

# TriView National Bank Case Study



# TriView National Bank Case Study

The TriView National Bank Case Study was prepared for use in the 2001 Malcolm Baldrige National Quality Award Examiner Preparation Course. The TriView National Bank Case Study describes a fictitious financial services institution. There is no connection between the TriView National Bank Case Study and any financial services institution, either named TriView National Bank or otherwise. Other organizations cited in the case study are also fictitious.

TriView National Bank scored in band 2, showing that the institution is in the beginning stages of a systematic approach responsive to the basic purposes of the Items, but major gaps exist in approach and deployment in some Categories. In addition, the institution is in the early stages of obtaining results stemming from approaches. If this were an actual Baldrige application with this scoring profile instead of a case study, the TriView National Bank probably would have been evaluated by a group of Examiners, each working independently during the Stage 1—Independent Review. For the 2001 Examiner Preparation Course, the TriView National Bank Case Study was evaluated using the Stage 2—Consensus Review Process, and Site Visit Issues were developed and included as part of the Scorebook.



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**Malcolm Baldrige National Quality Award****I. Applicant**Official Name TriView National Bank

Headquarters Address \_\_\_\_\_

Other Name \_\_\_\_\_

1000 Commerce WayPrior Name Raleigh Merchant & Farm BankRaleigh, NC 27600**2. Highest-Ranking Official** Mr.  Mrs.  Ms.  Dr.Name Henry J. Chandler

Address \_\_\_\_\_

Title President & Chief Executive Officer1000 Commerce Way, Room 1800Applicant Name TriView National Bank (TNB)Raleigh, NC 27600Telephone No. (919) 555-3616Fax No. (919) 555-3108E-mail henry.chandler@triview.com**3. Eligibility Contact Point** Mr.  Mrs.  Ms.  Dr.Name Marie BonchetteAddress 1000 Commerce Way, Room 1405Title Business Excellence ManagerRaleigh, NC 27600Applicant Name TriView National Bank

Overnight Mailing Address (Do not use a P.O. Box number.) \_\_\_\_\_

Telephone No. (919) 555-4210(same as above)Fax No. (919) 555-4424E-mail marie.bonchette@triview.com**4. Alternate Eligibility Contact Point** Mr.  Mrs.  Ms.  Dr.Name Seth WilliamsTelephone No. (919) 555-4210Fax No. (919) 555-4424**5. Applicant Status** *(Check one)*Has the applicant officially or legally existed for at least one year, or prior to April 5, 2000?  Yes  No**OMB Clearance #0693-0006—Expiration Date: October 31, 2002***This form may be copied and attached to, or bound with, other application materials.***If you are unable to answer any questions or answer any questions "No," please call the Baldrige National Quality Program Office at (301) 975-8789 before submitting your form.**

## Malcolm Baldrige National Quality Award

### 6. Award Category and For-Profit/Not-For-Profit Designation *(Check one)*

- Manufacturing (For-Profit Only)  
 Service (For-Profit Only)  
 Small Business (For-Profit Only)  
 Education  For-Profit  Not-For-Profit  
 Health Care  For-Profit  Not-For-Profit

#### Criteria being used: *(Check one)*

- Business  Education  Health Care

*(For-profit Education and Health Care organizations may choose to apply using the Business Criteria.)*

### 7. Industrial Classification

List up to three of the most descriptive three- or four-digit NAICS codes. (See page 20 of the Baldrige Award Application Forms booklet or PDF version.) 522 5221 5222

### 8. Size and Location of Applicant

- a. Total number of :
- employees (business) 625
  - faculty/staff (education) \_\_\_\_\_
  - staff (health care) \_\_\_\_\_
- b. Preceding fiscal year:
- Check one financial descriptor:  Sales  Revenues  Budgets
  - Check amount:  0-\$1M  \$10M-\$100M  \$500M-\$1B  
 \$1M-\$10M  \$100M-\$500M  Over \$1B
- c. Number of sites in: U.S./Territories 37 Overseas 0
- d. Percent employees in: U.S./Territories 100% Overseas 0%
- e. Percent physical assets in: U.S./Territories 100% Overseas 0%
- f. If some activities are performed outside the applicant's organization (e.g., by an overseas component of the applicant, the parent organization or its other subunits), will the applicant, if selected for a site visit, make available in the United States sufficient personnel, documentation, and facilities to allow full examination of its operational practices for all major functions of its worldwide operations?  
 Yes  No  Not Applicable
- g. In the event the applicant receives an Award, can the applicant make available sufficient personnel and documentation to share its practices at the Quest for Excellence Conference and at its U.S. facilities?  
 Yes  No
- h. Attach a line and box organization chart for the applying organization, including the name of the head of each unit or division.

**If you are unable to answer any questions or answer any questions "No," please call the Baldrige National Quality Program Office at (301) 975-8789 before submitting your form.**

**Malcolm Baldrige National Quality Award****9. Subunits** *(If the applicant is not a subunit as defined on pages 7-8, please proceed to question 10.)*

a. Is the applicant \_\_\_\_\_ a larger parent or system? *(Check all that apply.)*

- a subsidiary of       a unit of       a school of  
 a division of       a like organization of       owned by  
 controlled by       administered by

b. Parent Organization

Name _____	Highest-Ranking Official _____
Address _____	Name _____
_____	Title _____
Number of worldwide employees of the parent _____	

c. Is the applicant the only subunit of the parent organization intending to apply? *(Check one.)*

- Yes *(Briefly explain)*       No       Do Not Know

d. Name of the official document (e.g., dated Annual Report, press release) supporting the subunit designation.

\_\_\_\_\_

e. Briefly describe the organizational structure and relationship to the parent.

Attach line and box organization chart(s) showing the relationship of the applicant to the highest management level of the parent, including all intervening levels. Each box within the chart should include the name of the head of the unit or division.

f. Is the applicant's product or service unique within the parent organization? *(Check one.)*

- Yes     No

If "No," do other units within the parent provide the same products or services to a different customer base? *(Check one.)*

- Yes     No

If "No," please provide a brief explanation of how the applicant is distinguishable from the parent and its other subunits (e.g., market/location/name).

**If you are unable to answer any questions or answer any questions "No," please call the Baldrige National Quality Program Office at (301) 975-8789 before submitting your form.**

**Malcolm Baldrige National Quality Award****9. Subunits—continued**

- g. **Business only.** Are more than 50 percent of the applicant's products or services sold or provided to customers outside the applicant's organization?  Yes  No
- h. **Business only.** Are less than 50 percent of the applicant's products or services sold or provided to the following? *(Both parts must be checked.)*
- its parent  Yes  No
  - other organizations controlled by the applicant or parent  Yes  No
- i. Briefly describe the major support functions provided to the applicant by the parent or by other subunits of the parent. *(Examples might include human resources, legal, accounting, information technology, etc.)*
- j. Check all that apply:
- Does the applicant have more than 500 employees?  Yes  No
  - Do the applicant's employees make up more than 25 percent of the worldwide employees of the parent?  Yes  No
  - Was the applicant independent prior to being acquired—and does it continue to operate independently under its own identity?  Yes  No

**10. Supplemental Sections** *(Check one.)*

- The applicant has: (a) a single performance system that supports all of its product and/or service lines; and (b) products or services that are essentially similar in terms of customers/users, technology, types of employees, and planning.
- The applicant has: (a) multiple performance systems that support all of its product and/or service lines; and (b) products or services that are essentially similar in terms of customers/users, technology, types of employees, and planning.

*(If the second option is selected, briefly describe the differences in the products and/or services covered in terms of differences in customers, technology, types of employees, and planning. The Eligibility Contact Point will be asked for more information if necessary.)*

**If you are unable to answer any questions or answer any questions "No," please call the Baldrige National Quality Program Office at (301) 975-8789 before submitting your form.**

## Malcolm Baldrige National Quality Award

### 11. Summary List of Questions

Have all of the following questions been answered “Yes” or the applicable response checked? Answering a question “No,” or leaving a response blank means that the applicant is not eligible for the 2001 Malcolm Baldrige National Quality Award.

- Question 5: Has the applicant officially or legally existed for at least one year, or prior to April 5, 2000?
- Question 6: **Business only.** Have an Award Category and a For-Profit/Not-For-Profit Designation been checked?
- Question 9g: **Business only.** Are more than 50 percent of the applicant’s products or services sold or provided to customers outside the applicant’s organization?
- Question 9h: Are less than 50 percent of the applicant’s products or services sold or provided to its parent and other organizations controlled by the applicant or parent? Both parts should be answered “Yes.”

At least one component of the following question should be answered “Yes.”

- Question 9j:
  - Does the applicant have more than 500 employees?
  - Do the applicant’s employees make up more than 25 percent of the worldwide employees of the parent?
  - Was the applicant independent prior to being acquired—and does the applicant continue to operate independently under its own identity?

### 12. Self-Certification Statement, Signature—Highest-Ranking Official

I certify that the answers provided are accurate and that my organization is eligible based on the current requirements for the 2001 Malcolm Baldrige National Quality Award. I understand that at any time during the Award Process cycle, if the information provided was inaccurate, my organization will no longer be eligible for the award and will only be eligible to receive a feedback report.

<p>_____ March 30, 2001 Date</p>	<p style="font-size: 2em; font-weight: bold; margin-left: 10px;">X</p> <p style="font-family: cursive; font-size: 1.5em; margin-left: 10px;">Henry J. Chandler</p> <p>_____ Signature</p> <p>_____ Henry J. Chandler Printed Name</p>
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**If you are unable to answer any questions or answer any questions “No,” please call the Baldrige National Quality Program Office at (301) 975-8789 before submitting your form.**

**Malcolm Baldrige National Quality Award**

The following information is needed by the Malcolm Baldrige National Quality Award office to provide the most effective evaluation possible by the Board of Examiners.

**I. Site Listing and Descriptors**

Please refer to the instructions on page 21 of the Baldrige Award Application Forms booklet or PDF version to complete the Site Listing and Descriptors form. It is important that the totals for the number of employees, faculty, and staff; percent of sales, revenues, and budgets; and sites on the form match the totals provided in 8.a., 8.b., and 8.c. above. For example, if you report 600 employees in 8.a., the total number of employees provided in the Site Listing and Descriptors form should be 600.

Address of Site(s)	Number Employees, Faculty, and/or Staff	Percentage	Description of Products, Services, and/or Technologies for each site
		<input type="checkbox"/> Sales <input checked="" type="checkbox"/> Revenues <input type="checkbox"/> Budgets	
Raleigh 1000 Commerce Way Raleigh, NC	64	46.0%	Executive Offices Division Offices Product Management Sales and Marketing Human Resources
Raleigh DirectServe Center 1000 Commerce Way Raleigh, NC	22	2.0%	Call Center
Green Forest Operations Center Route 276, Service Road Green Forest, NC	63	0.0%	Information Technology Management and Operations (Cost Center)
Asheboro, NC (2 branch offices) Burlington, NC (2) Chapel Hill, NC (4) Charlotte, NC (6) Claremont, NC (1) Concord, NC (1) Durham, NC (4) Greensboro, NC (2) Greenville, NC (1) Lexington, NC (2) Raleigh, NC (5) Wake Forest, NC (1) Wilmington, NC (2) Winston-Salem, NC (2)	32 30 62 72 16 15 48 25 15 25 70 12 22 32	52.0% for all branches combined	Branch Offices

Provide all the information for each site, except where multiple sites produce similar products or services. For such multiple site cases, see 8c on page 9 of the Baldrige Award Application Forms booklet or PDF version.

**This form may continue onto as many pages as necessary to cover all sites.**

**If you are unable to answer any questions, please call the Baldrige National Quality Program Office at (301) 975-8789 before submitting your form.**

**Malcolm Baldrige National Quality Award****2. Key Business/Organization Factors**—List or provide a brief description of the following key organization factors:

## A. List of key competitors

The financial services industry is a crowded and highly competitive market. TriView National Bank (TNB) operates in a 14-community footprint that is also home to dozens of its competitors. For the most part, whether the size of the financial service company is small or very large, each one offers a similar set of products and services.

- Megabanks (\$550+ billion in assets)
  - CSNC Bank
- Super-regional Banks (\$150-250+ billion in assets)
  - North Mountain Regional Bank
- Midsize Banks (\$10-150+ billion in assets)
  - Sentry National Bank
  - Alliance Community Bank
  - First Town National Bank
- Super-community Bank Companies (\$1-5+ billion in assets)
  - TNB is the only large community bank operating in North Carolina.
- Community Banks (Average \$50+ million in assets)
  - Over 120 community banks
- Nonbanks (nondepository financial service companies)
  - 28 Savings & Loan Associations in North Carolina; multiple offices
  - 50+ thrift institutions; multiple offices
  - Credit unions
  - Retail stores with credit cards
  - Insurance companies
  - Mutual fund companies
- National Credit Card Companies
  - Banks across the United States

## B. List of key customers/users

TriView National Bank (TNB) is a privately owned branch bank system serving 14 communities throughout North Carolina. Customers are segmented into the following groups:

- Retail Banking Customers: 80,000 single or household account holders
- Small Business Customers: 922 account holders
- Commercial Banking Customers: 14 account holders (greater than \$1 million)

**If you are unable to answer any questions, please call the  
Baldrige National Quality Program Office at (301) 975-8789 before submitting your form.**

**Malcolm Baldrige National Quality Award**

## C. List of key suppliers

There are several key categories of suppliers and vendors: sales marketing and advertising, technology, office supplies and equipment, and back-office item processing. TNB procures supplies and services from numerous sources. The key sources are listed below:

- Great Smoky Marketing
- Spruce Mortgage Co.
- Polk-Wolfe Advertising
- Hickory Investment Services
- Harmony, Inc.
- Pine Transaction Services
- IZOR (credit card)
- Blackstone Office Supplies & Equipment
- Checks For You
- TNCard (credit card)

## D. Description of the major markets (local, regional, national, and international)

The Research Triangle area (includes 300 square mile area bounded by Raleigh, Chapel Hill, and Durham)

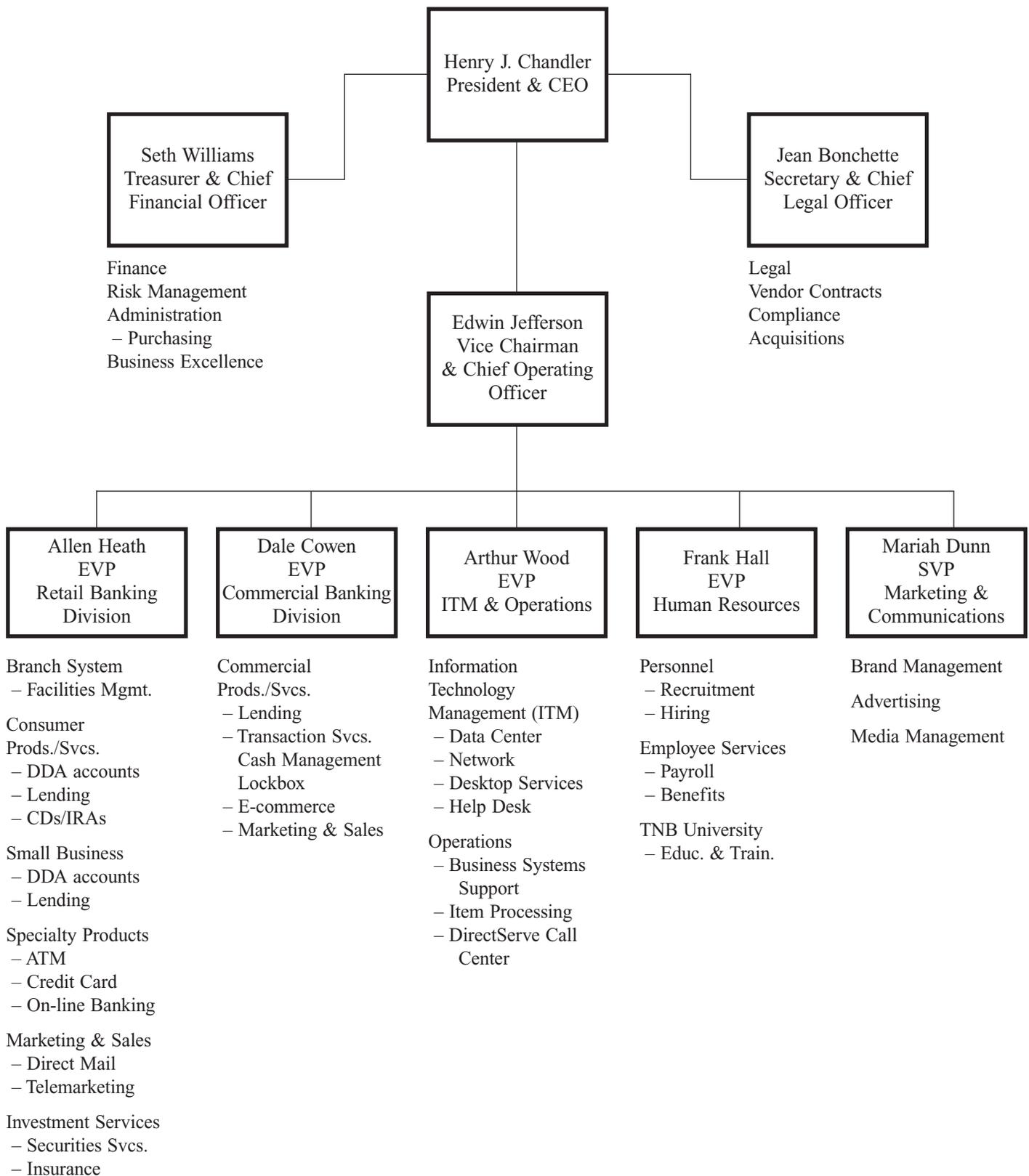
Major growth communities throughout North Carolina

National credit card and CD market

## E. The name of the organization's financial auditor

Midstate Accounting, an independent auditor, audited TNB's consolidated financial statements in accordance with generally accepted auditing standards.

# TriView National Bank Organization Chart



Note: Boxes in bold indicate member of the Executive Management Committee (EMC)

# 2001 Application Form

## Malcolm Baldrige National Quality Award

### 1 Applicant

Name TriView National Bank  
Mailing Address 1000 Commerce Way  
Raleigh, NC 27600

### 2 Award Category (Check one.)

Manufacturing  Service  Small Business  
 Education  Health Care

For small businesses, indicate whether the larger percentage of sales is in service or manufacturing. (Check one.)

Service  Manufacturing

Criteria being used (Check one.)

Business  Education  Health Care

### 3 Official Contact Point

Mr.  Mrs.  Ms.  Dr.

Name Marie Bonchette

Title Business Excellence Manager

Applicant Name TriView National Bank

Mailing Address 1000 Commerce Way, Room 1405  
Raleigh, NC 27600

Overnight

Mailing Address (Do not use P.O. Box number.)

(same as above)

Telephone No. (919) 555-4210

Fax No. (919) 555-4424

### 4 Alternate Official Contact Point

Mr.  Mrs.  Ms.  Dr.

Name Seth Williams

Telephone No. (919) 555-4210

Fax No. (919) 555-4424

### 5 Fee (See page 24 for instructions.)

Enclosed is \$ 5,000 to cover one application report and \_\_\_\_\_ supplemental sections.

Make check or money order payable to:

**The Malcolm Baldrige National Quality Award**

### 6 Release Statement

We understand that this application will be reviewed by members of the Board of Examiners.

Should our organization be selected for a site visit, we agree to host the site visit and to facilitate an open and unbiased examination. We understand that the organization must pay reasonable costs associated with a site visit.

If our organization is selected to receive an Award, we agree to share nonproprietary information on our successful performance excellence strategies with other U.S. organizations.

### 7 Signature, Highest-Ranking Official

Date May 25, 2001



Mr.  Mrs.  Ms.  Dr.

Name Henry J. Chandler

Title President and Chief Executive Officer

Applicant Name TriView National Bank

Mailing Address 1000 Commerce Way

Room 1800

Raleigh, NC 27600

Telephone No. (919) 555-3616

OMB Clearance #0693-0006  
Expiration Date: October 31, 2002

**This form may be copied and attached to, or bound with, other application materials.**

# Organizational Profile

## P.1 Organizational Description

### P.1a Organizational Environment

TriView National Bank (TNB) is a privately held branch bank headquartered in Raleigh, North Carolina. At \$1.6 billion in assets, TNB is considered a super-community bank. The bank was founded in 1973 by four Raleigh entrepreneurs as the Raleigh Merchant & Farm Bank. During the 1990s, the bank expanded through building and acquisition from two branches, one located in Raleigh and the other in Chapel Hill, to 35 branches located throughout the Research Triangle area of Raleigh, Durham, and Chapel Hill and selected communities in North Carolina.

The Research Triangle area, the primary market for TNB, is a rapidly growing community. It is the home of many major corporations. Over 2,000 households move into the Research Triangle area each month; in fact, new housing goes up as soon as financing is arranged. Approximately 65 percent of those new households develop a financial services relationship with TNB, which has been prospering along with the area's high-tech community. In fact, throughout the state of North Carolina, construction mirrors the overall strength and unprecedented growth of the economy in the United States.

Over the past two decades, the bank's constituents have changed as the community landscape transformed from farmland to industrial parks. Today's customers are affluent professionals with families, who seek communities with excellent educational systems and retail services comparable to those in big cities. In order to serve this growth market and provide customers with convenient branch locations, TNB has expanded from its original single branch in 1973 to 35 branches in selected communities across the state at the end of 2000.

As a result of a strong economy, increased demand for loans, and the ability of TNB to provide the products and services desired by customers, the bank's assets have been growing internally by more than 30 percent in each of the past three years.

The Research Triangle area is more than just a high-tech business community; it is rich in academic and cultural heritage. Because of its proximity to the University of North Carolina, Chapel Hill, and Duke University, the area is a center for world-class education, medicine, and cultural events. The leadership of TNB is deeply involved in community events and continues its close ties to Carol University, the CEO's alma mater. TNB's commitment to the community extends far beyond the geographical location of Raleigh. TNB was one of the first banks to support the Investment in Youth Program, an initiative to help point young people in the right direction.

In 1990, the bank's name was changed to TriView National Bank to reflect the triangularly shaped area where the bank was founded. During the next decade, TNB capitalized and expanded its branch system through building and acquisition. In 1998, TNB repositioned itself from a traditional branch system servicing customers through checking accounts and loans to a sales-oriented culture in which associates are involved in sales and service. TNB's primary business proposition is to bring customers into the bank, keep them, and build multiproduct relationships with them to keep the dominant "share of the wallet." This strategy has been very successful. For example, in 1995, household account holders averaged 1.2 TNB products, whereas today, the average is 4.2 products per household.

### P.1a(1) Products, Services, and Branch System

TNB is a branch bank system serving consumers and businesses through 35 branches located throughout 14 major communities in North Carolina, including the Raleigh, Durham, and Chapel Hill area. Each branch offers a range of consumer, small business, and commercial products and services. TNB provides financial services such as credit cards and certificates of deposit (CDs) in selected markets in the United States.

**Consumer** – Personal finance products include personal checking and savings accounts, money market accounts, CDs, and individual retirement accounts (IRAs). Securities, financial planning, and insurance services are provided at key locations and address the customers' need for counseling on wealth management. A wide range of investment choices is offered to customers through a partnership with Hickory Investment Services (HIS). Over 2000 mutual fund companies and securities products, such as equities, U.S. government securities, municipal and corporate bonds, and insurance products (e.g., annuities), are provided through HIS. Loans and credit products include lines of credit; home improvement, personal, and automobile loans; and mortgages. Mortgage loans are brokered through real estate or third-party brokers.

**Small Business** – Business finance products include small business checking and money market accounts. Small business loans include lines of credit, small business credit cards, equipment financing, and commercial real estate financing. Small business transaction services include cash management and lockbox services.

**Commercial** – Commercial lending products include mortgages and construction financing, term loans, lines of credit, and transaction services such as cash management, lockbox services, and account reconciliation. Since the mid-1980s, TNB has specialized in residential, one-to-four family construction loans. From its headquarters in Raleigh, TNB approves construction loans all over the state. Commercial real estate loans range from \$1 million to \$15 million, and loans to entrepreneurs developing

large projects are worth from \$20 to \$25 million. Typical construction loans are 12 to 18 months in duration. Much of the lending is orchestrated through third-party brokers or construction loan brokers who line up companies and commercial builders with lenders such as TNB.

**Credit Card** – Both TNCard and IZOR credit cards are offered to consumers and small businesses in selected markets throughout the United States. TNB, SuperCard, and a local university co-brand a credit card product in order to draw assets from alumni across the country. The university receives two percent of the revenue to fund scholarships and capital projects. TNB also offers students a limited line of credit through card services without the annual card fee while they are in school. Approximately 85 percent of students who enroll in the card program during their college years remain as cardholders upon graduation and upgrade to a fee-based alumni card product with higher credit limits.

**On-line Banking** – Since 1994, TNB has provided bill payment and transfer of funds to consumers and small businesses through PC-based on-line banking services. TNB was one of the first community banks to offer on-line banking to customers. On-line banking allows customers to access their balances, move funds between checking and money market accounts, and pay bills by setting up instructions with eligible vendors. On-line banking uses a popular software package to connect to the bank and track transactions. To ensure secure access, the bank uses a dial-back system that calls back the customer’s computer to verify identity before providing entry into the customer’s account information. Web-enabled financial services are currently in the development phase. Web or Internet service is different than on-line banking in that it uses the Internet as the access point and does not require dial-back security systems. The Web will also allow small business and commercial companies to access TNB from multiple locations and phones. As a result, many more services can be provided to retail and commercial customers than through on-line banking. TNB is partnering with Pine Transaction Services, an outsource item processing vendor, to provide retail and commercial customers with numerous Internet-based features, including cash management, advanced bill payment, transfer of funds, Automated Clearing House (ACH) origination, personalized on-line statements, business purchasing, on-line shopping, and direct debit automated payment.

**P.1a(2) Vision and Values**

TNB’s mission (Figure P.1-1) is “to provide customers with financial services and to promote the growth and economic well-being of all the communities we serve.” Its vision is “to provide Legendary Service.” It seeks to create a customer experience that is so powerful it leads customers to tell service stories about TNB and results in competitors, whether they are megabanks, regional banks, small community banks, or nonbanks, acknowledging TNB as the industry benchmark for customer-driven service. TNB’s values

describe expectations for associates’ behavior to achieve the bank’s vision. The values of trust, action, and commitment are fully described in Category 1 and are illustrated in Figure 1.1-1, the TriView Trust Model and Values.

In line with its vision, TNB has initiated a brand strategy focused on TNB serving its “bank family.” In other words, as part of the strategy to achieve Legendary Service, TNB is positioned to offer customers a sense of community through their banking activities. Embracing the traditional lines of business, TNB offers face-to-face dealings that characterize a community bank. In essence, TNB is building the brand through its associates. TNB believes that if it takes care of its employees and makes them an active part of the bank family, they will take care of TNB’s customers. Word of mouth will take care of the rest; people will tell other people about how well their financial needs are being met. TNB’s key strategy is to develop an associate workforce that cares more about customers than the competition cares about its customers. With a firmly established brand, the sense of bank family and commitment builds customer loyalty. Loyalty builds a preference for TNB’s products, which, in turn, allows the bank to command a premium price in the marketplace.

Since TNB is privately owned and does not publicly trade stock, the Executive Management Committee (EMC) enjoys a competitive atmosphere free of the pressure of analysts and shareholders. TNB is interested in building a long-term business, which is facilitated by the lack of outsider interests pushing for quarter-to-quarter earnings.

