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Leadership Development in Financial Institutions in South Dakota: A Slow Growth State

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LEADERSHIP DEVELOPMENT IN FINANCIAL INSTITUTIONS IN SOUTH DAKOTA:
A SLOW GROWTH STATE

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Dedication

This study is dedicated to my Mother and Father who knew me first, and my Wife of 29 years who knows me best.

Murry and Mary Vinson

Suzanne Vinson

Without the wisdom, insight and tenacity learned from my parents and the strength of a wife with two children, a challenging and ever changing household to manage, and a driven husband, I would not have realized any successes. Your positive spirit and love carry me forward every day.

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As my research nears completion and I begin to think beyond writing (and rewriting) this paper, I am only now recognizing how much others have contributed, tolerated, and given up to help me finish this project. While I struggled to understand the data collected, worked to interpret the literature reviewed and seem to endlessly rewrite every word and paragraph – many have had to endure my grumbling and endless complaints about the time, effort, and money invested in this dissertation. They have all endured this grousing with composure and a calm confidence that I would someday be successful. Most important they all told me to keep going – which I did.

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The Community Banks and Bankers of South Dakota

Abstract

This dissertation asks the question, “What are the challenges of developing a leadership program in community banks in South Dakota, a slow growth environment?” The research looks at the intersection of leadership development, transformational leadership, and context—against a backdrop of community banking, corporate social responsibility, and demographic trends in South Dakota. The objective of the study is to provide theoretical and practical understanding of leadership development activities in South Dakota community banks. Using quantitative methods, seven hypotheses were created and tested using insights gained from reviewed literature and informational interviews that framed the study. The hypotheses were built looking to understand the drivers that shaped leadership development at community banks in the state and the relative importance of leadership programs in these organizations. In development of the study, a survey instrument was designed and administered via telephone to 80 community banks in South Dakota. Findings fall into three broad categories that form the thinking of community bankers in the state. First, data suggest that the topic of leadership development is growing in importance to community bank executives, boards of directors, and human resource managers in these organizations. Second, the need for succession planning and the challenges of finding new leadership for rural locations appear to be catalysts for creating leadership development programs in community banks in the state. Third, South Dakota banks characterize themselves, their culture, and their leadership by being defined as community banks. Many community banks in South Dakota are in need of renewal and recognize they cannot continue operating as they have in the past. Facing demographic challenges and having to own up to new regulations and increased competition has left them struggling to develop new leadership. Conversely, from survey data collected, it would appear that there is recognition that leadership development is important and building a self-renewing organization is critical for survival. Some South Dakota community bankers have begun this process and are looking for common ground on which to build shared values that are appealing to the next generation of leaders. The electronic version of this Dissertation is at OhioLink ETD Center, www.ohiolink.edu/etd.

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Chapter I: Introduction

In September 2007, my life changed. After spending 25 years working as a banker and a senior officer in a Fortune 500 company, I became a teacher in a small university in Aberdeen, South Dakota—a rural community in the northeastern part of the state. I went from being the boss to having a boss, and from helping lead a 15,000-person company, to being the most inexperienced teacher in the business school. All of this was humbling, to say the least.

My job was (and is) to develop a new major in banking and financial services, which included helping to design the curriculum, advising and recruiting students, and teaching classes. Financial services is an area in which I studied and worked for many years. The banking major has been a success by any standard and now contributes to the university and the business school in a positive way. Building this program was an adventure and used my many years of experience as a practicing professional, my administrative expertise, and my newly acquired skills as a teacher, nascent researcher, and doctoral candidate.

Another of my responsibilities was to visit with and understand the issues facing the 80 community banks in South Dakota. While the conversations with these bankers were far reaching and included many topics, I discovered an emerging trend in the discussions. In almost every conversation, the topic of leadership was brought up by the practicing professionals who were operating the banks. It would begin with a comment on the importance of community banks to the local economy, pending retirements, regulatory challenges, or frustration with the limited pool of candidates to support natural growth in the organization. Recognizing the challenges of operating in a rural environment—with an aging population, an economy dominated by small business and agriculture, and the importance of a local bank to sustaining the community—the bankers wanted to start the process of leadership development, but they did not know where or how to begin.

Study Design

The study investigated the unique challenges of building a leadership program in South Dakota community banks, which operate in slow growth environments. The research used quantitative methods to test hypotheses using the collection of data from the 80 community banks in South Dakota.

The dissertation question was shaped after conversations with a number of South Dakota bankers. In these talks, all bankers described the unique problems they were having finding and developing follow-on leaders at all levels in their organizations. This convenience sampling led to conversations with some bank chief executive officers (CEOs), bank board members, and a series of meetings with bank regulators, who all confirmed this was a major issue facing financial institutions in South Dakota. In these conversations, the regulators, while not mentioning any specific organization or situation, said lack of follow-on leadership was the number one risk for financial institutions within the state. They also said that several banks were subject to being shut down should their CEO be severely injured or pass away—the banks simply had no follow-on leaders.

Informal Interviews

The question was also formulated on coincidental conversations (not formal research) and informal interviews with three banks in South Dakota. Looking to gain more insight into the subject, the conversations were framed using four questions (see Appendix A) focused on leadership development. The banks were chosen for their diverse asset size, geographic location, and number of employees. Each bank interviewed was a community bank by market definition and as defined by the leadership teams. The purpose of these conversations was to vet some of the information received serendipitously, to begin framing the literature review, and to gain insight into prospective research questions and data that might be collected for the dissertation.

The interviews led to the following five summary findings:

1. All three banks interviewed defined leadership and leadership development differently. One bank's executive team had decided not to use the word *leadership* because there was not a formal and complete definition. They substituted the words *human development,* which were a synonym for leadership and the leadership development process.
2. The driving force for development of a leadership plan was *succession planning* in all three banks. Succession planning is the term used by executive teams and board members to describe the formal process of assuring enough depth in personnel to absorb the loss of a key employee. To an extent, succession planning is driven by regulators, who are required to assess the management team as part of the periodic safety and soundness exam.
3. There is a focus on maintaining culture within each organization: continuing to be defined as a community bank is very important, and a critical part of the culture is community involvement.
4. In all three banks, the first line supervisors and managers were slow to adopt and endorse leadership development programs.
5. The return on investment for all three human resource executives was organizational stability.

In doing a formal literature review, I did not find any specific research on the dissertation question as written. Using my many casual conversations and the informal interviews as a guide, there are several broad categories that bounded the literature review. These categories included demographic study in South Dakota, examining community banking trends, exploring corporate social responsibility, and looking at various aspects of leadership development and transformational leadership—including understanding the role that context plays in leadership and leadership development. Investigation of these broad categories yielded additional insight into the dissertation question.

South Dakota Demographics

The population demographics of South Dakota create some leadership challenges for the community bank. There are approximately 6.5 billion people in the world, with 300 million in the United States, and, according to a recent 2008 U.S. Census estimate (U.S. Census Bureau, 2008), South Dakota has 804,194 citizens. This means South Dakota ranks 46th out of 50 states in population, with only Wyoming (532,688), Vermont (621,270), North Dakota (641,481), and Alaska (686,293) falling below South Dakota in population. Between 2000 and 2008, the population of South Dakota grew by 6.5%—as compared to an 8.0% growth in population for the entire United States during the same timeframe (U.S. Census Bureau, 2008). South Dakota is considered a slow growth state.

Breaking it down by counties gives more insight into South Dakota demographics. Of the 66 counties in the state, 40 reported negative growth and 26 reported increases in population in 2007 (South Dakota Department of Labor, 2007). The two biggest cities in the state are Sioux Falls in Minnehaha County, and Rapid City in Pennington County—which together have 34% of the total population of South Dakota. Taking the five counties adjacent to Minnehaha and the six adjacent to Pennington into account, 48% of the state's total population is in a concentrated area. Add two other counties near Minnehaha to the total and the result is over 50% of the state's population.

The age distribution of South Dakota residents is also revealing. The percentage of the population between the ages of 25 and 64—the professional working years—is lower than the average in the United States (see Table 1.1). This is indicative of the historically low unemployment rate in the state—currently 5%, as compared to the national average of 9.5%.

Table 1.1

Age Distribution of South Dakota, 2007

Age	South Dakota	United States
Under 24	35%	35%
25 to 64	51%	53%
65 and above	14%	12%

One other important demographic fact—in South Dakota, there are seven Native American reservations located throughout the state. While the state is 88% Caucasian, the largest non-Caucasian population is Native American at 8%. Because of the unique challenges of doing banking business on Native American reservations, there is only one bank (Wells Fargo) that has a branch on the closed reservation properties.

In short, South Dakota is sparsely populated, rural, and depends on the community bank to support its small business and agricultural industry. While this means the economic swings are less volatile, with unemployment comparatively low as compared to the rest of the nation, it also means the community banks have a smaller pool of qualified potential leaders from which to draw. These are some of the reasons banks across the South Dakota supported the creation of a banking and financial services major at the university where I teach.

Community Banking

A community's economic interest in the local bank is significant given the majority of small businesses (a major source of innovation and job growth) and agricultural loans are provided by community banks (Critchfield et al., 2004). Lending to what are often referred to as *informationally opaque borrowers* (borrowers without long credit histories suitable for the credit scoring of large banks) and using soft data (such as personal reputations), community banks make loans that are critical to economic development in smaller municipalities or rural towns.

On Friday, October 19, 2007, the mayor of Aberdeen South Dakota, Mike Levsen, spoke in a class I teach at Northern State University called "Community Banking." Looking through the lens of a banker, this course focuses on the intersection of the community and financial institutions, and the roles and responsibilities each has in economic development. In this course, students look at community development strategies promoting growth and economic development and the role local and national financial institutions might play in this plan. This examination is done through research of the subject literature and interviews of community leaders and executives of local financial institutions.

During his presentation, Mayor Levsen referred to several of the issues this dissertation covers. One of his first comments was, "Financial institutions are the grease that makes the economy go" (Levsen, personal communication, October 19, 2007). He went on to explain that if you really want to know how healthy a community is, or what its real growth prospects are, you need to look at the financials of the community bank, credit union, or savings bank—are they growing assets, making loans in the area, and increasing deposits, or, are they growing by providing other lending services such as credit cards, pay-day lending, and sub-prime housing loans? All of these lending services increase bank net income, but often are not indicative of a robust healthy local economy. Are the institutions looking to grow locally, or does their strategic plan call for expanding operations in other cities with a more rapidly growing population and better growth opportunities? The financials give you a picture of the recent past of the community, its current financial health, and prospects for the future.

As the presentation neared its end, Levsen made another poignant comment: "All the economic development transactions that I have been involved in begin and end in a banker's office" (personal communication, October 19, 2007). He was emphasizing that financial institutions are chartered to play a major role in local economic development, but he was also saying more. As Levsen went on to explain, the money is important, but the leadership provided by the people in these financial institutions to facilitate economic development is often more important.

Levsen used the example of a $60 million local beef processing plant, which was a cornerstone of his economic development plan for Aberdeen, South Dakota (personal communication, October 19, 2007). The mayor described his first meeting (in a banker's office) with the development group as a meeting where the economics of the project drove the conversation—what does the deal look like? In regard to the last meeting, he described a tense situation where everyone in the room said they would only close the deal if the local bank supported the project. While more risks were taken by others, the bank was viewed as leading the charge. If the bank thought the project made sense, everyone else thought the same. Ultimately, the project was funded (although not without problems), and is now under construction. This was Mayor Levsen's example of transformational leadership at work (personal communication, October 19, 2007).

Commercial banks are the dominant lender to businesses and the leading provider of deposit instruments in the global financial system. In the United States, there are 7,598 total banks, with the majority (94.1%) holding assets less than $1 billion—a size definition that is used to describe a community bank (Rose, Hudgins, & Rose, 2010). While the number of community banks would suggest a healthy growing population, there have been regulatory, legal, and technological changes that have caused some banks to question their long-term viability. Because of these changes, the number of community banks and their share of deposits and loans are declining—with some research suggesting they have halved since 1980 (Deyoung, Hunter, & Udell, 2004). This, in turn, has put pressure on earnings of community banks and made it difficult to attract the best and the brightest.

Corporate Social Responsibility

Banks play three roles in the economy. First, and many would say most importantly, is the function of a financial intermediary. Accepting deposits, making sure funds are protected using FDIC insurance, and acting as a facilitator of transactions between customers and vendors is a critical role of financial institutions. In addition, banks have historically operated as the main source of loans for both consumers and businesses. Second, banks create money through the lending process. Operating under a charter granted by a state or the federal government and under very strict reserve deposit guidelines and regulatory oversight, banks could increase or decrease the money supply—having a material effect on the economy. Third, banks operate as a conduit for social and economic policy. While almost all regulated financial institutions in the United States are for profit because they operate under charter from a government, these organizations have a legal responsibility to the people and community where they operate.

Emphasizing this responsibility in 1977, Congress passed the Community Reinvestment Act (CRA). This act highlighted the social responsibility of banks, giving regulators the responsibility to determine how well a bank reinvests deposits in its community (Farrell & Buzzell, 2005).

Most people quickly identify the first two roles in some form, but few recognize the third and critical role these institutions play in delivering social and economic policy. This responsibility reframes leadership development in a unique way, suggesting successful performance of any bank is a function of meeting the needs of stakeholders—not just shareholders. While a shareholder is only intent on return on their investment, a stakeholder is a broader constituency with a claim on the corporation, which could include ownership rights (shareholders), and/or an interest in the corporation and its activities through other means (such as customer, employee, or community). It is difficult to imagine any successful bank that does not play a major role in community leadership—a reality that came out in the informal interviews and a leadership characteristic that is critical to community bank performance (Clarkson, 1995).

The Complications of Leadership

Leadership is an ethereal topic and difficult to understand. Rost (1991) identified 16 different leadership theories and argued convincingly that leadership is not succinctly defined by scholars or practicing professionals with any precision or accuracy. The challenges of defining this subject came to my attention in early conversations with bankers and were highlighted in the informal interviews done as a precursor to this dissertation.

Some bankers suggested the focus of leadership is the leader and that person has a set of traits crucial to performance. While the thought of a born leader is rebuked by many, Stogdill

(1948) and Kirkpatrick & Locke (1991) proposed leaders are not like other people, rather, they do have certain traits that make them different (Hughes, Ginnett, & Curphy, 2009; Kirkpatrick & Locke, 1991). The concept of a born leader is often bantered about in community banking circles.

Gardner (1990) proposed leadership is a process of persuasion where a leader convinces a group to pursue an identified goal, not a set of traits. This would suggest that leadership is more art than science—a weaving together of relationships, and not trait-oriented at all (Heifetz, 1994). Leadership does not happen in a vacuum, but in an environment that is complex and dynamic—changing over time. Leadership is very much a *style approach* (Northouse, 2001), focusing on what leaders do and how they act, versus the traits that define them.

Others suggest leadership is most effective when it is defined on an emotional and rational level (Hughes et al., 2009). Leadership is worth the risk because the goals extend beyond material gain by making people's lives different—it creates purpose (Heifetz, 1994). A leader with soul—a depth of personal experience—brings spirit into an organization and allows everyone to reclaim passion and purpose around activities. An organization with a spirited leader focuses on getting the most out of everyone by helping define the values of the workplace and community. The heart of leadership is in the heart of the leader (Bolman & Deal, 2001). My observations are that South Dakota community bankers want to bring spirited leadership to their organizations, but are not sure it fits with Midwestern values—which suggest they should be demure and understated in personality.

It is reasonable to conclude the subject of leadership will always cut across many disciplines and be a topic that is constantly being interpreted and reinterpreted. It is an area of study that will continue to grow in complexity and thought and could consume a lifetime—

several lifetimes—and no definitive conclusions may be reached. This, of course, creates challenges for anyone doing research on leadership or leadership development.

The early conversations with community bankers on the subject of leadership have sometimes been as multifaceted as the literature and theories on leadership. This was highlighted in the informal interviews when each bank described leadership development as something different depending on their definition of leadership and the strategic direction of their organization. Everyone I spoke with did, however, agree leadership development is an investment in people that is necessary for the long-term survival of the institutions. The individual is still the basic building block for organizations and the final recipient of all change strategies (Segal, 1997).

Leadership is a story of human development—it is a human endeavor. Human relationships are complex, tangled, messy, and challenging—but biology has shown us organisms shape themselves in response to their neighbors and environment. From these relationships, life creates systems that offer greater stability and support then a life lived alone (Wheatley, 2005). Leaders are looking for ways to tap into the shared vision, purpose, and values and are asking themselves what can be done to create purpose that will improve lives.

Summary

In South Dakota, the population is growing slowly (concentrated in two large cities and adjacent counties) and the prime working population (aged 25 to 64) is smaller, on average, than the rest of America. In addition, the community banks (historically, one of the best conduits for economic development) are facing increased competition and finding it difficult to develop leaders who will perpetuate the operation. Aside from the challenges created by the unusual and changing environment, the subject of leadership is difficult to understand and evolves over time, context, and perspective. With this backdrop, my dissertation took shape.

Dissertation Question

What are the challenges of developing a leadership program in community banks in South Dakota, a slow growth environment? This question serves as the guide for my research.

In broad terms, I looked to understand the unique challenges of building leadership development programs in South Dakota community banks, which operate in difficult environments. The question was shaped after several conversations with a number of South Dakota bankers. In these talks, the bankers described some unique problems they were having finding and developing follow-on leaders at all levels in their organizations. This convenience sampling led to conversations with some CEOs of the banks, bank board members, and a series of meetings with bank regulators who all confirmed this was a major issue facing financial institutions in South Dakota. The regulators, while not mentioning any specific organization or situation, said this was the number one risk of financial institutions within the state. They also said several banks were subject to being shut down should their CEO get severely injured or pass away—they simply had no follow-on leaders.

This literature review was also shaped by convenience sampling and informal interviews done in anticipation of the formal research. These conversations proved invaluable in giving general direction to the literature review and helping frame the research that was done.

Additionally, I have some personal experience in financial services that played a role in shaping this study and the literature review. For 18 years, I worked as a commercial banker in, what was defined by Wall Street parlance, as a *super-regional* bank. This is a bank loosely defined as one that provides banking services on a wide regional basis, has assets greater than a community bank ($1 billion and under), and is smaller than a money-center bank (most nearing

$1 trillion+ in assets). During this time, my responsibilities were varied and included leading and managing a number of areas. Since leaving that organization, while I have not been directly involved in banking, my career has kept me in touch with many commercial and investment bankers, which has allowed me to keep up with the many issues facing the industry. My personal experience and industry knowledge also helped define the literature review.

To the best of my knowledge and after very detailed review, I was unable to find specific research having been done on the challenges of developing leadership programs in community banks or community banks in South Dakota. While no specific research was found on the research question as written, guided by personal experience and conversations with the leaders of South Dakota community banks, the broad categories for the literature review begin to take shape. They included:

1. The challenges and demographics of a rural population: A leader's effectiveness is contingent on the situation in which they lead and, to understand that success, you need to understand the extant circumstances (Fiedler, 1964). Having an average of 9.9 persons per square mile versus 79.6 on average for the rest of the country (U.S. Census Bureau, 2008), the demographics of South Dakota often drive decision-making. That is why dealing with and adapting to fluctuations in population variations is identified as the first challenge for rural America (Brown, Swanson, Barton, & NetLibrary, 2003).
2. Community banking trends: Increasingly, using technology, investment in aggressive marketing campaigns, and economy of scale, larger banks are rapidly growing assets and community banks are finding it difficult to compete. These pressures are driving

the smaller banks to rethink long-term strategies, which include understanding and investing in leadership development programs.

3. Corporate social responsibility (CSR): The concept of CSR is that, by voluntarily integrating non-economic factors into operations, a competitive advantage can be realized. A recognized advantage of community banks is a focus on building community and working with the soft information that is often part of a community culture, or CSR, by another definition.
4. Leadership development and transformational leadership: The confusion caused by the overabundance of development tools being sold to small banks and the challenges of defining leadership have caused some community bankers to limit or hold back investment in leadership development programs. Defining leadership development and the fundamentals of the process and taking leadership back to the basics—transactional and transformational as Burns (1978) defined it—would appear to be a key to understand this confusion and help define the challenges faced by community banks.

Bounding the study using the literature in these four broad categories appears to be well founded and provides context for understanding the challenge of leadership development in South Dakota banks.

