Credit Risk Ready Podcast

Host Linda Keith, CPA, With Kevin Smith

How the Director Role Must Shift in Times of Crisis

Hi, this is Linda Keith, CPA, with Credit Risk Ready, a podcast where we interview senior credit and lending professionals from community financial institutions across the United States, their regulators, and banking advisors to better understand and mitigate credit risk.

In this episode, Kevin Smith of Team Resources will dive into the shifting role of the director during times of crisis. Specifically, we'll focus on how to redraw the governance lines without getting into the weeds or throwing off your CEO. And we'll touch on how quickly things are moving compared to pre-recession and how you can keep up.

Kevin Smith is a consultant and publisher with TEAM Resources. He is deeply involved in training, designing, and implementing professional development resources to nourish the growth of leaders in financial institutions. Kevin gets into the trenches, facilitating strategic planning, teaching strategic governance to boards of directors, and overseeing the TEAM Resources board self-evaluation programs.

Welcome to the program, Kevin.

Kevin Smith:
Thanks so much for having me. It's a great pleasure to be here.

Linda Keith:
So, Kevin, the role of director has always fascinated me and I've been a director in a national professional association. Generally, directors have a wealth of experience but not in being a director. And I can tell you that everything I've ever done in my life didn't actually really prepare me for that role until I learned more about how to do it. So, directors: generally, we learn on the job. We can gain a level of comfort in our understanding of that new role. And then a global pandemic-induced recession happens. Ah, yeah, so now the director's duty of care, it's shifted. We have a heightened responsibility in oversight. So, can you help us understand the shift necessary for directors when the community we serve is in crisis?

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Kevin Smith:
Yeah, these are challenging times. I mean, it's a refrain we're really getting tired of hearing. But when I'm working with board members… you keyed in on something very important there: that being recruited to be a board member, based on your resume, may have to do with the fact that you were really good at being a manager.

But being a director is a totally different skill set and that's really what I work on. And that's what I do the training on is making sure that board members understand their strategic vision role. And what good governance is is looking at the big picture, and giving the CEO enough latitude to do their job, and keeping your eye on the big picture prize. You know, what's the mission, the vision of the organization? So now we teach people how to look at that line between governance and operations, and not overstep that boundary.

Now, here comes a crisis and what happens? This causes directors to recalibrate that position. And in times like this, it may be necessary to redraw that line between governance and operation.

Linda Keith:
Now, let me ask you a question: what's the role of the CEO and helping the directors realize that the line is moving? I mean, it's one thing for a director to decide it needs to move, but unless they're working with a CEO who kind of agrees with that and helps facilitate that, I could see a big conflict blowing up right there.

Kevin Smith:
Oh, boy, you're absolutely right. So, this requires a different level of communication. This whole pandemic has created a scenario where directors and CEOs need to communicate in different ways. And part of that communication is negotiating where those lines are between governance and operations. A board can't simply just decide that amongst themselves and start encroaching; that's going to cause all sorts of problems. At the same time, the CEO tends to want to just entrench and say, "I got this. It's crisis mode. I'm going to take care of this." But what the board can do is be there as a sounding board for the CEO and be a great support system for the CEO.

But those lines need to be negotiated, because what happens is, when you say, "Let's renegotiate those lines temporarily," and a lot of the board members that I'm working with right now take that to mean, "Okay, I'm going to jump right into operations and start 'fixing things.'" And there's nothing worse for a CEO than to see two or three directors coming their way ready to 'fix' something.

So, that governance line can move temporarily and the directors can move out of the 64,000-feet view, to a degree. But that is not license to jump into operations. It simply means you're going to need to communicate in a different way; you're going to need to get a different level of detail; you're going to need to get more information more quickly. So that you as a director, your duty of care, is taking on a different kind of urgency right now. So you can't sit back as if it's business as usual. You need to get more information more quickly.

Ultimately, what's at stake here is the risk level of the organization and the reputation. If you're not understanding how the risk level has changed, you're abdicating your duty here. So that line and governance gets a little bit more malleable here, but it's tricky. It's easy to overstep and it's easy to step on the toes of the CEO. So this is challenging to say the very least.

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Linda Keith:
Well, as I listened to you, what I realized is that there is board communication with the CEO, but from what you just said, you could almost have - and I'm not going to call them renegades because everybody on the board is trying to do what they feel is the right thing - but within the board, there's even a role maybe for the chair, but just for other directors that if you see a director sort of wanting to take us too far into operations that, I don't know, I want to say talk them down or help them have a different perspective. Because everybody wants to do the right thing; it's just that things are different enough now that it's hard to know what the right thing is.

