
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.

In our opinion, it is every board's responsibility to provide oversight, strategy and execution assurance, in that order. Boards, like any other human capital at the bank, are a resource that needs to be maximized. 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 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 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 and 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 most valuable traits that a board can impart. For that matter, a well functioning board is comfortable in dealing with difficult issues. Succession planning, an underperforming CEO, a board member that rarely gives input, cronyism, slipping bank service standards, profitability issues and many other topics should all be handled with ease and aplomb. Anytime there is a topic that is off limits, 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 quality board. 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 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 training. In fact, in 2009, more than 80% of the boards we survey believe they could use increased education, particularly when it comes to credit quality management, investments and the latest regulatory concerns.

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

Earnings

Breaking a 2 qtr. trend, CitiGroup produced a lower than expected \$3.2B loss. Profits in trading were offset by continued losses in the Bank's consumer and mortgage portfolio. Goldman, exceeded expectations by posting a \$3.2B profit (mostly from trading), or \$1 share higher than anticipated.

Branch M&A

US Bancorp will purchase Colonial Bank's NV branches and \$800mm in deposits from BB&T for an undisclosed sum. BB&T acquired the branches when Colonial Bank failed in August.

Trouble

Comptroller of the Currency Dugan noted that 17% of the national banks are on the watch list as problem banks.

Before Midnight

Over 7.5k Americans have voluntarily come clean to the IRS about secret overseas bank accounts.

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