SUCCESSION PLANNING

by Steve Brown

Last month, the University of California, Irvine broke ground on the planned Charles Schwab Trading and Technology Lab, where students can learn the ins and outs of trading. The lab is one of several ways the brokerage giant is seeking to prepare the next generation of investment advisors and maintain its dominance in the advisory business. Schwab also recently announced a series of initiatives aimed at helping advisors with succession planning and developing new talent. To be clear, we're not suggesting community banks go out and build a simulated bank to give prospective employees a hands- on-experience, but there is an important lesson to be learned here. Thinking about future leadership is sound advice for any bank that wants to stay ahead. Some banks are doing a good job of bringing in young blood and grooming them for management positions, while others struggle. Banks that don't focus on this have a lot to lose. Not only will they be unprepared for an eventual changing of the guard, but they are also more likely to be takeover targets. Indeed, the likelihood of receiving a takeover bid increases sharply when target CEOs reach age 65, according to a 2011 report by the National Bureau of Economic Research. Certainly, succession planning is not a new issue, but it has gained increased attention in recent years, thanks in part to regulatory scrutiny and an onslaught of examples where high- profile bank chiefs have lost their jobs. It's no secret that poorly managed succession plans pose a serious threat to a bank's performance and can take a toll on shareholder value. Look no further than real life recent examples of AIG, Citigroup, Bank of America and others for a few recent examples of botched succession planning. Every bank and indeed every business should think about succession planning. A goal for community banks should be to learn from their larger counterparts' high-profile mistakes. Aim to make any leadership transition smooth, have clearly defined steps and know what you are going to do as an organization before that day arrives so business continues unabated and positive headlines prevail. The best way to bring on a successor, according to a recent report by Mercer, includes three keys to success. The first is to treat succession planning as a comprehensive leadership transition. Succession planning should never be a wake-up-one- morning-and-crown-a-new-CEO type of thing. In fact, it's best to begin planning 3Ys to 5Ys in advance. That allows the bank time to identify, develop and assess internal candidates. It also pays to look both inside and outside the company for talent, so the board can rest easy it has found the best candidate. Second, is to build a true partnership between the board and the CEO. Years ago, the successor selection process was largely the job of the CEO. In the past several years, however, since the passage of Sarbanes-Oxley and a 2009 rule by the SEC, boards have started to exert more influence of the selection process. According to Mercer, the process works best when CEOs and boards are in cahoots. Open dialogue, frequent communication and defined roles for each are essential. The third step is to properly manage the rational, political and emotional undercurrents of succession. Mercer says companies should employ a formal succession approach, address any elephants in the room and recognize that it's normal for emotions to run high during the process.

Successful succession planning requires commitment and investment. Just like Schwab is investing in future business leaders, so too should community banks be investing in employees. The future of banking depends on it.

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Survey

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Unemployment

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