Kevin Smith:
Linda, you couldn't be more right. And so, the board chair's role is going to change during this time as well. And the board chair is sometimes basically chief cat herder during good times and bad. So it's really a good time for the board chair to really be reflecting on the personalities of all of those individual directors and paying attention to make sure we don't have a rogue director who, in wanting to do all of the best things possible, of course, may be a little bit reactive and trying to jump in and help fix things.

So, the board chair can tee up these conversations. Before you redraw the lines, the board has to get together and have this conversation. "What are we going to do? How are we going to handle this? Let's agree on this." And that may mean a couple of votes here saying, "Here's where we're going to change the lines. And this is what temporary means now, and once we vote, we have to stick with that agreement and speak with one voice."

Linda Keith:
Right.

Kevin Smith:
But you know, with some input from the CEO ahead of time. Let's not forget the fact that the CEO is probably running from fire to fire to fire right now, because things are possibly a little bit chaotic. Let's hope not a whole lot of chaotic. What you want to be able to do is be a support mechanism, as well as move down a little further into the trenches, so that the board is understanding what's going on. So that they can help make the right decisions. So they understand where the risk levels have changed.

The director can delegate all sorts of authority, but the director cannot delegate any of the responsibility. The buck still stops with the board. Knowing how things have changed is part of their responsibility and that's why we talk about temporarily redrawing these lines. And when we talk about this in good times, we'd like to remind people that those are not static lines, they're tightropes that are constantly negotiated.

Another example might be if you have a brand-new CEO versus a long-standing, a 20-year CEO; your governance lines are going to change there. If you're doing this correctly, anyway. Well, now we've got something a little bit more imperative here and negotiating that is not only okay, but it's necessary. But you've got to talk about it before you start jumping in.

Linda Keith:
So, it sounds like step one, actually, is the directors amongst themselves, led by the chair, need to have this conversation about how our role might be changing short-term and having better control of your side of the line, right?

So the directors have always been responsible to be in that support, kind-of-oversight role with the CEO. So, we still need to do that. But right now we need more information more quickly, more conversations, etc. But we're not going to take over operations of, you know, the financial institution. So, it's like, we need to do our side in a more in-depth kind of way, which means, from a communication standpoint, it might be frequency, method, level of detail, all of that is changing.

But then that second step, which I'd love to have some of the questions you'd come up with. I'm sitting here thinking, gosh, one of the first questions when we're ready to talk to the CEO about this changing role would simply be, "How can we support you now?" Is that a good question to ask the CEO?

Kevin Smith:
Absolutely. Let's not complicate this any more than it needs to be. And that's a perfect starting point, is "What do we need to know, in your opinion, and how can we support you?" Knowing how your CEO is doing, you want that all the time, right? But now, your CEO's putting out fires under duress, so you want to get a little bit closer to that. Simply asking, "How are you doing? What can we do? And what information do we need?" This comes from a list that TEAM Resources put out about critical elements for the board and crisis management.

And one of the other steps that we talk about here is that speed is important and immediacy is essential. Because of the nature of the crisis, board members are going to need to change the way they get information. It's going to have to be more regular. Maybe not monthly, maybe it's weekly. But board members can tend to slow things down because we work on a monthly basis. Well, if you're slowing things down, you're going to hamstring your CEO who needs to make quick decisions. So, understanding that you need to be involved at that level and get the right information quickly, so that you have a good sense of what's going on. The last thing you want to do is slow down anything in this process that could hamper the organization. So, be ready to change your thinking and be willing to jump in at a level that is a little different.

Linda Keith:
So, you may have signed up for monthly meetings. But right now, you may need to spend more time, more frequently, to take care of your responsibilities than what you thought or what's been true in the past.

Kevin Smith:
That's right, you may need to dive in a little bit more. But I also want to caution board members from saying, "Okay, well, we're going to have a board meeting every week." Well, let's not overdo it. But it might mean a weekly briefing, and maybe that's okay to be written, but instead of monthly, it's weekly. Maybe that is a 15-to-20 minute update among the board members, and then the CEO can do a 10-minute written or a 10-minute recorded audio. Something that keeps you up to date more immediately, but the last thing you want to do is take up more of your CEO's time.

