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The Bank Director of the Future: Diversity of Experiences and Skill Sets Matter

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While the requirements needed in a bank leader today continue to evolve, the same can also be said for bank directors. Boards of directors today are under more scrutiny than ever before, whether from governance advisors, shareholders, Wall Street analysts, activist investors, community leaders and customers. Even mutuals and privately held institutions face more visible scrutiny around corporate governance from their regulators and key constituents. Serving as a bank director today may still have a certain amount of prestige (depending on whom you ask), but the expectations for director performance and engagement have never been higher.

Community banks in particular tend to have long tenured board members—in many cases with decades of service. Continuity can be a good thing, provided the director skill sets continue to be relevant and the board does not become too close to the CEO, compromising objectivity. However, **many bank boards have begun to focus more on the "collective skills" represented around the board table**, and have started to emphasize a skill-based approach in making director retention and recruiting decisions.

There are certain skills sets which nearly every bank board likely needs more of; first and foremost in technology. So-called cyber or digital skills are paramount in today's industry, from both risk and growth perspectives. Likewise, we often see high demand for new board members to serve as qualified financial experts—particularly in public companies—and for directors who bring risk management, strategic planning, marketing/branding, human capital or prior CEO experience to the board table. Depending on the ownership structure, many publicly traded banks are also interested in directors with prior exposure to best practices in public company governance.

However, **the real place for improvement in the boardroom is often around how the board behaves**. Research from numerous sources validates that how a board operates is the most critical factor of whether a board is a truly valuable strategic asset for the company. Director willingness to discuss the truly vital issues—such as strategy, CEO and board succession, transactions and risk—in an open and candid manner is an important ingredient for institutional success. CEO succession in particular can be an Achilles heel for banks if they are unwilling to deal with the elephant in the room.

One of the other weaknesses in the boardroom involves the underperforming director. According to audit and consulting firm PwC, 35 percent of directors think someone on their board should be replaced. Yet the percentage of community banks conducting peer reviews (compiled by an objective third-party to maintain confidentiality) remains low. In addition, PwC research also suggests that 25 percent of directors come to board meetings unprepared. If we truly believe in building a strategic-asset board as governance best practices would suggest, then **boards have an obligation to raise their game and make some tough decisions**. A board seat is a rare and precious thing, and not having every director contribute in a currently meaningful way reduces board effectiveness considerably.

The single biggest determinant in board effectiveness is the board's willingness to address these tough topics head-on, and to do so in a non-personal, collaborative and open manner. Boards that cannot handle straight-talk, or dodge the big issues around director or CEO succession, often prove less effective, in part because they are presenting a status-quo message rather than a forward-thinking viewpoint. Fostering a boardroom culture which enables robust discussions from divergent viewpoints, in order to arrive at the best decisions, remains critical. And, while boards have had to increase their focus on checks and balances in this regulatory climate, it is important to maintain some focus on looking through the windshield and not just the rear-view mirror as well.

Lastly, **diversity around the board table has become a front burner issue**. Many governance experts tout a diversity of thought, perspectives and experiences as critical in order for the board to make the wisest decisions. Yet in order to garner those wider viewpoints, it is usually necessary to move beyond the classic board which still often remains stale, pale and male. Boards will need to become proactive in seeking a more diverse group around the board table, and will likely need to broaden how and from where as they think about sourcing new potential directors.

In summary, the new bank director today needs to be a subject matter expert in an important area, but also a collaborative, communicative, engaged partner in the boardroom. The more willing a board is to tackle the toughest business issues, and encourage and respect divergent views around the table, the more likely the bank will continue to be successful.

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