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Board Governance For The New Year

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Business conditions, financial markets and competitive landscapes are always changing. But perhaps there is no arena of business undergoing a more significant transformation at the moment than corporate governance.

Whether driven by activists investors, regulators, institutional shareholders, governance gadflies or best practices, **corporate governance is in the crosshairs for many organizations today**. And in the banking sector — where some in Washington have placed a bullseye on the industry's back — an enhanced focus on governance is the order of the day.

Bank boards today would be well served to pay close attention to three important aspects of governance: board composition, size and director age and tenure. When left to their own devices, too often inertia will set in, causing boards to ignore needed enhancements to corporate governance and boardroom performance. Even in the private company and mutual space, there is room for improvement and incorporation of best practices if a bank wants to continue to remain strong and independent.

Some governance advocates adopt a certain viewpoint that downplays an institution's history. "If you were building the board for your bank today at its current size, how many of the existing directors would you select for the board?" the viewpoint goes. This obviously ignores historical contributions and the context that took the bank to its current state. However, as the old saying goes: "What got you here often won't get you there."

For many institutions — particularly those that have grown significantly through acquisition — the size of the board has become unwieldy. Oftentimes, executives doled out seats to get a deal done; in some extreme cases, boards now have 16, 18, 20 — or more — directors.

While this allows for ample staffing of committees, pragmatically there may be too many voices to hear before the board can make decisions. At the same time, banks with only six or seven directors may not be able to adequately staff board committees, and perhaps operate as a "committee of the whole" in some cases. Often times, this low number of directors implies a high level of insularity.

Research from sources including both Bank Director and the National Association of Corporate Directors suggests that the average board size is between 10 and 11 directors, including the CEO. Furthermore, the CEO is now typically the sole inside director, unless the CEO transition plan is underway and a president has been named as heir apparent to the CEO role (similar to KeyCorp's September 2019 succession announcement). Too many or too few directors can impede a board's effectiveness, and 75% of public boards have between nine and 12 directors.

Board composition, of course, speaks to the diversity seated around the board table. Whether you accept the prevailing sentiment or not, **there is ample evidence that boards with more diverse perspectives perform better.** In order to garner more diverse viewpoints, the board needs to be less homogenous (read: "not full of largely middle-aged white men") and more representative of the communities served and employee demographics of today and tomorrow. And let's not forget about age diversity, which helps to bring the perspectives of younger generations (read: "vital future customers and employees") into the boardroom. One real world example: How would you feel if your bank lost a sizable municipal deposit relationship because a local ordinance required a diverse board in order to do business with an institution? It can happen.

Lastly, many boards are aging. The average public director today is 63 — roughly two years older than a decade ago. And as directors age and begin to see the potential end of their board service, a number of community bank boards have responded by raised their mandatory retirement age and prolonging the inevitable. Yet with rising tenure and aging boards, how can an institution bring on next-level board talent to ensure continued strong performance and good governance, without becoming unnecessarily large? Boards need to stay strong and hold to their longstanding age and tenure policies, or establish a tenure or retirement limit, in order to allow for a healthy refresh for the demands ahead.

High-performing companies typically have high-performing boards. It is rare to see an institution with strong performance accompanied by a weak or poorly governed board. Boards that take the time to thoughtfully optimize their size, composition and refreshment practices will likely improve the bank's performance — and the odds of continued independence.

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