



132nd Assembly of Bank Directors

CEO SUCCESSION PLANNING ***Protecting Your Bank's Future***

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- One of the most critical responsibilities for companies today
- Ranked a top issue by National Association of Corporate Directors (NACD)
 - Five years in a row in the NACD 2006 – 2010 Governance surveys
 - Public and private companies
- Fewer than half of companies (public and private) rated succession planning process as effective
- Many companies do not have a CEO succession plan in place
- A major concern in today's environment:
 - CEO tenures are down, with 40% of top leaders failing in first 18 months
 - Highly competitive business environment
 - Aging workforce – many retirements

<p>WHY SO DIFFICULT?</p> <ul style="list-style-type: none"> Procrastination Too busy Can't imagine the need No one else can fill shoes Who wants to think about their death or disability? Easier to be reactive 	<p>WHY SO IMPORTANT?</p> <ul style="list-style-type: none"> Retirement Termination Resignation Personal crisis Death Disability Industry change M&A Governance requirements
<p>WHO CARES?</p> <ul style="list-style-type: none"> Investors Customers Community Partners Employees Regulators 	<p>WHAT HAPPENS IF IT DOESN'T EXIST?</p> <ul style="list-style-type: none"> Loss of continuity Stress on business Reduced employee morale Lost productivity Loss of business Negative impact on revenue Shareholder concerns

- McDonalds - Three CEOs in less than a year
 - Death (CEO James Cantalupo died of a heart attack in April 2004 at age 60)
 - Illness (CEO Charles Bell stepped down in November due to health)
 - James Skinner took CEO
 - All three worked together as a team
 - The Board continues to discuss succession at executive sessions and during a dedicated Board meeting each year.
- GE – The Long and Winding Road
 - Jack Welch was not the most obvious choice to succeed as Chairman and CEO of GE (wasn't in initial list of 19 candidates or narrowed list of 10)
 - GE spent seven years searching for Jack Welch's successor, Jeff Immelt
- Omnimedia - survived Martha Stewart's conviction

These companies had a well planned process for succession planning and their business thrived as a result

- **AIG**
 - Aging CEO with no plans to retire
 - Groomed sons to be successors – both left
 - Created office of chairman with Co-COOs'
 - No one to know successor until his departure when sealed letter opened
 - Health concerns drove shareholder concerns
 - Look where they are now!
- **Charles Schwab**
 - Failed succession (David Pottruck) in 2004 after 15 months
 - No successor since then
 - Wall Street concerns about management bench
 - Feb 2007 – appointed Walt Bettinger
- **Coca-Cola**
 - No successor for Douglas Daft despite five year lead time to Board
 - Botched search
 - Finally appointed Neville Isdell – retired Coke executive

These companies faced shareholder concerns and reduced stock price as result of poor planning

- ✓ Do you have a succession plan? (More than a single page or scratches on a napkin?)
- ✓ Who is responsible for CEO Succession at your company?
- ✓ Who is responsible for Board Succession at your company?
- ✓ What is your process?
- ✓ Do you monitor your talent base?
- ✓ Do you have strong leadership “bench strength”?
- ✓ What are your “gaps” on the team?
- ✓ How do you make succession decisions?
- ✓ How do you ensure proper transition during change?
- ✓ What would you do if your CEO did not return to work tomorrow (i.e. hit the lottery)?
- ✓ Does your Board know the CEO’s plan for retirement?
- ✓ Does the Board know who the CEO considers their successor?

Top Ten Keys To Successful Succession

- Don't wait for an opening (or emergency) to happen
- In emergency – more likely to use “band aid” or transitional solution rather than strategic
 - If planned development – can name person more quickly and more likely to have developed bench strength
- An effective process cannot be rushed
 - Can't be effective “on the fly”
 - Can't take time to do complete search and consider all your options when reacting
- Don't be caught with the “sealed envelope” scenario
 - It happens!

