

## MANAGEMENT SUCCESSION IS DUAL CHALLENGE FOR BOARD

Banks must have both short-term and long-term plans

\* \* \*

Why bother worrying about management succession? In most of our country's community banks, the management team is like family.

In fact, in a lot of cases, the management team is family.

And the belief is that nothing is ever going to happen to those people.

Wrong again!

Within the last two weeks, I have been in meetings where serious discussions regarding short-term management succession issues were required.

Pair of perplexing positions

In both of these cases, the succession issues had come up without notice and required immediate attention by the board of directors. In neither case did the bank have any type of succession planning in place.

One of the meetings involved a pre-scheduled, all-day planning session. We took a two- hour break during the middle of the session to attend the funeral of one of the senior executive officers, who died unexpectedly at a fairly young age.

One of the other meetings resulted from my visit with a CEO. When I asked him when he was going to retire, because he is in his early 60's, he advised me that retirement was not the issue. Survival was the issue.

And he wasn't talking about his bank.

He had just learned that he had terminal cancer and without some type of organ transplant, he was not going to make it very far. Short-term succession issues for both of these banks should have been addressed earlier. Not that someone would specifically need to be appointed, but the process should be in place.

#### Management succession planning on two horizons

The board's job is to enhance the value for the bank and holding company's shareholders. One significant part of enhancing value for the shareholders is to assure that the bank has adequate and appropriate long-term and short-term, i.e. immediate, succession plans.

Often, this involves establishing a process to follow at the time the situation arises.

Every community bank should have some plan for succession in the event that the CEO or other senior officers are unable to come to work the next day. This could apply in the case of death, disability, winning the lottery or simply a senior officer taking a job with another institution and providing little, if any, notice.

Long-term management succession is also important. In connection with long-term management succession, management needs to provide the board with specific retirement dates. This is particularly important when the Chief Executive Officer reaches a point where he or she is north of 60 years old.

To say to the board, "sometime in the future, I will retire," even if you commit to give adequate notice, is not appropriate succession planning.

Focus on the goals of the succession plan

In connection with succession planning, the board needs to identify the goals of the management succession effort. These could be any, or all, of the following:



Don't wait until it is too late to have a decent management succession plan.

And don't forget the board. Board succession is also an issue (which will be addressed in a subsequent blog) but not nearly as critical as management succession over the short- term and long-term.

#### About the Author

Jeff Gerrish is chairman of the board of Gerrish McCreary Smith Consultants, LLC, and a member of the Memphis-based law firm of Gerrish McCreary Smith, PC, Attorneys. He is a frequent contributor to ABA Banking Journal and ABA Bank Directors Briefing, and frequently speaks at ABA events and telephone briefings.

Gerrish formerly served as Regional Counsel for the Memphis Regional Office of the FDIC, with responsibility for all legal matters, including cease-and-desist and other enforcement actions. Before coming to Memphis, Gerrish was with the FDIC Liquidation Division in Washington, D.C. where he had nationwide responsibility for litigation against directors of failed banks.

-

Gerrish can be reached at [jgerrish@gerrish.com](mailto:jgerrish@gerrish.com), and the firm's website, [www.gerrish.com](http://www.gerrish.com).

You can get word about these columns the week they are posted by subscribing to ABA Banking Journal Editors Report e-letter. It's free and takes only a minute to sign up for. [Click here.](#)