South Dakota Demographics and the Challenges for Rural Populations

To answer the dissertation question, one needs to understand South Dakota demographics and the rural nature of its environment. What does the state population look like, where are the people located, and what are the consequences for financial institutions? As important, what are the economic and social consequences of being in a rural community and are these important drivers or potential hindrances to developing leadership programs?

Demographic information on South Dakota and, specifically, the Great Plains region (which is defined as 10 states including South Dakota and a part of Canada), is overwhelming (see Appendix B). While this much data might seem a blessing for a researcher, understanding the demographics of the state proved extremely difficult. While several universities in South Dakota, the state government, as well as several sociology professors in the state study South Dakota demographics in detail and produce very thorough graphic summaries and statistics, there is very little analysis of the information.

My study of population trends in South Dakota included the review of U.S. Census Bureau Data, conversations and e-mails with Dr. Sidney Goss (a professor of sociology and demographer at the South Dakota School of Mines), presentations on graying of North Dakota by Dr. Richard Rathge, and discussion with the director of the South Dakota State Data Center. In the end, the best source of information on the demography of South Dakota or any area within the United States is the U.S. Census Bureau.

United States Census Bureau. The first source of data on population and demographic trends in the United States is the U.S. Census Bureau. Since the first census in 1790, which was conducted and managed by then Secretary of State, Thomas Jefferson, the U.S. Census Bureau has been the leading source of quality data about the nation’s people and economy (U.S. Census Bureau, 2008). There is a plethora of information collected by the bureau on the overall country and the individual state of South Dakota—but, once again, very little analysis exists.

The data, in summary and as reviewed in chapter 1, suggest South Dakota is a slow growth state, with an aging population concentrated in two large cities and the surrounding counties. The economic driver in the state is agriculture—the size of the average farm is growing, the number of farmers is declining, and those still farming are aging quickly (Rural Life Census Data Center, 2007). This conclusion is supported by reviewing additional data sets built by the Rural Life Census Data Center at South Dakota State University (Rural Center), which breaks out South Dakota Census and U.S. Agricultural Department census information for study. In short, the majority of the state is sparsely populated, the population in the state is highly concentrated in two counties, and the population is generally older than other places in the United States. This creates a limited population from which to draw potential employees and creates unique challenges for building a leadership development program.

There is a significant amount of research and literature about the challenges faced in rural environments. Brown et al. (2003) studied the economic, demographic, and sociological issues facing rural America. Using empirical studies, four key areas were examined in regard to the intrinsic value of rural America and the unusual value many Americans put on the rural lifestyle:

1. Who lives in rural America: Rural has become more difficult to define over time. Originally thought of as remote, lightly populated, and not connected, as technology has evolved, many formerly rural areas have become small robust urban communities. A consequence of these changes has been a constantly evolving demographic not yet completely understood.
2. Effects of a transformed rural economy: Rural economies were originally thought of as exclusively agricultural. With the changing demographics and connectivity, rural communities are increasingly looking to tourism and the economic reality of commuting to support a rural lifestyle.

3. Rural social institutions and community development: Looking at a wide range of activities that build social capital, such as constructing partnerships in education, creating effective local governance, and global alliances, rural communities face many challenges in an era of fiscal restraint. One of the many challenges includes developing new leaders with updated skills and an understanding of a rapidly changing global operating environment.
4. Changing expectations for the physical environment: The dominant industry in rural America, agriculture, is under continuing pressure to meet new and changing environmental standards. Managing the need for reasonably priced food and the challenges of growing the product more naturally, against competing uses of the land is becoming an increasing difficult balancing act.

Johnson (2003) suggested it is not one factor, but a complex set of interactions including technological change, household decisions, and the physical environment driving social changes in rural America. Interestingly, while these changes have, to a large extent, been driven by changing demographics, they also have been driven by organizational redirection that prior community leaders put in place.

Using historical information, Johnson (2003) painted a picture of the demographic future of rural America. Comparing data gathered in the 1990 and 2000 census, he built a case for continued confusion and disorder in rural America because of demographic changes. With data suggesting in-bound migration is the new population driver (as opposed to natural increase), Johnson recommended future study focus on the leadership necessary to assimilate population and economic changes rural communities might face.

For example, the immigration of people to a community often brings new ideas, thoughts, and demands that are often not appreciated. Integrating new citizens into a community often challenges the status quo, representing significant community leadership issues. Communities that have declining populations often have more difficult issues—losing the economic benefits of a robust, growing citizenry and community leadership that goes with it, making it difficult to maintain the fabric of the community.

The demographics of rural America are shifting as the economic drivers change. Originally settled because of the rich soil, thick forest, and abundant minerals, these industries have matured and production often outstrips demand. While these are still important rural industries and very important to the psyche of rural dwellers, there has been a migration out of farming and mining communities through the 1980s and 1990s.

Johnson (2003) pointed out there have, however, been several environmental changes that have benefited rural communities in the past few years:

1. Diminished friction of distance: With improved technology, transportation, and communication, being located outside metropolitan areas no longer means doing without or being without knowledge. This has made making the decision to move to a rural area easier for many.
2. Urban problems: Concern with urban problems, traffic, crime, and schools, has enticed urban residents to move to rural communities and those thinking about leaving rural locations often give it a second thought.
3. Increasing rural diversity: In non-metropolitan counties not adjacent to metropolitan areas, minorities accounted for 48% of population increases. Although further

> research needs to be done, it would appear that rural communities seem to be a good fit for the members of the minority community.

Johnson (2003) commented, “Demography is not destiny, but a researcher ignores it at his or her peril” (p. 31).

Building a model using U.S. Census Bureau data, Johnson (2003) concluded there has been an inward migration into the rural areas of America. This migration, however, has not been driven by net new births, but by relocations, and includes a rapid growth in minorities and older Americans. Using preliminary and updated census data, he believed the trend is continuing, as rural America becomes more accessible and less remote via technology.

Using conclusions drawn from Johnson’s (2003) study and the U.S. Census Bureau (2008) data collected, a picture of the demographic drivers of the rural communities and South Dakota begins to emerge. South Dakota is a typical Northern Plains state, with a population migrating to major metropolitan areas. It is dominated by farming (considered a resource extraction activity). With improvement in technology, the average number of acres farmed is growing and the larger operations need fewer employees. Because of limited career opportunities, the younger citizens are migrating, leaving an aging population that is challenged to maintain the community institutions and, in some cases, the long-term economic viability of the local city or town is in question.

The productivity improvements and subsequent population migration to urban areas has sent many community leaders searching for programs to save their rural communities and ways of life. This has included promoting livability and lifestyle (suggesting the problems plaguing urban areas do not exist in rural environments) and touting improved communication technology systems with easy and current access to information and transportation corridors that offer access to metropolitan activities. While this has worked in some parts of rural America, in the Northern Plains states, the net out-migration of many counties continues.

Reviews of relevant demographics literature suggest population trends in an area are defined by a complex interaction of social, economic, and demographic changes not easily understood. The changes often occur over long periods of time and are sometimes driven by decisions outside the region (i.e., environmental laws passed in Congress and effects of globalization) and by decisions made by previous community leadership. In its search for economic regeneration, the community needs to develop financial institutions and leaders who are innovative, creative, and resourceful. Regional demographic trends and issues will make this increasingly difficult.

Popper and Popper (1987), while controversial and alarming to many that live in the 10 states that make up the Great Plains, revealed important insight about the region in an article titled "The Great Plains: From Dust to Dust." They suggested the Great Plains can be described as a series of boom and bust cycles created by government and private incentives. Popper and Popper summed up the article:

> We believe that over the next generation the Plains will, as a result of the largest, longest-running agricultural and environmental miscalculation in American history, become almost totally depopulated. At that point, a new use for the region will emerge, one that is in fact so old that it predates the American presence. We are suggesting that the region be returned to its original pre-white state, that it be, in effect, deprivatized. (p. 12)

They went on to suggest the only, and most intriguing, alternative is to reestablish the Buffalo Commons—in essence, recreate the nineteenth century. The term *buffalo* "evoked the need to remember and value the particular characteristics of place, the value of biodiversity, and the wisdom of less intensive use of the land " (p. 8). The term *commons* "evoked incentives that maintain land as a renewable resource while balancing community and individual rights" (p. 10).

Popper and Popper were suggesting the only possible outcome for the region will be a "gradual impoverishment and depopulation" (p. 9) as the area works its way back to the 1920s. The analogy of buffalo commons is often used today to describe the region, much to the disappointment of many.

This article, which Popper and Popper (1987) thought very few would notice, made them famous in the Plains and the controversy is still going strong. Several subsequent articles have been published (by Popper and Popper and others), suggesting that buffalo commons is a slow developing reality, and the Plains region is "manifest destiny in reverse" (Williams, 2001, p. 8). Simply put, the region's viability has been questioned for many years and it is highly likely it will continue to be questioned. As said by Gardner (1990), "the setting does much to determine the kind of leaders that emerge and the roles they play" (p. 9).

Community Banking Trends

Banks are classified across a broad spectrum. There are commercial banks, money center banks, mortgage banks, investment banks, and community banks. These banks are defined in different ways and by different measures: asset size, markets served, ownership structures, and charters issued. Each of these institutions serves a specific market and plays a unique role in economic development.

As banking evolved, the industry splintered into large complex institutions and small community banks. Large banks have focused on transaction-based lending, where decisions are made using hard data—such as detailed financial statements, industry and general economic statistics, and output from complex credit scoring models. Their products and services are generally homogeneous, given these institutions focus on delivering low cost services. Community banks' competitive advantage is focusing on building community relationships and often takes into account what is referred to in the industry as “opaque information” (Payne, Nielsen, & Tyran, 2002, p. 679), that is, the soft information that is often part of a community culture. Community banks, however, do this at high unit cost, which increasingly puts them at a competitive disadvantage (Yeager, 2004).

The marketplace defines community banks as those with circumscribed service areas, banks providing a unique level of community services, and those with limited asset size (usually under $1 billion) (Rose et al., 2010). These banks focus on attracting local deposit and loan business and their economic future is often tied to the success of a region. They usually play a major role in small business and agricultural lending (Critchfield et al., 2004). According to the State Banking Commissioners Office (Tim Aharts, personal communication, December 2009), there are 84 commercial banks chartered in South Dakota; four operating as savings banks, 65 state-chartered institutions and 15 as national banks. Of these institutions, 80 would be considered community banks under any definition used.

Community banks are not complicated organizations. The leadership is traditionally very close to employees and often drawn from long-time community members. Management consists of a board of directors, a president (who runs day-to-day operations), and employees who are often well known and active in the community. In a community bank, employees are very close to customers and often able to see the impact of decisions on the regional economy. The major challenges faced by these banks are keeping up with regulatory requirements, staying current with technology, and replacing aging management teams (Rose et al., 2010). Community banks have historically played a significant role in economic development. Rural businesses tend to be heavily dependent on community banks and with the recent wave of consolidation in small banks, the challenge of finding adequate capital to support the small businesses that dominate rural America is become more difficult (Drabenstott & Meeker, 1997). Empirical studies have found banking is a *keystone sector* (Kilkenny & Nalbarte, 2000). This is an organization that plays such a unique role that the community is essentially and destructively changed without its presence.

> Banks play many roles: participating in civic activities, providing donations, recruiting new businesses, and leading community organizations; as well as protecting savings, providing mortgages, financing public debt, and making loans. There is a symbiotic relationship between vital rural communities and their banks. (Kilkenny & Nalbarte, 2000, p. 1)

Another challenge is that community banks, by definition, focus on a restricted region. This leaves the bank subject to regional economic shocks, such as plant closings and commodity price downturns, which can put their long-term viability in jeopardy (Yeager, 2004). The obvious cure to this problem is geographical expansion, which reduces cost and limits the potential for being caught in an economic downturn, but, as the organization grows larger, the competitive advantage of using soft data becomes harder and more difficult (Yeager, 2004).

The community bank is trying to remain relevant and competitive in an environment that is changing fast. There are several reasons for this rapid change, including:

1. Consolidation and concentration of assets: There were 14,000 commercial banks in 1973 (Markley, 2001); there are 7,350 FDIC insured institutions as of 2007 Small commercial banks (those with less than $100 million in assets) make up 43% of banks in the U.S.; medium size banks (those with assets of $100 million to $1 billion) make up 50% of the banks in the U.S.; while large banks (those with more than $1 billion in assets) make up 7% of total banks in the U.S. Although small and medium banks make up 93% of the banks in the U.S. and the large banks make up 7%, the small banks hold 12% of the total assets and the large banks hold 88% of the total assets (Rose et al., 2010).

2. Technology driven financial services: From 1995 to 2005, the percentage of online banking users in the U.S. rose from 13% to 43% (Fox & Beier, 2006). Although not growing as fast as general internet use, in a survey done by the ABA Banking Journal (Cocheo, 1997), the ability to use the web to deliver services is something customers are demanding.
3. Installation of emerging technology: The challenges community banks face when installing the technology demanded by customers are numerous, including limited number of staff to dedicate to the project and, generally, employees lack the technical knowledge to operate the equipment. Most community banks also lack the capital necessary to invest in the projects (Kershner, 1990).
4. Increased regulatory complexity: Keeping up with bank regulation is a major challenge for all banks, especially community banks. The fixed cost of regulation is high and, in a community bank (vs. a large bank), the cost is spread over fewer customers (Hoenig, 2005). Recently, the new pending regulations proposed by the current President and Congress spur the most critical and spirited topics of conversation among community bankers. While the end results are not assured, more regulation means increased cost, putting more pressure on community banks.
5. Demographic trends: In 2005, Thomas M. Hoenig, President of the Federal Reserve Bank of Kansas City, said the following:

> One other consideration is that many rural community banks are located in small communities with limited growth prospects and declining populations. Such markets pose another set of challenges for these banks. An important question for such banks is: Can they continue to generate enough business from their own community to operate efficiently or should they look for expansion and consolidation opportunities in other markets? (p. 9)

Hoenig's reference is not just to South Dakota, the focus of this study, but the quote is also a confirmation that the demographic information previously presented is having an effect on overall community bank operations.

The subject of community banking is well studied with some of the most insightful information coming from the industry regulators—the Federal Deposit Insurance Corporation (FDIC), Federal Reserve Bank, state banking regulators, Office of the Thrift Supervision, and Office of the Comptroller of the Currency (OCC). With the responsibility for maintaining the safety and soundness of financial institutions in the United States, considerable research funding and on-staff researchers available, some of the best research on community banking issues was written by these agencies.

The first was an article was, "The Future of Banking in America Rural Depopulation: What Does it Mean for Future Economic Health of Rural Areas and the Community Banks that Support Them?" (Walser & Anderlik, 2004). Two economists at the FDIC, Walser and Anderlik focused on four de-populating regions—the Great Plains (including South Dakota), the Corn Belt, the Delta South, and Appalachia—and examined questions of continuing economic viability of banking in these regions.

Using data from the U.S. Census Bureau, the U. S. Department of Agriculture (USDA), and the FDIC, Walser and Anderlik (2004) wove together the challenging environment that rural community banks face. While the scope of the rural population review done in the article is broad-based, conclusions are similar to the demographic literature previously reviewed in this dissertation. As the populations fall below a critical mass, communities no longer have the resources to maintain economic viability. Some demographic conclusions include:

1. With small workforces and populations that are relatively unskilled and often undereducated, rural areas have a hard time appealing to prospective employers and employees.
2. Shrinking customer bases and the Wal-Mart effect often drains the economic vitality of a region.
3. Per capita cost of basic government services become more expensive as a smaller population is required to carry the load.

Many parts of South Dakota face these very problems and face a self-reinforcing cycle of decline that has led to a downward spiraling quality of life.

The implications of demographic changes for banking are the most relevant parts of the Walser and Anderlik study. Focusing on the 1,451 banks and thrifts located in the region studied, the conclusion was that the banks in the Great Plains were far more vulnerable to population trends than banks in other regions. The researchers report that approximately 46% of all banks headquartered in the Great Plains are in declining or accelerating-declining counties. Also, for reasons unknown, while between 1984 and 2003 the number of banks in the U.S. shrank by half, in the Great Plains there was very little consolidation. This combination leaves financial institutions in the region particularly vulnerable and there may be an increase in consolidations in the near future.

These consolidations will occur not just because of the no-growth or graying population, but also because of the lack of succession planning. During outreach meetings in the Great Plains, Walser and Anderlik identified the inability to find replacement leadership as a common theme. The results are delayed retirements or the sale of the institution.

The Walser and Anderlik conclusion is for community banks in slow growth environments to survive they will need to take well-conceived risks or face the prospect of consolidation with a larger institution. The researchers forewarning is that the risk should not be taken on unless the organizations can find the management with the expertise to drive the initiatives forward — a daunting prospect.

Walser and Anderlik's conclusion, that community banks in the Great Plains are facing a challenging future, is supported by Federal Reserve Bank research. Deyoung et al. (2004) found five industry drivers that have and are changing the traditional roles of community banks. These changes include:

1. A significant consolidation of banks that resulted in a 50% decline in the number of community banks from 1980 to 2001. This consolidation was driven by a rapid deregulation of the industry, allowing larger banks to branch across state lines and offer a broader range of products and services.
2. Technology has become an industry driver, with several reviewed articles suggesting banking is the most IT intensive industry in the U.S. This change has meant bank branches and locations have become much less important to consumers—something that, historically, has been a competitive advantage for community banks.
3. All banks have become less important depository institutions. The combination of alternative depository instruments (money market funds) and deposit technology, making access to these deposits easier, has made traditional commercial banks less necessary.

4. Financial services are quickly becoming a commodity business driven by economies of scale. Community banks are not financially able or strategically well positioned to take advantage of this trend, given the higher per unit cost.
5. As a result of deregulation and new technologies in lending, payments, and financial markets, all financial institutions face considerable competition. With financial markets deeper and broader than ever before, non-bank competitors are much more viable than in the past.

Facing these challenges will be difficult and require the community bank to be focused, emphasize personal service, and use their unique access to *soft information* (personal knowledge of customers) as a competitive advantage. The community banking industry is not doomed, but, to overcome the financial services industry trends, it will need to be very well managed.

Community Banking Summary

Articles reviewed suggest community banks are not dead. Rapid changes in technology, regulations, demographics, and new competitors have created an operating environment that has driven industry consolidation. Accelerating this consolidation in the Great Plains states will be a graying of the population and the limited pool of qualified people to succeed the current management teams. The unspoken concern is not that community banks have no future, or that they are facing a challenging operating environment, but the question of who will invest the time and energy necessary to lead these organizations to success.

Corporate Social Responsibility

Corporate social responsibility (CSR) can be defined as many things, but is often defined as, “the voluntary integration of social and environmental concerns into business operations and into their interaction with stakeholders” (Vilanova, Lozano, & Arenas, 2009, p. 58). The concept is that organizations can build corporate goodwill and create a competitive advantage by including non-economic factors in their strategy (Lindgreen, Swaen, & Maon, 2009). While CSR is a grab bag of activities—including recognizing community leadership responsibilities, being an active corporate contributor, and being environmentally minded in operations—it is considered by those who have successfully implemented CSR to be one of the cornerstones of a culture. Leadership is often mentioned as a driver for the development of a culture (Ardichvili, Mitchell, & Jondle, 2009) and an important part of building a successful financial institution. Therefore, CSR is an important component to review in a research project looking at developing leadership in community banks.

Banks play three roles in the economy. First, and many would say most importantly, is the function of a financial intermediary. Accepting deposits, making sure funds are protected using FDIC insurance, and acting as a facilitator of transactions between customers and vendors is a critical role of financial institutions. In addition, banks have historically operated as the main source of loans for both consumers and businesses. Second, banks create money through the lending process. Operating under a charter granted by a state or the federal government, and under very strict reserve deposit guidelines and regulatory oversight, banks can increase or decrease the money supply having a material effect on the economy. Third, banks operate as a conduit for social and economic policy. While almost all regulated financial institutions are for profit because they operate under charter from a government, these organizations have a legal responsibility to the people of the community in which they operate. Emphasizing this responsibility in 1977, Congress passed the Community Reinvestment Act (CRA). This law highlighted the social responsibility of banks, giving regulators the responsibility to determine how well a bank reinvests deposits in its community (Farrell & Buzzell, 2005).

Since CRA was passed, the challenge for the leaders and managers of financial institutions governed by this law has been to balance the needs of the shareholders with the needs of, and responsibility to, the community. For example, how much of shareholders' money should be invested to sustain a marginally profitable operation in a low-income community before it is best to close operations and move on? What kind of moral responsibility and relationship does the bank have with the community, and will it ever payoff for the shareholders? CSR, as defined by law through CRA, is a critical measure in determining the success of a banking operation.