So, we know that things are moving quick and under duress. But maybe one of the questions that you can ask your CEO is, "What information do we need? And where do we go to get it?" Rather than saying, "Okay, CEO, we know what's going on here. So, here's X, Y, and Z that we need to get from you." And now the CEO's got to spend four hours gathering information to satisfy the board.

Linda Keith:
When I was a director, I got really careful about asking staff anything, any staff. Because what I discovered was I could ask a question that, yeah, it was helpful, but maybe it wasn't urgent or the most important thing. And then I realized that that staff person just spent an hour-and-a-half trying to get what I needed. And so, there were two lessons from that. One, which you already addressed, is the board itself needs to have a conversation about how we're going to change. And it may be more important than ever, if it hasn't already been a norm of this board, that we don't all independently go to staff and ask things, that there's really either the chair or somebody who's identified that requests information, so that we don't accidentally, as you say, add to the workload, just because we're trying to get what we think we need.

And then, secondly, it could be that information you normally would get, say from the CEO, maybe if the CEO is putting out fires, would part of the negotiation be, “Is there any piece of this that we could just get directly from the CFO? Are there parts of this more immediate information that if we have a question, would you like us to go to the CFO instead of you? Or what's the best way to do this?” And you ask the CEO, who then can decide. Does that sound right?

Kevin Smith:
What we recommend here, and you touched on this, is that the board have consensus about what information they want so we don't have those kind of rogue directors going to the staff and asking questions. You know, the board member thinks this is valuable and the staff may see pestering questions. Or at the same time, when the board asks for something, the staff thinks, “Oh, my gosh, this is at the policy level, this is coming from the top. So, we’ve got to drop everything that I'm doing to go satisfy this.” So, what we recommend is that the board, as a whole, decide on what information is necessary and keep that chain of command through the board chair to the CEO for the information, as long as you make it clear that, “Okay, CEO, here's what we would like. However you want to get that to us is fine.” Delegate from here.

They should be clear about what their delegation authority is here. You put their demands on whoever you want to get or point us in the right direction. And we're willing to step in and help and do a little digging on our own to free up your time, but keeping that chain of command is really important, particularly in a crisis, to not undermine that governance approach, that strategic governance approach. Because once you undermine that, then once we're back into whatever the new normal looks like, it's really hard to reset those lines once they have been too muddied. So we can keep that chain of command and change the lines without undermining the chain of command there.

Linda Keith:
So, it sounds like it's communication and discipline. My focus is credit risk, so I deal with loan originators and loan management. Discipline in your credit risk is critical in difficult times like this and it sounds like discipline in how you communicate with management and how you decide what you're going to do as a board, individual directors and the full board. And then how you maintain that discipline in the communication, and so forth, is a key for the boards as well as it is a key right now for the financial institution.

Kevin Smith:
It really is that level of discipline. And what we hope for is the organizations we work with, when we train them how to do this, that they're establishing that discipline before a crisis hits, not learning how to do it during the crisis. And then when that hits, you know how to deal with that and you know how to temporarily redraw those lines.

But that discipline is absolutely critical and the board members need to have a clear insight as to how this risk is changing, and what your risk profile is, and having these kinds of lines of communication. And these discipline roles will help them to understand this and have a handle on what's going on, so that they know what their duty of care means during this time, because a spoiled reputation can happen in mere seconds and take decades to rebuild. So if you don't have that, it can be disastrous.

Linda Keith:
Well, you know, I've been looking for silver linings throughout this. And actually, one of the silver linings here is not something we maybe can work on right this minute, because we're in this difficult time for our communities and our financial institutions, but this is a time to find out if the way you did have your board, and your board relationship with your CEO, and your understanding of strategy versus operations. If what you discover right now is it's just falling apart, because it wasn't all that good to start with, then as soon as we are out of crisis, or frankly, for the board, if their CEO and their financial institution is doing okay, this is not a bad time to say, "Boy, this is not working well. As soon as we're sort of out of the woods, we need to invest some more energy and time in learning how to do a better job in terms of strategy, in terms of interaction with CEO, understanding our roles, but also understanding how to step up when the financial institution is in crisis."

Kevin Smith:
Indeed, indeed. One of the things we have been talking to our clients about is the absolute necessity for documenting what's going on right now. It's really easy to just think, "Oh my gosh, I want to be through this and have it behind me." But document what you're learning here and do an autopsy when we get through and find out how you did, not just at the greater organization level, but your board should be looking at that piece and finding out, "What did we do right? What did we do wrong? What can we learn from this?"

