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Publications & Resources

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Regulatory Changes & Restructuring



How to Mobilize the Board to Exceed Regulatory Requirements

By Larry Cabaldon

Banks are under pressure. In 2009, 140 FDIC insured banks failed. Through April 30, 62 banks have failed. According to the American Banker 2,200 informal and formal enforcement actions were issued in 2009, more than double those in 2008.

Enforcement actions are inflammatory public announcements that aggressively question the board's ability to oversee the bank and mandate immediate improvements in asset quality, capital, earnings and compliance, etc.

Boards panic. Directors did not sign up for this. Since the bank's inception, the board relied on the CEO, his team, outside advisors and the regulators to run the bank and provide oversight. Suddenly the friendly regulators become adversarial. The directors start to question each other, the CEO, the executive team and advisors. The board, mainly, non-bankers, is overwhelmed by regulatory pressure and complex, "siloes" solutions from the executive team, and bank advisors. The CEO and his team are placed under extreme pressure. The bank is expected to mount an aggressive response to the EA, but, in the boardroom, trust, communication and the ability to effectively respond is at an all time low.

What is the Board to Do?

First, the chairman has the awesome responsibility to focus the team, raise the level of performance of everyone in the boardroom, create harmony, build trust and drive everyone to achieve major objectives. Directors must also step up their involvement.

The CEO must provide information for board decision making, execute and coordinate with the executive team, outside advisors and regulators. Working with the board, the CEO is the key resource in the boardroom. Bank executives must also perform at a higher level.

Key advisors in the boardroom must support the board's effort to strengthen performance by providing timely expertise, advice and counsel.

Here are two steps to mobilize the Board to exceed regulatory requirements:

Strengthen Boardroom Performance Leadership

1. Complete a performance leadership review in three weeks. Use an objective third party with no client relationship with the bank, to meet with each director and executive to discuss why the bank is failing to achieve key objectives on time. What areas need improvement? Assess the performance accountability of key players.

Use performance criteria based on subjective interviews and cross-references from all to answer these questions. "Should we rehire the chairman, CEO, directors and executives for the next round of challenges?"

How can we reorganize committees, teams and reporting relationships to improve performance? How can I contribute?

Present the results to everyone interviewed and challenge all to raise their individual and group performance.

2. Complete a rehire process in two weeks. This recommitment to individual and group performance is a unique process that stimulates change, energy and excitement and 100% commitment to the team. If the CEO is rehired, support him 100%. If not, take quick action to fill the gap with a director, or interim CEO with a proven record of accomplishment. Use the same process with directors and other executives. The objective is to get the best talent with an aggressive, can do attitude and commitment to win.

Fast, decisive action on obvious performance and leadership weaknesses will show the regulators the board understands the issues and is taking strong action.

Execute Strategy in 90 Days

1. Focus on achieving results in 90 days. The enforcement action will provide objectives such as raise capital, increase earnings, improve compliance, address asset quality, etc. Keep it simple. Do not over complicate or commit to long-term projects. Develop an agreed upon aggressive plan to reach four major goals in 90 days. In a crisis, speed is imperative- 90 days is equal to a year.
2. Hold everyone accountable. The board to make sure everything happens, the CEO to execute, the chief credit officer to shift to workouts from sales, the CFO to cut expenses and raise capital, and bank advisors to provide timely, relevant advice.
3. Schedule a group accountability meeting in 90 days to ensure each objective is achieved in 90 days. Most bank boards who used this process achieved 90% of stated objectives. Celebrate the win – major changes in performance, attitude, behavior and results in 90 days. This approach has helped a number of community bank boards (including the CEO) exceed regulatory requirements. Everyone, including regulators, is impressed with decisive action, successful execution and achievement of results within 90 days. Judge by results.

When the boardroom team – the chairman, directors, CEO, executives and key advisors – take leadership responsibility, strengthen leadership performance and achieve major objectives in 90 days, the board will exceed regulatory expectations and the bank will survive and prosper.

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