A second reason it is important to have a basic understanding of CSR as it relates to financial services is because it is a key to helping banks become more profitable. Both international and domestic researchers have found positive links between strong financial markets and economic growth. The economic growth literature indicates financial institutions' policies are closely associated with state growth rates (Collender & Shaffer, 2003). Data also supports a link between the performance of an individual bank's commitment to the community and its financial performance. Using CRA as a surrogate for commitment to a community, the return on assets (ROA—a measurement of financial success) of banks with high CRA ratings was almost twice that of those that received low CRA ratings. In the same test, researchers found that banks with high CRA grades experienced approximately one-half of the loans losses experienced by low performing CRA banks (Simpson & Kohers, 2002). Even literature on banking in its most basic form, micro-lending, suggests that a key to success is being involved in the community. In a World Bank report on rural finance institutions (a form of the micro-lending business), a key to success appears to be the introduction of a social mechanism that lowers transaction cost (Jacob, 1994). From the research reviewed, being involved in your community pays off.

A third reason, and maybe the most important reason for including CSR in the discussion, is because the topic was raised (under the synonym of community involvement) several times in my casual conversations with bankers and in the informal interviews. In almost every conversation I had with South Dakota bankers, investment in the region they serve was considered a key to successful performance. This investment takes many forms, but always includes the staff and officers of the bank taking a leadership role in local community activities. In the case of the three banks interviewed for background, they all measure and grade bank officers on how active they are in the community as part of their annual performance review. In many of the casual conversations and informal interviews, bankers mentioned strengthening employees' community involvement as a critical element in leadership development. Management teams in these organizations intuitively recognize performance of a regionally focused bank is linked to the success of the communities in which they operate and consider investment of time and money critical for accomplishing corporate goals. These comments included concerns, which need to be further investigated, that the significance of community involvement was one reason bringing in people from outside the organization or outside the state was too disruptive to the operations. Most newcomers were unable to integrate and understand the small communities in which they were working.

According to research done on the relationship between CSR and competitiveness (Vilanova et al., 2009):

> The financial sector appears to be one of the most critical actors in shaping markets, both from its role as an investor, as well as an analyst, demanding and defining how a firm should be valued, and thus determining what are the key competitiveness issues for corporations. (p. 62)

Community banks are built on knowledge of community, organizational reputation, and trust—all elements critical to successful CSR.

Leadership Literature

To answer the dissertation question, a focus of the literature review was leadership development. While the insights into leadership development are fundamental to understanding the implementation challenges—the early conversations and literature on leadership development suggested a broader look into transformational leadership and investigating the impact of context on leadership is also important.

Leadership Development

Literature on leadership development (LD) is substantial. The plethora of information found is produced by vendors hoping to sell their services and is not generally supported by empirical research. In the informal interviews on LD, everyone had been approached by someone hoping to install a leadership program in their bank. One bank had been working with Ken Blanchard, Inc., who provided a program named Situational Leadership—a category that is part of a broader segment known as contingency leadership theory (Northouse, 2001). The bank was pleased with the results, but having worked with the company for five years, they were beginning to think about other development tools they might use. According to the human resource team, there was no shortage of tools or opportunities from which to choose.

LD is defined as the process where facilitators lead participants through exercises that improve and develop transfer of knowledge and work skills to contexts (Burke & Collins, 2005). In the past decade, there have been several noteworthy trends and an increase in the number of ideas of what LD is and how it can be accomplished. There did seem to be, however, a general consensus on the need for LD and some consensus on the goals and objectives.

LD is now seen as an organization-wide activity instead of a historical approach (which often focused on individually based training). Leadership processes help develop groups of people to work together in meaningful ways and are oriented toward building an ability to react to challenges as they arise (Day, 2000). Increasingly, LD activities are focused not just on building the competencies of the leaders, but also the collaboration between leader and follower (Hernez-Broome & Hughes, 2004). It is now more focused on building networks and relationships that help drive strategic imperatives—transformational leadership—requiring higher levels of emotional intelligence and vision. This is a shift in thinking from 20 years ago, when transactional leadership—characterized by exchanges looking to optimize mutual benefits— dominated leadership thought.

LD is a related group of experiences, as opposed to specifically designed timed programs, and is a continuous process set in context and can take place in a classroom, work environment, or through the development of relationships. LD tools consistently mentioned in the literature reviewed can be broken down into three categories (Hughes et al., 2009):

1. Conceptual awareness and skill building: This includes the classroom training that has been a long-term tradition. Depending on the organizational level of recipients, this includes developing supervisory skills, improving interpersonal skills, and reviewing leadership theory.
2. Individualized feedback: Coaching (which is short-term, one-on-one learning) and mentoring (where an experienced person supports the development of a junior person over a longer term) are examples of this type of LD tool (Hernez-Broome & Hughes, 2004). Another tool that falls into this category is 360-degree feedback. This is the

process of collecting feedback from a variety of viewpoints to get a perception of an individual's performance.

3. Personal growth and development: "The goal of leadership development ultimately involves action not knowledge" (Hernez-Broome & Hughes, 2004, p. 27). Work experiences that challenge an individual or group, combined with organizational commitment to support the assignment, are often the most important leadership teachers (Day, 2000).

The context needs to be considered when creating and implementing LD activities (Pernick, 2001). Given rapidly changing operating environments and the ambiguity and uncertainty this brings, the focus has been on doing as much LD training on the job as possible. "The leadership competencies of a best-practice organization uniquely fit the organization" (Hernez-Broome & Hughes, 2004, p. 28).

One item covered only marginally in the literature, but critical given the recent economic downturn, is the concept of return on investment. Increasingly, there will be pressure to view LD programs through the same organizational lens as other projects. This will include defending LD using a systematic process, where the expense and effort is supported by using quantitative analysis. While this may introduce some rigor and new discipline to the development process, it is possible this might be the most difficult challenge facing those involved in the design and implementation of LD programs (Kincaid & Gordick, 2003).

The review of LD was summed up well by Hughes et al. (2009):

> Although a number of leadership training programs are based on sound theory and research, some other programs have no basis in science and should be considered speculative at best. Still others are based on unwarranted and simplistic extensions of scientific findings. Perhaps the best way to guarantee that a leadership program will be useful to you or your organization is to adopt a systematic approach to leadership training. There is value in being an informed consumer, and this is just as true in

> investing one's time, energy, and money in leadership programs as it is in other products and services. (p. 77)

In other words, let the buyer beware.

Transformational Leadership

An early conclusion drawn from casual conversations and informal interviews was that leadership is hard to define. Just about everyone in community banks answered the question cautiously and without confidence, and of the banks included in the informal interviews, all answered my first question ("What is leadership development?") differently. One respondent focused on accountability, another on developing core competencies, and another, because of confusion with definition of leadership, avoided the word and discussions on leadership development (although the bank seemingly engaged in the leadership development process under different names). Everyone was interested in developing employees, they all recognized the demographic challenges that exist in South Dakota and the need to invest in and get more from the people they have, but there was no consistency in how that might be done. These early discussions led me to believe South Dakota community banks wanted to move from transactional to transformative leadership and this might have an effect on their leadership development plans.

Burns (1978) defined leadership as two basic types—transactional and transformative. Transactional leadership is an exchange of one thing for another, while transformational leadership, also exchanging one thing for another, looks to engage the whole person. Focusing on transformative leaders, he went further to say these types of leaders will sometimes turn into "moral agents," representing the mutual needs, aspirations, and values of both the leader and the followers. Moral leaders are those who take leadership to a new level, producing social change that meets the authentic needs of followers. More specifically, transformational leadership works to develop emotional bonds with the followers. Working to set values, needs, aspirations, and drive organizational change, these leaders motivate their followers to perform beyond expectation (Walumbwa, Orwa, Wang, & Lawler, 2005). This definition of leadership parallels, in many ways, the less formal explanation that I heard from South Dakota bankers and, without a doubt, is indicative of the results that they are looking for.

Of the significant amount of research available on transformational leadership, Geyer and Steyrer (1998) and Walumbwa et al. (2005) used financial institutions as the basis for their research. The outcomes in both studies were the same and supported the positive effects on job satisfaction and organizational commitment. Both studies used the Multifactor Leadership Questionnaire (MLQ), developed by Bass and Avolio, to determine the extent to which leaders exhibit transactional or transformational qualities and the degree to which followers believed their leaders were effective (Hughes et al., 2009).

The most extensive study was done by gathering data from a broad spectrum of managers and employees in 20 different Austrian banks (Geyer & Streyrer, 1998). The authors concluded there was a greater positive relationship between transformational leadership and performance than between transactional leadership and performance. Geyer and Streyrer (1998) also found transformational leadership tended to support long-term performance, while transactional leadership supported short-term performance and may hurt long-term performance.

The second study used data collected from seven local banks in Kenya and five in the United States. Testing similar hypotheses about job satisfaction and organizational commitment, in addition to doing a comparative analysis of the results for the two distinct cultures, the results were similar to those of the Geyer and Streyrer (1998) study. Transformational leadership has a positive significant relationship with organizational commitment and job satisfaction (Walumbwa et al., 2005).

Projecting findings of these studies using international banks to community banks in South Dakota may not be justified. Foreign banks often have significant government ownership—they operate under rules and laws that are very different and often more restrictive then American laws, and generally, foreign banks are much bigger than most banks in the United States. These studies did, however, speak to leadership in financial institutions and present empirical data that supported what many non-industry studies reviewed found— leadership does make a difference and transformational leadership supports long-term performance—even in banks.

Context

An interesting sidebar that came out of the literature reviewed on transformational leadership was several articles on the role context plays in leadership. Context is defined as the situation and constraints that effect an organization's behavior and relationships between variables (Johns, 2006). "Despite the complexities of leaders and followers, however, perhaps no factor in the interactional framework is as complex as the situation" (Hughes et al., 2009, p. 537). The conclusion of the multiple articles reviewed was different environmental conditions affect the leadership challenge (Gibbons, 1992) and some suggest many theories of leadership are often context-free (Boal, 2000) to their detriment. This becomes important in an industry in transition, like community banks in South Dakota, where changes in the operating environment are forcing management to rethink organizational structures and leadership techniques.

One article seemed particularly relevant reviewing the role context plays in transformational leadership. Humphreys (2005), in his study titled "Contextual Implication for Transformational and Servant Leadership," proposed that the leadership style may be more or less applicable based on context. Using a historical investigation, he suggested transformational leadership would be more appropriate in rapidly changing environments, where the focus was on achieving organizational goals, inspiration and charisma—characteristics he defined as drivers of transformational leadership.

Context would appear to be the missing link that can explain how actions get translated into institutional outcomes. It has the ability to shape an organization and give meaning to actions taken, but context is still often the “omitted variable” (Johns, 2006, p. 388) in most research. “If we do not understand situations, we will not understand person-situations interactions” (p. 388). Understanding context, it would appear, is a critical element to understanding leadership development in South Dakota community banks.

Chapter III: Informal Interviews

In anticipation of doing formal research and interviews on leadership development with South Dakota community banks, I did informal interviews with three banks on the subject. Choosing the organizations for their diverse asset size, geographic location, and number of employees, I spoke with the human resource executives in each business to get preliminary insights and thoughts that would help frame the project and further define leadership development and leadership literature to be reviewed. All the banks interviewed were defined as community banks—by market definition, per literature reviewed, and as described by the executive leadership teams.

While the dissertation question was used as the guiding light, I focused the conversations by asking four questions of each bank on leadership and leadership development. The four questions asked were:

1. When I say “leadership development” what does it mean to your organization?
2. How would you describe the leadership development program in your bank?
3. What kind of investment have you made in leadership development—financial and time commitment of human resources, senior executives, and employees (estimated percentage); other?
4. Return on investment: If you invested a lot of money and time, have you seen a return on investment; and have you seen any negative consequences to making the commitment? If no (or limited) investment has been made, do you have any regrets having not invested more in leadership development; and was there an alternative investment that you made in personnel development that you would not consider

leadership development—but your organization felt mirrored this type of investment and gave the business a substantial return?

The lessons learned in these conversations were invaluable and provided considerable insight and structure to the proposal. A summary of the conversations and relevant leadership literature is outlined below.

Interview One

The first interview was conducted with the human resource (HR) officer, who is the senior personnel and training official in the bank. Although I did not ask, the interviewee offered considerable insight into her professional background and experience before I asked any questions. This proved to be very helpful, curious, and flavored the four questions asked.

A summary of the conversation. The HR officer has been with the organization for many years and has been head of human resources for several years. The officer described her time in the HR job as "not long"—the company is characterized by long-term employees. She was chosen for the position after several successful job assignments within the organization. She described herself as "growing up in the organization" and having seen it from the bottom up, her training for HR was all "on-the-job." Working with various managers, board members, and other leaders who took an interest in the people side of the business, she has been on a steep learning curve and feels that she still has a way to go. Management expectation is that employees grow through experiential learning as opposed to classroom training as the outside training budget is limited.

When I say "leadership development," what does it mean to your organization? The conversation started off in an unexpected way. It is hard for this bank to invest in leadership given it is such a soft subject and is difficult to define. The Board of Directors, who would need to approve any investment in leadership training, would want a defined classroom agenda that listed subjects, topics and how the money and time spent would contribute to organizational success. Defining leadership is difficult.

“The reality is that, as of 1990, scholars and practitioners do not know, with certainty, what leadership is” (Rost, 1991, p. 7). There is no school or definition of leadership, or central concept that has taken hold and this has led to confusion and leaves everyone wanting—from academics studying the field to practicing professionals (Burns, 1978). How can anyone work to develop a leadership program without knowing what leadership is?

Describe the leadership development program in your bank. I asked, “You almost exclusively promote from within and obviously value people, what are you doing to make sure those people develop and grow?” The interviewee responded, “We work at that pretty hard.” The company provides internal supervisory and technical training, participates in banking schools and the executive team and board has had a formal succession plan in place for many years. The succession planning process is required by the bank’s primary regulators. The plan is confidential—only the executive team, board of directors, and regulators know who is on the list. Part of the succession process is to make sure the future potential managers are prepared for their prospective positions. The focus is on technical training and making sure they get the on-the-job experience they need to succeed.

The HR officer’s focus for the last year has been on improving communications. “We have expanded very quickly and, given the South Dakota population is spread out, the branches are not very close together. Keeping everyone up-to-date and because of growth, keeping up with employees is sometimes challenging. This is very important to her job, given the focus is on promoting from within.

There is not a formal leadership program in this bank. There does appear, however, to be several things going on that might be called leadership activities.

A succession plan has been put in place. Succession planning is the process by which organizations evaluate and promote leadership talent (Hughes et al., 2009). The preference is to promote from within, the current management team and board drive the process, and the focus is on creating technical experts—which is a reasonable decision given research has shown technical expertise is a key to developing successful leaders (Borman, White, Pulakos, & Oppler, 1991). The tools they use suggest that maintaining culture is an important part of creating future management (they obviously view that as a competitive advantage) but it would appear that they are still working to develop leaders (just under another name).

There is also a focus on communication. If, as Heifetz (1994) said, attention is the currency of leadership, then the ability to communicate is at the core of leadership. Gardner (1990) called it the “all-purpose instrument of leadership” (p. 166), something that every leader needs to master. The HR officer is responsible for making sure people throughout the organization have a set of collective meanings and understandings that guide actions. The followers need something to make sense of their daily activities and shape their behavior. The executive team recognizes the importance of communicating and the positive outcomes that will result—which is why they are investing both time and money in the activity—but they do not recognize it as leadership development.

Although the bank prefers not to use leadership as a defining term, they do use the term management. Although every leadership academic has an opinion on the difference between leadership and management, probably the most paraphrased is Bennis and Goldsmith (1994)—managers do things right, leaders do the right things. Leveraging the thought, management is about organizing, practice, and procedures, and controlling activities looking for efficiencies and order to processes. Management is not exciting or glamorous, but allows all of us to complete routine jobs successfully. Leadership is about building a spirited organization, coaching, stressing values, vision—giving people a sense of control in a chaotic world. The discussion of leadership has gained momentum as change has come to characterize working environments (Kotter, 1999).

It seems unrealistic to think of leadership and management as distinct activities, not overlapping in any way. Leadership without management would lead to organizational chaos. Thinking back on my experience as a practicing professional, there were several times when great ideas and compelling visions fell short because of poor execution. Meaningful change comes only with execution (Bossidy & Charan, 2002).

Separating these activities would also seem to be in conflict with the inclusiveness that is defined by leadership. Leaders regularly involve others in decisions, creating a sense of control and coordination that is necessary for the change that defines leadership (Kotter, 1999). Leadership also necessarily involves interventions, including taking action—an activity many would call management related (Heifetz, 2002).

Maybe most important, if you separate these activities, you begin to confuse leadership with status. Many leadership books imply managers are incapable of leading. They are simple-minded order-takers—cogs in the wheel awaiting orders from the top floor, where leadership resides. While positions in a company often carry symbolic value and the organizational chart confirms reporting structure and subordinates, the actions of the executive determine if these subordinates turn into leaders (Gardner, 1990). A body of followers is not guaranteed.

Leadership and management have been defined in a way to give them the same essential character (Rost, 1991). While this upsets Rost and many others, it does not bother me. What leader has not been put in a situation of having to make short-term plans or direct resources to help further define a project—every leader has had to do this. In my 25 years as a practicing professional, I believe this to be a correct statement. Sometimes you lead, sometimes you follow and many times you do both—how you deal with the differing responsibilities characterizes you as a leader.

What kind of investments have you made in leadership development? I continued the interview, "You mentioned that the entire management team is committed to developing human resources. How much do you invest in this activity?" She replied, "We do invest money in training and education—but that is limited and not the way we have chosen to develop our staff." She explained that on-the-job training (real world experience) and some coaching by those more experienced in a given position have proven to be the best ways to develop follow-on talent. This does take a lot of time, but can generally be worked into a daily schedule and is noted in a positive way in personnel evaluations.

Given they are a South Dakota bank, have no plans to expand outside the state, and are working in rural areas, the only alternative for finding skilled employees is to grow them. Hiring employees from out of state has proven to be too expensive and disruptive to the culture. "Our bank grows it own staff—the only way to do it."

What has been your return on the investment in leadership development? The interview continued, "You put a lot of time and some money into building your team—what kind of return have you gotten on the investment?" The HR officer replied, "The pay-off has been in employee loyalty and profits, of course. Our staffs, officers, and executives are committed to this bank and we plan on having everyone around for a long time."

As mentioned, the bank is characterized by long-term employees, which the management team feels is a real competitive advantage. Employees know their jobs well and are very efficient (keeping cost down) and employees know the customers (creating a very loyal client base) which results in a very stable organization that employees seem to like. "Stability is very important to everyone here— the fewer disruptions the better."

Context matters. Hughes et al. (2009) built a simple model to help understand the very complex subject of leadership. They called this model the interactional framework. The central theme is that leadership is a process where something happens as a result of the interaction of leader, follower, and situation. They graphically portrayed leadership (see Figure 2.1).

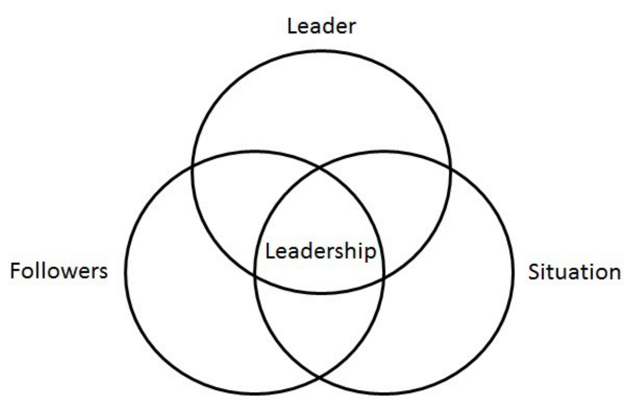

Figure 2.1. Model of leadership (Hughes et al., 2009).

The authors identified context as a part of leadership. They recognized there are a set of undefined events and circumstances that help characterize leadership. These events vary in strength, over time, and are often viewed by different individuals in different ways. Leadership is contingent on the interchange of all three parts of the model—situation is one of those parts.