**P.1a(3) Associate Profile**

TNB’s 625 associates work in 35 branch offices in 14 key communities in North Carolina. All members of the management and branch teams have college degrees. Some, including the President and CEO, have MBAs. All branch staff associates have at least a high school degree. Many of the loan officers (90 percent) and the customer

MISSION
To provide customers with financial services and to promote the growth and economic well-being of all the communities we serve.
VISION
To provide Legendary Service.
VALUES
<ul style="list-style-type: none"> <li>• Trust</li> <li>• Action</li> <li>• Commitment</li> </ul>
BRAND
TriView ... your bank family

**Figure P.1-1 TriView’s Mission, Vision, Values, and Brand**

relationship managers (85 percent) hold either two-year or baccalaureate degrees.

#### **P.1a(4) Technology, Equipment, and Facilities**

At the end of 2000, the company operated 35 traditional branch offices located throughout the 14-community footprint. Headquarters, administrative functions, and management offices reside in Raleigh. A network of 1,000 ATMs is available across the 14-community footprint, and TNB customers have access to 500,000 ATMs throughout the world through the Cumulus ATM Network System. TNB is a member of the Federal Reserve System and transfers payments through the ACH and through the Fed Wire System.

DirectServe, TNB's call center, provides consumer and business customers with access to customer service associates 7 days a week, 24 hours a day, and 365 days a year. Customers can call DirectServe to reorder checks, submit a loan application, get current rates on products, and receive assistance with resolving a problem.

Several banking systems run in the data center that is located in the Green Forest Operations Center. For example, the TriView Management Information System (TMIS) provides customer, account, and financial information through a suite of software applications. A current initiative is underway to develop a data warehouse. The data warehouse would have predictive modeling capabilities to enable TNB to access customer information that will identify customer needs. Then TNB could more effectively design products and services for different customer groups and create a more efficient sales effort and competitive pricing.

Item processing, cash management, and lockbox services are outsourced to Pine Transaction Services.

#### **P.1a(5) Regulatory Environment**

Financial institutions in the United States, including banks, are highly regulated and subject to capital requirements administered by federal and state banking agencies, such as the Federal Financial Institutions Examination Council (FFIEC) agency. A listing of key bank regulations and requirements is presented in Figure 1.2-1.

TNB is a federal bank chartered in the state of North Carolina. It is a member of the Federal Reserve System (FRS) and therefore is regulated by the Board of Governors of the Federal Deposit Insurance Corporation (FDIC), an independent agency that insures the deposits of banks. TNB meets all national, state, and local requirements, laws, and compliance requirements. The consequences of non-compliance include reprimands, fines, and legal liability. The bank was categorized as "well capitalized" in the most recent notification from regulators in 2000.

Today, the customers and the regulatory agencies are concerned with three key compliance issues: privacy, predatory lending, and unfair and deceptive practices. Customers want to know if the financial institution is protecting their

information—in effect, protecting their privacy—and if it is being honest with them. The government regulates banking activities related to these issues through the Fair Credit Reporting Act (FCRA), Community Reinvestment Act (CRA), and Truth in Savings Act. TNB is proactive in the compliance area and views changes in regulatory requirements as opportunities. For example, new laws such as the E-Signature Law will have a significant impact on bank strategies and operations. As of October 2000, this law recognizes a digital signature as equally valid and legally binding as the traditional handwritten signature on the bottom of a paper document. TNB is evaluating how to leverage this opportunity to improve the cycle time to approve home equity loans, lines of credit, and mortgages. TNB is also investigating how offering these products through the Internet could provide a source of inexpensive funds. Increasing funding through the Internet reduces the need to rely on more expensive funding available through the Federal Home Loan Bank.

#### **P.1b Organizational Relationships**

##### **P.1b(1) Customer Segments**

There are primarily three types of customer segments served by TNB: consumer, small business, and commercial customers. Customers are further segmented by distribution channel. Customers may access products and services in person via the branch system or by phone through DirectServe. The key markets are the Raleigh-Durham-Chapel Hill area and other selected communities throughout North Carolina. A secondary market is the national arena provided through the CD and credit card product lines.

Based on market research and Customer Outreach surveys, TNB has determined that the number one requirement for consumer account holders in selecting a bank is convenience in banking. Convenience translates into the proximity of the nearest branch to home and work and the availability of ATMs. Next to convenience, the key service quality attributes desired by account holders are responsiveness, accuracy, timeliness, and knowledgeable customer contact associates. In addition to these requirements, small businesses also expect TNB to respond to inquiries and problems, provide accurate information, and provide account balances and other information on a timely basis. Although commercial customers desire responsive, accurate, and timely service, they are primarily concerned with low interest rates and rapid loan approval. Many commercial builders come to TNB first because of its capability to provide a loan decision within two days. Being the vendor of choice also allows TNB the right to first refusal, keeping loan performance up across the bank's portfolio of loans.

##### **P.1b(2) Suppliers and Partners**

TNB utilizes numerous suppliers and vendors to support the administrative, business, operational, and technology infrastructure of the bank. TNB outsources its item

processing, cash management, and lockbox functions. There are several key categories of suppliers and vendors: sales, marketing and advertising, technology, office supplies and equipment, and back-office item processing (Figure P.1-2). Partnerships exist with TNCard, IZOR, Cumulus ATM Network, and Hickory Investment Services.

Vendor	Product/Service
Great Smoky Marketing (S)	Direct mail and telemarketing services
Polk-Wolfe (S)	Advertising
Cumulus (P)	Shared ATM Network
Hickory Investment Services (P)	Securities and insurance services
Harmony, Inc. (S)	Disaster recovery “hot” site
J-Pro Services (O)	Data capture and item processing, check statement printing and distribution
Blackstone Office Supplies and Equipment (S)	Office supplies, forms, and equipment
TNCard (S)	Card services
Checks For You (S)	Check vendor
IZOR (S)	Card services
S=Suppliers O=Outsource Vendors P=Partners	

**Figure P.1-2 Suppliers/Outsourcers of Products/Services**

## P.2 Organizational Challenges

### P.2a Competitive Environment

Banks face many challenges; most are not unique to community banks such as TNB, but are also faced by mid-size banks, super-regional banks, and megabanks. These challenges include recent economic uncertainty, new directions presented by financial services reform, increased sophistication of financial service consumers, and the pressure to venture out to e-commerce products as profitability declines in the core deposit and lending businesses. However, the opportunities facing bankers are enormous. For example, the affluent market in North Carolina is one of the fastest growing segments. Over the next five years, the Wealth Segment will increase by 46 percent, the Upscale Retired Segment will increase by 14 percent, and the Upper Affluent Segment will increase by 36 percent.

Over the past two decades, the banking industry has been consolidating sharply. In the mid-1970s, Raleigh Merchant & Farm Bank was one of 14,311 U.S. banks. Today, there are 9,985 banks remaining in the United States, with further consolidation on the horizon. This trend is worrisome to banks like TNB that wish to stay

independent. The “barbell theory” suggests that banking will evolve into a business of extremes—a few very large banks (\$600–\$800 billion) at one end and small banks (\$50 million plus on average to \$5 billion in assets) on the other end. Everything in between would be absorbed. Independent banks like TNB are becoming increasingly more attractive as a target for acquisition by larger banks.

However, TNB does not desire to become a midsize player because its EMC believes the middle ground may be untenable in the longer-term strategic sense. Midsize banks will have most of the challenges of a large bank with neither the economy of scale of a large bank nor the personalized services of a community bank. Therefore, at a time when other banks are abandoning branch banking and forcing customers to use remote delivery channels, TNB has opened four new branches during the course of 2000. TNB will maintain and grow its position as a super-community bank through aggressive building and business acquisition. TNB’s long-term strategic objective is to build a branch network of over 50 offices and total assets of \$3 billion by 2004.

The key challenges that TNB faces in achieving this objective are (1) high levels of competition, (2) challenges posed by new and expensive technology, (3) the rising cost of attracting, acquiring, and retaining branch talent, (4) the rising cost of the branch system itself, and (5) the need to develop a succession plan.

The first challenge is concerned with heightened competition in the marketplace. Unsolicited line of credit offers come in the mail to customers from any number of major lending institutions; so do credit card and home equity solicitations. The idea of a finite sales area that belongs to your bank is long gone. Despite this competition, TNB’s entry into the credit card and CD market has been very profitable.

Technology provides large community banks such as TNB with the opportunity to compete with midsize and large banks. Although customers still want face-to-face banking, technology will be playing an increasingly larger role in providing customers with a choice of products and services. For example, the Internet provides an egalitarian delivery channel with personalized portals to different customer groups. TNB intends to leverage Web-enabled services to tap into specific customer segments.

To achieve the vision of Legendary Service, TNB is dedicated to developing an associate workforce that has a low turnover rate and therefore can provide consistency in service to customers through tenured customer relationships.

Brick and mortar institutions such as TNB are costly to create and maintain. TNB is counting on its workforce to contribute to the overall profit margin through innovative ideas to cut costs, improve productivity, and increase revenue.

Finally, TNB seeks to provide uninterrupted leadership when its “baby boomer” President and CEO reaches retirement age. Succession planning must also address the fact that over 50 percent of key managers are moving toward the same or earlier retirement horizons as the top leaders. Only through a well-planned and proactive succession plan can the legacy begun by TNB’s founders continue into the new century.

### **P.2a(1) Competitive Situation**

Although TNB is the largest community bank in North Carolina, some of the competitive advantages that TNB has over the big banks are its small size, geographic concentration in high-growth areas, and less cumbersome infrastructure that enables the bank to react more quickly and efficiently to business opportunities.

The bank promotes “Real Customer Hours.” Most branch offices are open from 7 a.m. to 7 p.m., Monday through Saturday, which has been the case for more than a decade. For many people in the Research Triangle area, as well as people in all areas throughout the state, getting to the bank during regular banking hours can be difficult. TNB offers more than tellers-only service during its extended hours. There is always an associate who can take loan applications. The bank has flexible work schedules that allow some associates to work 12-hour shifts three days a week and others to work only during the peak hours between 11 a.m. and 2 p.m. Although it may seem expensive to do this, it is cost effective in the end because customers say that the greatest incentive to bank with TNB is its convenient hours. Since the bank raises most of its deposits locally through its branch network, extended hours help the bank attract funds at fairly reasonable rates.

These strategies allow TNB to compete with the top-tier, large regional banks such as North Mountain Regional Bank and megabanks such as CSNC, both headquartered in Raleigh with branches throughout North Carolina. Numerous regional bank holding companies comparable in size to TNB are located in the state. Many nonbank competitors also operate in North Carolina. Additionally, most major corporations have their own credit unions, including Carol University and three savings and loan companies, each with multiple sites throughout the 300 square miles that make up the Research Triangle area and throughout the state. Dozens more credit unions and savings and loan companies exist in competition with TNB throughout the state.

### **P.2a(2) Success Factors**

The bank’s funding mix is 75 percent core deposits with 32 percent of deposit funding coming from noninterest-bearing checking accounts. The key to TNB’s success is that good people work for the bank, and they understand how to treat customers. Customer satisfaction and loyalty are essential since 32 percent of the bank’s deposit base

consists of interest-free accounts. This is supplemented by 25 percent in \$99,000 CDs that the bank places through Great Southern’s telemarketing service. Most of the large CDs are placed for a year, which is consistent with the bank’s short-term lending specialty. The bank rounds out its portfolio with local small business loans and large commercial building loans. Consumer deposits are what makes the construction lending possible and profitable. The bank does not have brokered deposits and only minimally taps into funding methods such as the Federal Home Loan Bank. To encourage deposits, the bank advertises aggressively and pays a premium over what other local banks pay for deposits. For example, in mid-September, the bank was paying 5.75 percent for a one-year, \$10,000 CD; the other regional banks in the area were lower by at least a percentage point. Checking is totally free, with no minimum balances or service charges.

### **P.2b Strategic Challenges**

A future strategy is to increase the bank’s funding assets by raising deposits over the Web. The efficiency rating involves keeping costs down, with noninterest income becoming increasingly more important for the bank. TNB seeks to provide services at peak efficiency, while maintaining effective cost controls. Currently, total assets are \$1.6 billion. By 2004, the strategic objective is to break the \$3 billion barrier. Asset growth is 30.6 percent annually. The ratio of total loans to total deposits is 64 percent. Asset quality continues to be outstanding, with nonperforming loan-to-gross-loan ratios of 0.25 percent, comparable to top performers in the industry. The efficiency ratio was 46.5 percent at the end of 2000.

### **P.2c Performance Improvement System**

In the mid-1990s, TNB began to shift from an anecdotal-based culture to a management-by-fact culture focused on processes. Although TNB has always been focused on providing customers with the products and services that they need and developing the associate workforce to deliver those products and services, an awareness of the importance of continuous improvement did not come about until three years ago when the President and EMC members attended the 1997 Quest for Excellence Conference. As a result of learning from this conference, a new position was formed. A dedicated Business Excellence Manager is helping the company and each of its banking centers use the Baldrige Criteria for Performance Excellence. TNB uses the Criteria for Performance Excellence to identify opportunities for improvement in the overall management of the company and to accelerate progress toward its vision to provide Legendary Service. The Criteria are used also as a formal feedback tool and as an environmental scan for input into the strategic planning cycle.

## Glossary of Terms and Abbreviations

<b>ABA</b> American Banking Association	<b>CPM</b> Critical Performance Measure
<b>ACD</b> Automated Call Directory	<b>CRA</b> The Community Reinvestment Act prevents “redlining,” a procedure in which a lender supposedly draws a “red line” on a map and refuses to make loans in the area designated. CRA encourages banks and thrifts to help meet the credit needs of all segments of their communities.
<b>ACH</b> Automated Clearing House is an electronic funds transfer (EFT) system used to clear funds from one financial institution to another.	<b>DDA</b> Demand Deposit Accounts are accounts, such as checking or savings accounts, that the owner can withdraw instantly upon demand, either with checks or electronically.
<b>ASM</b> ATM Service Management	<b>Efficiency ratio</b> Noninterest expense divided by net interest income (taxable equivalent plus noninterest income)
<b>Asset quality</b> Nonperforming loans to gross loan ratios	<b>EFT</b> Electronic Funds Transfer electronically transfers funds from one financial account to another.
<b>Assets</b> Assets are items of value that a business owns (e.g., financial assets).	<b>EMC</b> Executive Management Committee
<b>ATM</b> Automated Teller Machine	<b>FCRA</b> Fair Credit Reporting Act
<b>Average assets</b> Average daily balance of assets for a full year	<b>FDIA</b> Federal Deposit Insurance Act
<b>Bank audits and examinations</b> Bank regulatory agencies audit banks periodically to determine the soundness of the banks.	<b>FDIC</b> The Federal Deposit Insurance Corporation insures bank deposits up to \$100,000 per account.
<b>Branch banking</b> Branch banks can have multiple full-service offices. Some banks, such as TNB, which is state chartered, can engage in statewide branching.	<b>FFIEC</b> Federal Financial Institutions Examination Council
<b>CAU</b> Controlled access unit	<b>FHLB</b> Federal Home Loan Bank
<b>CBD</b> Commercial Banking Division	<b>FRS</b> The Federal Reserve System (FRS) is the nation’s central bank. Its primary function is to control the money supply and financial markets in the public’s best interest.
<b>CD</b> Certificate of Deposit	<b>Glass-Steagall Bank Act of 1933</b> This act separates banking from investment banking and restricts banks from engaging in nonbanking activities or acquiring nonbanking businesses.
<b>CIP</b> Continuous Improvement Process	
<b>CIS</b> Customer Information System	

**Gramm-Leach-Bliley Act**

This legislation modernizes the banking industry. It repeals a number of key Glass-Steagall Bank Act provisions so that banks can offer a broad range of financial products and services and combine with securities, insurance, and other financial companies.

**HIS**

Hickory Investment Services

**HR**

Human Resources

**IPP**

Individual Performance Plan

**IRA**

An Individual Retirement Account is a plan for individuals in which pension contributions are deposited with trustees.

**ITM**

Information Technology Management

**KSF**

Key Success Factor

**Net charge-off coverage ratio**

Period-end reserve for balance losses divided by net charge-off of losses for the period

**Nonperforming asset ratio**

This ratio is nonaccrual of loans plus foreclosed assets and restructured loans, divided by period-end total loans plus foreclosed assets.

**OCC**

The Office of the Comptroller of the Currency is an agency of the U.S. government responsible for regulating banks with federal charters. Only federally chartered banks may use the word “national” in their name.

**PMDP**

Performance Management and Development Process

**RBD**

Retail Banking Division

**Research Triangle area**

This is a triangularly shaped area in North Carolina that includes Raleigh, Chapel Hill, and Durham and covers approximately 300 square miles of suburban countryside. The area includes some of the largest industrial sites in the United States.

**ROA**

Return on assets is net income before nonrecurring items divided by average total assets.

**ROE**

Return on equity is net income before nonrecurring items, divided by average common share equity.

**SLAs**

Service Level Agreements

**SPP**

Strategic Planning Process

**TEAR**

TriView Excellent Associate Recognition program

**TMIS**

TriView Management Information System

**TNB**

TriView National Bank

**T-Net**

TNB’s intranet and e-mail system

**VCP**

Variable Compensation Program

**VOC**

Voice Of the Customer

# 1 Leadership

## 1.1 Organizational Leadership

### 1.1a Senior Leadership Direction

In 1973, four Raleigh entrepreneurs founded the Raleigh Merchant & Farm Bank with the main office in Raleigh and a branch office in Chapel Hill. The partnership includes Henry Chandler, President and Chief Executive Officer; Seth Williams, Treasurer and Chief Financial Officer; Edwin Jefferson, Vice Chairman and Chief Operating Officer; and Jean Bonchette, Secretary and Chief Legal Officer.

It was in the late 1980s that the partners recognized that the influx of major corporations into the Raleigh, Durham, and Chapel Hill area, now called the Research Triangle, presented enormous business development opportunities for not only the community but also for the community bank that served the people who lived there at the time and who would live there in the future. The partners understood that without changing the bank and its capabilities, they would not be able to meet the needs of this growing community or compete with other financial service companies that also had come to recognize the business opportunities. Although the partners desired and were committed to growth, they did not want to lose the sense of bank community that had been the reason for their current prosperity and success and, in many respects, the reason their work had been so gratifying.

In 1990, the partners executed one of many key steps to bring the bank into the 21st century. The state-chartered bank became a federal financial institution named TriView National Bank (TNB). As a result, access to Federal Home Loan Bank funds made it possible to expand lending services to the growing population of Raleigh, the surrounding community, and throughout the state of North Carolina.

Over the next eight years, TNB focused on building assets and capital through growth in core deposits and through revenue generated by residential mortgages and commercial building loans placed throughout the state. By 1996, TNB's capitalization strategy had begun to pay off. Twelve new branches were built. By this time, the incoming relocations of households into the Research Triangle area had reached 2,000 a month as a result of aggressive recruiting by the area's corporate residents. Some of America's largest and most successful corporations had established offices in the Research Triangle area.

In 1997, the partners acquired a smaller community bank, The Bank of Buckley, nearly doubling the number of

branches. The TNB branch system now extended beyond the Raleigh area into other North Carolina communities that reflected a similar high growth rate. The partners acquired First National Bank of Southfall in 1999, bringing the number of branches to 32. At the end of 2000, three new branches opened, bringing the total branch offices to 35. Today, with assets totaling \$1.6 billion, TNB serves approximately 80,000 retail households and nearly 1,000 small business customers across 14 major communities.

**1.1a(1)** During this building and acquisition phase, the partners' concern over losing a sense of bank community steadily increased as the business and the entire banking industry became more complex. Legislation was modernizing banking, and e-commerce was equalizing market opportunities. Without changes in the way the partners managed the business, this substantial growth could negatively impact TNB's ability to provide the personalized service customers had come to expect.

In 1997, the partners instituted a different leadership approach. They had studied various business approaches and researched best practices of other service institutions, including the Malcolm Baldrige National Quality Award recipient organizations. The partners sought to understand how leaders of role model companies succeeded in becoming agile when faced with rapid and relentless change.

At the end of 1997, TNB adopted the concept of an extended leadership system that is used by many Baldrige Award recipients. The newly formed Executive Management Committee (EMC) extended the leadership system beyond the four partners to include the heads of the Retail, Commercial, Information Technology Management (ITM) and Operations, Human Resources, and Marketing and Communications divisions. The EMC also extends decision-making responsibility to the Business Excellence Manager, Risk Management Manager, and Acquisitions Manager.

The EMC is responsible for driving the direction of the bank through the Strategic Planning Process (Figure 2.1-1), allocating both capital and human resources, reviewing progress against goals, and making midcourse adjustments to the plan.

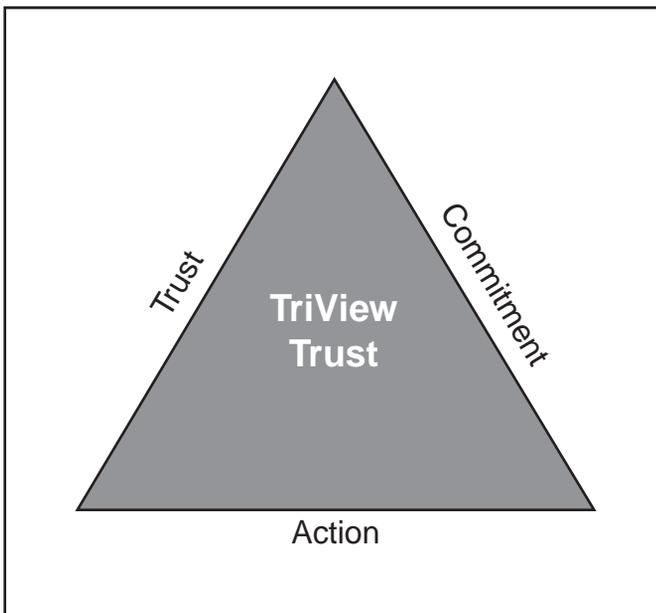
During the transition to the new leadership system, the EMC spent a week off site with an outside facilitator. For the first two days, the committee learned about organizational culture and the dynamics of change. The EMC spent the other three days drafting a vision for the future.

It was decided that the future of TNB would be best communicated in a simple yet memorable Vision Statement: “to provide Legendary Service” (Figure P.1-1).

The word “legend” combined the heritage associated with the bank’s merchant and farm history with the formalized belief that to excel in a fast-paced growth market, the activities of every person in the bank would need to be on one focal point: Legendary Service. To illustrate what is meant by Legendary Service, the TriView Trust Model (Figure 1.1-1) incorporates the values or behaviors that are required to achieve the Vision.

The word “Trust” reflects an attitude. When customers choose to do business with TNB, it is the associates’ position to preserve that trust and do everything possible to maintain trust in the relationship between the bank and its customers. TNB wants customers to trust that they made the right decision in selecting TNB as their provider for financial services.

“Action” indicates the value of serving customers today and without delay. If follow-up is needed, then it must be done quickly and with accountability. Associates often hear the president say, “Talk your walk and walk your talk.” This part of the triangle signifies the desire to empower associates to make decisions to satisfy customers.



**Figure 1.1-1 TriView Trust Model and Values**

“Commitment” indicates long-term thinking with customers and taking actions accordingly. Legendary Service is brought to life when customers think of themselves as lifelong customers. The same is true for associates. The

EMC wants associates to think of themselves as serving the same customers for life since that sets a tone of permanent relationships with individuals and organizations.

The purpose of the TriView Trust is to bond the associates together through values and basic beliefs about what Legendary Service means.

To introduce the Vision and the TriView Trust, an all-hands associates meeting was held on a Sunday so that branch associates could attend. Since this initial kick off, all new associates have been introduced to the Vision and TriView Trust through new associate orientation.

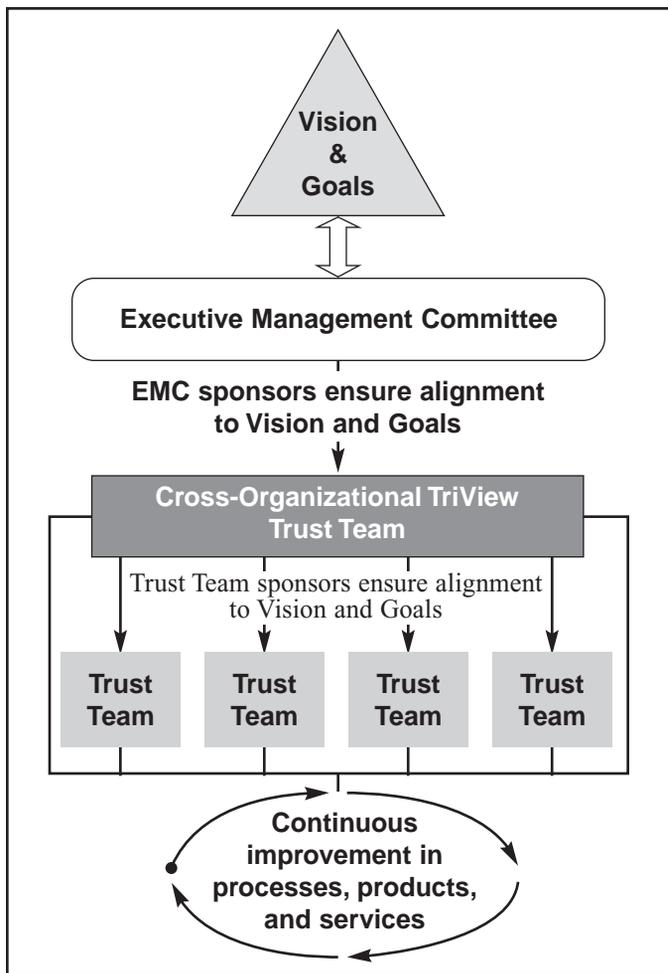
One of the EMC’s efforts to keep the Vision alive was to gather a group of well-respected and action-oriented associates that demonstrated a core understanding of service. The President met with these associates and discussed how the bank could demonstrate what Legendary Service looks and sounds like on a day-to-day basis. Many ideas surfaced, and through formal facilitation, the most highly visible and innovative ideas became part of the communication plan for Legendary Service.

**1.1a(2)** A key initiative introduced is the TriView Trust Team, a team of cross-organizational associates who take it upon themselves to lead and contribute to initiatives throughout the bank that are aligned to the goal of creating Legendary Service.

Members of the EMC serve as sponsors to the bankwide Trust Team, ensuring that the team’s initiatives are aligned with the company’s strategic direction and removing obstacles that may prevent the team from achieving its goals. This bankwide Trust Team, in turn, sponsors Trust Teams in the business areas and units as illustrated in Figure 1.1-2.

Another vehicle for communication of direction is the *TriView Trust Tribune*, a weekly newsletter created to spotlight great stories of Legendary Service. The Trust Teams believe that providing examples to associates of what is considered Legendary Service will serve as a learning tool. All associates receive copies of the *Tribune*, and managers are encouraged to discuss these stories for at least ten minutes of each regular meeting held with associates.

Another initiative is a human resource strategy to ensure that each associate in the bank understands how his or her job directly supports Legendary Service. As part of the Performance Management and Development Process (PMDP), each associate develops an Individual Performance Plan (IPP) defining specific goals and action plans that support customer service. During visits to the



**Figure 1.1-2 TriView Trust Teams**

branches and business areas, members of the EMC ask associates to share their IPPs and to identify any obstacles to achieving these goals.

