



## TKG Perspective

### Watch for Us

#### Teaching/Speaking Engagements

**Pennsylvania Bankers Association**  
*PBA School of Commercial Lending*  
The Penn Stater Conference Center  
State College, PA      **July 11-15**

**AMIs Institute**  
*Annual Performance Measurement School*  
Washington University  
St Louis, MO      **July 18-22**  
*Funds Transfer Pricing and Capital Assignment*

**Pennsylvania Bankers Association**  
*PBA Advance School of Banking*  
Penn State University  
State College, PA      **July 24-29**  
*How Do Banks Make Money?*

**Maryland Bankers Association**  
*The Maryland Bankers School*  
University of Maryland  
College Park, MD      **August 1-5**  
*Bank Financial Principles*

**North Carolina Bankers Association**  
*NC School of Banking*  
University of North Carolina  
Chapel Hill, NC      **August 7-12**  
*Bank Organizational Structure*

**Computer Services, Inc.**  
*2011 CSI Customer Conference*  
Indianapolis, IN      **August 10-12**  
*Utilizing Performance Measurement Data*

**Pennsylvania Association of Community Bankers**  
*Annual Convention*  
Hyatt Regency Lake Tahoe  
Incline Village, NV      **August 25**  
*Strategic Alternative Reviews*

**PICPA**  
*Financial Institutions Conference*  
Sheraton Harrisburg Hershey Hotel  
Harrisburg, PA      **September 29**  
*Dealing with Regulatory Orders:  
A Panel Discussion*

### What Kind of Board of Directors Does Your Bank Have?

By Robert E. Kafafian, President & Chief Executive Officer

As a result of the financial crisis and subsequent recession, Board oversight has become a more significant issue to both regulators and shareholders. Proper corporate governance and the role of the Board of Directors is an often debated subject. Regulators are increasingly asking for Board and management studies to determine if the “right” people are in the “right seats” to oversee and manage a financial institution, and shareholders are determined to make sure their investments are secure.

In our almost thirty years of consulting to the banking industry, we have witnessed boards that span from great and functional to poor, destructive and disruptive. The recent recession has exposed weak boards with limited industry knowledge and inability to govern. We have also seen dynamic boards that rose to the occasion to turn their banks around or continue to succeed.

We have seen boards dominated by one or a few individuals, and others working collaboratively, utilizing the skill sets that each member brings to the table. We have seen boards that have transitioned over one-hundred years of a bank’s existence and start-up boards that join together all at once. We have seen boards that are manipulated by CEOs, and boards where the CEO and management team view board members as advocates and mentors, making the most of their background and experience. We have also seen dysfunctional boards ruin otherwise healthy and successful banks.

There are many definitions of corporate governance. Listed below are three examples:

- Corporate governance comprises the long-term management and oversight of a company in accordance with the principles of responsibility and transparency.
- The practices, principles and values that guide a company and its business every day, at all levels of the organization.
- *The framework of how directors and management perform their respective duties to add and create proper regulatory oversight and shareholder value.*

While all three are good definitions, I prefer the third one because it suggests that directors and management have defined roles that connect, but don’t conflict.

In addition to the above definitions, Directors have a fiduciary duty which can also be defined in different ways (I have again highlighted my favorite of the three):

- The legal duty of a fiduciary is to act in the best interests of another or a beneficiary.
- A fiduciary duty is a legal or ethical relationship of confidence or trust between two or more parties, most commonly a fiduciary and a principal or principals.
- *Duty of trust owed by a director, trustee, or officer to act in another’s best interests rather than for personal advancement.*

With regard to fiduciary duty, the Board has a responsibility to the following:

- Regulators (Safety and Soundness and to conduct business within existing laws)
- Employees
- Customers/Depositors (Safety and Soundness)
- Community
- Shareholders (Returns)

And more specifically, the role of the Board should include the items listed below:

