



SUCCESSION PLANNING FOR THE CEO
AND SENIOR MANAGERS
2007 ACB CONVENTION
LAS VEGAS, NEVADA
NOVEMBER 9, 2007

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Why Plan for Succession?

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


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

 - Unlimited number of variations between the three main categories
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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
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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
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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
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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
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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
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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
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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
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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
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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
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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
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The Succession Planning Process

- 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

T 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



T 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

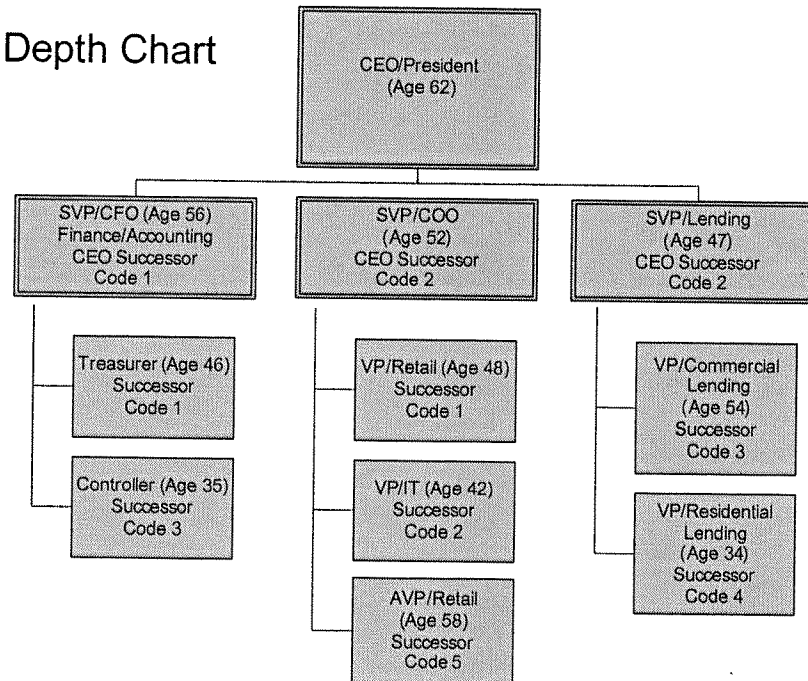


T **cs Your Succession Plan Should Address**

- **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**

T es 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

What 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
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C Succession — Some Best Practices

- One size fits all approach for dealing with CEO succession at a bank
- Performance experts, HR consultants and experienced directors suggest that a board facing a CEO succession consider some of the following as best practices”

C **Succession — Some Best Practices**

- 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
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C**uccession — Some Best Practices**

- **etermine and Agree on the Selection Criteria**

etermine the skills the new CEO will need to
plement the strategic plan and make the bank
uccessful in the future

ocus on the three or four aspects of talent, know
w and experience that are critical for the new
O's success

etermine the personal attributes and leadership
abilities the new CEO ought to have

ork for talent and growth potential



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Succession — Some Best Practices

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formal assessment process for candidates

• Evaluate candidates against the CEO selection criteria, 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

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Succession — Some Best Practices

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

C**ccession — Some Best Practices**

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

C**ccession — Some Best Practices**

- p internal candidates when possible
- make CEO succession a contest or
tition among internal candidates
ering rivalries hurts the organization

C **Succession — Some Best Practices**

- Define the continuing role of the existing CEO
you hire the new CEO
will the transition work?
the prior CEO stay on the board?
- Hire outside consultants for guidance and advice,
not let them direct or control the succession
g process

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Qualities in a Good Bank CEO

- manager solves problems and implements
- leader
he vision and strategy for the bank
ates people and inspires
with change and how the bank must change to
uccessful in the future
- h harder to find a good leader than a good

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Qualities in a Good Bank CEO

- The game of a CEO succession plan is the hunt for that most elusive of prizes — a capable successor CEO
- In addition to having a demonstrated competence, what personal leadership qualities a board should look for when picking its CEO

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Qualities in a Good Bank CEO

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

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Qualities in a Good Bank CEO

- . Has the determination to create
ing worthwhile
- communication skills. Inspires trust and
authenticity by his interpersonal skills,
humor and communication skills
- Emotionally self confident and secure,
the feelings of others, not arrogant, can
e adversity

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Qualities in a Good Bank CEO

- Judge People.
- Adaptability. Can react to change and respond to
- Develop People. Is a good teacher and able to grow and develop subordinates
- Be Positive. Is positive and likable

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g Comments

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

That's a topic for another day!

APPENDIX 1

Summary: Manages and directs the Bank toward its primary objectives and mission, based on profit, sound risk management principles and internal controls. Responsible for overall implementation and management of the Bank's objectives, policies and strategic plans. Provides leadership for all departments.

Alternate Job Titles:

- President

Job Requirements:

- Master's degree in business administration, finance or related field, with extensive background in financial institution management, preferably at senior management level.
- Minimum of 10 years or more experience in progressive senior management level positions at financial institutions.
- General knowledge of banking and extensive and proven track record in financial institution administration, operations and procedures.
- Understanding of bank regulation, accounting systems, auditing concepts, internal controls; investment securities and securities markets and asset-liability management.
- Excellent ability to define problems, collect data, establish facts, draw valid conclusions.
- Ability to articulate organizational vision and lead change within the organization. Adaptable.
- Strong leadership, management and team building skills. Strong motivator.
- Superb verbal and written communication skills.

Specific Job Functions:

- Responsible for the overall direction and oversight of the Bank including oversight of all planning and management functions of the Bank.
- Coordinates lending activities through guidance and direction of loan department.
- Establishes the current long-range objectives, strategic and business plans and policies for the Bank and its functional areas as directed and approved by the Board of Directors.
- Dispenses advice, guidance, direction and authorization to carry out major plans and procedures, consistent with Board established policies.

- Oversees operations of the Bank and its departments through comparison of operating results with established objectives and risk tolerances. ensures that

departmental performance structure and objectives and goals.

- **Oversees the management of the Bank's investments and asset - liability structure.***
- **Responsible for directing the preparation of operating and capital budgets for the Bank. Oversees the setting of rates on loans and deposits, subject to Board approval.**
- **Oversees the performance of senior officers, evaluates their performance and determines their status and compensation, subject to Board approval.**
- **Oversees the selection and development of Bank personnel and succession planning policies.**
- **Prepares agendas and oversees preparation of reports and information for meetings of the Board and/or committees. Provides the directors with appropriate information about the Bank and its governance as may be required or requested.**
- **Serves on the Board of Directors, if elected and Board committees, if appointed. Provides appropriate direction and advice to the Board.**
- **Maintains current knowledge of banking industry trends and developments by attendance at bank trade association meetings, review of literature, continuing education and association with peers at other financial institutions.**
- Other duties as assigned and required by the Board of Directors.

* Functions in bold lettering are optional. Some banks prefer less specificity