Executive Decisions

By Richard Dunn and Phil Toffel

Objectives of Succession Planning

- **Determine** successors and key players.
- **Provide** for a method to transfer control.
- **Determine** how to meld ownership and business priorities.
- **Determine** how (and whether) to create a legacy.
- **Develop** a plan and mechanism for ensuring that succession decisions are unbiased and fair.
- **Achieve** owner harmony while maintaining values and lifestyles.
- **Clarify** paths for owner/key executives with appropriate training.
- **Ensure** viability of the business by minimizing liquidity demands and ensuring competent leadership.
- **Provide** for contingencies and revision of the plan.

A South Carolina Community Bank Adopts an Objective Way to Select a Community Bank CEO Successor

Many community bank CEOs wrestle with how best to select a successor. What is a fair and objective way to undertake this important decision, particularly where the owner's family members as well as career bank officers are possible successors? How can CEOs improve the probability that their banking legacy will continue successfully for generations to come with the right leadership decisions?

About 30 percent of all companies survive through the second generation of family management. Close to 12 percent survive through to the third generation, and only 3 percent succeed through the fourth generation. Community banks are no exception to this generational survival rule. Three primary reasons account for most of this. First, too many community bank owners delay attention to succession. Second, poor estate planning can hamper their effective succession. And third, their succession plans are not implemented.

To overcome these impediments, succession planning for family-owned community banks should be elevated as a priority and guided by a fair and objective process. The succession-planning process, when it focuses on strengths of those who might join a community bank's executive leadership team, can be combined with estate planning and wealth transfer to help ensure continuity of family ownership and effective management. Specifically, assessment work and individual development plans customized for key officers can help a community bank build on strengths, address areas of need and plan for leadership continuity.

A case study of a South Carolina community bank proves how a succession process can sort through possible candidates and improve the probability of successful leadership--for the bank and the community, employees, customers and owners. The community bank, which we'll call Community Bank USA to protect the privacy of its management-succession candidates, recently undertook a CEO-candidate assessment and development process that involved its key officers, possible family successors to the CEO, and the relatives who control most of the bank's stock.

Community Bank USA is a strongly capitalized community bank, conservatively managed and well positioned to continue its service to the community for at least another generation as a result of this succession and development work. The $200 million-asset community bank maintains an equity-to-assets ratio of approximately 14 percent. While the bank is predominantly owned by members of a single family, its CEO works with other members of an executive team to direct the bank's operations, investments, the loan portfolio and capital funding activities.

The bank's owners preferred to select a family member as the successor CEO but wanted to include five of its key officers in the CEO assessment process. In this way, those five officers could offer their input about the succession decisions while benefiting from customized development planning for their own careers.

With this management-selection process, Community Bank USA's shareholders could focus on selecting leaders who could the bank's service to its community, preserve the family's ownership interest and position the bank's current executive management team for effective leadership for years to come. The current CEO and chairman led the effort.

Identifying Evaluation Criteria

The first step in Community Bank USA's selection process was to determine the key managerial dimensions, cultural values and banking expertise that should be assessed. Eventually five competency areas were identified as important to be featured within the bank's executive management team: thinking skills and management styles applicable to banking; planning and execution of bank operations; driving for results; relationship building and influencing; and leadership.

Twenty more specific managerial dimensions were specified during the assessment process, four in each competency group. Among these 20, the bank chose quantitative reasoning, financial acumen and risk management, cognitive ability and problem solving, ability to inspire trust and confidence, decision making, delegation and management control, ability to motivate others and emotional resilience.

The Assessment Process

The consultants developed and applied assessment activities that are as relevant to community banking and as real-world as possible so as to elicit actual behaviors that the CEO would practice. Therefore a banking case study was constructed by the consultants, along with bank simulation exercises, role playing involving problems at branch banks and with employees and structured interview questions where candidates needed to interpret bank-operations issues. All the participants engaged intensely in these exercises.

From these assessment exercises, two outside assessors—consultants with expertise in industrial relations and industry psychology--evaluated the key officers' managerial dimensions. They then developed a report on each candidate considered for the CEO position, profiling him or her on each managerial dimension and describing the attributes he or she would bring to the position.

Normative data collected from thousands of assessments helped to offer some comparative ranking of the candidates on these managerial dimensions and competency areas. These data assisted the candidates in focusing on areas of comparative strength as a basis for predicting success in particular job matches.

Finally, the assessors met with the bank's current CEO and its board of directors' policy committee to review prospects for performance of each individual being considered for a future leadership role with the bank. They reviewed key results from the simulation exercises, batteries, role playing, structured interviews and interpretations of data about each person.

The Succession Decision

The consultants reviewed the profiles with each candidate, interpreted results of the assessments and discussed career alternatives that fit best with each officer. The CEO also communicated with each person individually, one on one, to discuss succession decisions and asked for his or her support. The outcome was selection of a successor CEO, a vice chair, a timetable for succession and career development plans for all individuals, including the bank's current president and the chief financial officer.

Personal Planning Resource

ICBA Financial Services, through its service partner Sage Hill Advisory & Management, offers succession and strategic planning support tailored to the needs of families, owners and executives that operate community banks. The succession and strategic planning is part of ICBA Financial Services' specialized private wealth management program tailored to the personal investment needs of community bankers. The comprehensive wealth management program seeks to maximize the stewardship of community bankers' personal assets that can enable their local institutions to remain independent after their retirement.

To learn more, contact Bill Reid at ICBA Financial Services at (800) 786-0223 or bill.reid@icba.org. Information is also available at icbafinancial.com.

As the bank's consultant, Richard Dunn and Associates formulated a development plan with both the vice chair and CEO successor for a two-year program focusing on specific managerial dimensions and banking competencies. Four blocks of six-month periods were structured with specific tasks to be undertaken in a banking-expertise track, with a managerial-dimension track during each period. These tasks became high-priority development actions, which focus on such matters as governance and regulatory matters, investment strategy and asset allocation, and credit underwriting. Another key part of Community Bank USA's plan is to develop numerous managerial dimensions such as risk management, strategic planning, delegation and management control, decision making and time management.

Typically everyone finds value in an executive career-development plan grounded in this experiential data. The plan features actionable steps and ways in which Community Bank USA can easily measure whether the steps in each officer's career development plan are completed.

As the efforts of Community Bank USA show, community banks can accomplish leadership and succession planning with an objective, fair and inclusive assessment process. A community bank will find this truly works, particularly when combined with sound estate planning, a program for wealth transfer and methods for transferring control.

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