There are several hints in the comments of the HR officer that operating environment drives employee development. The bank only plans to grow in South Dakota—a slow growth state—and to work in rural areas. Hiring from out-of-state has proven too expensive and hiring from other banks has proven disruptive to their operations. Given operating parameters this narrow and the limited population base from which to draw, the only alternative would be to grow your own employees. These comments were not unexpected and paralleled what other bankers and regulators in the state have been saying to me in general conversation. Developing follow-on leadership, given operating constraints in this state, is proving to be very hard.

Summary. Adamant that leadership was too ethereal and could not be successfully translated into organizational accomplishments, several of the employee development activities look like leadership skills development. A focus on communication, learning from experience, and building technical competency are all important development tools at the bank and would be considered leadership development by most academics focusing on the subject. In addition, many believe on-the-job training is the best way to develop leadership skills, something that follow-up studies have validated (Hesselbein, 1996). While leadership development is not in their vocabulary, several interesting insights can be drawn.

This bank is taking a very rational approach to developing employees. Leadership includes actions and influences that are based on reason, as well as emotion (Hughes et al., 2009). Some places take a very logical and reasoned approach to developing their organization with the belief this will enhance the effectiveness of those in charge. Others have determined that, given the different hopes, needs, goals, and ambitions of followers, you need to make a more emotional appeal to build a strong organization. Leadership is a science—there is a practice of leadership and there is an art—a set of theories, ideas, and thoughts that are academic in nature. In this case, the bank has chosen to, while not defining it as leadership, approach organizational development in a rational and scientific way, which they believe is best for their company.

In the conversation, the executive consistently recognized the power of context in organizational development. The bank has prospered for 75 years, under management with differing styles and approaches, and through complicated economic cycles. They have played the hand that was dealt and have decided to build their business recognizing that the state was probably going to be slow growth, with a small population and few experienced employees from which to draw. Given that operating environment, the organization has chosen to build the workforce they need by developing it from the bottom up—because the situation required that approach. The consequences are that they have long-term employees, efficiently delivering the bank services, a group that understands the culture, and very few disruptions to operations. According to the HR officer, this is not leadership—but it would seem to be advancing the organization in a very positive way.

Although the bank does not have a formal leadership curriculum, you might argue they have a thriving underground leadership program that has some of the characteristics of the great man theory. The great man theory, or trait approach, focuses on the instinctive qualities that someone possesses—a born leader. The leaders, by some great fortune, are superior in qualities and abilities differentiating them from other people in general (Bass, 1990). While the theory, over time (Stogdill, 1948), has suggested a person does not become a leader because of traits—there is a variable called situation that plays a role. Looking at leadership as a set of interactions, an adequate analysis of leadership involves not only a study of leaders, but also the situation in which they lead (Bass, 1990). The bank recognizes their environment drives their decisions about people—there are very few to pick from outside the bank and they are not trained to take the jobs inside the organization. The obvious conclusion is to build and educate your own team.

Although the bank prefers not to refer to it as leadership development, there are activities—mentoring, coaching, and an on-the-job training focus—that look and feel like leadership and it would be difficult to come to the conclusion leadership development does not exists in the bank.

Interview Two

The second interview was done with a larger bank in the state. Rapidly building revenues over the past 10 years, adding branches, and expanding services, they have grown organically as opposed to growing by acquisition, believing that internal growth better supports their culture. My conversation was with the HR officer, who reports to the executive vice president of the organization. The HR officer is a lifetime resident of South Dakota, with an undergraduate degree in business and is a long-time employee of the bank. HR expertise was developed through significant on-the-job training and various seminars, trainings, and association meetings.

When I say "leadership development" what does it mean to your organization? The conversation started off so fast it is hard to keep up. The bank has been into leadership development for a number of years. The HR officer considers it burned into the company culture at this point—part of the DNA. Leadership is many things—setting goals and planning, focusing on accountability, mentoring and coaching, communication, vision—just to name a few. She then says, " The most important part of leadership is developing people. Creating enthusiasm and making people understand that leadership is an important part of making this organization work. That is a big part of my job." As we talk, the HR Manager became more emotionally charged—if nothing else, leadership in this institution is motivation.

The leadership program was really a change project in the bank. After several years of investment, they have refocused the entire organization. Prior to leadership training, both followers and leaders did not really have much passion for their work. For example, employee evaluations were done subjectively, with very little focus on performance or goals. She went on to say, “A big part of our leadership program has been to refocus our employee base on objective performance goals. These goals fit into the strategic plan and vision set by the board.”

Several bankers commented to me that once people start working at this bank, they never leave. One of the reasons is probably the investment the bank makes in leadership training for staff throughout the company. The leadership team focuses on making the language of leadership the most important part of their employee lexicon. They recognize one of the tenets of Gardner’s (1990) leadership thought—that systems cannot function unless leadership is present at all levels of the organization. Pushing down decision-making, creating opportunities for both followers and managers to lead outside their disciplines, promoting people on objective goals—this seems to be a very balanced approach to leadership.

Describe the leadership development program in your bank. They use a model called situational leadership developed by Ken Blanchard (Blanchard, Zigarmi, & Nelson, 1993)—his company delivers the training for both employees and the executive team. This is the fifth year of the program and the second year they have had all bank employees participate. They have annual training sessions led by Blanchard’s company and monthly sessions facilitated by the human resource department. Case studies are the tool they use to assist learning. According the HR manager, “These sessions have been very, very successful.”

Situational leadership is sometimes categorized as part of a broader segment known as contingency leadership theory. To understand the performance of leaders, you have to understand the situations in which they lead (Northouse, 2001). This is the way Northouse (2001) begins when describing the contingency theory of leadership. Interpreting leadership is contingent on the meld of leadership style and situation. There are several approaches to leadership that might be called contingency theory—all playing to the operating environment that exists in an organization.

Most cited for developing contingency theory is Fielder (1964). Observing that leaders' perceptions of their coworkers might be related to leadership effectiveness, he developed a tool called the Assumed Similarity between Opposites (ASO) using ratings for least preferred coworker (LPC) and most preferred coworker (MPC). Using the ASO scores as indicators of leadership style and correlating them to group performance, Fielder developed his contingency theory of leadership.

Using the data collected, he developed the leader-match concept, which attempts to put into practice some of the concepts he has studied. Citing that contingency theory has been one of the most validated and tested theories on leadership (Fiedler & Chemers, 1976), the concept builds guidelines for determining leadership style and leadership situations, which can then be used to determine leaders situational favorableness. Using this theory, he posited selection and placement of employees can be done using the ASO tool—a controversial position having taken the concept from theory to practice.

The normative decision model is another well-known contingency theory. This model, developed by Vroom and Yetton (as cited in Hughes et al., 2009), is focused on determining how much input subordinates should have in the decision-making process. Using criteria to evaluate decision quality and decision acceptance, the researchers built a decision tree that leads to an optimal outcome for both quality and acceptance. Once the outcome is determined, other criteria, such as time or follower development is included in the decision process. Although there are several questions and concerns about the normative theory, empirical testing has shown support for the model—more effective or successful decisions are made when using the model (Hughes et al., 2009).

A third contingency theory model is situational leadership, which this bank appears to be using. The theory first appeared in 1969 at Ohio State in research led by Paul Hersey, Founder and CEO of the Center for Leadership Studies and Dr. Ken Blanchard, who was an Assistant Dean in the Business School. The theory, first named the life cycle theory of leadership, focuses on the interplay between task behavior (such as the instructions a leader gives a follower, relationship behavior, etc.), the amount of support a leader gives the follower, and the readiness level of followers. The theory defines successful leaders as those who can adapt their behavior to meet the demands of their own unique situation (Schermerhorn, 1997). Introduced into a context of strong management hierarchy and command and control approach to people management, the ideas received limited attention from leaders. Fast forward to today where leaders focus on follower inclusiveness and constant organizational change—in short, transformational leadership—and the theory is received very well. It is now generally accepted that leadership is done with people, not to people (Hersey & Blanchard, 1996). There have been limited publications to support the model, but it has been very successful in the marketplace—where empirical research is difficult (Hughes et al., 2009). Using a very commonsense approach, the model has real appeal and has proven to be a practical way of thinking about how leadership works. It is easy to understand why the second bank I interviewed is so enthusiastic about using the model for their leadership development program.

Any unusual challenges in putting a leadership development plan in place? The HR officer would not call any of the problems major—but there were a few glitches. As an organization, they had to convince the employees this was not going away. The leadership process was driven by growth in revenue and subsequent growth in employees. The question consistently asked was, “If the organization was doing fine, why change?” This skepticism came from supervisors instead of employees. The employees seemed very anxious to get involved in the training and more engaged in the company activities. The supervisors, on the other hand, had major concerns about investing time and resources in something where a return was not assured.

Another area of supervisor concern was the change from subjective to objective employee reviews. Concerns centered on the organization losing its customer focus and becoming product driven. Many envisioned having to set employee goals that included increasing product sales as the single objective without recognizing customer needs and wants. Everyone was assured this was never the intention.

There are a couple of very important points made in this part of the interview. These are the concepts of voice and values.

First is the idea of voice. According to the HR manager, the employees are very accepting, almost excited, at the prospect of participating in a leadership development program. Giving them a voice, a way of helping shape the future, was an exciting way of creating a commitment that did not exist in the organization at that time. By doing this, everyone had room to not only do their work, but do the right thing given the situation that existed (Bennis, 1989). This is a major factor in dealing with the rapidly changing work environment and the rapid growth that the bank was, and is, dealing with. They were moving from being managed to being led.

Recognizing voice, however, is also viewed by some as power sharing. Moving from a hierarchical organization to one where the leader-follower relationship is a driver means a shift in thinking. Thinking in a simple way, supervisors, mangers, and now, leaders, will need to make sure they take the theory y approach (most people are intrinsically motivated by work) to people instead of the theory x approach (a pessimistic approach view of others) (McGregor & Perrin, 1975). They will need to recognize leadership is shared values and empowerment, and not a race to use power to force actions.

Second is the idea of shared values. Max Dupree, Chairman and CEO of Herman Miller, said, “At the core of becoming a leader is to connect one’s voice to one’s touch” (Kouzes & Posner, 2002, p. 44). Do your words match your actions; are you doing what you say you are going to do? Have you clarified your values and beliefs, or are you just working to get more out of something by creating the appearance of inclusion and concern? This bank was healthy and growing, had a workforce that was happily employed, all seemed well and good—why make this change and risk a turn for the worst?

The source of sustained competitive advantages begins with shared values and a common language. When the values are aligned and people are on the same team, the communication and decision making process improves (Kouzes & Posner, 2002). My belief is that Kouzes and Posner (2002) are correct—the organization operates at a different level when everyone is marching to the same tune. But, the tune cannot be forced on everyone—it must be allowed to develop as the dialog and relationship between the leader and follower evolves. Doing what you say you are going to do and living up to the values set by leaders creates a sense of community that sustains a leadership program. The skepticism that existed in the supervisory ranks was to be expected given the change to a leadership culture requires refocusing on meaning and passion around work. It forces everyone to look inside and ask if they are living a life of purpose—something that is uncomfortable for many, especially those in charge.

What motivated your organization to begin investing in a leadership plan? The motivation for investing in a leadership program was rapid growth and a strategic planning process that the bank went through. With regulatory changes, they had expanded operations to include several other businesses, insurance, and investments, and refocused efforts on trust activities. While all these businesses were operating successfully, each one had its own culture, process, and procedures for doing things—the bank was not realizing any synergies in operation. They asked themselves some pretty difficult questions during this process that led to a realization that bringing the organization together culturally was going to be a real driver. Recognizing the proposed changes were significant and they needed everyone on board, a leadership development plan seemed the obvious answer. This was not done lightly; everyone on the executive team and board of directors bought in and committed hook, line, and sinker. There was no turning back—to make this work they had to invest both time and money.

What kind of investments have you made in leadership development? This bank has invested a considerable amount of money. They hired the Ken Blanchard Companies about five years ago, as a consultant to help develop their program and to lead quarterly meetings for various management and staff. (Blanchard was one of the primary researchers at Ohio State University who developed situational leadership—the approach the bank has adopted.)

The bank also committed and invested a significant amount of time to the project. Aside from the board and executive team's noteworthy time commitments, the human resource group leads the charge. They do this by facilitating monthly meetings with groups of employees, discussing leadership development, and by making a commitment to personal training on leadership development.

What return have you seen from your investment in leadership development? People are more confident in their decision-making and they are sure that leadership is part of the organizational culture. In general, supervisors were slow to see the benefits of a program, but after five years, if someone has not bought into the language of leadership, they have probably left the company. People participate with enthusiasm in the monthly leadership development activities—most really look forward to attending.

Another benefit they see from the human resource perspective is their ability to identify leaders. The people who stand out in the monthly meetings, those coming up with interesting thoughts and ideas, are rising to the top of the organization. As the bank has grown larger, it has proven difficult to keep up with people in remote locations; the leadership development program has allowed human resources to better keep track of people and has proven to be a great succession planning tool.

Any other comments? "Our leadership training is not just about work—it is about leadership for life." Expectations are that everyone attending will put this training to work in all aspects of life—family, work, and community. They are careful to use case studies broadly based in their training sessions—not just focused on banking or business.

Summary. The information from this bank is the polar opposite of the interviewee responses from the first bank. The second bank considers the word leadership to be one of the most important in the company lexicon; the leader-follower relationship is critical to their organizational development; and the ultimate commitment, the dollars invested over a long period of time, has been substantial. There is considerable long-term commitment to leadership development in the organization. There seemed, throughout the conversation, to be four factors that were driving their leadership development program.

The first factor is focus. They have been at this for five years—with no end in sight to the dollars and time invested. The drive to invest started at the top, in a strategic planning meeting, and has the commitment of the executive team and board of directors. The effort drives the human resource department activities and a good portion of their work.

Second is communications. If there is a single, all-purpose instrument of leadership, it is communication (Burns, 1978). Quarterly meetings, monthly meetings, creating and making the language of leadership part of the employee lexicon—everyone recognizes creating a common language that defines leadership is a key to success. The entire organization is a team—they all sink or swim together. Just as the first bank interviewed believes trying to define leadership is an ineffective task; the second bank believes the outcome is worth the effort.

The third factor is motivation. The first bank, if you assume they do have a leadership development program (although operating under another name), approaches it rationally—with very little room for developing the emotional side of leadership. The second bank is the opposite, approaching the subject in an emotional way. This includes a focus not only on the customer and shareholder, but also the employee and the community—a point that continually came up in the conversation. As I spoke to the HR officer, I found myself inspired, enthusiastic, and feeling good about an organization that is committed to developing the whole person. I also noticed the tone of voice was upbeat and positive, while comments seemed resolute. Everyone in the organization is taught to believe this is the right thing to do and is encouraged to work hard make the most of the investment.

The fourth driver of the second bank's program is reflection and spirit—the ability to create meaning in work. Through the conversation, it was clear the in-class discussions included using the leadership tools and ideas in places other than work (i.e., they use case studies outside of banking to create discussions around leadership). The words community and family came up many times in the conversation with the HR manager using examples of employees leading outside of their traditional job. This included political involvement, leading not-for-profit operations, and general volunteerism. This was not surprising given empirical research has suggested the community banker is the keystone to economic development in an area (Kilkenny & Nalbarte, 2000)—a belief and insight that is very well-known in South Dakota banks. It is clear this bank believes being actively involved in the community drives their business and was one of the catalysts for developing their leadership program.

The future is shaped by people who believe in the future (Gardner, 1990). This bank is convinced the investment in leadership is critical to long-term success and employee development. They have chosen to define their future with a robust strategic plan wrapped in leadership development.

Interview Three

The interview, as with the other two, was with a senior human resource officer. This person reports to the CEO and board of directors, and is responsible for all personnel matters. The HR officer is a long-time resident of South Dakota, has been with the company for many years, and has always specialized in human resource management.

The third bank interviewed has a unique feature—it is 100% family owned, whereas the two other banks interviewed have broader ownership structures. This bank has always been led by a family member and, while having an active, engaged, and good management team, the chairman, CEO, and president positions are held, and have been historically held, by family members.

The conversation was additionally unique because the bank has been having discussions about leadership development. The board of directors has debated the topic for some time, but has not yet been able to clearly define the project and its successful outcome. The HR officer whom I interviewed has been asked by the board to develop a leadership development program. Her task, as they have defined it to date, is to build an employee base capable of moving the organization forward in the foreseeable future. This program is to encompass all levels of the organization including the executive team.

When I say "leadership development" what does it mean to your organization? The organization sees leadership development as developing core competencies, which include skills and behaviors that support the business. This program will focus on formal leaders (those with titles) as opposed to informal leaders (defined as others that show leadership traits and skills, but do not have titled leadership positions). They will not leave out informal leaders, but the focus, at this point, will be on those assigned leadership positions. A big driver for this approach is succession planning. The pool of potential employees is not large and many of them do not pass the initial screening for various reasons. They recognize that investing in and making the most of the employees they have will be critical to the bank's future.

The program developed will have a portion specifically focused on community leadership. This is an extremely important part of the organizational culture and a focus of the board. What is good for the community is good for their bank.

The current debate is: what do they want the people involved to come away with? The first reaction is applicable skills versus leadership traits. No one feels great about this or is convinced it is the right direction—but, historically, everyone has been focused on increasing shareholder value—this is probably driving them at the moment.

Working on a leadership development program is challenging. Balancing the organization's current needs with the time and money required to develop a long-term leadership program makes it complex. Adding in the need to reconcile the requirements of the owners (family members) for any program that might be put in place makes this situation even more complex. Several of the struggles this bank has are outlined in the HR Managers answer to the first question asked.

First, what is leadership? Trying to decide which side of human nature to focus on—rational or emotional—is a debate. Measuring success as they have done historically (on shareholder value—a very real and measurable outcome), the current plan is to focus on those with conveyed authority. By doing this, the organization can hold them accountable for performance—measurable performance of improved shareholder value. Hedging the bet—they will get back to others as the program moves forward—the focus appears to be measuring outcome at this point.

Second, the program is driven by succession planning. Again, just like the first bank interviewed, the limited pool of applicants was one, if not the primary driving force causing the board to push creation of a leadership development program. Early thoughts are that building a workforce by hiring and training would seem to be the best approach given the limited pool of applicants. As in the other banks I interviewed, context seems to be the driver for leadership development.

Third, the company wants any program they implement to sustain their values. In this case, they believe being involved in the community is critical to their success. In their mission statement, they list advocating for community as being a founding principle. What is good for the community is good for their bank. While difficult to measure, the board and executive team believe leadership outside of their organization will pay dividends. While leaning toward a rational approach, the organization wants to include its values as part of the leadership educational process.

Fourth, the CEO of the organization will come from the family who owns the bank. While I am sure this will be challenging for those near the top of the organizational pyramid who may want the top job, the right of ownership trumps another choice. But, this does create a level of complication that did not exist in the other banks I interviewed. Will the family member have the expertise and experience to run the organization? Will they be perceived as trustworthy by the followers in the organization? Will they have credibility—the foundation of leadership (Kouzes & Posner, 2002)?

Describe the leadership development program in your bank. Do you have a leadership development plan? As mentioned, they do not yet have a leadership plan. To date, they have used the strategic planning process to define personnel needs and to address any succession planning issues. This approach has worked fine, but everyone would like to take management of the human side of the business to another level. The chairman and CEO (both family members) believe this is critical to meeting growth targets.

Any unusual challenges (so far) in putting your plan together? Their banks are typically in small communities and sometimes relatively slow growth businesses. When a job comes up, they have a small pool of applicants from which to draw and, while they pay well in the market, the opportunity to move up is usually limited unless someone wants to relocate (they usually do not). The risk is the bank invests in someone and that person leaves the area or takes advantage of the training to find a better opportunity. This is why the bank is focusing its efforts on formal leaders versus informal—formal leaders tend to be more committed to the business.

Another issue is getting people to commit to the program. They want people to be interested in developing leadership skills. How do you motivate people to go to a leadership development program? While this is something that the executive team and board of directors are committed to, the remainder of the organization has limited interest. Supervisors say it will take too much time away from work and line managers are not sure it matters or that there will be a pay-off.

They also, as mentioned, are still deciding what should go into the program. Should it include diversity training, managing from a distance, ethics training; and what delivery method would be most effective? Sending people off for an extended amount of time is not an alternative—too disruptive to the business, but a balance between classroom education and on-the-job experience seems like the best choice.

It appears this bank wants to get a commitment from employees, supervisors, and managers to a leadership program, but the employees seem reluctant to commit. The executive team and board of directors know a key to their future success is investing in employees, especially given their operating environment, but, they are hesitant to invest in such a soft, immeasurable activity.

