

## What a [non-banker] needs to know about serving on a [bank] board



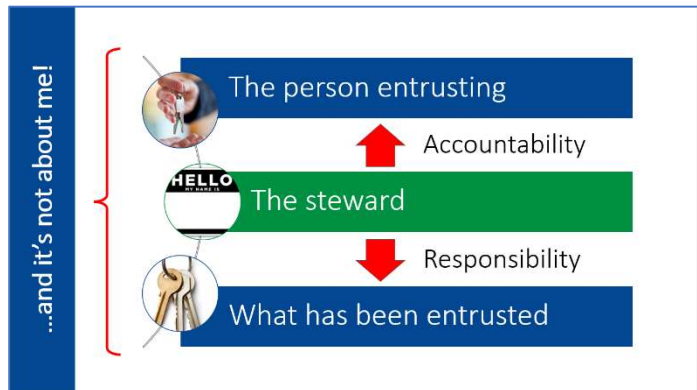
### The high compliment

Someone has just paid you a high professional compliment: they've invited you to join the board of a respected organization. But it's in an industry that is not your area of expertise and experience, not where you live in your day job. Maybe you are a non-banking entrepreneur asked to join a bank board. Or a bank executive asked to serve on a hospital board. What do you need to think about before you accept the board seat? If you say yes, how can you ensure you maximize the value of your contribution as a director?

### Serving on any board

First, it's helpful to review a handful of general truths about serving as a director:

- **You are not management.** *Management* manages. You—and that's you in the plural,<sup>i</sup> as a board—provide governance oversight.
- **Board service is a stewardship role.** That's true of every leadership role. But it's clearly and emphatically the case for directors, especially when you consider the nature of your role and how that intersects with the essence of stewardship: you (as a board) have been entrusted with something valuable (oversight of the organization) by others who did the entrusting (stockholders or others); you are responsible for effective oversight *and* are accountable to those who entrusted it to you; and the entire role is fundamentally not about you.



And note: (a) you are actually part of a cascade of vertical stewardship relationships (you've been entrusted, and you as a board turn around and entrust certain matters and assets to management as stewards themselves, who then entrust on down the chain of successive sub-stewards); and (b) vital in the entire stewardship ecosystem is the element of *trust*; don't take it for granted; do what you can to foster it, to make it even more robust.

- **Board service can be very fulfilling.** We usually envision light duty with periodic meetings (plus maybe a bit of homework reading ahead of the meetings) plus pleasant camaraderie at and after meetings, maybe an enjoyable Christmas party to round out the year—and possibly even a board fee or retainer to sweeten things a bit. **But it can also be very challenging**, particularly if the organization is undergoing significant changes (CEO succession or a sizable transaction, for instance). When you say yes, understand that you may be signing on for a heavier load than the normal cycle of routine meetings implies.

## Essentials for maximizing your contribution

How can you maximize your contribution as a director...on any board? Some suggestions:

- **Ask questions.** This can be one of the most effective tools any board member can employ. Questions can identify whether all relevant factors in a decision or situation have been identified and are being addressed. Questions can nudge management to think harder and plan more thoroughly. Management can sometimes get hyper-focused on the immediate situation or problem, and questions can help ensure other important factors or context stay on the radar. Understand that management may not always appreciate your questions, especially difficult or challenging ones; but, if asked with good motives and a stewardship perspective, they are a key tool in your board toolbox. Even the difficult ones.
- **Maintain a 720° view of the business**—the 360° *internal* view (*all* aspects of the organization and its strengths and weaknesses and performance and challenges and beyond) plus the 360° *external* view (what's going on out at all the horizons relevant to the organization: the economy, the industry, the customers and their industries, the regulatory environment, technology, etc. etc.). If management doesn't address all of these from time to time or when one in particular is relevant, see the bullet point immediately above.
- **Come prepared.** This is about more than homework (reviewing data management sends ahead of the meetings); it's also about your mindset: viewing yourself as a steward; being ready to pay close attention and to ask good probing, clarifying questions. (And speaking of the homework: in its zeal to keep you informed and thoroughly briefed,<sup>ii</sup> management may overload you with pre-meeting data. Don't be shy about pushing back and asking at minimum for (a) summaries of highlights of anything voluminous; (b) definitions for any industry acronyms or other industry jargon).
- **Respect the chain of command.** You don't manage the organization or oversee staff. You (plural) function as a governing *body*. Some implications: (a) all material conversations need to take place with the full board present (don't go grab the CEO by yourself to have a substantive discussion); and (b) if you (singular) do have direct conversations with management or staff, make the CEO aware, preferably in advance (these communications can be harmless or even valuable, particularly if they involve you learning more about some technical matter, or if they involve you simply loving on the folks and showing appreciation for their contributions.)
- **Maintain absolute confidentiality.** Period. No elaboration needed. (You are serving in a position of trust. Respect that.)<sup>iii</sup>
- **Understand the importance of what can seem mundane.** Two examples: (a) routine reports made by management (about financials, operations, technology, etc.); and (b) routine ministerial tasks, like keeping minutes, obtaining motions and seconds, respecting the rules for quorums and meeting notices and so forth. The routine management reports can seem boring (till circumstances shift and suddenly one isn't); but understand that the mere fact of requiring management to report on these regularly forces management to pay attention to them (no one in management likes to be flat footed when asked a question by a board member). And the

