

SUCCESSION PLANNING FOR THE CEO AND SENIOR MANAGERS

Maine Association of Community Banks
COMMUNITY BANK DIRECTORS COLLEGE

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Augusta Civic Center

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Why Plan for Succession?

- Board's most fundamental task is hiring and supervision of CEO
- Superior leadership can give a bank a sustainable competitive advantage
- But one-third of all community banks either have no succession plan or only a very rudimentary emergency succession plan

Confronting Succession Planning Issues

- How many of the following topics has your board seriously discussed in the past year:
 - The talents and skills your CEO must have to be able to lead your bank
 - How those talents and skills are likely to be different tomorrow
 - What the board and your CEO are doing to develop your other officers

Confronting Succession Planning Issues

- How many of the following topics has your board seriously discussed in the past year:
 - The capabilities of your senior management team to implement fundamental changes in strategy if that is what is needed to make your bank successful
 - Whether your bank needs to look internally or externally for its next CEO
 - Preparation of a management skills inventory and/or development plans for your bank's senior managers

Confronting Succession Planning Issues

- If your board has not discussed at least two of these issues, it needs to start thinking more about succession planning

Understanding Current Interest

- Three quarters of all bank CEOs are over 50 and nearly 30% are over 60
- At any point in time between 30 to 40 percent of senior executives are “at risk” to retire in 5 years
- Continued survival of any organization depends upon it having continuity of leadership
- Banks with formal management succession plans had a return on assets 13 percent higher than banks that did not

Three Categories of Succession Plans

- Replacement planning
- Management succession planning
- Succession planning and development

Unlimited number of variations between the three main categories

Categories of Succession Plans

- Replacement Planning
 - Really crisis management as opposed to planning
 - Covers CEO
 - Never planned - reactive
 - Last minute, not systematic
 - Selection criteria for new CEO poorly defined
 - Passive board role
 - Too much reliance on third party consultants

Categories of Succession Plans

- Management Succession Planning
 - Covers only CEO and senior officers
 - Ongoing process
 - Systematic approach to ensure leadership continuity
 - Performance criteria, assessments, development plan
 - Board very active in process
 - Internal successors preferred

Categories of Succession Plans

- Succession Planning and Development
 - Covers all executives, managers and “high potential” employees
 - Competencies and skills clearly defined by position
 - Process driven
 - Focus on employee development, not external recruiting
 - HR Department is key player assisting board and CEO
 - Tied to strategic plan
 - High performing, large organizations excel at this

Having the Right People

- The Strategic Goal is Simple
 - Preserving the continuity of your bank by making sure it has the right people to lead it
 - How can a bank implement its strategic plan without a thoughtful assessment of the skills and talent needed to implement it?

3 Key Tenets of Planning Process

- **Identify** the skills and competencies needed from the bank's leaders
- **Assess** the ability of key officers and high potential employees to ensure the continuity of the bank
- **Develop and Advance** key personnel through a process of continuous education, training, mentoring and coaching

Succession Planning at Community Banks

- A difficult strategic issue to confront
 - Limited resources and people choices for development
 - Fewer opportunities for advancement
 - Often preferable to recruit externally than develop internally

Succession Planning at Community Banks

- Hiring leaders from the outside is risky
 - Lack of continuity
 - Less loyalty
 - Can be disruptive, hurt morale and change the culture — sometimes for the better but often for the worse
 - Outside candidates are far more likely to fail than internally developed candidates

Succession Planning at Community Banks

- Easier for the board to make the wrong choice with an outside candidate, particularly if selection criteria are not defined
- Promoting leaders from the inside can have its issues
 - Reward longevity or loyalty, not talent
 - Lack of development program or process
 - Lose opportunity for “cross-pollination” from other institutions
- But still generally better to grow and develop leaders

Succession Planning at Community Banks

- More community bank boards today are realizing
 - Not having an effective succession planning function for the CEO position puts the bank at greater risk of forced merger
 - Having the right leadership is equally, if not more, important than having the right strategy
 - The quality of its leadership may be only one of a few sustainable competitive advantages a bank may have
 - The franchise of a bank which has developed a team of outstanding leaders is worth far more than one that cannot bring leadership assets to the table

