact on the regulatory climate. In a good economy, regulators are more flexible in the approval and oversight process. In a bad economy, regulators are more cautious in approving changes and more critical of any

plans they perceive to increase the risk in the bank (i.e., growth). In addition, in a good economy, legislators are more inclined to deregulate and allow growth. In bad economies, legislators are more inclined to reregulate. These positive and negative changes in the regulatory and legislate climates will impact the bank's business model. Ironically, in a bad economy when the Federal Reserve is trying to make more loans to businesses to fuel economic growth, the regulatory and legislative climates are likely to impact business models in ways that reduce a bank's desire, willingness, or ability to make loans, thus exacerbating the economy's problems. Without regard to regulatory and legislative climates, an adverse economy likely to impact bank management's approaches to developing and utilizing key resources. It is likely to make them more conservative. Conversely, a good economy is likely to make management more optimistic, resulting in increased plans for growth and the development of commensurate resources to cause and manage the growth.

Technology

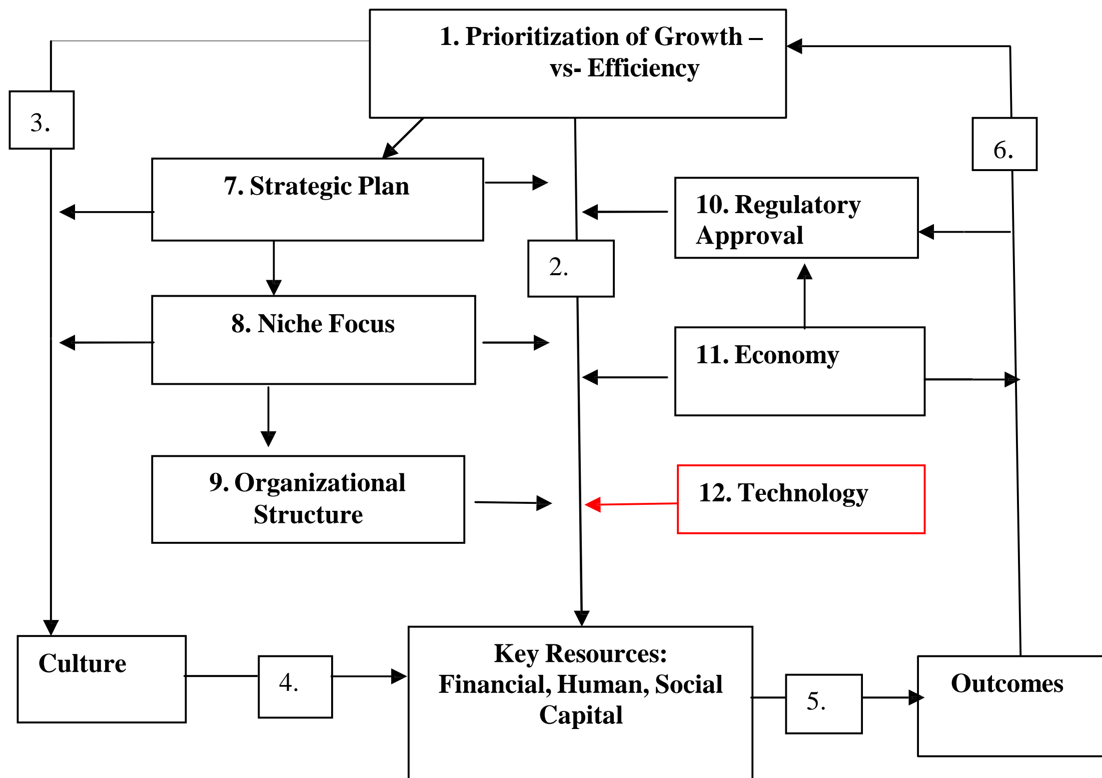


Figure 18. Technology

The dramatically changing technologies of the last 20 years have definitely impacted firms' business models. Internally, use of technology enables a smaller number of people to process a larger volume of work, driving efficiency; the use of laptops and the Internet enables workers to work from sites remote from the corporate offices. Externally technology enables small firms to compete with larger firms in providing services to their customers. Today, the bank's website is a virtual branch and mobile phone apps make it possible for customers to access the bank from anywhere.

Generic Community Bank Business Model

Menu of Options

Introduction. Participants in this study included representatives of banks that utilized a wide variety of components in their businesses models.

a. Five banks were pure de novo banks (new charters) in the Tulsa, Oklahoma MSA between 1984 and 2000. All five banks have been sold either to larger banking organizations or new local investors.

b. Three banks were functionally de novo banks as investors bought rural bank charters and moved their headquarters to Tulsa.

c. Two banks were headquartered in rural Oklahoma and acquired by new investors who left the headquarters in the rural community then expanded the bank's niche focus by branching into Tulsa.

d. Three banks were long established Tulsa metro bank charters that experienced a change of ownership and/or management.

e. Two banks were long established rural banks owned by one extended family over several generations that did not expand into urban areas.

f. In addition, banking industry experts that contributed to the study include five investment bankers, one bank attorney specializing in bank regulatory matters, and one bank regulator.

Definition. A community bank business model may be defined as the stories that bankers tell about the goals (or aspirations) of the stakeholders of their companies and the logic of

how they organized to achieve those goals. These stories normally begin with a discussion of what stakeholders are important to the organization. These may include the investors, the employees, the customers, the communities in which they serve (stakeholder emphasis), and their regulators.

A driving force in how they organize to meet the goals of their stakeholders is how they think about the definition of value. This (or these) definition(s) of value will generally fall along a continuum that has a maximizing efficiency (current year net income) focus on one side and a rapidly growing organization focused on achieving a particular size on another side. Where the company's definition of value falls along this continuum will impact how the company organizes the other components of its business model, which may include culture, development and utilization of key resources, organizational structure, niche focus, gaining regulatory approval, implementing strategy, definition of desired outcomes, and measures of success.

As one participant observed, the manner in which management is compensated and incented will have a major impact on where they think about this continuum of growth versus efficiency. If they have substantial stock options, they will very likely focus on growth, and if their incentives are based on maximizing current year income, they will very likely focus on efficiency.

Choosing to focus on growth or efficiency. In this study,

a. Three banks would be defined as focused on growth, each averaging over $50 million in asset growth per year for either the last 10 years or for the period of time the bank was managed by the participant. Two of these banks were among

the five least profitable banks in the study as measured by average pretax return on average assets. Two of these banks sold in the last 10 years, each achieving market highs in terms of the price paid for their bank as a multiple of its book value.

b. Seven banks would be defined as focused on efficiency, with each growing an average of $10 million in assets or less per year. Five of these were the five most profitable banks in the study as measured by average pretax return on average assets.

c. Five banks would be defined as balancing in the middle, each averaging between $10 and $25 million in asset growth per year and each being in the middle of the pack in profitability as measured by average pretax return on average assets.

Among these bankers, a greater number focused on efficiency rather than growth. A similar number of these bankers focused on creating a balance between efficiency and growth. Factors that affected why they chose to focus on growth, efficiency, or being in the middle included the details presented in the following section.

Raising additional equity capital to support bank's growth to a larger asset size category. Every year a substantial amount of equity capital is raised from private investors to either expand or buy an existing bank or to start a new bank. However, many bankers or bank owners do not choose to raise additional equity capital from new investors and do not choose to invest additional equity capital themselves.

One banker interviewed in this study said he believed the best way to maximize his shareholder's value was to grow at a pace that could be supported by retained earnings

over an extended period of time rather than by accelerating growth by raising additional equity. The sentiment was,

> I want to grow all I can grow to the extent that the current investors get to keep in our pockets. I don't want to work harder to grow more just so I can give it to someone else I don't even know today.

Another sentiment from a different CEO was,

> I can't think about 5 years, 7 years, or 10 years because I've got to get through today. As long as I'm focused on making the black cloud go away, I can't think long term. I want to maximize current earnings because I know I get to keep playing the game.

Still another explaining why he would not raise additional equity capital said,

> That would require me to dilute my ownership and I do not want to do that. Presently, I have control and given an opportunity to make decisions and live with those consequences is very appealing to me. I like being able to sink or swim on my own merits. As long as I'm in control, I can make decisions and suffer the consequences without having to put up with someone else.

One way of analyzing this issue might be to consider whether more value is created by maximizing efficiency in the current size bracket or by focusing on growing to a larger asset size category at a reduced level of current efficiency. On the other hand, one banker observed,

> The best way to maximize shareholder value is to run your business like you are willing to sell. That way you are always thinking about how to do the things that will increase the stock value in the future. If that means raising additional equity capital now to be worth more money tomorrow, that's what you should do.

Stage of life cycle of the bank. Clearly a de novo bank needs to grow to some scale to become profitable. Normally, de novo banks do not begin to earn a net profit until the latter half of their second year or their third full year of operation. As noted by DeYoung (1999) in the early stage of their life cycles, de novo banks focus on growth and do not become normally profitable like a mature bank until about Year 10. The question for a de novo bank to consider is how big it desires to become before focusing on becoming normally profitable—and does the bank have or can it raise enough equity capital to reach that size?

The stage of life cycle issue is also applicable to a well-established bank. Unlike human beings who have only one life cycle to follow (birth, growth, maturity, and death) corporations may go through multiple life cycles. For example, a well established bank may hire a new CEO and/or management team and give them the task of "taking the bank to the next level." In that sense, the well-established banks may behave more like de novo banks in needing to invest in people, systems, and marketing to go to the next level or asset size category. This would be especially true if the well-established bank decided to enter new markets either geographically or by product or service type. In either case, there is the effect of being a start-up organization in the new market.

Another form of changing the life cycle of an organization is the acquisition of another bank. If the bank being acquired is in the same market, then it may involve simply a merger of the two organizations in an efficient manner. If the bank being acquired is in a different market, then the new element of life cycle and cultural issues are more significant. Certainly, for those employees and customers of the acquired bank, it is like beginning again.

Rural bank desiring to increase future value by entering urban market. Three of the banks in this study moved their headquarters from rural to urban communities, and two others expanded the banks from rural to urban communities by branching. Each of these banks required a restructuring of its business model and an investment of additional equity capital, human capital, and social capital to make the successful move or expansion. In each case, short term efficiency was negatively affected as the new offices in urban markets functioned much like a de novo bank, experiencing operating losses for a significant period time until a more mature urban presence was established.

The issue of expansion from rural to urban markets is an important consideration for the long-term value of the stock in the company. The prior analysis of increased value as a function of increased asset size is magnified when considering whether the bank is in a growing market (normally urban) or declining market (normally rural). A recent FDIC report has documented the depopulation of rural areas and the negative impact on rural banks (FDIC Quarterly, 2014). A bank headquartered in a declining rural market might reasonably consider the presentation of data in Table 9.

Table 9

Analysis of Possible Bank Value Based on Asset Size and Location (Rural/Urban)

Asset Size	Rural Market	Urban Market
Over $1 billion[iiii.]	X + 3	X + 4
$500 million to $1 billion[iii.]	X + 2	X + 3
$250 million to $500 million[ii.]	X + 1	X + 2
Under $250 million[i.]	X	X + 1

Note. [i.]If banks stay at their current size in the current market, they are worth X; [ii.]If banks either move focus at their present size to an urban market or expand in their current market, they will increase their future value; [iii.]If banks expand size dramatically in the current market or expand size by growing into an urban market, they create more long term value; [iiii.]The greatest value is created by reaching an optimum size in an urban market. The urban market may also present the best opportunities for growth to a greater size.

Language or metrics used to describe value (ROA). As long as bankers talk primarily about ROA (return on average assets) as the primary definition of success, they are not likely to grow into a new asset category. This is true simply because it is easier to increase a bank's ROA by shrinking its assets (the denominator) and making the same level of income than it is to make an increased ROA while growing level of assets. ROA is primarily a useful measure if a bank does not plan to grow its assets. Then the change in ROA reflects an increasing level of efficiency. When considering the fact that larger banks sell at greater multiples than smaller banks, then a focus on maximizing ROA with little or no growth will not maximize the long-term value of the shareholder's investment and will result in a lower present value of the stock.

Return on equity. A focus on ROE (return on equity) has the same problem in maximizing future value. It may require additional equity capital to increase the size of the bank to a category of greater value. Since the equity capital must be invested before

the growth is achieved, this will result in a lower ROE in the present in order to achieve a higher multiple of stock in a possible future sale.

Growth. If a bank chooses to focus on maximizing its future value by growing to a larger asset category, then one of the important metrics to measure is rate of growth. Therefore, one of the important ways to talk about success was "how are we doing at reaching our growth objective." However, in order to do this, a bank must be willing to go outside the normal discussion in the banking community. In the FDIC's published performance measures, growth is not a category. Each bank must calculate the rate of growth for itself. Similarly banking analysts do not talk about rate of growth as an important factor in evaluating bank performance. In a manner of speaking, if a bank chooses to include growth as an important factor of success, it must move outside the tyranny of the present to speak about the uncertainty of the future. It must also be prepared for additional amounts of regulatory scrutiny, which will need to be addressed by satisfying regulators that the bank has a sufficient level of management expertise, control systems, and equity capital to support the increased growth. However in doing so, the bank will be staying true to the theory of present value based on discounting the future dividends plus future sales price of their stock (Williams, 1938).

Quality. In the banking business (and probably most others), if a company does not have quality assets (primarily loans, securities, and facilities), then it does not have any value. There are a number of regulatory and industry measures of quality that primarily focus on loans. These include percentage of net charge offs to loans, allowance for loan losses to loans, allowance to loan losses to non current loans, non current loans to loans, and non current assets and other real estate owned (usually from bad loans) to assets.

A commonly used simple measure of the quality of a bank's health is known as its "Texas Ratio" or its percentage of non performing assets and other real estate divided by its equity capital plus its reserve for loan losses. The more its Texas Ratio is less than 50%, the healthier the bank's quality, and the more its Texas Ratio exceeds 50%, the worse its health quality.

Whether a bank is focused on growth or efficiency, it is always important to focus on its asset quality. Each of the banks pursuing a rapid growth model in this study described the importance of building outstanding credit departments that were able to insure loan quality during their period rapid growth. Their chief credit officers needed to have a high level of credibility with bank regulations and an adequate staff to manage risk.

Beyond asset quality, the value of a bank's facilities and technology can affect its overall stock value. If they are high quality and well located such that they would be valued by an acquirer in excess of book value, then they add to the stock value. If they are poor quality and/or poorly located and need to be sold or discarded after acquisition, then they distract from the stock value. Evidence of this would be when an acquirer of a bank with several branches closed or sold one or more of the branches after the acquisition because they were not perceived to be good locations, good facilities or both.

Exit strategy or liquidity event. Some bankers do not want to speak about exit strategy. They prefer to think of their company going forward in perpetuity. However, the reality is that each CEO or bank owner will die, and their bank stock will either be sold or transferred to their heirs. So, it is wise to think about factors that will maximize the

stock's future value when either the company is sold or the stock is transferred to heirs. Either way, there will be an exit strategy or liquidity event in the future.

Investors in a bank focused on growth are often satisfied to forgo current year dividends (reinvesting the company's profits in additional growth) expecting to increase the company's stock value in the future. However, these investors usually want to know the bank's exit strategy or plans for a liquidity event in which they can turn their investment into cash at some increased value in the future. Failure to have an articulated timetable for either selling the bank or creating a liquidity event for owners is likely to result in investors focusing on getting current dividends so they can use some of their money now. In terms of thinking of the future, a bank needs to contemplate the possibility of (a) paying significant dividends (which will slow the ability to grow) so stockholders can use part of their money, (b) creating a market for their stock by periodically having a stock sale into which existing investors can sell their stock, (c) growing big enough to go public (probably with $1 billion, or more plus in assets) so that investors who want out can sell their stock, or (d) selling the bank under favorable conditions.

Thinking of an exit strategy does not need to be articulated as a definite timeline like "we will sell in 5 years." Rather, it can be articulated as "we will grow into this size category, then as the economy reaches a certain positive level of performance, we will consider appropriate alternatives to create liquidity in our stock." It can be a flexible exit strategy, not simply a sale by a certain date.

Stakeholder emphasis. Depending on whether a bank's owners are focused on a strategy of emphasizing growth or efficiency, they will very likely have a different story to tell to different stakeholders, as presented in Table 10.

Table 10

Bank's Business Model Story to Audiences based on Growth or Efficiency Focus

Stakeholders	Growth Focus	Efficiency Focus
Investors	More investors, utilizing their social capital to help grow the bank	Fewer investors so they are less distracting to management focused on an efficient use of time
Employees	A larger number of more highly compensated employees	A smaller number of less highly compensated employees
Customers	More willingness to negotiate rates and terms	More focus on maximizing profitability
Community	More focus on lending to impact community	More focus on bonds to impact community
Regulators	More focus on strong internal controls and use of external audits; willingness to raise equity capital to support growth	More focus on strong capital ratio from retained earnings; maximizing current income and controlling or limiting growth

Culture. In developing and nurturing a culture, some items may be driven by growth versus efficiency, while others may not. Elements that may be driven by whether ones' focus is on growth or efficiency include those presented in Table 11. Elements that may not be driven by growth or efficiency include corporate values; family, both overall fully functioning family environment and whether or not members of the same family may work together; and spirituality in the work place.

Table 11

Elements of Culture Impacted by Growth or Efficiency Focus

Category	Growth Focus	Efficiency Focus
Communication Style	More open and inclusive	More directive
Training	Compliance plus sales	Compliance
Outlook/posture	Aggressive	Conservative
Credit quality	Stronger more complex analysis and control and broader range of interest	More limited scope of interest with fewer people in analysis process

Organizational structure.

Table 12

Potential Impact of Focus on Growth or Efficiency on Organizational Structure

Category	Growth	Efficiency
Size of investor group	More (50 or more)	Less (30 or less)
Size of Board of Directors	More (10 or more)	Less (less than 10)
Size of management team	More (5 or more)	Less (3 or 4)
Focus of Control	Inclusive/Empowering	Top down
S Corp/C Corp	C Corp (more investors)	S Corp (less investors)
Number of offices	More	Less
Number of markets served	More	Less
Use of technology	To assist in maximizing sales opportunities	To make more efficient

Niche focus.

Table 13

Elements of Niche Focus Impacted by Focus on Growth or Efficiency

Category	Growth	Efficiency
Locations	Growing urban Market(s)	Declining rural or urban market
Major investments	Loans	Bonds
Loan Specialty	Niche focused plus large real estate loans, larger range of types of real estate loans	Everything to everyone plus a smaller number of specialties
Funding	Core deposits plus wholesale funding from brokered deposits and FHLB	Primary core deposits

Gaining regulatory approval.

Table 14

Potential Impact on CAMEL Rating of Focus on Growth or Efficiency

Category	Growth	Efficiency
Capital	Plan on raising more capital	Grow within existing capital
Asset Quality	Stronger independent credit department and external loan review	Credit and lending may be managed by one person with limited staff
Management	More managers who can specialize	Fewer managers who wear more than one hat
Earnings	Lower ROA & ROE and higher efficiency ratio	Higher ROA & ROE; and lower efficiency ratio
Liquidity	Use of wholesale funding plus sophisticated analysis of core funding	Higher percent of stable core deposits
Systems	More sophisticated asset/liability management	More basic ALCO management

Generally speaking, the faster a bank grows, the stronger and more sophisticated its systems must be in order to insure quality control. The more focused a bank is on efficiency and quality with modest (or no) growth, the less scrutiny it will experience from bank regulators.

Implementing strategy.

Table 15

Impact on Implementing Strategy of Focus on Growth or Efficiency

Category	**Growth**	**Efficiency**
Strategic Plan	Inclusive process actively utilized	Directive process if at all – may not utilize a strategic plan
Training	Compliance plus sales	Compliance
Incentives	Tied to sales	Often not utilized except for CEO tied to profitability
Controls	To reinforce quality growth	To contain expenses

Impact on resource development and utilization.

Table 16

Impact on Resource Development and Utilization of Focus on Growth or Efficiency

Category	Growth	Efficiency
Equity capital	More; raised more often	Less; limited offering
Human capital	- More highly compensate people with incentives tied to performance. - More managers who have time to focus on specific organizational needs or goals. - More use of outsourced professional resources used more often	- Fewer less highly compensated people/fewer incentives - Fewer managers with each wearing multiple hats - Less use of outsourced professional resources
Social capital	More focus on utilizing investors and directors social networks for marketing More advertising and building of brand recognizing	Less involvement from investors and directors in marketing Less advertising

Impact on outcomes.

Table 17

Impact on Outcomes of Focus on Growth or Efficiency

Category	Growth	Efficiency
Growth	Faster growth	Less or no growth
Efficiency/Current Net Income	Less efficiency and lower current net income	Great efficiency and higher current net income
Asset Quality	More complex to measure requiring stronger systems	More easily measured/monitored
Culture	Aggressive; more opportunity for advancement. Organized to empower and energize	Conservative; limited opportunity for advancement. Organized to control expenses and maximize net income

Creation of the Business Model

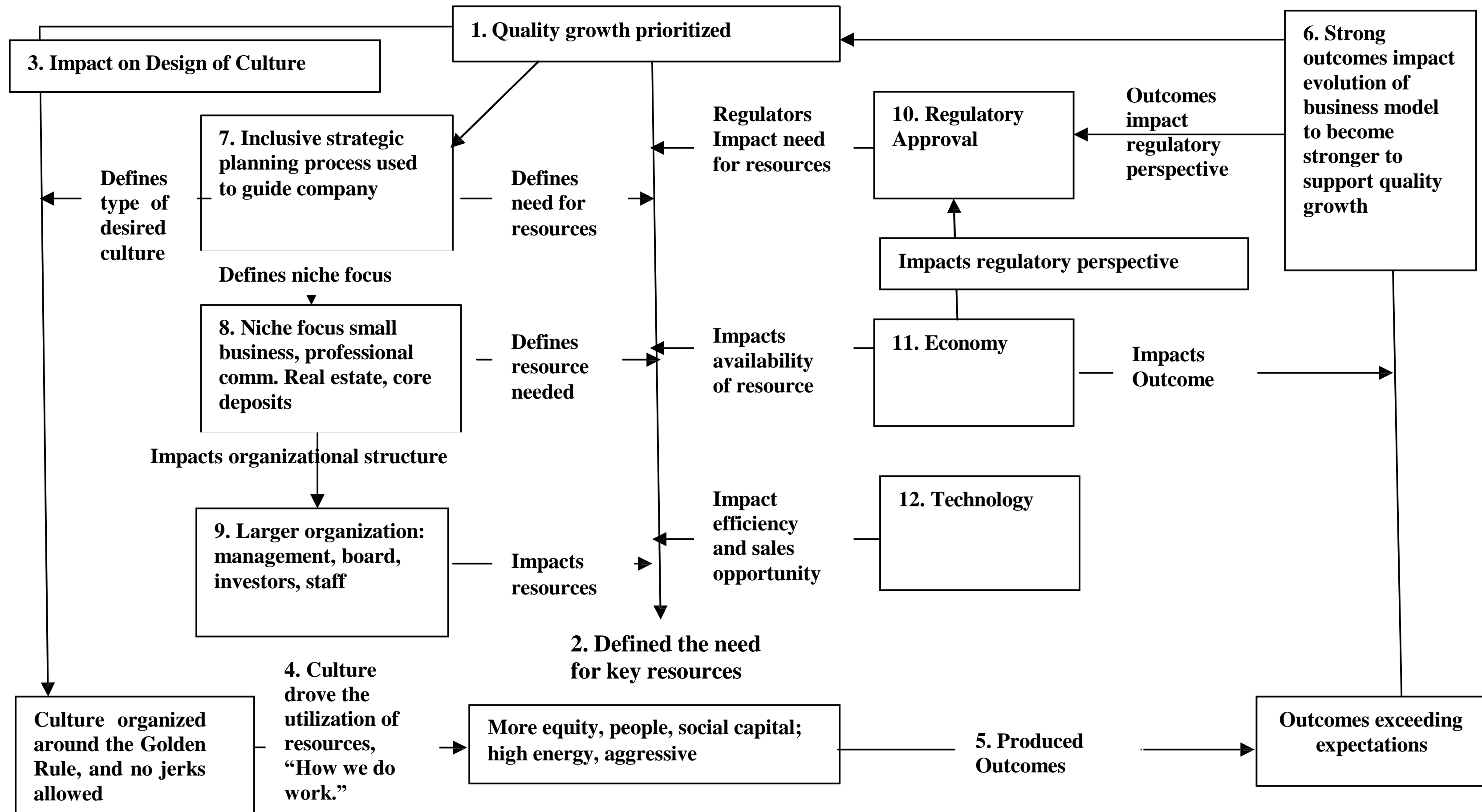


Figure 19. Interaction of business model components in community bank context

First Oklahoma Holdings, Inc. (FOH) was started in 2008 for the purpose of charting a new bank or buying an existing bank. In November 2009, FOH bought Glencoe State Bank (the third smallest bank in Oklahoma located in Glencoe, Oklahoma, population 601) and immediately moved its headquarters, opening two full service banking offices in Tulsa, Oklahoma. The bank's new name was First Oklahoma Bank (FOB).

