

LIFE AS A COWBOY - THE COWBOY WAY - A TRIBUTE - PART TWO

In last month's "Director's Compass," we began a two-part series entitled, "The Cowboy Way," based upon the book *Cowboy Ethics - What Wall Street Can Learn from the Code of the West*, by James P. Owen, written in 2004 and published by Stoecklein Publishing. In late February, I had two great friends pass, one a cowboy and another who lived the cowboy virtues. Over the years, I had the opportunity to be around many cowboys -- some of whom were true cowboys, some of whom were "wanna be" cowboys, and some, like me, who were "faux" cowboys. What has been a treat is having great conversations with down-to-earth men, many of whom have exemplified in their life the "Cowboy Way."

After the passing of these two great friends and while recovering from hip surgery, I found myself needing to read one of my favorite books, *Cowboy Ethics - What Wall Street Can Learn from the Code of the West*. I've written about this book a few times over the last twenty years. Like all good things, the time comes to revisit what matters and refresh the lessons that can be learned. This is really true in today's world, since I think we have many cowboys shaking their heads about what is going on with the nation and the world.

There continues to be many unanswered questions in banking, and while things appear to have gotten better, there is still some undignified behavior by bankers, customers, regulators, politicians, and professionals. Our intent in writing about the Cowboy Way is to emphasize that maybe a code of ethics based upon integrity is what is necessary in today's world. Integrity matters and should be how we all live our lives. We often lose sight of this word -- Integrity!

James P. Owen's book primarily deals with Wall Street ethics, and the simple lessons imparted are very appropriate and should serve as a benchmark for boards and managements of community banks. Some of our community banks have been operating in a manner that would benefit from a refresher in ethics and active debate on what really is important to a bank and its shareholders. For those who want to be exceptional and be here for the long term, core values tied to integrity are the cornerstone. With so much greed, immoral behavior, and questionable ethics, the core values of a bank do matter. It seems we live in a world where bad behavior is all that is talked about, rather than good behavior and integrity. Integrity is so important that it should not stop at the doors of the bank, but it should be demonstrated by all of those who touch the bank, including the board, management, staff, professionals, customers, and the regulators.

The basic principle of Owen's book is, "What would it mean today if a handshake was good enough to seal a deal? - A man's word was his bond, and right or wrong was clear." It seems that the main message in banking is getting to know your clients, vendors, and those who touch your bank. That reminded me of banking when I grew up, where the handshake was what mattered and knowing the people you did business with was core to success. For many bankers, even in merger and acquisition deals, the agreement was not important, and a handshake was good enough. Of course, that didn't mean that detailed agreements were not necessary, but for most bankers, if a handshake were made, it sealed the deal. Boards and managements had a moral compass as to what was important to their banks and communities. If

a board and management operated with a set of core values that were meaningful and appropriate, then the performance of their bank and those who touched their bank would improve and be uplifted. We all recognize that we live in a world of over-documentation and the need to satisfy the regulators by having every piece of paper you can get and having things perfect. We all know that this overdocumentation raises a question of trust, and, for some banks, leads to a breakdown in a good client relationship. Whatever happened to the handshake? For some bankers, if a handshake would not suffice, why do they even have the relationship?

Owen emphasizes in the book that this is not a time when more rules are necessary, but rather a time for reflection on ethics. Owen believes that the fundamental problem is that we have confused rules with principles. "Rules can always be bent, principles cannot. I believe that where human behavior is concerned, any true lasting change has to come from within. So, if we encourage better ethical practices throughout the industry, we need something that will touch the deepest part of us, something that will make us better, make us want to do better and be better than we are. In short, what we need is not more regulation but more inspiration." That is something not likely coming from Washington DC, but something that is really needed.

Owen came up with ten principles of his Code of the West. Last month we reviewed five of those principles, which were:

Live Each Day with Courage.

Courage has been a recurring theme for the *Directors' Compass* and the Findleys in communications with boards and manage-

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ments. We have long stated that courage is not a lack of fear but the ability to face the fears with an open heart, an open mind, and a dedication to the bank. Owen imparts the same concept when noting that a cowboy's life was one of hardship, and cowboys were always facing their fears. "Real courage is being scared to death and saddling up anyway." We see many bankers today who are leaving the industry because of the fear of the future and what is coming. Maybe for most it is time to keep riding!

Take Pride in Your Work.

Owen's main point is that cowboy-ing does not build character, it reveals it. The attention to details in banking means something. The Findleys have long pushed for bankers to be educated and trained in all areas, and those bankers who take pride in even the most mundane task are those who also take pride in their whole bank. Being a consistent *Premier Performing* bank is as much tied to the elements of pride and the level of exceptional service as to many other factors. This is best demonstrated by leaders being exceptional in what they do and having a great pride in the efforts of those around them. The individual and the character of a banking institution are a reflection on the character of those who lead. We see this all the time with the exceptional banks and the exceptional bankers that lead the exceptional banks!

