The Chairman's Forum Newsletter

Opening the door to new ideas

Gerrish Smith Tuck, Consultants and Attorneys

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It certainly seems we are all off and running in 2020! Beginning of the year strategic planning sessions are underway, banks are looking around for what they should be doing new or different in 2020, many of you are gearing up for annual stockholder meetings, elections of new directors and other events. It certainly can be a busy time of the year. So, in this month's edition of *The Chairman's Forum Newsletter*, we start off looking at two key changes your community bank might consider making in 2020 to shake things up a bit at your organization and continue to drive future success.

In addition, we look at a few scenarios we have encountered already this year that merit attention. In particular, we consider the role of director fees and how often they should be adjusted, we take a fresh look at what role the Board should play in management succession and we look at the sometimes strangely difficult process of strategic planning for a healthy organization.

We also will give you a brief preview of some of the presentations we will be making at the upcoming ICBA Annual Convention in Orlando, Florida, but don't let this brief overview stop you from coming out and participating, especially for the sessions where we are speaking at 7:30 a.m. in the morning!

We trust that you will find some useful information in this month's edition and we look forward to seeing many of you in Orlando at the end of this week (March 8th through 12th).

Happy Reading!

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THE

Chairman's Forum

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NEWSLETTER

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Chairman's Summary

- If your strategic planning is stale, change it!
- If your Board meeting is stale, change it!
- Is it okay for directors to pay themselves?
- How much succession planning do we really need to do for a young management team?
- If you are a 1 or 2 rated bank, do you really need to do strategic planning?
- Leave Me Alone! and other Crystal Ball insights.

If Your Strategic Planning is Stale

Many of you are beginning the process of strategic planning for 2020 or are making plans for how you are going to conduct it in the Fall. If your strategic planning has gone stale, it is always good to change things up. If you are one of the many readers who use our firm for your strategic planning, might we softly consider that you change the structure of what you are doing, but not the facilitator! Even for our clients where we have conducted strategic planning for a number of years, we often find it is important to change the structure a bit. Do not use the same questionnaire every year. If you have found that over the years your planning has become a bit more operational and tactical, set aside a year where you intentionally force the participants to only focus on big picture, strategic themes for the year without any type of tactical or operational discussion. You may be surprised at how hard it is for people to stay at that "30,000 foot level" because everyone wants to talk about specifics. However, what we really need from the Board of Directors is true strategic planning, not operational or tactical planning. Our management team can figure that part out.

If you typically do not invite your officers to the planning session, you might consider inviting your senior executive team or even holding a separate strategic session that is for the management team. In that way, you can actually divide strategic planning from operational and tactical planning. If you have always done your strategic planning at the bank location, consider going off-site. If you spend quite a bit of time going through your financial statements and slicing and dicing your data as part of your planning, take the opportunity to avoid that altogether and, rather, focus on having your directors outline their vision for where the bank should be over the next three to five years. The key is to keep your strategic planning fresh in terms of process, location, participants, the types of questions you ask and the overall structure of what you are doing.

If Your Board Meetings Are Stale

If you really want to see how adept your Board members are at adapting to change, try taking your Board agenda and totally inverting it. Make the reading or review of the minutes the last item. Make the review of new business the very first item. Totally turn your agenda on its head. Why do we have to follow the same agenda we did in 1954? Maybe the first 45 minutes of our Board meeting needs to be dedicated to the discussion of new technology issues, our strategic plan, and employee incentives rather than item 2 always being review of the minutes, item 3 always being review of financial statements, etc. I guess we could be so bold as to suggest that you require directors to change the location of where they are sitting in the boardroom, but we also are not a fan of attempts to remove the Chairman or fistfights in the boardroom, so maybe simply tweaking your agenda might be the better way to go. The key point, though, is that we often find ourselves in too much of a rut doing the same thing month after month so that it becomes so structured and so anticipated that directors are not really paying attention, are not giving their full intellect to each endeavor and our organizations are hurt because of it. A little change or a little modification every so often can be helpful in terms of reenergizing your Board and keeping them on their toes. I guess if some of you try this and you go a month or two and no one even notices that you have made a change, that might be a column for another day! Good luck with this one and we will look forward to hearing how it goes. Drop us a line and let us know if your Board meeting devolved into total anarchy.

Is It Okay for Directors to Pay Themselves?

One of the wonderful things about community banks and the men and women who serve on their Boards is how selflessly most of these individuals serve. While it is somewhat typical for most healthy financial institutions to pay some level of Board or committee fees to directors for their service, it certainly is true that you will not become rich serving as a community bank director! If that is the reason you decided to get on the Board, that was not your best decision. But we often find this is carried too much to an extreme and directors become hesitant about rewarding themselves or even increasing Board fees. You certainly cannot compensate directors equal to the amount of risk that is assumed by serving on a financial institution's Board of Directors, but that does not mean we should intentionally keep director fees low. Let us make a suggestion. If your organization is healthy and profitable, but director fees have not been modified for five years, it is time to consider an increase in Board fees to keep your directors happy, engaged and productive. Too often our selfless service and our focus on fiduciary duties to stockholders makes it difficult for us to vote to increase our own compensation, but we recommend that you consider doing so, and you can use this newsletter as your justification! However, we do not recommend an increase in director fees in the same year that you restrict dividends or take other negative actions!

