
WHEN FAMILY WORKS FOR NONFAMILY MANAGEMENT

If ownership will buy in, there's a solution to ticklish situations where family employment isn't working out

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As part of the continuing series of how to deal with difficult board situations, I thought I might address one of the more "ticklish" in this regard. This is the situation involving a family-run bank and the interaction of the board of directors and executive officers of such a bank.

When a professional runs the family "store"

The typical family-run bank was started multiple generations ago, and is now in the multiple hundreds of millions of dollars in assets. Yet the founding father or grandfather has long since moved on and often the bank has hired a professional CEO.

By professional, I mean non-family. Because it is a family business, however, the family generally constitutes a majority of the board of directors. Furthermore, various family members, be they highly qualified or average, or, on occasion, "ne'er do well," offspring of some of the founding families, occupy positions in the bank.

When the family member is not measuring up, the "hired help CEO" is in an extraordinarily difficult position. He or she is hired to do what is in the best interests of the bank. Yet, what is likely in the best interests of the bank, where the problem exists, is to get rid of a ne'er do well family member who is not pulling their own weight.

A tough act to carry out

What does the CEO do? Board meetings and planning sessions are always "interesting" in these types of situations.

In the board meeting, notwithstanding the family paying good money for the "non-family CEO," generally most decision making involves deference to the patriarch or matriarch of the family. In a planning session, the deferral to the family leader for decision making is even more pronounced, as in when a question is asked on a particular strategic issue, all heads swing to the left end of the table where the family leader sits in judgment to render the final decision.

Now, before I go on, a caveat: In no way do I want to paint all family-owned banks with the same brush; most of them are highly professionally run, with either family members or non-family members at the helm. But there are some family-owned banks where the issue of dealing with family members occupying officer slots, which by definition come with salaries and benefits, is a tough one.

Where there are challenges, there may be solutions.

Devise an objective standard

I have had a number of non-family CEOs come up with "personal development plans" for challenging individuals. They take various forms. The family member-employee might be asked to attend a graduate school of banking. Or take courses in this or that, where they need more training. Or they may be tasked to become an expert in compliance, or some other specialty.

If the CEO can sell the "personal development plan"-first to the patriarch, on grounds that it would be good for the child, and then to the child-then a yardstick has been established and agreed to.

If the child does not fulfill the personal development plan, then it is easier to address the child's status in the bank. (Easier, I said; it's never easy.)

Not a slam dunk for CEO

While I have seen this strategy work, it isn't guaranteed. Some standards have to be set, and those standards have to be enforced. However, that will not happen unless the patriarch buys in, and even then, it is very difficult.

If the goal is to get the family member to shape up or ship out, then unfortunately, I have often found that when push comes to shove with the patriarch, it is the non-family CEO (who is generally highly qualified) who ships out and moves to another position.

Again, most family-owned banks operate with highly qualified management teams. The family is smart enough to let the

management run the bank.

Something to bear in mind, that I have heard often:

If the family owns the bank, why shouldn't they make all the decisions?

It is a tough point to argue, even if the decisions are probably not the best for the family.

About the Author

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