Face-to-face meetings are a key and vital part of communication for the bank associates. Associates first meet the President and one or more of the other EMC members during the new associate orientation. Performance reviews are a key form of communication, generating dialogue among different levels of the organization on goal expectations and how the associates' IPP goals are aligned with TNB's goals.

The EMC meets weekly to review performance, and business area managers meet monthly with the EMC. Business unit managers meet weekly with their respective teams, and all branch associates meet as a larger group with the EMC annually. Special teams such as the Trust Teams hold regular meetings as well. Performance results are communicated throughout all levels of the organization via T-Net, TNB's intranet system.

The Trust Teams realized that many of their meetings were producing great and innovative ideas originating from associates across the organization. When this realization was shared with the EMC during a branch review session, a decision was made to invite associates to formally submit suggestions and generate ideas that would lead to Legendary Service. The Trust in Your Ideas Program is aligned to the Action part of the Trust Model. Associates are provided rewards for ideas. If there are cost savings that result from their ideas being implemented, then 1 percent, or no less than \$500, is awarded to the associate to express appreciation for his or her contribution. Since the program's launch in 1998, approximately 50 ideas per week are submitted by associates. Approximately 60 percent of those ideas are implemented within one to six months of their submission.

The EMC also adopted benchmarking as a strategic tool to identify innovative market solutions. Banks have traditionally benchmarked performance against other banks. However, the process of benchmarking outside the industry led the EMC to observe a trend in the retail industry whereby combinations of insurance, investment services, and real estate needs are offered to consumers under one roof. Therefore, when the Gramm-Leach-Bliley Act legislated financial modernization in the banking industry, TNB became the first community bank in North Carolina to offer securities and insurance services to customers at the same branches where they made their deposits and cashed their checks.

Today, TNB is committed to providing individuals, households, and small business and commercial accounts with all of the services offered by a larger bank, while retaining a strong sense of bank family and community. TNB is positioned as a hub of personalized service to the residents of the Research Triangle area and other communities in North Carolina. TNB is a place where people can find careers and remain part of what they consider to be their banking family. This spirit is seen throughout the 35 branches.

### **1.1b Organizational Performance Review**

**1.1b(1)** To assess performance, the EMC learned of a "dashboard approach" as a result of benchmarking Baldrige Award recipient companies. A systematic process was used to develop TNB's Dashboard. Key performance indicators make up the Dashboard and provide a holistic view of performance; current and trend results against these measures are reviewed by senior leaders during performance review meetings. TNB's Dashboard measures are discussed in Item 4.1.

**1.1b(2)** On a monthly basis, the EMC reviews and evaluates weekly performance results against Dashboard measures and takes the necessary actions to make midcourse adjustments. Action can be taken sooner if needed; however, the committee has discovered that reviewing results and making decisions about corrective actions on a weekly basis does not allow enough time to identify trends or account for normal irregularities.

**1.1b(3)** A key learning identified by the EMC during its benchmarking of Baldrige Award recipients is the fact that these organizations are committed to using the Criteria for Performance Excellence as a guideline on how to manage people, processes, and profits. The EMC adopted the Baldrige Criteria for Performance Excellence to improve the overall management of the company, to keep a focus on continuous improvement of all key business processes, and to accelerate progress in achieving TNB's vision to provide Legendary Service.

In 2000, TNB submitted an application for the Old North State Quality Award. The feedback report provided by the award program provided TNB with valuable input. Based on this feedback, the EMC prioritized the opportunities for improvement and input this information into the Strategic Planning Process. For example, the feedback report noted that a key opportunity for TNB was that it lacked a process for improving the leadership system. As a result, the 2001 Strategic Plan reflects the development and implementation of a leadership improvement process that will provide 360 degree feedback to leaders at three levels of the organization.

TNB's primary goal for submitting an application for the 2001 Baldrige Award is to receive third-party feedback that can be used to further identify opportunities to improve the way the bank is managed.

## **1.2 Public Responsibility and Citizenship**

### **1.2a Responsibilities to the Public**

**1.2a(1)** As part of the Strategic Planning Process, the EMC addresses how the services of the bank impact society within the banking industry as well as in the Research Triangle area and other North Carolina communities.

One of the members of the EMC is responsible for ensuring that the bank complies with regulatory and legal requirements. Early in the product and service design process, TNB evaluates the financial and societal risks to the bank and to the public of new offerings and the

processes for delivering those products and services. For example, fraud is a key concern for the bank. To safeguard customers against fraud during changes of name and address, TNB has introduced procedures and technology that ensure maximum protection.

As are all financial institutions, TNB is subject to numerous regulations. All national, state, and local requirements, laws, and compliance requirements are currently met by TNB. Although there are dozens of regulations that must be met by all banks, several key bank regulations and requirements that relate to privacy, predatory lending, and unfair and deceptive practices are identified in Figure 1.2-1.

**1.2a(2)** TNB is subject to periodic audits that are conducted by federal and state agencies to anticipate and identify public concerns with bank operations. The Office of the Comptroller of the Currency (OCC) conducts operational, credit, and compliance audits of banks and issues audit ratings. As of 2000, TNB is categorized by the OCC as "well capitalized," meaning the bank meets all capital requirements.

The Federal Deposit Insurance Corporation (FDIC) conducts an annual risk assessment audit in compliance with the Federal Deposit Insurance Act (FDIA) to insure deposits in qualified banks. Audits are conducted by State Charter Bank Regulators, and the Department of State Lands audits unclaimed deposits and property.

On an annual basis, Midstate Accounting, the bank's accounting firm, independently audits TNB's consolidated financial statements in accordance with generally accepted auditing standards.

Formal relationships exist with many community organizations within the Research Triangle area. However, the most influential group dedicated to the future concerns of the area is the Greater Tri-State Business Forum. This group is dedicated to assisting organizations and the local government with resources for achieving planned growth through services such as consumer and business surveys and an annual demographic study. These factors are part of TNB's Strategic Planning Process for planning future products and services.

**1.2a(3)** Ethical behavior by associates is paramount to success in achieving the TriView Trust. TNB publishes a Code of Conduct manual that describes expected and acceptable behavior during interactions with customers, colleagues, suppliers, and partners.

On an annual basis, associates are required to sign a statement confirming that they have read the Code of Conduct. All new associates attend an ethics course. Part of this course requires testing one month following the class to ensure that the associate retains the appropriate level of knowledge. Furthermore, each associate’s performance review includes areas concerning ethics. There is a “No Excuses” policy regarding ethics violations, and employment is immediately terminated if unethical behavior is observed and documented.

### 1.2b Support of Key Communities

Founded as a local merchants’ and farmers’ institution, TNB has a long history of supporting the needs of the community. Today, this tradition continues. Associates are encouraged to offer time and/or donations to the community activity or charity of their choice in order to continue the sense of trust and community spirit that is important to the bank and its customers.

During the Strategic Planning Process, the EMC reviews the key communities and projects it currently supports and evaluates new programs that are requesting funding or bank sponsorship. TNB plans for support not only of local programs but also of national programs that benefit the communities it serves. For example, TNB supports an organization named the Investment in Youth Program. TNB has been a participant since the first month’s incep-

tion of this program because the mission is consistent with the bank’s commitment to the community.

The Investment in Youth Program’s mission is “to provide youth with opportunities to learn, develop, and improve their lives and to be an asset to the community.”

The Investment in Youth Program was developed to help improve the lives of the nation’s youth. This program includes contributions made in the following areas:

- *Education*
  - tutoring
  - college scholarships
  - mentoring
- *Responsible Credit for College Students*
  - the importance of good credit
  - developing a financial portfolio
  - learning how to practice day-to-day financial management
- *Disadvantaged Youth*
  - support for the school lunch program
  - support for supplemental fees for school activities
  - support for extracurricular activities
- *Youth Employment Program*
  - student after-work program
  - student summer program

Key Bank Regulations	Requirements
Reg B—Equal Credit Opportunity Act	Prohibits lenders from discriminating against credit applicants.
Reg C—Home Mortgage Disclosure Act	Requires mortgage lenders to disclose data regarding their lending patterns.
Reg D—Reserve Requirements of Depository Institutions	Sets uniform requirements to maintain reserve balance either with the Federal Reserve Bank or as cash in vaults.
Reg H—Membership of State Banking Institutions in the Federal Reserve System	Establishes minimum ratios of capital to assets; prescribes real estate lending and compliance to Bank Secrecy Act.
Reg P—Privacy of Consumer Financial Information	Prohibits a financial institution from disclosing nonpublic personal information to third parties that are not affiliated with the institution.
Reg Z—Truth in Lending	Prescribes uniform methods for computing the cost of credit, for disclosing credit terms, and for resolving errors on credit accounts.
Reg AA—Unfair or Deceptive Acts or Practices	Establishes consumer complaint procedures and defines unfair or deceptive practices in extending credit to consumers.
Reg BB—Community Reinvestment	Implements the Community Reinvestment Act (CRA) and encourages banks to help meet the credit needs of their communities.
Reg CC—Availability of Funds and Collection of Checks	Governs the availability of funds deposited in checking accounts and the collection of returned checks.

Figure 1.2-1 Key Bank Regulations and Requirements

Associates are actively involved in programs within their own communities. Bank-supported programs include Habitat for Builders, United Way, and Chamber of Commerce Community Clean-up programs.

The bank will pay up to two workdays a year for volunteerism and matches dollar contributions on a dollar-for-dollar basis. Today, 65 percent of TNB’s associates dedicate time to one or more volunteer programs.

Members of the EMC are also involved in serving on a wide variety of boards and councils in the community. Figure 1.2-2 identifies the members of the EMC and their respective community activities.

<b>Leader</b>	<b>Community Activity</b>
Henry Chandler	North Carolina Bankers Group, Repertory Theater Board, United Way Foundation Board, Carol University Board
Edwin Jefferson	NC Council for Economic Education, Green Forest University Board, Red Cross Blood Bank Drive
Jean Bonchette	Founder, Women’s Center; North Carolina Women in Banking Association
Dale Cowen	Community Rotary, Youth Board, Habitat for Builders
Frank Hall	Coordinator, Investment in Youth Program, Chamber of Commerce Community Clean-Up
Allen Heath	Chamber of Commerce, Performing Arts Center

**Figure 1.2-2 EMC Involvement in the Community**

## 2 Strategic Planning

### 2.1 Strategy Development

#### 2.1a Strategy Development Process

**2.1a(1)** Between 1990 and 1998, TNB focused most of its energies on its branch expansion strategy. The strategy relied on two key initiatives: (1) increase assets and build capital and (2) open new branch offices and acquire other banks. This capitalization and growth strategy served the partners well as it took TNB from a 2-branch bank to a 35-branch banking system serving approximately 80,000 retail households and 922 small business customers within 14 high-growth communities across the state of North Carolina.

Until 1998, TNB relied on its annual budget process to drive strategic planning. Based on forecasted business growth and operating or capacity management requirements, capital and human resource forecasts for administrative, business system, project, and product development initiatives were made by business units to business area managers, who in turn submitted their requests to the division level. The heads of each division brought their funding requirements to the EMC for prioritization, final approval, and allocation of available funds.

As the turn of the century approached, the EMC recognized that a growth strategy alone would not ensure TNB's future or address the key challenges it would meet in building the bank to over 50 offices and its total assets to \$3 billion by 2004. The health of the franchise would be dependent on the strategies the EMC developed to deal with key challenges such as the high level of competition, the effectiveness of executing e-commerce, the issue of attracting and retaining talented associates who are capable of selling financial services and delivering Legendary Service, the rising cost of a brick and mortar business, and the need to develop bench strength to ensure the continuance of TNB upon the retirement of its founders and other senior managers.

The EMC decided to find a better way to develop strategies and align the organization to goals. In the spring of 1997, the President and a few members of the EMC attended the Quest for Excellence Conference and brought back an understanding of how strategic planning is used in the service and manufacturing sectors.

By late 1997, a new position was formed to develop business performance strategies and to help the EMC and the

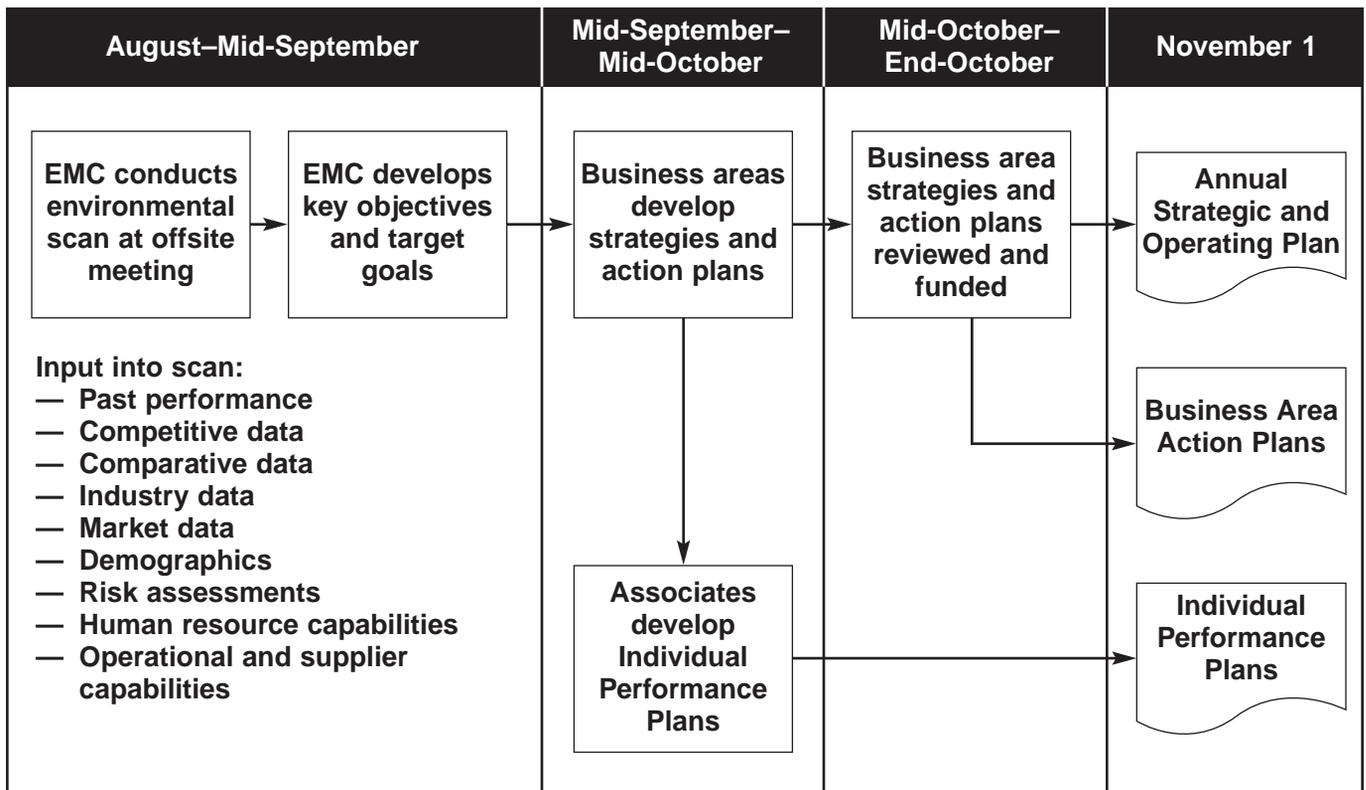


Figure 2.1-1 TNB Strategic Planning Process and Timeline

<b>Up Until 1997</b>	Annual budget planning drove strategy and fund allocations
<b>1998</b>	Systematic and fact-based strategic planning process deployed
<b>1999</b>	TriView Trust Teams provide input on customers and associates at offsite meeting
<b>2000</b>	Key suppliers and partners are invited to provide input into the Strategic Planning Process

**Figure 2.1-2 Cycles of Refinement in the Strategic Planning Process**

organization use the Baldrige Criteria to accelerate progress in achieving the Vision. A dedicated Business Excellence Manager was hired to fill the position. The Business Excellence Manager’s first assignment was to improve the current Strategic Planning Process to better achieve TNB’s long-term growth strategies, while ensuring that current year action plans drive business areas and units throughout the bank to achieve the Vision of Legendary Service.

**2.1a(2)** In 1998, a systematic and fact-based Strategic Planning Process (Figure 2.1-1) was introduced. The three-month process begins in August each calendar year with an offsite meeting of the EMC. The purpose of this meeting is to review the prior year’s accomplishments and consider what needs to occur immediately and in the near future. Discussions are focused on identifying key strategies that will keep TNB competitive and accelerate progress toward the Vision of Legendary Service.

During the EMC annual planning offsite, information is presented by various business divisions and areas, providing insight into the strengths, opportunities, threats, and weaknesses of the business, its products, and its services; customer, industry, and market factors; associate, operational, and supplier capabilities; new federal regulations; best practices; emerging technologies; and competitive factors.

**2.1b Strategic Objectives**

Beginning at the offsite and continuing into mid-September, the EMC revisits its longer-term (3–5 year) objectives and makes adjustments based on the environmental analysis (Figure 2.1-4). At the same time, short-term (1 year) measurable goals are mutually agreed upon among the EMC and the division heads. This process is cascaded down through the organization from the division to the business area to the business units, where the plan

<b>Customer and Marketplace Needs</b>	Focus groups Voice Of the Customer Greater Tri-State Business Forum
<b>Demographics</b>	Greater Tri-State Business Forum Market research
<b>Risk Assessment</b>	Customer retention analysis New federal regulations/laws Best practices Competitor scan
<b>Regulatory Scan</b>	Legal and compliance review of all pending and current conditions
<b>Human Resource Capability Assessment</b>	Training needs analysis Associate satisfaction results Associate suggestion program Associate retention statistics
<b>Supplier &amp; Partner Needs</b>	Conversations with key partners and suppliers

**Figure 2.1-3 Types of Information and Data Input into the Environmental Scan**

is translated into action items. The Strategic Planning Process finally culminates with associates developing Individual Performance Plans (IPPs) aligned to the goals of their business area. The EMC finalizes the strategic plan and approves the budget by the end of October.

Since 1998, further improvements have been made to the Strategic Planning Process. The EMC seeks to learn best practices from outside organizations and continually reviews the process to identify opportunities for improvement. Some examples of improvements are described in Figure 2.1-2.

In 1999, the EMC realized that the TriView Trust Teams should provide input into the Strategic Planning Process. The Trust Teams are invited to attend part of the three-day offsite meeting to debrief the EMC on the Customer Focus Group and Associate Satisfaction Survey results. The Trust Teams present a concise and informative presentation and analysis of customer requirements and associate factors that impact performance. The EMC considers the Associate Satisfaction Survey and Customer Focus Group inputs an important part of the environmental scan.

Today, the environmental scan has been expanded and includes additional inputs such as marketplace needs, demographics, risk assessment information, regulatory requirements, human resource assessment, and supplier and partner needs. In the year 2000, select suppliers such as Pine Transaction Services, Great Smoky Marketing, and TNB’s advertising firm, Polk-Wolfe, attended the

Key Success Factors	Strategic Objectives 2001–2004	Strategies	Business Areas									
			Retail	Commercial	ITM/Oper	HR	Mktg & Comm	Finance	Risk Mgmt	Purchasing	Compliance	Acquisition
Financial	Grow asset base to \$3 billion	Acquire target banks						■	■		■	■
		Acquire new account relationships	■	■			■					
		Increase lending	■	■								
	Increase revenue by 15 percent annually	Expand sales culture to all branches	■			■	■					
		Improve cross-sell ratio	■	■		■	■					
		Target special customer groups	■	■			■					
		Improve retention	■	■								
Improve credit quality	■	■			■		■					
Customer	Improve customer satisfaction to “top box”	Expand product, services, & channels	■	■	■	■	■	■	■	■	■	
		Improve service quality	■	■	■	■	■					
		Deepen customer relationships	■	■								
		Expand VOC to all segments	■	■	■		■					
Associate	Achieve role model HR practices with Baldrige scores of 70 percent in Category 5	Increase education/training	■	■	■	■						
		Develop retention strategies	■	■		■						
		Expand team environment	■	■		■						
		Improve balance of work/family				■						
		Provide leadership development	■	■	■							
	Develop bench strength by 2003	Implement 360 degree review				■						
		Deploy succession plan	■	■	■	■						
Operations	Achieve operational efficiencies of 35 percent	Migrate 90% of customers to imaging	■	■		■						
		Provide self-service through Web	■	■	■	■						
		Improve core operational processes	■	■	■							
		Implement aggressive outsourcing								■		
		Develop optimal staffing models	■	■	■	■						
	Achieve operational excellence with Baldrige scores of 70 percent in Category 6	Benchmark product development		■								
		Maintain reliable service levels			■							
		Develop supplier management			■							
		Manage compliance			■				■		■	
		Obtain best-in-class benchmarks			■							

Figure 2.1-4 Key Success Factors, Strategic Objectives, and Strategies (The boxes indicate the business areas that have action plans in support of the strategies.)

planning offsite to provide market and operational input for the session. Information and data for the environmental scan are accumulated from internal and external groups and resources as shown in Figure 2.1-3.

## **2.2 Strategy Deployment**

### **2.2a Action Plan Development and Deployment**

**2.2a(1, 2)** Once the offsite planning meeting is held, each division head on the EMC owns key objectives and strategies to be deployed throughout their divisions and business areas. The Strategic Plan is introduced to associates during the all-day annual associates meeting conducted in December. Managers hold working sessions to review the Vision, Mission, Values, and strategic objectives and to determine how associates can contribute to achieving the goals. Each business area develops strategies, and then individual business areas and units translate those strategies into action plans. Individual associates take accountability for action plans through project plans. Associate action plans and target goals are incorporated into associate IPPs.

A Trust Team currently is evaluating the benefits of using a cost-based approach to enable TNB to more efficiently plan budgetary sourcing during the Strategic Planning Process cycle. This is under consideration by the EMC as a refinement for the 2001 Strategic Planning Process. Capital and human resources are allocated as a final step of the three-month Strategic Planning Process. Once strategies are developed and forecasts are completed on capital and human resource requirements, budgetary resources are allocated based on priorities established during the planning process. To date, this has been very effective and ensures alignment of capital initiatives and other projects to the strategic direction of the bank.

Figure 2.1-4 provides a summary extract from the actual 2001 Strategic Plan. Strategic objectives are organized against the four Dashboard Key Success Factors (KSFs). KSFs are those areas where if the bank is successful in achieving its objectives, TNB will flourish in its performance. The measurable target goals for strategic objectives are presented for 2001–2004. TNB expects it will take three years to achieve certain objectives, such as growing the asset base to \$3 billion and achieving Baldrige scores of 70 percent in Human Resources (Category 5) and Process Management (Category 6). However, TNB does expect to increase revenue by 15 percent annually,

improve customer satisfaction survey scores to “top two boxes” rating (4 and 5 ratings on a scale from 1–5 with 5 being the highest), and achieve operational efficiencies on a planned schedule for the next three years. The strategies presented in Figure 2.1-4 are just a few of the targeted initiatives that are under way to achieve each of the objectives. The fact that each division, business, and support area has a detailed action plan indicates the interdependence between business and support areas in executing against the strategies. A sample of action plans, critical performance measures, and target goals for a few of these strategies is presented in Figure 2.2-1.

**2.2a(3)** Human resource requirements are determined through the Performance Management and Development Process (PMDP). While IPPs are rolled out as part of the Strategic Planning Process and the PMDP, the culmination of these activities drives training needs, technical resources, and support from management. Additionally, the Human Resources Department identifies resource needs from the annual evaluation of the associate base. Both of these areas are key inputs into the human resource planning process.

The key challenge facing TNB is the expansion of the sales culture to all branches. Many banks are embracing this strategy, but few have been able to implement it well. TNB is taking a measured approach and ensuring that teller and platform associates receive training to make the transition from service to sales. Before branch associates are expected to enhance revenue, they are required to participate in a workshop delivered by TNB University. The workshop is entitled “Sales in Service” and covers the basic sales training (Item 5.2).

**2.2a(4)** Performance measures are reviewed during weekly EMC meetings, and the results are shared with business area and unit managers on a monthly basis. All associates review a summary of the results during the annual all-hands associates meeting.

### **2.2b Performance Projection**

**2.2b** TriView addresses performance comparisons during the weekly EMC meeting. For product position, market penetration, and other industry comparisons, TNB utilizes market research and industry reports. This helps TNB to keep current with how its competitors are doing.

<b>Strategies</b>	<b>Division/Business Area or Unit</b>	<b>Action Plans</b>	<b>Critical Performance Measures</b>	<b>Target Goals</b>
<b>Sales Culture</b>	Retail/Branch Operations	Deploy sales conversion process	Conversion ratio	100%
	HR/TNB University	Conduct Sales in Service Training	# associates	100%
	Marketing/Empl. Comm.	Publish success stories in <i>Tribune</i>	# stories	1–2/mos.
<b>Alternate Service Channels</b>	Retail/Commercial Sales	Provide VOC input	Project deadline	1st Q
	Compliance	Ensure Web is in compliance	Project deadline	1st Q
	ITM/Operations/Intranet	Design & implement Web portal	Project deadline	2nd Q
	Marketing/Graphics Design	Coordinate Web page with vendor	Project deadline	2nd Q
<b>Retention Strategies</b>	Retail Commercial Areas	Deploy PMDP; career planning	Project deadline	1st Q
	HR/Compensation Area	Conduct market salary studies	Project deadline	2nd Q
<b>Image Migration</b>	Retail/Commercial/Sales	Enhance shift through pricing	Project deadline	3rd Q
	Marketing/Promotions	Position benefits of image	Project deadline	3rd Q
<b>Service Levels</b>	ITM/Data Center	Implement SLAs	# SLAs complete	4 by 4Q
	ITM/Data Center	Maintain DDA system availability	% availability	98.6%

**Figure 2.2-1 Sample of Action Plans, Critical Performance Measures, and Target Goals by Division, Business Area, or Unit, Aligned to Strategies**

### 3 Customer and Market Focus

#### 3.1 Customer and Market Knowledge

##### 3.1a Customer and Market Knowledge

**3.1a(1)** Longstanding relationships carry a benefit: customer loyalty despite the presence of lower-price lenders. TNB has loyal customers in three segments: consumer, small business, and commercial.

Consumers include single or household account holders with Demand Deposit Accounts (DDAs) who utilize branches to deposit and withdraw funds and who desire home mortgage or equity loans. Small businesses and commercial accounts include companies that are sole proprietorships, partnerships, and corporations. Both small businesses and commercial accounts utilize DDA products and transaction services such as cash management, account reconciliation, and lockbox services.

Small businesses are differentiated from commercial accounts by the size of the asset relationship. Small businesses generally are under \$1 million, and commercial businesses are over \$1 million. Within each of these groups, the bank looks at the products and services used by each of these customers (Figure 3.1-1). Because of the bank’s community niche, TNB does not segment and separate customers beyond these three groups. Throughout the month, you see every segment of the community, every ethnic group, and every income group at the branch. Each customer is important to TNB; each customer expects the best service and gets it.

**3.1a(2, 3)** In order to meet customer expectations in products and services, TNB participates in industry forums, conducts an ongoing Customer Outreach Program, and reviews survey results and customer complaints to understand what factors contribute to customer loyalty.