The organizers of FOH/FOB were veteran bankers who had previously organized, built, and sold ONB Bank in Tulsa between 1999 and 2007. Many elements of the FOB business model were adapted from the ONB business model. In the organizational meetings of the FOB organizers, the participants asked themselves:

1. What had worked in their prior organizations that should be replicated?
2. What did not work in their prior organizations that should be avoided or corrected?
3. What needed to be added to the model that had not been done before?

Everyone participated in the open planning process and in bringing the plan to life. From these early meetings, a strategic framework was developed that became the format used to describe the business model to regulators, potential directors/investors, and potential staff members. The original framework looked much like the frame of ONB, which all parties perceived to have been a very successful and exciting adventure.

The overarching value of the group was to treat others as they would want to be treated. The framework included a vision of building a bank with $500 million in assets, earning $5 million net income per year, having 100 employees, and making a positive difference

in the community within 10 years. It described the mission of the company as seeking to improve the economic well-being and quality of life of all of the company's stakeholders, whom it defined as investors, employees, customers, the communities the bank serves and the bank's regulators. The framework also included a plan to implement the model over the next 1, 3, and 5 years.

Key changes in the business model that had been used to build ONB included the following:

1. A strong credit department was created before the bank began, rather than 3 years into the bank's growth, as ONB had done. It was determined that a rapidly growing bank needed veteran credit personnel who kept the bank focused on only high quality credits, identifying what risks were acceptable and what were not. At ONB, it had initially been believed that veteran leaders could manage the credit process and the loan growth process at the same time. However, at ONB, it was found that people in charge of rapid growth have a hard time also focusing on excellent credit quality. These are two distinct and sometimes conflicting priorities. While this tension might be managed by one person in a slow growing bank, it needed two strong personalities with excellent experience in a rapid quality growth model.

2. ONB had created one new branch every year for 5 years. The FOB organizers decided a better model was having only two offices serving distinct markets in the metro area, supported by a free courier service for the commercial depositors.

This was a less expensive and possibly more customer friendly model than building multiple branches.

3. ONB had opened in a strong economy, and a major focus of its lending was real estate construction and development lending. FOB opened in the bottom of a recession and believed there was an oversupply of developed real estate on the market. As a result no development loans were made in the bank's first 4.5 years. Construction loans were limited to a small "bucket" and were primarily either custom home loans or a few spec loans to veteran home builders.

4. ONB had made a few commercial real estate loans on land leased to the U.S Government (mostly U.S. Post Offices). But this was not a major part of the ONB model. FOB realized this was a specialty type of lending with low risk, in which very few banks were involved and made these loans a major part of its niche focus.

5. It was believed that ONB had a very good culture that should be substantially replicated. However, key changes to the culture were to make it a family-friendly work environment, (where multiple members of a family could simultaneously work for the bank) and to institute a clear policy of "no jerks allowed." At ONB, the issue of families working together had been a major point of dispute. The focus on "no jerks allowed" was to emphasize that rapid growth could best take place in a positive, collegial environment and people who were behaving as jerks simply created distracting drama that slowed everything down.

6. ONB was a totally new bank (de novo) charter. FOB was the product of investors buying a small community bank and moving its headquarters to a metropolitan area (Tulsa, Oklahoma). As a result, FOB started with a rural bank element to its model (the original home of the rural bank) that ONB did not have. However, regulators treated FOB as a de novo bank and for all practical purposes; the start-up process for FOB in Tulsa was similar to ONB's.

7. ONB was chartered following a series of legislation in the 1990s designed to deregulate the banking industry and the regulatory environment was more relaxed. FOB purchased GSB in the midst of the economic recession of the last few years and the passage of major new legislation designed to reregulate banks (i.e.: Dodd-Frank) that created significantly greater regulatory compliance issues for FOB than ONB had faced.

Changes in the business model from a slow growth rural bank to a rapid growth urban bank.

Table 18

Comparison of Changes in Financial Outcomes Between Glencoe State Bank (GSB) September 30, 2009, and First Oklahoma Bank (FOB) December 31, 2009

	9/30/2009 (GSB)	12/31/2009 (FOB)	$$ Change	% Change
Total Number of Offices	1	3	+2	+200%
Number of Employees	6	35	+ 29	+ 483%
Average Annual Total Compensation per employee	$37K	$77K	+$40K	+ 108%
Total Assets	$10.4M	$41.8M	+$31.4M	+ 302%
Net Loans	$4.6M	$13.6M	+$9M	+ 196%
Liquid Investments	$6.8M	$33.8M	+$27M	+ 147%
Fixed Assets	$.05M	$2.7M	+$2.65M	+ 5300%
Total Deposits	$8.6M	$29.1M	+$20.5M	+ 238%
Non-interest bearing deposits	$3.4M	$5.7M	+$12.6M	+68%
Interest Bearing Deposits	$5.2M	$23.4M	+$18.2M	+350%
Equity Capital	$1.8M	$12.7M	+$10.9M	+1397%
Composition of Loan Portfolio				
Construction and Development	$4.7M	$.2M	- $.5M	- 71%
Commercial Real Estate	$.1M	$2.5M	+ $2.4M	+2400% 1-
4 Family Real Estate	$.7M	$3.6M	+$2.3M	+ 414%
Agriculture	$.5M	0	-$.5M	
Commercial and Industrial	$.6M	$4.9M	+$4.3M	+7,166%
Consumers	$1.8M	$2.3M	+$.5M	+28%

Clearly, a major change in the business model had taken place from GSB to FOB in less than 90 days. Those changes included more offices, a larger number of more highly compensated employees (human capital), rapid growth as a focus, change in niche focus both geographically (with two new offices in Tulsa) and in type of loans (less construction, development and agriculture loans, and more commercial real estate, 1-4 family, and commercial and industrial loans) as well as deposits (substantially more interest bearing deposits). All of these changes are attributed to new owners, new managers, and new regulatory approval. FOB was no longer the Glencoe State Bank that had been chartered in 1923 and grew to $10.4 million in assets in its first 86 years with only six employees. For all practical purposes FOB was a new bank.

Impact of a quality growth model on development and utilization of key resources.

FOB's business model began with the premise that maximizing long-term shareholder value was best accomplished by achieving constant, strong growth with excellent loan quality and by increasing net income, year after year. This approach was believed to be better than a focus on maximizing current year net income (efficiency). This business model had served the investors of ONB very well as they invested $25.00 per share in December 1999 and sold for $100.00 per share on March 31, 2007. As a result, in 2009 when the organizers of FOB began to talk with prospective investors in the new bank, the story line was, "We are going to substantially pursue the same business model as before, adding what was learned from 2000 to 2007, and adjusting for the difference in the economies of 2000 and 2009. We will do more of what worked, less of what didn't, and add our best new thoughts to the model."

Key differences and similarities in the start-up model between ONB and FOB were:

1. Equity capital: Both banks raised equity capital three times in their first five years. ONB raised $18 million, and FOB raised $36 million. ONB utilized Trust Preferred Stock in the holding company to provide an additional $8 million in equity for the bank. FOB has not yet utilized non equity capital in the holding company to support the bank.

2. Human capital: Both ONB and FOB hired a full management team in the beginning to be able to achieve rapid growth. Thirteen of the initial 14 staff members of FOB bank had previously worked at ONB, many of them in the same roles they had before. The comparison of employees at each year end between ONB and FOB Banks is shown in Table 18.

   The difference in the number of employees resulted for the following reasons. First, FOB had more employees at the beginning as a result of a full credit department and three full services offices, with ONB not yet having a credit department and having only one full service office at the end of year one. Second, the number of employees at ONB grew more rapidly than at FOB as the bank opened new branches in the third and fourth year. Finally, the outsourced professional services (attorneys, accountants, and other consultants) utilized by FOB were nearly identical to those used by ONB, representing both confidence in their expertise and responsiveness (human capital) and good working relationships (social capital).

Table 19

Number of Employees at the End of Each Year for ONB and FOB

Bank	Year 1	Year 2	Year 3	Year 4
ONB	25	34	60	80
FOB	35	39	60	76
Difference	+10	+5	Same	-4

3. Social capital: ONB started with 110 investors and 14 directors in 2000. FOB started with 180 investors and 17 directors in 2009. A high percentage of the FOB investors had been investors in ONB. In both cases, the bank organizers had first defined the target markets they wanted to serve in making loans and gathering deposits and then identified potential investors who were centers of influence in these target markets. The idea was the bank not only wanted those investors' equity investment but also their personal banking business and their influence (social capital) in these targeted markets. The initial directors of both banks were solicited for their business acumen (human capital), financial investment (most were large investors), and their social capital. It was the organizers' experience that the reputations and relationships of those who served on the Board of Directors made a big difference in who invested in the bank and who chose to do business with the bank.

At FOB, nine founding directors have at one time also been ONB directors. Four more FOB directors had been investors, but not directors at ONB, bringing the total to 13 directors who had previous relationships with ONB. This is a representation of a very

high level of social capital. These directors and bank managers had very positive working relationships. The four new directors who had not previously been associated with ONB represented new areas of expertise (human capital) and new networks of relationships (social capital).

Rationale of Rapid Quality Growth Explained to Investors

The bankers' rationale for why they pursued a business model focused on rapid growth rather than current year net income was written to the investors in a memorandum prior to the bank's second stock offering. The basic rationale was explained as follows in this excerpt from that memorandum to investors:

> When we organized our banking company in 2008, we set a goal of building a bank with $500 million in assets within 10 years (by 12/31/19). This is a very different rate of growth than most banks. The primary reason we are pursuing a different strategy than other banks is that we believe that a rapidly growing bank will make more money for its investors over time than a slow growing bank. A good way of describing our Business Model is that we purposefully strive to achieve consistently strong growth in loans and other services year after year in order to maximize long-term shareholder value.
>
> In the banking business, the primary source of income is interest income from loans. In order to significantly increase income year after year, to improve annual return on investment, and to maximize the bank's future revenue stream (which creates shareholder value), you must consistently grow a high volume of high-quality, well-priced loans. That is the hardest thing to do in banking. The

banking organization that achieves this objective with the most success will create the most future value. We will demonstrate this principle in this paper.

Why is growth important? Some people argue that growing more slowly will make more money for a banking company. In the short term that is often true. Growth becomes important if you have a longer-term view of creating value.

In the following chart, you will see four different growth strategies or business models. The base line is a $150 million bank. The outcomes would be the same whether the bank had $50 million in assets or $1 billion. This $150 million base line was chosen as it is approximately the size First Oklahoma Bank will be as we reach September 30, 2011.

Business Model 1 The bank's rate of growth is 3%, and it earns a 1.4% ROAA (Return on Average Assets).

Business Model 2 The bank's rate of growth is 7.0%, and it earns 1.2% ROAA.

Business Model 3 The bank's rate of growth is 11.0%, and it earns 1.0% ROAA.

Business Model 4 The bank's rate of growth is 15% and it earns a .80 ROAA. This is a hypothetical fast-growing bank. It should be noted that First

First Oklahoma Bank is growing much faster than 15% per year.

The implicit assumption in each scenario is that the faster a bank grows the lower its expected ROAA will be. This is true for two primary reasons:

1. The denominator (average assets) is higher in the faster growing bank. As a result, if the slower growing bank and the faster growing bank earn the same amount of money, the slower growing bank will have a higher ROAA because its denominator is lower.

The faster growing bank will need to spend more money on staff and may have a narrower interest margin, as it needs to bid higher on funds to gather more money.

2. The faster growing bank must charge current earnings by at least 1.0% for each dollar of loan growth in order to build a regulatory acceptable reserve for possible loan losses. As a result, a bank with only $10 million in annual loan growth will only have to add $100 thousand to their reserve for loan loss, whereas the bank with $40 million in loan growth will have to add $400 thousand to their reserve for loan losses. Both are charges to income. By growing more slowly, the bank with $10 million in loan growth had $300 thousand less in expenses for their reserve for loan loss. It is important to note that building a reserve for possible loan losses does not mean there are actual losses. Over time, the average loan losses per year in a normal economy are about .25% to .30%. So, the 1% reserve for new loan growth is actually much higher than probable future losses in normal economic time.

Table 20

Four Business Model Growth and Earnings Scenarios

Starting Size for all Banks is $150 million	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Total First 5 Years**
Business Model #1 Rate of Growth 3%, ROAA 1.4%						
Year End Total Assets	154.5	159.1	163.9	168.8	173.9	
Average Assets	152.3	156.8	161.5	166.4	171.4	
Net Income	2,132	2,195	2,261	2,329	2,399	11,316
Business Model #2 Rate of Growth 7%, ROAA 1.2%						
Year End Total Assets	160.5	171.7	183.8	196.6	210.4	
Average Assets	155.3	163.5	177.8	190.2	203.5	
Net Income	1,863	1,962	2,133	2,282	2,442	10,682
Business Model #3 Rate of Growth 11%, ROAA 1.0%						
Year End Total Assets	166.5	184.8	205.1	227.7	252.8	
Average Assets	158.3	175.7	194.9	216.4	240.3	
Net Income	1,583	1,757	1,949	2,164	2,403	9,856
Business Model #4 Rate of Growth 15%, ROAA .80%						
Year End Total Assets	172.5	198.4	228.1	262.4	301.7	
Average Assets	161.3	185.5	213.3	245.3	282.1	
Net Income	1,290	1,484	1,706	1,962	2,256	8,698

(table continues)

Starting Size for all Banks is $150 million	Year 6	Year 7	Year 8	Year 9	Year 10	Total 2nd 5 Years	Total 10 Years
Business Model #1 Rate of Growth 3%, ROAA 1.4%							
Year End Total Assets	179.1	184.5	190.0	195.7	201.6		
Average Assets	176.5	181.8	187.3	192.9	198.7		
Net Income	2,471	2,545	2,622	2,700	2,781	13,119	24,435
Business Model #2 Rate of Growth 7%, ROAA 1.2%							
Year End Total Assets	225.1	240.8	257.7	275.7	295.0		
Average Assets	217.8	233.0	249.3	266.7	285.4		
Net Income	2,613	2,795	2,991	3,200	3,424	15,023	25,705
Business Model #3 Rate of Growth 11%, ROAA 1.0%							
Year End Total Assets	280.6	311.4	345.7	383.7	425.9		
Average Assets	266.7	296.0	328.5	364.7	404.8		
Net Income	2,667	2,960	3,285	3,647	4,048	16,607	26,463
Business Model #4 Rate of Growth 15%, ROAA .80%							
Year End Total Assets	347.0	399.0	458.9	527.7	606.8		
Average Assets	324.4	373.0	429.0	493.3	567.3		
Net Income	2,595	2,984	3,432	3,946	4,538	17,495	26,193

Analysis of the four business model growth and earnings scenarios.

1. At first, the slowest growth and highest ROAA bank produces the highest net income.

2. In the first 5 years, Bank 1 produces the highest combined net income.

3. However, at the end of Year 5, Bank 1 has only $173.9 million in assets and Bank 4 has $301.7 million in assets.

4. In Years 6 - 10, Bank 1 earns the least amount of money each year, cumulatively for the last 5 years, and cumulatively for all 10 years. It also results in only a $201.6 million bank compared to Bank 2's $295 million, Bank 3's $425.9 million and Bank 4's $606.8 million.

5. In order for Bank 1 to reach Bank 2's total assets in year 5, it would need to buy a $36.5 million bank. Assuming the bank being acquired had 8% capital ($2.9 million) and Bank 1 paid a historic average multiple of book for banks acquired (2.00 X book), then Bank 1 would pay a $2.9 million premium for the acquired bank. If this $2.9 million premium were subtracted from its cumulative $11.31 million in earnings over 5 years, then its net cumulative earnings would be only $8.4 million. This would not only make it the smallest of the four banks (before acquisition), but also the least profitable.

6. If Bank 1 wanted to reach the $301.7 million in assets of Bank 4 in year 5, it would need to acquire a $127.8 million bank. At 8% capital ($10.224 million) and a 2.00 X book, purchase price would be $20.448 million and the premium

paid would be $10.224 million. If the $10.224 million were subtracted from Bank 1's $11.3 million in cumulative earnings over 5 years, then Bank 1 would have only earned $1.1 million. This compares poorly to the $8.7 million in cumulative earnings in Bank 4 over 5 years. It even compares poorly to Bank 4's $2.3 million in earnings in year 5. By this analysis, internally generated growth at a lower current ROAA is much less expensive than acquired growth.

7. Obviously, if you look out an additional 10 years, the case for growth is much stronger. If at the end of 10 years, you chose to sell the four banks and you were paid 20 times (X 20) the prior 12 months net income for the banks, the value of the four banks would be as shown in Table 21.

Table 21

Value of Banks in Four Business Models' Growth and Earnings

BANK	**EARNINGS IN YEAR 10**	**X 20**	**VALUE**
Bank 1	$2,781,000	X 20	$55,620,000
Bank 2	$3,424,000	X 20	$68,480,000
Bank 3	$4,048,000	X 20	$80,960,000
Bank 4	$4,538,000	X 20	$90,760,000

8. Using this theoretical analysis, it would be much better to own stock in Bank 4, than any of the other banks, especially compared to Bank 1, which is the slow steady growth model focused on maximizing current year's earnings. Investing for growth (Bank 4) yields much greater shareholder value over time.

9. It should be noted that when we sold ONB Bank in 2007, it was at 2.95 times the book value and 30 times the prior 12-month's earnings. If you used either of these measures to evaluate the four business models, the greater value of the rapid growth model would be even more dramatic".

Stakeholder Emphasis

The way the story of the business model of First Oklahoma Bank was presented depended upon the nature of the audience addressed. It was the same as explaining the logic of the firm, but different points of the story were of interest to different groups of potential stakeholders.

Emphasis for investors. With potential investors in FOB it was emphasized that the model planned on maximizing long term shareholder value by growing to a bank of $500 million in assets that would be earning $5 million in net income with 100 employees and excellent loan quality in 10 years. There would be no dividend paid for the first 10 years; all earnings were to be retained in the company to support additional growth. The financial perception of value to investors was that their stock would rise in value as the company grew to scale. In addition, as the economy recovered, it was believed that all bank stocks would rise in value. Therefore, FOB stock would increase in value both because of its performance (growth, quality, earnings) and because all bank stocks were likely to improve in value as the market perceived bank problem loans declining and profits rising (increasing their financial capital).

In addition to buying a stock that was expected to rise in value, investors were given a vision of the role a community bank can play in the economic development of a city and

state. Their bank would help provide loans to small business that would create jobs and provide needed products and services in the community. Their bank would also provide home loans, so that family and friends would be able to pursue the American dream of home ownership. Their bank would also pay market topping rates on CDs and money market accounts for them and their friends, as well as very friendly customer services, such as free ATM services at any ATM anywhere in the world and free courier service for business accounts.

They were also told that management would seek to better acquaint investors with their fellow investors through social gatherings and community service projects. As one investor described it, “You mean it’s like buying stock in a country club where I also make money.” It appealed to their desire to increase their social capital. As a result, the rationale to the investors was that this bank was a way to make money, make friends, and make a difference in the community. It was supported by using the success of the ONB journey as a reference point.

Investors have been kept informed about the bank’s progress through a quarterly publication called *Talking Points* and through a number of stockholder meetings and other events.

Emphasis for employees. Potential employees at FOB were educated about being able to build long term value for themselves in a rapid growth business model that would start with about 25 new employees in 2009 and increase to 100 by 2019. This would create opportunities for achievement of their career aspirations. The bank also provided about average base salaries with incentives to earn substantially more than average as well as an

excellent employee benefit program. However, the major selling point of the FOB story to potential employees was its culture. The culture was framed by its overarching value of treating others as they want to be treated, working toward its goal of “maintaining a culture where each employee can get up in the morning and go and succeed at work they enjoy with their friends.” This is accentuated by the final corporate value: “There are no jerks allowed in this company”.

The selling attributes to prospective employees described a rapid growth company with better than average pay, excellent benefits, and a great culture. Employees were told at staff meetings of the bank’s vision of the future and the importance of their role in making that vision become reality. Employees were encouraged to see themselves as part of building a company that was doing great things.

Emphasis for customers. Customers at community banks like FOB broadly fit into two groups: depositors and borrowers. At times, people fit into both categories.

The bank’s largest depositors are usually older citizens who have saved money all of their lives and are no longer at a place to be able to take a risk. They want to place their resources into a safe place earning a good interest rate. A higher percentage of this group consists of women, as women tend to outlive men. So, the rationale to depositors is that FOB will consistently pay the highest CD and money market account rates in the market and that they will have a personal relationship with a relationship manager at the bank who will know the person by name and will look forward to their visits either in person or by phone.

The second value proposition to depositors is convenience. FOB offers free ATM service at any ATM anywhere. It also offers free courier services for business accounts, remote deposit capture, deposits by cell phone, and a user-friendly website. In addition, whenever they call the bank, they talk to a live human being located in Tulsa, Oklahoma who can easily understand their needs and see that they are addressed quickly.

For borrowers, FOB offers experienced local bankers who want to say yes to loan requests and are eager to understand their borrowing needs. Loan decisions are made quickly by local people, and rates and terms are competitive. Loans would get closed faster than at other banks. The bank's goal is to close loans on time, as promised with no excuses.