How Much Succession Planning Do We Really Need for a Young Management Team?

Appropriate management succession planning is a critical component of the job of the Board of Directors and the Chairman. But is it possible to start planning too soon? Sometimes we see Boards of Directors fret over the fact that they do not have a 16-page management succession plan for every position in the organization from the CEO on down. For example, what would we do if the President, CFO, Chief Lending Officer and every executive vice president who jointly purchased a lottery ticket won the big one and all walk out the same day? What if some other catastrophe happens and our CEO does not show up in the morning? We do not have a sheet of paper that specifically says who takes over, so what do we do? Although we are obviously providing somewhat extreme examples, we have recently seen Boards ask the question of whether they need to be doing more with succession planning even though they have a senior executive team that may be five to 10 years away from retirement. The short answer, we think, is not that you need to have an entire lineage of a succession plan specifically outlined for every senior executive management position that will become available 10 years from now, but in an overly simplified way you need to have a specific plan for what the process would be to fill positions and an understanding from the Board of how those steps unfold. If you want to write that into your plan that can be helpful, but you do not necessarily need to, today, designate specific individuals for succession positions that likely might not happen for eight to 10 years.

A good example of a bank that handles this appropriately was one we dealt with recently where the Board wanted to specifically discuss that their senior management were all about the same age. As a result, they thought there could be a large block of executives turning over, but that would all happen probably five to 10 years from now. They wanted to acknowledge it now, begin to think about internal candidates who could be groomed and to decide what type of process they would take if they needed to do something immediately. As a result, while they decided that there may not be internal candidates currently appropriate to succeed any particular officer, they determined the process by which they could manage those job functions on an emergency basis through a number of different employees and the process they would take to find replacements outside the organization. Then, they decided that probably in the next three to five years, they would need to have specific individuals likely designated as succession candidates or begin to groom and train specific individuals, etc. So, again, having a plan to have a plan, or developing a process currently even if specific succession candidates are not identified, seems to be the key.

Success Breeds Its Own Problems

Organizations that have specifically identifiable problems (either regulatory-wise or otherwise) often find that strategic planning, in many ways, is simplified. That is because there is an identifiable issue that needs to be resolved and strategies can be implemented for how to resolve the item. In essence, whether through the Chairman of the Board, the Board as a whole or the management team, the short-term and immediate strategic plans are to fix the problems. But for healthy, profitable organizations which are not facing current significant problems, strategic planning, in and of itself, may be seem a bit difficult. For example, we see a number of institutions in the current environment that are performing well, providing a strong return on equity, shareholders are happy with dividends, the bank is growing at a modest pace and everything seems to be rolling along smoothly. So, do you need to mess that up with strategic planning to take on six new initiatives? Of course, we are proponents of continuing yearly formal strategic planning, but sometimes that strategic planning may take on the role through the Chairman or otherwise of questioning the Board and senior management about why we are doing well, what steps we can take to maintain that current status and whether alternative strategies would materially change us for the better. Doing so often requires the Board to focus on more internal strategies rather than external strategies. In one recent situation we encountered, a Board of Directors decided that the organization was performing so well that they did not want to consider acquisition activities or anything else that might pose significant risks. However, the organization found itself in an overcapitalized position. The result was the decision to deploy that capital to repurchasing stock from stockholders who had a desire to sell thereby creating liquidity for them and creating economic benefits for the stockholders who remained. Overall, you might suggest that the strategy was merely to keep the engine running smoothly rather than necessarily trying to make it run faster. For that organization, it was absolutely the right strategic decision. So, for your organization, keep in mind that success may not always be defined by growing your asset size, adding new and more risky loans to drive a greater net interest margin or some other risk factor that is not consistent with the overall risk tolerance of your Board of Directors. Continue to do what is best for your organization notwithstanding what other organizations are doing.

Meeting Adjourned

As many of you know, the ICBA Annual Convention is right around the corner in Orlando, Florida. We are pleased that we each have a speaker slot at the Convention and encourage you to stop by, hear our presentations and meet us in person. As always, feel free to let us know that you read the newsletters and we would love to hear your feedback.

At this year's Convention, you can look for Jeff Gerrish's presentation where he revisits the predictions he made about banking in 2020 over 20 years ago when he speaks on "Dusting Off the Crystal Ball: Community Banking Past, Present and Future". In addition, Philip Smith is speaking on the topic "Leave Me Alone! Remaining Independent in a Consolidating Environment". Greyson Tuck will be speaking on "Debunking the Myth that Acquisitions and Size Assure Viability". All of these will be informative, entertaining and highly practical. We hope you will take the time to attend. We look forward to seeing many of you in the coming weeks at the Convention or on the road and look forward to renewing acquaintances.

Until next time,

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