

# TEN COMMANDMENTS FOR COMMUNITY BANK CHAIRMEN

What today's top director must keep in mind

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In a recent edition of ABA Bank Directors Briefing, I presented my updated "Ten Commandments for Bank Directors: The 2011 Edition," built on my earlier blog, "A Different Set of Board Resolutions." In this blog, I present Ten Commandments specifically for the bank's Chairman.

## I. Be a Leader.

The days of a "figurehead" Chairman of the Board of a community bank are, or should be, over. The industry is simply too complex to have a passive, disengaged, uneducated, elderly, disinterested, or otherwise nonperforming Chairman. The Chairman's job is to be the leader of the Board, and a leader for the bank. In order to be a leader, the Chairman needs leadership abilities, skills, drive, and direction.

## II. Control the Board.

In addition to leadership of the Board, the Chairman's job is to control the Board and be the Board disciplinarian. Optimistically, in most community banks, the control and discipline issue is not a significant one, but it does crop up on occasion.

What do you do with the obnoxious director who is obnoxious during board meetings? Isn't it the job of the Chairman to address that issue with the director? What do you do with the director who has had the DUI that has been on the front page of the newspaper and has caused reputation risk to the bank?

Isn't it the Chairman's obligation to visit with the director with respect to that issue to determine if there is any remedial or other action that should be taken?

The Chairman's job is to be the disciplinarian for the Board, both in and out of board meetings, as it relates to bank business.

### III. Monitor, Evaluate, and Give Direction to Management.

The Chairman is the liaison with active management of the bank. But even if the Chairman is a former banker, the Chairman should not micro-manage the bank.

If the Chairman feels an obligation to micromanage the bank, then the Board needs to consider whether the bank has the appropriate management team.

The Chairman's obligation is, however, to be the liaison with management. This generally involves the Chairman's evaluation of the Chief Executive Officer or other designated top officer of the company. The Chief Executive Officer then evaluates his or her direct reports. The Chairman should also monitor on a regular basis the performance of the Chief Executive Officer and the company. The Chairman should also convey the strategic direction of the Board to the CEO on a regular basis, particularly as nuanced changes occur.

### IV. Be a Liaison to the Shareholders.

The Chairman is often the face of the bank as it relates to the community and the shareholders. Because the CEO is involved in the day-to-day business of the bank, the Chairman often serves as the liaison to the shareholder base, and many times the liaison to the community.

The Chairman's job is not simply to preside over the annual shareholders meeting. The Chairman's job is to communicate regularly with the shareholders (at least the larger ones) to keep

them informed of bank activities and the like. The Chairman's job is also to field questions the shareholder base may have concerning the bank.

#### V. Engage the Regulators Proactively.

The Chairman's job, along with senior management, is to engage the bank's regulators proactively. The regulators are making this a lot easier these days since they are often seeking out meetings with individual board members and certainly with the Chairman.

A proactive Chairman, however, will engage the regulators on a regular basis. If the bank is on an 18-month examination cycle, then a proactive Chairman would schedule a meeting with both federal and state regulators, if appropriate, at least on an annual basis, or possibly even twice a year.

The regulators want an active and engaged Board and an active and engaged senior management that can address and proactively deal with regulatory criticisms. That does not mean the Chairman leads the charge for "rolling over" for any unreasonable regulatory request, but the Chairman does serve as the face of the Board in engaging the Board with the regulators.

#### VI. Think Strategically.

One of the Board's obligations is to establish the strategic direction for the bank. This generally involves the Board's conceptual allocation of financial capital and managerial capital toward strategic initiatives designed to enhance the value for the shareholders.

The Chairman's job is to lead this strategic thought process. The Chairman should allocate time on a regular basis (not just annually) for the Board to consider strategic issues. This may necessitate a change in the way that board meetings are conducted. Perhaps the Board, under the Chairman's auspices, needs to move to a consent agenda to shorten the "normal" part of the board meeting to allow for discussion of strategic issues. (A consent agenda sets up the many routine items of a traditional board agenda as a ready-made matter for quick approval. There is only discussion should a member of the board have an unresolved question or an objection.) The Chairman's job, however, is to make sure that there is time for the Board as a whole to think strategically.

## VII. Plan for Board and Management Succession.

One of the Chairman's obligations is to make sure that appropriate management and board succession is in place. Often when management succession is discussed with the Board of Directors, the Board is only concerned with a "death" event. There is often no contemplation that the senior manager could take another job, win the lottery, move to Tahiti, or something else. The Board, led by the Chairman, needs to make sure that it has contemplated management succession issues, as well as board succession issues. There needs to be a plan. As part of that, the Board should, on a regular basis through the Chairman, "keep its collective eye" out for potential new additions to the Board.

## VIII. Mentor New Board Members and Evaluate All Board Members.

Part of the Chairman's job is to make sure that the bank and holding company have an effective Board. This will likely involve the Chairman's mentoring of new directors and the evaluation of all directors.

In order to mentor new directors the Chairman needs to have a full understanding of the industry and the director's job. Mentoring programs should be in place for new directors that provide them with education with respect to the industry, how banks work, financial terms, regulatory terms, and the like.

The Chairman should also assess whether formal board evaluations are appropriate. This is always a touchy subject with the Board. But many Boards do provide evaluations of the Board as a whole, board members as individuals, and the like. The Chairman is almost always intimately involved in the review process once the written evaluations are completed.

## IX. Understand the Industry/Get Educated.

In order for the Chairman to fulfill the Chairman's role as set forth above, it is essential that the Chairman understand the industry and garner some perspective other than from the Chairman's own bank.

This perspective typically comes for the Chairman of the Board through participation in a meeting with other Chairmen. "Chairman's Forums" are offered by some of the trade associations. Educational meetings with directors where the Chairman can interact with others in like positions are also plentiful.

The Chairman needs to understand the industry, understand the jargon, understand the regulators, and obtain some type of perspective beyond his or her own bank.

#### X. The Chairman's Job is Not a Figurehead.

As you will note from the first commandment, and this one is essentially an emphasis back on the first, the Chairman's job is certainly not a figurehead position. Be a leader. Be educated. Mentor younger or less-experienced directors. Understand the industry. Engage the regulators. Control and discipline the Board, as appropriate. And be a liaison to the shareholders.

All of these, and others, are critical duties of the Chairman.

Following the above 10 Commandments for Community Bank Chairmen may not result in a Chairman without flaws, but will certainly move the Chairmanship in the appropriate direction to provide for effective board leadership.

#### About the Author

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