For example, TNB learned that fees and service charges are a major source of customer dissatisfaction. As a result, four years ago, TNB shifted select fee-based services to nonfee-based services. A charge for making photocopies of checks is a good example of the kind of service charge that TNB avoids. There is, however, a hefty nonsufficient funds charge, which ultimately covers the 50 cents per copy charge. Some competitors charge up to \$10 a copy. Customers have related that those types of charges and the lack of personal service are what made them leave bigger banks to do business with TNB. When customers open an account, TNB asks them what made them choose TNB. In addition to the most common reasons, such as “just moved” into the area and a desire for a branch that is

closer to home and/or work, many customers change banks because of poor service from TNB’s competitors.

Several times a year, the bank officers attend financial service forums and bring back ideas on the emerging needs of customers. Through these industry forums, leaders provide input into the Strategic Planning Process on competitive and business environments, regulatory change, shifts in customer expectations, and channels of distribution.

Several industry periodicals are circulated each month throughout the EMC. These include *Bankers Monthly*, *ABA Journal*, *Regional Banking*, and *Carol Business Review*. Each month, the EMC meets to discuss, in part, customer strategies, issues, and opportunities that are covered in these articles. One of the EMC members is assigned an article and leads the discussion. For example, last month, Frank Hall, head of Human Resources, led a

Segment	Products
Consumer	<b>Personal Finance Products</b> Checking accounts Savings accounts Money market accounts Certificates of deposit Individual Retirement Accounts (IRAs) Securities services Financial planning services Insurance services Credit card ATMs
Small Business	<b>Business Finance Products</b> Checking accounts Money market accounts Loans Lines of credit Equipment financing Commercial real estate financing Credit card Cash management Lockbox
Commercial	<b>Business Finance Products</b> Mortgages Construction financing Term loans Lines of credit Cash management Lockbox Account reconciliation

**Figure 3.1-1 Customer Segments and Products**

discussion on recruitment and training of service personnel, based on an article in *U.S. Banker*. Research conducted by the Russ Organization suggests that banks waste money on training to teach employees customer service skills, such as empathy and caring, that cannot be taught. The recommendation is to hire the right type of people with the right type of skills.

Similar to most banks, TNB faces an ongoing challenge in recruiting and keeping customer service associates such as tellers. The process of continuously training new associates to replace the ones that left is costly and inefficient. As a result of the Russ study, the EMC chartered Frank Hall to conduct a study that would explore the benefits of discontinuing all soft skills training and shifting dollar resources to a continual coaching program such as the one used by First Farm Bank in Omaha. Frank will present the findings of his benchmarking study and recommendations by the end of the second quarter.

## **3.2 Customer Relationships and Satisfaction**

### **3.2a Customer Relationships**

**3.2a(1)** Products and services that meet the financial needs of customers today and tomorrow and that are reasonably priced are one cornerstone of TNB's success story. The other is the ability to build and maintain relationships with customers. TNB recognizes that the key benefit of building relationships with all customer segments is retention and the opportunity to sell additional services. The customer that has multiple products with TNB is less likely to leave the bank and is more efficient to serve on a cost-per-service basis. Retail customers have on average 4.2 product relationships per household, and commercial accounts have an average of 5.4 product relationships with TNB. TNB compares favorably to larger banks that average the same number of product relationships.

The EMC believes that to keep the customer for the long term, it has to create an environment and an attitude that keep customers coming back. One aspect of this is to understand the relative importance of product and service features. Customer preferences are identified through the TNB Customer Outreach Program. For example, the most important attribute of service to retail and commercial customers is responsiveness. This is followed in rank order by accuracy in customers' account information and timeliness in receiving statements or information.

Whenever TNB explores new product offerings, customers are contacted to determine what features are important to them. For example, customer outreach calls were conducted during the development of on-line

banking. The key requirements identified by customers were data security and ease of use of the on-line banking program with existing PC systems. TNB has developed one of the industry's most secure on-line banking systems.

Part of developing a Legendary Service environment includes having associates who are enthusiastic about and interested in what they do. Each newly hired associate receives an orientation that introduces the Vision and the Trust Model. To achieve the Vision "to provide Legendary Service" means having associates that engender "Trust," take "Action," and deliver against TNB's "Commitment" to maintain an ongoing relationship with each and every customer.

One example of Legendary Service is the time a customer called into a branch saying that she was not well that day and was unable to come into the branch to make a sizeable deposit from an insurance check. She was frantic that she would lose out on interest income that she needed. One of TNB's associates drove over to the woman's house during his lunch hour to pick up the check and give her a deposit slip. The woman's son, who had been out of town, called the bank President and announced that he was so impressed with a bank that would go out of its way to respond to a customer's needs that he was moving his personal and small business accounts over to TNB. TNB prides itself on the responsiveness of its associates and on its commitment to meet the needs of all customers.

TNB is implementing a data warehousing and analysis system called Smart I that will become part of the bank's customer relationship management strategy. Today, the bank faces different marketing issues for customers in different parts of the state. Smart I will collect data from all customer sources, including DirectServe inquiries, on-line banking, and, in the future, TNB's Web portal. Smart I will analyze the data to better understand and anticipate customer behavior, meet customer needs, and build more profitable customer relationships. Building in-depth customer knowledge using a relational database also will allow marketing offers to be more targeted and pricing to be more effective.

**3.2a(2)** Customers care about the quality of the products and services that they receive. Industry research shows that, in the end, the customer wants responsiveness, accuracy, timeliness, professionalism, and friendliness of service. This reinforces TNB's findings about the relative value of service to customers. TNB correlated this industry research information with its findings from outreach calls and developed a set of service standards for both retail and commercial customer segments. For example, in 2000, a Trust Team with branch representatives developed service standards for branch associates based on

customer requirements. Representatives from DirectServe and Operations also participated on this team. The team identified the service standards presented in Figure 3.2-1.

Teller wait time is tracked both during peak times such as lunch hours and during nonpeak times. All associates are held to the 20 second time-to-answer standard; however, only the performance of the DirectServe associates is tracked. The transaction error rate service standard refers to posting errors to an account. On-time mailing of statements means that statements are mailed out within three days of month's end for each statement cycle.

DirectServe associates are monitored to ensure that they are following the call-handling script. Supervisors listen in on calls and rate associates' performance on a scale from 1 to 5. Although TNB knows that its 100 percent goals are impractical targets to achieve, it nevertheless wants to set a standard and communicate a performance message to associates that it is customer driven.

Customers obtain assistance at the bank in several ways. An 800 toll-free telephone number is printed on the account statement and provides customers with access numbers throughout the state. Also, some officers and branch managers of local banks publish their telephone numbers in local phone directories.

**3.2a(3)** TNB uses complaint information as another way to receive feedback from customers and identify opportunities for improvement. Since the primary responsibility of tellers and sales associates is to serve customers, the process of capturing all complaints is time consuming and costly. Past attempts to manually track complaints resulted in data that were inconsistently captured.

In mid-2000, TNB instituted a systematic sampling plan that requires different branches at different times of the day (peak and nonpeak times) to track customer complaints for a specified period of time. Although the improved complaint tracking form still requires time to complete, branch associates have to do this for only a short period of time. Therefore, associates are more willing to capture complaints. Stratified random sampling of complaints is proving to be an efficient and low-cost method to capture customer dissatisfaction data.

Although branches capture complaints on a sampling basis, DirectServe captures every complaint. Complaint forms are collected and reviewed by the branch and DirectServe managers. Whenever a problem is identified, TNB takes corrective action. For example, customers had complained that account statement envelopes were open upon delivery. This was a privacy issue that TNB took seriously. Pine Transaction Services was contacted and

Service Standard	Measurable Goal
Teller Wait Time	<5 minutes during peak times
	<3 minutes during nonpeak times
Time to Answer	20 seconds or 6 rings
Transaction Error Rate	Zero errors
Statement Timeliness	100 percent mailed out on time
Call Monitoring	Score 5
Rating on "Shopper" Survey	Score 5

**Figure 3.2-1 Customer Service Standards**

investigated the root cause of the problem. It turns out that the envelope vendor had changed glue types; although the envelopes left the bank sealed, the seal came undone once they were stored in a warm place. Since the problem has been fixed, there have been no further complaints about unsealed statement envelopes.

There are several ways in which TNB encourages retail customers to register a complaint. There are toll-free customer service lines and pre-addressed postage-paid cards available in all branches, and each month feedback forms are mailed with statements.

For the most part, complaints enter the bank in several ways. They are received through written feedback forms or via the CEO's or Vice Chairman's office, business managers, or associates. It is up to the discretion of associates to escalate complaints to senior management. Most complaints can be resolved at the branch or by DirectServe. However, senior managers generally personally handle high-asset customer complaints. For example, the personal statement of one of the bank's top customers went to another bank customer. The bank customer who received the statement looked up his address and sent it directly to him. But the damage had been done, and this affluent customer's privacy had been breached. Henry Chandler called the client to apologize, took the client out to lunch, and made follow-up calls to ensure that there were no additional problems with the customer's statement. This is one example of how TNB is becoming a legend in customer service.

**3.2b Customer Satisfaction Determination**

**3.2b(1, 2)** New Account Opening Questionnaires are sent to a sample of customers who have opened new accounts. The survey uses a series of questions to elicit feedback

from customers on the helpfulness, courtesy, knowledge, and competency of associates. The responses are rated on a Likert scale from 1 to 5, with 5 being the highest.

New Loan Questionnaires are used to poll customers who apply for loans. There are eight questions that deal with service handling; a ninth question is open ended and asks, "How might TNB improve?" The final question is targeted at cross-selling and asks, "Are there other products or services that you might be interested in hearing about?"

Once every year, the bank enlists the services of an outside vendor to "shop" the branches. Shoppers pose as customers to evaluate the performance of associates. Shopper research is used to provide associates with feedback and identify training or coaching needs. After branch managers receive the results of the surveys and research, they coach associates to close the gaps in service.

TNB is unique in that it also "shops" how well both branch and DirectServe associates do at service recovery. Shoppers present problems to associates, who are evaluated on whether they follow the correct procedure for resolving the problem. Customers understand that

sometimes there are problems. TNB believes that problems present an opportunity for the bank to demonstrate Legendary Service by going out of the way to make sure all problems are handled efficiently and effectively. Follow-up calls are made by branch and DirectServe associates to ensure that the problem has been resolved to the customer's satisfaction.

Customer Outreach also conducts a periodic phone survey to poll the level of satisfaction with recent transactions related to TNB's products and services. The survey asks customers to rate service on a Likert scale from 1 to 5, with 5 being the highest. Overall ratings are reviewed by the EMC and by the branch and DirectServe managers.

**3.2b(3)** TNB conducts a competitive rate analysis of banks operating in the area and throughout the state. The rate comparison provides TNB with an understanding of how competitive its interest rate products are compared to those of the local competition. TNB also tracks customer retention rates. Although TNB charges a higher rate to customers, the retention rate is steady, indicating that customers are satisfied and choose to stay with TNB despite higher rates.

## 4 Information and Analysis

### 4.1 Measurement and Analysis of Organizational Performance

#### 4.1a Performance Measurement

**4.1a(1)** TNB strongly embraces a management-by-fact culture focused on continually improving its business processes. The introduction of a team environment with Trust Teams, in conjunction with the introduction of the Continuous Improvement Process (CIP), has created an environment that has turned volumes of data on customers, operations, and associates into quality information for analysis.

TNB's initiation into process management in 1998 provided the basis for evaluating and improving the bank's approach to data collection and analysis. A Trust Team is assigned to develop the next level of information and analysis for TNB. The objective is to develop a system that not only monitors, analyzes, and reports on performance but also is used to drive strategic decisions. A new system called Smart I is being implemented that will provide data warehouse capabilities with predictive modeling to support the bank's customer relationship management strategy. Smart I will provide TNB with the ability to identify customer needs and more effectively design products and services for different customer groups. The analytic capabilities of this system will create a more efficient sales effort and more intelligent competitive pricing.

Today, TNB has three primary performance management and measurement systems:

- the EMC Dashboard of key performance measures
- decentralized performance measurement
- Critical Performance Measures (CPMs)

Annually, performance measures and target goals for short- and longer-term strategies are identified during the Strategic Planning Process (Figure 2.1-1). Although progress against the Strategic Plan is tracked for all strategic goals and actions at all levels of the bank, the EMC reviews a specific set of corporate-level measures that reflect performance in key management areas, including financial, customer, operational, and associate. This balance of performance measures is referred to as the Dashboard.

The Dashboard includes performance measures that best represent the overall health of the business: revenue, customer satisfaction, customer complaint calls or visits, customer turnover, associate turnover, fraud attempts, and transaction efficiency. The Dashboard ensures that TNB's

focus is not just financially driven but creates a process that encourages associates to measure the key success factors that enable TNB to grow. Currently, the Dashboard is posted on T-Net, TNB's intranet and e-mail system; however, access is limited to division heads and business area managers. Since the nature of the information in the Dashboard is confidential and sensitive, the information generally is not shared outside of management. However, large posters noting key "wins" for the bank related to these data are placed in associate areas such as the cafeteria and associate entrances to the branches.

TNB uses a decentralized approach to performance measurement, reporting, and accountability. TNB prides itself on its "entrepreneurial" management philosophy for running its business areas. Business managers are encouraged to "run the business as if they owned it." This decentralized decision-making approach has enabled the bank to be highly successful and profitable over the years. Decentralization is well suited to TNB because the bank operates in different communities with different customers and needs.

For example, Allen Heath, who was the former President of The Bank of Buckley, became head of Retail Banking and is responsible for branch operations and the overall information and analysis of branch performance. Each branch is responsible for identifying the financial, customer, associate, and operational measures; tracking performance; and reporting results to Allen Heath.

In a similar manner, other departments in the bank develop performance measures for their business areas or units. For example, Frank Hall, head of Human Resources, is responsible for capturing associate performance results and analyzing this information and data; Arthur Wood, Chief Technology Officer, is responsible for ITM information; and Dale Cowen in Commercial Banking is responsible for his division's information and analysis. In order to keep all business areas and units in compliance with federal and state bank regulations, Daniel Finley, head of Compliance, is responsible for bankwide risk management and compliance information and analysis.

Each business area is required to meet specific financial goals such as contribution to profit through revenue and cost management. These goals are aligned to the overall bank strategy and key financial objectives.

Each business area selects the measures that are important to that area. For instance, in the Retail Banking Division, each branch in the system has different market demographics and opportunities; therefore, each branch has

measures that are unique to that branch. Greensboro handles a considerable number of small business accounts, so that branch tracks this market activity very closely. On the other hand, the West Durham branch handles primarily commercial accounts, so they measure other factors. Business managers present performance results to the division head on a quarterly basis and to the EMC on an annual basis.

Each branch and operational area is expected to provide key financial information for aggregation at the corporate level through the Dashboard.

TNB's CIP includes four measurement components:

- quality
- timeliness
- efficiency
- cycle time

All four types of measures are defined and tracked for key processes. To drive accountability for process performance down to all levels of the bank, measures are tracked on a department-by-department basis. Key processes are identified, and Trust Teams are established within the framework of CIP and are provided just-in-time training in the use of process improvement and the CIP methodology. A key component of the process management methodology is the development of measures (Step 2, Figure 6.1-1). Process performance measures and results are input into T-Net for use by the Trust Teams and managers.

Today, approximately 30 percent of information is automatically captured, and the remaining information and data are manually tracked and entered into the various business area performance measurement systems.

**4.1a(2)** As noted above, the bank operates in a highly decentralized manner. Certain standard bank operations, such as the reconciliation of teller balances at the end of each business day, have been standard bank practice in every bank in the United States for many years. These operations proceed smoothly each day, and each branch manager understands that he or she will be held accountable for ensuring that these standard bank branch operations are efficient. Therefore, the bank does not collect and store data about these routine operations. Problems with performance are reported only on an exception basis.

Business managers are responsible for aligning the measures and target performance goals with the overall direction of TNB. The CIP structure allows a clear and straightforward method to identify and align process

measures within each branch. On a selective basis, some of these measures are also integrated upwards into the corporate structure.

**4.1a(3)** Meaningful competitive comparative data and information are difficult to obtain for many measures of importance to the bank due to the unique niche that the bank serves and the unique operating philosophy deployed by the bank.

Business-level information is publicly available for traded financial institutions, but more detailed process-level information is closely guarded by TNB as well as by other banks.

Comparative information about key processes for many areas of TNB's business is being sought outside the industry. For example, some form of continuous improvement methodology is used by several Baldrige Award recipients. One Trust Team created a simplified approach to identifying potential sources of useful comparative information. This simplified approach is based on a process adopted from yet another Baldrige Award recipient.

Through benchmarking outside of the financial services industry, a Trust Team discovered that many organizations are using a "decentralized" approach to management, similar to TNB's "entrepreneurial" management philosophy. The Trust Team shared this information with the EMC at a recent performance review meeting.

**4.1a(4)** As a prerequisite to the Strategic Planning Process, Trust Teams review the effectiveness of the measurement system and provide evaluations and recommendations as some of the many inputs to the Strategic Planning Process.

Individual business managers are required to keep track of other data that show how their area is contributing to the Vision for Legendary Service.

Each business area has discretion in determining how to best measure customer requirements based on the needs of its customers and market. This is in keeping with TNB's brand of bank family; TNB offers customers a sense of community through its personalized banking services.

These evaluation and improvement processes ensure that TNB's performance management system stays current with changing customer needs and TNB's overall direction because it customizes what it measures and reviews.

#### **4.1b Performance Analysis**

TNB's CIP is implemented in each branch and business area in a customized manner. CIP has provided branch managers with an effective tool for understanding the uniqueness of each operation and for developing targets for gathering process data.

**4.1b(1)** CIP is implemented in each branch in a manner to reflect the uniqueness of that branch. TNB analyzes performance data and information on functional, organizational, and process levels. This matrixed approach ensures that business managers have information provided to them that enables an understanding of business performance from many perspectives and minimizes the chance that a significant opportunity will be missed.

Process performance is compared to forecasts at the branch level (and within some of TNB's departments). The following are some examples of the types of performance analysis that are done:

- how improvements in organizational performance are reflected in the Dashboard and key process measures
- how improvements in team members' learning are related to revenue per full-time associate
- the impact on revenue and profit of new product and service introductions, market share growth, customer satisfaction and retention, and customer relationship management
- how trends in financial offerings, global economics, regulatory and legislative environments, and new technologies correlate with TNB's and competitors' performance and scenarios developed during strategic planning

TNB's Business Excellence function is charged with chartering, establishing, and managing teams in each branch to target improvement opportunities, use CIP, and drive change throughout the company.

**4.1b(2)** T-Net is the primary vehicle for communicating performance information to the EMC and business managers. The Dashboard measures are shared only with certain levels of management. Due to the concern about the highly competitive environment that TNB operates in, Dashboard information is not routinely shared with associates. However, for selected projects, some associates are provided with special access so that they can view some of this information.

Some selected information is posted on a monthly basis for all associates to access, which provides a very high-level view of TNB's overall performance. This information varies from month to month, depending on the key factors of the business that are important for that month.

**4.1b(3)** By sharing TNB's Strategic Plan and communicating with key managers via meetings and the T-Net, the bank makes business managers aware of the status and alignment of plans, business results, and current action plans. Any apparent lack of alignment is identified and addressed. This communication, combined with the CIP approach, leads the business to continuous improvement and alignment.

## **4.2 Information Management**

As a financial institution holding and investing customer funds, accuracy of information is of critical importance to TNB. Security of this information is also of paramount importance; customer privacy, in fact, is regulated by federal legislation. To achieve this accuracy and security, TNB has comprehensive and sophisticated systems to deal with and monitor transactions, people, and systems. TNB considers itself to be a leader in North Carolina among community banking institutions in its use of computers and information technology.

### **4.2a Data Availability**

**4.2a(1)** TNB's business systems contain all information needed to manage the bank. Since security is a primary concern, TNB's associates have limited access to this information, depending on their job needs. An access code and password system keeps information secure from unauthorized associates while creating a minimal obstacle for associates who do have a valid need for the information.

Since managers may need access to many kinds of information, managers have a special level of access that allows them to access any type of information. If associates need information that their password does not allow them to access, they can ask their managers to access the data for them.

In keeping with the community-based orientation of the bank, each branch has access to only the information that it needs for its own operation. This secured access ensures that customer confidentiality is not compromised.

**4.2a(2)** The conflicting requirements of customer information security and process information availability are addressed through TNB's complex information systems. These systems provide tight security for personal information but wide availability of information that is needed on a daily operating basis, such as customer checking account levels.

Different systems contain different information. Rigid controls and firewalls exist between these systems to ensure data security. For instance, loans and lines of credit are booked via the HUBLOAN system, and access to HUBLOAN is restricted to only people in the Consumer Lending Department. TNB's small business system is available only to small business lending managers. To balance the need for security with the need for access, the Executive Vice President of the Retail Banking Division can grant temporary access to these various systems to associates on a case-by-case basis.

As TNB has moved into electronic banking, this need to safeguard data and information has become more visible and important as links outside TNB become more pervasive and opportunities for fraudulent activities occur.

**4.2a(3)** Although basic security and access requirements have not changed substantially in recent times for TNB, the introduction of electronic banking has added a new dimension. As it was being developed, the CIP allowed the Trust Team to understand and quantify customer, security, regulatory, and business requirements for this new offering and to design it to meet all stakeholder needs.

Business area managers also keep track of current business needs and make plans annually to ensure that data and information availability is modified to keep pace with the changing needs of the business.

## **4.2b Hardware and Software Quality**

**4.2b(1)** To ensure hardware reliability, TNB has long-term contracts with hardware vendors for on-site maintenance. These vendors are responsible both for system performance and system up-time. TNB uses a disaster recovery "hot site" with back-up computers to ensure business continuity.

Software reliability is achieved through software design and testing. A formal change management process ensures that changes in business applications are tested before they are implemented into a production environment.

**4.2b(2)** Computer systems, both hardware and software, form such an integral component of TNB's business that they are a primary element of the Strategic Planning Process. This ensures that TNB's systems are always able to handle its business needs.

The head of Information Technology Management (ITM) and Operations, Arthur Wood, is responsible for strategic technology management to ensure that emerging trends in software and hardware systems are identified.

## 5 Human Resource Focus

TNB believes that enthusiastic and empowered associates are not only key to efficient operations, but they are key to achieving its Vision of Legendary Service. Legendary Service has become TNB's competitive advantage in a financial services industry that is becoming increasingly commoditized. Potentially, banks have access to the same technology, capital funding sources, and talent pool. TNB's strategy is to differentiate itself from the competition by attracting, retaining, and training its associates to provide better service than that provided by the competition and to care more about customers than its competitors do. In order to do this, TNB's associates are held responsible for delivering against the three values of the TriView Trust Model: Trust, Action, and Commitment. To support them in achieving this goal, TNB provides associates with many opportunities to contribute to the success of the organization. TNB offers a team environment, career opportunities, education and training, competitive compensation and benefits, reward and recognition, and a safe and healthy work environment. For the most part, TNB has achieved a good associate retention rate and favorable ratings on the Associate Satisfaction Survey.

### 5.1 Work Systems

**5.1a(1)** In the past, the bank was oriented toward fulfilling customer services and sales supported by product management and back-office operational areas. To meet the needs of the future, TNB has begun implementing a cross-functional process management approach featuring Trust Teams. These fast-moving teams are accountable for improving products, services, and processes. Trust Teams are structured to meet customer needs and provide operational efficiencies.

A partial list of current and future Trust Teams is presented in Figure 5.1-1. By focusing on customer-centered and process management measures, Trust Teams have the flexibility to design and enhance products with greater agility in order to meet the changing needs of customers and improve key processes. Associates who participate as Trust Team members continue to work in their functional department at the same time they are participating on the team. As a result, Trust Teams share best practices with peers who have not received training in TNB's Continuous Improvement Process (CIP) or have not been assigned to a Trust Team; this information and experience sharing, in turn, generates a desire in others to participate on a team.

Best practices are also encouraged through the use of the TriView Excellent Associate Recognition (TEAR) Program. Associates' innovations and ideas generated

Trust Teams	Functions on Team
New Account Opening	Branch System, DirectServe, Human Resources, IT, Item Processing, Business Excellence
Check Fraud	Branch System, DirectServe, IT, Item Processing, Business Excellence
Facilities Management	Facilities Management, Branch System, Human Resources
E-Commerce	Product Management, IT, Sales, DirectServe
Cost Accounting Team	On-line Systems, Branch System, IT, Marketing and Sales, DirectServe, Business Excellence
Proposed Trust Teams	Functions
Financial Planning Services	Product Development, Branch System, Marketing and Sales, Hickory Investment Services
Business Continuity	IT, Facilities Management, Branch Operations, DirectServe, Financial Administration
New Product Development	Product Development, Branch System, Marketing and Sales, DirectServe, Business Excellence

**Figure 5.1-1 Trust Teams**

through the Trust in Your Ideas Program are communicated to other departments and to the branches by being published in the *TriView Trust Tribune*.

**5.1a(2)** TNB's commercial success clearly can be attributed to the bank's ability to build long-term relationships with its customers. TNB believes the same is true for its associates. Starting with new associate orientation, TNB's associates are celebrated as the drivers of the bank's success. This belief is reinforced through associate recognition and compensation programs and the Performance Management and Development Program (PMDP).

During the new associate orientation, associates are introduced to the concept that there is a direct link between their day-to-day work and TNB's success. Every associate is eligible for financial incentives for meeting or exceeding customer-defined expectations. When an associate is commended for outstanding service by an external customer, he or she is eligible for special recognition through

the TEAR Program. Managers are given wide latitude to motivate and empower associates.

In the PMDP, dialogue between an associate and his/her manager is initiated on support needed to accomplish these customer-driven goals. By linking performance and development in the same process, linkages between job and customer results and career advancement aspirations are clearly articulated and supported. The PMDP identifies and documents skills needed and the training or coaching required to develop those skills.

**5.1a(3)** The keystone to TNB’s associate performance management system is the PMDP. The PMDP cascades strategies, target goals, and the action plans required to accomplish them down through each department and to each associate. The result of the PMDP is the Individual Performance Plan (IPP), which identifies for each associate a list of project tasks to be accomplished over the year, milestones, and target goals for performance. As milestones are achieved and tasks are accomplished, individual performance is monitored by business area managers and supervisors against the IPP.

As part of the PMDP, associates and their managers or supervisors mutually agree on the goals and the support required to accomplish these goals. Support may include training, technical resources, or coaching. Individual career and development goals are also included in the IPP.

Bankwide, individual education and training needs are aggregated and provide the primary input to the annual Education and Training Plan. As associates accomplish their projects, they are contributing to the achievement of objectives in TNB’s current year plan. This ensures alignment between organizational and individual goals. Associates meet with their managers annually to review their performance against these goals.

TNB has a unique compensation structure that provides competitive compensation and rewards tied to performance and contributes to long-term associate retention through career development opportunities. Up until two years ago, TNB used a traditional job-grading system with over 30 overlapping salary grades. In other words, the upper range of one salary grade was also the bottom range of the next higher salary grade. Associate success was perceived by level of job grade and rate of advancement through the job grades.

In 1999, TNB introduced a broadbanding system that organized functions into job families. As a result, the number of defined job levels has been reduced from 30 to 6 general job bands. Each job family is broadly defined in Figure 5.1-2. This structure encourages cross-functional

job rotation. For example, nonexempt associates may cross-train on a number of positions and therefore increase their salary by building their skills and competencies and their value to the organization. Instead of focusing their efforts on climbing the position hierarchy, associates are shifting their focus to cross-functional job rotation and career development with compensation based on performance and not on the level of the job position.

