BANK DIRECTOR EXPECTATIONS, AND THE BIGGEST ONE OF ALL: ‘SKIN IN THE GAME'

Director accountability should begin in the boardroom

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There's an issue that I generally receive inquiries about, particularly at the tail end of a strategic planning get-together when I am in executive session with the board of directors of the bank and holding company. The question often asked is:

"What is really expected of us as directors?"

Asking the right questions

I generally respond by asking the board whether they have any type of job description or a list of director expectations. If not, we often will bullet-point a framework for creating a list of community bank director expectations.

Some such points:

• What are the specific expectations for the directors of your bank?

• Do they know what they are?

• Are they evaluated through some method against the list of expectations or job description?

I think it's important to underscore that being a bank director amounts to having a "job," as opposed to a part-time honorary position.

Giving the right answers

So what should go on the list of director expectations?

Some real basics come to my mind, like:

• Attending meetings.

• Being prepared when you attend meetings--you have either read the material in the director's package on the secure website, or you have read the hard copy you received long before you get to the meeting.

• Sending business to your bank.

• Doing your own business with your bank.

To these, I'd pose some questions:

• How about being collegial with fellow board members?

• How about participating in the meeting-not just taking up space and using up air?

• How about not being obnoxious?

• How about getting continuing director education?

Having a stake in deliberations

And what about skin in the game? Should a director be required to own stock in the company?

For many of us, that one seems like a no-brainer, yet there are a number of community banks and holding companies whose directors have virtually personal financial stake in the business whose stakeholders they are acting on behalf of.

These directors take a fee for their services to the bank, yet have no financial interest in the outcome of their decisionmaking.

It seems to me that is the wrong message.

Now, if you take that as a given, things get a bit more complicated. Notably, if a director is required to have skin in the game, how much?

Many of the banks that I have worked with have set a minimum stock ownership for a director. This can be expressed as a minimum number of shares of stock or a minimum dollar value of stock. The policy generally provides that the director will get to the required level over a five-year period.

The dollar level of skin in the game may depend on a number of factors, including the age of the director.

Younger directors, for example, may expected to have less dollar amount investment.

Other issues at play: the size of the bank; the existing ownership of the bank; the ability of the director to obtain shares from others or from the bank or holding company; and the issue of dilution to a control ownership by issuing new shares.

Although a number of practical issues need to be addressed, the concept of skin in the game as an expectation of the director seems to make sense.

Formalize the expectations

My general recommendation is that every community bank have some type of list of director expectations that address the above issues and that the directors be evaluated against that list of expectations.

Without such a tool, how can you provide for director accountability?

Talk back! In the comment section below, share how your bank and board handles the matter of director expectations.

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