BANK BOARDS FORGET HUMAN RESOURCESâ€”AND RELATIONSâ€”AT THEIR PERI

Community banks run on money and people, and you'd better not forget the people factor

As those of you who have heard me preach know, the director's real job is to allocate financial capital and human capital, with a goal toward enhancing value for the shareholders of the bank or holding company.

Over the last couple of years, most of my time with boards has focused on the financial capital piece. How do we raise it? How do we allocate it? How do we restructure ownership? Can we use it for geographic expansion? And the like.

But recently, I had the opportunity to spend a good deal of time with a board on the human capital allocation piece.

The discussion began on a completely different note-the bank's acquisition strategy. This bank is clearly a "have" in a "have and have not" industry. The board was looking for opportunities and the bank had the financial capital to move forward. A couple of the outside directors were pushing hard to be proactive, as the conversation related to the acquisition of a bank or banks, or branches.

During the course of the meeting, I asked if there was a consensus that the CEO should begin to implement the board's long-term strategy toward geographic expansion by acquisition. The consensus was clearly there.

I then asked the Board what they wanted the CEO to "stop doing." The board members looked at me quizzically.

So I turned to the CEO and asked him how many hours a day he was working. He said anywhere from 12 to 14.

I suggested to the board members what they needed to focus on was the allocation of the human resources necessary to implement their geographic expansion strategy. If the CEO was to devote some significant portion of his time to identifying, courting, and beginning the preliminary build-up to negotiations for an acquisition, then the directors needed to relieve him of some other duties, i.e., the clear allocation of human resources toward the enhancement of shareholder value.

Oddly enough, later in the meeting, the HR issue came up in a different context. The board was focusing on attracting and retaining key personnel. Now, many boards focus on the "attracting key personnel part ," that is, "Do we have the appropriate tools to attract the human resources we need to implement the strategies to enhance the value for our shareholders?" But many neglect (or ignore) issues with their existing personnel, particularly the senior management team.

I asked these particular board members whether they felt the bank had good enough retention tools for its current senior management team.

I was met uniformly with the response, "They're not going to go anywhere. They all seem happy."

As a result, the bank had not implemented any of the normal tools that serve as golden handcuffs for senior personnel. These include such items as benefit plans with long vesting schedules; supplemental retirement compensation that you only get when you retire if you are still in the position; and the like.

Perhaps not surprisingly, two weeks later, I was advised that the number two officer at the bank, who was the heir apparent, announced that he was resigning to move to another bank as the number two.

Something was not right in that situation. The board needs to keep an eye on its existing personnel to make sure that they are contented and provided feedback with respect to the type of job they are doing.

On the flipside, I recently became aware that a CEO of a client bank was currently unemployed.

I called to see what had happened. His response was that he had been terminated by the Board, and, "I was totally blindsided."

I had in fact met with him and his board a couple of months back and did not detect any relationship issues. He indicated he was let go due to "personality conflicts" with the board, but was surprised. My reaction to that was, if you have come to a point where the Board is going to change management, management should not be surprised, i.e. they should know their shortcomings. The board, particularly the Chairman, needs to be responsible for a regular evaluation of the CEO.

Human resources is often overlooked by the Board as we delve into the financial issues. The consideration of allocation of human capital and the retention of human capital needs to have a prominent place in the board's strategic thinking.

About the Author

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