

## **Strategic Planning: Blind Spots, Black Swans, and Black Elephants**

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In an opinion piece in the New York Times, Thomas Friedman introduced me to the concept of a “black elephant” as follows:

*“this virus ...was anything but a black swan that no one could have expected. It was actually “a black elephant.” The term “black elephant” was coined by environmentalist Adam Sweidan. It’s a cross between “a black swan”, an unlikely, unexpected event with enormous ramifications, and the “elephant in the room”, a looming disaster that is visible to everyone, yet no one wants to address.”*

If COVID has taught us anything, it’s that change sometimes comes in major ways that we can’t control. Last year’s strategic plans didn’t see the virus coming. In fact, recent years’ plans made little reference to DRP (Disaster Recovery Planning) or BCP (Business Continuity Planning) as we’ve taken some of that readiness for granted. Last year’s strategic plans didn’t foresee a 175 basis drop in rates in Q1, nor the stock market dive as COVID shut us all down for a while. Last year’s plans didn’t foresee wide-scale loan modifications and payment forbearance. Last year’s plans didn’t know about PPP cash flows, bloated balance sheets and extra fee income. This year’s plans will certainly take all of that into effect with an added focus on loan defaults. As one of my favorite Bob Dylan songs explains, “Things Have Changed”.

Strategic plans aren’t designed to expect significant interruptions. They have been, and should remain, as the roadmap for the bank’s “Plan A”, even if, like last year, Plan B intercedes.

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Blind spots and willful blindness are another matter entirely.

**Examples:**

- Organizational weaknesses no one wants to talk about
- Worries about highlighting a weakness only to have **an examiner** read the plan and drill deeper
- Worries about highlighting a weakness only to have **a director** read the plan and drill deeper
- Citing strengths that are, in truth, weaknesses (examples: the strength and expertise of the management team, bank-wide communication)
- Metrics “yeah buts” such as...
  - Our yields are significantly lower than peer, but there are pseudo-unique conditions that offset that
  - Our efficiency ratio doesn't match up well, but we calculate it differently than others do so as to capture our more unique business model

The true black swan event is as unpredictable as it is scary.

By definition, the black swan can't be forecast. But a black swan event, once revealed does, of course, influence and change plans going forward. Although really a black elephant, COVID blew up most 2020 plans. Updating a plan that was “toast” within six months, how do we pivot? Working from home, excess liquidity, pent up consumer demand, crazy housing prices / demand, and looming credit defaults for commercial office-space-focused real estate and failing hospitality businesses all add to a new reality. What's in your plan?

***The Navis Group and PFT will work with you to answer your key questions and inform your decision-making as you create your post-pandemic plans.***

*Our program can be scaled whether you are a \$500M or \$5B bank or credit union.*

*We start by scheduling a listening session to understand your growth and profit objectives for retail, digital, and SME business.*

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