- Succession planning IS strategic planning
 - For banks, people are your business
 - Your future leadership defines your future strategy
 - Your future strategy relies on your future leaders
- Align your leadership criteria with the future vision, strategy and goals of the Bank
- Don't focus on what's been successful in the past; future may require different skills and capabilities
- Think 3-5 years out
- Brainstorm your strategy and your leadership needs on a regular basis
 - Serves as a foundation for succession planning, development, talent management
 - Ensures the bank is preparing for the future
 - Identifies “gaps” to fill (e.g. leadership, Board)

- Full Board
 - Full board involvement critical
 - Define criteria
 - See candidates and input on decision
 - *Requires Board be on top of business strategy, leadership development and the succession plan*
- Board Committee
 - Facilitate process
 - Typically Governance or Compensation Committee
 - Not temporary committee (because succession planning is ongoing)
- Outgoing CEO
 - Valuable perspectives and key role
 - Collaborates in process, but doesn't drive it
- Top Management
 - Potential pool of candidates
 - Perspectives and feedback
- Outside Expertise
 - Recruiters
 - Psychological Assessment

Hot Issue: Who Should Drive the CEO Succession Process?

■ Internal candidates:

- Generally preferred
- Retains culture and momentum
- BUT: requires strong development and organizational bench strength
- Best for company that is relatively stable and consistency is key
- Often easier and less costly, BUT beware:
 - Risk of internal competition
 - Risk of losing candidates not selected

Hot Issue: Handling Internal vs. External Candidates

■ External candidates:

- For fast growing, evolving business
- Where need “new blood” or different capabilities to take business forward
- Where limited internal candidates (often due to lack of strong development planning process)
- Good governance to review all options
- BUT:
 - More “risky”
 - More expensive

■ Best Practice – look at both!

- Critical for all levels of management succession
- Builds organizational bench strength
- A long-term process – not a quick fix
- Benefits are broader than succession
- Creates positive culture and can be factor in attracting and retaining talent
- What's involved:
 - Accountability for creating a culture of ongoing development and talent management (Board, CEO & HR)
 - Regularly identify and review top talent – at all levels – many leaders start in line positions
 - Identify high potential employees early in their careers and continually develop them
- Ways to embrace a development culture:
 - Ongoing feedback
 - Regular development discussions
 - Rotations and new job assignments
 - Board presentations
 - Additional responsibilities
 - Leadership initiatives

#5: It's a Journey - Not a Destination

- Ongoing process; fluid and dynamic
- Not one time exercise to file away – don't let collect dust!
- Not a product but a process
- Active, ongoing discussions
- Keep eye on potential candidates
- Requirements change constantly – need to constantly adapt
 - Industry
 - Leadership team changes
 - Strategic goals/initiatives
 - Key leadership characteristics

- First = clarify criteria for role
- Develop in-house assessment process (e.g. performance management; board evaluation)
- Contract with external/third party assessment (e.g. recruiters/psychology assessment) as appropriate
- Regularly discuss candidates at Board meetings
- Provide opportunities for the Board to regularly interact with candidates
- Ongoing development and assessment – not a one time process

*Hot Issue: Traditional Candidates vs.
Emerging Feeder Role(s)*

- COO characteristics often different than CEO
 - Inside vs. outside focus
 - Operational vs. strategic
 - A really good COO may not be a good CEO and vice versa (or want to be!)
- Don't focus on a single candidate
- Create a pool of candidates
- Many CEO's coming from line businesses
- Review characteristics for CEO regularly
 - Good assessment for current AND future CEO
- Be careful about creating internal competition – reduce tendency for politics to take over

*Hot Issue: How Long Should Current
CEO Be “In Transition”?*

- New CEO to overlap with outgoing for period of time
 - Preferably 6 – 9 months
 - Depends on qualifications of new CEO