Emphasis for the communities bank would serve. FOB sets a goal of being a good corporate citizen by providing important local financial services and engaging in activities that improve the quality of life for all citizens of the communities they serve. Staff members from FOB can be found serving meals at local homeless shelters and serving on the boards of the Chamber of Commerce and other civic, charitable, social, religious, and political organizations. All of these activities serve to increase the social capital of the company. Another important aspect of the FOB story to community leaders was that when the bank opened, it would create 25 new jobs in the Tulsa area, and within 10 years, that number would increase to 100 good paying jobs. The bank would play a constructive role in the community, both in direct economic development and in financing the growth of other companies.

Value propositions. Taken together, the story line or business logic is about maximizing all stakeholders' value by consistent long term growth in exceptional financial services, stockholder value, and employee opportunity, and about helping to build a better community. It is a model that is believed by the bank managers and directors to create a company that both makes money for the investors and makes a difference in the people's lives.

Culture

From the very beginning of creating its business model, FOB focused on the culture they wanted to create. Having already decided on a business model focused on quality rapid growth, the question was, "How do we create a culture that makes quality rapid growth possible?" The answer to this question took on many facets. The bank's original strategic framework started with a statement of core values.

"Treating others as we want to be treated" is the overarching value of the company. All of the 12 managers and three outside directors interviewed included this core value in their description of the company's business model. It is the organizing paradigm of the company's culture. In the strategic plan, this overarching value was further articulated in how it applies to specific stakeholders as follows: customers, employees, stockholders, the communities the bank serves, and regulators.

The bank's strategic plan describes the culture they hope to develop. That culture includes the overarching value of treating others as people want to be treated, which manifests itself in positive working relationships among colleagues with a shared vision and values where no jerks are allowed and there is an aggressive team-oriented approach

among colleagues who are always learning and willing to voluntarily share the spiritual side of life.

The spiritual element of the bank's culture has various dimensions. All of the stockholder meetings and meetings of the company's Board of Directors are opened with prayer from one of the Directors. The organizers believe that "Unless the Lord builds the house, they labor in vain who build it" (Psalms 127:1). As this spiritual element of the bank culture applies to employees, a monthly devotional/luncheon is held, and all employees are invited to come on a strictly voluntary basis. It is made clear that participation or nonparticipation will not have any impact on their job. The idea is to allow and encourage employees who want to practice and share their faith with fellow believers at their work place to do so. These devotionals are normally led by a volunteer member of the staff.

Achieving rapid growth requires high energy level, aggressive marketing efforts, and should be punctuated with laughter and celebration of success. As one manager observed, people can get a lot more done when they are having fun. All of these are characteristics of the culture described by FOB managers.

Moreover, FOB is a company with a family-friendly work environment. This important part of the company's culture means that multiple members of the same family can work at the bank, an opportunity available both to the bank's management and to all of its employees.

A key cultural feature for a rapid growth organization is open and effective communication. It is not so much about giving directions (although that is necessary) as it is about having a collaborative dialogue. As one manager participating in this study

observed, “It’s not about being right, it is about understanding each other”. The bank’s business model and strategic plan came about as a result of a collaborative process that sought involvement from all employees.

An equally important aspect of effective communication in a growth company is celebrating success, taking time to get the staff together to enjoy the growth and other successes that the company has achieved. At FOB an illustration of this process is staff-wide meetings held to celebrate reaching $100 million in assets, at which every employee got a crisp new $100 bill. When the company reached $200 million in assets, a similar celebration was held, and each employee got two crisp new $100 bills. This sets the stage for future celebrations at reaching higher milestones of growth.

FOB holds a wide range of internally conducted training programs and encourages employees to pursue educational opportunities from external sources at the bank’s expense. Compliance training is mandatory for all employees and for everyone who sits on the Board of Directors. The bank also provides sales training on a variety of topics, ranging from depository products (i.e., medical lock boxes) to lending (i.e., how to make an SBA guaranteed loan). At any given time, the bank is reimbursing four or five employees for tuition for classes at local colleges and universities and annually sends several employees to banking schools ranging from programs offered by the Oklahoma Bankers Association to the nation’s graduate schools of banking. The bank invests a substantial amount of time and money on training and educating its employees in the belief that a better educated work force can be more effective at helping the bank reach its goals and to find happiness in their own lives.

Excellent credit quality is a vital part of the FOB culture. One of the fears of bank regulators is that rapid growth in loans will result in poor credit quality. FOB and others are proof that is not necessarily the case. As the chief credit officer of FOB noted,

> I am hoping to prove that with proper systems in place, a bank can have rapid growth without high loan problems or charge offs. A high growth model requires stronger management, systems, procedures, and capital plans. The best analogy is a speed boat or a car. The faster it goes, the better/stronger everything needs to be.

Sales are an important focus of FOB's culture in order to enable the bank to achieve rapid growth. Having a great sales culture begins with the type of personalities managers choose to hire and what they instruct, train, measure, and reward. As one study participant said, "What you measure and reward is probably what you will get." At First Oklahoma Bank, all employees are expected to help with the sales effort. They are trained to act as if each person they come into contact with is the most important person in the world. The employees are trained in what the bank is selling, and they are financially incented to either make sales themselves or make referrals to others who then make sales.

The external part of the sales culture starts with advertising, which for FOB includes radio, TV, newspaper, magazines and billboards. It also includes active engagement in the community from employees being involved in community organizations to the bank officers giving speeches at civic clubs and being immediately available to reporters' calls for interviews. The concept is that people generally like to do business with their friends, and the more friends we can make, the more business we will have.

Organizational Structure

FOB's organizational structure is designed to facilitate quality growth.

Control. The organizers of FOB did not want an organization where one person, one family, or one small group of friends owned a majority interest in the bank. As a result, in the initial stock offering of $17 million for the company, no individual could invest more than $500 thousand (2.9% of the offering). In addition, while there was a maximum that could be invested, there was not a minimum. The primary investment criterion was that the investor had to be an accredited investor (earning more than $200,000 per year individually or $300,000 per year with his or her spouse or having a net worth of $1 million or more, excluding the value of their home) willing to help the bank grow. This criterion was established to enable the organizers to achieve raising $17 million while maximizing the social capital of the investor group and minimizing the possibility of a small group taking control. The stockholder group was organized both to raise equity capital and to be a marketing machine.

C Corp or S Corp. Organizers of FOB chose a C Corp structure because the limitations of an S Corp structure (maximum of 100 investors; no investments from IRA, 401K, or corporations) would not allow them to raise both the desired equity capital and social capital to facilitate the bank's quality growth model. The bank started with 180 investors, about one third of whom invested by using IRA, 401K, or corporate funds. Over the first 4 years, the number of investors grew to 238. The bank's growth model yielded a sense of the more the merrier.

Number of offices/markets served. The niche focus aspect of FOB's business model was different from ONB's model for two reasons. The first concerned having a rural branch. FOB would not have had a rural office if it had not been a faster way to get a bank charter than waiting for approval of a new bank charter. The second reason concerned opening two offices in Tulsa at the beginning. FOB opened with two offices in Tulsa, which contributed to larger initial operating losses. However, both Tulsa offices proved to be successful (per the deposit growth shown in Table X) and when supplemented with a free courier service to pick up deposits from commercial customers led to no perceived need to add any additional offices in the Tulsa market for years to come.

Table 22

Total Deposits in Each Branch at First Oklahoma Bank

($ million)	**6/30/09**	**6/30/10**	**6/30/11**	**6/30/12**	**6/30/13**
Glencoe	8.8	8.5	13.3	13.9	14.9
South Tulsa	-0-	-0-	58.1	78.4	92.2
Midtown Tulsa	-0-	47.0	54.7	74.5	97.4
Total	**$8.8**	**$55.5**	**$126.1**	**$166.8**	**$204.5**

Technology. The bank's business model included major usage of technology, both to make the bank's internal operations more robust and efficient and to offer a broader range of external services to their customers. Internally, the bank contracted with Jack Henry Company for core data processing services sufficient to serve a $1 billion bank rather than start with the less expensive small community bank package. This was a conscious

decision to facilitate the bank's growth model. Similarly, all employees were provided computers, with more than half being laptop computers. The idea was for employees to be mobile in providing service to customers (taking their office with them via the laptop computer) and to accommodate employees who wanted to do some of their work from home so they could be with their families.

Externally the bank joined a very large ATM network (Transfund/Cirrus) and offered free ATM services at any ATM anywhere in the world. It also very quickly began offering remote deposit capture services and provided mobile phone apps for customers to make deposits using their cell phones. In addition, the bank immediately set up a user-friendly website to provide Internet banking.

Taken together, the overall organizational structure was established to facilitate the bank's pursuit of a rapid growth with high quality business model. Many of these features were more expensive in the beginning, causing early operating losses and reduced income in Years 3 through 5. However, they all contributed to increasing shareholder value and the value of other stakeholders, as defined by the company's business model.

Niche Focus

FOB originally intended to be a company with a full focus on the urban market of Tulsa, Oklahoma. However, its model was changed as a result of regulatory considerations to both an urban and rural focus. FOB is a lending bank rather than a bond bank – its primary lending focus is commercial loans.

In its focus on commercial loans the bank specifically targeted certain niche markets. These included (a) small business loans, especially loans guaranteed by either the U.S.

Small Business Administration or the U.S. Department of Agriculture; (b) commercial real estate loans with a special focus on owner-occupied real estate, loans secured by real estate leased to the U.S. government (especially the postal system), and loans secured by real estate leased to credit worthy tenants; (c) 1 to 4 family housing, which includes a large volume of rental houses throughout the Tulsa MSA; (d) residential construction loans, especially on homes pre-sold to buyers and spec loans to well established builders; and (e) commercial and industrial loans.

Funding sources. The bank's funding model was affected by regulatory requirements. At ONB, loan growth had been funded by advances from the Federal Home Loan Bank (FHLB), and when the loan to deposit ratio exceeded 105%, the bank ran a certificate of deposit campaign to pay off the FHLB. However, the FDIC would not allow this practice at FOB. In addition, the FDIC limited the bank's use of brokered deposits to 10% of its total deposits as a part of its funding plan. As a result of these requirements, FOB raised a substantially larger volume of local core deposits than ONB had. FOB relied on the FHLB and brokered deposits primarily as an asset liability management tool, setting long term fixed rate funding to match long term fixed rate loans. The need to raise more local core deposits made the bank's strategy of developing its social capital networks even more important.

Acquiring a mortgage company. A separate niche focus for FOB was the acquisition of Capital Mortgage Company in 2011. Through this wholly owned subsidiary, FOB offered home loans through offices in Tulsa and Oklahoma City.

Gaining Regulatory Approval

As the international recession began in 2008, bank regulators changed their approach to granting new bank charters. Relatively early in the bank organizers' efforts to get a new bank charter, it became clear very few bank charters were being approved nationwide (in fact, none were approved from late 2009 to 2011), and it would be much easier and quicker to buy an existing rural bank charter and move it to Tulsa than to wait on approval of a de novo charter. The bank organizers determined that buying a smaller rural bank would be less expensive and less distracting from their growth model than buying a larger rural bank. So, they called the owners of the 10 smallest banks in Oklahoma and found that the owners of the third smallest bank (Glencoe State Bank) were willing to sell.

Bank regulators approved the acquisition and permitted moving the bank's headquarters and opening a second branch in Tulsa. Then the process of gaining approval of the business model began in earnest. A bank must have a wide range of plans, policies, and procedures, and a new bank must have them all approved by the bank regulators. These range from loan policies to human resource policies. This is a laborious process of determining what the bank wants to do, then seeing what it will be allowed to do through negotiations with the bank regulators. The regulators are focused on policies that will insure that the bank operates in a safe and sound manner and in compliance with all laws and regulations.

After the plans, policies, and procedures are approved, the bank undergoes a preopening bank exam to make sure everything is in place to be a fully functioning bank. This is just

the beginning of annual full bank exams and semiannual miniexams to make sure everything is going as planned.

Exceeding Everyone's Expectations and Growth Plans

To the business world, growth plans are goals, and exceeding goals is cause for celebration. In the regulatory world, growth plans are limits, and exceeding goals is cause for concern. FOB exceeded its growth plans by quite a bit. FOB's growth significantly outpaced its original plans. This received praise from investors and questions from bank regulators. The net result of this tension was that FOB raised more equity capital than it had planned to satisfy regulatory concerns. Fortunately for the bank, its investors believed in the quality growth business model. The original forecasted balance sheet and income statement for FOB began in 2009 and ended at December 2013. See Table 22 for a comparison of FOB's planned versus actual growth from 2009 to 2013.

Table 23

Comparison of the Original Forecast and Actual Outcomes for December 31, 2013

	Original Forecast for 2013	**Actual Outcome for 2013**	**The Difference**
Assets	$139 million	$257 million	+$118 million/+85%
Net Loans	$106 million	$209 million	+$103 million/+97%
Total Deposits	$127 million	$228 million	+$101 million/+80%
Equity Capital	$12 million	$27 million	+$15 million/+125%
Net Income	$571 thousand	$825 thousand	+$254 thousand/+44%
Number of Employees	38	64	+26/+68%

The bank raised $25 million, or 125%, more in equity capital than it had planned to raise in order to support asset growth of $118 million or 85% more than it had hoped to achieve. The bank raised more equity capital, hired more people (human capital), and expanded its social networks (social capital) in order to achieve this very rapid quality growth.

Implementing Strategy

First Oklahoma Bank's business model has been implemented by use of a detailed strategic plan created with input from all employees and directors, utilized by management on a constant basis to guide the company, reviewed quarterly by the board of directors, and updated annually. An observation from bank management is that

> high quality rapid growth doesn't happen incidentally, accidently, or as a result of luck. It is the product of thoughtful plans, consistent and effective implementation of the plans, and a lot of hard work by everyone involved. If you don't have all of that going for you, you will not achieve high quality rapid growth.

Creating the Strategic Plan, an Inclusive Process

The planning process was managed by the co-CEOs, facilitated by an outsourced professional planner, and utilized input from everyone involved in the organization. The goal was not a final directive document (although a detailed document was prepared). The goal was a process of collaboration that would continue beyond the creation process into the implementation process. The planning process was designed to be a learning process that created focused energy toward achieving ambitious goals.

Once the plan was approved, management began to organize and train staff members to implement the plan. This involved all managers in instructing, coaching, mentoring, and helping. Individual sales goals were set for all customer contact personnel, and outcomes were measured and reported back to the individuals involved. Outcomes were not reported in a manner to have officers competing with each other. That was believed to be counterproductive for the culture. Instead, results were measured against each individual's own personal goals.

Financial incentives were put in place to reward success at attracting the most profitable and hardest to acquire business. These included ongoing financial incentives to attract and retain noninterest bearing checking accounts and premiums for finding, gaining approval, and closing government guaranteed loans. A financial incentive program was implemented that rewarded everyone in the bank if the bank achieved its budgeted net income. Finally, senior officers were awarded significant stock options to allow them to share in the increased shareholder value they were helping to create, aligning their interests with those of the shareholders. FOB is creating an Employee Stock Ownership Program (ESOP) to allow the employees to invest in the company. The idea is that this will completely align employees' interests with those of the bank's shareholders.

Controls are always in place in a bank to insure that neither theft nor error happens. Extensive control procedures were established along with an external and internal audit program to insure that errors were detected.

Feedback and Information Utilized to Monitor Performance

The bank utilizes a wide range of reports to monitor what is happening. These include daily balance sheets and income statements, overdraft reports, past due loan reports, exception reports, changes in balances reports, and many others. Monthly reports for the company's board of directors provide a wide range of details about the bank's financial performance, loan portfolio, and other matters. Specific metrics related to the strategic plan are charted monthly. Each quarter the bank files comprehensive "call" reports with bank regulators to provide an analysis of the bank's performance. The bank also monitors its performance in all elements of its strategic plan on a quarterly basis and prepares an updated forecast of anticipated future outcomes for 3 years. Moreover, it provides a quarterly *Talking Points* report to all stockholders and employees on how the bank is doing.

The bank subscribes to reports from third parties that provide a comparison of the bank's performance to other banks in Oklahoma. FOB creates its own "peer" group of the 20 de novo banks chartered in the United States in 2009 from FDIC data, and it compares its growth to other community banks serving the Tulsa area. Comparisons generally include metrics focused on growth, net income, and loan quality.

Impact on Outcomes

The pictures FOB sends to its investors on a quarterly basis tell the story of quality growth.

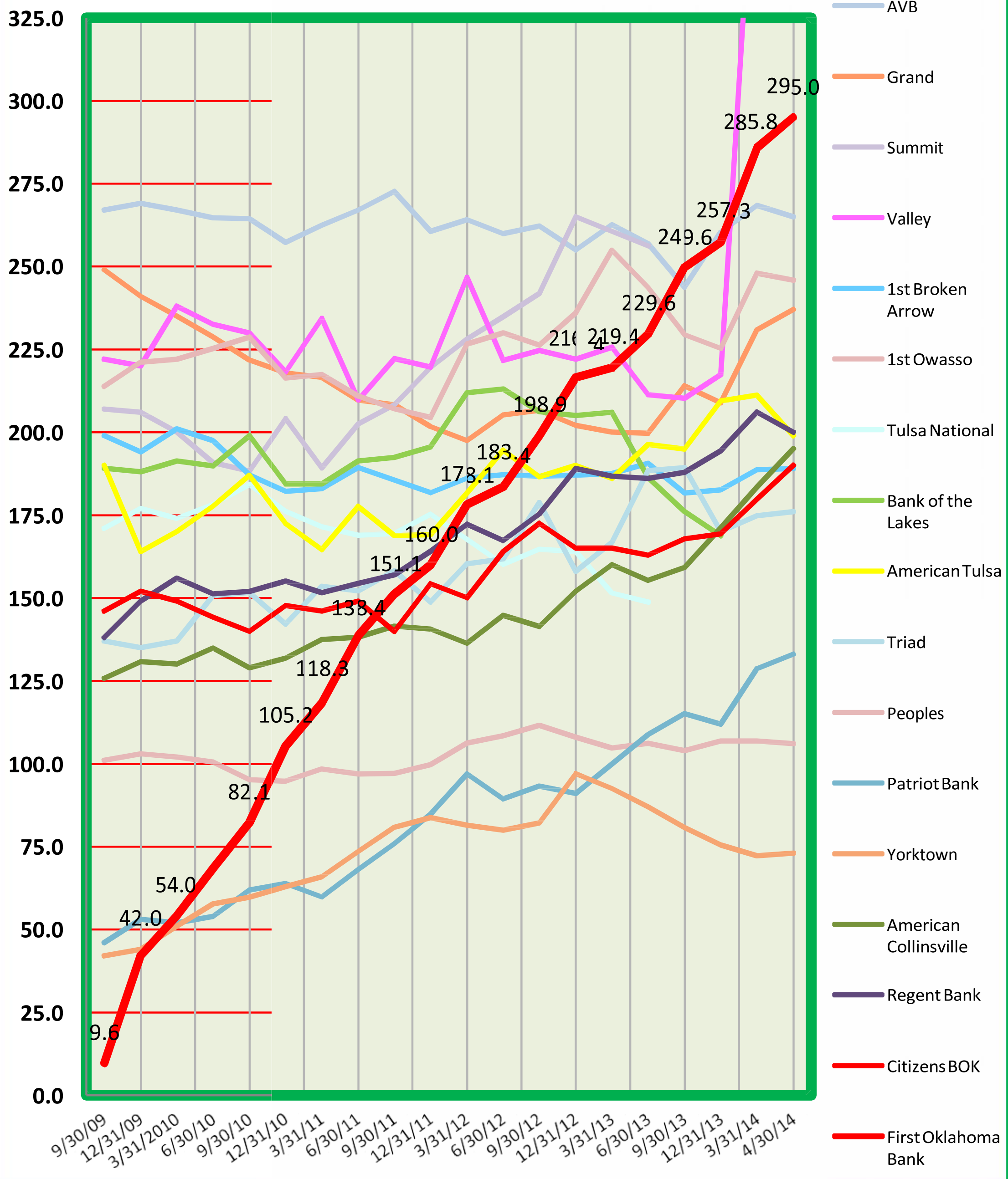

Asset Growth of Tulsa Area Banks
(in millions)
325.0
300.0
275.0
250.0
225.0
200.0
175.0
150.0
125.0
100.0
75.0
50.0
25.0
0.0
9.6
42.0
54.0
82.1
105.2
118.3
138.4
151.1
160.0
178.1
183.4
198.9
219.4
229.6
249.6
257.3
285.8
295.0
9/30/09
12/31/09
3/31/2010
6/30/10
9/30/10
12/31/10
3/31/11
6/30/11
9/30/11
12/31/11
3/31/12
6/30/12
9/30/12
12/31/12
3/31/13
6/30/13
9/30/13
12/31/13
3/31/14
4/30/14
AVB
Grand
Summit
Valley
1st Broken Arrow
1st Owasso
Tulsa National
Bank of the Lakes
American Tulsa
Triad
Peoples
Patriot Bank
Yorktown
American Collinsville
Regent Bank
Citizens BOK
First Oklahoma Bank

Figure 20. Asset growth of Tulsa-area banks.

Each edition of Talking Points has had a cover page picture of a chart showing the bank's growth compared to other local community banks. This continuous picture tells the story of growth. The bank also reports to its stockholders growth in assets, loans, deposits, and income and the bank's loan quality.

Income (Efficiency)

The bank explains its earnings to the investors in comparison to other de novo banks in the region and country that started in 2009. See Table 24 for information.

> For all practical purposes, we were a "de novo" or new bank in 2009. The FDIC only approved 20 actual new bank charters nationwide in 2009 and only 4 of those were in our part of the country. Comparing our performance to these other new banks in 2009, we find:

Table 24

Comparison Results of FOB's Performance to all 2009 De Novo Banks as of December 31, 2013

	National Peer All 20 Banks	**Regional Peer All 4 Banks**	**FOB Bank**	**FOB Compared to Average of National Peer**	**FOB Compared to Average of Regional Peer**
Assets	$154 million	$105.7 million	$257.3 million	167%	243%
Loans (n/a)	$107.7 million	$66.6 million	$209.7 million	195%	315%
Deposits	$132.4 million	$94.9 million	$227.9 million	172%	240%
Equity	$14.8 million	$10.7 million	$27.3 million	185%	255%
Pre Tax Return on Avg. Assets*	.30%	.09%	.52%	173%	577%
Return on Avg. Assets*	2.92%	.49%	3.37%	115%	688%
Pre Tax Net Income*	$494,150	$45,000	$1,086,000	240%	2,635%

Note. *Many of the banks are Sub S corporations and do not pay taxes. As a result, pre tax corporations are more useful.

