



Bauerle's Bank Notes

Shareholder Gains

March 3, 2015

"If you want to know what is really going on, ride the back of the delivery truck," quipped Quay Mull, the chairman of the board of directors a bank we assisted through some tough times. His and his fellow directors' exemplary leadership became a case study in Washington, D.C. Along the way, Mull took his own advice, riding in the bank's delivery truck for two days to obtain a first-hand view of the bank's business.

Lacking Mull's common sense, Stuart Gulliver, the CEO of HSBC, publicly lamented last week his lack of knowledge of that bank's business, including its alleged complicity in customers' tax evasion. "Can I know what every one of 257,000 people is doing? Clearly I can't." According to the Financial Times, Gulliver contended he was being "held to higher standards than the church, the military or the civil service."¹

The staid Financial Times summed Gulliver's self-serving testimony with plain words from British "management thinker" Henry Mintzberg: "horse shit." Added Mintzberg, "You can't excuse [scandals] by saying we have so many employees. You . . . have got to be on the ground to have a sense of what your organization is all about." Like Quay Mull said. Or like the CEO of a bank we know who habitually calls loan officers on Saturday mornings about their outstanding loan policy exceptions.

The point of the comparison is that size confers competitive advantages, but at the risk of disengagement from the business. Regional and community bank leaders have the advantage of being closer to their constituencies: customers, shareholders and employees. The question is whether they are making the most of the opportunity.

Shareholders, in particular, are an underutilized resource in most regional banks. The smaller the capital base of a bank holding company, the more likely it is that shareholders reside within an easy driving radius of the home office. How many bank CEOs make a habit of visiting shareholders other than the top two dozen? Cultivated in a disciplined way, shareholders are a bank's best ambassadors to the wider community. They can speak with enthusiasm and credibility, having put their money at risk to own a piece of the bank.

Laws against discrimination in credit extensions and other bank business limit somewhat banks' ability to offer shareholders better terms on loans and deposits than walk-in customers. There are other ways, however, to make shareholders feel appreciated so they return the favor in ways that improve a bank's earnings. To combat margin compression, many banks have throttled promotional programs during the last decade. Yet all of us, when we are customers, like to feel different and special. Consider the success of loyalty programs in other retail industries from hotels to grocery stores. In an earlier era, Mellon Bank hosted golf events for customers at an exclusive country club. Bankers at this time of year would call customers' chief financial officers, reminding them that their compensating balances were not high enough to qualify them for invitations. Deposits then flowed in like ice on the Allegheny River following the spring thaw.

For the Black & Gold Financial Team event this month, we will have as our speaker one of the region's leading experts on shareholder relations. Mark Schoenborn of Casteel Schoenborn, Buffalo, New York, advises banks throughout the Great Lakes states. We have asked him to address the topic, Achieving Distinction: Building Effective Investor Relations Strategies. We invite you to attend and share your own experiences engaging shareholders to make your bank stronger.

The more shareholders understand what makes their investment in a bank work, the more effective they can be in speaking for those banks as guardians of their customers', and their shareholders', wealth. It's a win-win situation. And, if handled correctly, a benefit to the institution for which the CEO can justly take credit.

[\[1\] http://www.ft.com/intl/cms/s/0/87395500-bdd2-11e4-8cf3-00144feab7de.html?siteedition=intl#axzz3TFMN9aFU](http://www.ft.com/intl/cms/s/0/87395500-bdd2-11e4-8cf3-00144feab7de.html?siteedition=intl#axzz3TFMN9aFU)