routine ministerial items also don't seem to matter...till they do (example: litigation challenging a company's decision resulting in probing for appropriate adherence to approval protocols).

### **The [non-banker] on the [bank] board**

Service on any board can be a valuable, honorable, rewarding experience. But what should you take into consideration if you've agreed to serve on a board in a less familiar industry?

- **Come prepared to learn.** And keep on learning. Then learn some more. Every industry tends to have its one jargony language and acronymic tendencies. And challenges. And possibly regulatory regimes. There's lots to learn. But that can be enjoyable. And you may find lots of resources to help. (For example, non-banker bank directors have a plethora of resources available: podcasts and whitepapers and blogs and industry conferences.)
- **Insist on clear communication.** Jargons and acronyms proliferate because they make for efficient communication for industry insiders. But insist that management communicates with you in clear, standard English. Two benefits: you can understand more readily; and it forces management to clarify their own understanding (someone who can't explain something in clear, plain language may not understand it well themselves).
- **Don't be intimidated by your industry-outsider background.** Yes, it can make communicating and understanding more challenging. But this—your outsider status—is also a significant and valuable asset you provide to the board and to the organization...your own board service superpower in effect.

How so? You regularly feel like you know less about what's going on, what's being discussed by management and by the industry-insider directors. But your relative lack of familiarity gives you a fresh perspective and means you may occasionally see things that over-familiarity has blinded the industry insiders to, or that you may ask questions that others haven't thought to ask.

You also have the benefit of what David Epstein calls "distant analogies" in his 2019 book, *Range: Why Generalists Triumph in a Specialized World*.<sup>iv</sup> People close to a situation (bankers dealing with a banking problem) often have a narrow view of the problem and of potential solutions. Others not "blessed" with standard industry thinking, like a non-banker serving on a bank board, may, as they view the problem, see an analogy to something distantly related from their own experiences in completely unrelated industries. It doesn't always happen, but when it does, it can be revolutionary and enormously effective. So, as you discuss bank business on the bank board, look deep into your own store of non-banking lessons and experiences for insights that could apply.<sup>v</sup>

### **Wrapping up**

Board service can be hard, hard work. But it can also be immensely rewarding. Even if you are that [non-banker] serving on a [bank] board.

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Speaking of which...

A few weeks before I drafted this article, the FDIC proposed new rules to “establish standards for corporate governance and risk management” for certain banks over \$10 billion in assets.<sup>vi</sup> As others in the banking industry have noted, the proposal appears to lean towards a prescriptive, rules-based approach to how to be a good bank board member, almost blurring the line between management and board oversight. Yes, banks need strong, effective boards; but an overly detailed set of rules creates a check-the-box environment with opportunities for regulators to focus on tactical gotchas instead of substantive situations of poor governance. The FDIC can already deal with poor governance; it doesn’t need a new set of standards to do so. And this new set, if promulgated, could scare able director candidates away—another example of regulatory action having unintended, exacerbating consequences.

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<sup>i</sup> Or “y’all” as we say in Texas.

<sup>ii</sup> It’s possible this isn’t management’s motive. Management may be seeking to hide relevant but unflattering information by burying it in an avalanche of “we’re being completely transparent by telling you *everything*.” In general, assume positive intent—that this nefarious motive isn’t in play—but do also be aware that an extreme profusion of data can have the same effect of hiding what’s important, even if that’s not the intent.

<sup>iii</sup> Sorry; couldn’t resist a bit of elaboration.

<sup>iv</sup> See especially pp.112 and following.

<sup>v</sup> And, side benefit, note that as you learn more about banking, or whatever the industry is, you’ll also develop a richer store of material for “distant analogies” that you can apply in your day job in your own industry.

<sup>vi</sup> <https://www.fdic.gov/news/board-matters/2023/2023-10-03-notational-mem.pdf>