Somebody, I can't think of who off the top of my head, said, "Don't let a crisis go to waste." We're going to learn stuff and, hopefully, we're all going to come through this and be stronger. But that's only going to happen if you learn from the things that happen. So document, document, document, and be ready to go back and take a look at this and say, "Okay, let's get our hands dirty here and figure out what went right, what went wrong, and how we're going to do better tomorrow."

Linda Keith:
And I would encourage each director to do that for themselves as well, because individual directors are also responsible for their own duty of care. So regardless of how the board generally did, they can sort of assess for themselves, "What got me into trouble? How did I have to step up? What did I not know that I needed to learn? And what do I wish I had done sooner or differently, so that not only can the board, as a whole, improve, but individual directors who are all there to serve?" They all want to do a great job. What can they learn from how they navigated through it?

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Kevin Smith:
Well, you are preaching my version from my hymnal about board education and self-reflection. It's so easy to sort of figure out how to get comfortable and then to just move forward with that role. But learning and growing at the board level is more important than ever. We saw in March how quickly things can change. And if you can't adapt with that, it's going to be disastrous. So, I appreciate your point there and that, absolutely, learn and grow and be willing to be reflective of where you have been amidst all of this. And what are your opportunities for growth?

Linda Keith:
Well, I would like to wrap this up by letting the listeners know that at forteamresources.com - and we have this link in the show notes - Tim and Kevin and their team have wonderful blog posts that cover so many of these pieces that you need to learn. Chunks, I would say, right? So that's the beauty of a blog, theirs you can sort of look at that and go, "Oh, there's the part I don't understand," and key in. So theirs is a great resource for directors who are trying to understand where they are. Their focus is in the credit union space. I have looked at these blog posts, and from my experience, both in credit unions and banks, there's not a big difference between what a director at a bank and a director of a credit union need to understand and know in order to do a great job.

So, Kevin, are there any other specific sort of outside resources, outside of sort of bugging the CEO, where a director who feels like they need some more support themselves can go?

Kevin Smith:
There's the one thing we have in our advantage is in this information age, there's so much out there available and you can easily get overwhelmed. So, you find a source or two and really rely on that. But that's where asking your staff; they're going to be in tune with that information. So, asking what one or two key resources to pay attention to on a regular basis and do that reading on your own. And one of the things we talked about is getting feedback that doesn't have the CEO's fingerprints all over it. Not that you're mistrustful, but that you're getting feedback mechanisms that are outside of that organization so that they calibrate, and they align, and they all add up to the same picture here. Find one or two sources that you really trust and then really keep up with it.

Linda Keith:
Well, in the banking and credit union associations tend to have some really good information, as do the regulators for directors. So those are really good sources. And as a former examiner, not in banking but in federal contracts, I imagine that when regulators are critically taking a look at how your financial institution handled this COVID-19 pandemic recession and made some adjustments to strategy and so forth, the fact that you do have directors who have used and relied on a variety of resources, in addition to what their CEO has provided, is going to be real positive with the regulators.

Kevin Smith:
For sure, they will take note. And if you document that, if you keep track of what people are doing, that is going to make a huge positive impression so that they have the trust that you're doing what you're supposed to be doing in your oversight role in guiding the credit union. Yeah, I agree with you 100%.

Linda Keith:
What's the easiest way for a director to document some of these sources? Is it like in the minutes of the meeting that they refer to the regulator's guide to directors? How do we capture all the work individual directors are actually doing to look for those outside sources?

Kevin Smith:
So we recommend that each of your board members has a file and you might have a board liaison, or a board member that keeps track of this, if you're doing online education or conference, whatever it is, and this could be a digital file, keep track of all of that information. And if you see something that, as an individual director, you think, “Hmm, have we talked about this as a board?” Then get that PDF and send it out and introduce it to the board meeting and say, “I saw this. I'd like for us to talk about this.” That's a good reason to include that in that paper file or that digital file and there's no reason not to keep tabs on that. That's good for you in your own understanding. But then when the regulator comes, you say, “Here's what we do to keep up.” They're going to see this mass amount of information and immediately, they're going to know, these folks are paying attention. If you don't have a scrap of follow up, or any notation of who's doing what training… you might be doing it, but how are they going to know? So, it's good for you and it's good for them.