Annual increases are determined by the EMC, which determines salary adjustments for each pay grade as a

Associate Job Families
Nonexempt—Nonexempt associates
Exempt—Nonsupervisory associates
Exempt—Sales associates
Exempt—First-line managers or supervisors
Mid-Management—Managers who manage first-line managers or supervisors
Executive—Business area managers who are bank officers

**Figure 5.1-2 Broadbanding of Salary Categories**

family. The only other time an associate’s base salary changes is when he or she is promoted or in response to specific human resource salary benchmarking (e.g., when base salaries or salaries of technology associates are adjusted to remain more competitive in the marketplace).

The Variable Compensation Program places 10 percent of a business area manager’s compensation “at risk” and tied to performance. Business area managers and bank officers can achieve compensation of 50 percent to 150 percent above base salary, depending on the achievement of their performance goals. For Trust Teams, all associates have identical PMDP goals related to team performance, thereby encouraging cross-functional high performance.

The TEAR program (Figure 5.1-3) reinforces TNB’s goals to be innovative and achieve Legendary Service. TEAR replaced TNB’s suggestion box system in 2000. The new program has increased participation, streamlined turnaround times, lowered costs, and provided tighter alignment to goals.

**5.1a(4)** One of the key challenges facing many companies, and, in particular, TNB, is the impact of retirement of senior leaders and managers who represent the “baby boomer” generation. The senior-most members of the EMC are approximately the same age and will retire from the bank at about the same time. Furthermore, over 50

Level	Criteria
<b>Level 1</b>	Immediate peer recognition is provided for behaviors related to service excellence. Associates provide the recipient with a TriView Service Award magnet.  Associates who have received a TriView Service Award are also awarded a chance for a prize that is randomly drawn at quarterly recognition meetings.
<b>Level 2</b>	Supervisors and above are empowered to provide associates with on-the-spot financial rewards up to \$500 for innovative suggestions or outstanding customer service.
<b>Bonus Level</b>	Associates who receive a commendation from a customer receive two chances for the quarterly prize or a Level 2 reward of up to \$1,000.

**Figure 5.1-3 TEAR Reward Levels**

percent of the business area managers and 65 percent of the operational area managers are close to or are approaching retirement age. Such an exodus of talent and experience may have a tremendous and possibly unfavorable impact on TNB. The EMC is committed to ensuring the future of the bank by aggressive planning for succession of senior leaders and other managers.

A succession planning process was introduced in early 2001 and provides a systematic method for developing bench strength for senior leadership, as well as operational and first-line supervisory leadership. Succession planning ensures that TNB will maintain a minimum corps of capable managers for critical positions. However, inclusion on the succession list is not a promise of advancement nor does it mean exclusion from the normal TNB career development process.

**5.1a(5)** TNB's passion for associates begins with job design and recruitment processes and is reinforced through its commitment to developing an associate workforce that is capable of achieving its Vision. TNB is consistently successful in attracting and retaining talent.

TNB's Hiring the Best Program deserves much of the credit for its success. The program was originally developed in 1997 based on interviews with TNB associates. Over the years, 100 percent of TNB's job descriptions have been through at least one revision cycle. In 1999, a step was added to the Hiring the Best Program to ensure that TNB's diversity goals were taken into consideration during the recruitment process.

TNB's Hiring the Best Program identifies characteristics and skills needed by potential associates for every key bank position and includes a structured process to recruit and hire associates. External human resource specialists have evaluated each of the six job families to identify common skills and behaviors.

The Job Family Competency Determination Process takes into consideration the following components:

- Common skills and behaviors form the core of all job descriptions.
- Each job description includes the specific competencies and skills required for each unique job function.
- Weights for each skill and competency vary by job family. For example, a bank officer's skill at decision making is weighted more heavily than the same skill for an exempt associate.

The Human Resource Department is responsible for an annual evaluation of the aggregate associate base to ensure compliance with all government regulations, such as the Equal Employment Opportunity (EEO) requirements, and to ensure that TNB is achieving its strategic direction for diversity and for community development goals.

TNB is committed to promoting from within the bank. As part of this commitment, managers and associates conduct a career development discussion as part of the annual PMDP. Associates and their managers discuss potential career steps, identify needed skills and competencies, and document the training required to achieve these skills and competencies.

Succession Planning Process
<ul style="list-style-type: none"> <li>• The four partners will form the Executive Compensation and Succession Committee, which annually ensures that all officer positions have succession candidates identified and is directly responsible for the process for President, Vice Chairman and COO, and CFO.</li> <li>• The process occurs in the fourth quarter of each year and immediately prior to the annual PMDP in the first quarter of each year.</li> <li>• The EMC reviews the Succession Plan annually. Review is facilitated by the Human Resource Manager outlining succession candidates for each targeted position based on performance.</li> <li>• Skill and competency requirements are addressed as part of the IPP and Education and Training Planning Process.</li> </ul>

**Figure 5.1-4 TNB Succession Planning Process**

TNB believes it is the associates' responsibility to manage their own career goals. Managers provide guidance, coaching, and opportunities to participate in education and training sessions. While the PMDP projects the education needs of the entire workforce and ensures that opportunities are available to associates to meet those needs, it is the associates' responsibility to enroll in training or to seek opportunities to develop leadership skills outside of formal training through such experiences as volunteering to lead the United Way Committee or other community activity.

## **5.2 Employee Education, Training, and Development**

**5.2a(1)** One of the key challenges facing TNB is the development of an associate workforce that can deliver against its Vision to provide Legendary Service. The TNB Strategic Planning Process (Figure 2.1-1) includes consideration of education and training needed to achieve this goal; strategies to achieve a talented workforce are defined in the Human Resource Plan.

At the associate level, education, training, and career development needs are identified through the PMDP and captured in the associate's IPP. Training required to build new skills and competencies is identified through an analysis of key initiatives and new product development.

The Human Resource Plan balances longer-term training needs with the ongoing, short-term needs of the organization. When longer-term needs are combined with training needs identified in the IPPs, a comprehensive picture is developed of how TNB's education and training program supports both individual and organizational goals.

**5.2a(2)** The PMDP includes the opportunity for managers and associates to identify skills needed to accomplish their personal development objectives, which, in turn, are aligned to the bank's objectives. PMDP also allows managers to conduct an annual career development discussion during which the associate's goals can be discussed and needed skills identified. Associates provide input to their managers or supervisors on the types of training they feel they need. As part of the IPP, the Human Resources Manager aligns training needs of individuals with the organization's objectives and prioritizes the most effective balance of course offerings and schedules.

Course development is outsourced to reduce the need for a large training infrastructure. Many courses are available that meet the needs of the organization without any customization. However, when a new course is created or an existing vendor course is customized, TNB works with a vendor to develop the training specifications, test the

course, and make improvements based on associate input. These improvements are incorporated into the production version of the training.

Although TNB procures courses through vendors and outsources the development of new courses, TNB maintains a staff of trainers who deliver the courses. Postcourse feedback is elicited using a written survey form. Suggestions for improvement are provided to the internal course instructor.

**5.2a(3)** TNB believes associate training goes hand in hand with strategies to achieve Legendary Service through long-tenured associates. Associates can expect to attend education and training courses from the beginning of their careers and continue throughout their time with TNB. Including weekly and annual all-hands associates meetings, training for each TNB associate averages 80 hours per year.

New associates participate in a week of orientation. This typically is conducted at TNB University. The new associate orientation session has been videotaped; tapes are available for use by the branches if an associate is unable to travel.

TNB's flexibility and commitment to meeting the training needs of a diverse workforce are best illustrated by a recent example. Last year, TNB utilized the services of an interpreter who signed the session to an associate who was deaf.

New associate orientation includes information on TNB's history, Mission, Vision, and the TriView Trust Model and Values. It also introduces various associate programs such as Trust Teams, continuous improvement, the Trust in Your Ideas suggestion program, the PMDP, reward and recognition programs, and benefit and compensation programs.

Associate safety, especially related to behavior during a robbery attempt, is covered. Sixty-five percent of new associate orientation is technical training, teaching all associates about bank products and the processes for delivering them. The remainder of the orientation covers general sales and customer relationship skills and also includes the TNB corporate orientation.

Brown Bag Lunch Meetings are a unique method to provide a continuing education program. During these lunch gatherings, branch managers offer training during the day for some branch associates.

Management development occurs continuously at TNB. All business managers attend weekly Tuesday morning

meetings during which they review performance and learn about new products and services. New managers are invited to a management course taught through Carol University's Executive Development Center.

All associates are offered tuition reimbursement for any matriculated degree program. Attendance at nondegree programs, conferences, and seminars also is widely supported. Funding for nondegree courses or professional seminars and workshops is decentralized and the responsibility of the branch, business, or operations area.

**5.2a(4)** Training is offered in a variety of formats and venues to ensure that associates have full access to continuous learning. TNB University offers computer-based training and an extensive CD-ROM library with courses covering a wide range of topics. The library includes general business and banking subjects developed by the American Bankers Association (ABA), the Bank Administration Institute (BAI), the American Management Association (AMA), and Carol Business School.

Every branch has multimedia workstations available to provide individual training opportunities. One bank manager currently is pursuing an Internet-based Executive MBA through Duke University. One human resource action plan for 2001 is to investigate the feasibility of partnering with Carol University to offer its distance learning courses off-shift at TNB University.

TNB associates have formed "affinity groups" such as the TNB Skiers Club. The TNB Women's Association offers a mentoring service to its members.

TNB also participates in the INROADS community involvement program in which economically disadvantaged or minority students commit to long-term internships while in college. Each INROADS intern is assigned to a manager for mentoring and support. Interns participate in PMDP reviews to develop their skills.

Training effectiveness is measured by how well the training meets the needs of the associate and TNB. Each student completes a course evaluation. These evaluations are given to the instructors to immediately implement improvements, as appropriate. Associate Satisfaction Surveys include questions that evaluate associate satisfaction with training.

**5.2a(5)** TNB reinforces use of knowledge and skills on the job through several approaches. Instructors provide support to training participants after the completion of the course. If an associate has a question, the associate can e-mail the instructor for an answer.

Basic computer training is outsourced to an external vendor who maintains an 800 number for support of basic computer programs. An Information Systems Help Desk is available 24/7 to assist associates with technical issues and questions on the information technology systems. All bank procedures are extensively documented and are accessible from any PC via a user-friendly search program.

## **5.3 Employee Well-Being and Satisfaction**

### **5.3a Work Environment**

TNB offers associates a safe, healthy, and ergonomically efficient workplace. For branches, this means combining security interests with a friendly and inviting atmosphere. For example, private offices either have glass walls facing the lobby or are open cubicles. Reflective lighting and live plants ensure a pleasant workplace.

Tellers are protected by workstations that are behind two-inch thick acrylic compound windows. Branches use several strategies to deter crime and therefore reduce personal risk to associates and customers. Associates undergo year-round training in the use of alarms and equipment, as well as procedures designed to make them better witnesses and limit what robbers actually can steal. High-resolution cameras capture continuous video. Since TNB branches are open until 7 p.m., uniformed guards provide added security during extended hours. Security guards are not armed because research indicates that armed guards provoke as much violence as they deter.

Branches with extended hours are secured by using a controlled access unit (CAU). The CAU is a bulletproof glass vestibule located at the entrance to the branch that is monitored by both a metal detector and a uniformed guard. The guard decides whether to let a customer enter.

With all this public visibility and monitoring, associate surveys show that branch associates have a need for a private area to take breaks. Each branch's break room resembles a residential dining room. Each branch also has a personal computer and videotape player in a private location that can be used for training.

The corporate office in Raleigh maintains a more traditional layout and structure than the branches. This office is the center of staff functions and most corporate activity. The Green Forest Operations Center combines the security features of the branches with an added emphasis on work flow efficiency. All nonbranch facilities utilize magnetic photo access cards and combination door locks to limit access to associates.

Associates' comfort and efficiency are paramount to TNB. Repetitive motion injuries and back care are an industrywide concern due to the intensely manual nature of both branch and computer transaction-based tasks. On an annual basis, health insurance carriers dispatch teams to ensure associates have the appropriate training and adaptive devices.

Maintaining safe and healthy facilities is the responsibility of the Facilities Management group. A Trust Team with associates representing branches and business areas across the bank provides input to the Facilities Management group. One of the questions on the Associate Satisfaction Survey seeks to determine the level of satisfaction with the workplace.

### **5.3b Employee Support and Satisfaction**

**5.3b(1)** Pilgrim Group, Inc., administers TNB's annual Associate Satisfaction Survey and provides comparison metrics to other financial institutions, as well as best-in-class providers outside the banking industry. Through 2000, all associates have been surveyed annually via a written questionnaire. The survey covers all employment and job satisfaction factors, as well as satisfaction with local and corporate management. TNB's survey solicits qualitative input, as well as quantitative scores, on a 5-point Likert scale, with 5 being the highest rating. All responses are transcribed for anonymity, and only reports in which associates' confidentiality can be protected are produced. No one at TNB has access to the raw data or data related to managers, departments, or demographic groups.

The original set of questions was selected from recommendations of the Pilgrim Group reflecting banking industry models. Each year, up to 10 percent of the questions may be modified by TNB. This gives year-after-year continuity and comparability to Pilgrim's national norms. These questions are tailored based on input from associates. First, associates' improvement suggestions are reviewed. For example, a question was added in 1998 reflecting how the company dealt with poor performers since associate feedback indicates this is a cause for concern. Second, Pilgrim Group surveys all its customers and suggests optional questions of national interest, such as questions related to satisfaction with telecommuting. Third, questions targeted to specific company initiatives may be added to the survey. For example, associate understanding of the purpose of Trust Teams is a new survey question.

TNB believes the most effective method for assessing associates' satisfaction is by listening to associates. TNB's open-door policy encourages associates to speak openly.

**5.3b(2)** The Research Triangle area and the state of North Carolina are home to several large, national employers. Competition for new employees is fierce. Two of the largest banks in America operate within the same geographic area as TNB and are tapping into the same talent pool.

In order to successfully compete for talent, TNB has to offer a competitive benefits package. Benefits include medical, dental, disability, and life insurance programs. All financial products offered by the bank or its affiliates are offered to associates on a "bank-cost" basis, as allowed by regulations. Discounted services include reduced fee financial planning, free banking accounts, discounted brokerage services, and reduced interest loans. Other TNB employment benefits include a stock purchase plan with an option for up to 50 percent matching funds for the 401(k) program. TNB managers are empowered to implement flexible work schedules to meet diverse scheduling needs of associates.

TNB recruits part-time associates from the local university student population and retirees. Tailoring its package to part-time associates includes extending the same benefits as for full-time associates, with the exception of medical benefits, which generally are covered by a parent's policy.

**5.3b(3)** The Associate Satisfaction Survey is distributed in two ways: surveys are mailed to associates, who respond by returning the survey via the mail, or surveys are administered in person. The overall response rate for surveys is 46 percent. The response rate for in-person survey administration is 84 percent, compared to 23 percent for mailed surveys.

TNB participates in the Pilgrim Group's National Human Resources Survey, which provides comparison information on metrics such as average tenure, absenteeism rate, turnover rate, and training statistics. The results from this survey are compiled and reviewed with the EMC during the strategic planning cycle.

**5.3b(4)** Results from the Associate Satisfaction Survey are distributed to each business manager. A common element in each manager's PMDP is a target goal for associate satisfaction. Depending on the manager's previous performance, the target goal can be either a percentage improvement in overall satisfaction in a particular area, or if results are very good to excellent, the goal may be to maintain the current level of associate satisfaction.

## 6 Process Management

The achievement of Legendary Service is dependent not only on providing service excellence at the point of customer contact but also on building products, services, and delivery systems that meet the requirements of the customer. It is also critical to maintain those processes through process management to ensure that they continue to meet the current needs of the customer and to deliver products and services that meet the future financial services needs of the customer.

TNB started out as a traditional bank offering primarily checking accounts and loans to households, farmers, and merchants. Today, TNB provides products and services that address all types of financial needs. Technology has provided TNB with the opportunity to offer the same types of products and services that are offered by other banks, thereby ensuring its ability to compete against much larger banks. The design of financial products and services is highly dependent on technology. As new technologies emerge, such as image processing, TNB is able to offer a wider range of products and services to its customers.

There are two key factors that differentiate TNB from competitors in terms of the design and day-to-day management of products, services, and service delivery channels.

(1) TNB's product, service, and delivery channel design process takes into consideration the unique relationship the customer has with the bank in the production and delivery of products and services. For the most part, these products and services are delivered in person at the branch system or via telephone through the DirectServe Center's sales and telemarketing activities. In a sense, the production and delivery of those services involve the customer. The customer simultaneously creates and uses

the service product. For example, when a customer uses an ATM, he or she is using a cash withdrawal and deposit service provided by the bank. However, the customer also serves as the operator in delivering that service. Therefore, if instructions are not clear on how to use the ATM machine or if the instructions are not in the customer's language, then the service may not be produced or used effectively by the customer. Another example is the use of on-line banking to pay bills. If the customer does not accurately input the amount of the bill payment, then the amount disbursed and the monthly account statement will be incorrect. TNB understands this interdependency and designs products and services and delivery channels that take into consideration the impact the customer can have on the effectiveness and efficiency of the products and services provided. The importance of understanding this interdependency is paramount in the development and ongoing management of TNB's Internet-based services. Ultimately, greater responsibility for the quality and effectiveness of the product and services available on the Web is shifting to the customer. For example, commercial customers will be able to reconcile accounts by reviewing their statements on-line.

(2) The focus on continuous improvement provides TNB with a competitive edge in achieving Legendary Service through its products and services. TNB's commitment to continuous improvement is evident from the recent improvements to its process management. In August 2000, a Trust Team led by the Business Excellence Manager visited Baldrige Award recipients and brought back numerous innovative ideas and concepts on process management. The Continuous Improvement Process (CIP), illustrated in Figure 6.1-1, was adopted based on benchmarking one Baldrige company's process improvement system. This process was then adapted by TNB to meet the unique requirements of its financial services business. Several

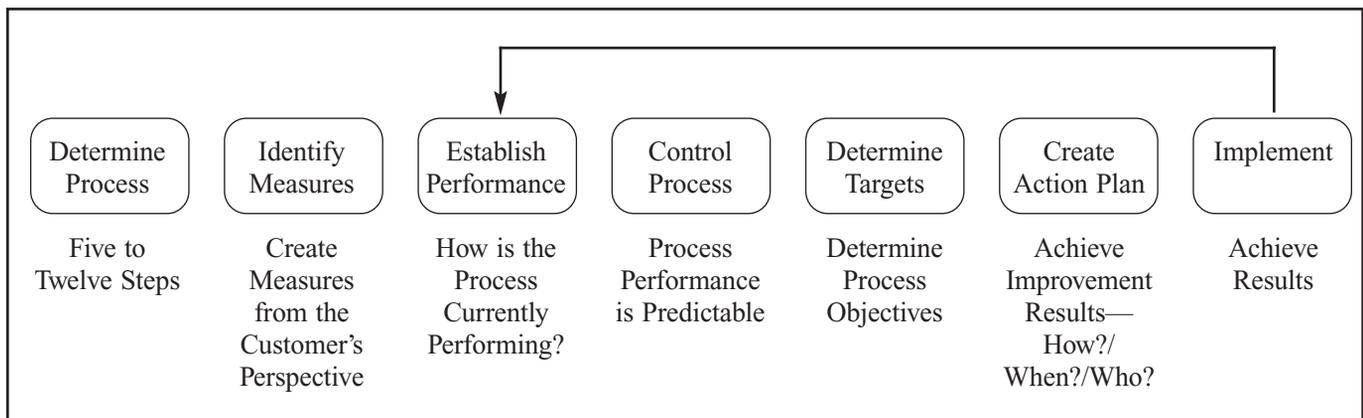


Figure 6.1-1 CIP Seven-Step Process Management Model

features have been incorporated into the CIP based on key steps used by other best-practice companies. TNB plans for both its product development teams and process improvement teams to use CIP. The use of CIP in product design is currently being piloted in the cross-functional development of TNB's Web portal and Internet services.

## 6.1 Product and Service Processes

### 6.1a Design Processes

**6.1a(1)** Although CIP represents an improvement of TNB's Product Design Process, the bank has successfully developed and managed products based on its current Product Development Process. TNB is looking to CIP to provide greater cross-functional opportunities and to more effectively and efficiently develop products.

Today, product and service design and the day-to-day production management are decentralized. The product manager is the primary individual responsible for product development, market analysis, product pricing, product life cycle management, and strategy. For the most part, each product manager follows similar steps in developing products and services: (1) generate new or enhanced product idea; (2) conduct planning and prioritization and request and obtain funding; (3) develop product; and (4) roll out product to market. Embedded in the design process are market research, data analysis, and risk assessment. The product manager examines competitive data, market potential and size, market demand, feasibility, and cost. Generating new product ideas and enhancements includes incorporating customer requirements identified through the Customer Outreach Program and opportunities driven by emerging technologies. The

development of TNB's Web portal and Internet services will provide small business and commercial customers with several Internet-based products such as cash management, ACH origination, and on-line account reconciliation.

Product strategy and development are aligned with the annual Strategic Planning Process. The EMC prioritizes product development opportunities and allocates funding. Depending on whether the product is developed internally or outsourced to a vendor, numerous cross-functional operational, systems development, and technology groups are involved in developing and rolling out the product to market. For example, Marketing and Communications develops and distributes customer communication collateral, and Marketing and Sales is responsible for the roll-out of the product to the branch or other distribution channel.

**6.1a(2)** Along with the development and introduction of CIP in 2000, TNB saw the need in the Product Design Process for a better understanding of the changing needs of today's customers. With the rapid changes taking place in the financial services industry, especially surrounding e-commerce, TNB identified the need to develop a systematic, objective, and accurate way to understand and quantify the current and future issues that are important to customers. The result of this effort was the creation of TNB's Voice Of the Customer (VOC) Process, illustrated in Figure 6.1-2. The VOC Process is responsible for capturing emerging customer issues in the marketplace.

TNB had identified the need to establish an electronic presence via a Web portal based on two factors: (1) customers are becoming increasingly comfortable with using the Internet and (2) without an e-commerce presence,

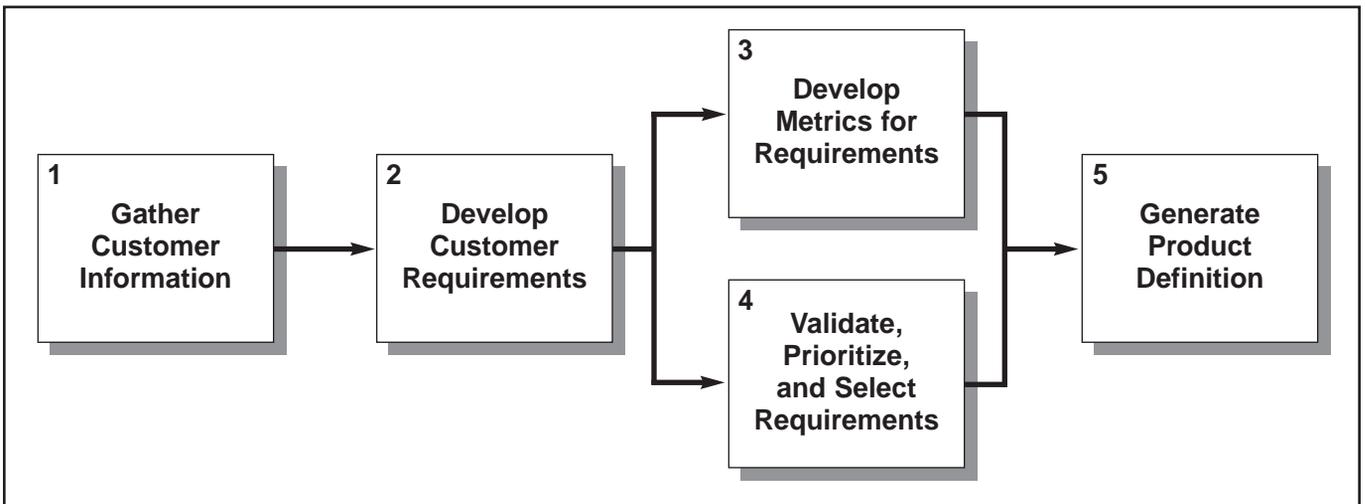


Figure 6.1-2 Voice Of the Customer Process

TNB would weaken its ability to compete with other banks. The EMC chartered a cross-functional team composed of eight senior people from Product Management, Marketing and Sales, the Branch System, ITM, and Risk Management that used the VOC approach to develop an e-commerce product strategy. This team reviewed various applications of e-commerce within and outside of the banking industry and conducted a series of focus groups. The purpose of the focus groups was to understand the relative importance of Web-based products and features and the marketability of pricing models. Based on this information, customer requirements and Critical Performance Measures (CPMs) are being identified. Rollout of TNB's Web portal is scheduled for the third quarter of 2001, with completion expected in the fourth quarter.

**6.1a(3)** Technology is a critical factor for future success in differentiating TNB's services from those of other banks. In 1998, TNB determined that to grow its market, it would have to make a significant investment in and increase its understanding of technology. TNB's IT organization was tasked with leading the effort. The result was the creation of a new organizational structure to spearhead technology introduction. The new division, called Information Technology Management (ITM), is responsible for defining the customer and operational requirements and keeping up with opportunities provided through emerging technologies. This becomes an even more critical task because TNB outsources many of its processing activities. The ability to select the right suppliers, understand what they can and are doing, and ensure that TNB continues to provide appropriate products and services for customers is of critical and strategic importance to TNB.

**6.1a(4)** CIP uses four types of CPMs to track service, product, and service delivery performance: quality, timeliness, cost, and cycle time. All projects and processes develop CPMs to measure and track performance. The CPMs identified for each product and process ensure that the business area understands and strives to meet customer requirements.

The first two types of CPMs, quality and timeliness, are customer centered and identify performance requirements that are important to the customer. The last two types of CPMs, cost and cycle time, are business focused and identify performance requirements that are important to TNB to maintain and grow its effectiveness. Operational measures are summarized in a monthly CPM report.

Communication is a vital element in the deployment of TNB's various initiatives, and there is a threefold structure

to accomplish this. Project Management Systems are used by product managers to track project information and data. The product manager tracks status, schedule, plan, objective, and performance against measures.

**6.1a(5)** The use of CIP in developing new products, as well as for improving product and service delivery systems, provides an easier method to understand and track process performance. Understanding customer requirements is the first step in the process. The "customer" may be either an external or internal user of a product or process. By focusing on the customer, TNB ensures that key operational performance requirements are understood from the customer perspective as well as the internal operation perspective. TNB used the VOC to determine customer needs for electronic banking and now is using CIP to drive the implementation of these products. TNB's four-element measurement system captures and tracks this information, and the status of projects is made available through monthly Project Management Reports.

**6.1a(6)** ITM is responsible for testing a new business system or managing changes to an existing business application prior to production. ITM uses a formal Change Management Process to govern all hardware and software changes that occur within the technology infrastructure to ensure quality and operational integrity and to reduce the risk of changes to one business application that may negatively impact other business applications running in the same system.

### **6.1b Production/Delivery Processes**

**6.1b(1)** In addition to product development, each product manager is responsible for managing the day-to-day product and service delivery processes. Operations, technology, and customer service groups support the product and service delivery processes for all bank products. Key production and service delivery requirements are identified in Figure 6.1-3. Although product managers are primarily responsible for ensuring the coordination of these two key processes for their products, many groups, including internal operations and external vendors, are involved in managing the related core processes and subprocesses.

