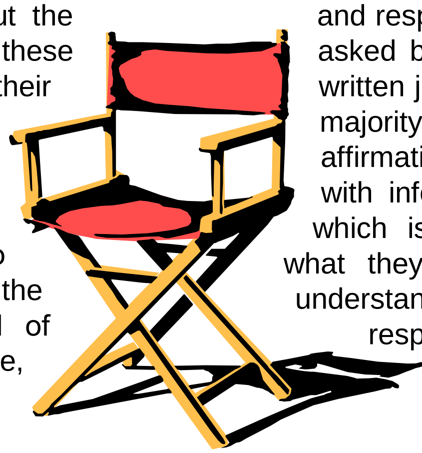
THE CHANGING ROLE OF THE BANK DIRECTOR; HOW DIRECTOR EVALUATIONS CAN HELP

CASS BETTINGER

CASS BETTINGER & ASSOCIATES

In our role as strategic planning consultants for community banks and bank holding companies, we work weekly with boards of directors throughout the country. Increasingly, these directors are recognizing that their role is changing and that more is expected of them.



Clearly, a director's primary role is "to direct," to provide strategic direction for the company. In today's world of rapid and pervasive change, boards of directors must spend considerably more time evaluating external change, exploring strategic alternatives, and helping to set the future direction for the company. This suggests, of course, that they must spend less time on non-strategic issues in the past and more time looking ahead. It also means that they need to be more actively involved in the strategic planning process. When we survey bank directors, almost all respond that they are not spending enough time focusing on strategic issues relating to the bank's future – and too much time on tactical issues in the past.

We believe that directors should have a written job description that clearly spells out and prioritizes their specific duties and responsibilities. Whenever we have asked bank directors if they would find written job descriptions of value the vast majority has responded in the affirmative. Directors are bombarded with information about director liability, which is clearly important. However, what they are asking for is a greater understanding of their role and responsibilities. They also tell us they want to learn more about "best practices."

Because banking is becoming more and more competitive, complex, and challenging, greater knowledge, expertise and competencies are required of all bank officers and employees. Those who are unwilling or unable to adapt are being replaced with those who possess the skills and aptitudes that are required, and a thirst for continuing education. Clearly, bank directors are facing greater challenges as well. They, too, must upgrade their understanding of industry trends, changing demographics, regulatory, technology and competitive realities, emerging risks, and the strategic options that are available.

Because of the added burden of responsibility, corporate governance experts are strong advocates of annual director evaluations. One format, which we call MAXIMIZING BOARD EFFECTIVENESS, has each director evaluating the board as a whole with respect to each of the key board responsibilities. Areas receiving low scores then receive the attention needed to elevate the scores on the next survey.

The second format, which we call MAXIMIZING DIRECTOR EFFECTIVENESS, involves self and peer evaluations. Each director evaluates himself/herself on each key director responsibility (our survey covers 48 specific items) and then evaluates each fellow director. Each director receives a written report with a score and ranking for each responsibility. A copy is typically sent to the Board Chairman. A gap score is also provided which quantifies the difference between the director's self-evaluation and the average feedback from the other directors. This gives each director a clear sense of perceived strengths and weaknesses and provides the input that is needed to become more effective. We find that most directors want to know how their performance and contribution are perceived by their fellow directors, and are looking for specific and relevant input as to how they can maximize their effectiveness.

We have found both types of evaluations to be extremely powerful in helping individual directors and boards as a whole become more effective.

Boards are also becoming far more proactive with respect to working with the CEO to set measurable CEO performance objectives and to provide a comprehensive annual CEO performance review. This, of course, is an important director responsibility that is all too often overlooked.

Finally, boards are taking a greater role in CEO succession planning. Based on the strategic vision and plan, boards are defining the specific experience, competencies and personality profile that will be needed going forward and are insisting on a competent and rigorous process for recruiting, screening, and evaluating all candidates. Boards abdicate their responsibility when they automatically elevate the number two person to the top job. Even a great number two may not make a good CEO. Enlightened boards are also being more proactive in addressing succession with sufficient lead time to allow for an orderly transition, rather than waiting until the last minute. We believe that every board should have a well thought-out, written succession plan in place.

IN SUMMARY, it is well understood that banks must change dramatically in order to survive and prosper in the 21st century. This means that their leaders, including directors, must change as well. In fact, this may well be the ultimate critical success factor.

For more information, please contact:
Cass Bettinger & Associates
(239)-596-2890
cassbettinger@gmail.com