VORYS

Publications

Shareholder Engagement for Public Financial Institutions

Related Attorneys

J. Bret Treier

Elizabeth Turrell Farrar

Aaron S. Berke

Related Services

Corporate and Business Organizations

Related Industries

Financial Institutions

AUTHORED ARTICLE | Winter 2014

The Bankers' Statement – Winter 2014

Published in the Winter 2014 issue of *The Bankers' Statement*

Community banks and thrifts have great reputations for their focus on customer service. Management and boards of financial institutions are accustomed to being thoroughly engaged and focused on maintaining and monitoring good relationships with their key customers at all levels. But how engaged are you with your key shareholders? As the calendar year-end approaches, now is the time to consider your shareholder engagement strategies, *before* the annual meeting and proxy season begins.

Investor Activism is Encroaching into the Community Banking and Thrift Environment

This year has seen the creep of shareholder activism into the publicly traded community banking and thrift segment, as evidenced by announcements from a number of hedge funds (including those with a focus on Ohio) of their plans to focus on the community bank and thrift segment and by increased activist investment in community banks and thrifts. Although it may come as a surprise to some that this community-oriented and highly regulated industry might be a target of shareholder activism, it is not really an unexpected consequence of the national trend of increasingly high levels of shareholder activism across all types and sizes of public companies. These days, no company is too big or too successful to be immune from the attention of activist shareholders . Take Apple – it became the target of several Carl Icahn demands over the past year, including the typical suggestion of an aggressive share repurchase program, and renewed attention from proponents as recently as October, after Icahn had withdrawn initial demands that had failed to gain traction.

Institutional Shareholder Engagement

Regardless of the level of institutional (vs. retail) investment, every community bank or thrift should include consistent and meaningful shareholder engagement as part of its overall investor relations strategy with a special focus on its institutional shareholders. Community financial institutions should maintain regular and thoughtful contact with key institutional investors through their CEO, CFO and chairman or lead independent director. Like any relationship, the development of a shareholder relationship is most important when it is part of a consistent pattern of communication and not just a reaction to an event or other exigency, be it support for an acquisition, an additional capital raise, approval of a company's executive compensation program or a board's nominees in a contested election of directors.

Management can use the opportunity to meet with their company's stakeholders to reinforce critical company strategic or long-term planning messages, being mindful of their obligations to comply with Regulation FD as to private (i.e., selective) disclosure of non-public material information. Such interaction also presents the opportunity to be a good listener – to objectively hear and then engage in a productive discussion of the core interests of your key shareholders. By continually monitoring changes to your investor base, you may also be able to get an early start on developing an effective response strategy should you detect that activist investors, or those that invest along with activist investors, have initiated or increased their ownership stakes in your company. To the extent you don't have a dedicated investor relations function in-house, a consultation with a professional investor relations firm or your other professional advisors may prove to be a worthy investment and extremely informative as you develop your strategy to deepen your relationships with your shareholders before you are asking them for their support under potentially exigent circumstances with competing demands for their attention.

Closing Thoughts

Effective shareholder engagement is more crucial than ever. The composition of the investor base for all companies, including financial institutions, continues to change with many of these new shareholders wanting a more direct audience with management to address their specific concerns in addition to those which management may wish to advance. The communication and relationship skills that help foster success in your business as a community banker must now be honed to respond to the varying interests represented by your shareholders.