

ITALIAN BOARD STYLE

by [Steve Brown](#)

The Italians call it "sprezzatura" and it is the style of pulling off superior performance without the outward appearance of effort. When applied to corporate boards in Italy, it is a high compliment and it means you are performing at the top of your industry in an understated and stylish manner. Sprezzatura does not come easy for boards, while natural in some cases, often it is learned from years of working together. As we go through strategic planning sessions, one common theme that keeps coming up is that the average community bank underutilizes their board and by definition, lacks sprezzatura. Boards, like any other human capital at the bank, are a resource that needs to be maximized and harmonized if banks wish to stay competitive. We are continually surprised by the quality of the average community bank board. More to the point, we are even more surprised that management often fails to manage their board appropriately to get the most out of them. In the grand scheme of things, the business that a board can bring in pales in comparison to the amount of franchise value quality boards can impart on their institution. Part of managing a board is to set expectations and evaluate accordingly. Board members need feedback just like everyone else. Sarbanes-Oxley requires large banks to evaluate their board of directors, yet few smaller banks engage in this process. We recommend that every bank board be evaluated at least once per year. Before this occurs, the board and management must set the evaluation criteria and expectations. This criterion should be clear, concise and measurable. Overall bank performance plays a part here, as if the board isn't managing the basics, they may not be up to the task. Items like EPS growth, asset quality, CAMELS/exam issues, capital ratios, risk measures, should all play a part. Meeting participation should also be measured, as well as the completion of assigned tasks. The quality of discourse should also be reviewed. A board that generates value will constantly be evaluating the market in order to bring up new ideas and strategic direction to the institution. Another trait of quality boards are members that are not afraid to question management on their strategy or assumptions. The quality questioning of management, in our opinion, is one of the valuable traits that a board can impart. In addition to quality oversight and consistent monitoring, another trademark of a quality board is in their ability to deal with difficult issues. Succession planning, an underperforming CEO, a board member that rarely gives input, cronyism, slipping bank service standards, profitability issues, personal issues with management and many other topics should all be able to be dealt with ease and aplomb. Anytime there is a topic that is off the table, a dysfunctional board is almost always at work. Determining the quality of input may be difficult to measure, but utilizing a 360 degree review where all board members are confidentially evaluated by each other, as well as management may be instructive. If a 360 degree review isn't palatable, then bringing in one of the many consultants to conduct interviews and observe a meeting may be appropriate. When the results are compiled, the annual offsite retreat is an excellent way to deliver the report card (either individually or as an overall group). As with any evaluation process, having the confidence to put ego aside for the sake of improvement is a hallmark of a board that has the efficient style that is often desired. Once the evaluation process is complete, boards must take steps to improve their own performance. From the evaluations, problems should be distilled and an action plan put in place to correct any deficiencies. Sometimes the solution is to restructure committees or even replace board members that just aren't up to the task. However, more often than not, the solution is education and better training. Optimally, a board works as a team with each member contributing both work effort and intellectual prowess. By

instituting a valuation process, setting expectations and correcting problems, a high functioning board with sprezzatura can add tremendous shareholder value. As they say about Italian corporate board governance, L'occhio del padrone ingrassa il cavallo – a business thrives under the eyes of its owners.

BANK NEWS

M&A

Independent Bank (\$2.6B, MA) will acquire Slade's Ferry Bancorp (\$621mm, MA) for \$105mm, or about 2x book.

M&A

Beneficial Mutual Bancorp (\$3.5B, PA) will acquire CLA Agency, a full-service property, casualty, and professional liability insurance brokerage, for an undisclosed amount.

Sans "Bank"

Cullen/Frost Bankers Inc (\$13B, TX) said it began dropping "Bank" from the company's name in August in order to convey to customer that it is more than just a place to deposit and borrow money. The brand change, which will occur gradually, will help emphasize the company's investments and insurance lines of business.

New Record

Wells Fargo set a record Thursday when it captured and cleared electronically more than 1mm check images (\$2B in deposits) in a single day.

Small Biz Networking

BofA has launched a networking website where small business owners can post questions, seek advice, share experiences, and (ideally) sign up for products.

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