



Opening the door to new ideas

THE *Board Chair Forum*

NEWSLETTER

Gerrish Smith Tuck, Consultants and Attorneys

June 2021

As we head into the Independence Day holiday, things are heating up across the country, both in terms of the actual temperature, and in community bank activity, both from a merger and acquisition standpoint, as well as general operational issues. In this month's edition of the *Board Chair Forum Newsletter*, we begin by looking at strategic planning. However, our focus is to demonstrate that there are multiple ways to conduct strategic planning and no one format is right for every organization, and no one format is even right for a single organization every year.

We also look at the Board Chair's role with regard to terminations. This may not be what you think. Yes, it can mean terminating employees, it can mean terminating directors, but it also can mean terminating certain products and services or organizational structures. The Board Chair has a role in each of those, and we discuss those leadership opportunities and responsibilities.

Finally, we comment on stock repurchase transactions as an alternative to the hot M&A market, and draw some conclusions regarding that structure from a board standpoint.

We hope you find relevant information in this month's edition, and we hope you find some relief from the summer heat, and let's all keep working to put COVID in the rearview mirror.

Happy Reading!

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Gerrish Smith Tuck, Consultants and Attorneys
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Board Chair's Summary

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- ◆ The Board Chair's Role: Multiple Types of Terminations
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What Kind of Strategic Planning is Right for You?

As we move into the summer, strategic planning sessions are now being contemplated and booked for the fall and even into 2022. We will be looking forward to seeing many of you at your banks, in person, for planning sessions that we missed during the past year. But, as we enter the time for scheduling strategic planning, what kind of strategic planning is right for you?

There are probably many more forms and structures of strategic planning than you might expect. No one format is right for every organization, although candidly we see a lot of companies around the country trying to force a strategic planning model on organizations, even if it does not fit. Even more importantly may be that no one format is right for every organization every year. It might be beneficial for an organization to continue to keep things fresh by changing the structure of their strategic planning. We have set forth below a few ideas and suggestions of the different types of ways to conduct strategic planning.

Traditional, Comprehensive Planning

This typically entails a one-day, all day session that is comprehensive in nature, covering everything from your Mission Statement to a possible exit strategy. Everything in between is also covered, whether that is capital planning, operational discussions, products and services, marketing, technology, etc. In essence, you get a little bit of everything in this type of session.

Traditional Plus

This format takes a fairly standard traditional strategic planning session and expands it over more than one day. In doing so, the event is often used as a morale builder for employees, it incorporates dinner, it may include an event such as golf, a cruise or something else. The idea is to take a traditionally focused strategic planning session and create around it a director and employee perk, activities that perhaps build camaraderie, and simply take a bit of a relaxed approach toward things so that the importance of the strategic planning session does not get in the way of recognizing the importance of your people.

Traditional Minus

This format starts with what might be a traditional planning session, but deletes those items that candidly are not really necessary. For example, an organization might skip reviewing the Mission Statement, Vision Statement, Value Statements, and agree to only focus on the “meat and potatoes.” In addition, an organization might intentionally segregate out certain components such as technology or something else, to more of a working group in a session that is separate and distinct from the traditional planning session. So again, you are really focusing on just the core items, but still keeping the event somewhat comprehensive.

Targeted Strategic Planning

In this type of planning session, the event really becomes driven by a specific topic or issue confronting the organization (or perhaps a handful of those). Typically, the session is more along the lines of a half day session where, for example, your primary strategic focus might be on capital planning, the M&A market, or something similar. The idea is that your general strategic planning is working well, but you need a targeted session to refresh a focus on regulatory matters, a management assessment, technology, or something else.

Strategic “Dreaming” Session

We are seeing more organizations post-COVID pursue this kind of session. This is intended to be a big picture, pie in the sky, focus on the future, “think tank” approach toward planning. This is the one with “no wrong answers.” Everyone is encouraged to, as you have often heard, “think outside the box.” The kinds of questions you might ask and attempt to answer would be something along these lines: Could your \$400 million bank be over \$1 billion in five years? If so, how? Should you try to partner with a fintech company and become more digital in your focus? Could a larger bank become one of the 25 most profitable banks in the country within 10 years? Is there a future in international banking even for the smallest organizations? Should we close all of our branches and become 100% digital? We think you get the point here, which is that it is really intended to stretch the horizons of traditional bank thought. It may involve individuals beyond just the board. It gives you an opportunity to have a session that while geared toward planning, is geared toward creative thinking to better plan down the road.