The bank is also struggling to understand whether they want to develop leaders or have a leadership development program. While many would say this is a chicken and egg argument, leadership literature suggests researchers have some of these same concerns.

Some articles suggest, depending on which leadership theory they follow, that leadership development should be approached as an individual-level skill. Suggesting there is a distinction between leader and follower, the conclusion is that the only way to develop leaders is through individualized training. The process of leadership development is human, focusing on improving skills such as knowledge, trustworthiness, and interpersonal abilities (Day, 2000).

Others say leadership development is defined as developing collective capacity of members to engage in the leadership process (Day, 2000). This definition focuses a leadership development program on building an interpersonal competence, an ability to understand people. The emphasis is on the social nature of competence. At this point, the bank is focused on developing leaders instead of broad-based organizational leadership. Given this program was originally driven by succession planning concerns, the obvious question is will a leadership development program meet their long-term objectives?

What kind of investments have you made in leadership development? This has been a board of director's topic for two or three years—they are just now moving on the project. There is a way of doing business in the bank and it took time to get everyone to commit to the project—which is why there has not been much action for the past couple of years. They cannot wait any longer, the leadership is aging, replacements are not yet clear, and no one wants to buy talent from the outside—it would be too disruptive to the culture. The change is being driven by a sense of urgency. The only real investment to this point has been time and a very limited amount of money, but time is running out.

Any other comments? "Everyone agrees we need to make this a priority, but nobody knows quite how to put something like this in place. Leadership development is pretty soft stuff and the struggle at this point is to make sure any investment we make pays off."

Summary. The three banks I chose to interview were picked because of their size—small, medium and large—as compared to all banks in South Dakota. The choice has proven to be insightful, with one of the banks fully committed to leadership development, another taking an extreme position on the subject of leadership, and another somewhere in the middle and unsure how to proceed.

The third bank was the most interesting interview. The start-up issues they discussed were not complicated by a program that has been in place for years or by a group of leaders that seemed determined to avoid the subject. The bank was full of information and early insights, questioning everything they heard, and were open to new ideas and approaches to developing a leadership program; but they were still struggling to define the parameters of the effort.

First, the executive team and board of directors were challenged to make the necessary commitment to a program. Remembering there is usually only one measure of success in a business (profits), this should be expected. Historically, everyone running the bank has been trained in a very specific way to measure any investment of time or money made. The tools of their trade (return on investment, return on equity, yield spread) are difficult (some would argue impossible) to use in measuring a leadership development program. Given the standard measurements of success are hard to apply, my experience is to look at soft items as an expense instead of an investment. When expenditures are large enough to make it on the agenda for a board of directors and success cannot be measured in a traditional way, the conversation in a for-profit company is often long and sometimes divisive. Senior executives must own the leadership development process, demonstrating through actions they are committed to seeing this through (McCauley, Moxley, & Van Velsor, 2004). Making sure there is no hesitation in making the investment necessary to creating a leadership development program will be critical to their success. My sense from the conversation is the organization is still uncertain on making the commitment necessary to developing a leadership program.

As the bank talks about and works toward overcoming issues, there must be some accountability on the part of employees to make a leadership development program work. Leaders unleash the power of their followers (Gardner, 1990). To date, the bank has only floated the idea of a leadership development program, but has not made the final commitment or initial announcement to its followers. Activating the program, as Burns (1978) calls it, will set the stage for discussion and debate that will begin the process of influencing followers to commit to leadership. Remembering the second bank interviewed has been investing in their program for five years and still mentioned that getting commitment from followers was sometimes a challenge, this obviously is a long-term process.

The one decision that has been made by the bank is their program will be targeted to those in positions of authority. This conversation opened my eyes to the difference between leadership development and leader development programs. One is focused on building an organization and the other is focused on building an individual who will direct the organization. The return on investment is much more measurable on leader development and easier to understand—the great man theory. Leader development is also focused on building knowledge and intrapersonal understanding, which are easier to measure (Day, 2000). These factors would make the bank’s decision to focus leadership development on positions a very easy and defensible decision. A leadership development program is much riskier, given its focus is broad based, covering all employees. Focusing on the social nature of competence and interpersonal activities, it becomes more difficult to measure and challenging to implement. The challenge is to successfully put a leadership development program in action.

Summary of Informal Interviews

Across all three interviews there have been consistencies and some differences of opinion, but each interview has given me a unique look into leadership development at community banks. Below are some interview highlights.

1. Leadership is hard to define: All three banks answered my first question (which asked them to define leadership development) differently. The second interviewee focused on accountability, the third focused on developing core competencies, and the first, because of confusion with definition of leadership, preferred not to use the word. Each bank was interested in developing employees, they all recognized the demographic challenges that exist in South Dakota and the need to invest and get more from the people they have, but there was no consistency in how that might be done.
2. The leadership programs were put in place as part of a succession planning initiative: In all three banks, the leadership development conversations started with the strategic planning process and asked what type of employees will be needed and how many are needed to fill current staff and management positions. Recognizing the work force was aging and that several senior positions were without backup, succession planning took front stage. Looking at demographic trends and the competition for local employees, all three made the decision that growing their own employees, as opposed to hiring from the outside, was the best alternative. Citing disruption to culture, expense, and the challenges of finding persons with the right experience, hiring from the outside did not seem to be an alternative.

3. There is a focus on maintaining culture within each organization—defining themselves as community banks is very important: All three banks are defined by the market and by their management team as community banks. Their activities are generally geographically bound, they pride themselves on having detailed market knowledge, and community involvement is a hallmark of their culture. Each bank continually referred to their unique culture—as defined by literature as the distinctive values and behaviors that the organization holds (Kotter & Heskett, 1992). Hiring someone from the outside was generally seen as disruptive to the culture and organization performance.
4. In all three banks, the first-line supervisors and managers were reluctant to adopt and buy into a leadership development program: All three banks said that the general population of employees was anxious to attend leadership or skills training—but first-line supervisors and managers were slow to commit. Citing time commitments of employees, ability to meet operating deadlines, and return on investment from these classes, the supervisors were hesitant to sign on.
5. The return on investment for all three HR officers was organizational stability: As an HR officer, each one of these individuals would be involved with the transition of any member of the executive team in their organization. One of the banks interviewed recently went through this process and referred to challenges that the organization faced with a change at the executive level. In addition, they would be held accountable for finding employees at all levels of the organization and making sure that there was a procedure in place for training and development. Organizational stability would be a focus of someone in the human resource area.

While further consideration and analysis of the preliminary interviews could arguably be conducted, the early conversations provided considerable insight into the dissertation question and highlighted several issues that helped guide the research.

Chapter IV: Methodology

The research used quantitative methods to study the insights gained from the literature reviewed, informational interviews previously outlined, and data collected from a survey instrument designed to investigate leadership in community banks. The study sampled from a population of 80 community banks in South Dakota and the results were analyzed using various statistical methods.

Researching the challenges of developing leadership programs in South Dakota's community banks appeared to be fertile ground. From early conversations with bankers and academics about the dissertation question and informal interviews with executives at South Dakota banks, it seemed clear that the topic of leadership development is important to community banks, but the subject is not well defined or understood by most South Dakota community bankers. In further support of this finding, the literature review did not reveal any leadership development or leadership related research on community banks in South Dakota. In short, it appears no early thought or theory has been developed around this specific topic.

Methods Choice

There is no such thing as perfect research. The need to balance the resource inputs (time and money) against the planning and control that builds confidence in the research results is a dilemma for everyone (Marshall & Rossman, 2006). Even with the limitations an analysis of the alternatives being used can give some assurance of avoiding misleading results and poor interpretations.

In quantitative research, the intent and literature point toward a theory that can be tested—a deductive approach. In addition, the discipline of quantitative research itself implies that the researcher remains largely in the background (Creswell & Plano Clark, 2007), minimizing personal biases and limiting potential errors in the study. This does not mean, however, that a well-designed quantitative study does not allow us to provide an explanation of a phenomenon. The key lies in the design of the study and variables measured, not necessarily the methodology used (Muijs, 2004).

Quantitative methods were chosen for this project after careful consideration and in order to take advantage of the convergence of unique circumstances. These circumstances include:

1. Personal work history of the researcher.
2. Preliminary findings of informational interviews.
3. The goal of making this research useful to practicing professionals and academics.

First, I have considerable experience as a financial executive, including 18 years as a commercial banker. This is sometimes defined as *preunderstanding*, which is the unique insight that researchers bring to a specific problem prior to beginning the project (Gummesson, 2000). My experience has given me expertise in bank operations and an understanding of the language used inside these organizations, which focuses and expedites the research.

The experience, however, can have unintended consequences. Having seen successful and unsuccessful operations, one tends to build a mental model of an organization and an understanding of what works and what does not. This knowledge can serve as a stumbling block to understanding the data collected and create bias in the research (Gummesson, 2000).

A well-structured quantitative study is set to take advantage of the work experience, while limiting the downside. The preunderstanding allows the researcher to become immersed in the topic, while the quantitative research focuses on objectively adding credibility to the study and allows for generalization of the results.

Second, the preliminary findings highlighted the confusion around leadership development in South Dakota banks. The varied answers to what I originally thought would be somewhat simple, thematic, questions suggested more market confusion than anticipated. Using quantitative methods to help sort the confusion out, via hypothesis testing with a larger sample size, would suggest that the issues could be better understood using quantitative research.

Third, good research contributes to knowledge, should contribute to policy where appropriate, and should be valuable to practicing professionals. The particular emphasis will be dictated by the study (Marshall & Rossman, 2006) and the goals of the researcher. Since beginning my Ph.D. work, one goal has been to make certain my dissertation is useful to practicing professionals. This means my research will tend to be applied to solving or investigating a particular problem, which lends itself well to using quantitative methods.

Research Plan

The research was designed to investigate the challenges of building a leadership program in South Dakota community banks, which operate in slow growth environments. From a review of the literature, it appears no specific theory has been developed and that no previous research has been done on the topic.

In summary, the study used information gathered from background interviews done in preparation for this study to generate hypotheses that were tested via a survey of community banks in South Dakota. While the discussions were informal and only meant to provide background information (to help frame the dissertation question and literature review) and not as a formal pretest, a set of questions did evolve and were used in the discussions with the various banks (see Appendix A for list of informal interview questions). Using these questions as a guide, the informal interviews produced some interesting early results and insights and are summarized as follows:

1. Leadership is hard to define. In discussions, all three banks answered my first question (that asked them to define leadership development) very differently. The second interviewee focused on accountability, the third focused on developing core competencies, and the first, because of confusion with definition of leadership, preferred not to use the word.
2. Leadership programs were put in place as part of a succession planning initiative and had begun by asking what type of employees were needed in the future and how many are needed to fill current staff and management positions.
3. Demographic trends and the competition for a limited number of qualified employees were considered a driver for establishing leadership development programs.
4. In South Dakota, banks tend to have a focus on maintaining culture within each organization—defining financial institutions as community banks is very important for marketing purposes and appears to be an important aspect of leadership development.
5. The general population of employees appears willing to attend leadership or skills training—however, first-line supervisors and managers are reported to be reluctant and slow to commit.
6. Investing in leadership development appears to result in more organization stability.

Hypothesis Testing

A hypothesis is a tentative explanation for certain events that might or will occur (Mujis, 2010). Good research hypotheses (a) should be based on a sound rationale—the hypothesis should provide a reasonable explanation, (b) state clearly the expected relationship between two variables, and (c) must be testable (Ouyang, 1996). Using this advice as a guide along with the informal interviews and the literature review, the following hypotheses were developed:

H1: Community banks in South Dakota without a formal leadership program have not had leadership development as a Board of Directors agenda item for the past two years.

H2: Community banks in South Dakota with a formal leadership development program have a less difficult time finding new leadership than those community banks without a leadership development program.

H3: Community banks in South Dakota with a formal leadership development program have a less difficult time finding new leadership in rural locations than those community banks without a formal leadership development program.

H4: Community banks in South Dakota with a formal leadership development plan also have a formal succession planning process in place.

H5: Community banks in South Dakota with a formal leadership development program include succession planning as a critical part of the leadership development process. H6: Community banks in South Dakota with a formal leadership development program indicate being defined as a community bank is more important to them than South Dakota community banks without a formal leadership development program.

H7: Community banks in South Dakota with a formal leadership development program indicate that hiring from the local community is more important to them than community banks without a leadership program.

Sampling

Multiple steps were included in the questioning of the respondents, building the survey instrument, and doing statistical analysis of the data collected. These include the following.

Determining the Sample Size

There are 84 FDIC insured banks in South Dakota according to the South Dakota Division of Banking and the FDIC. Of those, 80 would be considered community banks as defined by current literature, Wall Street parlance, and management teams within banks; therefore, 80 banks would represent the population for this study. . As the test information in Figure 3.1 indicates, in order to achieve an effect size of .5, with an alpha of .05, a minimum sample size of 34 were required.

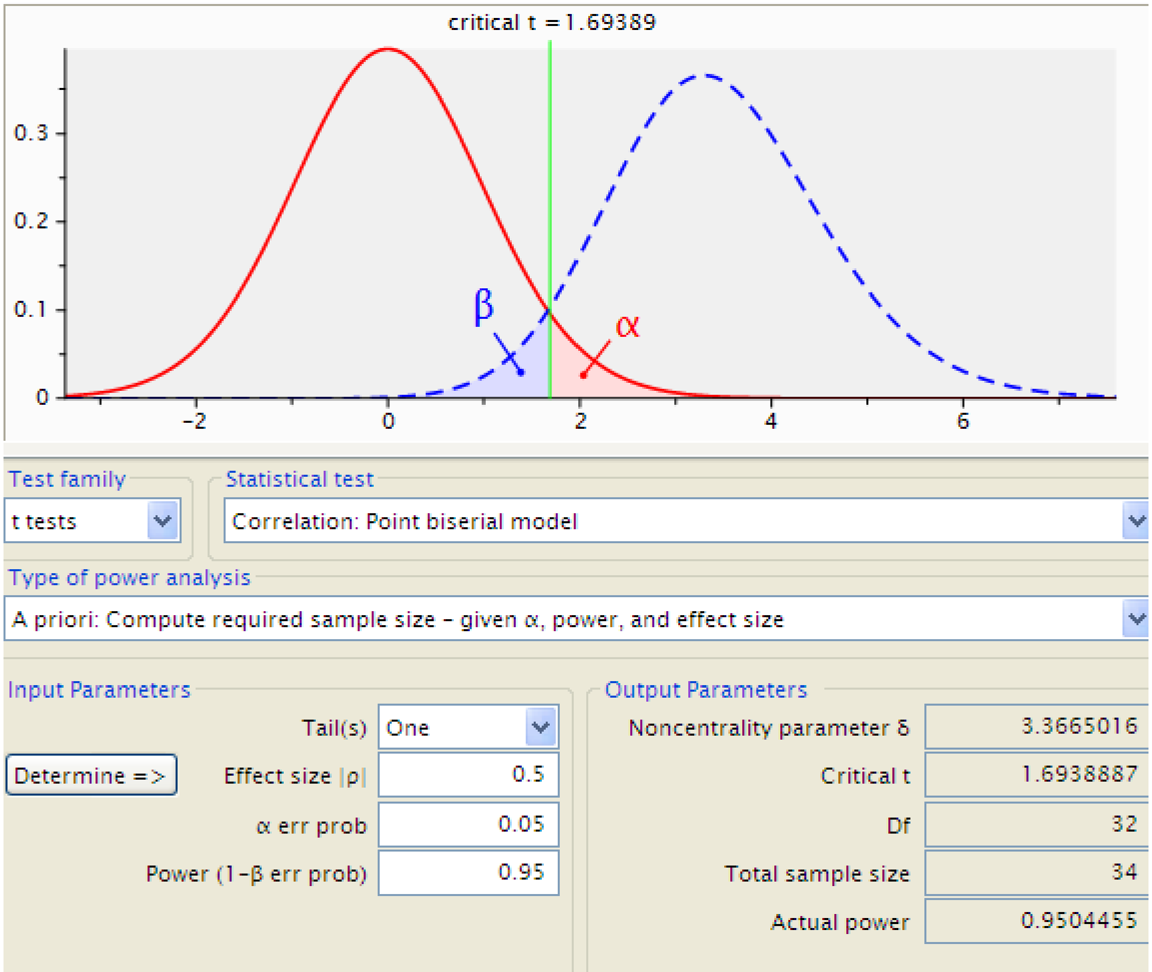

Figure 3.1. G**Power* sample size calculation (Faul, Erdfelder, Lang, & Buchner, 2007).

Development of the Survey Instrument

The best survey instruments are rigorously designed and formatted, and in exploratory research, are driven by three guiding principles (Creswell, 1994). The survey questions are more likely driven by the themes from literature or from interviews. The best surveys are rigorously developed with sound psychometric properties and scale development. Good surveys are consistently checked for reliability and validity by review of professionals and, if possible, through a pilot test of the survey. See Appendix C for the survey questions used and scaling.

The questions for this study were developed with the benefit of a literature review, the researcher's experience and background in financial services, and insight gained from informal conversations with bank human resource managers. In doing the background work for the research, as Creswell (1994) suggested, each section built on the next and the questions seemed a natural progression of the preliminary work completed.

Conducting the Survey

In general, the data collection method is made and justified within the context of the research question (Isben & Ballweg, 1974). Context considerations include sample needs, the nature of the interview questions, as well as validity and reliability concerns. In addition, as with most other decisions made while doing research, there are practical considerations. This includes thinking through issues, such as the number of respondents to be surveyed, the type of persons to be questioned, and the resources available for research. Both context and practical considerations shaped decisions about methodology and data collection methods for this research.

As mentioned, there have been many conversations with South Dakota community bankers, introducing the research question and gathering informal ideas and thoughts. During these conversations, the idea of a survey using an electronic data collection tool was floated and discussed. It was almost immediately and overwhelming rejected. Because of a heightened concern with cybercrime activity in financial institutions (Shelley, 1998), many of the banks were troubled about responding to any kind of a survey online unless it was specifically targeted to an individual inside their business. Because a unique list of email addresses for survey participants is not available and considering the time and resource commitment that would be necessary to build such a database, alternative collection methods were researched.

The data collection techniques considered were personal interview, telephone interview, and mailed questionnaire. In considering these alternatives, a literature reviewed highlighted both strengths and weaknesses of each collection method including sample bias, efficient resource use, and validity issues (Musselwhite, Cuff, McGregor, & King, 2007). For example, while personal interviews provide a unique opportunity to use visual cues and probes to add value to the research, the practical considerations of time and cost are negatives to using this method. Mailed questionnaires, which are time tested and traditional in academic research (Horton & Duncan, 1978), while addressing the cost issue, do not allow for visual cues or the opportunity of gathering additional information from probing the answers given. In addition, using the mail is slow and response rates have traditionally been lower than with personal and telephone interviews (Ibsen & Ballweg, 1974). As with other data collection alternatives, using a telephone survey presents opportunities and challenges. However, each of these methods is actively used, has long established histories, and has been found to maintain continuity in findings (Horton & Duncan, 1978). The challenge was to select a data collection method consistent with the research being done and that avoids an error in interpretation as much as possible.

Survey Methodology

The data was collected using a phone survey off human resource executives in community banks in the state of South Dakota. As with all survey methodologies, this was a compromise that looked to balance the need for quality research against the practical considerations of completing the work in a timely manner and with available resources. In preparing the literature review as previously presented, the context of the research problem took shape and the survey methodologies were defined. Considerations included:

1. Participants’ concern with online collection processes: Initial plans were to conduct a survey using an online collection tool as it was thought to be comfortable and

convenient for survey participants. In floating this idea with several target survey banks, they were concerned that unsolicited and non-directed emails would not get through and many would not be opened.

Cybercrime is a daily concern in the industry and those responsible for management information systems have become particularly aggressive at blocking emails not specifically routed and have set strict policies on opening unsolicited electronic mail. Given this reality, using an online tool without a specific email list runs the risk of getting an unacceptable response rate. Consideration was given to building the email participant list, which would have taken a phone call and often a conversation with the survey participant to get the email address and explain the research. Wanting to use resources efficiently, it seemed natural to default to doing a phone survey versus building the list and following up with a survey.

