



Why Director Training is Important and What Kind of Board is Yours?

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Contributing Writer

Throughout each year the PBA offers numerous opportunities for Directors to educate themselves. These opportunities include the Annual Convention, as well as various seminars and workshops. During the month of May, six Director and CEO Training programs will be offered as part of the annual regional group meetings. The meetings will be held in Pittsburgh, Duncansville, Harrisburg, Williamsport, Conyngham, and Philadelphia on May 12, 13, 19, 20, 28, and 29, respectively. *For more information, please see pages 26 and 27.*

The evening portion of these meetings will feature Dr. Charles Petty, whose topic will be "Ambush at the Generation Gap." Earlier in each afternoon from 1:00-4:30pm, Dean Dusinberre of Rhoads & Sinon LLP, Jeff Marsico of The Kafafian Group, Inc. and myself will facilitate discussions on the following topics:

- Sarbanes-Oxley Act of 2002
- Performance Measurement
- Risk Management
- Cross Selling Myths
- Money Laundering and the USA Patriot Act - Bulletin Board Exchange (BBX)

We have chosen this broad range of topics to allow for discussion of six areas that have both short-term and long-term implications. Each subject encompasses either regulatory and governance concerns, or what it will take to perform successfully. The segments will highlight what Directors need to know to properly function in a governance and oversight capacity and positively contribute.

In today's tumultuous and ever changing business environment it is more critical than ever that Directors keep abreast of internal and external factors that can and will affect a bank's performance and ultimate success. From a regulatory and oversight perspective, being in a

regulated industry has always required awareness. However, the Enron factor and global and economic uncertainties require a stepped-up awareness. Additionally, Directors, as well as management, need to continually demand and develop better information systems to make informed decisions.

Creating, governing and managing a high performing financial institution necessitates a team effort from the Board, Senior and Middle Management, and Line and Staff personnel. Each of these groups must understand their role in the process and strive to be informed and educated.

Often times this is most difficult for Directors since many do not have direct industry experience. It is for this reason that continuing education is so important. Educational opportunities help give Directors the industry information needed to ask the right questions, seek the proper answers, and empower the right management team to achieve goals and objectives.

As Directors seek this knowledge and objectivity they must keep in mind that there are five types of Boards of Directors.

1. Micromanagers, or Boards that forget they have hired a management team to run the bank. They believe they must be involved on a day-to-day basis, make every decision and become an impediment to success. Frequently these Boards have a difficult time attracting qualified managers because of their micromanagement tendencies.

2. Negative impact Boards are what micromanagement Boards typically become. Additionally, Boards that panic in crisis, don't come prepared, have a history of making bad decisions, or have unfocused endless meetings tend to be negative to the process rather than positive.

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3. Neutral no impact Boards don't have either a negative or positive contribution. These types of Boards might be prestige or fee driven, often don't make waves, allow management to be singularly dominant, might be considered 'rubber-stamps,' and are comfortable with the status quo.

4. Monitoring and Checklist Boards have policies and procedures that are strictly followed. There is a basic understanding of governance and fiduciary responsibility but contributions typically stop short of providing a real competitive advantage. These Boards do have a positive but limited impact.

5. Strategic asset, performance enhancer, and true competitive advantage Boards understand their governance, oversight and fiduciary responsibility roles. They continually educate themselves about the industry and its rapid changes. They identify internal and external factors. They demand good information to make decisions, understand risk factors, ask the right questions, probe for answers and set strategic direction. They empower management to oversee the day-to-day and longer-term operation of the bank and provide the proper incentives, as well as hold management accountable to results. They are ambassadors for the bank in the communities being served and throughout the industry.

Interestingly, less than 20% of Boards are considered to be in category number five. This suggests that those Boards that are a strategic asset provide a true competitive advantage. What kind of Board does your bank want? Perhaps reflecting on these categories in your next Board meeting might be a start to better understanding. In addition, finding and attending the right educational opportunities is a tremendous supplement.

So come join us as we explore the implications of regulatory changes, audit issues, codes of conduct, money laundering compliance and concerns in an ever changing world, trading market alternatives, and what these issues mean for your Board and bank. Come learn about developing and utilizing better management information, and what are the nine key risk factors that Directors and Officers should be concerned about. Come discuss the evolving sales and service culture and what does cross-selling really mean as product lists expand, customer expectations change and competition becomes more fierce. We look forward to seeing you.

Mr. Kafafian is President and C.E.O. of The Kafafian Group, Inc., a finance, systems, and operations, consulting firm specializing in performance measurement, profitability outsourcing and strategic planning for the financial services industry.

As an individual coming from a family of teachers, I believe that continuing education for directors is paramount. As such, with the new concern over corporate ethics and increased regulatory concerns placed on the board of directors by legislation, it is vital that each board member attains as much education as possible because of these increased responsibilities.

It is also my conviction that every individual should give back to the industry in which they are employed or serve.

—Wesley M. Weymers, President and CEO, CSB Bank