Succession Planning at Community Banks

- The inescapable conclusion for community banks:
 - Lack of resources is not a good excuse for a community bank not dealing with management succession and development issues
 - Effective management succession planning involves more than filling a CEO vacancy when one occurs
 - Nothing so profoundly affects a community bank's future as its choice of CEO

The Succession Planning Process

- Effective succession planning is not simply filling a CEO vacancy in the organization chart
- It is an ongoing process to develop the bank's talented people in a systematic way so that they are continuously improving, developing their skills and capabilities and ideally becoming leaders
- Good successors and succession plans rarely just “happen” but are a product of the board's commitment to thoughtful planning and willingness to hold themselves accountable

The Succession Planning Process

- 7 Considerations for Succession Planning
 - Consistency with strategic plan
 - Needed competencies and personal qualities
 - Size constraints
 - Condition and location of the bank
 - Capabilities of other officers
 - Stockholder preferences
 - Role of the current CEO

The Succession Planning Process

- Development of key officers is best facilitated by a succession planning process which:
 - Is consistent with strategic business plan
 - Identifies the competencies and personal qualities needed from the CEO and officers to be a good “fit” with the bank’s strategic plan
 - At least annually evaluates the capabilities and potential of its key officers against those desired competencies and personal qualities and the bank’s size and condition

The Succession Planning Process

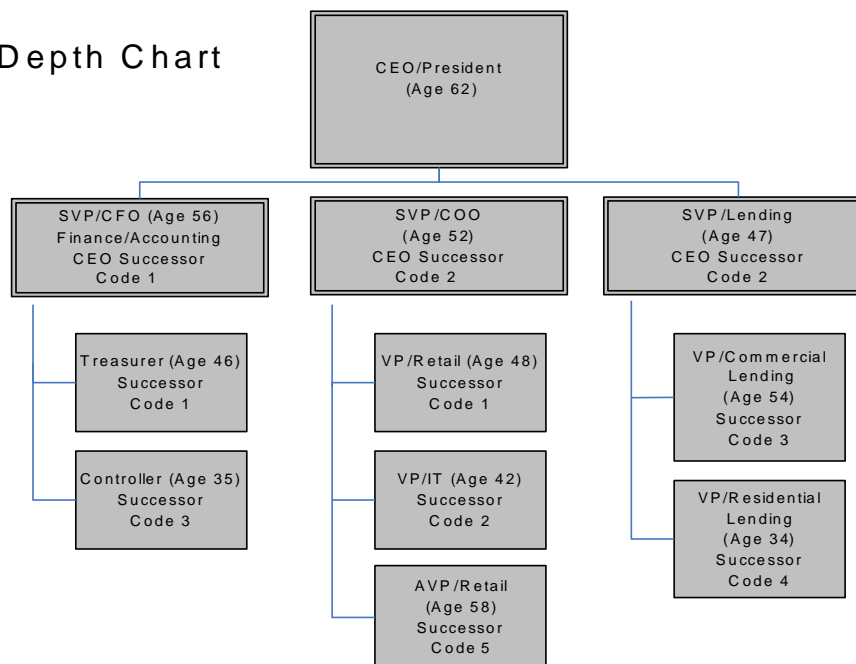
- Development of key officers is best facilitated by a succession planning process which:
 - Establishes development priorities for officers (other than the CEO) with a development plan
 - Has a system to reward those who develop and improve
 - Successfully retains its key officers while making them better performers and the bank a better performing organization

Topics Your Succession Plan Should Address

- Assessment of the bank's current management needs
- Position descriptions for the CEO and other senior officers
- Organization or depth chart of all senior officer positions

Topics Your Succession Plan Should Address

Sample Depth Chart



Readiness to Advance to Next Level:

- Code 1 — Immediate
- Code 2 — Within 12-24 months
- Code 3 — Within 24-36 months
- Code 4 — Too early to assess
- Code 5 — Has no aspiration