When comparing FOB's performance to the 20 other new community banks in the country that started in 2009, FOB has

1. Grown total assets 161% of the average.

2. Grown net loans by 195% of the average.

3. Grown deposits 172% of the average.

4. Increased equity capital to 185% of the average.

FOB's pre tax return on average assets is 577% of the average. Pre tax net income is used as a comparison because a significant number of these banks are subcorporations and do not pay taxes. When comparing FOB's actual pretax net income of $1,086,000 to the average of the other banks ($494,150), FOB earned 240% of the average pretax net income. FOB's performance was even better compared to the four de novo banks in this region. (Talking Points newsletter, personal communication)

How the Business Model Changed Over Time

At only 4.5 years old, not much time has passed in the life cycle of First Oklahoma Bank. However, there have been changes in the business model. The first big change was including a rural component to the model as a result of buying Glencoe State Bank, rather than getting a new bank charter and focusing only on Tulsa. The bank grew faster than expected, requiring increases in equity capital, human capital, and social capital. The bank acquired a mortgage company in 2011 that expanded its product offering and provided an office in Oklahoma City. The bank's growth required expanded facilities, so

it has begun the process of building a new 60,000 square foot headquarters building. The bank expanded its use of technology by adding third party payment processing nationwide and upgrading its website to provide more user-friendly access to the digital market.

Interaction of Key Factors

Prioritization of growth versus current year net income. From the beginning FOB set its focus on quality growth at the expense of current year net income. The original vision was a $500 million bank by 2019, and in 2013 this was increased to $1 billion bank by 2023. The bank has enjoyed higher net income than the average of other de novo banks from 2009 both regionally and nationally. It has invested time and money in the development of key resources to facilitate growth.

In terms of equity capital, the bank raised $17 million in its first stock offering in 2009. It then had a second stock offering of $4 million in 2011 and a third stock offering of $15 million from late 2012 through early 2014. All together $36 million in equity capital was raised to support the bank's continued rapid growth.

In human capital, the bank expanded its credit department from two people in 2010 to five in 2014 with three veteran credit officers. The bank also hired an in-house legal counsel. All of this human capital growth was focused on insuring quality. This internal human capital was supplemented by external loan review audits to insure that loan quality was a primary focus.

Total number of employees continued to grow reach year; expanding staff members in every area and at every level of the bank. The bank also utilized a wide range of

outsourced professional services from human resources and marketing to internal and external auditors, auditors for IT and compliance issues, strategic planning, and three areas of legal expertise (general counsel, regulatory matters, and human resources). The bank also used the expertise of its directors as an extension of its human resources. The board members provided very hands-on help through an active committee system with regular meetings.

Finally, investments in social capital have facilitated growth, too. As the staff grew from the original 25 to 83, the investors grew from 180 to 238. All parties were continuously utilized as part of the bank's social capital to facilitate growth. The bank was also very involved in a wide range of community activities; each year winning a Best of the Best Award for their United Way Campaign. In addition, the bank utilized a range of advertising outlets to build their brand including television, radio, newspapers, magazines and billboards.

CHAPTER V

CONCLUSIONS, IMPLICATIONS, AND LIMITATIONS

The purpose of this study was two-fold: first, to seek a clear and useful definition of what constitutes a business model and how a business model works in mobilizing the resources that drive the outcomes of an organization; and second, to describe a community bank business model with optional component parts. The author intended to create a bridge of understanding between the academic community and the practitioner community on the construct of business model and to help specifically define what constitutes a community bank business model. The resource-based view was utilized as a lens to explore the role of the firm's business model in obtaining or mobilizing the firm's financial capital, human capital, and social capital and how it impacted the utilization of these resources in driving the outcomes of the firm.

Drawing from the literature and in-depth interviews with banking executives, a generic community bank business model with possible component parts was created. In interviews with bank executives, this research sought to discover why specific components of the firm's business model were chosen and how they worked or were changed over time. This project explored how executives and directors of the firm's understanding of its business model led them to conceive of their needed resources and how those conceptions either increased their opportunities or limited them. It considered

why bank managers or owners may intentionally not solicit additional equity capital and how that impacted the outcomes of the firm.

The research generally utilized the context of community banks in the United States, and specifically Oklahoma, to describe what a business model is, how it works, and why it changes over time. As a result, it is believed that the research will contribute to the entrepreneurship literature regarding business model and the community bank literature.

Contribution to Academic Literature

This work extends the definition of a business model proposed by Magretta (2002) – that “a business model is stories that explain how businesses work” (p. 86-92) – by presenting the stories told by community bankers that describe their business models including their component parts. It also explains how these component parts interact to drive the outcomes of the company and why the business model might change over time. It is intended that this study will make a contribution to both the entrepreneurship literature and the community bank literature on the academic topic of business model.

Definition of a Business Model and its Component Parts

A proposed definition of the community bank business model is stories that bankers tell about the goals (or aspirations) of the stakeholders of their companies and the logic of how they organized to achieve those goals. This definition suggests the first challenge in creating a business model is defining who the stakeholders are and whose goals the firm is trying to achieve. Based on the interviews, bankers have different perspectives about whom to include as important stakeholders or which stakeholders they will emphasize in considering what goals they are to achieve. These stakeholders may include investors,

employees, customers, communities, and regulators. It appears that in most cases more than one, if not all, of these possible stakeholders' goals are considered in creating a business model. This is a broader set of stakeholder value propositions than suggested by most authors who have primarily focused on the value proposition to customers and investors. (Johnson et al., 2008; Magretta, 2002; Morris et al., 2005; Osterwalder, 2004; Teece, 2010). As these individual or group stakeholder goals are clarified, the component parts of the business model are organized in a manner that best accomplishes these goals (or aspirations).

This study finds that a primary consideration as a component of the business model is where the goals of the stakeholders fall on a continuum of interests from maximizing current year net income to achieving rapid growth toward some desired future asset size that is believed to maximize the long-term value of the investor's stock. Where an organization finds itself on this continuum will drive how its leaders assemble and utilize the component parts of the business model. This is especially true with regard to how they mobilized key resources (equity capital, human capital, and social capital) and the type of culture they created in their company that will drive the utilization of these key resources toward achievement of the stakeholders' goals. This finding is consistent with Mangematin et al.'s (2003) finding of two business model types: locally focused and larger national or multinational focus. It extends this finding to a broader range of business model possibilities along a continuum, and it describes a much wider range of possible component parts of the business model. As a result, it conceptualizes a much more complex set of possible business models than Mangematin et al. (2003).

This definition of the role of the business model in impacting the mobilization of key resources of the firm is an extension of the resource based view (Barney, 1986, p. 656-665) of how firms organize resources to achieve competitive advantage. It helps define why and in what way the stakeholders are trying to gain a competitive advantage. If they are trying to achieve maximized current year net income, they will mobilize resources with an eye toward efficiency; if they are trying to achieve rapid growth, they will mobilize resources in a manner to enable them to achieve the desired growth. The goals of the important stakeholders define what resources are needed to achieve their goals (Hamel, 1999) and firms with different business models mobilized different resources (Mangematin et al., 2003). Further, where the interests of the important stakeholders fall in their goals for current year net income or growth will impact the type of culture they develop in their firm. This can in turn drive their utilization of key resources and create a competitive advantage for the firm toward achieving their desired goals (Barney, 1986, p. 656-665). Many possible components of a bank's culture are described.

A number of factors are described that may contribute to why a group of stakeholders might choose to pursue goals of efficiency or rapid growth. These include availability of equity capital (or the willingness to raise capital), the definition of stockholder value utilized by the managers (or the reasons why the investor hired management to run their company), the perception of investors with regard to exit strategy (ranging from "we will never sell, we want to pass this company on to future generations" to "build the company to a desired size and either sell or create a liquidity event for stockholders who want to sell their stock"), and the market opportunities that the managers perceive to be available and desirable to pursue.

Whether the managers focus on efficiency or rapid growth or are in the middle, all bank managers will be focused on asset (loan) quality. Those who focus on efficiency may do so both to be able to pay dividends to investors and for fear of suffering asset quality deterioration in rapid growth. Those who focus on growth may do so for fear of losing control and fear of greater regulatory scrutiny. Managers all along the continuum will seriously consider the concerns of bank regulators regarding how they will manage asset quality. It is clear from these interviews that the concerns of bank regulators have a major impact on how the firm's managers think about efficiency versus growth and how they mobilize resources to address those concerns.

The focus on efficiency or growth will have a major impact on the organizational structure of the firm, as well, as it will very likely be organized to achieve either maximized current income or rapid growth. Elements of organizational structure that are impacted by these considerations include issues of control (or who is in control), the size of the investor group, the governance structure, whether the firm is an S Corp or C Corp, the number of offices utilized, the number of markets served, and the use of technology. The focus on efficiency or growth will also impact the niche focus of the firm, including whether it is a lending bank or bond bank, whether it chooses to focus on rural or urban markets, the lending specialty (if any) of the firm, and its range of funding sources utilized.

The focus on efficiency or growth will also have a major impact on the relationship of the firm with its bank regulators. Bank regulators have many ways of impacting how a bank will organize and develop its business model and its component parts through their regulatory approval and supervisory processes. Bank regulators will likely favor an

efficiency focused model as it serves to increase the bank's equity capital from earnings, and its slower growth is more easily supervised. Regulators are likely to be concerned about a rapid growth model for fear that it increases the bank's risk profile and that deterioration of asset quality might lead to failure.

How the Business Model Works

Implementing strategy. This research addresses the concern raised by Sirmon et al. (2007) that there is minimal research on how managers/firms transform resources to create value as the study explores strategy implementation, impact on resources, impact on the outcomes, and organizational success. Once a business model and its component parts are defined, the means of implementing the model appear also to be influenced by the focus on efficiency versus growth. Banks in the middle of the continuum or those primarily trying to continue doing what they have done in the past often implement their business model by managing individual relationships with employees and customers rather than through a strategic plan. Banks on either end of the continuum or those desiring significant change in their business model normally utilize strategic planning processes to drive either their growth, maximization of efficiency, or change. These processes tend to be very inclusive of a large number of employees (if not all) to generate energy and buy-in when the bank is pursuing growth or major change, and they tend to be more directive (command and control) in a bank focused on maximizing efficiency.

Banks focused on growth tend to have a broader range of financial incentives for employees to encourage and reward achievement of various growth objectives (i.e., noninterest bearing deposit growth, closing government guaranteed loans, or hitting loan growth goals). Banks focused on growth often provided stock options for managers and

senior officers to enable them to participate in the increased value being created in the stock as a result of the growth. Banks focused on maximizing efficiency normally tied incentives to achieving net profit objectives either individually or collectively. Banks in the middle often did not provide any specific financial incentives to employees.

The information utilized by managers and boards of directors to monitor the effectiveness of their business usually reflects their emphasis on growth or efficiency. The metrics that are measured, monitored, and utilized to keep track of the organizations' progress tend to prioritize either growth or net income. In addition, all organizations monitor asset quality. Taken together, the information monitored and incentives provided tend to reflect the axiom of "what you measure and reward is what you will get."

Impact on resources. All participants agreed there is a direct correlation between the firm's business model and their development and utilization of key resources. As an extension of Sirmon et al.'s (2007) observation that the structure of the firms resource portfolio establishes the upper bound of the firms potential value creation, the firms focus on growth or efficiency will impact how it will go about developing and utilizing key resources.

Financial capital. As noted by Mangematin et al. (2003), the focus on growth versus efficiency requires different amounts of capital to succeed. A growth model very likely requires investing amounts of financial capital over time to achieve its goals, and an efficiency model is likely to raise capital only once or twice in the history of the firm.

Human capital. Banks focused on growth tend to hire more managers who have time to specialize in their areas of responsibility and "grow into" this larger management team,

while banks focused on efficiency tend to hire fewer managers and require them to "wear more hats." Banks focused on growth tend to use outsourced professionals more often, seeking their specialized expertise to enable the bank to "do more, better, faster," while banks focused on efficiency tend to not use outsourced professionals very often unless there is a critical need. Banks focused on growth tend to hire excess staff to create and manage growth and grow into them; banks focused on efficiency tend to try to maximize the utility of each employee, only hiring new employees when absolutely necessary. As an extension of Becker's observation (1964) that better educated people almost always make more money, organizations with a greater number of well-educated and experienced managers and staff will almost always grow faster and create greater long term value for their firms.

Social capital. Banks focused on growth tend to have larger investor groups and boards of directors and have given thought to how their investors and directors can influence potential customers in their target markets. Consistent with Bott (2000), leaders at these banks understand that nature of relationship banking and are seeking to develop as many connected relationships as possible. As an extension of Coleman's (1988) idea that social capital is appropriable, community banks focused on growth seek to appropriate the social capital of their staff, directors, and investors to achieve the growth of the firm.
They also tend to spend more money on marketing campaigns. Banks focused on efficiency tend to have smaller investor groups and boards of directors and tend to not utilize their investors and directors in marketing the bank. Banks focused on efficiency also spend less money on marketing campaigns.

Impact on outcomes. The outcomes achieved by the banks are normally those defined as the goals of their business models. The more tangibly these goals are defined (i.e., specific growth goals or specific profitability goals), the more likely the bank will achieve greater than average success in achieving their desired outcomes.

Desired outcomes are normally defined both in financial and nonfinancial terms. Desired financial outcomes tend to reflect either a priority on growth or efficiency. All banks appeared to include asset quality measures as one of their most desired financial outcomes. Nonfinancial outcomes like impact on the community and organizational culture are also normally desired outcomes. The more specifically these desired nonfinancial outcomes are defined, measured, and monitored, the more likely the bank will achieve them.

Organizational success. Organizational success tends to be defined in terms of how the implementing strategy is working, how the desired resources are being mobilized, and how the bank is doing at achieving its desired outcomes. Banks focused on growth will more likely have inclusive, well defined implementing strategies; a focus on continually mobilizing new and expanded resources; and emphasis on a broader range of desired outcomes. Banks focused on efficiency are more likely to be directive in their implementing strategies, focused on maximizing the utility of existing resources rather than gaining new resources, and have a more narrow range of desired outcomes with a primary focus in maximizing current year net income.

How the Business Model Changes Over Time

While many participants observed that bank business models are slow to change, there are a number of internal and external factors that may force bank owners and managers to re-examine their business model and make changes that enable the bank to continue to meet its stakeholders' goals and aspirations. Included among these causes of change are

- Unsatisfactory outcomes.
- Loss of key personnel.
- Product or service innovation.
- Changes in ownership.
- Changes in regulations or regulatory concerns.
- Changes in the economy.
- Changes in their competitive landscape.
- Changes in technology.

Contribution to the Finance Literature

An unexpected finding raises questions about how practitioners understand or do not understand the long established finance theory of investment value (Williams, 1938). While the present value of stock may be defined as all the future revenues from the stock, they may include either all dividends up to and including a future sales price, or all dividends into perpetuity, practitioners often think of value as a multiple of their present net income (discouraged by Copeland et al., 2005, p. 205). In addition, many managers

and investors expressed the view that they do not ever intend to sell their stock but intend for it to be passed on to future generations as a perpetual revenue stream. As a result, they do not consider the possible impact of a future sales price when considering present value. Further, it is not clear that they understand Gordon's (1962) concept of the growth in stock value based on additional investment yielding greater future revenue. This finding may be useful to instructors of finance when teaching future managers and investors. It may be useful to teach about how these theories may apply differently (or not) to large publically traded stocks that investors do intend to sell and stock in small private companies that investors do not intend to sell.

A related finding was questions raised about Miller and Modiglini's (1996) theory of dividend irrelevance. While it elegantly demonstrates that the value of a stock is unaffected by whether a company pays dividends or not, practitioners observed that the value of stock in a small, privately held company as defined by the owners often has more to do with the payment of dividends to meet their current personal cash flow needs rather than some future sales price value discounted back to the present. It was observed that one of the reasons people buy stock in community banks is that they represent a relatively safe form of consistent income from dividends. As a result, many managers will structure their business model to meet these cash flow expectations of investors rather than maximizing a future sales price.

In addition, many managers and investors described their perception of value in owning stock of a community bank as having to do with nonfinancial considerations. These include the value a bank brings to the local community in terms of serving as the economic heart of the community by managing risk in the orderly transfer of wealth

between generations. Banks also bring value to the local community by providing safety for the deposits of an older generation and loans to younger generations for homes, new and expanding businesses, and investments in other needs of the community (i.e., school bonds). Further, owners of community bank stock (especially directors) perceived value in being able to know what was going on in the community and receiving a social capital benefit of becoming acquainted with other successful members of the community as coinvestors in the bank. An additional form of value consideration was being able to provide good jobs for the employees of the firm (in some cases, family members of the investors) to be able to take care of their families.

Finally, some of the most influential stakeholders in a community bank are the regulators of the bank. They have powerful and continuous influence on the business model of a community bank from approval of the de novo (new bank) charter or acquisition of an existing bank through ongoing annual safety and soundness exams and compliance bank exams. It was believed that bank regulators are not concerned with maximizing the future value of the bank stock in a sale and are primarily concerned with protecting the FDIC insurance fund from loss in a bank failure. As a result, they will influence a bank to not pursue strategies they perceived to increase the bank's risk profile even if, in the judgment of the investors and managers, that might result in maximizing the future value of the stock in a sale. Banks focused on growth tend to raise more equity capital more often, while banks focused on efficiency tend to raise less equity capital less often (perhaps only at the beginning).

Contribution to the Community Bank Literature

There is a well-developed body of academic literature that analyzes various aspects of the community bank. The vast majority of these articles is quantitative in nature and analyzes “what” has happened in banks based on financial data available through the bank’s quarterly call reports. This study is a rare qualitative analysis of community banking that goes beyond “what happened” to explore “why and how it happened” based on interviews with the bank managers that made it happen. This study provides a menu of options for a generic community bank business model as a beginning framework for future research on the community bank business model.

It also provides a detailed case study of First Oklahoma Bank, which describes what the bank organizers were trying to achieve and why and how they implemented their business model in the first 4.5 years of operation. It further describes what factors led to changes in the bank’s business model during that time.

This study provides an extension of the theory of the life cycle of the de novo bank described by DeYoung (1998). It explains what the managers of a de novo are thinking in the early stage of the banks operation and why they pursue particular strategies to achieve their stakeholder’s goals and aspirations. This study explains the unexpected finding of DeYoung (1999) that high levels of overhead spending lead to fewer failures and the finding of Jeon and Miller (2002) that increasing overhead expenses are positively associated with survival of a bank, as banks’ investment in a larger number of experienced lenders and stronger credit department personnel in order to effectively manage increased levels of growth in the first 10 years of a bank’s operation.

Contribution to the Practitioner Community

It is hoped the tacit, experienced knowledge of veteran community bankers interviewed for this study about how they created their business models, why they chose particular component parts, how their business models worked in accomplishing their stakeholders' goals and aspirations, and why they changed their business models over time will provide useful information to the next generation of community bankers. It was observed by one participant that the baby boomer generation of bank managers and owners is reaching retirement age, and the next generation is taking charge. In response to Chesbrough and Rosenbloom's (2002) observations that business models result less from calculated choices from a diverse menu of well understood alternatives, this paper presents a generic community bank menu of component parts and how focus along the continuum of growth to efficiency might impact the choices made on the menu. These findings are intended to serve as the collective experiences of one generation of bankers and are offered to the next generation as points of reference as they create new business models for the 21st century. As such, it is a way of explaining what we did, why we did it, and how it worked out for us. Good luck and God's speed as you go forward.

Beyond community banking it is believed that the generic business model components discussed herein, using community banks as a context, may also be transferable to other types of businesses. Mangematin et al.'s (2003) study of biotechnical firms, Timmers' (1998) study of firms involved in electronic commerce, and Chesbrough and Rosenbloom's (2002) study of technology firms all provide knowledge that is transferrable to other industries. While banking has a unique regulatory structure, other aspects of their business model considerations are applicable to almost any small organization either in for-profit or not-for-profit worlds. All organizations need to define

who constitutes their important stakeholders and what they want to achieve. They then can create business models to pursue those aspirations. In most cases an initial consideration is where do managers fall on the spectrum of wanting to focus on being an efficient and relatively slow growing organization to being a rapidly growing organization. Once that is determined, the rest of the component parts of the business model can be constructed to achieve those goals.

Implications for Future Research

This research suggests several topics that would be interesting and useful to explore in future research, including the following:

- Extended study of how bankers balance their focus on the continuum of quality growth versus efficiency; what tradeoffs are made and why. A further exploration of banks in the middle rather than on the extremes.

- How do community bank managers raise equity capital, and what factors do investors analyze in choosing to invest in a community bank? More specifically, what is the role of social capital in raising equity capital?

- If the rapid growth business model of a community bank creates greater wealth for its investors, greater opportunities for its employees, better services for its customers, and greater economic development impact in local communities, how might bank regulators take these factors into consideration in evaluating the status of the bank? Further, how might bankers interested in a rapid growth model establish systems and procedures that satisfy bank regulators that they are operating in a safe and sound manner?

- What characteristics of an organization's culture are most important in driving quality growth outcomes or maximized efficiency outcomes? How are those characteristics developed and nurtured in organizations that have been successful in achieving these goals?

- To the extent that investors, particularly those in smaller private companies, do not consider the possibility of a future sale of their stock in their company as a part of their value analysis, how would the theory of stock valuation (Williams, 1938) apply to their understanding of stock value?

- To the extent that investors in small private companies invest in those companies for the purpose of generating current dividends as a source of personal income, how does this impact the theory of dividend irrelevance (Miller & Modigliani, 1961)?

- How might the nonfinancial value assigned to stock in a company by investors, such as the impact of the company on the local community or the opportunity for increasing their personal social capital by becoming friends with their coinvestors, be factored into a definition of stock value?

Limitations

The data gathered in this research and the analytical process have certain limitations. Thirty-four individuals knowledgeable about the community banking industry participating in in-depth interviews is a relatively small percentage of the universe of bank managers, owners, attorneys, consultants, and regulators engaged in the industry. Most of the participants in this study have spent most, or all, of their careers in

Oklahoma, and their views may not reflect the experiences of bankers in other parts of the country. While participants were from 38 to 76 years of age with banking experience ranged from 15 years to 50 years, their views may not be inclusive of the views of the younger generation of bankers. As one participant noted, all performance comparisons of banks are relative to their local circumstances, the overall state of the economy, and the times in which they are operating. As a result, the observations of these participants may not be applicable to other circumstances at different points in time. Moreover, the primary researcher has been a participant observer in the banking community and Co-CEO of First Oklahoma Bank. As a result, he may have brought certain biases to his analysis or interpretation of the data.

Qualitative research in its nature is sometimes not generalizeable to any total population of businesses being studied. Qualitative research, however, is believed to be transferable to a broader population. It is hoped that this research takes the form of "concepts, theories, specific implications, and risk results" (Walsham, 2006, p. 321) that can be useful in the academy and beyond to the practitioners in the field.

