



## 2009 National Conference for Community Bankers

### **SUCCESSION PLANNING** ***Top 10 Check Points to Protect Your Bank's Future***

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## Why Talk About Succession Planning?

- One of the most critical responsibilities for companies today
- Ranked a top issue by National Association of Corporate Directors (NACD)
  - Three years in a row in the NACD 2006 – 2008 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
  - Only 57% of public companies
  - Only 33% of private companies
- 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



## Why Talk about Succession Planning?

### WHY SO DIFFICULT?

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

### WHY SO IMPORTANT?

Retirement  
 Termination  
 Resignation  
 Personal crisis  
 Death  
 Disability  
 Industry change  
 M&A  
 Governance requirements

### WHO CARES?

Investors  
 Customers  
 Community  
 Partners  
 Employees  
 Regulators

### WHAT HAPPENS IF IT DOESN'T EXIST?

Loss of continuity  
 Stress on business  
 Reduced employee morale  
 Lost productivity  
 Loss of business  
 Negative impact on revenue  
 Shareholder concerns



## Consider These Best In Class

- **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*



## Now Consider These

- **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.*



## Can You Answer These Questions?

- ✓ 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 (death, illness, 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*



### **#10: Be Proactive, Not Reactive**

- 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!



## #9: Think Strategically

- 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)



## #8: Engage All Stakeholders

- 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?*



## #7: Be Prepared to Look Outside

### 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!



## #6: Focus on Talent Management/Development

- 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



## #4: Define a Formal Assessment Process

- 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



## #3: Number 2 is Not Always Right for #1

*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



## #2: Ensure Proper Transition

*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

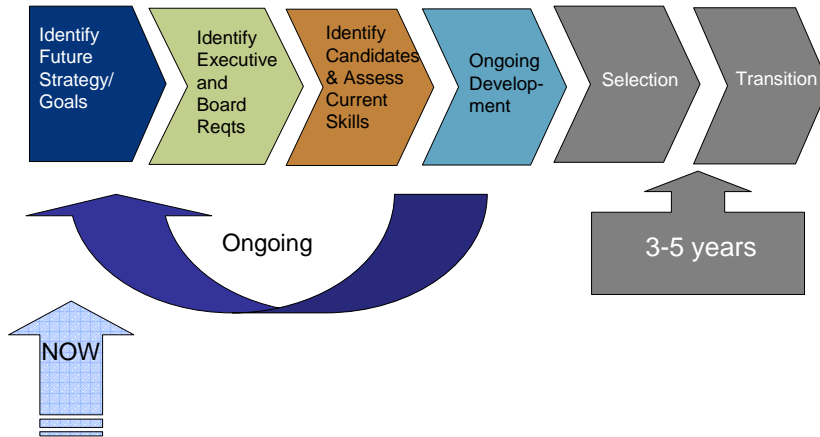


## Additional Notes on Board Succession

- 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



## A Succession Process



# THANK YOU

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