While considering all of these various types of strategic planning, also consider what you might actually want to accomplish at the session. You would think there is a textbook correct answer, but that is not entirely so. Some organizations find that they really want the session to be problem-solving and work on fixing what’s broken. Others come into a session simply needing to identify key issues. Others focus on specifically crafting detailed action plans for future actions of the organization. Others focus on building consensus around ideas that are already on the table but they need a focused strategic direction. As the Board Chair, think about your role in pushing one of these types of planning structures (or

multiple types of structures over the years) and really focusing on what outcomes you want to have in your planning. By continuing to change things up year after year, you can keep the sessions fresh, keep your people engaged, and really develop the best plans.

The Board Chair's Role: Multiple Types of Terminations

You will be happy to know this is not going to be a discussion about the community bank Board Chair's role in terminating the bank's CEO. Rather, think of different types of termination issues that the Board Chair might face. Certainly, the Board Chair would be involved if there was a need to terminate the CEO or another top employee. What about terminating a director? Can that easily be accomplished? If you are not sure, you should check your Articles and Bylaws and state law. We have seen many organizations assume that a director can simply be removed by a majority vote of the remaining directors. However, many corporate documents have provisions that provide that a director who has been elected by shareholders can only be removed for "cause," and "cause" sometimes can be defined as something pretty harsh like conviction of a felony. This is one of those issues that never comes up until you don't want it to come up, but it is best to review your corporate documents and state law in advance to know how a director can be removed if it is ever needed.

Another area of termination relates to the possibility of terminating certain organizational structures. We have recently been dealing with organizations and board members that are considering termination of Subchapter S status, terminating a frozen ESOP, or something similar. The Board Chair's job should be to question whether the structures we have in place are continuing to be profitable and productive and are the best structure for our organization. If it is not known, someone should question whether or not those structures should be terminated. We have one client that is a Subchapter S organization, and practically every year they revisit the idea of whether they should terminate their Subchapter S. We are strong advocates of Sub S and they have not yet chosen to do that, but they do reanalyze it each year, look at prevailing taxation rates, and the like.

A similar area of attention for the Board Chair would be in consideration of product and service termination. We certainly do not advocate the Board Chair or any directors getting involved in micromanagement, but it may be the Board Chair's role, along with that of other board members, to ask about the strategic necessity for particular products and services. Far too often, management may be so busy running the day to day affairs of the organization that it is difficult to take a 30,000 foot view of the products and services being offered and ask "why?" So, it may fall to the board, and the Board Chair in particular, to request that management, each year, show the strategic or economic justification for why the organization maintains certain products. For example, is your Trust Department lagging? Do you offer discount brokerage services that are rarely used? Are you still offering a bicentennial checking account?!

We do not mean to suggest that products and services need to be terminated each year if they are not making money that year, but it is about fulfilling the strategic objectives of the organization with products and services that support, rather than hinder, those objectives. Better yet, in light of the comment that management often is too busy to have the time to think strategically, as Board Chair, consider it part of your job to give management the freedom and the time necessary to devote part of their working day to forward-looking strategic initiatives, rather than merely putting out fires all the time. Your shareholder value and your overall organizational health will benefit from that strategy.

A Capital Allocation Decision, Deciding Who to Buy

One of the key obligations of the board of directors, as led by its Board Chair, is making capital allocation decisions. One of the most critical capital allocation decisions can be whether you decide to allocate resources to purchase another bank. That seems to be the question most boards are asking these days, as everyone is responding to a continually active merger and acquisition market. In fact, we could be so bold as to say that every bank ought to be looking for a bank to buy. However, what we will often tell you is that the bank you ought to buy could very well be your own. That can be accomplished by repurchasing your own stock.

We are seeing a resurgence of stock repurchase planning as an effort to create liquidity for stockholders and support the price of the stock for many organizations. When we run the financial analysis through our models on stock repurchase transactions, either formal or informal, we often find that they are materially more accretive to earnings per share than even buying another bank, and they certainly have less downside risk. So as the Board Chair, when you lead your organization into discussions about appropriate capital allocation decisions and how much equity the organization has and what are the proper uses for it, always consider repurchasing your own stock as an alternative to buying someone else's stock through an acquisition.

Meeting Adjourned

We are not really sure where the year has gone, but we are halfway through it. If we told you we are closer to Christmas Day 2021 than we are to January 1, 2021, would you be surprised? The pace at which we conduct banking is certainly moving along quickly, the pace of the COVID recovery is hopefully moving along quickly, and we trust that you and your organizations are maintaining the pace to keep your customers happy, your employees engaged, and your shareholders thankful for the value you have created. If we can help, please let us know.

Until next time,



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