THE
Board Chair Forum
NEWSLETTER

Opening the door to new ideas

Gerrish Smith Tuck, Consultants and Attorneys

February 2022

Change is in the air! If that's true, we are all hoping it's a good change. But it does seem as though some of the COVID restrictions are easing across the country, there is certainly economic change ongoing but there are also changes in the approach that Board Chairs and Community Banks are taking toward their organizations. In this month's edition of *The Board Chair Forum Newsletter,* we take on a number of topics and provide brief commentary on each as a way of demonstrating how much different change there is going on. Often in this newsletter we have talked about the role of the Board Chair as somewhat of the "Disrupter in Chief" and we continue to highlight that role with the ways a Board Chair might look at things for the Organization or challenge the Directors and Management to better position the Organization going forward.

Coming on the heals of the ICBA Annual Convention in San Antonio where we had the opportunity to give various presentations regarding the Board's role in the M&A environment, the overall outlook for what Boards should be focusing on now, creating liquidity for illiquid bank stocks and other topics, we certainly can see change occurring all around us. The job of the Board Chair is to somewhat harness the change, realize which changes are not in the best interest of the Organization and steer clear of those but yet embrace positive change, no matter how difficult it is. Meeting and accomplishing positive change are now necessary to promote the Organization's independence, relevance and long-term viability. We hope you find many items in this newsletter that can be of assistance to you in that regard.

Happy Reading!

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Board Chair's Summary

- ***Decide What the Role of the Chair Will Be***
- ***Technology Does Not Equal Risk***
- ***The Board Chair Should Ask Tough Questions***
- ***Bankers Can Learn From Auto Makers***

Decide What the Role of the Chair Will Be

Often the Board Chair is tasked with the responsibility of helping to develop the role of the President/CEO. Similarly, it falls to the Board Chair to select committees and thereby assign the various roles of the other Board members. But, who decides what the role of the Board Chair should be? Often it's something that gets overlooked. We believe the Board as a whole should be involved in that process but in particular, the Board Chair should know what his or her role is expected to be.

Consider, for example, that some Organizations view the Board Chair's role as merely an "emergency" role player. The Board Chair resolves difficult disputes, may be charged with speaking to the President when he or she is to be fired, votes only in case of a tie or some other type of emergency scenario. On the other hand, other Boards require the Board Chair to be an active and hands on person working directly with the President/CEO to help chart the overall direction of the Organization and perhaps handle other daily functions. In this fashion the Board Chair may help schedule meetings, may be responsible for helping the Organization develop an organizational study or take other more tactical steps. We see most Board Chairs now being more involved rather than merely serving an administrative, ceremonial or emergency role. Consider what role you play best or how that role should be developed in light of your other Board members and clearly define the Board Chair role including consideration of putting it in writing.

Would you ever consider rotating the job of the Board Chair? That is certainly not for everyone but some Organizations do that to the same extent they rotate committee chair and assignments. Some find it's a good way to force each Director to realize the duties and responsibilities and provides some diversity of thought and direction from the Board Chair position as well. Keep that option in mind too as you develop duties and responsibilities of the Board Chair.

Technology Does Not Equal Risk

Historically speaking, when Boards of Directors have talked about technology and technology development, they normally do so in the context of enterprise risk management, risk of investing funds to gain new technology, the risk that investing in a product or technology that customers don't want will be a waste of funds, the risk that the technology won't work the way it should, the risk of becoming irrelevant if we don't keep up the technology and other focuses. However, as Board Chair, consider redefining your Board's approach where technology and risk are not on the same plane. Technology is no longer a luxury item just for a few select Organizations and it is not a decision point of whether to have technology or not. Rather, technology and ongoing technology development and modernization is now mandatory. We can no longer take the approach on technology that "our customers aren't asking for it". The reason is that customers won't ask for something that they expect you to already have, they will simply leave and go someplace that has it.

Gaining and utilizing the newest technology is now somewhat almost standard operating procedure. There will always be those Organizations on the cutting edge (which very few of us will be) but it is at least arguable that every year there is some new minimal amount of technology your Organization needs to have adopted to maintain relevance and success. Just like your Organization is required each year to have some minimal level of capital, now it seems as though all Organizations need some minimal level of technology. Remember, you cannot text from a rotary phone! We (most of us) had to move on. Technology investment does not equal risk. The lack of technology investment does.