Service and delivery are also managed differently according to their product distribution channels. For example, the sale of a Demand Deposit Account (DDA) product such as checking occurs either at a branch or through the DirectServe Center. The sale of a small business and commercial product such as cash management is handled either at a sales office or in the field. Sales of credit card services or certificates of deposit occur in several ways,

Key Processes	Type of Process Measures (TNB-CIP Definition)			
	Quality	Timeliness	Cycle Time	Cost
New Account Setup	✓	✓	✓	
Teller Transactions	✓	✓		✓
Consumer Loans	✓	✓	✓	✓
Small Business Loans	✓	✓	✓	✓

**Figure 6.1-3 TNB’s Key Production and Delivery Processes**

including in person at a branch, via telephone through DirectServe, or through solicitation via direct mail or telemarketing.

Each of the distribution systems for sales has different requirements and different CPMs. The same management process holds true for service as a core process. Service can be provided by branch associates, DirectServe associates, and/or a salesperson. The type of transaction processing also is associated with the product that is processed. For example, electronic payments are processed through TNB’s payment area, whereas orders for paper checks are processed through Checks For You, and remittances are processed through Pine Transaction Services—both external vendors.

**6.1b(2)** Day-to-day production management is also the responsibility of the product managers, who monitor daily status reports to ensure critical processing deadlines are not missed. Corrective actions and capacity management are driven by the product manager.

Product managers also monitor performance against measures for their products. CPMs are tracked for quality, timeliness, cost, and cycle time. In order to manage performance of other business or operational areas, Service Level Agreements (SLAs) are developed in conjunction with internal processing areas to ensure that operational goals are achieved and, in turn, customer requirements are met. For example, the availability of DDA balances to the branches, DirectServe Center, and customers by 9:00 a.m. daily is a service level target goal that is driven by internal and external customer requirements for funds availability. In order to make that deadline, a number of areas are

involved in the data input and processing of account information on a timely and accurate basis. On a monthly basis, CPMs and results toward SLAs are reviewed by the business area, and, on a quarterly basis, CPMs and SLA results are reviewed by the EMC.

**6.1b(3)** CIP is driving the development of key sub-processes and their measures, as well as the definition of the processes. CIP is the key vehicle to ensure that TNB revisits these concepts at the annual strategy review sessions. Each of the types of measures “checked” is backed up with a set of measures that provide the specific performance levels. For each type of measure, there are some that are “in process” and some that are “end of process.”

**6.1b(4)** TNB tracks performance of its processes on a daily, weekly, or monthly basis, depending on the nature of the process. For example, New Account Setup tracks any changes made to an account within 60 days of it being opened to ensure accurate account setup. Setup time is the time from when a customer decides to open an account until the account is funded and available for use by the customer to ensure timely availability of funds, and the amount of time a customer spends either on the phone or in a branch to open an account (reflecting cycle time).

**6.1b(5)** TNB continually seeks to improve process and service performance. The CIP methodology includes a closed-loop feedback that is critical to TNB’s continuous improvement approach. In Figure 6.1-1, this closed-loop feedback is illustrated in the movement from implementation (Step 7) back to establishing current performance (Step 3) and then on to improving the process (Steps 4 through 6).

## 6.2 Business Processes

To achieve Legendary Service, TNB has gone beyond the traditional banking business of offering products and services to meet the needs of its different customer segments. TNB strategically uses key business processes such as marketing and sales, outsourcing, service partnering, and acquisition that have contributed to the growth of TNB into a \$1.6 billion bank.

TNB leverages the relationships between the bank and its outsourcing vendors and service partners to provide the same depth and breadth of products that are offered by much larger banks. TNB's Marketing and Sales relies on a talented retail associate, small business, and commercial sales force to sell those products and services against the brand strategy of "bank community," thereby differentiating TNB's products and services through the personalized and neighborhood nature of its service delivery channels. Even the design of TNB's new branch office buildings is executed against its brand strategy. Convenience in banking, the number one customer requirement, has been delivered through acquisition strategies. Over the past decade, TNB has expanded the size of the branch system to provide branch offices in locations that are close to customers' homes and work. TNB's acquisition of two banks has resulted in its rapid expansion of branch locations and successful penetration into high-growth markets.

**6.2a(1, 2)** The key business processes that enable TNB to achieve its growth goals include marketing and sales, outsourcing, service partnering, and the acquisition process. In 1998, TNB transformed its branch system to a sales model. Associates not only provide the typical branch

services (such as account opening, check cashing, money orders, and loans) to customers, but also are directly involved in sales. The shift from a traditional branch system to a sales culture has been accomplished in 70 percent of the branches and in the DirectServe Center. The goal is to transform all of the remaining branches by the end of 2001. The average number of TNB products per household has increased from 1.2 in 1995 to 4.2 in 2000 as a result of this cross-sell strategy. Branch offices still provide dedicated loan officers and customer service associates whose sole function is to sell bank products. However, tellers are now expected to identify cross-selling opportunities and ensure that the customer is turned over to one of the customer service associates.

Marketing and Sales also maintains a traditional in-house small business and commercial account sales force that markets through sales calls, relationship management, marketing events, and promotional campaigns. Marketing and Sales associates work with product managers to ensure that products and services are continually evaluated and meet the needs of the customers. Marketing Communications, an internal support service, is responsible for providing Marketing and Sales with print collateral on products and services and support in managing customer marketing events.

Numerous functions are outsourced to external vendors who provide products and services at a cost-effective level. Outsourcing also enables TNB to be an industry technology leader by providing its customers with leading-edge technology products, such as check imaging, without the prohibitive capital investment involved in building internal capabilities.

Key Processes	Type of Process Measures (TNB-CIP Definition)			
	Quality	Timeliness	Cycle Time	Cost
Item Processing (outsourced)	✓	✓		✓
Check Ordering (outsourced)	✓		✓	✓
Insurance Partnership		✓		✓
Securities Brokerage Partnership		✓		✓
Lending Companies Partnership		✓		✓

Figure 6.2-1 TNB's Key Business Processes

TNB's key outsourced relationship is with Pine Transaction Services for item processing. They handle inclearings from the Federal Reserve Bank and other clearinghouses, capture and balance the checks, and transmit the information to TNB's data center on a daily basis. Pine Transaction Services also sorts and bulk files the items until they are needed for statement rendering; handles exceptions; manages the printing of statements, postal presorting, and distribution; and provides special services such as check retrieval. Pine Transaction Services provides TNB's lockbox facility by serving as the bank's agent for collecting the mail and processing remittance payments.

TNB currently is working with Pine Transaction Services to provide check imaging to customers by the end of the third quarter of 2001. On-line image statements will provide customers with the ability to more easily reconcile their checkbooks and will reduce paper handling. Customers may choose to continue to have their checks returned, but TNB's goal is to eventually shift 90 percent of its customers to imaging in order to reduce costs, such as printing and mailing, by 30 percent. Imaging improves customer service by automating the research process, and it creates new product and service opportunities that increase fee income and customer loyalty. DirectServe will be equipped with image archive access so that transaction-related service inquiries can be addressed immediately instead of being documented for later review and follow-up. Customers who approach a teller with a question about a check or deposit will be able to see their items on-line without having to wait for a reply in the mail days later. TNB will also offer small business and commercial customers a CD-ROM statement that enables them to perform their own research or reconciliation.

Based on its strategic partnership with Hickory Investment Services, TNB is able to offer customers investment products and services, including mutual funds, annuities, and customized counseling on wealth management. Spruce Mortgage, the top producer of third-party mortgages, brokers home mortgages for TNB. Both Hickory Investment Services and Spruce Mortgage are managed by product managers within the Retail Banking Division.

TNB has a franchise relationship with two major card companies. TNB works with one of the major card companies to co-brand a credit card with a local university. The syndication provides revenue to TNB and the card company, as well as 2 percent of revenue to the university.

Another strategic partnership that is vital to TNB's success is the relationship with Cumulus, the world's largest ATM network. Cumulus provides TNB cardholders with access to over 500,000 ATMs worldwide. At convenient

locations throughout its footprint, TNB provides a fleet of ATM machines that are networked into Cumulus. TNB outsources the management of ATMs, including equipment and supplies, cash for the ATMs, armored car services, and maintenance. ATM Service Management (ASM) is a product group within the Retail Banking Division.

TNB procures products and services from numerous vendors to support the administrative, marketing, facilities management, and many other areas of the bank. The key suppliers are identified in Figure P.1-2. Although the Purchasing Department centralizes the procurement of office supplies and equipment such as copying machines, the business areas are responsible for procuring and managing licensed software, hardware, equipment, and supplies directly from the vendors. For example, Harmony, Inc., provides a disaster recovery "hot site" for both facilities and technology to ensure business continuity in the case of a disaster or system outage. ITM also manages telecommunications vendors for both data and voice systems. Marketing and Sales manages the relationship between TNB and its telemarketing vendor, Great Smoky Marketing, and Marketing and Communications manages the advertising services provided by Polk-Wolfe, a Charlotte-based firm.

The key strategy for building assets and penetrating the North Carolina market has been through acquisitions of other banks. Although TNB considers itself a community bank, its asset base of \$1.6 billion puts it at the high end of the community bank range. TNB has developed an acquisition process that follows a series of steps to ensure an efficient and effective transition for customers, associates, and business and operations areas. An Acquisition Team is formed with representatives from finance, business areas, ITM, and operations. The team is responsible for developing conversion strategies through a highly sophisticated project management process. After the acquisition of The Bank of Buckley, the Acquisition Team reviewed the process and made improvements that resulted in a shorter cycle time for combining product, human resource, technology, and operational systems in the acquisition of the First National Bank of Southfall.

**6.2a(3-4)** Each business, operational, or technology area is responsible for identifying the requirements and for managing the performance of suppliers. Product specifications and service levels are negotiated through the Vendor Contract Process, which involves the Legal Officer, whose office ensures that the vendor is contractually responsible for delivering the products and services that are specified by TNB.

Architectural and building firms that are contracted to design and build a branch office facility are responsible

for managing the numerous craftspersons and materials vendors. Facilities Management works closely with the architect and builder to ensure that requirements are built into the design, specifications are met, work is on schedule, and the budget is managed to plan.

External outsourced vendors, suppliers, and partners are responsible for controlling and improving their processes. On a periodic basis, some suppliers like Pine Transaction Services meet with TNB managers to review performance results that they track.

**6.2a(5)** Outsourced vendor relationships minimize the costs associated with inspection and testing because vendors such as Pine Transaction Services conduct their own data quality audits and tests to ensure data integrity and reliability.

**6.2a(6)** Each functional area is responsible for managing and improving business processes. Every business, product, operations, or administrative manager understands the importance of continuous improvement in contributing to the success of TNB. Each manager explores ways to improve the effectiveness and efficiency of supplier relationships. Improvements are shared at EMC and business area meetings, and success stories are published in the *TriView Trust Tribune*.

### 6.3 Support Processes

**6.3a(1)** Key support processes for TNB include: Human Resources, Information Technology, Risk Management and Compliance, Finance, Marketing Communications, and Facilities Management. These key support services are essential to TNB's success because they add value to the organization by providing the human resource, legal, technical, and facilities infrastructure that enables the bank to conduct its business and achieve its goals (Figure 6.3-1).

The Human Resources Department is involved with every aspect of creating an associate workforce that can deliver against TNB's Vision for Legendary Service. Human resource functions include recruitment, hiring, orientation, education and training, salary and benefits, compensation, reward and recognition, succession planning, and the Associate Satisfaction Survey process. Human Resources manages such programs as the Hire the Best Program, the TriView Excellent Associate Recognition Program, and the Performance Management and Development Process (PMDP). Human Resources is also responsible for conducting courses at the TNB University, coordinating the development of courses through vendors, and

coordinating education through tuition reimbursement programs and workshops.

Information Technology Management (ITM) is composed of several functions that manage the technology platform for the bank. TNB runs a data center at the Green Forest Operations Center. The data center provides information processing for the various business systems that support each product area, as well as overall technology functions such as mainframe, network, and distributed systems; data storage and retrieval; data security; capacity management; change management; and the Information Systems Help Desk.

Business systems, such as the Customer Information System (CIS), are bankwide systems that are linked to many other product-driven applications such as those related to DDA accounts. CIS maintains a customer indicative file for all retail and commercial customers. For example, although encoding of checks is conducted by Pine Transaction Services, the data captured during encoding are fed into a file of account transactions that is nightly transmitted to TNB's data center to be combined with other customer account activity, new account openings, and account closings. CIS is an application that is batch processed every night to ensure that, at 9:00 a.m. the next morning, account holders have access to their funds and that the funds reflect an accurate balance based on the previous day's activity.

Risk management and compliance is a key support process that ensures the bank is adequately capitalized and in compliance with the various federal regulations and laws (Figure 1.2-1). During product development, Risk Management assesses the bank's potential exposure to capital or market threats inherent in the product. For example, Risk Management is currently involved in evaluating the opportunities and threats provided by the new E-Signature Law. Before a mortgage product that uses electronic signatures on loan documents is put into production, approval by Risk Management is required.

Finance at the bankwide level works closely with each of the business managers to provide an accurate picture of the health of the bank through financial analysis and reporting. Finance aggregates the revenue, costs, and profitability of the various businesses and provides this information to the EMC and business managers for review. Finance is responsible for forecasting and conducting variance analyses on actual performance against plan. The business area and the EMC review financial performance monthly, quarterly, and annually.

The Marketing and Communications Department is responsible for providing the Sales and Marketing Division

Process	Requirements	Key Measures	Owners
Marketing Communications	<ul style="list-style-type: none"> <li>• Grow customer base</li> <li>• Increase assets per customer</li> <li>• Increase the number of accounts per customer</li> </ul>	<ul style="list-style-type: none"> <li>• Number of customers</li> <li>• Assets per customer</li> <li>• Number of accounts per customer</li> </ul>	SVP Marketing and Communication
Administer Corporate Finance	<ul style="list-style-type: none"> <li>• Provide accurate and timely financial information</li> </ul>	<ul style="list-style-type: none"> <li>• Days to close books</li> </ul>	Finance
Administer Human Resources	<ul style="list-style-type: none"> <li>• Recruit and secure high-caliber employees</li> <li>• Administer compensation and benefits programs to retain associates</li> </ul>	<ul style="list-style-type: none"> <li>• % employees with IPPs and total training dollars</li> <li>• Unplanned turnover</li> </ul>	Human Resources
Provide Information Services	<ul style="list-style-type: none"> <li>• Provide reliable, high-performance hardware/software systems</li> <li>• Provide information service capability to satisfy internal customer needs</li> </ul>	<ul style="list-style-type: none"> <li>• ATM availability</li> <li>• System availability</li> <li>• CIS availability</li> </ul>	ITM and Operations
Compliance	<ul style="list-style-type: none"> <li>• Protect intellectual property</li> <li>• Minimize liability exposure</li> <li>• Ensure general regulatory compliance</li> </ul>	<ul style="list-style-type: none"> <li>• Number of ongoing litigation cases</li> </ul>	Compliance/Legal

**Figure 6.3-1 Support Processes**

with print collateral on products and services. It also manages special events and manages the overall advertising for the bank. It is responsible for brand positioning as well.

Although each of the product managers is responsible for a product line, Marketing and Communications ensures that product communication aligns to TNB's brand strategy and provides a cost-effective method for producing marketing materials and promoting events. For example, the design of the graphics for the new Web Portal, *triview.com*, has been developed by Marketing and Communications to provide a consistent brand image. The Web pages are colorful, attractive, and user friendly. Each product home page is customized but provides multiple links to include cross-selling connections. Functions within Marketing and Communications also include community and public affairs, media management, and the production of associate communications such as the *TriView Trust Tribune* and the annual all-hands associates meetings.

During the building of new branch offices, Facilities Management made a major contribution to achieving the

bank's Vision of Legendary Service through its "bank community" designs. One of the newly constructed bank buildings won the Best Commercial Building Award for design in 2000. The design of the exterior of new branch buildings reflects the architecture of the community. Historical pictures and paintings and sculptures by local artists fill the interiors. An innovative layout combines "bank community" ambience with workflow efficiency. Customer service associates do not have desks; instead they have round wooden tables. These meeting tables are designed to make people feel as comfortable as if they were at their kitchen tables.

**6.3a(2)** Key support process requirements are defined by the functional area in conjunction with the business areas, as appropriate. On an annual basis, each support area is evaluated, and a cost/benefit analysis is conducted to assess whether the services provided by the area continue to warrant funding. Since support areas are cost centers and not profit centers, the key financial requirement for most support areas is to manage budget against plan within a 2 percent favorable variance. Business areas provide input to support areas, such as human resources,

marketing and communications, and finance, on a project or an as-needed basis.

Requirements for DDA services provided by ITM are defined through the Service Level Agreement (SLA) Process for DDA accounts. SLAs are target goals that are mutually agreed upon between the data center and a business area. Target goals address “up and current” data. “Up” refers to the availability of data by a specified deadline, and “current” refers to the accuracy of the data; in other words, the data reflect the previous day’s activity, and therefore the customer’s account information has been updated. For example, DDA account balances need to be “up” and available to customers by 9:00 a.m. daily, and the balances need to be accurate or “current” and reflect the previous day’s deposit credits or check debits. SLAs are being developed for other business areas.

**6.3a(3-4)** The design and day-to-day management of support processes are the responsibility of the support process manager. TNB makes every effort to hire managers who bring experience and cutting-edge ideas and concepts about developing and managing a specific function. For example, Marketing and Communications needed to develop a media management position. The Hire the Best Program was used to fill this new position. Working with the Human Resource Recruitment Manager and based on input from the product managers who would be supported by this function, an individual was hired who not only brought with her the skills and competencies that were required to succeed in the job, but also the knowledge and experience to develop the media management function into a value-added support process.

**6.3a(5)** The DDA Service Level Agreement Process also provides ITM with the opportunity to control and improve its services for supporting the DDA system. On a monthly basis, performance against SLA target goals is reviewed during a Service Review Meeting. Data center and business systems managers and the product manager for DDA meet to review the reasons a specific daily goal was not met. Root cause is discussed, and the data center or business systems managers identify what is being done to avoid recurrence of the problem. For example, last month, the DDA batch processing did not finish on time on four nonconsecutive days because the file from J-Pro was transmitted late. As a result, customer balances were not available until 10:30 a.m. or later, and the data center failed to meet its SLA goal for the month. The problem with the vendor file transmittal was identified and resolved, and the cause was reviewed by TNB managers at the SLA Review Meeting.

**6.3a(6-7)** As mentioned earlier in Category 6, TNB is shifting to CIP, a seven-step process management model, to improve all core and support processes. CIP, combined with the Trust Team Process, will ensure that improvements identified by business or support areas will be systematically evaluated and improved.

Improvements in support processes are shared in numerous ways throughout the bank including EMC, business area, and support area meetings; SLA Review Meetings; and one-on-one meetings among managers. The process measures used provide validation that the approaches are effective.

## 7 Business Results

### 7.1 Customer-Focused Results

TNB's customer satisfaction results are identified through the Customer Outreach Program. Improving customer satisfaction is a key goal for 2001.

Members of the Customer Outreach Program periodically survey customers to determine the level of satisfaction with products and services and to identify opportunities for cross-selling. The results (Figure 7.1-1) are aggregated on an annual basis and provide the EMC with feedback on how well TNB is doing in the eyes of its customers. Performance for the past three years has been improving. The slight drop in ratings in 2000 is not statistically significant; it reflects variation in the polled customer base.

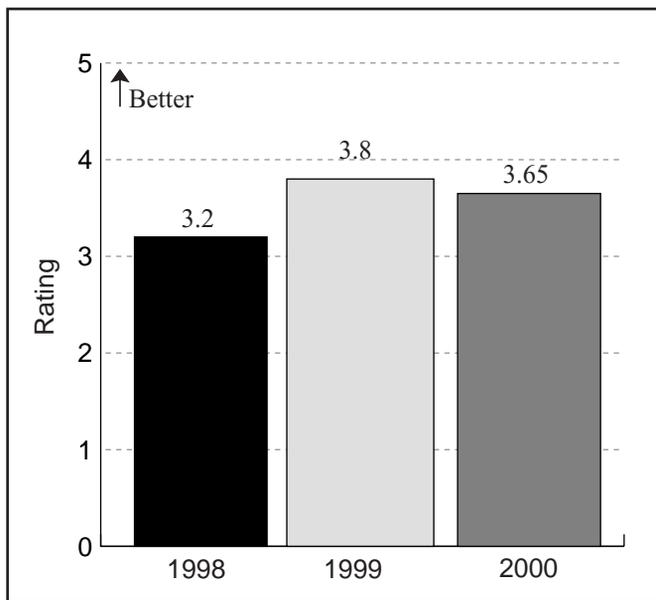


Figure 7.1-1 Customer Satisfaction Ratings

One of the key questions on these telephone surveys addresses the degree to which the customer is "likely to refer" family and friends to TNB to purchase products and services. The high degree of favorable responses to this question (Figure 7.1-2) indicates that TNB is competitive in its product and service offerings and engenders positive referrals to other potential customers.

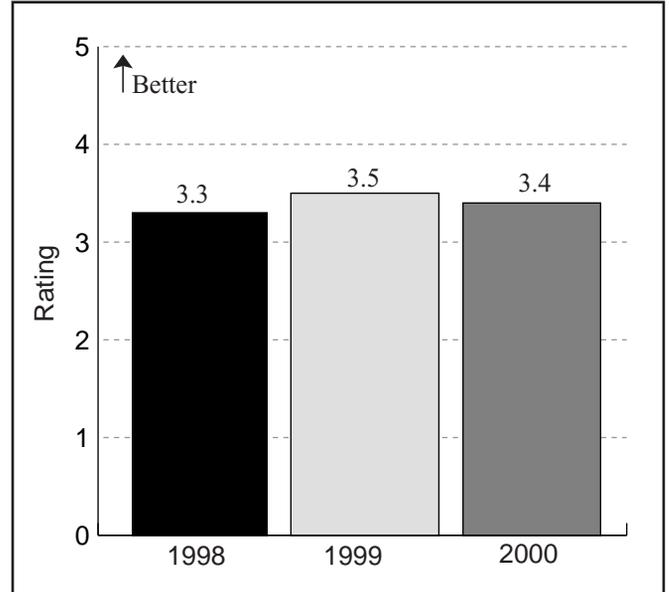


Figure 7.1-2 Likelihood to Refer

Customers' overall satisfaction with product and service knowledge (Figure 7.1-3) of both branch and DirectServe associates has improved over the past two years. This is a direct result of the training and coaching being provided to associates during orientation and on the job. Because results for the two groups of associates are quite similar, results are provided for the combined group.

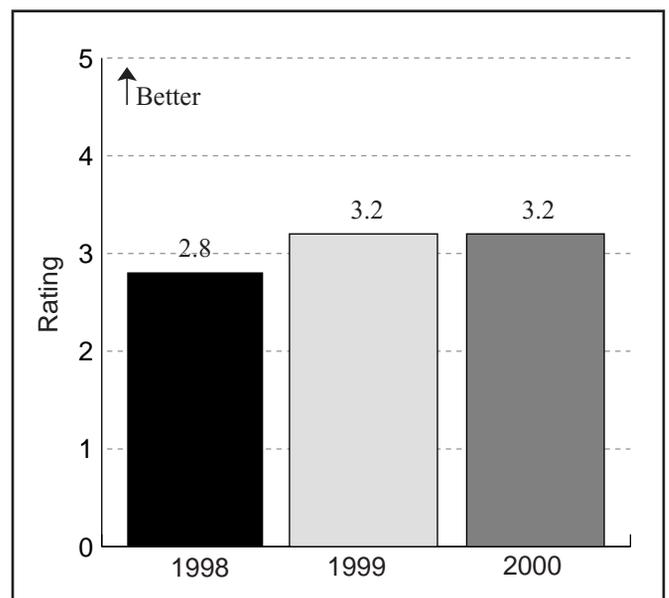


Figure 7.1-3 Satisfaction with Product and Service Knowledge

TNB's associates gain the trust of customers by demonstrating behavior that is perceived as caring and responsive. Caring involves showing empathy to a customer when there is a problem. This attribute clearly is being achieved, as illustrated in Figure 7.1-4. The bank that can provide personal service in today's banking environment differentiates its service from the bigger and less personal banks.

Customer loyalty is measured by the likelihood that a customer will purchase other products with the bank; this indicator implies a long-term relationship. The average number of TNB retail products per household is 4.2 in 2001 compared to 1.2 in 1995. Figure 7.1-5 shows the likelihood that TNB customers will purchase other products from the bank.

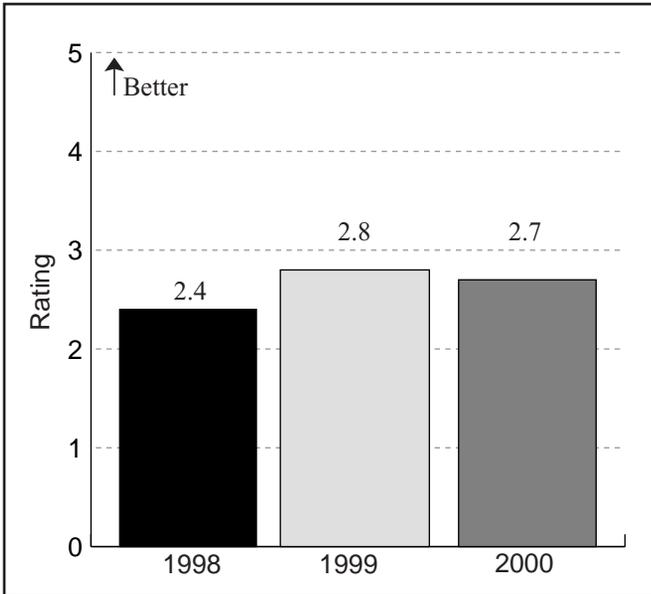


Figure 7.1-4 Level of Caring

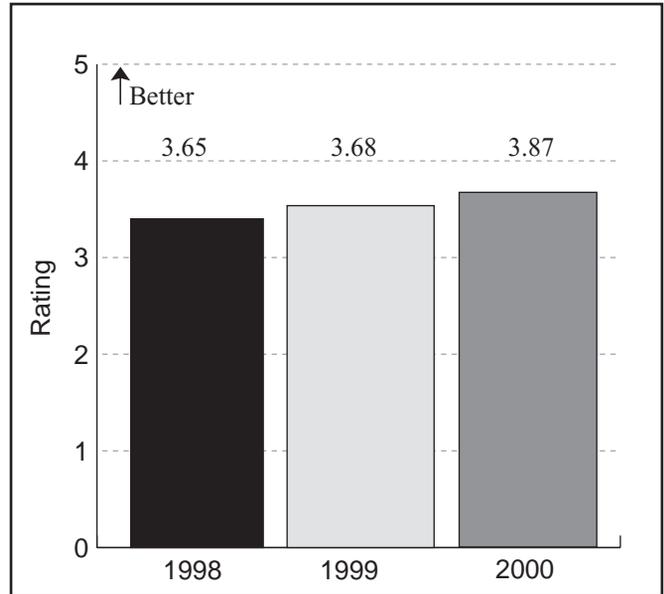
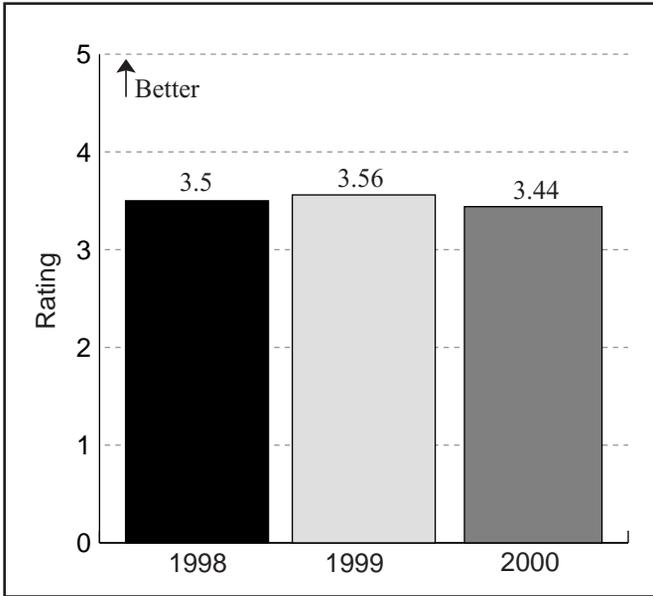


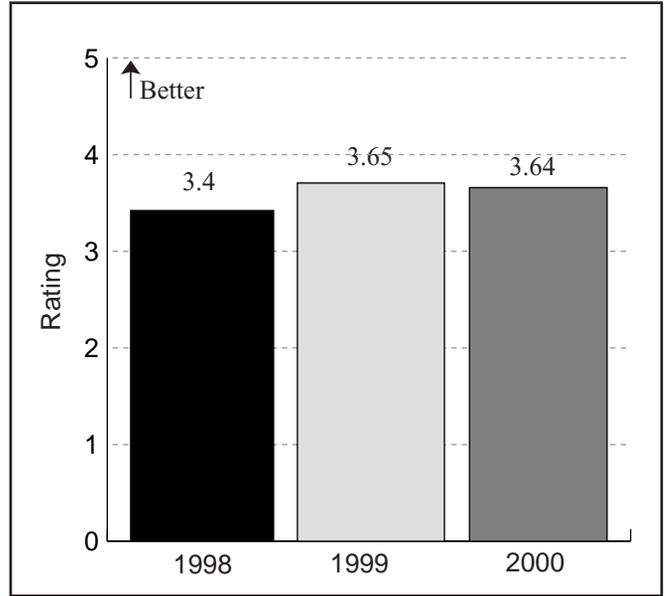
Figure 7.1-5 Likelihood to Purchase Other Products

TNB realizes that customers lead busy lives. Many of TNB's customers are single or multiple account holders with little time to spare to do banking. In response to its customers' request for extended hours, for 10 years TNB has met this key customer requirement with Real Customer Hours. As a result, TNB's customers have provided the bank with good ratings on the ease of doing business, as illustrated in Figure 7.1-6.



