Build an Effective Board by Following Best Practices

by Steve Brown board of directors leadership management

Summary: Boards of directors have essential monitoring and advisory responsibilities that affect their organizations' performance. In an ideal world, a corporate board would have a strong culture and contribute to the success of the organization. A recent survey of smaller banks found that less than half of their boards met that standard.

Recently, the son of a friend commented that he was driving an "old school" automobile. His car wasn't an American classic. It didn't have a manual transmission or fuzzy dice hanging from the rearview mirror. Being old school meant that his car didn't have the latest tech bells and whistles – digital keys, driver assistance systems and smartphone connectivity.

Automobiles aren't the only fixtures of American life that are being recast by technology. Community financial institutions (CFIs) also are evolving and adopting new technology at a rapid pace. However, there is one aspect of CFIs that may not be adapting as rapidly as it needs to – boards of directors. The Bank Director's 2022 Governance Best Practices (GBP) Survey offered insights that will help CFI boards continue to fire on all cylinders…umm, remain fully charged.

Boards of directors have essential monitoring and advisory responsibilities that affect their organizations' performance. In an ideal world, a corporate board would have a strong culture and contribute to the success of the organization. When the GBP survey asked independent directors, chairs and chief executives of smaller banks with less than $100B in assets about their boards, less than half (47%) said their current board met that standard. Slightly less than half (45%) said board culture was generally good, but there were areas that needed improvement. Many felt their boards would benefit from:

- **Infusions of fresh ideas.** Fifty-four percent of directors and CEOs said their boards' cultures would benefit by having directors who brought fresh ideas to the table. Diversifying by gender, race, ethnicity, professional skills, background and experience can broaden a board's perspective, strengthen its knowledge base, and improve overall performance.

- **Review and enhancement.** The composition of a board can help or hinder an organization's success. Finding people with skills and knowledge that meet the current and future needs of the organization is challenging. It means periodically assessing the strengths and weaknesses of the board, so performance can be improved. Almost half of survey respondents (47%) indicated they conduct annual board evaluations to identify gaps in knowledge, skills and training. The most common gaps occurred in cybersecurity, digital banking and commerce, and technology. If gaps are identified, the organization develops an action plan to strengthen its board.

Other considerations include whether the board is large enough to staff all committees and provide audit and risk oversight. If your board does not have a technology committee, you should consider one, especially if your organization's digital operations have been expanding. In addition, boards should reflect the community around them.

- **ESG engagement.** Eighty-two percent of respondents said that measuring and understanding organizational positions on environmental, social and governance issues was important, but nearly half (45%) said their boards *never* discuss or provide oversight of ESG issues. That's a surprise since ESG matters should play a role in business planning and operations. For instance, environmental issues may affect lending, investment and operational decisions. Social issues may affect hiring and employee practices, and governance policies should inform leadership, oversight, diversity, ethics and transparency, among other issues.

- **Peer performance reviews.** Relatively few organizations (29%) ask board members to provide peer reviews. Since governance issues have become a metric for corporate performance, it's important for organizations to understand the roles and effectiveness of its board members. Karen Bohn and Sandra Davis explained in The Corporate Board, "*...in our data-rich, time-scarce culture, boards are more keenly focused than ever on maximizing the contributions of directors and ensuring they perform as a strategic asset. The challenge of course, is reaching peak board effectiveness and efficiency.*" They suggested that peer evaluations can help directors improve their skills, which can benefit overall board performance.

- **Consistent onboarding and training processes.** Many respondents had consistent onboarding processes. Far fewer had minimal training requirements for new directors. Training is important. It helps new members better understand their responsibilities and align to support the organization's strategies and goals. If your organization doesn't have board training in place, it may be time to develop and implement a program that focuses on your organization's needs and goals.

Sound corporate governance means having a board of directors that supports an effective framework for business practices, ongoing growth and risk management. Employing best practices when selecting, building and reviewing your board can help ensure your board has a strong culture and contributes to the success of your organization.

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ECONOMY & RATES

Rates As Of: 07/21/2022 05:45AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	2.51	0.79	2.45
6M	3.04	0.53	2.85
1Y	3.16	0.38	2.78
2Y	3.23	0.27	2.49
5Y	3.17	0.13	1.91
10Y	3.04	0.03	1.53
30Y	3.18	0.00	1.28

FF Market	FF Disc	IOER (Interest on Excess Reserves)
1.58	1.75	1.65

SOFR	Prime	OBFR (Overnight Bank Funding Rate)

1.53	4.75	1.57