Topics Your Succession Plan Should Address

- Assessment of the current CEO and senior officers
- Assessment of officer development and succession potential
- Procedure for addressing a succession event
- Use of executive search firms
- Communication plan

CEO Succession — Some Best Practices

- No one size fits all approach for dealing with CEO succession at a bank
- Governance experts, HR consultants and experienced directors suggest that a board facing a CEO succession consider some of the following as “best practices”

CEO Succession — Some Best Practices

- Start planning the CEO transition 3 — 5 years out
 - Need sufficient time to plan for the bank's needs and determine the capabilities of internal candidates
 - The full board must be deeply involved
 - Do not delegate responsibility for CEO succession to a committee or the existing CEO
 - Keep the CEO involved as an advisor but do not let him drive the process
 - Consider inside candidates before you go outside

CEO Succession — Some Best Practices

- Determine and Agree on the Selection Criteria
 - Determine the skills the new CEO will need to implement the strategic plan and make the bank successful in the future
 - Focus on the three or four aspects of talent, know how and experience that are critical for the new CEO's success
 - Determine the personal attributes and leadership qualities the new CEO ought to have
 - Look for talent and growth potential

CEO Succession — Some Best Practices

- Use a formal assessment process for candidates
 - Rate candidates against the CEO selection criteria, not past performance in other positions
 - Conduct or update formal assessments of candidates at regular intervals
 - Treat all who report directly to the CEO as candidates for these purposes
 - Collect information on each candidate from internal and external sources

CEO Succession — Some Best Practices

- Compile a management skills inventory on candidates to be able to set development priorities and make useful comparative assessments
 - Competence factors
 - Experience, knowledge base, special skills, career track record
 - Personal Characteristics
 - Values, personality traits, problem solving ability, lifestyle

CEO Succession — Some Best Practices

- Get ongoing exposure to internal candidates
 - Picking a new CEO is a difficult gut call about a candidate's potential
 - The more you know about a candidate, the better your judgment is likely to be
 - Decisions about a person's leadership style, social skills and ability to think strategically are best made with the benefit of personal exposure
 - Having senior managers or other candidates interact with directors is useful

CEO Succession — Some Best Practices

- Develop internal candidates when possible
- Do not make CEO succession a contest or competition among internal candidates
 - Fostering rivalries hurts the organization

CEO Succession — Some Best Practices

- Determine the continuing role of the existing CEO before you hire the new CEO
 - How will the transition work?
 - Will the prior CEO stay on the board?
- Use outside consultants for guidance and advice, but do not let them direct or control the succession planning process

Important Qualities in a Good Bank CEO

- A good manager solves problems and implements strategies
- A good leader
 - Sets the vision and strategy for the bank
 - Motivates people and inspires
 - Deals with change and how the bank must change to be successful in the future
- It is much harder to find a good leader than a good manager

Important Qualities in a Good Bank CEO

- The end game of a CEO succession plan is the retention of that most elusive of prizes — a capable leader as CEO
- Besides having a demonstrated competence, what are the personal leadership qualities a board should look for when picking its CEO

Important Qualities in a Good Bank CEO

- Integrity. A sound ethical compass. Keeps his word, is fair, plays by the rules and acknowledges his mistakes
- Clarity and Focus in Decision-making. Intelligent, has the ability to think conceptually and see the “big picture”
- Decisiveness. The ability to make unpleasant decisions

Important Qualities in a Good Bank CEO

- Ambition. Has the determination to create something worthwhile
- Effective communication skills. Inspires trust and conveys authenticity by his interpersonal skills, sense of humor and communication skills
- Maturity. Emotionally self confident and secure, respects the feelings of others, not arrogant, can overcome adversity

Important Qualities in a Good Bank CEO

- Ability to Judge People.
- Adaptability. Can react to change and respond to adversity
- Ability to Develop People. Is a good teacher and mentor, able to grow and develop subordinates
- Charisma. Is positive and likable

Concluding Comments

- Succession planning is an ongoing process
- It should be continual, thoughtful and logical
- Once the board has a good succession planning process in place for the CEO and senior officers, it should address the issue of board succession planning