



BANKING ON LEADERSHIP

By Alan J. Kaplan, President & CEO, Kaplan & Associates, Inc.

In most of our recent conversations with bank CEOs, they describe the current banking climate as the most competitive for business they have ever seen. Pressure is at an all time high for business on both sides

of the balance sheet, exacerbated by the current interest rate environment. But there is another equally competitive part of the equation for community financial institutions today: the war for talent.

The phrase “War for Talent” was coined by McKinsey & Co. in the late 90’s in a groundbreaking study on talent management in Corporate America. While the employment market has ebbed and flowed since then, the competition for banking talent, especially senior bank leaders and commercial lenders, is intense. This situation is made more critical by the overabundance of banking institutions in the region and the wave of de novo banks that has not allowed equilibrium to return to the labor market despite recent mergers. On top of these factors, and a low national (and regional) unemployment rate of around 4.5%, many CEOs lament, “nobody’s training bankers anymore the way they used to!”

For many institutions, the training, development and advancement of future leaders will determine the difference between continued independence and the need to sell the bank. Still, many incumbent CEOs and Boards of Directors are not truly focused on the leadership imperative. Instead of proactively dealing with the challenges of growth and succession management, they are banking on the next generation of leaders simply being there when the time comes.

According to Bill Aichele, Chairman & CEO of \$2 billion asset Univest Corp. of Pennsylvania, “succession is one of the many challenges facing community banks today. It requires a long term perspective—not a start and stop effort—and must be an integral part of the organization’s culture. Succession planning for every officer within the company is important, and has been since I joined the company over thirty years ago.” It is this kind of forward thinking—you need a successor for yourself in order to move up—which permeates the culture of institutions that have developed the deepest leadership teams.

What has fundamentally been missing at many community banks is a focus on the development of a select group of potential future leaders. Best practices today suggest that a Board of Directors should truly begin focusing on CEO succession 3-5 years before the event may actually occur, according to David Nadler, CEO of Mercer Delta Consulting. Why so far in advance? Because it takes time for executives to assimilate new skills as they are acquired, and time for the Board to track the

executive’s progress. If a Board makes the investment to train, develop and mentor a few key individuals, then ideally the bank will have potentially viable internal choices for succession.

There are numerous ways for community banks to help develop their next leader, and the focus should be as much on the “soft skills”—like communication, people management and rallying the team around a vision—as on deepening technical banking prowess. Executive coaching has become “cool” and mainstream, and a good outside mentor can be a valuable confidant for high potential executives. Many industry organizations at both the state and national level provide excellent forums for executive education, and there are several top tier private training programs for bank executives as well.

Some Directors will scoff at the concept of executive coaching or formal leadership development programs, saying they cannot afford it. We say most banks can’t afford not to invest in potential leaders. If an institution is willing to send a cadre of Directors to a state convention or other training forum every year, it should certainly be willing to make an investment of a similar caliber for two or three prospective future leaders of the bank.

There is another simple technique among the bank’s options to develop a high potential individual: challenge them! Once management has established a means of identifying and focusing on high potential leaders, a process of “formal leadership development” is not so far fetched. The two activities that have the greatest impact on “high potentials” are offering developmental stretch assignments, and the personal involvement of their boss. Incumbent management needs to be held accountable for the identification, evaluation and development of the future leaders of the company, and management in turn should then be held accountable by the Board. This alone will greatly improve the quality of the bank’s internal succession options, and provide some comfort to the Board of Directors that they are dealing with this sensitive but crucial matter.

Succession is an issue as well as an opportunity for community banks today. However you choose to view this subject, it is not going away, and regulators are increasingly asking banks for their succession plans, both for a crisis situation and a planned orderly transition. Savvy banks and Boards of Directors—especially those with an eye towards a long term independent future—will wisely choose to invest time in proactively dealing with the dynamics of leadership succession.

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