



7 Things Bank Boards Should Focus on in the Year Ahead

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The world of corporate governance today has a brighter spotlight on Boards of Directors than ever before. While bank regulatory relief has provided a long-awaited respite from some elements of overreach, bank examiners seem to be zeroing in more and more on Governance, Director performance and Board succession. Here are 7 key things that Directors should have on their radar screens in the year ahead:

1. **Defining Innovation** Digitization and Innovation are the buzzwords of the moment. However, truly embracing the transformations taking place all around us can be daunting. Pondering how technology has altered our client relationships and approaches to new customer acquisition means thinking out of the box, which may be a challenge for some Directors and bank executives. A refresh of the bank's website is not an innovation—it is table stakes. True innovative thinking requires more proactivity and planning, and likely some outside perspectives as well. Boards should encourage management to craft a plan to address to these challenges, which are key to remaining relevant.
2. **Talent Management** Boards historically viewed talent management as the purview of executive leadership and the CEO, except perhaps when it came to CEO succession. In today's talent deficient industry environment though, boards need to hold the CEO and senior team much more accountable for developing the next generation of leaders and revenue generators. If your bank wants to perform above the mean, then the senior team must be composed of very strong above average players who are well suited to execute your strategic plan. A true linkage between the business strategy and human capital strategy has never been more critical for success and survival. Boards need to pay more attention here.
3. **Revisiting Compensation Strategies** Balancing the tradeoffs between enhanced compensation packages and performance/accountability has become a significant challenge for Compensation Committees and CEOs. In this competitive talent climate, banks need to make sure that their compensation practices properly reflect the bank's market and goals, motivate the right behaviors, and incentivize key players to both perform *and remain* with the

institution. Fresh Board thinking in this area may be appropriate, particularly for banks that have been less performance driven with their incentive programs, or do not have the currency of a publicly listed stock as a compensation tool.

4. *Enhanced Accountability and Self-Assessment* Just as Boards need to truly hold their CEO accountable for institutional performance, Boards need to hold themselves accountable as well. Governance advocates are pushing hard for Boards to assess their own performance, both on a group and individual basis. Directors should have the fortitude to evaluate the performance of their peers—confidentially of course—to identify areas for improvement via enhanced training. Directors should be open to this kind of constructive feedback, and work to consistently improve the value they bring to the institution.
5. *Onboarding New Directors and Ongoing Training* Plenty of data reinforces that new executives as well as board members contribute more rapidly when there is a formal approach to ramping up their knowledge of the company. Expectations of new directors should be clear up front, just as they would be for any new employee. A robust combination of information and inculcation into the institution provides valued context for decision-making; clarifies the cultural norms; and often reveals the hidden power structures which exist everywhere—including the boardroom. A strong onboarding program forms the foundation for ongoing Board education. There should be a formal plan annually for each Director's education to maintain currency, refresh specific skills, and to stay abreast of leading practices in bank governance.
6. *Board Refreshment* Are we truly building a board of diverse thinkers with the range of skills needed to govern appropriately in the industry today? While age and tenure have become flashpoints around continued board service, they are in reality artificial conventions to avoid dealing with declining contributions and underperforming directors. Every board seat is a rare and precious thing, and needs to be filled with someone who broadens the collective skills and perspectives seated around the board table. Board Nominating and Governance committees need to manage accountabilities for existing—and particularly for prospective—Directors, and be willing to make the tough calls when needed. Underperforming Directors should be encouraged to raise their game or be asked to step aside.
7. *Leading by Example* In today's information driven society with endless social media channels and instant visibility, C-Level leaders and board members are under the microscope. Lapses in judgment, breaches of policy or inappropriate behavior, once validated, must be dealt with quickly and decisively. The company's brand reputation and



credibility are always at risk. The board itself—along with the CEO of course—must set the standard for ethics and compliance and lead from the front. Every day.

Bank Boards will continue to be under scrutiny no matter what the environment. More importantly, a bank's Board of Directors must be a strategic asset for the institution and provide strong oversight and advice for management. The expectations of good governance have never been higher, and successful bank boards will raise their own performance to help ensure their bank's continued success and survival.

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