MIXING BOARDS AND CEOs

by Steve Brown

BOARDS: Amid all the hoopla about SOX, board independence and oversight, you would think relationships with CEOs might be getting strained. Interestingly, a compilation of detailed studies, surveys and other research shows the opposite may be true. To begin, we were heartened to see that 90% of CEOs said they still have a positive relationship with their board. This is good news when you consider that about half of all CEOs say their compliance costs have doubled over the past 3 years. Unfortunately, all that compliance and cleanup can have negative repercussions. Given the additional personal risk, the study found that 67% of CEOs felt it was more difficult to attract new board members. Sadly, 14% of CEOs even said they could not find enough qualified directors to fill open seats they already had. Before we get too gloomy, however, there are some positives. To begin, about 95% of CEOs say director education and depth of knowledge has increased. In addition, 83% said their directors were well informed about key company issues. Additionally, 83% said their board was an excellent source to get advice and insight on key issues and problems. Directors are doing well, as roughly 70% of CEOs said they are satisfied with the level of insight that their board provided. CEOs that report the best relationship with their boards say their directors establish clear parameters for shareholder success and risk tolerance levels. CEOs: Broader aspects of the study also focused on various issues CEOs expected to face in the next few years. One of the biggest, perhaps driven by the turbulent and highly competitive business environment, was management succession. Given the difficulty of attracting and retaining key executives, about 62% of CEOs said succession had become one of their greatest concerns. A large percentage of CEOs also said they felt it was imperative for their company to devote more resources to innovation. Roughly 34% of CEOs said innovation was a top concern and they plan to focus on creating new products, services and methods of delivery. CEOs also said speed to market with new products was becoming much more important, as was keeping up with new technologies. Many CEOs also said they were concerned about finding a way to stimulate innovation, boost creativity and enable entrepreneurship within their organizations. In addition, CEOs worried about industry consolidation, but were optimistic they would be able to seize upon opportunities for expansion. Many CEOs also said outsourcing non-core competencies had become critical to success and increased flexibility. Still others said one of their greatest concerns was facing non-traditional competitors. Finally, other critical issues CEOs expected to face included finding ways to support steady growth, consistent execution of strategy, customer loyalty, customer retention, profit growth, lack of pricing flexibility, adapting to change, industry consolidation, maintaining cost control and responding to competition.

BANK NEWS

M&A

The parent company of Beneficial Mutual Savings Bank ($2.4B, PA) will buy the parent company of Farmers and Mechanics Bank ($1.2B, NJ) for $183.2mm in stock and cash, or about 1.98x book.

Extreme Competition

Banks should note that Wachovia, BB&T, Bank of America, JPMorgan, Citigroup and others have all significantly ramped up their small business offerings in the past 12 months. By bank, BofA reports online small business customer usage is up 25% over last year (to 1.3mm), Wachovia is up 25% (to 350k) and BB&T is up 300% (no number given). About 20% of the country's 24mm small and midsize businesses currently use online banking services according to TowerGroup and the number is quickly ramping higher. Large banks are focusing efforts on getting business customers online because studies show that doing so increases loyalty and overall deposit balances. Successful online product bundles include merchant reporting, account information, transaction history, tax services, electronic invoicing, vendor payment, unsecured lines of credit, use of an affiliated Visa card, letters of credit for international trade, fund transfer options between accounts, check imaging, and the option to pay state/federal taxes.

FICO By Any Other Name

Bankers should note that all three of the largest credit agencies have credit scores based on the FICO scoring algorithm. While each agency has its own version of FICO (Equifax = BEACONÂ®; Experian = Fair Isaac Risk Score; TransUnion = EMPIRICAÂ®), they all use formulas developed by Fair Isaac & Co.