The Board Chair Should Ask Tough Questions

In past issues we have talked about the Board Chair serving as a bit of a disrupter by intentionally asking the provocative or difficult questions that other Directors may be unwilling to ask. The types of questions that can be asked often can shape the future direction of strategic discussions. So let us explore a few additional questions we would suggest.

Start with this, “What puts our Bank at a competitive disadvantage?” Is it lack of technology, lack of Board and Management succession, outdated locations, low salaries, high turnover? When considering this kind of question don’t limit your thinking to what puts your community bank at a competitive disadvantage to the bank across the street. In today’s environment, think about what puts you at a competitive disadvantage to other businesses because that might impact the ability to attract and retain employees. For example, does our refusal or inability to allow a more remote workforce put us at a competitive disadvantage? What about having Saturday hours? Rethink who your community bank is competing with for employees as you consider competitive disadvantages.

Here is an interesting question, “What would cause us to sell?” Be honest in the assessment. Is it simply a great price, better employment opportunities for our staff, the opportunity to have a liquid stock that pays a better dividend for our stockholders? Would it be some type of economic crisis that impairs capital? When asking these questions, the way to maintain your relevance and independence is simple (easy for us to say), fix it! Identify the areas that would cause you to sell and repair those so that there won’t be a need to sell. If it’s better succession, plan for it. If it’s more capital, go get it. If it’s a lack of earnings, strategically plan ways to increase earnings. Critique yourself before others do.

Bankers Can Learn From Auto Makers

In many ways, you might really think of car manufacturers, the car buying and selling process and the way that customers engage in the process to be somewhat similar to banking. Both are long standing businesses with pretty traditional ways of doing business and when the customer walks in the door both are willing to provide the services the customer needs. However, in a recent article we read regarding Ford and how they have begun utilizing the technology firm Stripe (an online payment processing and credit card processing platform) to drive more car sales, we thought there were some lessons for bankers to be learned from Ford's new approach to utilization of technology for the customer's benefit.

Here are some key points about Ford's relationship with Stripe to get you thinking more creatively about how the future of your Organization may operate. Ford is trying to utilize new technology to allow "in car commerce". Yes, they want you to be able to buy and sell products while driving. According to Ford, as younger consumers enter the car buying market, they bring with them an expectation of a seamless digital shopping experience. But, beyond that, Ford plans to use the technology as a way of connecting potential car buyers to a local Ford or Lincoln dealer. Do our customers have a greater expectation of seamless and digital banking experience? If Ford can connect car buyers to their local dealership, could mortgage companies connect home buyers to their local community bank?

The articles pointed out that there is a growing trend of imbedding payment systems inside of new vehicles to meet travel needs such as paying for parking, paying for gas, purchasing food, etc. Doesn't it sound like that is an attempt to allow the consumer to avoid ever really needing to have a direct connection with a bank? Consider some of the interesting statistics regarding car buying that we as the Board Chair, Directors and Management of financial institutions should consider. It is reported that more than half of the shopping that is done for automobiles originates online, not with people hopping in their existing vehicle and driving down to a dealership on a sunny Saturday just to look around. Perhaps equally important, the data indicates that almost two thirds of car buyers at least make a decision on the make and brand of a vehicle they want to buy before ever visiting a dealership. So, let us ask you, aren't more and more bank customers and consumers of our products likely doing the same thing? Would they simply drive around and try to find a branch that is close to their house or would more and more customers simply go online, determine the types of products and services offered, visit your webpage, see if online banking capabilities are seamless, try to arrange an appointment online for a time to come to your location to meet, etc.? We believe it is time to start rethinking the bank customer from the Board Chair's position or ensuring that the Board and management has individuals on your team who bring this new kind of mindset in helping to preserve the Organization's relevance and viability.

So, as Board Chair the idea is to challenge what we believe and to look to how customers are reshaping other segments of the economy and realize those modifications will come to banking sooner rather than later, if they are not already here.

Meeting Adjourned

Let's be honest, banks and their leadership are not normally the quickest to change course, be innovative, or look to the future. But if we recognize the pace at which change is impacting our lives daily, it creates a unique way of looking at your Organization that while, at first glance may seem intimidating, also provides countless opportunities. So, stay on top of technology information, ask tough questions of your Board and then perpetuate your independence and relevance by filling in the gaps. If we can help, let us know.

Until next time,

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