2. Improving quality of data collection (Musselwhite, 2007): The survey was targeted to those responsible for Human Resource management inside the community banks phoned. This was done with the understanding that those responsible for ultimately designing and implementing a leadership program are best asked about leadership development. While others, including CEOs, Boards of Directors, and additional members of a management team, play a critical role in leadership and leadership development—investigating the questions would seem best done at the implementation level. Getting the right person to answer survey questions without reservation is a key to assuring the validity of the research.

To that end, the research played to the strength of a phone survey, while minimizing potential concerns of both the mailed and face-to-face interview. In the case of a mailed questionnaire, there is no way of determining whether the survey instrument was completed by the by the appropriate persons (Musselwhite, 2007). In a phone interview, the interviewer can pre-qualify the participant before collecting the data assuring the appropriate person has responded. In a face-to-face interview, literature suggests visual cues and settings can, in certain circumstances, bias the responses (Horton & Duncan, 1978). Using the telephone to interview limits the possible effects of this bias and strengthens the quality of the survey results.

In addition, the literature reviewed on phone surveys suggests this data collection method may be especially valuable in exploratory research where the general parameters of the area of interest are being investigated (Ibsen & Ballweg, 1974). These authors suggest that, given this type of research is attempting to define problem awareness and determine baseline knowledge, the most efficient and quick way to get this information is via a phone survey. This is the first look at the topic of leadership in South Dakota community banks and no known previous research has been done in this area, so using a phone survey appears to be a well-grounded data collection technique.

3. The need for an economical and efficient way to get high response rates: There are 80 community banks in South Dakota that are potential survey participants. To make the research significant, surveys will need to be completed by a minimum of 34 initial respondents and 10 additional participants as a follow up for reliability testing. This means, at minimum, 55% of total population will be surveyed and possibly more. Assuring a significant number of responses are completed will be critical to successful completion of the research.

Mailed surveys were considered, but a review of the literature continually cited low response rate as a major disadvantage (Hox & DeLeeuw, 1994; Kanuk & Berenson, 1975). While there are a number of alternatives that can enhance mailed survey completion (such as advance letters, postcards, and telephone follow-ups), phone survey response rates still are generally higher (De Leeuw, Callegaro, Hox, Korendiji, & Lensvelt-Mulders, 2007).

Consideration was also given to doing face-to-face interviews. However, given the target banks are located throughout the more than 77,000 square miles of South Dakota, the economics and time commitment of doing in-person interviews did not appear reasonable.

Given the necessary response rate, concern with mailed survey completions, and the varied locations of target banks, it was decided that a telephone survey was the best alternative.

4. Limited concern about sampling selection bias. A continuing concern mentioned in the literature reviewed on phone surveys is a bias created by selecting a sample that is not random (Horton & Duncan, 1978; Thomas & Purdon, 1994). By using the telephone, there is a potential problem because not everyone has a phone and, more recently, cell phones without published numbers have become more prevalent and are not available for survey.

   In this case, the survey participants are businesses, with telephones that have published numbers that can easily be found. Although survey bias is an issue that needs to be carefully monitored, using a phone survey to collect the data seems to have limited effect on random sampling.

5. Efficient use of economic and human resources: The use of a telephone allows researchers several advantages over face-to-face or mailed surveys. This includes the ability to cover large geographic areas quickly (Musselwhite, 2007), limited expense associated with survey, an increase in response rates over mailed surveys (Thomas & Purdon, 1994), and an ability to clarify questions for participants and probe answers as is done in face-to-face interviews (Ibsen & Ballweg, 1974). It seems taking advantage of these conveniences makes sense and would not harm the integrity of the research being done.

While no panacea and not a perfect data collection method, using a phone survey to complete this research was justified within the context of the project. It is a well-balanced and time-tested data collection technique that, in this case, balances the need for quality research against the need to use resources efficiently.

Sampling Procedures

Out of the 84 active financial institutions in South Dakota as listed on the FDIC website, 80 would be defined as community banks and represent the population available for sampling. The plan was to contact and collect survey data from all 80 banks, but expectations were that some organizations would not chose to participate and the final number would be less than the 80 banks making up the population. However, as calculated in Figure 3.1 the minimum number needed was 34 (not including the 10 recalls needed for a test/retest to support survey reliability), which represents a strong sampling of the potential survey group.

Steps taken in the sampling process were as follows:

- Contact local FDIC, State Banking Commissioners office, and Community Banking Association to brief them on pending survey and ask, when appropriate, to encourage participation of population.
- Using the FDIC website and The American Financial Directory for the state of South Dakota, find phone numbers and addresses of banks to be surveyed.
- Make calls to banks to get name of the individual that is responsible for HR management and do pre-screening to assure suitability of survey participant.
- Mail letter (see Appendix D) to identified participates briefing them on purpose of study, assuring confidentiality and forward survey instrument for review and thought. Request in letter that they return card, which is included in mailing as evidencing of willingness to participate in survey.
- Waiting not less than 7 days after sending letter, make call to identified person. Using phone introduction attached as Appendix E complete survey (exhibit C) and record answers.
- Review recorded results after each phone contact to verify that name of person participating is not written on the survey and that the bank name is not noted on the instrument, helping to assure confidentiality of information collected.

The phone calls were made and survey conducted during the traditional office hours for banks of 9:00 am to 5:00 pm, Monday through Friday; although return phone calls were accepted before and after those hours. No financial payments or additional commitments were made to the respondent for completing the survey.

Validity and Reliability

Leadership is a latent variable—a variable that cannot be directly measured (Vogt, 2007). The questionnaire for this study links the abstract concept of leadership and leadership development to an empirical indicator that can be measured, which generates the numbers that can be used in the quantitative analysis. Doing this allows the researcher to evaluate theoretical propositions that, otherwise, would not have empirical referents (Carmines & Zeller, 1979). The concern of all researchers is whether the relationship between the unobservable concept and the measurement indicators are strong and, therefore, can accurately measure hypotheses as listed.

There are two basic properties of empirical measurement—validity and reliability (Carmines & Zeller, 1979). Reliability refers to the consistency of the data collection tool and asks if the work can be replicated in the future. Reliability poses an objective of consistency. Validity asks if the data collection tool is measuring what we want it to measure. To what extent does the numerical coding represent the latent variable being measured (Patten, 1996)? These two measurement tools work in tandem and, unless an instrument is both reasonably reliable and reasonably valid, the research may not result in a greater understanding of a given phenomenon.

Validity. For the purpose of this study, the focus was on assessing content and face validity. In content validity, one is gauging whether the substance of the survey, as determined by experts, matches the content it is intended to measure. Judgment is most often the best method of assessing content validity (Vogt, 2007). Face validity attempts to assess whether the instrument looks valid to the persons taking the test. Establishing a panel of users to evaluate the survey as it is developed is a good way of evaluating face validity and content validity. (Muijs, 2004).

To assure the instrument met the reasonableness standard for content and face validity, both an expert panel of researchers with subject knowledge and some community bank senior employees were used as advisors to help develop the survey as presented. The panel of researchers included people with doctoral degrees in marketing, finance, and management information systems, all with significant research backgrounds and experience working in financial services companies. The bank officers included a variety of positions and backgrounds all with an interest or background in human resource initiatives or in driving leadership development programs in their respective organizations.

Reliability. Reliability refers to the consistency of measurement. It asks if the survey is trustworthy and if those using a similar design arrive at comparable results (Vogt, 2007). There are several ways to measure reliability such as measuring at two different points in time (test-retest), using two different methods that cover the same content (parallel-forms), and/or asking two observers too independently observe and compare consistency (Patten, 1996). Each of these tests measure reliability coefficients, which look for the degree of relationship between the observations.

Another test is Cronbach's alpha—the most widely used and referenced statistic on reliability (Vogt, 2007). This test allows the researcher to determine if several items that measure the same thing are correlated. Computing Chronbach's alpha measures the general construct of importance as it relates to the reliability of the survey (Gleim & Gleim, 2003).

Given this is the first use of the survey as presented and there is not a single construct being measured, the intent is to test reliability of the instrument by doing a test/retest. The purpose of this test is to determine if the answers of the same survey, administered to the same group at two separate times are correlated. The intent is to test strength and relationship, looking for consistency in responses and evidence of survey instrument reliability.

In addition and important in this case, reliability is affirmed by ensuring the questions asked are clear and unambiguous (Vogt, 2007). As mentioned, the questions were vetted by experienced researchers and community bankers, which added not only reliability, but also validity to the survey.

Chapter V: Results

The intent of this research was to investigate the effect of the unique operating environment and challenges of building a leadership programs in South Dakota community banks. Using informal interviews to frame the project and literature on leadership, community banking, corporate social responsibility, and demographic trends in South Dakota, hypotheses were developed and tested.

Population Parameters

Of the 80 banks originally defined as community banks per the literature and identified for this survey, after more detailed conversations, 72 were found to be appropriate for the study. Six were eliminated because of unique ownership structures, control agreements, and/or a pending change in ownership; two others chose not to participate in the survey. Of the revised population of 72, 61 banks participated in the survey, which was a response rate of 85%. This is well in excess of the 34 needed to achieve an alpha of .05

The data were collected from the person identified by each bank as being responsible for human resource management in the organization. Of the 61 banks responding, 25 identified that person as the bank President, 18 had the title of Human Resource Manager, and 18 had other titles, including Chief Operating Officer, Lead Cashier, and Senior Vice President of Operations.

Data Collection

The data were collected from October 1, 2010 to November 21, 2010 and done in three distinct steps.

1. A phone call was made asking to speak to the person responsible for human resource management in the bank. Once I reached that person, I had a brief conversation explaining the research and I asked for their participation.

2. A follow up summary letter (see Appendix D) was sent to the identified person that introduced the survey and indicated that I would be phoning to go through the questionnaire.
3. Waiting not less than 7 days after sending the letter, a phone call was made a script was used (see Appendix E) to make a formal request of the identified participant to fill out the survey.

Of the 61 participants contacted, 45 responses were received directly over the phone and 11 were received by mail.

Hypotheses

The objective of the study is to provide theoretical and practical understanding of leadership development activities, taking into consideration South Dakota demographics, rural environment, and community banking operating boundaries. Hypotheses were created to test insights gained from reviewed literature and informational interviews that generated early theories, ideas, and propositions as they related to community banks in the state. As listed in detail and discussed in chapter 2 and 3, summary findings from this early study were:

1. While leadership helps define an organization reconciling successes and failures, it is difficult to define it with accuracy, thereby limiting active participation in leadership development at community banks.
2. Leadership programs in community banks were put in place as part of a succession planning initiative and had begun by asking what type of employees were needed in the future and how many were needed to fill current staff and management positions.

3. Demographic trends and the competition for a limited number of qualified employees were considered a driver for establishing leadership development programs in South Dakota.
4. Community banks are focused on maintaining culture within their organizations and believe that doing so is a competitive advantage and is an important aspect of a leadership development program.
5. The general population of employees appears willing to attend leadership or skills training, although first-line supervisors and managers are reported to be reluctant and slow to commit.
6. Investing in leadership development appears to result in more organization stability.

Hypothesis Testing

Hypothesis 1. Community banks in South Dakota without a formal leadership program have not had leadership development as a Board of Directors (BOD) agenda item for the past two years.

As tables 5.1 and 5.2 show, the majority of South Dakota community banks do not have leadership plans and have not discussed leadership development at the BOD meetings in the last two years. Of the population tested, 19.7% had formal leadership development plans and 80.3% did not; and of the 80.3% reporting they did not have plans, 77.6% of those had not discussed leadership at the board level in the recent past. The survey results support the hypothesis, suggesting that leadership development was not a priority for the executive teams or BOD, in the recent past, at community banks in South Dakota.

Table 5.1

Banks with Formal Leadership Plans

Do you have a formal leadership plan in your bank?		
	Frequency	Percent
Yes	12	19.7%
No	49	80.3%
Total	61	100%

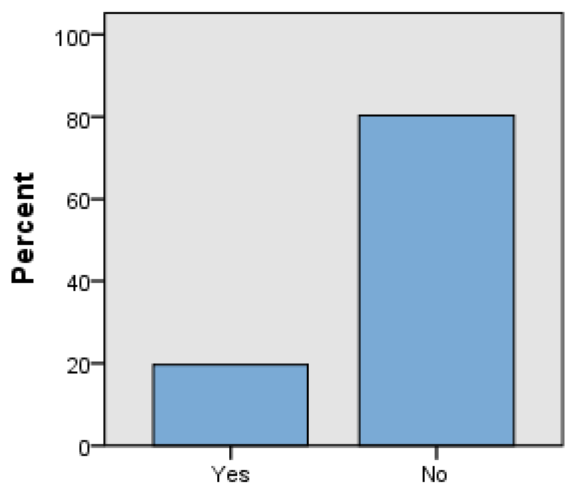

Figure 5.1. Do you have a formal leadership development program?

Table 5.2

Board of Director Leadership Development Conversations

If no formal leadership program: Has your BOD discussed in the last two years creating a formal leadership development program at your bank?		
	Frequency	Percent
Yes	11	22.4%
No	38	77.6%
Total	49	100%

This is in contrast with early conversations suggesting that leadership development is a priority that is critical to the continued success and long-term viability of community banks in the state. While the information above supports the hypothesis, additional questions asked suggest that leadership development is of increasing importance. When respondents were asked for their perspective on the importance of leadership development, as Table 5.3 and Figure 5.2 show, 72.1% believed it to be “very important” or “important” to their organization. When further asked for their perspective of the BOD view on leadership development, the response, as shown in Table 5.4 and Figure 5.3 is that 64% of the directors believed leadership development is “very important” or “important.”

Table 5.3

Human Resource Perspective on Leadership Development

From your perspective as the Human Resource Manager how important is leadership development training to your bank?	Frequency	Percent
Very important	21	34.4%
Important	23	37.7%
Moderately important	13	21.3%
Of little importance	2	3.3%
Unimportant	1	1.6%
Non-respondent	1	1.6%
Total	61	100%

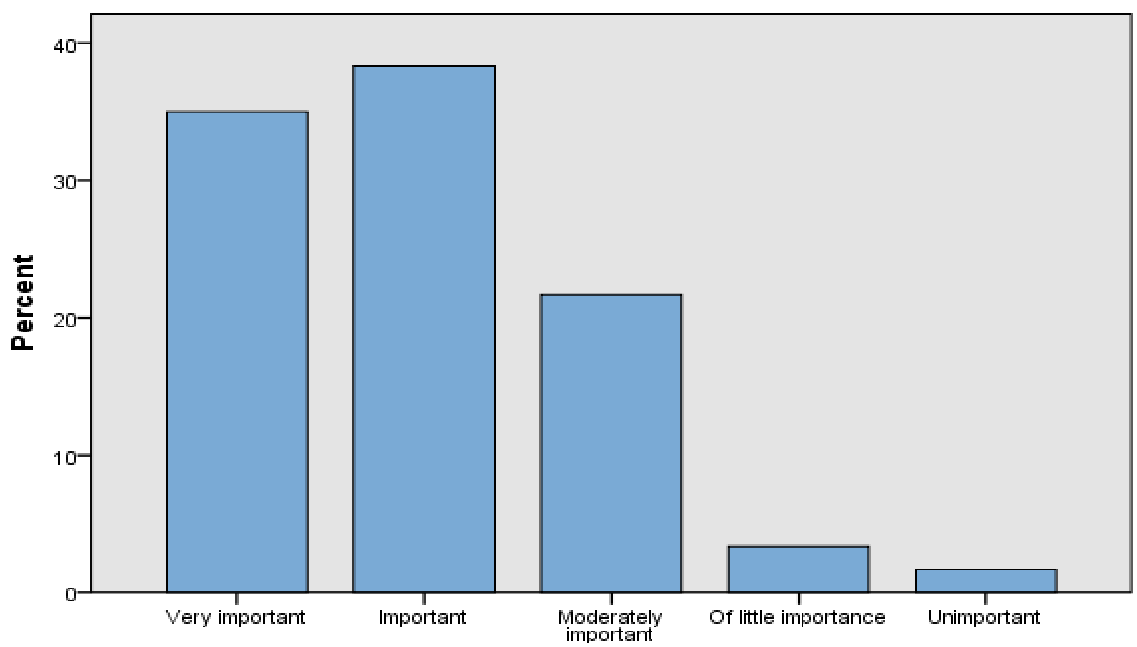

Figure 5.2. Human resource perspective on leadership development.

Table 5.4

Board of Directors Perspective on Leadership Development

From your perspective as the Human Resource Manager, how important is leadership development training to your bank BOD?

	Frequency	Percent
Very important	14	23.0%
Important	25	41.0%
Moderately important	13	21.3%
Of little importance	5	8.2%
Unimportant	2	3.3%
Non-respondent	2	3.3%
Total	61	100%

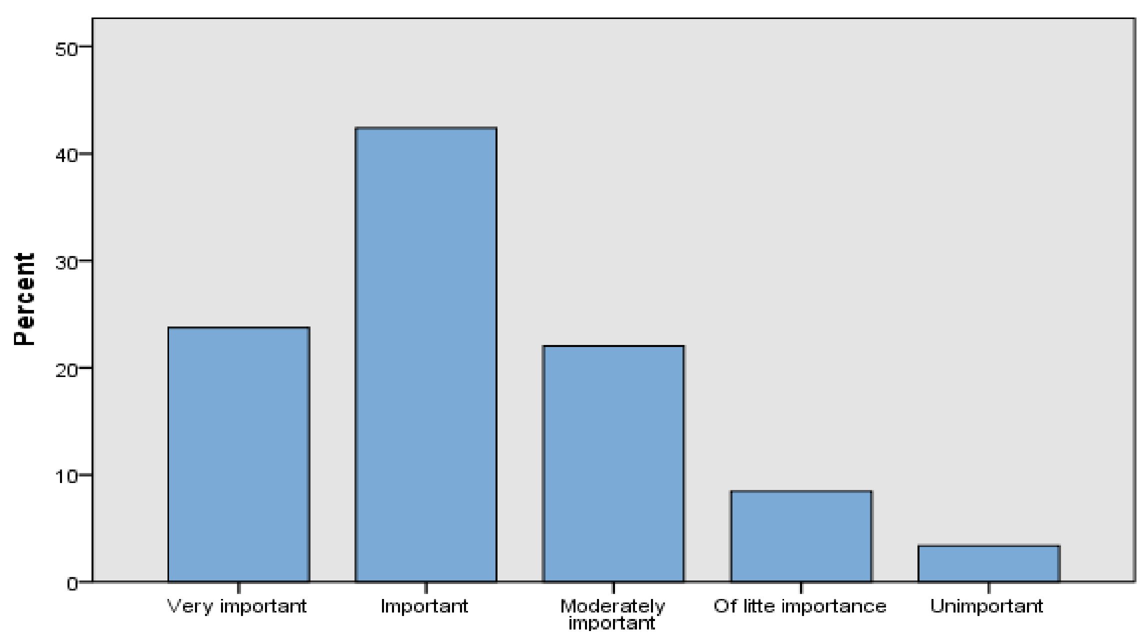

Figure 5.3. Human resource perspective on leadership development BOD.

The data suggest that leadership has not previously been a priority or there is a discrepancy between organization expectations and practice. However, given changes in the operating environment, understanding the leadership development process appears to be growing in importance.

Hypothesis 2. Community banks in South Dakota with a formal leadership development program have a less difficult time finding new leadership than those community banks without a leadership development program.

Table 5.5 is a cross tabulation showing 66.6% of those banks that had a leadership development program said it was “much easier” or “easier” to hire versus 59.2% that did not have a leadership program. While the results suggest that having a leadership development program makes a positive difference in ability to hire and develop leadership, the distinction is marginal.

Table 5.5

Community Bank Hiring

		Do you have a formal leadership development program?			
		Yes		No	
		Frequency	Percent	Frequency	Percent
How does being defined as a community bank affect your hiring?	Makes it much easier	1	8.3%	2	4.1%
	Easier	7	58.3%	27	55.1%
	No difference	4	33.2%	18	36.7%
	Harder	0	0%	2	4.1%
	Makes it much harder	0	0%	0	0%
	Total	12	100%	49	100%

Using chi-square as a test of significance gives additional insight into the data collected. Consolidating the five categories into two ("easier" and "no difference"), no significant difference was found (chi-square = .226, df = 1, p = .634). The chi-square test and survey results suggest the hypothesis is not supported.

Hypothesis 3. Community banks in South Dakota with a formal leadership development program have a less difficult time finding new leadership in rural locations than those community banks without a formal leadership development program.