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APPENDIX A

TABLE OF REPRESENTATIVE QUOTES

1. Case for Growth

a. We're trying to grow fast and maximize our future earnings…not today's.
b. We are focused on future value, with a 5-10 year vision and a detailed 1-3 year plan to get there. We've focused on the long term and not on current year net income.
c. Up, Up, Up. We've set a target of $1 Billion; it's scary, but amazing. I love that we are always reaching out and reaching for our goals. We have to be in it for the long haul. This isn't a short ride. It's a good ride to be on.
d. We've communicated to ourselves and our shareholders that we're going to do this for 10 years and see where we are. It's sort of like Columbus who didn't focus on where he was every day. He focused on getting to the new world. We're not going to chart out our course every day or month. We're going to make it all the way across.
e. I am in it for the long term and to me that's 8-10 years plus, and grow into something substantial. Don't worry about short term profits, and of course don't lose money. Get good people, get a lot of assets and lean forward to being a giant among some little banks.
f. What creates the most value for investors? From a mathematical standpoint, it's going to be growth. What is the historical growth and growth prospects for the bank and what it's earning levels are. Is it a strong performer or mediocre or weak performer?
g. One factor that drives whether a bank is focused on short term earnings or long term growth is how management is compensated. If management is compensated based on short term earnings, then that will be their focus. If management has long term stock options, then they will focus on long term stock value. Balanced compensation may yield a more balanced set of outcomes.
h. Not many people can fly a rocket ship but many can drive a car. To have a growth model you've got to have people, talent, vision, and guts. And you've got to keep your arms around it. It is a lot more fun than an efficiency model.
i. I think most banks are not as future or growth oriented in the way they do business; that has been a uniqueness about this bank. We're looking into the future; 5 and 10 years down the road. We're staffing up so we'll be able to grow because we know what those positions are going to be and how we are going to get there. A huge part of our business strategy is long term growth.

2. The Case for Efficiency

Focus on Maximizing Current Year Earnings (Net Income)

a. Our focus is pretty much making at 12% ROI every year. My plan was to get it operating day to day, make a profit and take my mentor's approach which was as long as I'm making 10% to 12% ROI, I get to keep playing. Watch the pennies and the dollars will take care of themselves.
b. We have a much different growth model than FOB or ONB. It was very conservative. Controlled growth with a focus on current year net income. This was not a high growth bank investment. It was more of a net income specific mechanism. (This bank) is controlled much like aviation. I've just controlled the rate of growth based on where the capital is. I would love to be a high growth model but then we would outstrip my capital and require additional investors (which I don't want).
c. I want to grow all I can grow that we get to keep in our pockets. I don't want to work harder to grow more just so I can give it to someone else I don't even know today.
d. Keeping your eye on the ball for efficiencies. One of the disciplines instilled in me was every year try to take one small step in efficiency in every area. A bank is run by saying alright, I'm spending 17 basis points on allowance for loan loss. Next year I want to take it to 15. If I'm spending 43 basis points in loan ops, next year I want to take it to 40. So you get 2 basis points on your ROA here, 3 here, 5 there, 2 there, and all of a sudden instead of doing one ROA, you're doing 1.0. You can't move a bank too fast and give the same level of service.
e. We were pretty good stewards of the little bit of resources that we had.
f. We just wanted a solid growth and earnings because that was a solid growth in value and so to simply grow assets for asset growth sake was not something that we desired to do. I think a controlled rate of growth is easier to digest and get your arms around than a high rate of growth. A high rate of growth needs more employees because you're not volleying one tennis ball coming at you. Just like cash flow sheets, I know what's coming off and coming on. It's very comfortable because the rate of growth is just containable and manageable.

Why investors aren't thinking about a future sales price

g. I think people have bought bank stock because they think they're safe and they can get a dividend stream off that bank stock. That was what motivated the purchaser. Not so much the idea of I'm going to buy this stock with the expectation that the bank is going to be sold and I will get a control premium when it's sold.
h. I think the reason was that the dividend stream was pretty good and it was perceived as a good investment and that's why people invested in banks.
i. A lot of times ownership doesn't want to sell so they don't think about that. If they're management and there are a lot of shareholders and nobody controls it, then they don't want to sell it because they're going to lose their job and they get paid a good salary to be president of the bank but they're not getting rich. So they're just out of luck if the bank sells.
j. Not everybody is rational. Not everybody has the objective of maximizing the return. I know you are supposed to as a fiduciary, you're supposed to maximize value to the stockholders. But that doesn't mean you have to sell the bank. Just because the bank is worth more today, it doesn't put pressure on the directors as fiduciary to sell the bank because long term no telling what it might be worth.
k. I think most community bankers that I know are not so much focused on maximizing their present value or their future value. But the ones that I feel have been very successful are the ones who are trying to build a good bank.

l. Often they are not running it with the idea of hey I'm selling it. It's just not in the plan. It wasn't the family plan. They like to leave it to the next generation for them

Why the regulators don't like a growth model

m. My perception of why the regulators don't like rapid growth is historically they have seen banks end up with greater problems with a high growth model and they have defined a high growth model at either 25 – 30% for some period. If you grow more than 30% a year, I think you'll get some inquiries. So that was why. What can they do to you to make you stop? Oh gosh, let me count the ways. Well we're going to send so and so from the examination team out just to do a visitation. That just kind of shoots a canon across the bow. They can classify loans that they wouldn't otherwise classify. There's so much discretion on the part of the regulators in the examination process and there's so much safety and soundness. What is safety and soundness? Well it's whatever the regulator wants it to be.
n. Well, the FDIC is there to protect the insurance fund. Their job, one of their jobs, is to make sure that the insurance fund doesn't go down the tubes. So statutorily they have an obligation to be concerned about risk and so that's one reason they don't want you to do that because they think they'll end up costing the insurance fund money. Efficiency increases your capital, which lowers risk.
o. You can grow more than 30% a year by acquisition and you can't really grow more than 30% a year organically or you're going to have a lot of issues.
p. The Federal Reserve has real issues with a bank that is growing fast.
q. When you see a bank that has a tremendous growth plan, it makes the federal regulators very nervous because that is generally outside the normal box of a normal growth.
r. How you define high performance with focus on efficiency?
First of all, in terms of measuring that obviously you have return on equity.
I look at pre-tax return on average assets just looking at comparability. There is another new measure out there that I'm trying to look more and more at is how much money did you make?
s. I think in very successful banks, like $500 million in assets and their goal is to make about 2% a year or about $10 - $11 million or maybe 2 – 3% and to dividend out the money to the shareholders. They see their growth opportunities where their opportunities to grow to make more money in the future as being limited in what they would like to do is make a distribute good profits every year.
t. The growth part…growth is enticing because it's numbers. And we're all driven by numbers and growth and size and so on. I think the mere pursuit of that is often an Achilles heel because it becomes a dictator in the sense that you want to have more and more. All of a sudden, it requires more and more staff and more and more management skills and I think that's the thing that defines the bank. I think comparable growth is defined a lot more by management's capability and also what the opportunities in the market are. The other question is, are they more valuable to the owners. I think you have the value of the bank to the owners is sometimes different than that of others because the owners take longer term view and they're looking for dividends and they may be looking at maintaining excess capital.
u. Investment bankers in mergers and acquisitions are always going to say that you have to be bigger and you have to sell out. Their objective is they love to do underwritings as there is more money in underwritings than one time investment banking. And two, they want to help people sell stock, raise capital, and buy other banks because that in turn generates more fees, more underwritings, and merger fees.

3. The Case for the Middle

a. If you think of growth as being a 10 and earnings being a 1, we're probably a 6.5. We want to grow at a 12% per year and increase net income as a return on average assets by .10. Last year we grew at 11% and made a 0.5% ROA. Next year we want to grow 12% and make 0.6% ROA.
b. We thought more about the size of the bank in determining whatever our success was rather than revenue or income. But, with size if you do it right, you're going to make money. We first focused on reaching $100 million, then $150 million, then $200 million. We didn't want to be bigger than $200 million because we wanted to provide personal service.
c. We certainly wanted to grow but ultimately what won out was we just want a solid growth and earnings because that was a solid growth in value and so to simply grow assets for asset growth sake was not something that we desired to do. We were trying to grow where we weren't going to have to go out for more capital.
d. No, we would be slightly more toward growth. That is a tension within our board right now. It's difficult to portray the cost of growth to people. It's hard to articulate that. We've really come from negative earnings when we bought the bank. Negative earnings year 1. A little bit positive year 2 and having increased every year and that's really by design. We made ½ a point on assets last year. We want to make 60 basis points this year, 70, 80. It's not easy, as you know. But it seems to be doable to grow. Some years we've grown 15 - 16%. Last year we were a little over 11 so we didn't quite make the 12. But that's how we try to marry the 2 is we say okay we want to grow 12% and we want to increase earnings just a little bit every year until one day we're..

4. Available of Equity Capital

a. It was easy raising equity capital. Nobody was invited in that I did not know or that did not come with several recommendations. Their qualifications had to be: the investment wasn't material to their net worth, 100% accredited investors, 100% could service any debt they had independent of this investment. They needed to self-finance, fund, and service debt without distribution; and people who won't complain.
b. I see so many community banks that never go out for additional capital unless they desperately need it because they don't want to dilute their existing shareholders.
c. When we were raising capital to begin, at the time we bought it the economy and everything was such that it was deciding who you were going to let in. Then when the economy changed for the worse, it was "who could you force to do it". Who do you have pictures of? Because I had several guys that had been customers of mine that had committed half a million to us and when it was time to go around and collect, 2 of them reluctantly put in $100 thousand.
d. If you're pursuing a growth model you need to be prepared to raise equity capital more than once. It's easier if you have a larger group of investors to draw from.
e. It's not hard to raise equity if you're building a successful company. People like to invest in success.

5. Definition of Shareholder Value

a. We look at financial trends. We also look at demographics and the market in which they operate because the overall economy can play into how well an institution will perform. When I say perform I'm looking at growth and size. We're also looking at earnings and profitability. We look at competitive influences. The way we measure value is in two different categories. We appraise companies on what we call the income approach to value, which is looking at the income the bank should be able to produce going forward. So we look at a period projecting out over several years and try to get a feel for what normalized earnings or levels should be for institutions and then we discount back in today's dollars and we do a discounted cash flow analysis, kind of a present value analysis. Then we also do a comparison appraisal looking at other institutions that are publically traded who have a market in their stock which can be used as evidence as a proxy for community banks who are not publically traded. So we look at what we call a market approach which is the second way we look at institutions. We look at M&A transactions on banks that have sold and then we also look at publically traded banks that are not selling, but have a market in their stock.

b. Value for the stockholders is with a focus on growth, rapid growth for the bank. I think every investor is going to invest with the mind that in the future there is going to be growth for the bank. It may take more capital to make the bank grow, but certainly at the end of the rainbow, there will be a return of value to the shareholders who have invested.

c. It's a great adventure for me to build something from nothing and the better it gets at doing what it's purpose is and that's serving the community, building and meeting the expectations of the owners of the bank, having good people in the bank, with good leadership. All those to me are measures of the value of the bank. It's not just the profit and loss statement. Although, in certain context, that's important too. But, to me it's the creation of something that makes the community and world better than it was before. To me I think the true value can only be understood if you think in an intermediate to long term. If you try to value something for the gain in the next few months, you're standing on thin ice. You have to think about it as what's it going to be five years from now, fifteen years from now. After I'm gone how long will it last as an institution and does its central function provide a service and of course that central service has to evolve by something that helps human beings in their aspirations and certainly companies like mine and others help us achieve our aspirations and that's a very valuable thing. For me it's about the employees of my company to make sure that it lives on and provides for their families and lets me continue with great adventures in life. So I think that's a valuable thing.

d. We're not going to try and grow this thing to where everyone can get a 10% return on investment and then leave it there. We're going to plan a future based on a different set of goals and if that is not your interest, that's fine but that is what we see as our calling for this bank.

e. I think it's kind of a common thread among our investor group is that it's not about dollars and cents but it's also more about forming an organization that is going to serve the community; that is going to be a community bank; that is going to act as the conduit between depositors and borrowers; and it's going to do that responsibly and professionally; but also maintain some touch and feel and some human characteristics.

f. I think the community of Tulsa, Oklahoma values emotional business practices and benevolent business practices. If those can go along side by side with sound banking and lending and deposits, I think there is some value there and our investors realize it.

6. Exit Strategy/Time Horizon

a. There is always the question of what's your exit strategy? If you're thinking about selling the business this year or next year, then maximize current earnings. But, if the time horizon is 5 years, 10 years, to we're never going to sell this bank, then it's a very different discussion. To the extent that the time horizon is longer, I think you are better off focusing on long term growth and foregoing some of the short term profitability. I think there is no doubt about it, size is more important in this industry…$1 billion in assets is a pretty important threshold; because banks between $1 billion to $10 billion are more profitable, more efficient, and their stock trades at the highest multiple."
b. There will be no distributions and the bank will never be sold. That was the caveat going in. I told them you'll never get a distribution and the bank will never sell, therefore, you're in it for life or you can sell out.

7. Market Opportunities

a. Our business model would be to serve our rural community and we never branch outside; we actually built 2 branches in our community. We have focused on our community and our part of rural Oklahoma but we've never ever branched outside the community, so I guess we concentrate our efforts in this community. We're the only bank that has a Board of Directors here in town and the only bank that the ownership lives here.
b. You're really making an important distinction about rural and community banks. I think they are different banks. They are different things because ones got an opportunity to grow and be successful and get good loans, get talent, run a bank like you learned to run a bank. Rural American is different because the citizens of rural America are deciding slowly but surely that rural America is not going to exist.
c. No new banks are being chartered in rural America. Banks go to where the growth is and that's in urban areas. Rural banks are going to have to consolidate to survive.

8. Stakeholder Emphasis – Investors

a. I would say the successful community banks would be the ones that can deliver on all three of those fronts (investors, customers, and employees). If you don't provide a value proposition to the customer, they aren't going to stick with you. They might open an account because they know you, but they aren't going to stay with you long term or open more accounts with you or do more business or refer other potential customers. If you don't provide a work environment and atmosphere and a career opportunity for really talented people, they aren't going to stick around either. All that ultimately leads to shareholder value, which at the end of the day if you're not generating decent profits, if you mediocre performer, at some point there is going to be unrest of the board and amongst the ownership and they are going to think about selling.
b. For investors we are going to provide a consistent increase in the long term value of the stock by achieving high quality rapid growth. We also expect to create a company with which they are proud to be associated.
c. I think as an investor, I want to believe in the company I'm investing in. I want to have the same culture and beliefs as they do and if they're giving bad service, I don't want to be a part of it. If I'm trying to get somebody to invest in our company, I focus on what we've been able to do in the city of Tulsa.
d. One of the ways they get value out of being in the investor group is they get access to other people. We have a sort of mission to introduce them to each other and help them get comfortable with each other and then get out of the way. They are sort of our eyes

and ears and I think people like to feel like they can be advisors to us on deals that maybe we should stay away from. But I think there is a big huge social aspect to the shareholders because they are looking for opportunities to broaden their network, just like we are.

9. Stakeholder Emphasis - Employees

a. For our employees we want to create a great culture/work environment, a fun place to work, opportunity to have a very successful career and a family work environment.
b. It is funny but I do think this is so much like a family. Every family has their hiccups and we are certainly not excluded from that. But we have something that's a friendship but even a little bit deeper. It's kind of a bond. It's "us versus the world" mentality. It's kind of funny like we grow from adversity. We benefit from changing on the fly and those create a band of brother's type of effect. You go through some of those intense situations and moments and you come out with your head on your shoulders and you look at your co-workers and I think we definitely don't have a lot of turnover because people here are nice. People have worked at other places where people are not nice. You find some place where people are willing to get along and work hard, you stick around. I think if you're looking for evidence, there it is.
c. People want to know how much you care. They don't care how much you know, they want to know how much do you care. You and I both have a philosophical and spiritual drive to create an environment where people can thrive, where their loved on and cared for, and they're treated with respect.
d. To the employees creating an environment where they can thrive, advance their careers, grow professionally and grow personally.
e. Definitely a good part of our bank family is the values. We spend our time doing an amazing job focusing on how we can take care of our employees and in return we end up getting employees taking care of our customers in a higher level than you would see in most banks. We go above and beyond in taking care of our employees in many ways, whether its listening when one says they would like to be home by 4:30 so they can have that time with their family or miss the traffic on 169 or that someone that wants to stay later because they don't want to get out of bed at 7:00 in the morning and they would much rather come in at 9:00. Our expectation is that they will just do their job when they are at their best.
f. I feel like my first responsibility in running the company is to make sure that the people that work for our company have a good long term job to support their families. I place more value on that than I do making the money. Because there are families and they've got kids, they've got aspirations. If you take care of them, then the people will take care of the business. They care of the business, you'll be okay.
g. Value for the employees I think is pretty obvious as well. We want to pay a competitive wage. But, we also want people to enjoy the workplace. The value there is more than just dollars because there is a lot of emphasis on the intangible value of people enjoying their work, the people they work with, having the best in class facilities and things to work with. We certainly have an exceptional benefit package.
h. I see is that based upon the reputation of senior management, they were able to bring in some of the very best people in the industry. People want to be here.
i. We hire people who have a sense of service and cooperation within the rules of the bank and then people that work here. I think that we've made a joke out of "no jerks allowed" policy. But every time that we actually say that to our employees whenever we're thinking about their employment and whether or not they would be a good fit or not, you can just see like kind of sigh of relief, like oh my gosh is that really true? I would love to

work in a no jerks allowed environment because we've all been there. We've all had people that are very oriented towards themselves than towards others and I think that overarching value of treating others as we want to be treated has a huge amount of importance on our creating the culture that we want. Most people say yes, that's exactly the kind of culture I want to live in.

10. Stakeholder Emphasis - Customers

a. For our customers we created value by providing high quality services, responsiveness to borrowers, high rates for depositors, free courier service, free ATM's, and a friendly people to work with.
b. I think we always stress a customer first approach. We will figure it out. If a customer comes to us with a need or problem, a lost book of checks, a need for some advance funding, or some kind of situation that we've put ourselves out there as a group that can figure it out. I really think that is our intent every time.
c. I think one of the reasons we grow is we try to figure out a way to say yes to what customer's needs are and not just say no. Sometimes there are options as to how you can do something for a customer and sometimes those options are even better than what they were thinking of in the first place.
d. Customers understand and through our reputation by now, if there is a way to do it, our bank will help you try to figure it out. I think that attention that the employees give the customers, the friendliness, and the fact that we are locally owned is big. A customer doesn't have to get transferred to Missouri or New York or California to talk to a customer service person.
e. We try hard to have a sense of integrity with the way in which we deal with our customers. If we make a deal, it's still a deal on Monday morning even if things have changed over the weekend.
f. Every loan officer at our bank wants to try to help the customer so our approach is to see how we can make this happen. Whatever "this" is for the customer, whether they want to grow their business, expand, add new machinery, finance receivables, buy a building, open up a practice, invest in real estate, and invest in whatever it might be. We always try to see if we can make this work for them.
g. When we can't do something for a customer, we explain why. There is a way as a lender to turn a person down in their loan request to have that be put in such a way that a year later they will come back to you again. That's a very, very difficult thing to do and it really requires great tact and great understanding and great empathy and great understanding and being able to put yourself in another person's place.
h. Community banks are all about customer relations. That's the key. You need to know your customer. I think the key to community banking is customer relations. There's still a segment of the environment that wants to deal with a person. With community banks the banker is the guy that everyone comes to for anything they have in the community. The bank is generally the nicest building in town. The bank employees are generally a higher quality that a lot of people, or at least thought to be. It's kind of the hub of the community. So, I think again it goes back to the personal relationship that banker has, not only with individual customers, but with the community.
i. Providing an environment that we can serve the needs of an individual in a small business at a very personal and responsive way.
j. We need to provide to our client base to provide product, services, personalized care, that we can grow our business around their business. What I've got to provide is that personal service, that flexibility. I think of myself and I want every one of our senior officers to think of themselves as small business owners and when we sit across from the

table with another small business owner, what we're trying to come up with is a strategy that we can work with one another and each do it profitably

k. They trust us literally with their financial information and realistically, if you think about it, they put their business on the line with us. We're in most cases, the way I look at it anyway, we are the equity partner of our client. We have the ability to help them grow or we have the ability to really inhibit their growth. I think that's part of that relationship that we develop that works both ways and that's why I think the concept of being business owners together works really well and clients understand that because we want to both be in business to be successful and that's a trust relationship.
l. They are working with people who really care about them and their future.
m. Customers come to us because of our high level of service. We receive thank you notices via mail, e-mail, phone calls on each and every one of our employees that have any sort of contact.
n. When they walk in that door we will just do whatever it takes to help them deal with whatever they are facing, whether it's a child needing money in a different country and they have to figure out how to get it there, to helping them prove they have the money to give a gift to a child so they can buy a home, or whatever that might be. We will do whatever it takes to get them what they need for whatever personal need they have.
o. I think the value creation is fairly obvious for the customer base because the company's model and emphasis is very much on customer service. The whole aspect of "we'll come to you." We want to say yes. We want to help you get things done.
p. I think that we go the extra mile for our customers. We try to listen to what they actually need instead of what we think they need. Whenever you do that, you come up with ideas, for instance, the free ATM service, they wanted to do something like that and were able to adopt that idea. Certainly the way in which we don't nickel and dime customers to death on overdraft fees, especially if its $20 or less. I do think that we try hard to have a sense of integrity with the way in which we deal with our customers. If we make a deal, it's still a deal on Monday morning even of things have changed over the weekend.
q. I see just the courier system is such as fantastic story because how our courier, if somebody says they need stamps, then when she's out at the post office she'll pick up stamps and then deliver them to whoever or whatever appointment that she's going by the business and drop off their bags or pick up their bags or something. They are so thoughtful. It is a culture of people anticipating what someone needs…I'm talking about the courier system but anticipating what would our customer need. It is stuff that is just over the top in customer service.
r. Our model that enables us…we tell people no matter what the size of the deal is, we'll have answer in 24 hours and I can assure you that none of my competitors do that.

11. Stakeholder Emphasis - Communities

a. We also want to improve the quality of life in the communities we serve with a special focus on helping 'the least of these' in our area.
b. Certainly it's obviously important value to the community and we feel like that's important. I certainly operate a little bit differently than some because of the ownership. You're making long term decisions that are in the best interest of your family and your community. We feel like we do it better than anybody else because we live here in the community and second certainly is it's in the interest of my family to make sure that it's run properly and run right and I think the combination of those two sums that up.
c. In the last 20 years, our schools have had 10 bond issues and there's one bank in our town that's been there and bid and it was us. We've saved the schools over $150,000. As far as the donations to the school system here made by all the other banks in town, I

think if you added them all up, we, as for as time and money, do more than all the rest of them put together. When a school needs something, they call us. If we hadn't been there a couple of times in the last 5 years, they would not have had a bid on school bond issues. We've been the low bidder on those for the last 20 years.

d. If you're going to survive in a community bank that you have to invest back in the community and you have to have that your priority and make those decisions that benefit your area. If you serve the community and you focus on helping, whether it's investments or loans or whatever, to make sure that you're putting that money back in the community.
e. It's a matter of enlighten self-interest. Our fate rises and falls on the vitality and strength of our community. We must invest in our community to insure our own future success.

