THE ROLE OF THE BOARD OF DIRECTORS IN STRATEGIC PLANNING

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n light of the number of bank failures since 2009, the regulatory focus on risk management and the increased regulatory burden imposed on community banks by recent legislation and implementing regulations, there has been a greater focus on the roles and responsibilities of bank directors when it comes to leadership of the bank. The fundamental duties of directors remain the same – the duty of care and the duty of loyalty. However, the banking industry and the environment in which banks operate are changing on a continuing basis and this makes it essential that community banks have a clear strategic plan.

A review of the written guidance published by the federal bank regulators and of recent enforcement actions taken by the bank regulators demonstrates the importance of Board involvement in the strategic planning process for banking institutions. Generally, the Board of Directors is responsible for overseeing the execution and fulfillment of the bank’s strategy and its fundamental goals. The Board should not be performing day-to-day management tasks, but rather should be setting strategic direction for the bank and ensuring that policy defined objectives are met. In order to accomplish this, the Board must adopt a strategic planning process which includes assessing major opportunities for the bank and the risk impact of any strategic decisions being contemplated, including taking into account the risk of any new products or expansionary activities.

A strategic plan provides the framework for making business decisions and for considering deviations from the stated business philosophy of the bank. It is separate but related to a bank’s business plan or budget which is more focused on reviewing the bank’s financial performance. The components of a strategic plan will vary depending on, among other factors, the size of the bank, the complexity of its operations and its plans for the future – stay the course or grow organically or through acquisitions. At a minimum, a strategic plan should include a mission statement that forms the framework for the establishment of strategic goals and assessments; an assessment of the bank’s present and future operating environment, its strength of management and its performance in relationship to its peers; the development of strategic goals and objectives to be accomplished over the short-term and over the long-term; and an identification of the bank’s present and future product lines (assets and liabilities) and market segments that will be utilized to accomplish the bank’s strategic goals and objectives. Other important components of a strategic plan include the identification and implementation of risk management practices, succession planning and a system or process for monitoring the bank’s progress in meeting the plan’s goals and objectives.

Given the importance of strategic planning in today’s regulatory environment, a Board of Directors should consider scheduling one or more meetings a year dedicated to strategic planning. Management of the bank, working with the Board of Directors, should develop the strategic plan for consideration and approval by the Board of Directors as management is often in the best position to formulate the plan. Management and the Board should determine whether it would be useful or educational to obtain the advice and insight of outside consultants and advisors as part of the strategic planning process and whether to include those advisors in the strategic planning session. The Board should be provided with a draft of the strategic plan in advance of the strategic planning session so as to allow Board members sufficient time to review the plan and formulate any questions or concerns they may have. Once the strategic plan is approved by the Board, the Board should receive regular reports and updates as to the bank’s progress in implementing the strategic plan. On at least an annual basis, or more frequently if the circumstances require, the Board should reassess the strategic plan to consider new opportunities or to respond to external developments. And, most importantly, once a strategic plan is approved by the Board, management and the Board should ensure that the bank is adhering to the strategic plan. Strategic plans are not static. If ongoing monitoring of the bank’s performance under the plan or the environment in which the bank is operating indicates that changes to the plan would be advisable or necessary, the plan should be amended to address those changes otherwise the bank could be subject to regulatory criticism for not following its strategic plan.

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