Always Finish What You Start.

Owen points out that the cowboys always hated quitters, whiners, and complainers. "When you are riding through hell ... keep riding." This is so true because the banking industry is going through hell to-

day. Hell on the individual. Hell on the people associated with the bank. Hell on the bank itself. Now is the time to be creative, to show courage, and to fight the good fight. The job is at hand, and it is important to remind oneself that quitting is not a personal decision, since the results of quitting will impact everyone connected with the bank.

Do What Has to Be Done.

In making this point, Owen focuses on the character of Gary Cooper in the movie *High Noon*, where he is left all alone to defend the town. In being challenged as to why he was making this stand, Gary Cooper's character stated, "I've got to, that is the whole thing." Owen emphasizes: "The true test of a man's honor is how much he would risk to keep it intact." We have long emphasized that even though there is concern with failure, it is okay to risk the bank's future if what is being done is the right thing. Principles matter, and, possibly, operating in an environment where ethics and principles don't matter may not be worth it. There are many things worse than the failure of a bank. We continue to impart to boards to do what is right. Also, don't expect the regulators to give you the right answer. Often their position on what is right is biased from their perspective and not for the benefit of your bank.

Be Tough but Be Fair.

Owen points out that cowboys were always perceived to be tough but also very fair. The Code of the West was based upon the principle of fairness. What was engrained in the cowboy is "the Golden Rule." "The Golden Rule was nothing less than the key to survival and was based on the concept of 'treat others as you would want others to

treat you.'" Bankers need to be tough but fair with everyone associated with their bank. No one minds toughness if there is an ability to communicate, a perception that one is being listened to, and reasoning is provided for the action. Being tough but fair means providing the rationale for decisions and having comfort knowing that the decision was the right one.

The five remaining principles of the Code of the West that should make a difference to bankers in today's environment are as follows.

When You Make a Promise -- Keep It.

To emphasize this principle, Owen focuses on the book, *Lonesome Dove*, by Larry McMurtry. Most of us remember the promise made by Cal to his partner Gus when he finds him dying. Gus tells Cal he wants a favor; he wants to be buried back in Texas in an orchard where he had some of his happy times. That doesn't seem like such a big request, except that the request was made while Cal and Gus were in Montana. Cal honors his promise to his partner, and after Gus dies, embarks on a 3,000-mile journey to keep his promise. We have long emphasized to banks that a man's word is his key. Keeping a promise and maintaining trust are the most important elements to a banking franchise. We continue to emphasize -- under promise and over deliver!

What is troubling us in the banking world is that bankers are no longer perceived as being good on their word, but that their actions are based upon profit motivation. At a time when bankers and board members are being pressured by regulators, customers, staff, and community, it is imperative that

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the board and management are perceived as being individuals who can be counted on and who can be trusted. In dealing with the regulatory agencies, something that has taken up a lot of our time recently, keeping a promise is so important. However, we must also emphasize to the regulators that this is reciprocal; when they make a promise, they need to keep it to the banks. This is a two-way street. Our advice to boards and management is that even if you are disappointed by others not keeping their promise, you are judged by your actions and not the actions of others. The fact that others lack integrity doesn't mean that your integrity or dignity should be compromised.

Ride for the Brand.

Loyalty does matter in this world, and Owen emphasizes that there was intense loyalty by cowboys to the outfit that they were working for, and they would fight to the death for it. Owen emphasizes, "Any personal hardships or complaints were to be swallowed the same way that he swallowed his coffee. His loyalty came through in his unstinting hard work, his cheerfulness and his fervent defense of the outfit against any harm or slur. But riding for the brand did not mean giving the boss blind, unquestioning allegiance. As Teddy Roosevelt observed, 'Cowboys call no one master.' That should mean the regulators!

A cowboy's greatest devotion was to his way of life. So, his loyalty naturally settled on those who valued his traditions and were counted upon to help hold them. We continue to emphasize the importance of loyalty to the banking institution, loyalty to those who share your values and those what

you have built within the organization. However, loyalty is earned by treating others right and also acting in a manner that deserves loyalty from those around you. In developing loyalty within your organization, the customers come first, followed by the staff. In the service industry, if you don't demonstrate loyalty, you have no future. In this world, we have often created too many examples where loyalty is bought in dollars rather than actions. We expect over the next few years there to be a continued reduction in the number of financial institutions. Banks that demonstrate loyalty to the customers, to their staff, and to their partners have a future and will likely have the best results going forward. However, while loyalty is important, it should not be given to those who do not share the integrity, ethics, and values of the bank.

Talk Less and Say More.