12. Stakeholder Emphasis – Regulators

a. I'm in total alignment with whatever the regulators want, that's what I want. We are ever cognizant of what they want and want to give it to them before they ask for it. We've been very proactive in terms of where could we improve and how should we improve.
b. The relationship with the regulators was extremely important and we always were compliant and responsive, even when we disagreed and there was a time period there where we had regular reporting that we went through and as a result we went through a formal process that I think lasted 8 months so they had a lot of respect for us as well.
c. We have a very healthy view of regulators. We view them as a stakeholder. We treat them as a stakeholder. They've actually been very good to us. They could have been very difficult on us at times. It's the first thing we say, well what "would the regulators think" about that. I'm not sure that should be our primary focus strategically, but it is.
d. This bank is very much focused in wanting to have a positive relationship with the regulators and I think every bank would probably say that. But again, it's a matter of walking the walk and talking the talk. I think this bank very much is focused on having a positive relationship with the regulators. Abiding not only with the straight letter of the law but also with the intent.

13. Work Ethic

a. I think pretty early on we put ourselves forward as a hard working team. We're attempting to do something that is not easy and we need people that understand that and are also willing to join into that endeavor. If that's not you. That's just fine. There are plenty of other places in this world that may not want to mold their business like we want to do ours. But if you're looking for a challenge, looking to stretch yourself, if you're looking to be around people that want to do that as well, this is a great place to work and we're going to celebrate the victories and we're going to support each other in the darker times of either professional or personal life. But this is going to be a group that is going to join arms and march forward and push the Winnebago up the hill.
b. The first thing that stands out is just how driven everybody is. You have to be in order for every day to sort of do your daily thing, plus something else. I think everyone around here does their daily thing, plus something else. Because the something else is tomorrow or next year, next month. It's something on the horizon that we will want to have accomplished on our way toward our objective and that attitude is not present in all work places and I think it's extremely unique here.
c. The culture is aggressive. It's a bank of people who are actually excited about what they are doing. Excitement is missing in banking. Most banks are tombs. It's not like that here. People are excited about the products we're offering excited about the people we're

working with, excited about the progress we are making and excited about the opportunities, in front of us. People are excited about what they are doing.

d. We're running fast so we have to have a tight ship. I think everyone here wants to run fast. We're having fun because we're beating other banks. I love to look at those growth charts and see how well we are doing. It's fun when you see a customer succeed, and in banking you can see that so much more easily than how others bankers describe it. If you can think of having fun as answering the call of banking, and then how does that translate into broadly the community, and specifically into your company's service and your employees, I don't think you can help but get excited about the good you can do.
e. My objective has been hiring officers with an agricultural background. Nobody in the office group grew up in a town greater than 20,000. They all come from a rural background. The reason for that is that when we brought the bank with the XYZ's, there was a belief that these men who grew up in cities were constantly harping about country club memberships and cars and I needed some good old AG boys who needed a job and were damn happy to be off the farm and 8 hours to them was cheating me. The culture is one of honest hard work. You will never lose your job at this bank if you are honest. If you are dishonest, the moment I determine you're dishonest, you're gone. People that are attracted to our bank have been burned or mistreated and our reputation is that if they come in and work and they are honest, they are taken care of. I wanted to have a minimum of $6 million per employee. Which drives my efficiency ratio. And, frankly, my decision to hire the Ag based guys, they really do work long hours and they really do cover a lot of bases.
f. It's a bunch of talented people who want to go conquer the world or at least beat everyone else and do it better.
g. I do know that I didn't really like how 'xyz' did it. You know you punch your card and you leave. Nothing is urgent and you're more concerned about how it impacts your world rather than how it impacts other peoples. I do know I didn't like that. I guess the other thing is I only know what other people you can see what they look like whenever they come in, how they're kind of slumped over, their shoulders are slumped, and they may have a bad attitude. You can tell they burned out on banking and then you can kind of see them come to life here. I'm sure there are other folks too. I don't know exactly how that happened but I do know they are great employees here and they're doing great work here and they're excited to work here and they've been doing this over 20 years. Whenever you hear folks like that say this is the best place I've worked. I'm more excited than I have been. Then you know we're doing something right.

14. Family

a. Creating a family culture where people treat others the way they want to be treated.
b. I think our bank has done a good job building a family of people who care about each other. By doing that we have created a culture of its okay to voice your opinion, whether we agree with it or not. We can be ourselves at work. Definitely a good part of our bank family is the values. We spend our time doing an amazing job focusing on how we can take care of our employees and in return we end up getting employees taking care of our customers in a higher level than you would see in most banks.
c. In a lot of bigger banks, their employees are treated like a number rather than a person and here we all know each other. We know when our fellow employees are hurting and we step in and help where help is needed. You hire a staff that's willing to truly take care of each other and take care of their customers at a higher level when you face someone at a point of need.

d. It is a very positive culture. I think people here generally care about one another. That's because there is a corporate culture that creates that and allows it. I will say it is unique to any position I've ever had, to have that true sense of caring about your co-worker like what is here. I think it's phenomenal what has been created here. I've never seen it anywhere else."
e. A distinction about our culture is that employees come first. I think it makes the cycle work because when your employees feel like they are safe and are taken care of and they're happy, we really don't have to worry about our customers because they are going to do a great job of taking care of our customers.
f. We welcome a diversity of people here and it's almost like family. You feel when you're dealing with our bank that they have common interests of goodness. It's about caring about each other like you like to be treated. It's a give and take, and understanding each other's problems.
g. I think it's a family culture. As long as the family is a functioning family that permeates to a good work environment.
h. We always communicated that we work for our families and so family comes first. People have personal needs, they should feel free to be able to take care of those obligations and if its' during work hours then take off during work hours. We also would do annual employee surveys and we soul genuinely try to address the concerns and we would get updates to make sure we had improved in the areas we were deficient. So people really did enjoy working at our bank and it's something that can't be replicated when you're larger.
i. The way our entire team, you will get things that say "from your bank family". You will receive calls where they truly care about you. So we've created a culture that is truly like a family member calling you to make sure everything is okay. They will send you an email or flowers or whatever that might be.
j. It is no jerks allowed first of all. But it is a very positive culture. Starting from senior management it just seems to flow down. Senior management says it but I also believe senior management also does it. So, therefore, it flows down. I think people here genuinely care about one another. And that's because there is a corporate culture that creates that and allows it. I will say it's unique to any position I've ever had to have that true sense of caring for your co-worker that there is here. I think it's phenomenal what has been created here. I've never seen it anywhere else.
k. So I guess maybe it's a functioning family and you just look society wide there are a lot of families just by definition but a functioning family is completely different. Where people actually take care of each other. Like how we contribute to folks who have issues how people role out for making food. It may seem like small little things but it actually makes a difference and people here naturally do it. We don't have to organize that at all. Family environment might be that functions like one…and the other thing could be that you also have a lot of employees that they themselves in their own person lives don't have a functioning family.
l. Yes sabbatical I think is our coolest idea. The fact that you're even bold enough to have the idea says something about you. I think the sabbatical policy is great. I think our health insurance is fantastic. I will tell everybody the reason why we have our benefits plan the way it is because we have single parents that work here and they are part of our family and if that's my daughter who's like that, I want her to be able to live. I think everybody buys into that.
m. Is there another company other than the ministry who even allows sabbaticals? I don't think there are many. Most people are just completely blown away whenever we talk about if you work here 5 years, you're entitled to some extra time off and we encourage you to recharge your batteries and go. Another thing I was thinking of is the insurance.

We pay so much for people's insurance. I hope that our employees are aware of that because I just know hardly any business that pays the percentage like we do for insurance.

n. Recruiting family units that has been a strategy or a model in which people can pursue running businesses and for the most part I would say that it has worked out grand because families have a vested interest and you know the success of the bank.
o. We have a great time talking about business with our family. We talk about the bank all the time. It's a reference point of almost everything that we do. It's not like you really leave it at home or anything and I think the more that people are enjoying it. I think it's a reference point of why you're doing what you're doing and it guides our discretionary time certainly so it really plays a part in everything.
p. We've created an atmosphere and culture in a way in which people really do feel like they are part of something that people like that we include them as you would in family. You know some disappointments in their life, we've been very willing to give people space and sometimes that's in the form of time off. Sometimes that's in the form of a monetary contribution to them. Employees like to know that if something goes sideways, they are not going to be kicked out or isolated, or something as a result of that.

15. Golden Rule

a. We believe we have a special culture, perhaps even unique. It's based on the Golden Rule of treating others as you want to be treated. We want to have a culture where people can get up in the morning and go succeed at work they enjoy with their friends. It needs to be a fun place where people look out for each other like a fully functioning family.
b. Our overarching value is to treat others as you want to be treated. We try to organize our corporate policies around that value. It's about both how we treat our fellow employees and how we treat our customers.

16. Spirituality

a. It's a rapidly growing community bank that has a great culture that is guided by spiritual principles even though I know we can't have and don't even want to have everybody that believes exactly the same.
b. The spiritual aspect of the bank is the secret weapon. We're trying to think of ways to provide good banking practices within our corporate values. We care about the experience of our customers. A lot of our products and services are kind of like 'going the second mile'. We're willing to go beyond what's efficient for us and go an additional step or two in order to serve a customer. We just think in terms of the Golden Rule.
c. Here the corporation encourages a friendship and a kindred spirit among the employees which is not all that common. In other corporations I've worked, there is more of an internal competition and strife and the corporation does nothing to curtail that. Here we attract high quality people because we're honest about our objectives and we express and foster an attitude of kindness, hard work and brotherhood. You can pick up on that pretty quickly. I think we are more open spiritually. People are not looked down on because of their religion or their willingness to express it.
d. I think having the freedom to talk about our faith makes a big difference.
e. It's a spiritual thing that we can openly give credit to God and ask for His blessing. We don't have to worry about mentioning God and if we want to say a prayer, we are allowed to pray. It's something extremely important to me and I know several of us here agree.
f. The biggest thing is that we don't have any minimum wage jobs. We're very conscious of trying to make sure that even people that may have entry level jobs have a livable

wage and I think that is ethical as well. That's part of the spiritual side of this and just trying to treat people like we would like to be treated and give them opportunities to work themselves to another job and qualify themselves in their knowledge base so they can move up.

g. While most of us are people of faith, we have a lot of employees from different and diverse faiths. I think it would not go over well to push one particular religion in the diverse group of employees.

17. Corporate Values

a. The philosophy is that they develop trust in you because we get to keep our job if we are **honest** and come forward with problems. If you are dishonest, the moment I determined you're dishonest, you're gone.
b. Embrace **change** as a part of our culture and that's not just because I'm the new guy on the block and I want to change things. It's change for the sake of survival and long term independence.
c. **Transparency** is one of our core values…so we always say if you've got an issue in a meeting, you need to bring it out. I don't want to hear about it after. I sure don't want to hear you talking to someone else about it. So we're pretty good about getting things on the table and working them through.
d. I've always placed a very high value on **integrity and the competence** of people.
e. I've always found that you can depend on people who have the **integrity** and the **loyalty** to do that. When I think of the bank staff, I think of integrity, loyalty.
f. Also, it's a bunch of people who want to create their own work environment that's **fun** and I'm sure our definition of fun is different than other people. For me it's beating people. I just think that's fun. I love to look at those charts and how we passed all those other jokers and I think that's fun to put them in the rearview mirror. It's fun when you beat another bank out for a deal. It's fun whenever you see someone succeed, a customer succeed, and in banking you can do that so much more easier then what people, or other bankers describe it. Banking has a ripple effect. You can do one thing for a company and it ripples with benefits throughout the whole organization, its employees, the people whom they serve and ultimately the community. One day you can look back and have the satisfaction that your efforts of treating others as you would like to be treated have come full circle, that's what I call the ministry of banking.
g. There is a level of **respect** among people and it's a lot easier to work whenever everyone has a healthy level of respect.
h. The ability that banks have to **help their communities grow through access to capital** is completely unique and you can do so much with it. You've got to be smart about it, obviously. But if bankers viewed themselves as critical to economic development of their community, then whenever your community is succeeding or your customer is succeeding, then you can look at that and go hey I had a part in this. So I think that's the call of banking.

18. Communications

a. A culture where people bring their ideas in and we listen to them and talk about them. We talk about them at all levels of the organization. All ideas are considered. We even encourage part time people to offer ideas and suggest things that may truly work. What makes us different from other banks is that we listen and incorporate people's ideas.
b. I think communication that's the beginning and the meetings that you have held with the entire group, even if it's through a conference call, or e-mail, that's very unique in

banking. You just don't see it on the level where we pull everyone in together. It's just very unique. Communication and input. Someone listening and actually asking you.

c. It really felt good when we began to feel organizationally like we all gelled and were moving in the same direction as opposed to 7 guys on executive team all going in a different directions beating their own drum.
d. You bring your ideas in whether it's one of the mobile bankers or whether it is somebody that comes in and works the drive thru on Saturday. They bring their ideas in and we talk about it. We talk about it in a group setting on the branch level, on a departmental level, and then on an executive level. Those ideas are considered. If something is not working and someone brings it to us. We talk about it and we bring it all the way up to the executive level and I feel like that encourages even a part time person to offer those ideas and suggest things that may truly work and probably will work.
e. I would say the first thing is communication and I know we can always do better with communication but that's been one of my goals for the year is to communicate better with my team and we have had the first of four quarterly meetings Tuesday night here and we gathered the entire deposit team and brought them over and it was a jam packed meeting and let them out at 8:30. But, it let me know just from the e-mails that I've received since then and a few calls they are taking that information back and talking about it and coming up with answers and ideas and problems.
f. So I think we are more informed here than anyplace I've been in the past. That was one thing that has consistently come up. Whether its performance reviews or whether it's a meeting, we love the communication, please keep it going.
g. We probably do a lot more management by walking around. I think practically one on one I can probably fire more people up and get them excited just talking one on one, maybe than in talking in front of 30 people about so how's everybody doing.
h. If people don't think their opinions value, then you're going to screw up your culture. Their input is valued and by in large, we rarely say no. You can avoid all kinds of internal conflict if you just spend time talking about it. You've got buy in, you've got people that all know what the mission is, and their all generally wired in the same direction. I think at the top levels we spend less time frustrated at each other because we're all pretty much on board.

19. Training

a. We focused so much on training. We had training every month on different things. Everybody went to all of them. Once a year we had a test. My goal was so everyone would make 90%. I'm pretty good, but I'm not there yet. We felt our staff was better trained than anybody else in Oklahoma.
b. Continuous training. Our customers probably have to pass 5 banks on their way to our bank, we better make it worth their while. Jump up help them, shake their hand, do whatever is necessary in services and more than just a smile.

20. Sales

a. In helping banks create strategic plans and asking about their strengths and weaknesses often directors discuss the need to improve the banks sales culture to develop more of an aggressive orientation.
b. The mode of operation, of the people to be so customer focused, forward leaning, want to help, want to say yes, wanting to get it done. That's not really a policy but it is a way of business.

c. I think it's the human touch. We went into this technology age electronic age and that was very important for all the banks to have the latest technology. People miss that personal touch. They miss that feeling of this is a local person that's going to listen to me and they're going to understand my business

21. Credit Culture

a. You can have a good credit culture in a growth model or a poor credit culture in an efficiency model. It's really about focusing on quality loans no matter what else you do in your model. At the end of the day if you don't have good loans, you don't have anything.
b. The culture of the bank has changed in terms of survival which means I've got to have a credit culture that is really focused on getting repaid and not focused on growth just to grow. So our culture has got to embrace this credit quality issue to get this growth issue.
c. Its quality oriented. I think this is a group of people who generally don't want to do it twice. Everybody inherently knows that if we're going to run fast, we got to know we have a tight ship. I think everybody here wants to run fast.
d. We've obviously chosen the fact that we would rather take no risk and we want our emphasis on quality to be extreme.
e. If you're going to grow fast you absolutely must have an excellent credit culture. If you don't you will make some big mistakes.

22. Personal Relationships

a. People will follow him to the end and he has been able to build relationships. He truly cares about everybody in here and every time anybody needs anything, he will do whatever it takes, whether its day or night, he will listen and he will get it done. In having him truly understanding and knowing that he has our backs and not being afraid to do anything, means everything in the world.
b. People look for an opportunity to work where they can have excellent relationships with their co-workers and customers. If they don't see that from the top they won't go there.
c. At the end of the day, life is about relationships. It's about people you love and those who love you. If you can find a place where people understand that, go there. If you can't then create a place like that and people will come and join you.

23. Issue of Control – No one Owns More than 10%

a. It was our goal to not have anybody owning over 10% of our stock, with the idea that the stockholders would be our customers and the more stockholders we could get, the more customers we could have initially. That was very successful.
b. I really liked this widely held investor group idea for two reasons. The first was I thought it would help us grow and it has. Second, I had some of my investors who had the ability and desire to write a check for the whole equity capital of the bank. That would have been much easier, but I would have lost control at that point. I didn't have the desire to just work for somebody again. Now the beauty of having 80 investors is that nobody owns so much that they are controlling. No one owns more than 10% and they have enough that they're interested and help you out, but not so much that they are controlling and in here every day trying to run the bank.
c. We didn't want more than 10% in any one hand. We didn't want one person calling the shots. I think more concentration of stuck, may be the less attractive it is for certain shareholders. I think they perceive the fairness and marketability to be there.

d. Well, we didn't want more than 10% held in any one hand. That was there from the very outset. That created more limitation than anything. We didn't want one person calling the shots. I think the more concentration of stock, maybe the less attractive it is for certain shareholders. I don't think they perceive the fairness and marketability to be there.
e. No one owns more than 10% and they have enough for the most part that they're interested and they help you but not so much they are controlling and in here every day and running the bank.
f. We didn't want any one person to have a disproportionate amount of ownership in the bank because not everybody is always pleased and we didn't want anyone to be able to take all his marbles and go home and then it would have a significant negative effect on the bank so we really all kind of limited the investment level in initially and have a whole lot more and accidentally they turned out to be our best marketing move ever.

24. Family Ownership

a. From a businessman's perspective, and you know we bring who we are to the table, some of my investments are good investments and some aren't so good. If they aren't good, there is very little I can do to affect change. I just have to ride. Given an opportunity to make decisions and live with those consequences is very appealing to a personality like me. "I like being able to sink or swim on my merits." With that control, I can make decisions and suffer the consequences without having to put up with someone else.
b. A key to understanding a business model is how did the bank evolve to where it is? How did the Board of Directors come about and how did they choose a CEO. If the bank has been owned by one family for several generations, it's all family, but you don't get to pick which family members are involved. If you're the 3rd or 4th generation family CEO you're working for uncles and cousins. It's really different than working for a group of people you put together that have all bought into your dream.
c. Sometimes if a family owns a bank, part of their perception of value is jobs for members of the family. That's a whole lot different perceptive than either growth or efficiency. In fact, it's naturally inefficient.
d. My wife works at the bank. Even though I'm the CEO, she pretty much comes and goes when she wants to.

25. Size of Investor Group

a. We purposefully created a large investor group; and consciously sought out investors who were centers of influence in our target markets. We utilize our investors to make contacts and help market the bank. So, the more the merrier. In the beginning we had a maximum amount that any one investor could invest ($500,000) so that we could recruit a maximum number of accredited investors.
b. I want as few investors as possible. I look at investors like cats and the fewer there are the easier they are to herd…they really are not part of the marketing structure of the bank.
c. We have 28 investors. But, I haven't gotten a lot of business from my shareholders and that's a little bit disappointing that out of those 28, only 10 of them are real by gosh top clients, and the others are just along for the ride.
d. You had 150 people out marketing ONB (the investors) when you opened. On the first day of business, you were probably opening accounts for your shareholders. That wasn't the case for me. Our first day I had only those few local guys that came in to open their accounts. Most new banks don't have a fulltime marketing staff when they open the doors. You rely on your shareholder base to help you market the bank and you're

probably looking forward to their business because generally that are good solid business people.

e. What makes community banks really exciting to me is there have been a lot of good examples out there of people that have started community banks and said, rather than have 1, 2, 3, or 10 families invest in this bank, we're going to go out there and talk to 300 people in this community or this town and invite all of them to invest in this community bank when we're doing a de novo. If you look around, that is some of the best business case studies of institutions that have done that and raised that capital have had additional sources of capital from those people, whether people they knew. And those people were the best ambassadors for the bank. They also bank with the bank. They become a self-fulfilling prophesy. There's really very few industries out there where you can touch 300 critical families in a given community and have all of them be in part shareholders in the same entity.
f. In the Midwest, where the banks tend to be older and have more shareholders and tend to be around maybe 2 – 3 generations at least, you have a very long view of where people hold on to their stock. They do want a dividend typically. It doesn't need to be a phenomenal dividend, but they want a dividend and they want their stock price to go up over time and they like a market for their stock where it can be sold in a reasonable amount of time. You typically have a dynamic in those communities where the bank tends to remain pretty staunchly independent. In Florida, there were so many new banks back in the 80's and the market was growing so rapidly, banks were selling at such multiples that people would start a bank, grow it and sell.
g. The strength in numbers has worked because we've needed strength in numbers. The idea of having a large shareholder base is that it absolutely worked. We've gone to that well. I don't know if we meant to go to the well as often. Having a large shareholder group has absolutely been…has worked perfectly.
h. A lot of banks are owned by a single person. We decided that we would take a more entrepreneur approach and try to figure out within our business model to being a commercial bank, which people represent the industries in areas in which we would like to serve. Then we tried to figure out who is really good at that. Who are leaders in those different business sectors that we want to serve. We invited them to be part of our investor group.

26. Governance

a. I think businessmen and women have an innate desire to be on a bank board.
b. I would say that a lot of people that are chairman of the board are looking for directors to be yes men. The chairman usually has a big ego and they don't like to be challenged or questioned very much. I think one of your biggest strengths is that you're not afraid of people that are smart and you actually prefer smart people to be on your board and can realize that other people and other experiences and thoughts about how to run a business are good for helping us make decisions for how to run this bank. Our board is very active, they're very involved and are business owners themselves. They have a lot of opinions and I think that iron sharpens iron. It is a spiritual principal as well. Find people that are like you who understand the rigors of business and the decisions that have to be made at certain times in the growth of the business. Anyway, we've done that and that's been good. They are not pussy willows, that's for sure.
c. There is strength in having a diverse Board of Directors that have a lot of different perspectives. That can create a positive tension to make sure you're making good

decisions. However, it has to be managed. Positive tension can turn negative if it's not well managed.

27. S Corp/C Corp

a. S Corp qualified. That's the difference in our models. The difference in an S Corp pass through because the company isn't impaired. My job is what can I do to make it as fast a boat on the water as possible. A C Corp adds tax burden and an S Corp doesn't. With fewer number of investors, the fewer people in the boat.
b. Well we started out as a C Corp and converted in 2007. So in 2002, we were a C Corp and at that time we thought about S Corp and I cannot remember why we just didn't go ahead and go S Corp at that time. If I could think back we both came to the conclusion that it was best for our board to convert to S Corp in 2007 and I'm happy that we did. It turned out to be good, even though the built in gains tax could hurt us. To my knowledge, I don't think it does. S Corp is interesting because your basis increases as you retain earnings and so you have less of a gain on sale and of course, there's no double taxation.
c. For 10 years, I ran the bank we paid out more in dividends than we had the 100 years before. I knew we had to I just couldn't keep it in the bank. We went to a sub Chapter S in order to pass dividends through tax effectively.