A review of the Table 5.6 indicates it is challenging for those with and without a leadership development program to find new leadership in a rural location. Of those banks that have a leadership program, 83.3% indicate that it is “difficult” or “very difficult” to find new leaders and 16.7% that have a leadership development plan indicate it is “moderately difficult.” This is compared to 54.1% of those without a leadership development program reporting it is “difficult” or “very difficult” to find new leadership in rural settings and 45.9% answering it was “moderately difficult” or “easier” to find leadership in rural locations. These answers suggest that a leadership development program has limited effect on finding new leaders for rural locations and those without a plan would seem, from the responses, to have an easier time finding new leadership for a rural setting. Given this the hypothesis as written would be rejected.

Table 5.6

Finding Leadership in Rural Locations

		Do you have a formal leadership development plan?			
		Yes		No	
		Frequency	Percent	Frequency	Percent
How hard is it to find new leadership in rural locations?	Not at all difficult	0	0%	2	4.2%
	Not difficult	0	0%	5	10.4%
	Moderately difficult	2	16.7%	15	31.3%
	Difficult	4	33.3%	16	33.3%
	Very difficult	6	50.0%	10	20.8%
	Total	12	100%	48	100%

Using chi-square to test the data and consolidating the five categories into three to meet test criteria ("moderately difficult," "difficult," and "very difficult"), statistical significance was found at the .05 level (chi-square = 12.281, df = 2, p = .002). This means there is a low probability the differences found are due to chance sample fluctuations (Muijs, 2004) further supporting rejection of the hypothesis.

Comments made by survey participants asked about hiring in rural settings gave further insights into their answers. Many banks commented that while it was difficult to hire and develop new leaders in rural environments, they felt the situation was changing. The economic downturn and difficult job market meant that they were beginning to see qualified (even over qualified) persons applying for jobs in rural markets—people with outstanding experience and capable of becoming leaders in the rural locations. Some applicants grew up in South Dakota and wanted to return to their roots and family, others wanted the simplicity of a rural lifestyle and there were many anxious applicants looking for any work in their area of expertise. Several respondents wondered out loud if their answer would change, in the near future, given the general economic outlook.

Participants from three banks also commented that their leadership development plan was in its early stages and had not yet taken hold. While they believed the investment in leadership development was worth the effort to date, they had realized minimal return on the investment made. One of several reasons they put the program in place was to address the challenges of finding leaders for their rural locations. They verified that, historically, these positions have been very hard to fill and they had sometimes hired hoping to grow the person into the job or face the alternative of paying significantly more than they wanted to attract the right candidate. Each of these banks answered that it was “very difficult” to develop new leaders in rural environments, but believed that establishing a leadership development program would help make this process easier.

Comments made suggest that the rural hiring environment is changing and new, experienced leaders are becoming available because of the economic downturn. In addition, some of those surveyed are in the early stages of a leadership development process and the results of these programs have not yet been realized. These comments would suggest that, while results as presented are a good look into developing new leaders for rural markets, asking the same question a year from now could yield very different outcomes and results.

Hypothesis 4. Community banks in South Dakota with a formal leadership development plan also have a formal succession planning process in place.

This question was asked to confirm findings from the informal conversations that the leadership development process was driven by a need for succession planning. As Table 5.7 shows, a majority of those with a leadership development plan have a formal succession planning process—meaning that it was discussed at a BOD meeting and documented accordingly. The survey findings would support the insights learned from informational interviews, suggesting that succession planning was an important part of a leadership development plan.

However, the survey data also shows that the majority of those without a leadership development plan have a formal succession plan in place. Although the difference between the two groups is noteworthy (75.0% of those with a plan have a formal succession planning process vs. 63.3% without a leadership development plan), the results suggest that succession planning is important to the majority of community banks in the state, not just those that have a leadership development plan.

Table 5.7

Formal Succession Planning

		Do you have a formal leadership development plan?			
		Yes		No	
		Frequency	Percent	Frequency	Percent
Do you have a formal succession planning process?	Yes	9	75.0%	31	63.3%
	No	3	25.0%	18	36.7%
	Total	12	100%	49	100%

Using chi-square to test the survey data as presented in table 5.11, the results were not found to be significant (chi-square = .588, df = 1, p = .443). Given the data indicates that succession planning is not a leading indicator of a leadership development plan and the results of the chi-square test, the hypothesis was rejected.

Hypothesis 5. Community banks in South Dakota with a formal leadership development program include succession planning as a critical part of the leadership development process.

An additional question was asked of those that did have a leadership development plan regarding the importance of succession planning to the leadership process. As Table 5.8 shows, those with a leadership plan thought that succession planning was “very important,” “important,” or “moderately important” to the bank leadership development process. Several respondents said the leadership development plan was put in place as a result of conversations on pending retirements, loss of senior or critical employees, and the difficulty of finding people to relocate to remote locations. This aligns with the preliminary conclusions presented in chapter 3 that were drawn from informational interviews suggesting that the leadership development discussion started as part of a succession planning initiative and supports hypothesis 5 as presented.

Table 5.8

Significance of Succession Planning

Do you have a formal leadership development plan?			
		Yes	
		Frequency	Percent
How important is your leadership training program to the succession planning process?	Very Important	4	33.3%
	Important	4	33.3%
	Moderately Important	4	33.3%
	Of Little Importance	0	0%
	Unimportant	0	0%
	Total	12	100%

Hypothesis 6. Community banks in South Dakota with a formal leadership development program indicate being defined as a community bank is more important to them than South Dakota community banks without a formal leadership development program.

As Table 5.9 shows, all banks surveyed believed that being defined as a community bank is “important” or “very important.” Of those having a leadership development plan, 91.7% believe it is “very important” and 8.3% say it is “important.” For those without a leadership development plan, 85.7% report that it is “very important” and 14.3% believe it is “important.” The difference between those with and without a leadership development program is minimal, suggesting that being defined as a community bank is important to both groups.

Table 5.9

Importance of Being Defined a Community Bank

		Do you have a formal leadership development plan?			
		Yes		No	
		Frequency	Percent	Frequency	Percent
How important is it you are defined as a community bank?	Very Important	11	91.7%	42	85.7%
	Important	1	8.3%	7	14.3%
	Moderately Important	0	0%	0	0%
	Of Little Importance	0	0%	0	0%
	Unimportant	0	0%	0	0%
	Total	12	100%	49	100%

Testing the data using a chi-square, no significant results were found (chi-square = .300, df = 1, p = .584). Given the survey and chi-square results, the hypothesis was not supported.

However, as with data collected to analyze hypothesis 5, this conclusion supports early findings from the informational interviews. One of the summary findings was that there was a focus on maintaining the culture within each organization—being defined as a community bank was very important. This finding seems to be confirmed by the survey data, but also by additional comments made in phone calls during data collection. Several participants commented on the competitive advantages of being a community bank, including understanding the local market and an ability to take advantage of the unique opportunities that are presented.

This was critical to the community bank given the limited and slow growth populations that often define their markets.

Hypothesis 7. Community banks in South Dakota with a formal leadership development program indicate that hiring from the local community is more important to them than community banks without a leadership program.

As Table 5.10 shows, when asked how important it was to hire the management team from the local community, both those with and without a leadership development plan thought it was critical. Of those with a leadership development, plan 58.3% believe hiring from the local community is “very important” or “important” and 3.9% believe it is moderately important. Of those without a leadership development plan, 59.1% believe it is “very important” or “important” and 10.2% believe it is “of little importance” or “unimportant.” The survey results suggest very little difference between the two categories.

Table 5.10

Hiring From the Local Community

		Do you have a formal leadership development plan?			
		Yes		No	
		Frequency	Percent	Frequency	Percent
How important is it that you hire the management team from the local community?	Very Important	4	33.3%	11	22.4%
	Important	3	25.0%	18	36.7%
	Moderately Important	5	41.7%	15	30.6%
	Of Little Importance	0	0%	3	6.1%
	Unimportant	0	0%	2	4.1%
	Total	12	100%	49	100%

Consolidating the survey data into two categories ("very important" and "important") to meet test criteria, a chi-square test was done and no significance was found (chi-square = .616, df = 1, p = .433). Given the survey results and chi-square results the hypothesis was not supported.

Reliability Test/Retest

As an assessment of reliability a test/retest was done of the survey. Waiting approximately 10 days, a random sample of 10 survey respondents were recalled and the survey readministered. Given the limited population and that the survey was done via phone call, most remembered the conversation in detail and the responses did not change. Several persons had given additional thought to the subject of leadership and the role community banks play in economic development, which were insightful and helpful in assessing the findings.

Chapter VI: Discussions, Conclusions, and Implications

The purpose of this research was to investigate the challenges of developing a leadership program in community banks in South Dakota—which is a slow growth environment. With no specific extant research found on the subject to direct and guide the study, the focus was on identifying broad based leadership development trends in community banks and looking at the effect that demographics, industry direction, and context have on creating leadership programs in community banks in the state.

The investigation was bound by casual conversations with bankers in South Dakota, regulators working with community banks, and a literature review investigating several areas including demographic trends in the state, community banking industry trends, and contexts in which leadership development decisions are made. The research also benefited from my personal work experiences that include 25 years as a financial executive with strategic and operating responsibilities, and an understanding of organizational structure and the language used in banks. This background proved to be an advantage along the way, allowing for clarifying conversations and probing for insights that otherwise might have been missed.

As an aside, the research was also shaped in an unexpected way by a rapid and prolonged change in economic conditions. Approximately 18 months have passed since this study was conceptually built and the survey data collected in November 2010. During this time, the economy in the United States and around most of the world has deteriorated significantly and recovery has not been as robust as anticipated. One of the consequences of this economic slowdown has been a record number of bank failures in the United States. According to the online *Wall Street Journal* of December 19, 2010, 25 banks failed in 2008, 140 failed in 2009, and 143 have failed year-to-date December, 2010 (Grocer, 2010). This is compared to the five years prior to 2008 where 11 banks failed. As a result of the downturn and significant number of bank failures, the community banking business model is being reconsidered and some question whether the business segment can survive as structured.

While this study was not designed to determine the consequences of such an unexpected and rapid change in operating environment and no questions were asked about the affects of the economic downturn, in survey conversations, several banks commented on the new operating paradigms. One banker observed that there were banks too big to fail and his was “too little to keep,” another referred to his bank as a “nuisance” to the regulators and questioned its long-term viability; and one referred specifically to leadership development suggesting that he was using it as a defensive weapon—it was necessary to keep the wolves from the door. The number of comments made on the operating environment and the vigor with which they were made indicate that testing was being done for organizations redefining themselves and that the redefinition was not complete. Further research using this study as a baseline against a more stable and well defined environment could give significant insight into how organizations use leadership development to help adapt to new operating situations and has the potential of being a noteworthy contribution to the field of study.

Framing the Research

As discussed in chapters 2 and 3, findings from the preliminary investigation of the topic framed the research and began a convergence of literature and informal conversations. While several broad based themes came out of conversations with practicing professionals, three stood out and were supported by the literature review.

First, leadership is difficult to define. In conversations with community bank practicing professionals, they suggested that the definition of leadership was confusing and the lack of clarity held them back from investing in leadership programs. In addition, the plethora of leadership development programs and tools added to the confusion and made it difficult to determine the return on investment; which was increasingly critical to getting the executive team and board of directors to support a new program.

While several scholars suggested indirectly that a more specific definition of leadership would enhance study and thinking on the subject, Joseph Rost (1991) seemed the most outspoken and direct in his comments saying “It is permissible for leadership scholars not to know what leadership is” (p. 12). He went on to outline how scholars of the topic have succumbed to a series of fads and tools that focus on peripheral subjects and not on the nature of leadership, which is limiting scholarly study. His position and comments echo those of the community bankers in South Dakota.

Second, operating parameters and environments are critical factors in decisions made by South Dakota bankers. Almost every conversation in the state starts with an overview of the weather, which can be very harsh. This would be expected in a rural setting that depends on agriculture for its economic livelihood and is a critical issue for banks that rely on farm success to repay loans. The consequences of living and doing business in a rural environment are many and include small workforces, limited customer bases, and in South Dakota, along with the challenging weather, a graying population that is growing slowly. All of these factors shape thinking.

The effect of the environment on decision making was best illustrated by a long-term local who said the successful in South Dakota understood that “going along and getting by” was the key. Describing early migrants to the state as focused on surviving the often unforgiving winters and loneliness of prairie life, they understood that making the best of what you had was a premium and they set future expectations with that goal in mind. The comment reflected a philosophy on life that he believed was passed down through generations of long-term residents and was a force influencing leaders in all organizations in the state. From his perspective, the circumstances, including the weather, were shaping decision making in a significant way in South Dakota.

Leadership literature supports the thinking that differing environmental conditions affect the leadership challenge (Gibbons, 1992). Sometimes described as the most complex aspect of understanding the leadership process (Hughes et al., 2009), situation brings together many factors, including the leader-follower relationship and culture, and ultimately translates actions into organizational outcomes. While this dimension of leadership is sometimes overlooked in developing leadership theories, literature suggests that situation and constraints can have a major affect on organizations and can drive behavior.

Third, culture characterizes leadership in community banks. Focused on the basics of banking—attracting local deposit and loan business—community bankers' economic future is often tied to the success of a region. Employees and bank leadership more often than not have long histories in the area and have intimate knowledge of customers and the market. Being involved in the community is a hallmark that defines the organization. Several banks measure and grade their officers on how active they are in the community and consider strengthening community involvement as a critical element in employee leadership development. Defining culture as customs, expectations, and traditions (O'Toole, 1996) was consistently brought up in conversations and defined as a leadership driver. Several participants went so far as to say that hiring from outside the region the bank served or from outside the state's well-established local community banks was disruptive to operations and had limited success.

Leadership is often mentioned as a driver for the development of a culture (Ardichvili et al., 2009). A focus on the links between the way organizations work and the leadership can be weaved together to explain decision making processes, influences, and ultimately the values and shared ideas that define how groups will behave. Having a well-defined culture can be of great value that creates efficient operations and facilitates change (O'Toole, 1996); and it can be disruptive, if the norms are followed blindly without regard for changing environments. However viewed, being defined as a community bank is a definitive driver in South Dakota financial services, shaping both the culture and leadership activities inside the population studied.

Using the insight gained through the literature review and themes identified in early conversations, seven hypotheses were developed (see chapter 4) and a survey (see Appendix C) was built to test early findings across the broad population of community banks in the state. Detailed results of the hypotheses testing are found in chapter 5.

Findings and Implications

The combination of survey data collected, literature reviewed, and background conversations produced some interesting insights. While some of the results seem straightforward and will help build a base for future research on leadership in community banks, other information is subtler, less direct, and additional research is needed to support early findings.

First, it is clear that the majorities of banks in the state do not have formal leadership development programs and have not had formal discussions on the subject at a BOD meeting. According to survey results, 80.3% of those banks surveyed do not have leadership plans and

19.7% do. Of those that do not have plans, 62.3% report that they have not had a formal conversation with the BOD on the subject in the past two years.

Contrasting those findings, when the survey respondents were asked to rate the importance of leadership to the BOD, the executive team, and themselves, the results suggest that the majority believe it to be an important topic. According to the survey, 71.7% of the current executive team, 64.0% of the BOD, and 72.1% of the human resource executives believe that leadership development is an "important" or "very important" subject. All this suggests that while there are few leadership development programs being implemented and a limited number of formal discussions going on, the subject is of interest and background conversations are occurring.

This finding is in sync with the informational interviews and casual conversations done prior to conducting the survey. In the early conversations with bankers, board members, and regulators, they believed there is a shortage of qualified leaders in community banks and acknowledged that few organizations had any conversations on the subject and very few had put any plans in place to address the issue.

The literature on community banks operating in rural environments highlights and supports the survey results. The articles suggest that development of new leaders with updated skills and understanding of complicated and rapidly changing markets is critical in rural environments (Brown et al., 2003). This is especially important in the Great Plains region which often has a difficult time appealing to prospective employees and has left many community banks without replacement leadership and with limited prospects for the future (Walser & Anderlik, 2004). This has become such a critical issue that according to a 2009 *American*

Banker article, the Federal Reserve Board has asked banks to look forward five years and comment on staffing needs (Abner, 2009).

The literature also suggests that complacency is an enemy of change and the sense of urgency needed to deal with difficult issues is often missing (Kotter, 1999). The inevitable downside of moving and adjusting in a chaotic external environment, such as that in community banks, means that few are willing to change unless pushed by a crisis (O'Toole, 1996). While inaction makes organizations inefficient, vulnerable to failure, and leaves followers with a sense of anxiety, the data collected suggest that community banks could be stuck in this loop. Very few community banks in South Dakota have created leadership development programs, but many levels in the organization would seem to recognize that leadership is important given changes in operating environments. Searching for renewal, as described by Gardener (1995), moving from focusing on operating within a structure as it exists to a focusing on change and regeneration would appear to be the next challenge for these banks.

The second finding is that succession planning and the challenges of finding leadership for rural locations appear to be early drivers for those banks that do have a leadership development program. When asked if the bank had a succession plan, 65.6% of all banks responded that they did. When broken down into those with and without leadership development plans, 75% of those with and 63.3% without plans said they did have formal succession plans. However, when those with a leadership plan were asked how important succession planning was to the leadership process, 100% said it was "moderately important" to "very important." Comments made by several banks with plans, including informational interviews, support the finding that succession planning was the initial catalyst for creating a leadership development plan.

Responses to two other questions give further insights into reasons leadership development programs were started. When asked about the difficulty of finding follow-on leadership for their organization, 45.9% said it was “moderately difficult” and 31.1% said it was “difficult” or “very difficult.” When broken down between those with and without leadership programs, differences were not significant. However, when asked an additional question about how hard it was to find new leadership in rural locations, significant differences between groups appeared. Of those with programs, 83.3% indicated it is “difficult” or “very difficult” to find new leadership in rural locations versus 54.1% of those without a program and statistical significance was found. Again, bank comments provided during data collection and informational interviews support these findings—suggesting that the rural environment is not attractive to new graduates and the pool of qualified candidates is limited. Indications are that the challenge of finding leadership for rural environments is one of the reasons for developing a leadership program.

Most conclusively, South Dakota banks characterize themselves, their culture, and their leadership by being defined as community banks. Conversations, informational interviews, and data collected leave very little doubt that these banks shape their culture, hiring practices, and operating philosophies to support and perpetuate being branded as a community bank. When asked how important being defined as a community bank was, 86.9% said it was “very important” and the remainder said it was “important.” When asked if being defined as a community bank affected hiring, 60.6% said it made it “much easier” or “easier,” and when asked if it was important to hire the management team from the local community (community involvement being a defining responsibility of community bankers), 59% said it was “very important” or “important.” The question, appropriate given this research, is: Can the organizations find leaders that will support the values and culture of community banks while adapting and changing to new operating paradigms?

Practice and Policy Considerations and Recommendations

In conversation with the CEO of a small community bank, I casually asked how his bank was doing. He explained that it was the trip to the mailbox everyday that defined success or failure in the short-term and put the long-term in perspective.

In early morning, he went to the mailbox and grabbed the local paper, opening it quickly to the obituaries. Looking at the pictures, notices, and short biographies of persons that had passed away—his eye would immediately go to what often were his long-time customers and friends. With some emotion, he would remember when he first met them, usually many years ago, and think about the role they played in building the community—maybe as an elected official or organization board member—and how the small town he grew up and worked in had changed.

Many of the small family farms he financed as the mainstay of his banking business had been sold or consolidated and were often no longer small operations. They were now sophisticated businesses with equipment costing hundreds of thousands of dollars, land worth millions, and product prices that were determined by global versus U.S. market demand. Over time, these changes meant that he and his organization had to become more sophisticated in their understanding of all aspects of business operations, be comfortable doing complicated financial analysis, and have a clear picture of the markets and prices for the products the customers produced. He was hiring very different people than in the past and spending significantly more money training and developing them—just having an agricultural bent and a term of accounting no longer cut it. This also meant more time in the office and less time spent on the farms and ranches that long-time employees grew up on and enjoyed visiting. The growth in the size of the farms and increasing revenues also meant that larger banks were attracted to his region, offering technology based and very competitive products. Although seemingly not connected, the obituaries of a small town newspaper were highlighting the long-term challenges of leading a small town community bank.

