

DOES YOUR BANK HAVE A CEO SUCCESSION PLAN?

By: Richard W. Malone | OCTOBER 2017

STARTING EARLY ON A CEO SUCCESSION PLAN IS KEY TO A SUCCESSFUL TRANSITION.

In the Bank Director 2017 Compensation Survey, sponsored by Compensation Advisors, a member of Meyer-Chatfield Group, 48 percent of bank directors and executives say their bank does not have a successor to replace the chief executive officer when that person leaves. While some responders indicated they did not have a designated successor because their CEO did not plan to retire soon, there are other unforeseen events that could prompt the need for a successor sooner than expected. Starting early on a good succession plan is one of the keys to a successful transition event.

Succession planning is an ongoing practice that is focused on the organization's strategic vision and identification of the leadership and managerial talents that are necessary to carry out that idea. Recruiting, developing and retaining individuals who have or who can develop those skills is an integral part of the process.

Maintaining a succession plan will maintain a healthy organization and mean a great deal to stakeholders. It's a shared responsibility that requires a strong partnership between senior management and the board of directors.

The best time to discuss a leadership transition is when it isn't imminent.

Establishing an environment that supports open and ongoing discussions about succession and leadership development will reduce the anxiety that executives and board members may feel.

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A comprehensive plan must also take into account what happens when the potential internal candidates are either not ready to assume the needed role or have not been through a sufficient grooming process. There are three key planning processes your institution should embrace:

1. Anticipate Emergency Situations

Emergency succession planning focuses primarily on the unanticipated departure of a CEO. You may be given a few weeks' notice, a few days, or possibly no notice at all. **An emergency succession plan ensures the uninterrupted performance of essential executive functions and outlines the steps necessary for the appointment of an acting CEO.**

This interruption in leadership may be short term or permanent. Regardless, planning for the event is absolutely critical to maintaining a successful drive toward the institution's long-term business objectives.

2. Developing Leadership

Leadership development is an ongoing process that identifies the core competencies, skills and knowledge needed by the institution over the next five years or so, including a plan to develop those competencies in your existing leadership team. If the board feels that such qualities are not inherent in the current team, you'll need a plan to recruit new talent.

Creating a strategy for leadership development will help ensure that your organization will survive a required leadership change, whether expected or unexpected. Some of the key questions to address in this step include:

- How do future opportunities for the organization impact our leadership needs?
- Where are the future leadership gaps?
- Is the Board developed to its full potential?
- Who are the natural internal leaders in the organization and how can we nurture them?

3. Seamless Transition

When a leadership change needs to be made, the transition process is not automatic. To ensure a seamless, problem-free transition, a defined course of action should be executed. One question to address is: How much time do you have?

If the departure is anticipated, such as a future retirement, it's important that the departing executive establishes a clear and unchanging end date so that the organization can work diligently to get ready for that day. Otherwise, it is likely the organization and board will be unprepared and the transition will inflict greater stress on the firm. For unanticipated departures, the transition period will be brief, so having a clear plan of action at the ready is all the more critical.

Proper communication to stakeholders and executives can be one of the most essential tasks in succession planning. Your stakeholders will want to know what contingency plans are in place. And your management team will want to know of anticipated changes in their roles and responsibilities. Losing other key leadership in this process only makes the board's job that much more difficult. So be strategic about your communication, which means listening, speaking the truth, and helping everyone understand what is taking place.

Click for more information from the 2017 Bank Director Compensation Survey sponsored by Compensation Advisors, a member of Meyer-Chatfield Group.

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