- Hire (Terminate) and Retain Competent Management (Mainly the CEO) and Succession Planning
- Maintain an Appropriate Board Structure (Chairman, Vice Chair, Committee Chairs, Financial Expert)
- Understand Risk Factors – Credit, Interest Rate, Liquidity, Price, Strategic, Reputation, Operational/Transactional, Foreign Exchange
- Monitor Operations - Operating Policies/ Procedures
- Internal Audit Function – Safety and Soundness
- Keeper of the Strategic Plan – Oversee Business Direction and Performance

## 2011 Conferences and Conventions

**Pennsylvania Association of Community Bankers**  
**Annual Convention**  
 Hyatt Regency Lake Tahoe  
 Incline Village, NV    **August 23-26**

**New Jersey Bankers Association**  
**Senior Management Conference**  
 Borgota Resort  
 Atlantic City, NJ    **September 12-14**

**Maine Bankers Association**  
**Annual Convention**  
 Hyatt Regency  
 Montreal, Canada    **September 15-18**

**North Carolina Bankers Association**  
**Management Team Conference**  
 Pinehurst Resort  
 Pinehurst, NC    **October 16-18**

**American Bankers Association**  
**Annual Convention**  
 Grand Hyatt  
 San Antonio, TX    **October 23-26**

**New York Bankers Association**  
**Annual Convention**  
 Waldorf Astoria  
 New York, NY    **November 9-11**

So what type of Board does your bank have? The following is a list of five types followed by specific characteristics of each:

- Micromanagers
- Negative Impact
- Neutral No Impact
- Monitoring and Checklist
- Strategic Asset and Performance Enhancers

### Micromanagers:

- Forgot they hired a management team
- Believe they must be involved in day-to-day decision making
- Believe they must make every decision
- Often have trouble attracting quality management
- Sometimes have conflicts of interest

### Negative Impact:

- What micromanagers become
- Panic in a crisis
- Don't come prepared
- Have a history of making bad decisions
- Often have unfocused, endless meetings
- Tend to be negative versus positive thinkers and always looking to place blame

### Neutral No Impact:

- Don't have a negative or positive impact
- Often prestige or fee driven
- Don't like to make waves or ask questions
- Allow management/CEO to be dominant
- One or more members are sometimes a friend of the CEO
- Considered "Rubber Stamp" or comfortable with the status quo

### Monitoring and Checklist:

- Strictly follow policies and procedures
- Have a basic understanding of governance and fiduciary responsibility
- Contributions stop short of providing a real competitive advantage
- Tend to have a positive but limited impact
- "Just don't get me in trouble" attitude

### Strategic Asset and Performance Enhancers:

- Understand their governance, oversight, and fiduciary responsibility role
- Come prepared to meetings and continue to educate themselves
- Understand and identify internal and external factors
- Demand good information to make informed decisions
- Understand risk factors
- Ask the right questions and probe for answers
- Set strategic direction and are the keeper of the Plan
- Empower management to execute the Plan and oversee the day-to-day and longer term operation of the Bank
- Provide proper incentives
- Hold management accountable for results with meaningful, but limited benchmarks
- Plan for succession at the board and management levels
- Are ambassadors for the bank in the communities being served and throughout the industry

So ask yourself, which category best describes your bank's Board and what can be done to improve their contribution and oversight? Oftentimes, this starts with a better understanding of both the Board's and management's roles. It also requires more education to assist the Board in their fiduciary capacity. Please feel free to call The Kafafian Group to discuss any Board or development issues. We look forward to hearing from you.



TKG, as part of our consulting and advisory engagements, frequently evaluates our industry, its trends, successes, and challenges. We are pleased to share our thoughts with you, our valued clients and friends, in the form of this periodic newsletter. If you would like to discuss anything further, or learn more about our performance measurement, strategic planning, profit/process improvement, regulatory assistance or financial advisory services, please call us at (973) 299-0300 or visit us at [www.kafafiangroup.com](http://www.kafafiangroup.com).