**Figure 7.1-6 Ease of Doing Business**

TNB welcomes the opportunity to handle customer inquiries and resolve problems. DirectServe and branch associates are trained to handle the majority of all customer inquiries within one call, thereby reducing the amount of cycle time required to resolve an issue. TNB performance for inquiry and problem resolution is above average, as illustrated in Figure 7.1-7.



**Figure 7.1-7 Inquiry and Problem Resolution**

The single most frequent factor that affects teller wait time is associate turnover. During the summer months, when associates who are college students leave the area, TNB experiences seasonal increases in lines and in associate turnover. This subsides in September, but it is an issue that TNB is addressing to ensure that the wait time for customers is never longer than TNB's goal of five minutes or less. Figure 7.1-8 shows the teller wait time.

Call time is automatically monitored by an Automated Call Directory (ACD) system. The number of calls, the time to answer calls, and the number of calls abandoned before a DirectServe associate picks up the call are tracked by the ACD. DirectServe also experiences a problem with associate turnover during the summer. Overall, as illustrated in Figure 7.1-9, the actual performance to achieve time to answer a customer's call is well below the goal.

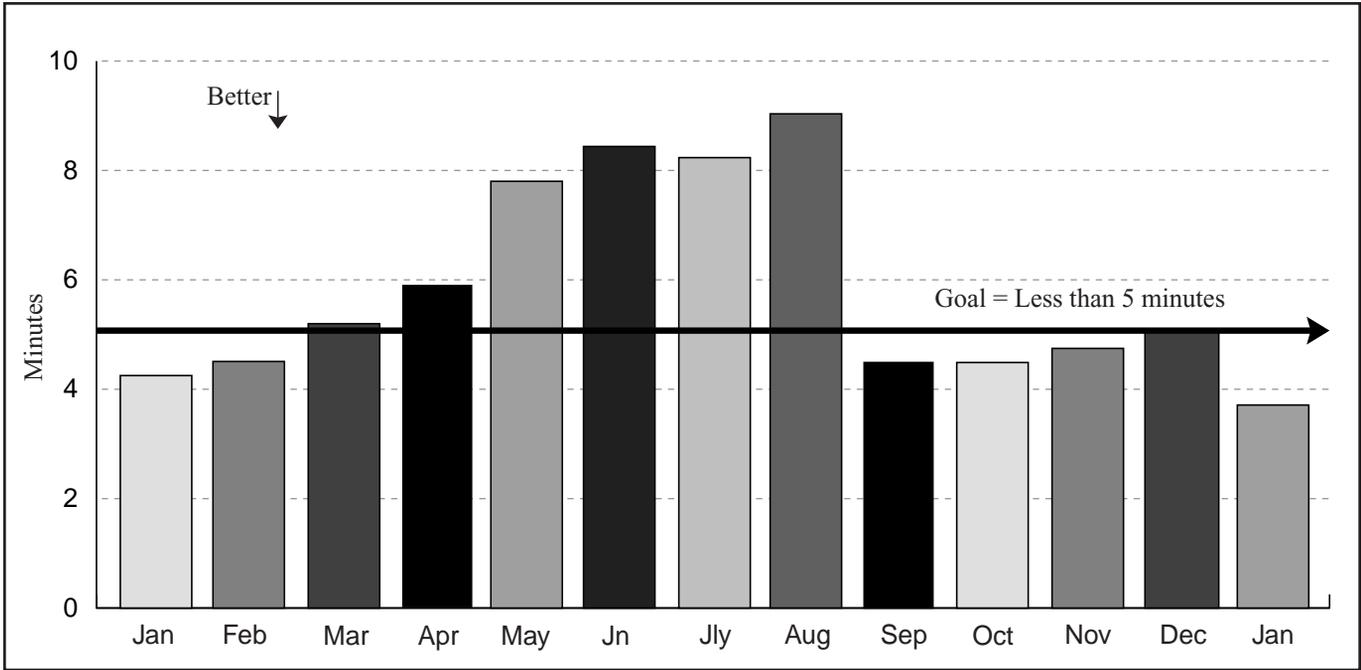


Figure 7.1-8 Average Teller Wait Time

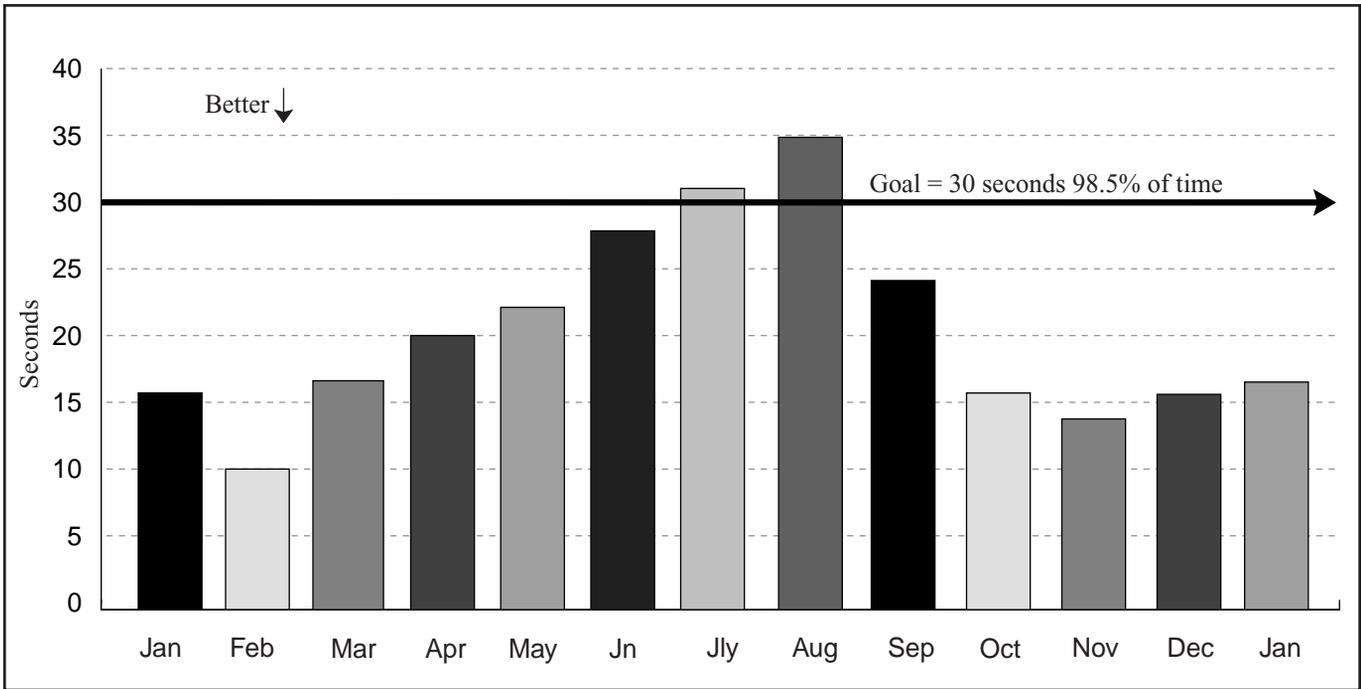


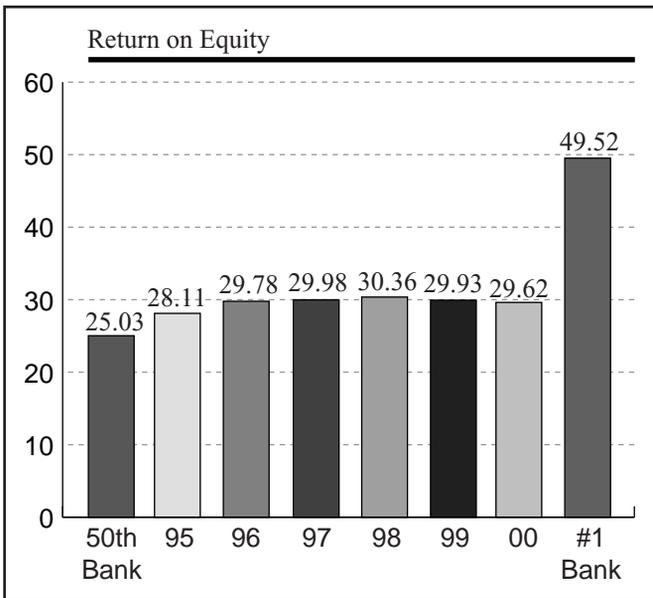
Figure 7.1-9 Time to Answer a Call

## 7.2 Financial and Market Results

Currently, TNB generates excellent profits and continues to expand and improve the business despite increased competition and rising interest rates. According to the tenth annual *ABA Banking Journal* performance rankings, TNB ranked 25th for nonsubchapter S community banks with total assets of more than \$1 billion. Institutions are ranked on five-year average return on equity.

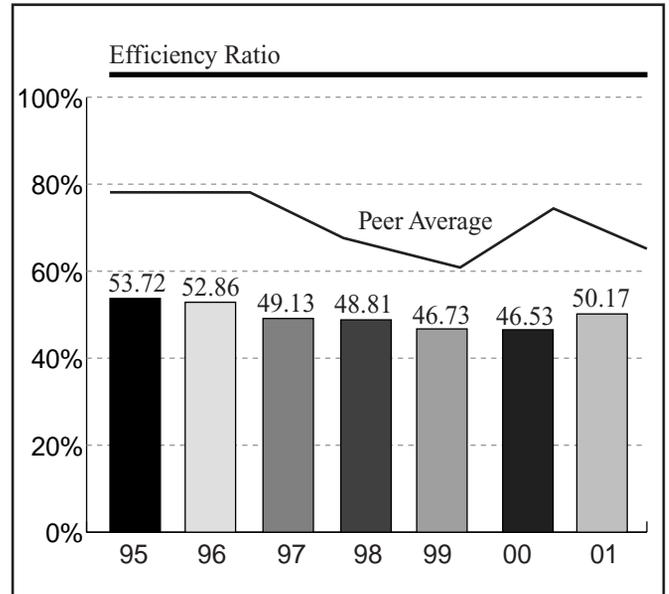
Data in Figure 7.2-1 reflect operations for the year ending December 31, 2000, as reported in regulatory filings. The five-year average return on equity (ROE) for the top 50 in this group ranged from 25.03 percent at the low end to 49.52 percent for the top performer.

Since 1998, efficiency ratios have worsened overall in the community banking industry for both the top performers and the whole group. However, TNB realized a better efficiency ratio than the rest of the banks in the group by a huge margin, maintaining a ratio of 50.17 percent year-to-date compared to 62.73 percent for the current peer average (Figure 7.2-2).



**Figure 7.2-1 Comparison Return on Equity to Top- and Bottom-Ranking Community Banks**

Despite the competitive market, loan growth and loan quality continue to be areas of outstanding performance for TNB. The bank's average loan growth was excellent in 2000 at 14 percent compared to 13.5 percent in 1999 and 12.8 percent in 1998. Strong growth was attained in the construction industry; average loans in this category increased \$280.6 million.



**Figure 7.2-2 Performance is significantly better than the peer average (line).**

Excluding revolving credit losses, the net charge-off ratio was 0.06 percent for both 1999 and 2000 and across all categories, including consumer, construction, and mortgage loans. TNB's nonperforming asset ratio (Figure 7.2-3) has improved since 1995, as the bank continually improved consistency in its credit underwriting standards. Although the ratio of risk assets to total loans remained flat at the 1999 level, the percentage at year-end 2000 was 0.28 percent compared to 0.47 percent in 1995. The ratio is measured on the most inclusive method, which is nonperforming assets plus accruing loans 90 days past due to total loans plus foreclosed real estate.

The acquisition of The Bank of Buckley in Greensboro in early 1997 and the merger with the First National Bank of Southfall in Winston-Salem in early 1999 has resulted in a strong branch system across 14 communities with unequaled assets for providing loans with favorable net interest margins. While data on the community banking industry show an average drop of 12 basis points for the top performers in 2000 and a drop of 5 basis points for the whole group, net interest margin for TNB is 5.24 percent, placing it among the top performers.

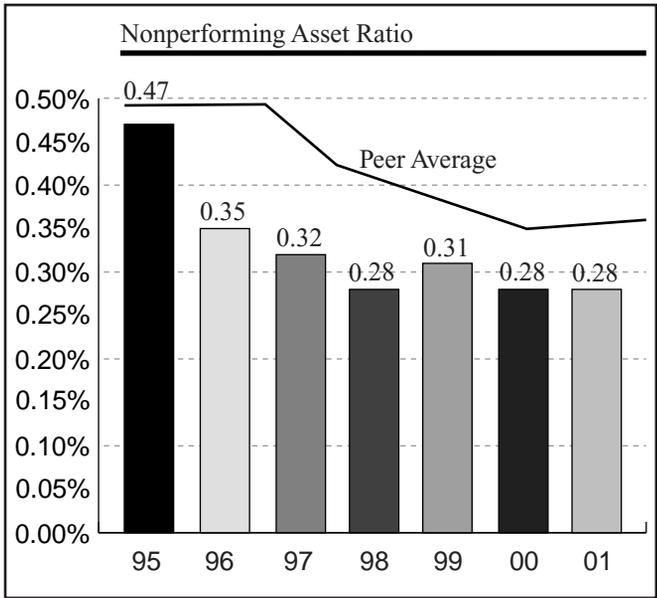


Figure 7.2-3 TNB excels in loan quality compared to its peers.

Since 1995, TNB has maintained an aggressive growth strategy that has resulted in assets of more than ten times the level in 1995. TNB built three branches in the Research Triangle area in 1995, resulting in three times the assets in 1997 (Figure 7.2-4 and 7.2-5).

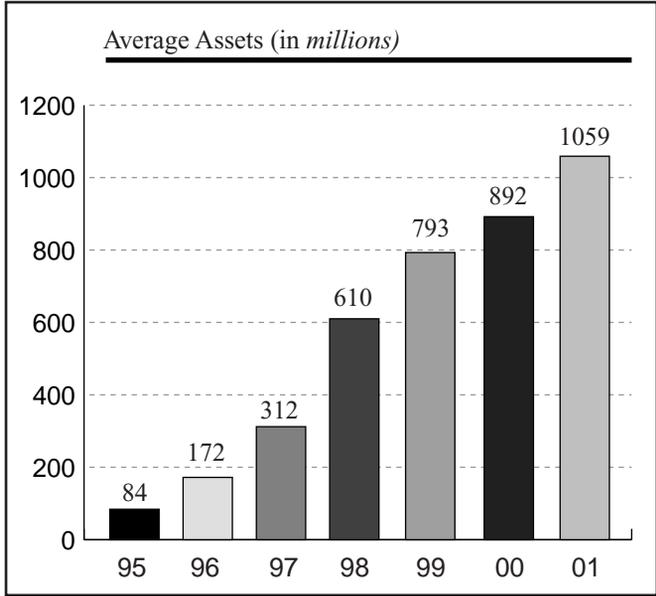


Figure 7.2-4 Rapid growth in assets is the direct result of acquisitions.

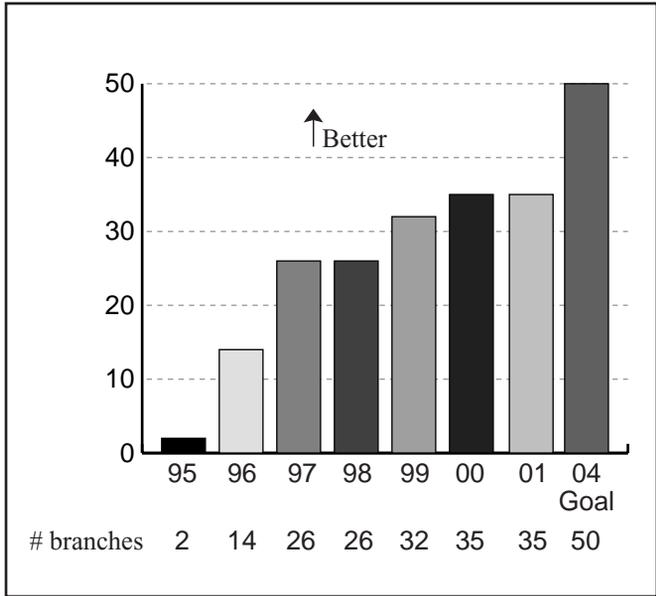
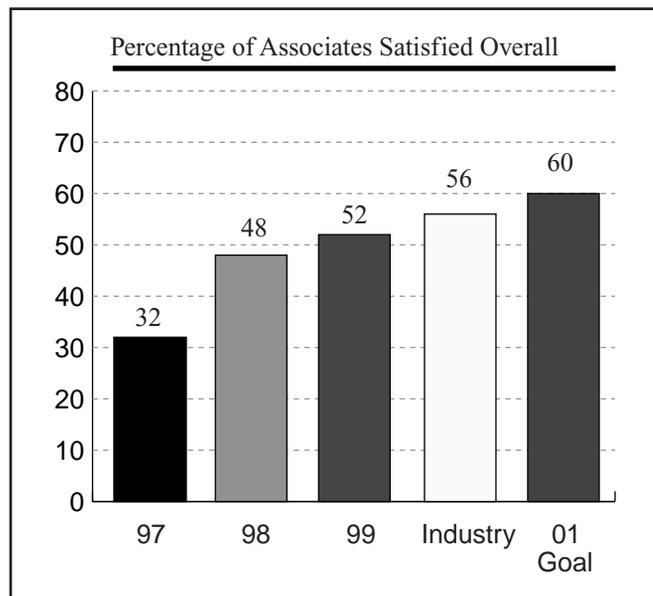


Figure 7.2-5 Branch growth offers customers convenience in banking locations.

The year 2000 was one of sound asset quality and high levels of profitability for TNB, despite pressure on margins and increased competition. TNB's goals for 2004 include increasing assets by building more branch offices in high-growth areas and by effectively managing its current asset base to achieve even greater efficiencies in the future. Acquisitions will continue to provide a source of ready branches and assets. The favorable picture is the direct result of the efforts of the EMC and the ability of leaders to embrace opportunities that are presented by changes in the business environment.

### 7.3 Human Resource Results

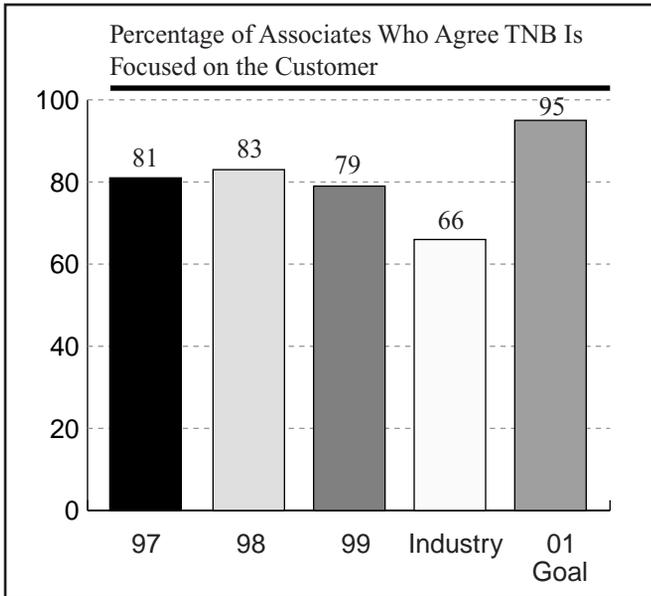
TNB considers its associates the key to Legendary Service. TNB believes that associates who understand that the primary focus of the business is the customer and who are provided with the training, information, and cooperation from others that are needed to achieve that focus will excel at their jobs and experience a high level of satisfaction in those jobs. The other important factors that contribute to satisfaction, which in turn contributes to long tenure, as well as low turnover and absenteeism rates, are career opportunities and opportunities for associates to contribute to the success of the organization by using their talents and creativity. The annual Associate Satisfaction Survey elicits responses from associates at all levels of the bank and from all business areas in order to understand how well TNB is addressing those key factors for associate satisfaction, motivation, and well-being. The satisfaction results are compared to the Pilgrim Group's database of results for the financial services industry. The survey results for 2000 were not available in time to be included in the application; therefore results are presented for 1997 through 1999 (Figure 7.3-1).



**Figure 7.3-1 Overall Associate Satisfaction Compared to Financial Services Industry Benchmark**

In summary, the results for key factors contributing to associate satisfaction are favorable. Overall associate satisfaction demonstrates a favorable improvement trend and is expected to surpass the financial services industry benchmark in 2000. As with all acquisitions or major changes in an organization, the lack of certainty for job security creates a halo effect on satisfaction results. TNB improved its ability to integrate new employees from the acquired bank into the organization much more effectively during the second acquisition (with the First National Bank of Southfall) than during the first one (with The Bank of Buckley). The improvement in new associate integration is reflected in the results for 1999. During both acquisition years, the survey included the new associates from the acquired bank.

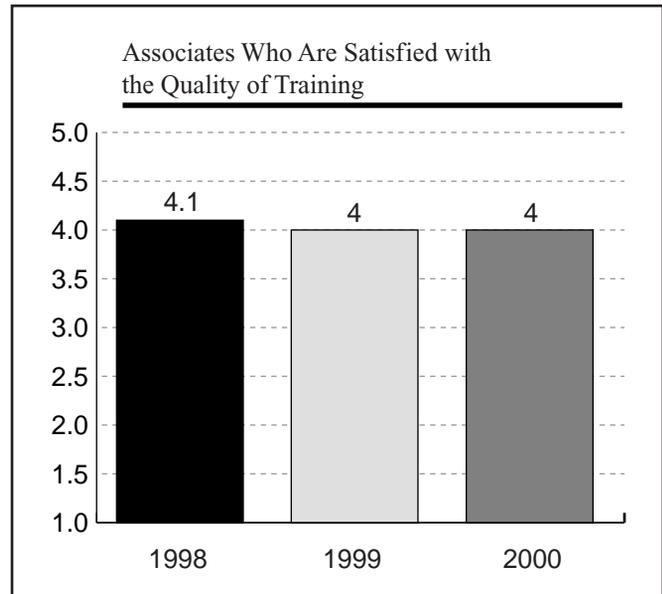
Figure 7.3-2 illustrates that, above all, associates understand that the customer is the primary focus for TNB. The survey results significantly surpass the financial service industry benchmark. The slight change in results in 1999 is not statistically significant.



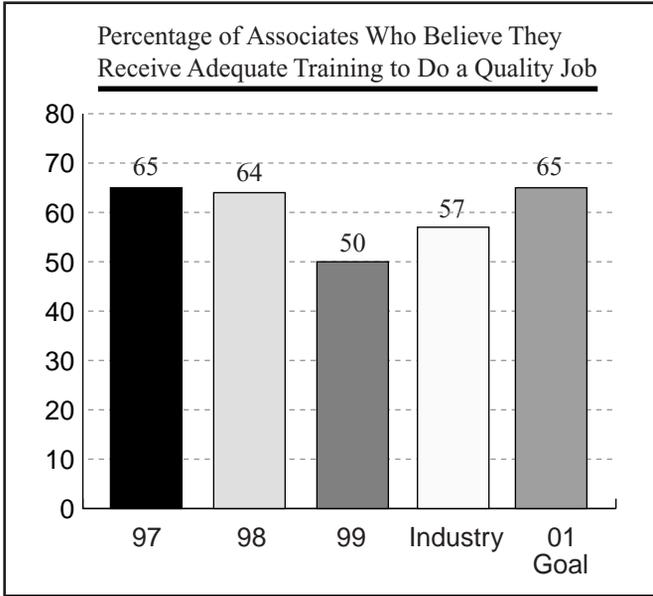
**Figure 7.3-2 TNB surpasses the financial services industry benchmark on customer focus.**

Associate education and training are key factors in creating a customer-focused culture. Associates attend training sessions and educational meetings for 80 hours each year, on average. The education and training budget has increased significantly each year in order to provide a strong foundation in customer service and sales and (since 1997) in TNB's Continuous Improvement Process (CIP). Based on results of the Post-Training Feedback Survey, associates report high levels of satisfaction with the quality of the training (Figure 7.3-3).