We always considered cowboys as the strong and silent type, whether it is Gary Cooper in *High Noon* or John Wayne, they let their actions speak for them. Owen emphasizes that cowboys were doers not talkers, and when they did talk, they got straight to the point. When a trail boss said of a cowboy, "he is a good hand," that was the highest praise he could bestow. Likewise, an admiring hand might say of the employer, "that boss he can sure cowboy." Owen makes one important point, "when there is nothing more to say, don't be saying it." We couldn't agree more. Too many bankers say too much, and their words become nothing more than words of no meaning. We also believe that when you say less, it is easier to remember what you said. We find this especially true in bankers that continue to spin and spin their message. Often, when you read their messages, you

find that they are conflicting. The best banks, the best boards, the best managements let their actions speak for them. While there are times for words, we think it is most important to keep it simple and keep it true.

Remember That Some Things Aren't for Sale.

The concepts of reputation, integrity, and dignity are the bases of the Code of the West. Owen emphasizes that when talking about the securities industry, "Our industry is known for being full of smart people. But think about it ... how smart can we be if we don't value our reputation above all else?" Owen also emphasizes that to the cowboy the best things in life aren't "things." How true! It is not awards. It is not recognition. But rather it is the intangibles. It is the reputation for being honest. It is the integrity of keeping your word. It is the dignity of being a valued partner. Too often bankers and regulators are focused on only "things:" tangible results such as earnings per share, or capital ratios.

While these things are important to a certain degree, these things are short term, and in some instances, can be illusory. We only have to look back at the financial performance of several banks that had "things" the last several years but did not have the intangibles that mattered. We now find that their performance was illusory. We find out that they did not have the ethics, morals, and integrity that mattered for the long term. While "things" may be a quick measurement of short-term success, it is the intangibles that really make the difference in the long term. We cannot lose sight of this, otherwise we will never make a difference.

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Know Where To Draw The Line

Owen emphasizes that, "Just because something isn't illegal doesn't make it right." This is so true in this environment. When you look back over the actions of the last several years, the actions taken by so many were not illegal, but they were wrong. They weren't ethical. They did not stand the test of integrity, and they were based upon the principles of greed. While the current administration emphasizes this point of wanting to do the right thing, one can also question whether the actions of today, while legal, raise serious questions as to ethics, integrity, and morality.

Owen emphasizes, "There is right and there is wrong and nothing in between." We so often seem to be operating in the gray zone, in between what is right or wrong. However, there should not be a gray zone for what is ethical, what is moral, and what is right for your bank. If you have to spend time justifying your actions, then maybe your actions weren't right to start with!

We believe that these ten basic principles should mean something to banks and are a simple way by which boards and managements need to check themselves, especially if they are going to make a difference in this industry in the future. Owen points out that, "the challenge we face as an industry is figuring out how we can redeem our reputations and earn back investors trust. One thing I know is that we cannot do it with words. No matter how eloquent or high-flown, words can only ring hollow in an investors' ears. The only way we can do this is with our actions. Actions that reflect the characters, principles and values at our core."

Character, principles and values have been the basis of the Findleys' consulting practice for over 50 years. Because the banking industry has failed in self-regulating itself and doing the right thing, we are faced with the regulatory agencies imposing their own will. That is problematic, and, often, the will is different among the regulatory agencies and even within a regulatory agency. We must get back to a situation where we can be self-regulated, and where the industry itself can do the right thing! Banks that have the values and principles within their organization are so often the most respected by the regulatory agencies and given the benefit of the doubt.

To start the process of making a difference, Owen emphasizes three simple suggestions. The first suggestion is to appoint a director of corporate values, who oversees ethical principles and practices concerning every activity of the entity. Who in your organization is the individual responsible for being certain that you live within your values, you live within your vision, and you live within your code? The board and management should embrace this individual, because he or she is critical to success. This could be your lead director or someone who has both a history and future with your bank.

Owen's second suggestion is the importance of adopting a code and applying this code to every decision or consequence. The code should not be compromised and is the basis upon which decisions are made. Basic questions for all decisions are: What is fair? What is right? What is ethical? Is this something that adheres to the Golden Rule? If you are compromising on your code, then you have compromised yourself. If the regulators or others are pushing you to violate your code -- time to fight back!

Owen's final suggestion is that integrity and character are key factors in every hiring and partnering decision. Why not assemble those who share our values? Who share our integrity? Who share our vision? We have long emphasized the need to look at everyone: directors, managements, staff, customers, as well as vendors, and ask if they share and understand your principles and values. Bringing those into the fold who do not share your ethics, who do not share your integrity, and who do not share your values may lead to some short-term value but at the cost of our long-term results. Rotten apples do spoil a barrel!

Talk is cheap and actions are what matters. How can your board and management pay tribute to the "Cowboy Way?" It is not too late to do what is right. However, living by these ten principles is often easier said than done. Let's just start today and make this a long-term objective that will allow all of us to make a difference! Time to Ride and Time to Live!

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