Plan for Success With Succession Planning

By Alan J. Kaplan

One of the most serious challenges facing community banks today is the issue of leadership succession. It has been on the agenda at every recent banking conference I have attended, and nearly every community bank is devoting time to this topic during their directors' retreat or strategic planning session.

The lack of any cogent plan of succession often forces bank boards into a different kind of decision matrix: Do we call an investment banker and sell, or call an executive search firm and seek out a new leader? Sometimes the leadership decision comes down to promoting a less qualified insider who is well known, versus bringing in more seasoned talent from the outside whom the board has only recently met during the interview process. None of these choices are easy for even the most experienced directors. I am not convinced, however, that these need to be the only options open to community banks today.

A Flawed Assumption

Most community banks, if they focus on succession at all, are usually at the replacement planning level. In other words – who would we promote if a key position were open tomorrow? This assumes a pool of executives is available at the next level, and that they are being "groomed" to step up someday. This is a flawed assumption at many banks! Simply being "next in line" or longest tenured does not automatically qualify someone to be a "C-level" executive, even in smaller institutions.

What has fundamentally been missing at many community banks is a focus on the development of a select group of potential future leaders for the bank. Best practices in succession today dictate that a board of directors should truly begin focusing on 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 they have learned, 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.

If none of the individuals who receive extra attention as a "high potential" within the bank turns into the future CEO, the bank is still better off for having made the investment. Chances are the executive will be performing better, not worse, and it is more likely that the mentored executive will stay with the bank despite being passed over for the top job. This alone should make the investment pay off over time. Even if there is still no clear internal CEO successor, the board maintains the option to search outside for a new leader. Without viable internal candidates, an executive search or sale of the institution may be the only true remaining alternatives.

Invest in the Future

Some directors will scoff at the concept of leadership development, saying they cannot afford it. I say most banks can't afford not to invest in the bank's future leadership. 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 key prospective leaders of the bank.

Beyond interpersonal and communications skills, much of the tangible skill development needed in community banking lies in educating people about areas beyond their core expertise. This kind of cross-pollination of experience, when combined with some leadership training and coaching, may help to turn a good performing functional manager into a whole-bank leader.

In about 20 percent of the community bank CEO searches we have conducted, the board of directors goes through the entire process with great integrity, and then elects to elevate an internal candidate. Contrary to common perception, executive search professionals view this decision as an acceptable choice, because at that point the board has made its decision with much greater knowledge and context about the tradeoffs inherent in this action.

What disappoints search consultants in this scenario is seeing good people with potential thrust into a role that they could have spent the prior three or four years preparing for – except that no one was focused earlier on managing the process of succession. This places an added strain on the newly anointed CEO – who nearly always accepts the challenge – and is suddenly immersed in the role with less-than-ideal preparation. Such a situation would have been avoidable, and the new executive's potential for success would be higher, with an earlier focus on leadership development.

Most community bank boards have the institution's best intentions in mind, but few directors have meaningful experience in the areas of leadership development and succession management. Community bank boards of directors that focus more proactively on this issue will likely have a wider array of strategic alternatives in the future. ◆

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