THE THREE PLAIN TRUTHS OF COMMUNITY BANKING TODAY

Part 1 of a three-part series: Truths about directors and trustees

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Update: Parts 2 & 3 have now been published. Click here for "Four Truths About Today's Community Bank Shareholder." Click here for "Five Truths About Bank Regulators That You Need To Know."

In the current community banking environment, it is time to reveal some "truths" about directors, shareholders, and the regulators. As the Good Book says, "The truth will set you free," or in the alternative, it may at least help you make a profit, enhance value for your shareholders, and run a good bank. This will be the first in a series of blogs about the hard truths about your directors, shareholders and regulators. --Jeff Gerrish

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1. Directors, it is time to stop looking over your shoulder.

Most directors, particularly in directors' meetings, attempt to move the bank in a forward direction by looking in the rearview mirror. Although the directors' primary job is to enhance value for shareholders, it is not really accomplished through a review of what happened last quarter or last month.

Instead, a number of means, including setting tolerances and managing risk, and setting strategic direction, i.e. forward-looking goals, must be used.

2. Directors, your board meetings may simply be too long and/or too inefficient.

Many of you whose banks are over 100 years old will likely find that your board agenda is virtually the same as it was 75 to 100 years ago. Your board agenda is the way it is because that is the way it has always been.

As directors, you need to think about how to free up time in your board meetings. Be more efficient.

Why? So the board can consider forward-looking strategies and risk issues.

How about using a consent agenda?

How about "flipping" the agenda and putting the most important matters at the beginning and the least important at the end. when everybody is tired?

The goal is to be more efficient to free up time for risk and strategic matters, not necessarily to shorten the meetings.

3. Outside directors, unfortunately, most of you do not have a clue.

It is not that you are not smart.

It is not that you are not trying.

It is just that you have not had experience in the industry.

You have very little perspective other than your bank.

As outside directors, you need significant education, experience, and interaction with your fellow directors. This can best be accomplished through conferences, workshops, and the like.

Do not just treat these as simply some kind of "travel experience." Treat them as real networking experiences.

4. Directors who hate board evaluations probably need to be evaluated.

Community bank boards are still, for the most part, good ol' boy networks.

As I have had many directors tell me when discussing board issues, "We work very well at the parking lot meeting after the Board meeting. Please do not disrupt our dynamic, such as it is."

As I said, board members who do not like to be evaluated probably need to be.

Most board members do not want to be evaluated primarily because they do not want to know how well (or poorly) they are doing their job. There are a variety of evaluation alternatives, from doing nothing (most boards) to using an outsider, which I recommend against (waste of time and money).

In between, there is self-evaluation, peer-to-peer evaluation, chairman evaluation, and a number of others. If you would like some sample evaluation forms I have picked up around the country, please email me.

5. Directors, admit it, most of you do not like the strategic planning process.

It is not that you do not realize that planning for the future and then establishing the strategies is important. It is just that you have had such a bad experience with respect to "planning" in the past, that it is simply something you would rather avoid.

As a Board, you need to explore why this is.

Has management tried to facilitate the meeting itself?

Has the facilitator you used been too focused on the process, not the substance?

Did the facilitator dominate the meeting, or let someone else?

All of those would be good reasons not to waste time and energy in that process again.

Fix the problem, don't avoid the obligation to plan.

6. Directors, you need to elect an effective Chairman of the Board.

The Chairman of the Board is not simply the director with the longest term, or the oldest director, or the one whose family controls the most stock.

Shouldn't be.

In a perfect world (where none of us live), the Chairman should be the director who understands leadership, can serve as a liaison to management, the shareholders, and possibly the community.

7. Directors, if you are not using technology in connection with your board duties, you need to start.

The board, no matter what its age or stage, needs to utilize available technology in appropriately exercising its duties.

This involves delivery of the board package through an electronic board portal of some sort, providing each of the board members with iPads or some similar device, and board education on technology. Although this will be a struggle for many community bank boards at first, over the long term it will improve board efficiency.

These are just some of the truths as it relates to directors. The truth is sometimes hard to take. Focus on these and hopefully your board will become more efficient and do its job better.

Next week I'll tackle shareholders.

Update: Part 2 has now been published. Click here for "Four Truths About Today's Community Bank Shareholder."

About the Author

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Gerrish formerly served as Regional Counsel for the Memphis Regional Office of the FDIC, with responsibility for all legal matters, including cease-and-desist and other enforcement actions. Before coming to Memphis, Gerrish was with the FDIC Liquidation Division in Washington, D.C. where he had nationwide responsibility for litigation against directors of failed banks.

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