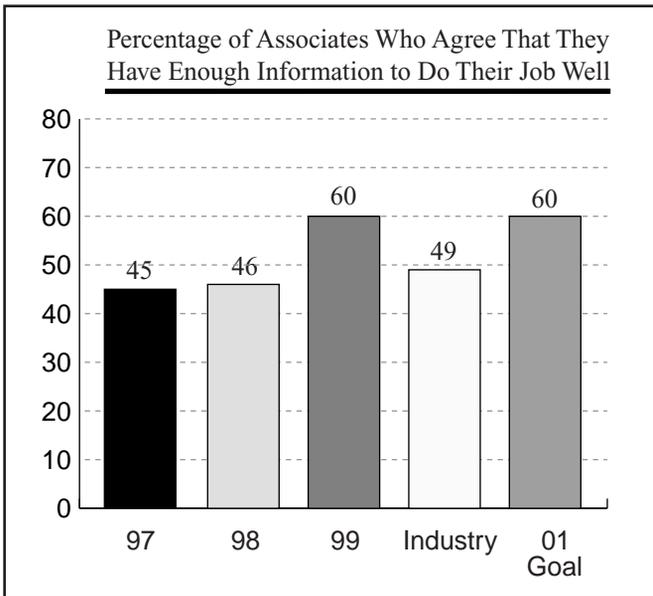
TNB considers the annual all associate and department meetings part of the education process. It is during these meetings that associates are provided with information that is vital to their success on the job. Verbatim comments on the Post-Training Feedback Survey point to the importance of associates getting information directly from their managers or supervisors. Figures 7.3-4 and 7.3-5 reflect high scores for the adequacy of the education, training, and information provided to associates. The effectiveness of communication significantly surpasses the financial service industry benchmark, as shown in Figure 7.3-5.



**Figure 7.3-3 Post-Training Feedback Survey Results**

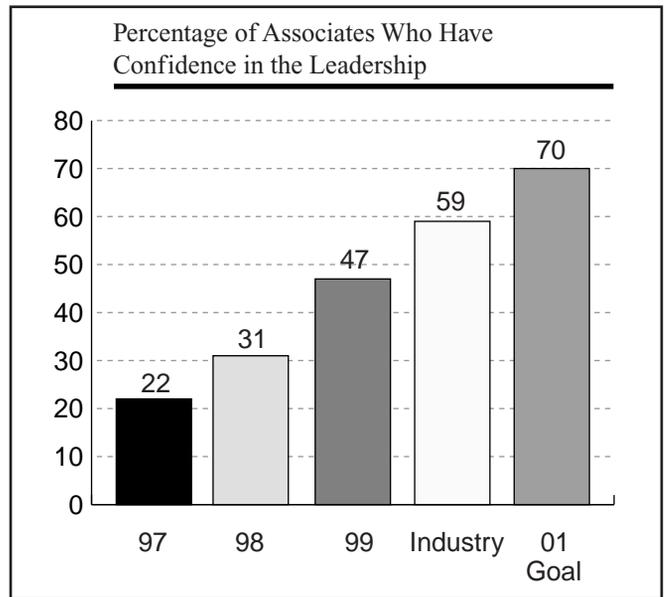


**Figure 7.3-4 Associates' Satisfaction with Education and Training**

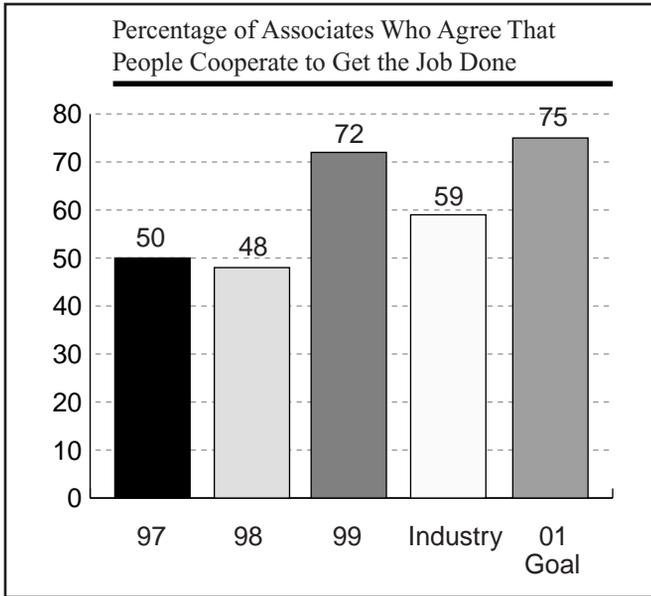


**Figure 7.3-5 TNB excels in communicating to its associates and surpasses the industry benchmark.**

TNB believes there are two additional key factors in achieving associate satisfaction and motivation. First, associates need a high level of confidence and belief in the leadership's ability to direct the organization, and second, they need a high level of trust in other people to be team players and to cooperate to get the job done. Figures 7.3-6 and 7.3-7 indicate good to excellent results in both of these areas, considering the major changes the workforce has undergone with two major acquisitions. Belief in the leadership is rising, and 2000 results are expected to surpass the industry benchmark. The results demonstrate a strong sense of teamwork that significantly surpasses the industry benchmark in 1999 (Figure 7.3-7).



**Figure 7.3-6 Satisfaction with the Leadership**



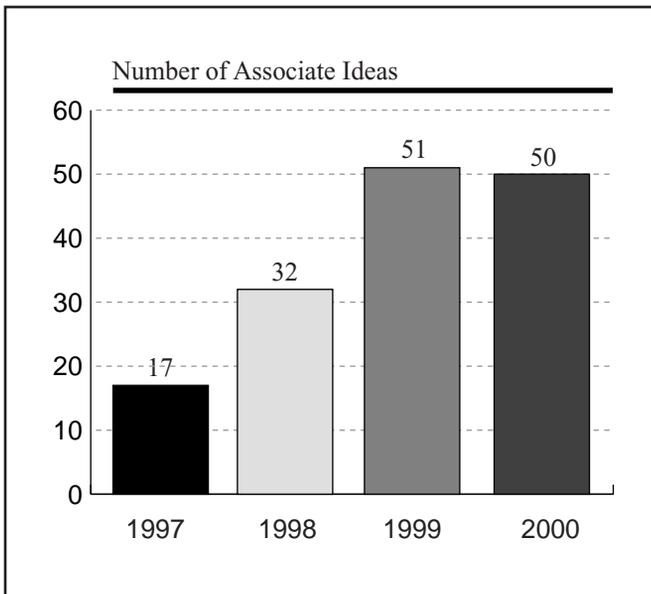
**Figure 7.3-7 Level of Teamwork at TNB**

A key challenge that faces TNB is the ability to retain a talented workforce. Low unemployment in the state of North Carolina has contributed to a tight pool of potential new hires. Therefore, it is critical that TNB retain its current human resource capacity. Because TNB relies on college students to supplement its full-time associate base, there are fluctuations in turnover rates each year that are primarily due to college students departing for the summer. However, Figure 7.3-9 illustrates that TNB has a lower turnover rate overall than the financial service industry.

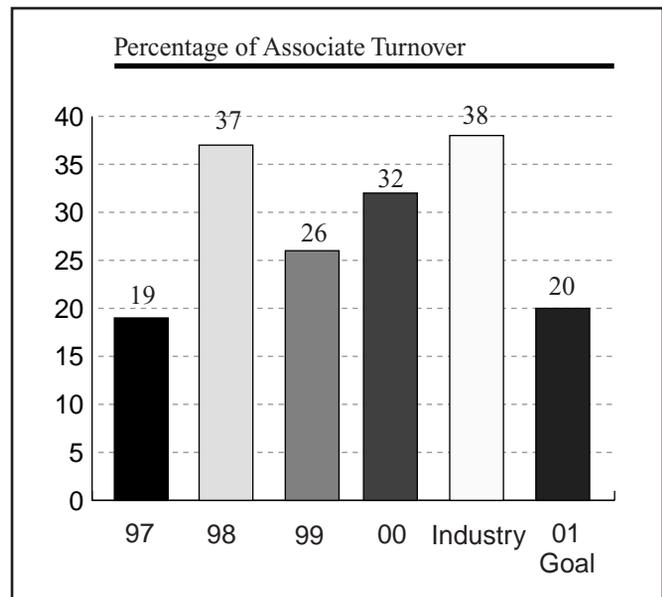
TNB also monitors the absenteeism rate (Figure 7.3-10). The rate has remained constant and flat at around 7 days per associate per year on average; the industry average is 18.2 days per employee.

Most importantly, the average associate tenure is good and provides the consistency in service that TNB's customers have come to expect (Figure 7.3-11).

Achieving Legendary Service is going to require innovation and "out-of-the-box" thinking to dazzle TNB's customers. The Trust in Your Ideas program has gained momentum in achieving this goal. The number of ideas submitted and implemented (Figure 7.3-8) has tripled since 1997. The average dollar savings per idea adopted by TNB is approximately \$2000. However, the more significant fact is that the ideas are tied to increasing customer satisfaction with service.



**Figure 7.3-8 Number of Associates' Ideas Implemented in the Trust in Your Ideas Program**



**Figure 7.3-9 Associate Turnover Rate Compared to Financial Services Industry**

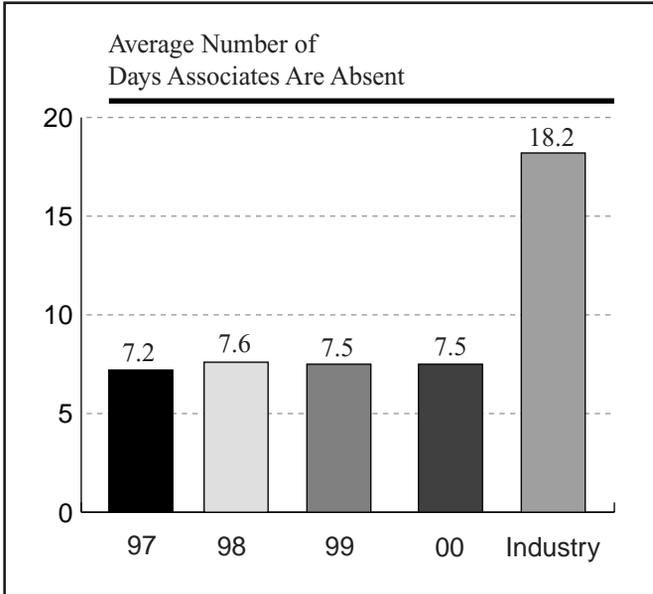


Figure 7.3-10 Absenteeism Rate of Associates

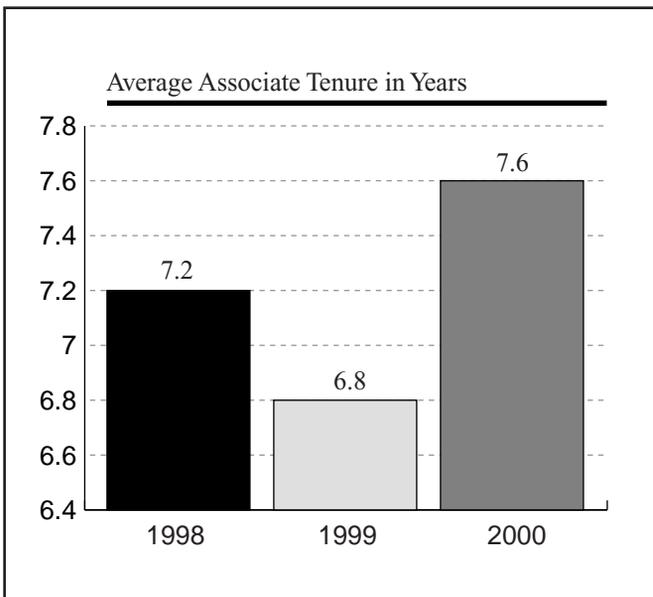


Figure 7.3-11 TNB has a workforce with long tenure.

## 7.4 Organizational Effectiveness Results

As described in Category 6, TNB has developed the CIP methodology to develop and improve processes for delivering products and services to TNB customers. An integral component of the CIP process is the use of performance measures. These measures are grouped into four categories: quality, timeliness, cycle time, and cost. However, not all key processes have measures in all four categories. Shown in the following charts are a sample of results against measures that are used to track performance of some of these key processes. All key processes have measures conforming to the requirements and are posted on the TNB intranet for all employees to view.

Figure 7.4-1 shows the measures for New Account Setup. “Quality” shows the number of associate errors made in opening an account per 100 accounts. “Timeliness” shows the number of days from a customer’s initial visit to discuss opening an account until that account is open, funded, and available to use. “Cycle Time” shows the time (expressed in hours) it takes a customer in a visit to open an account.

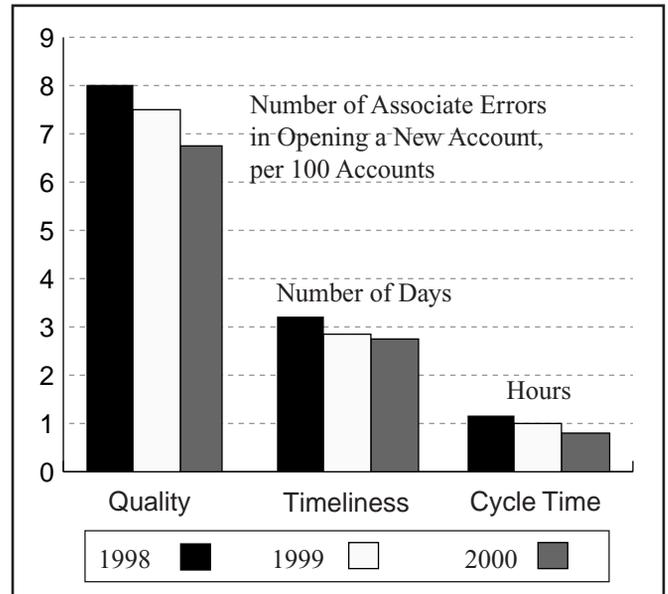


Figure 7.4-1 New Account Setup

Figure 7.4-2 shows the measures for Teller Transactions. “Quality” shows the number of errors per 10,000 transactions made by tellers in processing transactions for customers.

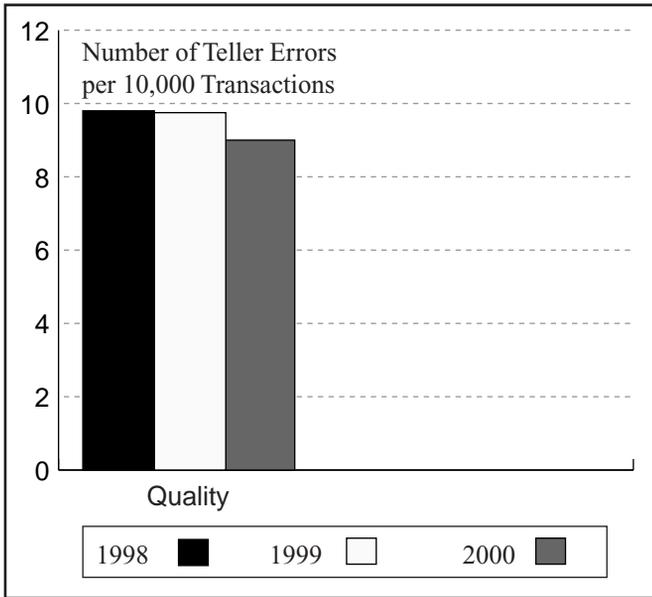


Figure 7.4-2 Teller Transactions

Figure 7.4-4 shows the measures for Small Business Loans. “Quality,” which shows the number of loans that default, is expressed as the number per 1000 loans. “Cycle Time” shows the average time to close on a mortgage loan, expressed in days.

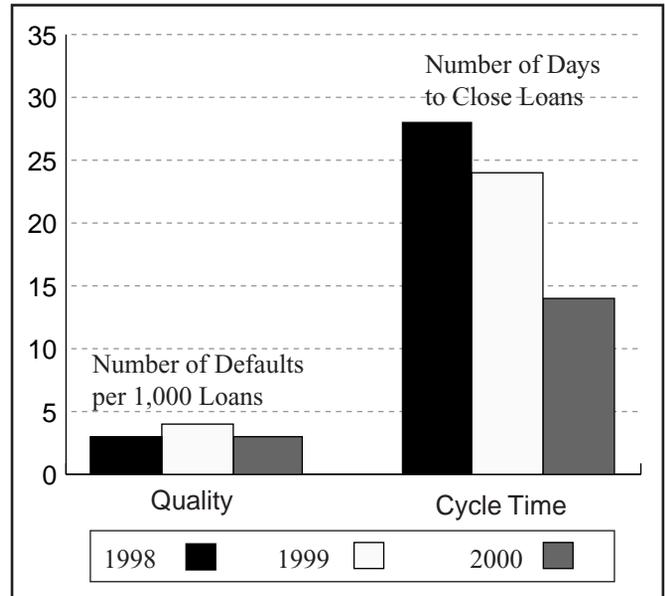


Figure 7.4-3 Retail Loans

Figure 7.4-3 shows the measures for Retail Loans. “Quality,” which shows the number of loans that default, is expressed as the number per 1000 loans. “Cycle Time” shows the average time to close on a mortgage loan and is expressed in days.

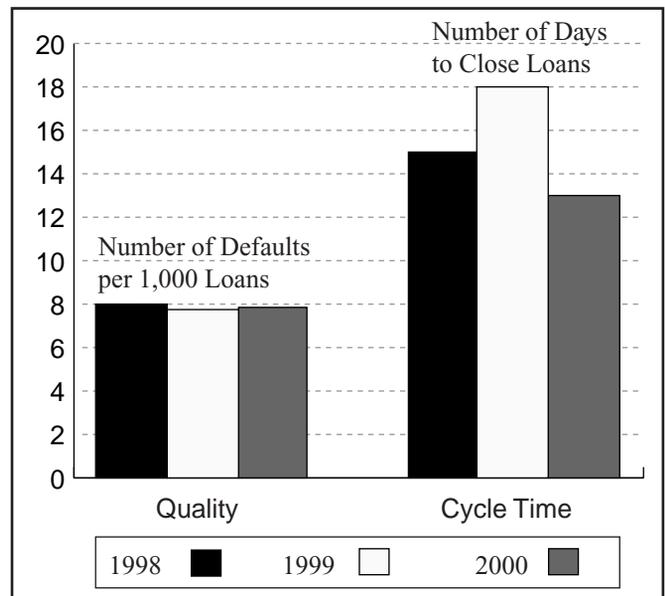


Figure 7.4-4 Small Business Loans

Figure 7.4-5 shows the measures for the DirectServe Center. "Cycle Time" shows the average number of days to answer a customer inquiry or solve a problem. "Cost" shows the cost per call to run the DirectServe Center, expressed in dollars.

Figure 7.4-6 shows the measures for Item Processing, which TNB outsources to Pine Transaction Services. "Quality" shows the number of encoding errors per 100,000 transactions. "Timeliness" shows the percentage of items posted within two days. "Cost" shows the cost per item processed (in cents).

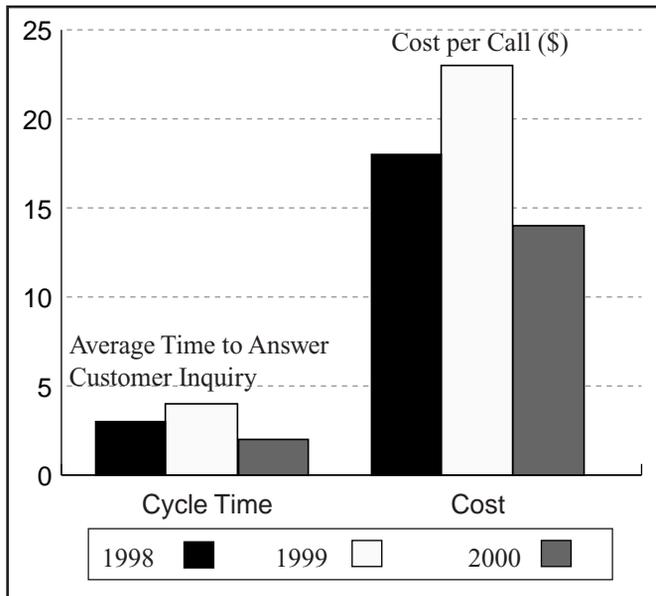


Figure 7.4-5 Measures for the DirectServe Center

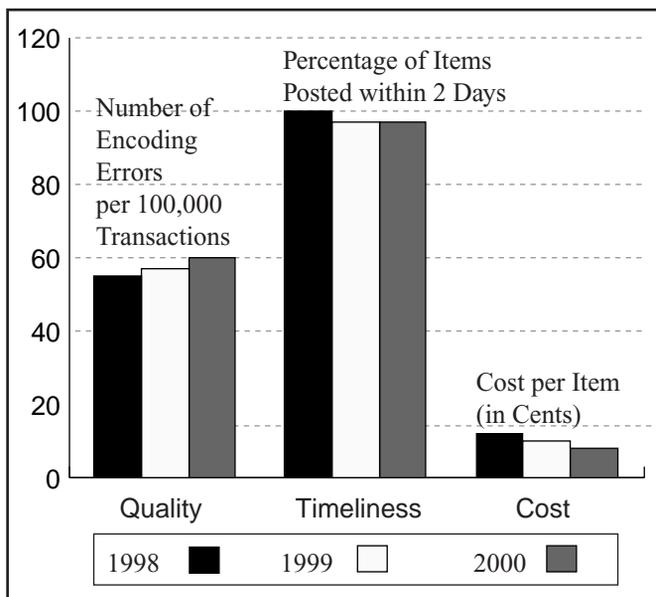


Figure 7.4-6 Item Processing

Figure 7.4-7 shows the measures for check ordering. "Quality" shows the number of customer calls for changes to check orders or to re-do check orders (number of calls per 1,000 check orders). "Cycle Time" shows the average number of days to receive new checks after ordering. "Cost" shows the profit on check orders in dollars.

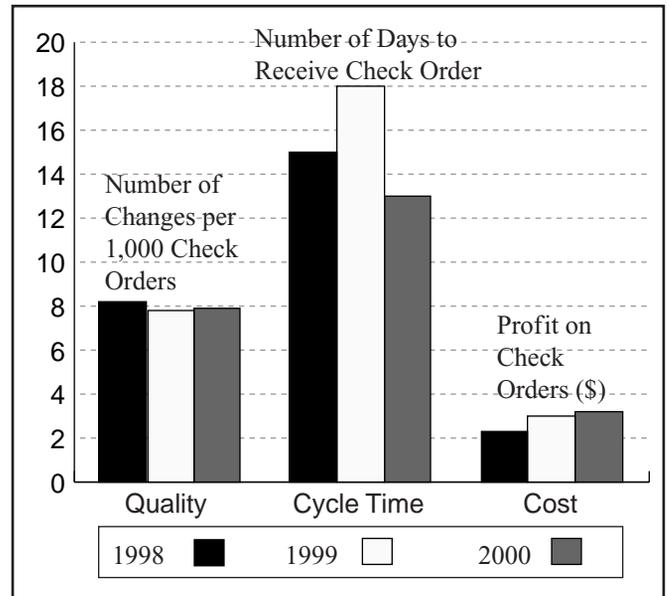
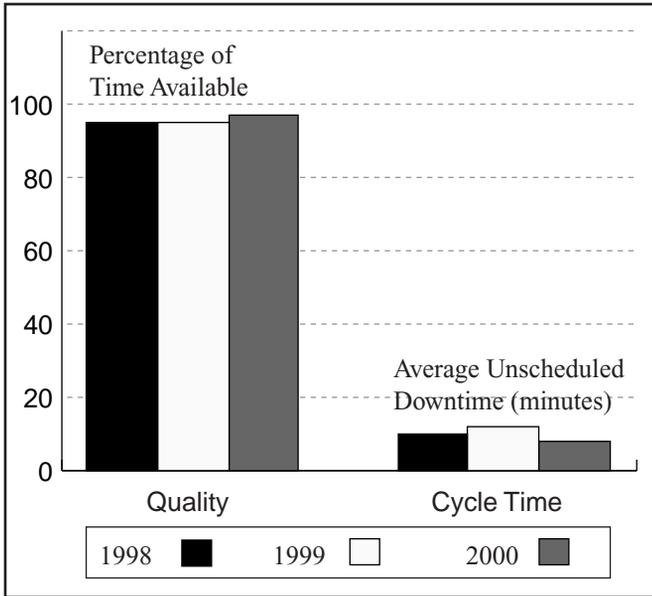


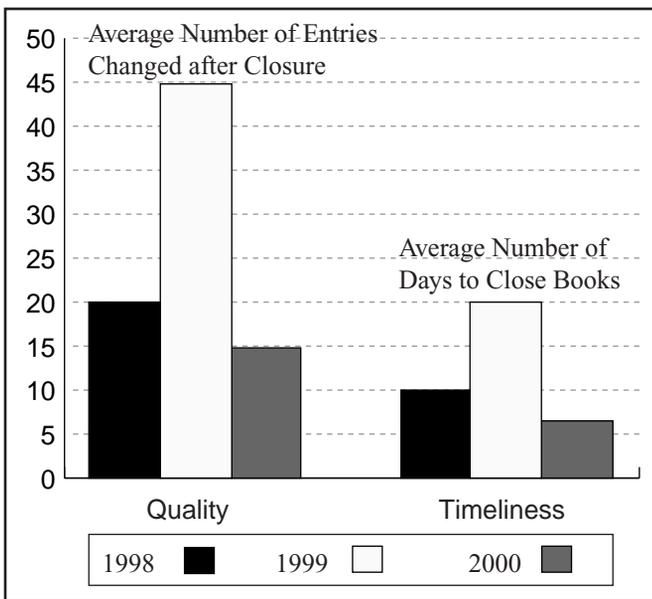
Figure 7.4-7 Check Ordering

Figure 7.4-8 shows the measures for Information System Availability. "Quality" shows the percentage of time the system is available for use (NOT counting scheduled downtime). "Cycle Time" shows the average unscheduled downtime (in minutes).



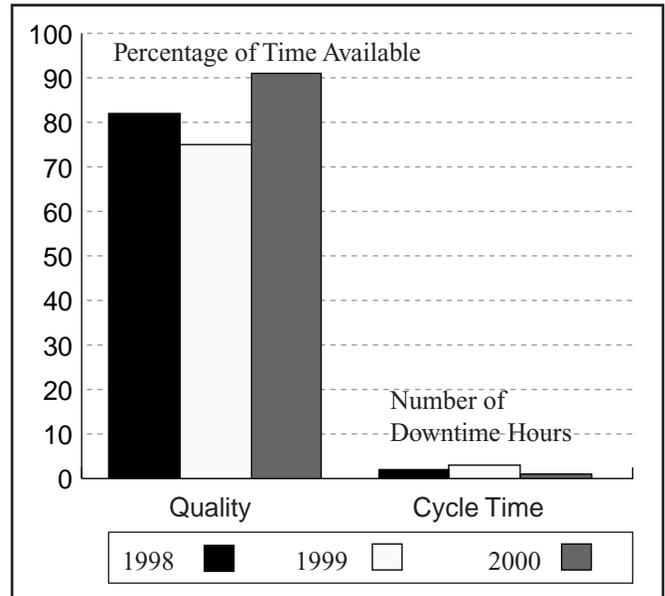
**Figure 7.4-8 Information System Availability**

Figure 7.4-9 shows the measures for a key finance measure: the number of days needed to close the books at the end of a month. “Quality” shows the average number of entries changed after month-end closure. “Timeliness” shows the average number of days to close the books at the end of a month.



**Figure 7.4-9 Finance: Monthly Closure of Books**

Figure 7.4-10 shows the measures for ATM availability. “Quality” shows the average availability of ATMs, expressed as a percentage of the total potential time available. “Cycle Time” shows the average time to get ATMs back on line, expressed in downtime hours.



**Figure 7.4-10 ATM Availability**

TNB has met all federal and state government regulations and is in compliance with all laws governing banking transactions. In fact, although the government is still developing regulations for on-line banking to govern e-commerce transactions, TNB has developed on-line banking that far exceeds the minimal guidelines to ensure information privacy and data security.

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