28. Use of Technology

a. The technology that we used on the risk management side and being able to extract data, understand it better, and do a better job at risk managements went really well. That's where we focused our use technology.
b. There is quality technology equipment on every person's desks. The bank seems to want to use technology as part of its product offerings. I would use for example the medical lock box. It's very much being developed. Then "take a picture with your phone" deposits. We are the first out there in the medical lock box but trying to use that technology to do our business.
c. We use technology both to make our bank more efficient and to offer getter services to our customers. Technology makes it possible for us to compete with big banks in almost every area.

29. Bond Bank

a. So you take your market, wherever you're planted, wherever you're licensed to do business and say what's the capacity for loans? Good loans, #1 you've got to do all that you can and beyond that, you round it out with the service charges and investments,
b. Right now with the liquidity and system out here right now, our loan to deposit ratio has shrunk to one of the lowest in the state right now and so we spend a great deal of our, we try certainly to buy everything that we possibly can that bond issues from our part of Oklahoma, particularly those schools.
c. A very low 35% loan/deposit ratio and I became really good at asset liability management. So, we actually had $50 million in loans and $170 billion bond portfolio. I just basically said you guys don't lose money on the loan side; I'll make money on the bond side. That worked absolutely 100% and it wasn't because I was a genius, it was because we were in a cyclical trend of lowering rates and as long as you went long, you made money. There was no genius, we bought mortgage backed securities that had no credit risk, we made Freddie Mac, clipped coupons, rates were falling for a 10-year

period and we made out like a bandit. However, when rates went down and the Federal Reserve lowered the yield to basically flat and took out all spread, at that point in time the business model I had, and anybody who was a bond bank had the same thing happen to them, you had to do something else. At that point, what are you going to do? You've got to change bond assets into loan assets. It's very difficult to do when the economy, the local economy, is growing less than the rate of inflation.

d. We ended up because we had so much capital that we had to leverage and that's why we became a bond bank. Even running that $170 million bond bank, we still had 8% capital. So if we hadn't had about $50 - $70 million in brokered CD's. We wouldn't have done it. If we had taken that out, we'd have gone from a $250 million bank to $175 million bank and our capital would have been way too high and we wouldn't have made any return on the equity. So we leveraged it up and we couldn't leverage it with local deposits because we had 40% of the market. So, we borrowed money from the Federal Home Loan Bank and brokered CD market, looking at them as basically the same thing and it was to us because we were a 1 rated bank. We didn't have to worry about limitations on the amount of brokered deposits we could have or any extra FDIC assessment because we had brokered deposits.
e. I developed the systems and the reporting and understood asset liability management well enough, especially on the deposit side. We actually developed liquidity management model that not only helped us manage liquidity, it would show how much capital it would take if we had any level of runoff of deposits. So we related deposit run off to it's to capital impact.
f. I did the model was created because of the limitations of the market we were in. We couldn't grow loans. We had to grow. If you can't grow loans what other assets can you grow? Okay this is it. How are we going to do it? If we're going to do that, how are we going to do the funding? What's the risk if you put these assets on the books? Okay we've got to be better at those than the average bank. So, the model was an evolved model based on the market we were in, not necessarily what we would want to do in a perfect world.

30. Urban/Rural

a. An area of concern long term in community is getting a quality management in some of these rural areas and some of these small banks. I think that right now you've got really good management but they're also getting to the age where eventually those folks are going to retire and what we have coming up and that's the succession of management in the banks.
b. I've been fortunate so far that the staff that we have are not going anywhere. Most people as you know don't want to come into a family owned bank in a rural community. I know what those positions pay in a small town and irrespective of the boom, not everybody wants to live in rural Oklahoma. So that's an issue. Almost all my people…my top 10 people in the bank 9 of them either grew up in this area or have family here. All of them. I'm not going to get somebody that graduated from OU or OSU, or whatever it is and has no connection out here to move out here to…that's just not going to happen so you have to find people that have a connection or have family.
c. One thing all rural community banks are going to have problems with in the future is obtaining talent. Even if you find a young kid, and young kid can be defined a lot better now than it was 10 years ago, by me because of age, even if you find a young person that wants to come back, that loves hunting and fishing, and rural America would be great, getting their wives to buy in on it, when the best shopping is Wal-Mart and the highest

class restaurant there is Applebee's, you have a very hard time getting young families to move back because the people you really want to hire have better opportunities that their wives would like better.

d. I think nobody starts a new bank in small rural America. You go where the people are. And not only go where the people are, you go where new people are coming in.
e. They have to realize their limitations and they're going to have to merge. You've got to make all these little banks branch out. I think you've got to take the $100 million ones and put 10 of those together and run them as branches and get big enough where you can go hire the talent to run it and get the diversification you need in risk management versus being in a town of 20,000 and that's it. It's going to be tough because the town is drying up. If your town's scales tax revenue is not keeping up with inflation, your school is shrinking, what is the long term viability of a bank?
f. What I've noticed in the last 5 years is a great pricing disparity between metropolitan banks and rural banks. A rural bank in Oklahoma today, low premium to book. Whereas in a metropolitan area, Summit sold and it's a pretty highly capitalized bank sold for what turned out to be 2 book.

31. Lending Specialty

a. We are strictly a commercial lending and every lender is a marketer.
b. We focus on SBA lending and then Post Offices. We've done a lot because we found a niche and we are exploiting it. You've got to find lenders that have a passion for that type of niche lending. We also do a lot of 1-4 family real estate lending.
c. We focus on commercial lending, and especially government guaranteed lending to small businesses and professionals. We don't focus on consumer lending.
d. We are strictly a commercial lending bank.
e. We wanted to have a bank that catered to professionals, builders, developers, and small businesses. It was that simple.
f. My vision was to have a pristine organization where you would have high quality people, high quality customers, high quality shareholders and directors, and just a 'best of the best' deal". I wanted to be a regional business bank and in each market have really top tier people.
g. Specialties were C & I lending and oil and gas lending because that was my background. To a certain extent, consumer lending was an add-on in order to provide full service for clients. We avoided Ag because we knew nothing about it and minimized certain segments of real estate just because of the cyclical nature and less experiences that have been observed in the past.
h. This bank has been very concentrated in real estate. There are times when this bank has been 80 – 85% real estate. That is okay in good times and problematic in soft market times. The bank currently today has a concentration in single family residences. 40% of our portfolio is single family residences.

32. New Bank Charter

a. Well the world has changed. Whether or not it's a true de novo or whether it is sort of a recap deal, I don't know when the next one of those is going to occur. But it's not going to be next week. We will start to charter new banks but it's going to be a long time. It's going to be very difficult to get a new charter through for the next 10 years.
b. If you want to buy a rural bank and branch it into a metropolitan area, first of all you have to have a minimum amount of capital, depending on the metropolitan area. Secondly, you have to do a business plan and they will be all over your CRE at that point and your

growth. But also if they perceive anything that's related to CRE concentration, they'll be all over that and limiting that.

c. You're not going to get de novo approval right now. I mean the FDIC will tell you there is no moratorium, but I would say how many have they approved? What I believe they are trying to do is to force people who want to get into the banking business to buy a small bank charter. If they can't get a de novo, the only way they can get into a bank is to go buy one but they're going to count you as de novo for 7 years.
d. We applied for a de novo bank charter and it took almost a year to gain approval of the charter and then approval to open. We had to negotiate with the regulators on our business plan a lot on our policies. At the end of the day we got to do what they would let us do rather than what we wanted to do.

33. Bank Acquisition

a. A bank acquisition is not an automatic deal if the buyer and seller agree on a price. The regulators have to agree to the business plan.
b. In acquisitions they look at your business plan very carefully. The analysis the Feds go through is really very…we were running models, projections, whatever on CRE loans and on classified loans because we were picking up a bunch of classified loans, on projections of working off these classified loans off and that includes all the OREO that they acquired. So the Fed was looking at multiple areas and I would add that I think the bank regulators in general, and particularly the Feds have become much more sophisticated in terms of their analysis of the balance sheet and the risk involved on the balance sheet than they want to be. They do it through the analysis of the balance sheet through supervision. They get examined once a year. If you're over $500 million, you're going to get examined once a year and through that process, they do it causing you and pressuring the bank to change its mix of assets.

34. New Manager of Existing Bank

a. If a new manager is chosen for a 1 or 2 rated bank they just have to notify the regulators. If the bank is rated 3 or 4, or under some regulatory agreement, then the regulators need to approve a new manager.
b. If a bank Board of Directors is small they'll consider the reputation of the CEO with the regulators. A CEO with a good reputation and the Trust of the regulators will make things a lot smoother.

35. Strategic Plan

a. There is a strategic plan in most but I truly believe, in some cases, it's just to say that you have a strategic plan. At XYZ Bank, there is a strategic plan, but it's really driven by net income. So what are our targets and how do we achieve them. We achieve them by bringing in additional lenders or whatever. So it's all net income driven.
b. I had my own strategic plan but the only thing I had to do was make 12% net after tax on equity every year. That was the goal and he said if we do that every 7 years, we'll double and we did and it worked and so it wasn't a real long drawn out operating plan so my plan was get in operate day to day, make a profit and take the Massey approach which was as long as I'm making 10 – 12% on equity, I get to keep playing.
c. We did but it we had to write it to get it approved. Honestly, we didn't. Our plan was to do a very good job managing commercial relationships on both the loan and deposit side of it. But other than that, we didn't have one.

d. The short answer is not a very good one. The strategic plan we had was something that we really pulled together more for the chartering process than anything else.
e. Is there more or less reason for needing a strategic plan? No. I think every bank needs one. I mean it may not be as elaborate but it's a thing that keeps them focused and keeps them out of trouble. That way you're not jumping in every opportunity that comes your way. I've seen so many banks…like I know a lot of the good banks that are going for $100 million but what do we do after we get it? It would be a tremendous distraction of our people who are already fully employed.
f. #1 your board has to buy into it and support your business model. From there you've got to get buy in from your strategic model, from all the employees all the way from teller all the way up through senior management line. It's not being created individually or with one or two people. It's really being created with a team of people.
g. They have to buy into the model of delivering that really high quality personalized service and understand that we do it with efficiency, technology, and we're still in business and still have to make money doing it so we can't do silly things.
h. We update it annually and we actually use and I actually want to give your son this, about six months ago, part of our significant improvement recently has been a program called Traction. Traction is an entrepreneurial management operating system. One of the things it does is you take your annual plan and break it down into 90 day increments. So every 90 days we take our strategic plan…because here's what I've found, the plan may be obsolete in six months. We have a one-day offsite planning session at the beginning of every quarter and we plan for the quarter. We actually update it every quarter and we really live by it. It really drives. It's not the plan that you sit on the shelf and come back a year later.
i. I like the whole process of the long term objective and then the strategy to achieve that objective and then the tactics to do that, the metrics to go with it, how does it translate into the human beings, what they do so that we're all pulling on the rope in the same direction and our strategic planning has evolved into that. I think the last version is one of the best I've seen.
j. We've got a plan, we know where we're going, and we know what we're doing.
k. I think it is created through all that input and I think the bank very much strives to abide by it and reach the goals that are set.
l. I think everyone here understands what we're doing. At least we are growing forward and we're going to do it now, now, now. Everybody I think knows our purpose. We're not trying to reinvent ourselves. That's actually really helpful because the more time you spend not having to redefine yourself or explain what you're doing the better.

36. Inclusive or Directive

a. I did it. I just did it on a spread sheet and then I would say what we have to do. We have to increase our service chargers by 13%. We need to lower our expenses in this area by this amount and I would just punt the list of bullet points…it wasn't elaborate, but it was thought through, which is what a strategic plan is for. To think through those things that you're going to encounter so that you can achieve your objectives.
b. The more you can involve people in decisions, the more they own it.
c. You've just got that many more people focused on that goal at the end and you've got them coming to it from a different perspective and bringing something different to the table, but all wanting to get to the same place, you're definitely going to get to that place faster than if you have one person telling 5 people what to do.
d. It's first sent out as a rough draft and it's sent to the executive team. We tweak it and put in our input. A final version is sent out and then we schedule meetings and we meet with

people from all different departments. We bring everybody together and then those results are summarized and I'm using those things that we took away from that as I'm hitting on that in our quarterly meetings and also in the weekly newsletters that we're doing.

e. Bottom up. I've done it in the past and we will do it again this first time here. We will try to engage everybody in small group meetings to build the strategy from the bottom up. We will communicate it back to everybody and make sure that everybody buys into the fact that this is our strategic plan that everybody had a hand in and we expect everybody to buy into it. We would hope or certainly our goal is everybody buying into that plan. The things that are more difficult to measure are client satisfaction, employee satisfaction, employee productivity, employee well-being, is my voice being heard. Do I have access to management to express my opinion? Those sorts of things.
f. It is very much a part of input from all different parts of the employee base. E-mails go out soliciting input. There are working groups established. Different components of the strategic plan - whether it is the technology component, the employees component, the regulation component, there are different working groups for each of these points of excellence where people bring it together.

37. Training, Incentives, Controls

a. It was an annual incentive. There was a component…it got more elaborate than that. There were corporate objectives and individual objectives. And the higher up in the organization you were, the greater percentage was based on corporate. The lower down in the organization you were, where you weren't in a position to affect the corporate decisions, it might be 80% individual and 20% corporate. If you were president, it was probably 80% corporate and 20% individual. It just kind of moved up the scale depending on where you were.
b. A widely held organization where my key players had some form of equity where it would tie them to the organization and as we built it over time, they would benefit in what we were building.
c. We do try to find ways, depending on what it is, to incent for some non-interest DDA's because that's where we need to focus our team on and that's where we gain the biggest spread.
d. We have our monetary incentives for our deposit team. We have our Employee Club now that recognizes, on a personal basis, things that employees do events in their personal lives.
e. The financial incentives and then the occupational incentives that we've got. We have all kinds of people who have done well at what they are doing and therefore, have been promoted. From those two standpoints, we've also had negative incentives in that people haven't done what we would like them to do and their jobs have been changed and what not. If you're thinking negative incentives, we have had some you can't do this or you will be fired. You have to produce or you will not be able to stay here. You've got to have the positive with the negative.
f. Everybody likes to be incented to do something so we have some ways in which we incent. Our mortgage company recently sent out an e-mail and just that if anyone knows of someone that wants to buy a house or whatever, they would give them a certain amount if the loan, in fact, when all the way and closed.
g. We pay incentives for doing the things that are hard to do but from which we make a lot of money, like making SBA loans or gathering non-interest bearing deposits.

38. Feedback

a. If we're making money, it's working. If we're not making money, it's not working.
b. I think the first thing they have to ask themselves is are we making money at it. If they've been doing that for a while. Most of them tend to measure it on what are we accomplishing? Is it making us money? Will it make us money in the future? How much are we having to put into it and is it worth it? You see the good ones are always asking those questions and if it's worth it, we're happy doing that.
c. One thing that was really valuable to me for a long period of time, I belonged to Best Practices Group and a guy out of Kansas and I call it the Best Practices Group of formerly high performing banks because when we first formed it, we were all high performing banks and then we all looked like dogs at the end. So we were all similar size, similar age, and from different states. So we'd meet twice a year and we could give each other ideas and feedback from that perspective.
d. Well I read all the asset liability models once a month and updated the liquidity measurements once a month. We used two different methodologies. The key in running a bank like we ran was understanding the duration of the non-maturity assets. So, we spent quite a bit of money doing that. We had a gentleman, a doctor in Phoenix that developed and wrote for the Federal Home Loan Bank a lot of the asset liability duration models. So we used him to do a bunch of statistical analysis every quarter on average life of deposits and so there examiner thought that was great. I also developed my own methodology of calculating average lives and stuff and I ended up tying pretty close to his. So the examiners really like that because there were two independent methods coming up with about the same answers. So, I think just staying on top of the risk and showing that we understood it.
e. We send out every 6 weeks Talking Points in which we try to keep our shareholders aware of what we're doing. It's a document that contains different kinds of comparisons, different kinds of charts, certainly the narrative as to what we said what we were going to do, where we are now and all that. Keeping people informed, we also send that out from time to time to our whole customer base to in a document called Shared Interest. Our staff knows, our shareholders know, our customers, they all know how we are grading ourselves on what we have set out on our strategic plan and business model to do.

39. Impact on Equity Capital

a. But I think the questions that I would ask is where do you see yourself in 5 - 10 years from now? How big is the bank going to be and if you don't have enough capital right now to get where you want to be in 5 years, you better have as good plan for how you're going to get it. You better be thinking who you're going to call to become your next majority stockholder. Because without that, the bank really stagnates. We've all seen situations where other banks because of limitations to capital they can't raise the capital, they can't grow. You become defensive instead of offensive in terms of getting down in the fox hole and having to dig out or work out loan problems.
b. To achieve rapid growth to satisfy regulators, you've got to have the capital to support the bank so absolutely the goal of growing the bank. Even if you're growing slow, the point is you've got to have capital to satisfy the growth. Regulators will require that.
c. When we made the decision to shift to a growth model we went out and raised enough equity capital to get where we wanted to go.

40. Impact on Human Capital

a. One of the biggest places you can spend money is not let anybody call an attorney.
b. Part of it is hiring people who are going to be good to work with and not looking for the eagles but looking for those that have the capability of working together because that's what community banking is all about. You've got to have good people working together and not super stars supported by their staffs.
c. I admire how you built infrastructure first and then grew into it. I really didn't. I really inherited the infrastructure that we had and then I knew I needed a strong Chief Credit Officer and a strong kind of operations person. I didn't really step back and go okay this is who we want to be let's go ahead and get those people now. We've recruited them as we've gotten stronger and it's given us more ability to hire and get our great credit guy and our great operations person and our CFO. We didn't really start out that way. We did it more the poor man's way. We just kind of hired as we could and could explain honestly why our evolution has been slower.
d. Go ahead and spend the money to hire great people around you. I would say surround yourself with people that you trust; employers, investors, and board members. I'd say you just have to be true to yourself.
e. Get a team. Don't try to do it on your own. Share…if you've got to dilute some of your interest, but get some more guys that are experienced and committed and then make sure you've got some really strong board members. Both board members/shareholders. Make sure that those are the same and make sure they are strong financially so that if we have storms they can be weathered and they are strong in terms of their business acumen and their advice and they're not going to just acquiesce to well you're the banker, you tell us.
f. The best people in the world, if they don't have the resources or they are not property led with the right goals and objectives, they're going to lose their sense of humor and not be with you. So you have well motivated people, you have to give them what they need, you have to deal with them in such a way they feel like they are part of the team, but the best most highly motivated people will quickly lose faith if you don't have the right resources to do the tasks that they are being asked to do. I see it as all interrelated. It's kind of like the nerves around the spinal cord; you can't pull them apart and try to deal with them individually because they interact.
g. I think with any small growing bank there is probably times when there have been multiple hats that people have tried to wear but I think this bank is trying to avoid that as much as possible. I'm not going to say that it's never happened because it probably has and probably does. But I think this bank is trying to avoid that as much as possible and have more subject matter expertise of people focused on their specific subject that they are an expert in.
h. We realize that there are people with very special expertise that can probably do things quicker, better, faster than we can, so let's let that person who can do it quicker, better, faster do it. Then that person becomes a small "p" partner and just another relationship for the bank. I don't think this bank shy's away from using those people for their expertise. I think you're right to juxtapose it to other places that probably do shy away from it and try to do more things in house because of the expense.
i. You can't make loans if you don't have lenders. Lenders can get customers and create a loan but you can't do it if you don't have a loan processor. You can't run a teller line if you don't have tellers. All that requires the engine to make it go and that does necessitate, particularly if you're trying to grow rapidly, you're going to have to grow you're employee base.
j. I think it's because part of the business model is to have experts and have them do things that make them excel or make them better. So it's the best utilization of the human

capital. If we're going to expend these funds, let's get the best people to do it in the best, quickest possible way with the best result. You do that by having different people doing different things and having these experts or people specifically responsible to a job not having to be overly bifurcated, and relying on the expertise of outside people.

k. We probably have added to upper management quicker than other banks typically. We tend to hire for what we are going to need, versus waiting until you're right in the middle of it and then you're trying to find that perfect person.
l. You decide, okay this is the type of person we need to hire. This is a need that we foresee down the future and we're going to start looking for that person now because of the business model. I think yes it affects the people you hire and you want somebody that's active in the community. You want somebody that gives back so I think if affects not only the qualifications of that person but also their interests and the type of person they are and so they fit with our type of philosophy.
m. We hired a bunch of people up front and we've had a real focus on attracting qualified people and whenever we find them, we're hiring them as opposed to passing. Obviously, that's expensive.
n. Most banks are not as future or growth oriented in the way in which they have determined they are going to do business and I think that has always an uniqueness about this bank. We're looking into the future, 5 years 10 years down the road. We're staffing up for certain road marks along the way whenever like now we're staffing up so we'll be able to grow for the next 3 years because we know what those positions are going to be and we know where we're going there. I think that's a huge part of our business strategy that is long term growth.
o. In particularly in the lending side if you're doing SBA things, that is a specialty and you do have to know a whole lot of information and how that works.

41. Impact on Social Capital/Use of Directors, Investors

Why did you want a small number of investors?

a. I look at investors like cats and the fewer the easier to herd.
b. We didn't use investors for marketing. The reason is it usually turns out badly. They come on the board, their zealous. They say we're a different kind of bank, come over here we'll take care of you. The first time you turn down one of their friends, it's a bad situation for a long time. So I got to where I didn't even ask them to do anything.
c. But I haven't gotten a lot of business from my shareholders the way you have and that's a little bit disappointing that less than half of them are top clients, and the others are just along for the ride.

Why did you want a larger number of investors?

d. The goal is to develop a group of shareholders that will be active and participate in the growth of this bank. It starts at the board level. It starts with developing a board that's involved and engaged that not only provides corporate governance, but they're board members that you want to do business with as well. Using them as referral basis, contact basis, or have them establish yourself in the community, add credibility, help guide you, if you've got a very well-diversified board, they can guide you in terms of, you know this direction versus that direction.
e. Social capital is really the ability to get things done. I think the success of our organization creates credibility which then creates the ability for us to manage that social capital to our benefit. You get in the right doors. You work in the right markets. Have the right opportunities to look at the right deals to be successful. Part of that social capital is also something extremely important, which is giving back to our communities.

f. As a community banker, we are absolutely entwined with the success of our community a lot of the social leadership because all of us as bankers participate in boards and leadership positions. Again that creates part of the credibility and social capital.
g. Our model that enables us…we tell people no matter what the size of the deal is, we'll have answer in 24 hours and I can assure you that none of my competitors do that.
h. One of the components of the business model was to be selective about choosing shareholders who we thought would give us credibility, since we were a new bank and number two, could provide us with their business, and number three, referrals of other business.
i. I felt like we were structured where we could be more responsive on loan requests and I felt our Board was perceived to be high quality group of people that people knew and respected.
j. The beauty is I have 80 people out working for me. We're not going to ask them to be telemarketers on behalf of the bank, we just want them to keep your eyes and ears open. As you know that is a heck of an advantage.
k. It affected them because I sought out investors that were respected and connected and I felt like it helped grow our network. That really was my primary goal. So it 100% impacted investors.
l. I had the core group and once they were in and I could tell this group that these people were in then it made it much easier. Getting that core group was really hard because I didn't really have anybody to point to to legitimize the investment. So, I do remember when I said these guys are in and then I went to the next group. This made it a whole lot easier. I would say probably 70 - 80% of our investors actually do their primary banking, some of them are not local or small investors and its not as much. I just said here is our business plan, these are the people that invested, and once I had the whole 80, that's when I sat down and said okay out of these 80, who would the 10 - 12 best be and did it that way.
m. We focus on hitting all of our stockholders and their friends, and their friend's friends, etc. We did that in the beginning. We've done that repeatedly afterwards. After we've done something and we know we've done a really good job and they're extremely happy with our service, we will remind them "well tell your friends".