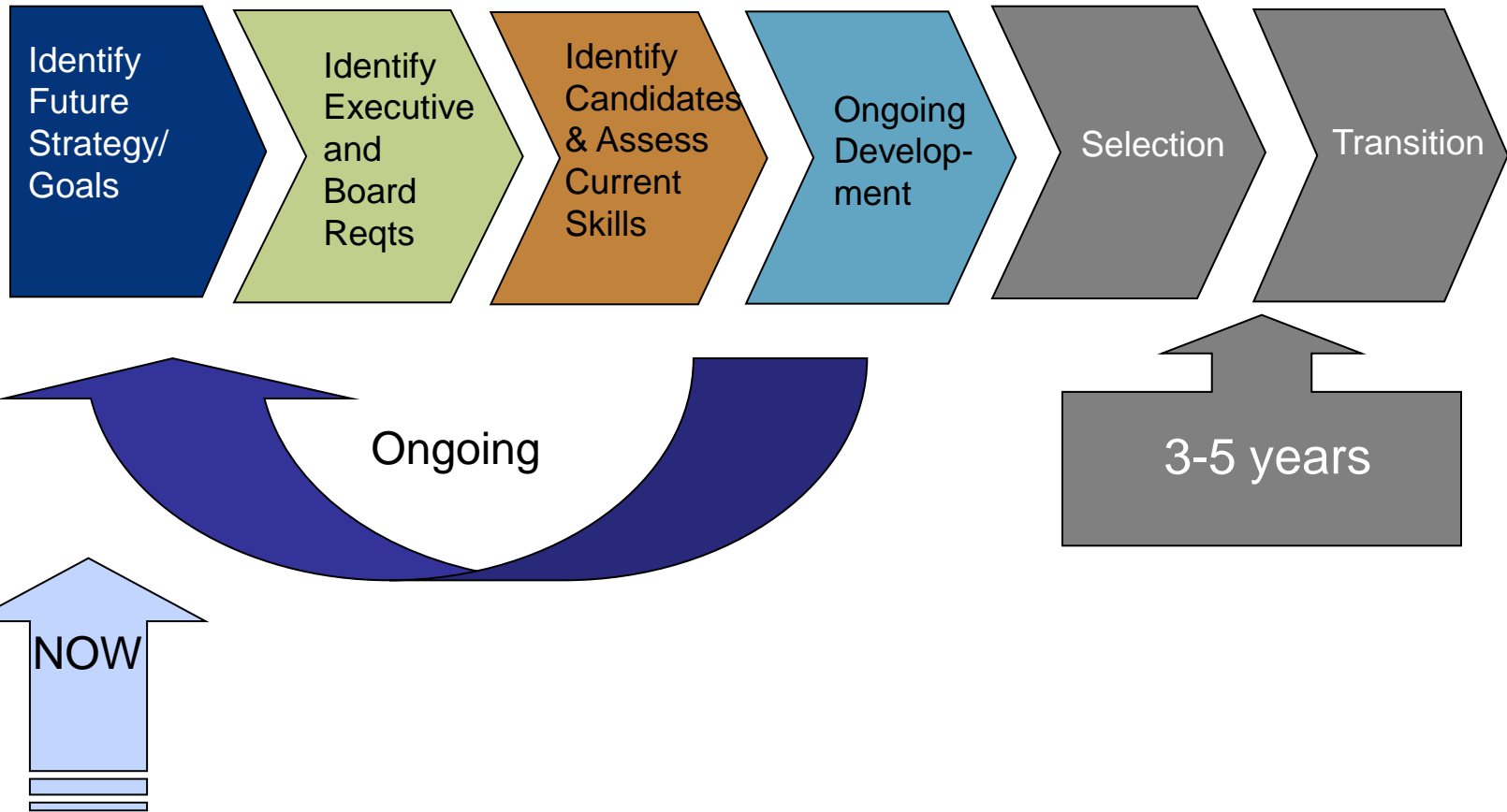
- Outgoing CEO needs to help facilitate transition, but then “get out of the way”
 - Avoid lame duck syndrome

- On boarding of new CEO and Board members
 - Introduce to key stakeholders
 - Integrate with culture
 - Strategic alignment

#1: Start Early (Now!)

- Start 2-5 years before potential need
- Board – plan ahead 2-3 vacancies (likely 2-5 years)
- Start NOW (unforeseen needs)
- Provide time to spot future stars and develop them
- The hard part is starting
- Once the process is in place, it is easier to update

- New demands and requirements mandate new process
- Unique external pressures to consider:
 - Increased workloads and time commitments
 - Increased demand for specific skills/capabilities
 - Increased risk and responsibilities
 - Increased rules and regulations
 - Challenging recruitment/retention
- Nominating Committee role
 - Map out future Board retirements and plan ahead 2-3 vacancies
 - Review Board membership annually
 - Identify skill gaps
 - Evaluate members regularly
 - Ensure ongoing education/development of members
- Generally best practices for CEO/management succession apply



THANK YOU!

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