Linda Keith:
Right? Right. Well, Kevin, we could talk about this a very long time. It is so important, but I think I'm coming up with a new paradigm here. So, in credit, we talked about the five Cs of credit or the six or the three, however many somebody learned, you know, character, capacity, etc. I think I just came up with the three Ds. And what I have is detail, discipline, and documentation.

Kevin Smith:
Nice. I like that. I hope you don't mind if I use it.

Linda Keith:
Oh, please do, and we can brainstorm offline at some point about more Ds. But if the listeners, who are the directors, take away those three ideas and the three questions to ask the CEO: “How are you doing? What do we need to know? How can we support you?” Those two things are a huge step in the right direction to simply stepping up.

Now, in another episode, we will talk more about duty of care and how you figure out what yours is, and how that fits, and how you meet it.

Kevin, thank you so much for these insights and the information you're going to provide to us in the show notes because really, everybody's stepping up and the directors are certainly part of the solution.

Kevin Smith:

It's certainly my pleasure to help however I can. Thanks for having me.

Linda Keith:

Thanks for joining us on the Credit Risk Ready Podcast. Subscribe, comment, or share on social media to stay connected and spread the word. Join me next time as we bring our bank, our customers, and our communities through the recession safe and sound.

Take care.

About Kevin Smith

Kevin Smith is a Consultant and Publisher with TEAM Resources. He brings extensive experience in training, designing, and implementing professional development resources to nourish the growth of leaders within the credit union industry. Kevin facilitates strategic planning processes, teaches strategic governance to boards of directors, and oversees the TEAM Resources board self-evaluation programs with credit unions nationwide.

Kevin is co-author of *A Credit Union Guide to Strategic Governance*. This essential book helps governance teams become as effective as possible. He also writes the monthly TEAM Resources blog that is read by thousands nationally. The monthly blog shares guidance on board topics such as governance, strategy, and issues related to the supervisory committee.

Previously, Kevin spent 10 years at the Credit Union National Association (CUNA) in the Center for Professional Development as Director of Volunteer Education. In that role, he developed and oversaw programs for credit union executives, boards, and volunteers. This included conferences and training events, webinars, print programs, and online courses, among others. During his tenure at CUNA, Kevin created and brought several new programs to the credit union movement. One of these is the CUNA Volunteer Certification Program, an intensive, competency-based program for boards and supervisory committees, offered as a five-day onsite event or as a self-study program, both involving rigorous testing for completion. He also created the CUNA Training On Demand series of downloadable training courses and the CUNA Pressing Economic Issues series featuring CUNA economists. Behind the scenes, Kevin was involved with a team of CUNA leaders focused on creating a culture of innovation within the trade association and working toward keeping the organization forward-thinking to create new and better programs for its membership. This included participation in an IDEO design program.

Before joining CUNA, Kevin spent several years teaching at the University of Wisconsin-Whitewater. He holds a Master's degree from DePaul University, Chicago and a Bachelor's degree from Miami University, Oxford, OH.

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About Linda Keith

Linda Keith, CPA, draws on her 30-plus years of experience consulting with and training lending institutions; background in public accounting; 15-plus years as CFO of the family residential construction company; and experience as an Examiner with the Washington State Auditor's Office and as adjunct faculty in Accounting Principles and Managerial Accounting to help lending and credit professionals say "yes" to good loans.

Of course, you know those are not consecutive years or she'd be over 100 by now!

Linda is known by her clients to be both practical and funny. In fact, there is a movement afoot to change the 'P' in CPA to stand for 'Playful'. The fact is, people absorb ideas and learn better when they are having a little bit of fun. So, Linda brings the fun along with her practical knowledge and depth of understanding to provide credit analysis training and presentations that make a difference.

She is the founder of Lenders Online Training, a virtual classroom approach to improving tax return and financial statement analysis capabilities; the host of the Credit Risk Ready Podcast; and a consultant/trainer on credit risk to banks and credit unions across the country.

www.LendersOnlineTraining.com	Online training on credit analysis
www.LindaKeithCPA.com	Resources for banking, *Ask Linda* blog
www.CreditRiskReady.com	Podcast: Assessing, Managing and Mitigating Credit Risk and download of the *Credit Risk Readiness 2018 Study*

Resources

- *The TEAM Resources Guide to Strategic Governance*: https://forteamresources.com/products/books/
- Governance as Leadership: https://boardsource.org/product/governance-leadership-reframing-work-nonprofit-boards/
- Blog: https://forteamresources.com/tims-blog/