42. Impact on Net Income/Efficiency

a. XYZ is controlled much like aviation. I've just controlled the nose of growth based on where our capital is.
b. I would love to be a high growth model. But then that would outstrip my capital and require additional investors. So I am at a controlled growth rate of 14% per year. That's my target. Sometimes it's been 18% and sometimes it's been 11 or 12. But my target is 14% per year. If you look back over the 10 years since I came into ownership with the bank, it's averaged 15% per year. So that is a controlled function that I implement. For me, I would call that a medium and medium low model. We're not stagnant, but we're growing. That's Citizens.
c. I think that a controlled rate of growth is easier to digest and get your arms around than a high rate of growth. A high rate of growth needs more employees because you're not volleying one tennis ball. You've got 10 coming at you. You have to have 10 swingers. With a bank that's controlled you know what's coming at you. Just like the cash flow sheets, I know what's coming off, what's coming in. It's very controllable because the rate of growth is sustainable and manageable. It's a different model entirely than a high rate.

d. Our return on equity right now is not good. That's because we're staffing up to grow and we're trying to accomplish future growth. We have the mentality that we're investing today for tomorrow's profits. I know people who are in banking forever may wonder if we can ever operationally generate the income they can. Depending on what we're planning on doing, that answer doesn't make any difference.

43. Impact on Asset Quality

a. If you're growing fast, asset quality has to be your #1 goal.
b. If you're growing fast and don't maintain control you will hit the wall at 100 miles per hour.
c. If you're a small bank growing fast it's like putting a jet engine on a Volkswagen, you'd better hold on to the steering wheel really tight or you'll drive into the ditch.
d. You can have good or bad asset quality in either a rapid growth or slow growth bank. It's all about how you manage it.

44. Impact on Community

a. When you lose the bank in a small community, you're going to lose the community because that is the driving force of those communities. It is the engine of that community.
b. In most communities one of the nicest businesses to work is the bank, from a prestige standpoint, not necessarily from a financial. The bank is thought of as being a little bit above a lot of areas in the community.
c. The commitment to the community and that focus on that community is not and really cannot be there from the large, whether it's regional or multinational banks. The mission of this bank and your bank and other banks in these communities is really to serve the community needs. What we're really trying to accomplish is really the same thing and that ultimately has impact on our communities. It's a resource for our small business owners.
d. Nobody over the last 25 years of all other banks have devoted more time and effort with people being involved in the community not just dollars and cents, but time and effort from our people from serving on the various boards, commissions, local, state. We feel like that's an important part of our mission and our model, if you will, to make sure that we're serving, you obviously the lending.
e. When our officers are on the State Highway Commission, or the Mayor, or the President of Rotary Club, the Chairman of the Board of the church.
f. From the investment in the community, standpoint, once a month I get a report on every community activity that any officer in the bank has been involved with. We stay on top of that so we know.
g. I see it as a bank that wants to grow rapidly but through the creation of long term relationships, both with customers and with employees. Then also what I perceive is a bank that is very much focused on being a positive force in the community.
h. It starts with first of all, of course, the people that you hire and I think that because we've been a little selective perhaps in hiring and we have intentionally chosen a certain type of people that are active, not only in knowing what they are doing, but they are also active within their community. They have connections. So I think that has been a deliberate decision in some of our hiring factors. Also, I think it's important that we encourage our employees to be active and we will let them go work at the homeless shelter while they are on the clock. We will let them off early so they can serve a meal at John 3:16 and

we'll pay them for it while they are gone. I think that culture cultivates volunteerism and helping each other.

45. Impact on Organizational Culture

a. You will never lose your job at this bank if you're honest. If your dishonest, the moment I've determined you're dishonest, you're gone.
b. My objective has been hiring officers with an Agriculture background. Nobody in the officer group grew up in a town greater than 20,000. They all come from a rural background. The reason for that is when we bought the bank with XYZ there was a belief that these men who grew up in cities were constantly harping about memberships and cars and I needed some good old Ag boys who needed a job and were damn happy to be off the farm and 8 hours to them was cheating me.
c. Culture is very, very important. I think if you look at every community bank in this environment that we have in Tulsa, every one of them has a little bit different culture. All the way from those that I still don't understand how…you know there's a bank in our community that has an efficiency ratio under 40%. I've run the numbers and I just don't understand how you get there. Every one of those has a different culture and culture also is different because the age is one of the things that you may deal with or people may have brought up is the difference in the very young employees that we're hiring and the expectations from the millennial, in terms of how they work. I've had some young lenders that worked for me that culturally, I don't even understand…I come from a different environment where hard work and time get you this, this, and this and the expectation of the millennial that I'm going to be a Vice President in 30 years and I'm going to manage somebody and I better have aggressive raises and incentive programs. It's very different culture for me. I'm the old school in that regard. So every one of our banks has a little different culture based on its background.

46. Unsatisfactory Outcomes

a. The ones that don't change won't survive. The banks that are having issues are the banks that didn't change. Their still trying to run it like they did in 1950.
b. We took some loan losses we did not expect to in 2009 and that caused us to tighten up our business model in credit quality rally fast.
c. The low interest rate environment made our bond strategy unworkable. We had to figure out how to change our model to start generating loans to replace the bonds.

47. Change in Regulation/Regulatory Climate

a. The regulators attitude and the empowerment of the regulators by this administration has handcuffed bankers to where they don't want to do business and/or they don't know how to do business.
b. The amount of time that is being spent on BSA right now has drawn an enormous amount of talent and resources to that compliance that cannot be spent on customers or customer service or new products.
c. The regulatory environment I think has nothing to do with the economy. I think it's all other factors. It's driven in part because of the threat of terrorism and the continued money laundering for drugs. But it's gone beyond that now to a lot of other things. I think it's only been under the current administration where the regulators have felt empowered to take it beyond that to where the banks are now held to a much higher standard of not only working with law enforcement to help identify suspicious activity

but to determine on their own and at the second guessing the regulators what is a good safe place to do business and what isn't.

d. We've had to go with the punches as far as the regulators have forced us to. So, we've had to make some changes because of that. We would have carried our loan to deposit ratio a little different. We would have, maybe taken a little more risk in certain areas because we believe it to be less of a risk than our regulators. Maybe we would have more in a certain bucket on the loan side.
e. We don't spend the majority of our time whining and whenever you don't because we're focused on something else and I think we just take it as a fact that everyone here knows we've got a lot more scrutiny than say someone whose been doing this 50 years and we're quality freaks and we are in a way policy freaks and we absolutely want to do it right and people don't want to be on a list, they don't want a demerit. It's part of the culture. We are A students. An A student can't stand to get an A-. So if it's a regulation, I think here we spend less time debating why this is a good idea and more time figuring out okay so how do we implement that and then move on to the next challenge.
f. Regulators have certainly made it harder on community banks by them wanting community banks more capitalized than what they use to require and I think that has caused a lot of frustration in our market because nobody wants to be a fundraiser.
g. The biggest thing in this area is the commitment to compliance and what that means. We use to have a part time compliance person. We now have 3-1/2 people doing compliance plus outside consultants that are running me about $75 - $85 per year so the staff is really dependent on all the rules and regulations and how we're going to do qualified mortgages or not. None of this makes me any money. None of it is productive money. It is total playing defense.
h. I think regulation is the greatest in terms of changing business models. The perception of risk would be number one and the assessment of risk and what you're doing. Technology has allowed the pre-paid business to be creative and there are some banks that have really taken off and really gone a long way with that.
i. Because of all the new regulations, whether it be CFPB or Dodd-Frank issues or whatever, is that the normal of what I would call the small bank business model is changing because of regulations. A lot of the community banks model was residential mortgages. It's difficult for a small community bank to make residential mortgages now. A lot of them are getting out of the business so that's when I say the business model is a moving target until all the new regulations are put in place, I think you'll continue seeing banks drop services that they have provided over the years. The reason is because there is so much unknown.
j. I think community banks are over regulated. It think there is too many regulations that apply in New York and Los Angeles, etc. that don't apply in a small community.
k. Sure they should be checked for safety and soundness. Sure they should have good management. That's the thing that concerns me that will drive these small community banks out of business
l. Overall challenges that we have as community bankers, in terms of can you remain independent. How large do you need to be to remain independent? Can you fight through the regulatory burdens of additional regulation and what will be coming, additional capital requirements? Can you do those things and remain independent. What size does it take to absorb those kinds of costs?
m. So I think regulation is the greatest in terms of changing business models. The perception of risk would be number one and the assessment of risk and what you're doing.

48. Change in Economy

a. Well, the economy is so important. First of all our economy in Oklahoma has changed so much since 1985. Oklahoma City was really in the depths of a lot of problems and that lasted for a good 10 years. Now Oklahoma has a very healthy economy in my view. So that's causing business models to change in the sense of people are much more interested in doing acquisitions in Oklahoma than they were a few years ago. We got through the recent economic crisis virtually unscathed, except for the regulations

49. Change in Competitive Landscape

a. I think the fact that there have been some changes in the market with other banks that will open up opportunities and that has caused us to really focus on those commercial products because it seems to be the biggest changes are within those highly commercial bank s and they are now going to be more consumer driven. So that is one thing that has driven us to decide we are going to invest in the latest technology on medical lock box.
b. Whenever banks leave our community or are consolidated, that causes a big disruptions in the market and there are other opportunities, not only with the loans that will not be taken care of but also their employees that become available because there is no opportunity there once was in their old bank. Really we pretty much know that whenever a bank gets purchased, no matter what they say to you, it's not necessarily the way it's going to wind up. People do lose their jobs. They want to pare down the staff and all kinds of stuff you wouldn't do if you were in charge of those decisions.

50. Change in Technology

a. We've got to build in efficiencies, we've got technology which will play a much different role in banking than it has in the past, mulch different. If we don't nurture the second and third generation of those depositors, we're going to lose them over a period of time and the extreme is that 3rd generation of those depositors that absolutely wants just technology. Bank give me my banking on a iPhone or iPad. I don't need to come to the bank. I don't need anything else. All I want is really technology. Electronic ways of banking reduce footprints. We've got to change the way we think in terms of technology.
b. We're doing what some banks out there about our size are doing using 5 employees, where we're doing in 2, plus technology. So it's allowed the bank to be more efficient?
c. Yes we have everything that the big banks have. If we don't have it, we will get it. In fact, we probably customize our services more than a big bank. A big bank says this is what we offer. This is the package we offer. We'll customize it according to their needs.
d. The cost of technology growth, the cost of doing everything in a bank, down and down and down, and we road that. We got a lot of mileage out of that reduction cost during that season. It provided us the internet as the biggest example. The be able to communicate with your customer much better, cheaper, faster, providing reports, providing documentation, it drove down the cost of delivery system a lot.
e. In all our daily work, our business model has changed by technology because we do not need as much personnel. Around here, the number of were classically called secretaries who do word processing is much less on a per capita basis than it was 20 years ago. So that kind of technology has made a change in everybody's business model.
f. We use Jack Henry and so we had a tremendous amount of R & D capability and so I think we were the second in the market with remote deposit capture. The ability for a single location bank to have remote deposit capture when before we were having to send

out couriers, which was really phenomenal so we really did try but that's the easiest to demonstrate but there are plenty of things that we did.

g. You have to have internal technology. We spend a tremendous amount on technology.
h. I would say our experience with 'xyz bank" was such a disaster that we would have paid any amount of money to have good technology because they had a system they had continually added on, added on. From the very beginning get a system that can handle growth like we were talking about before. We knew we were following a growth model and what that would look like but a system that could handle the growth over years, not for just a short amount of time. That's a hard decision to make because at the beginning when money is so precious and you know it costs so much to do that, but I really handed that to the ones I decided that would be even though it's kind of like a hard decision to make initially to spend the money and put it in technology.

Appendix B

Interview Guide for Semi-Structured In-Depth Interviews

The key topics that I would like participants to discuss are:

1. How would they define their company's business model and its component parts? Why did they choose one set of component parts rather than another?
2. How their business model was developed?
3. How their business model was communicated to various stakeholders and implemented in their company?
4. How often do they get feedback on how it is working and what kind of feedback do they get or how do they monitor the effectiveness of their business model?
5. How has their business model changed over time and why did it change?
6. What is the relationship between their business model and their development of key resources; especially financial capital, human capital, and social capital?
7. How do they think their business model has impacted their company's performance over time?

To more fully develop these key questions, the following is a menu of possible questions that might be utilized in semi-structured in depth interviews:

A Menu of Possible Questions for Participants in the Community Bank Study

I. Introduction

1. What is your name?
2. What was /is your role in_______________Bank?
3. How did you become involved in banking?
4. How did you become involved in_____________Bank?

II. Business Model

I would like to ask you some questions about your bank's business model. The academic literature has a variety of definitions of the term business model. The one I find most useful is "stories that explain how businesses work". If you were to tell me a story about your bank's business model, what would be the major components of the business model and why?

1. Existing research has suggested a variety of components that may exist in a business model. I would like to ask you about these various components and see if you think the component was important to your banks performance and why or why not:

a. How the business created value for customers.

b. How the business creates value for investors.

c. How the business creates value for employees.

d. Specialties in types of loans: construction and development, commercial real estate, 1 – 4 family housing, commercial and industrial, agricultural, consumer, other (SBA).

e. Sources of funding: core deposits, brokered deposits FHLB funding, other

f. Focus on current year earnings versus future value.

g. Rate of growth or desired future size.

h. Time horizon.

i. Sources and amount of equity capital

j. Number and qualifications of staff

k. Specialization versus generalization of management roles (hats worn).

l. Use of outsourced professional services (legal counsel, human resources, marketing, audit)

m. Use of technology (i.e.: standard technology to e-commerce)

n. Structure of the organization

o. Governance of the organization

p. Policies of the organization

q. Response to regulations/regulators

r. Organic growth versus acquisitions

Which of these do you believe were/are the 5 or 6 most important components of your business model and why?

2. Who created your business model or how was your business model created?

    a. Did you include investors/directors in the development?

    b. Did you include senior managers or other staff members in the development?

    c. Did you include customers in the development?

    d. How important do you believe it is for various stakeholders to have a say in the company's business model?

4. Did you have a strategic plan to implement your business model? If so, who prepared it? How well do you think it was followed?

5. How was the business model communicated to the various stakeholders (investors, staff, customers, regulators, others),(i.e.: meetings, e-mail, marketing pieces, etc.).

    a. Was the business model communicated to all stakeholders (why/why not)?

    b. Were their conflicting views about the business model and if so how were they resolved?

    c. Can you recall a specific instance in which someone in the organization acted in ways that conflicted with the business model? What did they do and how did you respond?

    d. Can you think of a specific case in which you highlighted someone's behavior for being congruent and effective in supporting the business model? What did they do? Why did you feel it was an opportunity to remind the bank of the overall business model?

6. How often do you get feedback from stakeholders regarding criteria that could influence your business model?

    a. What kind of feedback do you get?

    b. Is it proactive and regularly received or do you just take it as it comes?

    c. What stakeholders do you receive feedback from and why?

    d. How often do you reiterate the business model to stakeholders and in what form?

        - Annual meetings

        - Regular training sessions

        - Marketing material

7. How do you monitor the effectiveness of the business model?

8. How do you incent, control, or otherwise encourage conformance with the business model? Why do you choose these mechanisms?

9. What makes your business model unique?

    a. Who are your closest competitors and how would you say their business models are unique, or different from yours?

    b. Why do you think that your business model, relative to these others, is unique in creating value for:

        - Customers

        - Investors

        - Employees

10. Has your business model changed over time?

    a. If so, why was it changed? What factors influenced the change?

        – Regulations/regulators

        – Competition

        – Technology

        – Internals disruptions

        – Performance

        – Other

    b. Who was involved in changing it?

    c. How did it change?

    d. When you change one component of the model do you feel it necessary to change other components as well? (Why/why not?)

    e. How were the changes communicated to the various stakeholders? How did they respond? Did anyone feel disadvantaged or excluded by the change?

11. Some scholars suggest that business models need to be flexible and make adjustments over time. Other scholars suggest that core competencies emphasized by business models should be stable. What do you think and why?

12. Are there particular aspects of your business model that are not communicated to all stakeholders that may only be communicated to senior managers and directors?

    - If so, what is it that is difficult about this component to communicate?

13. Do you believe that one or two component(s) of your business model is more important to your performance than the others? If so, how do you insure that this or these component(s) of the business model is/are effectively met?

III. Resources development and management – I would like to ask you some questions about your development and management of resources, especially financial capital, human capital, and social capital.

1. When you think of your business model, do you think it has a strong relationship to your development and management of resources, especially financial capital, human capital and social capital? (Why/why not?)

2. How do you use your business model to develop and manage resources?

3. Is it a plan?

4. Are there ways in which your business model imposes limitations on the development and/or management of resources?

5. What components of your business model help you assemble, acquire, or develop resources?

   a. Bundling resources in creating new innovative products, services, or processes?

   b. Leveraging resources to address market opportunities?

   c. How do you insure that different components of your business model are mutually supportive?

6. How does (did) your business model affect the development of financial or equity capital?

a. How much capital did you raise in the beginning and from how many investors?

b. Did you have subsequent rounds of raising equity capital? If so, was it from the same investors or did you seek new investors? If new, how many?

6. How does (did) your business model affect development of human capital (staff)? You may not have had all these management positions but, who played these roles in your company?

   a. CEO

   b. President/non CEO

   c. CFO

   d. Chief Operations Officer

   e. Chief Credit Officer

   f. Chief Lending Officer

   g. Chiefs Marketing Officer

   h. Chief Technology Officer

i. Other senior officers who had an impact on the bank

j. Does (did) the bank have a management succession plan; and if so, how far down in the bank did it go?

Similarly, what kind of outsourced professional services did you use to supplement your internal human capital?

a. Attorney

b. Accountants/auditors

c. Marketing/advertising

d. Human resources

e. Strategic planning

f. External loan review

g. Other types of external audits or services

7. How does your business model affect the development of social capital or networks of social relationships that help you get things done?

   a. Did it affect how many investors you organized and who they were? If so, how did you utilize the social capital of investors to help build the bank?

   b. Did it affect what staff members you hired and the roles they played? If so, how did you use the social capital of staff members to help build the bank?

   c. Did it affect your use of outsourced professional services? If so, how did you use the social capital of outsourced professional services?

8. Can you think of a time in the last 5 years when you changed your business model?

   a. How did it change?

   b. How did the change impact these 3 key resources?

9. Do you believe your bank has a source of competitive advantage?

   a. If so, what is/are your competitive advantage(s)?

   b. What enables you to outperform your peers?

   c. Do you think this competitive advantage is a function of your business model or something else?

10. In terms of how your bank creates value for customers, investors, and employees, what does your business model specify as key activities in this regard?

11. As a business manager, what do you think about when taking your business model and deciding upon key activities and resource development that you have to do to underwrite these activities?

12. Can you think of a major success your bank has achieved in the last year or so? Was this a function of your business model, your resources, or both?

13. Can you think of a time in the last year when your bank stumbled? Was this a function of your business model, your resources, or both?

14. Why did you think you could build a community bank in this highly competitive industry? What drove you to pursue your dream?

APPENDIX C

ADULT CONSENT FORM
OKLAHOMA STATE UNIVERSITY

PROJECT TITLE: How to Build a Better Bank

INVESTIGATORS: Thomas Bennett, Jr., Oklahoma State University

PURPOSE:
This study will examine how to build a better community Bank.

PROCEDURES:
You will participate in an interview regarding your experience in creating, investing, in and/or managing a community bank. It is anticipated that your interview will take approximately one hour and that a follow-up conversation for clarification may take another hour. I plan to tape the interview and by signing this consent form, you are agreeing to the interview being taped. You may stop the interview and its taping at any time.

RISKS OF PARTICIPATION:
There are no known risks associated with this project, which are greater than those ordinarily encountered in daily life.

BENEFITS OF PARTICIPATION:
It is hoped this study will inform community bankers across the country about the best practices and lessons learned by veteran bankers participating in the study. If you are interested, I will send you a copy of the results of the study when it is finished.

CONFIDENTIALITY:
The records of this study that are not already public will be kept private. Written results will largely be discussed as group practices; but, will provide specific observations made by individual participants. Most quotes will not be identified by name. However, if participant is being specifically quoted and identified by name, the PI will send the quote to the participant for approval or clarification prior to publication. It is anticipated that the audio recordings will be destroyed soon after a typed transcript has been prepared and sent to you for editing. The transcribed interviews will be kept in a password-protected computer in my office at First Oklahoma Bank and will only be accessible by my assistant and me.

COMPENSATION: There will not be any compensation for participation in this study

CONTACTS:
You may contact any of the researchers at the following addresses and phone numbers, should you desire to discuss your participation in the study and/or request information about the results of the study: Tom Bennett, Jr., 2448 East 81st Street, Suite 5700, Tulsa, Oklahoma 74137, Phone: 918-392-2504, E-mail: tom.bennett@firstoklahomabank.com. If you have questions about your rights as a research volunteer, you may contact Dr. Shelia Kennison, IRB Chair, 219 Cordell North, Stillwater, OK 74078, 405-744-3377 or irb@okstate.edu

PARTICIPANT RIGHTS:
I understand that my participation is voluntary, that there is no penalty for refusal to participate, and that I am free to withdraw my consent and permission for participation in this project at any time, without penalty.

CONSENT DOCUMENTATION:
I have been fully informed about the procedures listed here. I am aware of what I will be asked to do and of the benefits of my participation. I also understand the following statements:

I affirm that I am 18 years of age or older.

I have read and fully understand this consent form. I sign it freely and voluntarily. A copy of this form will be given to me. I hereby give permission for participation in this study.

____

Signature of Participant Date

I certify that I have personally explained this document before requesting that the participant sign it.

____

Signature of Researcher Date

VITA

Thomas Edwin Bennett, Jr.

Candidate for the Degree of

Doctor of Business Administration

Thesis: WHAT ARE BUSINESS MODELS AND HOW DO THEY WORK?
A CASE STUDY OF COMMUNITY BANKS IN OKLAHOMA

Biography:

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President, Tulsa Division, Stillwater National Bank, 1988 – 1998
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White House Fellow and Special Assistant to the Comptroller of the Currency, U.S. Treasury Department 1985 – 1986
Executive Vice President, Stillwater National Bank, 1973 - 1985