As was customary and important to him, he always made time to attend the funeral service for his friend. Sometime during the day, he would talk with the family, who he usually knew very well, exchanging condolences and hearing how important his sound advice had been to the deceased and how much everyone appreciated his help. They would often also say that a local lawyer or trust officer was administering the estate and when all the assets were sold and obligations paid, the money would be transferred to another bank in a larger community where the family lived. While everyone appreciated his efforts and assistance and would have gladly stayed with the bank, there was no branch or affiliates anywhere near their home. The banker, aside from losing a friend, was about to lose what was sometimes a significant piece of business. While his immediate reaction after seeing the early morning newspaper was to think about the changes in the market and challenges of running a community bank, the short-term was to see a reduction in assets and profits, highlighting the changing demographics of his small town.

The story above is a case study for those looking at the challenges of developing community bank leadership programs in South Dakota. Unpacking the narrative of this banker's reflections highlights the literature reviewed for this study, supports the survey data collected, and builds off of my personal business experiences as a commercial banker. As one banker that reviewed this story put it, "this is a perfect overview of community banking in South Dakota." It also highlights some practice and policy recommendations for consideration.

It is said that a researcher ignores demographics at their peril (Johnson, 2003). South Dakota is sparsely populated, rural, and has an older working population (U.S. Census Bureau, 2008). Although long-time residents of the state will sometimes dispute the finer details of the U.S. Census data, citing rapid growth in a small town because of an unusually large project or more likely a pending large project, most people accept that the state is demographically challenged. Some controversial researchers, such as Popper and Popper (1987), make bold statements that the entire region will depopulate over the next generation and there is very little anyone can do to stop it. Further evidence of this demographic challenge is seen in the survey data collected and reported in chapter 5. When asked if it was challenging to find leadership in rural locations, 59% of respondents said it was "very difficult" or "difficult." This challenge is also seen in my work as a professor in a business school where graduating students move to larger cities, often without jobs, while many small rural town community banking jobs go unfilled.

As the banker in the story above pointed out, looking at the obituaries is a leading indicator of his community banks success—the demographics of his small town are working against him. Given this, the first and most obvious question to ask, before addressing concerns around leadership, is about the long-term viability of the community bank. Having heard comments from survey participants such as "we only have five employees" and "we have not hired a new employee for over 20 years," there are hints that some of the organizations surveyed should consider restructuring. This could be merger, sale, or an expansion into one of the more viable and growing parts of the state. However, these decisions are difficult and are often put off or delayed because they affect long-term employees, owners are unwilling to face up to real versus expected valuations, and, in the case of community banks, executives are reluctant to change because they do not want to breach long-term commitments to the community.

My operating experience suggests that if a viable strategic plan is not in place that communicates major objectives, describes the organization as envisioned, and begins to focus investments (Koontz, O'Donnell, & Weihrich, 1984), then the group stalls, becoming reactive instead of proactive and long-term investment in activities such as leadership development never gains traction. Already having seen a 50% reduction in community banks from 1980 to 2001 (Deyoung et al., 2004) my first recommendation is that each community bank needs to question, discuss, and explore its long-term viability. Does the organization need to hire and develop new leaders or hire an investment banker?

As suggested by the banker going to the mailbox and as the literature highlighted, community banks play a significant and unique role in economic development. They are, however, not often recognized for this effort and commonly put into the pile with money center banks that are often blamed for the recent economic failure. The second proposal is to *repackage* community banking in South Dakota. By repackaging, I mean highlighting and promoting the economic benefits of community banking to customers, potential customers, and future leaders.

Although banks that are too big to fail dominate the news, community banks get very little press and yet, it could be argued, community banks play a bigger role than larger banks in economic development. Combined with their focus on building community relationships and supporting local activities, community banks specialize in financing small business and agriculture loans—the mainstay of rural economies and a critical factor in job growth (Critchfield et al., 2004). Research suggests that a financial institution's policies are closely associated with growth in an area (Collender & Shaffer, 2003) and that the ROA of banks with high CRA ratings (a surrogate used for a commitment to a community—a defining attribute of community banking) is higher than banks with a low CRA rating (Simpson & Kohers, 2002). Even at the most basic level of banking, micro-lending, the introduction of social mechanisms is defined as a key to success (Jacob, 1994). I often say that banks are the grease that makes the economy go and community banks are the economic development tool that local governments count on to feed that growth.

There is a cooperative relationship between a rural community and the banks that help define community culture (Kilkenny & Nalbarte, 2000). Using opaque information, the soft information that is often part of community traditions, is a recognized advantage of community banks (Payne et al., 2002). The data collected from the survey supports this finding, with 100% of the banks responding saying that being defined as a community banks is "very important" or "important" and several commented that it was a competitive advantage. Promoting this unique advantage and the role that community banks play in rural economic development would seem an obvious way to grow the business and as important attract quality people who can become bank leaders.

However, to quote an executive of an industry group, "self promotion is not in the nature of South Dakota bankers." As a professional who, almost daily, comes in contact with bankers in South Dakota, and, on occasion, works with banking industry groups, I concur with that conclusion. While most of the banks in the state are solidly profitable, have significant capital to support operations, and have successfully come through the most severe economic downturn since the Great Depression, very little has been heard. These financial institutions have continued to lend money, support agriculture and small businesses, and provide leadership to the communities throughout this state. Yet, their approach to self promotion is reflected in an excerpt I used earlier: “going along and getting by” is the key—making the best of what you have is at a premium.

One alternative, and something that might fit within the demeanor of the bankers in South Dakota, would be to refocus the industry group to this effort. A well designed campaign highlighting the role that community banks play in promoting economic growth and the leadership responsibilities that the bankers take on in small communities throughout the state could not only bring new business, but also promote the businesses as rewarding places to work. A place where a person could grow, contribute in a positive way to the community, and become a transformational leader.

The third suggestion, which plays off the second, would be for the industry to explore and better understand what they want from the future leaders of South Dakota community banks and equally as important, to spend time understanding what the new generation of leaders is looking for from their careers. As mentioned by the banker looking at the obituaries, he is hiring different people than he did in the past and spending more money to keep them trained. The new generation has a global understanding of markets, is more experienced in financial analysis, and need to be more sophisticated in their use and application of technology to compete with larger institutions.

Recently, a community banker called to ask if we knew of a graduate who would be interested in a teller’s job at his community bank—he was finding it difficult to find the right person for the position. He wanted someone who had an undergraduate degree, some accounting experience, was good with people, and hopefully understood the basics of banking. Politely, I explained that most undergraduates from our banking program did not mind starting at the bottom, working their way up, and expected to be trained as a teller, but they were hoping to be positioned a bit higher in the organization. Going off, he explained that his grandfather and father started as tellers, he started as a teller, and everyone else that helped run his bank did the same.

As I discovered in the informational interviews and from comments gathered during survey, several banks have chosen to develop their leaders from the bottom up—the operating environment has forced their hand. Using a very reasoned and logical approach, and believing that learning from experience is the best way to develop leaders, something that research has suggested is true (Hesselbein, 1996), the community bank looking for a teller is willing to accept nothing less.

At heart, community banks are small businesses. They are usually run by people who are well known in the region and these people are, more often than not, considered community leaders. These organizations are defined by some as keystone sectors, fundamental to the existence of a community (Kilkenny & Nalbarte, 2000) and the impact of their actions are often seen and felt by many on a daily basis. Community banks compete by including non-economic factors in their strategy (Lindgreen et al., 2009) and consider these activities to be a competitive advantage. While economic considerations and financial returns are part of the daily conversation in community banks, without passion and commitment, these banks cannot continue to exist.

Having worked with undergraduate students focusing on banking for several years, they are not only expecting to work hard, but they also want to connect in a positive way with the organization for which they work. They are willing to accept a reasoned approach required by the operating environment, but also are looking for an emotional connection that takes into account the needs, goals, and ambitions of the followers (Hughes et al., 2009). These students are part of a new generation that wants to contribute in a positive way, make the organization better, and play a constructive role in the community.

In short, while my data suggest that it is difficult to find new employees for small rural banks, there is an aspect of community banks that is very appealing to a segment of new generation leaders that is not well understood. Having community bankers take time to better understand what they want from new leaders and understand what a new generation is expecting from the organization would be a good investment and could yield very positive results.

Finally, my advice for current bank leaders would be to play to an unrecognized strength: build leadership development programs that place heavy emphasis on values, vision, and passion. Lead from the emotional versus the rational side of the human experience (Hughes et al., 2009).

Bankers, by their nature are disciplined people, motivated by the numbers and logic that support conclusions—a reflection of working in a highly regulated environment. In my experience, they approach leadership in the same fashion—rationally. This is supported by reviewing the informal interviews, where all three banks defined the leadership development process differently and one bank preferred not to use the word “leadership” because it was too ethereal. Some survey participants also commented that they were reluctant to invest in a leadership development program because the return could not be calculated.

As the community banker looking for direction in the obituaries described it—banking is simple. Banks buy deposits and sell loans—promoting and helping build and develop the communities where they work. Competitively, banks do this by building relationships, using the soft information that defines a person’s character, and recognizing that success is not just defined by an income statement, but by community building—investing and nurturing group purpose and values. Quoting Gardner (1995), "leaders are community builders because they have to be" (p. 113). It would be difficult for community bankers to be successful without being principled leaders.

Far from the rational approach to leadership, community bankers—without knowing it—are playing to the emotions of their employees, customers, and community. Using opaque information, taking community leadership positions that pursue a shared purpose, and building relationships that create trust with customers are activities that suggest that a sense of commitment is critical to the success of the community banker. In the cold-hearted world of the banking business, these are not necessarily rational activities where a return on investment can be calculated with discipline. There is passion, commitment, and a sense of obligation to the community that South Dakota community bankers have to make every day, which the public is not aware of and does not understand. While not stepping completely away from a rational approach to leadership development, building and supporting the inspirational side to leadership in their business could pay dividends and my data suggest doing so is a natural fit for the organizations.

Contribution to Field of Study and Additional Research Opportunities

This research is built to contribute to both the academic field of leadership development and as important to give practicing professional in a community bank in South Dakota information needed to make and support decisions. The approach creates some challenges for a researcher who needs to balance the sometimes abstract thoughts of scholarly work, with the short-term accountability required of operating professionals'. However, it is of critical importance that research be built looking for collective purpose that creates action (Burns, 1978).

Working across this spectrum the paper endeavors to contribute to several areas in the discipline of leadership development, but does leave considerable room for future study.

This research begins to frame a subject (the role of leadership development in community banking) which to the best of my knowledge has not been previously studied. Looking at the intersection of leadership development, transformational leadership, and context, against a backdrop of community banking, corporate social responsibility, and demographic trends, the paper builds a model for consideration and discussion by academics and practitioners. While several of the conclusions reached could seem negligible and only applicable to South Dakota banks, these findings give future researchers and practicing professionals a place to start and an opportunity to evolve thinking around leadership development in community banking.

For example, further research of community banks in smaller and larger states using a similar or the same survey instrument could test the validity and reliability of the findings. While this paper is focused on South Dakota and its unique operating environment (rural, agriculturally based, and an older than average U.S. population) results suggested that leadership development is important to a broad range of survey participants, however, few organizations have taken any action. The survey also suggested that succession planning, a reflection of an aging leadership, and challenges in finding follow on leaders in rural locations were drivers for those South Dakota bankers that had built leadership development programs. The question is: do other states with more diversified economies and different demographics have the same challenges building leadership development programs? Would North Dakota, which has a smaller population than South Dakota but a more robust economy because of oil drilling revenue, have similar findings when asked about the challenges of creating leadership development programs?

Another unique understanding of leadership development found in the data collected was around generational issues. While the research indicated that it is difficult to hire in rural locations, there were hints and suggestions that the culture in community banking might match well with the expectations of those looking for long term careers. Organizations that believe a competitive advantage is found in their values and pride themselves on community involvement are highlighting unique selling points for a next generation of leaders.

A broader and more detailed look at the expectations of both community banks and prospective new leaders would be of significant value to the business community and those thinking about careers in financial services. This study might include a comparative analysis looking at the wants and needs of the new generation of leaders and the leadership expectations of the industry. The study could help clarify, define and rank the values, vision and other non-economic factors that are the community bankers' strengths and contrast them with the needs and wants of a new generation leader. In addition, depending on the scope and depth of the proposed research, the study could be an interesting opportunity to look at generational issues and leadership in a rapidly changing environment.

A further contribution to the scholarly study of leadership development is not the result of planning, but unforeseen timing. Previously mentioned as the research moved forward the economy fundamentally changed. Unemployment rose quickly, housing prices fell, bank financing froze, and governments around the world intervened in markets in ways never anticipated. While this study did not foresee this economic change and no questions were asked about the affect this might have had on leadership development programs several highlights were noted. For example, one bank accelerated its leadership development program—pushing it forward as quickly as possible, while another that was thinking about a program put it on hold until the economy stabilized. Using these data as a baseline a longitudinal study could be done giving insight into the role leadership development plays in addressing rapidly changing environments. Segmenting the data into bank size and using regional economic information will come available soon, a quantitative study looking for a correlation of factors driving leadership development decision making has merit. While detailed planning, disciplined approaches to methodology and critical thinking are cornerstones of productive research – good fortune and timing cannot be ignored as contributors to a field of study.

Perhaps the most important contribution made to both the scholarship and practice of leadership has been to move subject discussion from the background to the forefront of organizational issues in community banks. As mentioned data suggest that leadership development is of critical importance to community bankers, but very little has been done. The act of collecting data for this research was a catalyst for; one organization to accelerate their leadership development training program; another to rethinking its approach to leadership training, expanding its breadth and scope of the process; and regulatory agencies, concerned about the succession planning, have asked for research results and a presentation of findings. In addition the South Dakota Governor has hired an outside consultant to prepare a white-paper on community banking and the team has identified leadership development as a critical issue. The consultant is using this “draft” research and paper as a guide to discussions with industry leaders and as a base-line for their write-up. Early indications are the topic and research findings have merit and are useful to practicing professionals.

Conclusion

My favorite leadership author is John W. Gardner, former Health, Education, and Welfare Secretary in the Johnson administration; founder of Common Cause; and one of the founders of the Corporation for Public Broadcasting. Aside from being an accomplished teacher, administrator, and social entrepreneur, Dr. Gardner continually wrote on the issue of nurturing human potential focusing much of his effort on a favorite topic, renewal. He defined renewal as innovation and change, but also “the process of bringing the results of change into line with our purpose” (Gardner, 1995, p. 6).

As the data were being collected for this research, there were unanticipated and rapid changes taking place in financial services. A global economic crisis led by the failure of banks around the world was still unsettled and no one was sure where the bottom was—especially in community banks where bailouts were not available. As survey participants answered the questions, some hesitated, commenting that the world had changed and they just hoped to survive. To them, the culture was defined, set in stone, and there was little chance of change in direction. However, there were a few that seemed excited, as if to say they were looking forward to restructuring the organization and building something new, different, and exciting. To them, this was not a hard felt recession, but a restart—it was a time for change and renewal.

Many community banks in South Dakota are in need of renewal and recognize they cannot continue operating in the same way. Facing demographic challenges and having to own up to new regulations and increased competition has left them struggling to accept, find, and develop new leadership. They could be described as afraid to leave the past behind or anxious that the future will leave them behind.

Conversely, from conversations and survey data collected, it would appear that there is recognition that leadership development is important and building a self-renewing organization is critical to survival. Some South Dakota community bankers have begun this process and are looking for common ground on which to build shared values that are appealing to the next generation of leaders—even though the challenges of taking on leadership development at South Dakota community banks are many. They recognize what Robert F. Kennedy, Jr. (2003) said: “the present shouts and the future whispers” and, by taking action, they can build confidence and drive their organizations to the next level of performance. These bankers recognize that they can define the future instead of letting the future define them. My conclusion is that transformational leadership lives, even in small banks in a small state that is demographically challenged.

APPENDIX

Appendix A: Informational Interview Questions

1) When I say "leadership development" what does it mean to your organization?

2) Describe the leadership development program in your Bank.

3) What kind of investment have you made in leadership development financial ($), time commitment of HR, Sr. Exec, and employees (estimated %), other?

4) Return on investment

A) Invested a lot of money and time

a) Have you seen a return on investment?

b) Any negative consequences to making the commitment?

B) No or limited investment made?

a) Any regrets having not invested more in leadership development? b) Was there an alternative investment that you made in personnel development that you would not consider "leadership development" – but your organization felt mirrored this type of investment and gave the business a substantial return?

Appendix B: The Great Plains States

Appendix C: Survey Questions and Scaling

1. Do you have a formal leadership development plan in your bank?

   Yes……No

   a. If no formal leadership program:

   Has your BOD discussed in the last two years creating a formal leadership development program at your bank?

   Yes ….No

2. In your bank do you have formal “training” in any of the following areas?

Goal setting	yes…no
Managing conflict	yes….no
Negotiation	yes….no
Team building	yes….no
Technical Training	yes….no

3. Given the sparse population of South Dakota how difficult is it for your bank to find new leadership?

Not at all Difficult	Not Difficult	Moderately Difficult	Difficult	Very Difficult

4. Using the same scale, how hard is it to find new leadership in rural locations (locations with 2,500K or fewer people and not adjacent to a metro area with 50K or more people)?

Not at all Difficult	Not Difficult	Moderately Difficult	Difficult	Very Difficult

5. Does your bank have a formal succession planning process?

Yes………..No

   a. If you have a leadership plan:

   How important is your leadership training program to the succession planning process?

Very Important	Important	Moderately Important	Of Little Importance	Unimportant

6. In your bank do you have a formal process or measurement tool to manage any of the following?

Management skills of current employees yes….no

Personnel Individual development plans yes….no

A formal emergency transition plan yes ….no

7. How important is it that your organization is defined as a "community bank" (having intimate local market knowledge, being regionally focused).

Very Important	Important	Moderately Important	Of Little Importance	Unimportant

8. How does being defined as a community bank affect your hiring?

Makes it much easier	Easier	No difference	Harder	Makes it much harder

9. How important is it that you hire the management team from the local community?

Very Important	Important	Moderately Important	Of Little Importance	Unimportant

10. From your perspective as the Human Resource Manager how important is leadership development to the:

First level of managers

Very Important	Important	Moderately Important	Of Little Importance	Unimportant

Current Bank Executive Team

Very Important	Important	Moderately Important	Of Little Importance	Unimportant

Current Bank Board of Directors

Very Important	Important	Moderately Important	Of Little Importance	Unimportant

11. From your perspective as the Human Resource Manager how important is leadership development training to your bank?

Very Important	Important	Moderately Important	Of Little Importance	Unimportant

Appendix D: Letter to Banks Introducing Survey

DATE

Mr/Ms Human Resource Manager
Community Bank
South Dakota

Dear Mr/Ms. Human Resource Manager,

As mentioned in our phone conversation on DATE, I am working toward a PhD in Leadership and Change at Antioch University in Yellow Springs Ohio. As part of this program I am required to complete a dissertation in the subject area and, as mentioned in our initial conversation, the topic I chose to investigate is the challenges of developing leadership programs in community banks in South Dakota. The topic was selected after conversations with several community bankers across the state who identified development of follow-on leaders as a critical issue facing the South Dakota community banking industry. Having done preliminary research into the subject and developed a broad outline to guide the study, I am collecting survey data from the community banks in the state to support the research.

To that end, I am writing this letter to ask you to participate in the study by completing an 11 question survey. These questions are being asked of Human Resource Managers at 80 community banks in the state; with the intention of building a data base that can be analyzed and help identify the major concerns and challenges that South Dakota banks have in developing leaders. All information collected in the survey is considered confidential, meaning that neither the bank name, nor the survey participants name will be used and upon completion of the project, collection data will be destroyed.

To participate I would ask that you complete and return the card that is enclosed, which indicates your willingness to take part and gives you an assurance of confidentiality. On receipt I will call you and we can go through the questions.

Thank you in advance for considering participation in this survey. The information and data base that will be built is obviously important to helping me complete my degree, but also will give all South Dakota Community Banks insight into the leadership development process and concerns.

Sincerely,

Stan Vinson

Appendix E: Phone Survey Introduction

Hello my name is Stan Vinson; I talked to you earlier and sent you a letter asking if you would participate in a survey I am doing on leadership development in South Dakota Community Banks. I recently received a card indicating your willingness to take part and I am calling to talk through the survey with you and record your responses.

Again I want to assure you that the responses are going to be confidential, with no record of your name or your bank recorded on the survey instrument. The only evidence of participation will be a checkmark on a master list of the 80 community banks in South Dakota and the card that you sent me agreeing to participate. This data will be destroyed after completion of the project. As mentioned in my letter there are only 11 questions, which can be answered very quickly and will not take up much of your time.

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