Memo to CEOs: Who's going to fill your shoes? (March 13, 2009)

The ten keys to succession planning

By Steve Cocheo, executive editor

12 questions to ask about succession planning

Board member succession issues

Corporate America is rife with examples of companies that suffered because their boards and top executives didn’t plan ahead for management succession. While community banks’ succession foibles don’t national news, they can be just as troublesome in their local sphere.

Susan O’Donnell, managing director at search firm Pearl Meyers & Partners, Boston, Mass., recently recounted some of the “poster child” cases for management succession planning. These weren’t failures, but “best in class” cases. McDonalds, for instance, had three CEOs in less than a year. CEO 1 died of a heart attack, CEO 2 stepped down only months after taking the reins due to ill health, and finally CEO 3 advanced to the top. O’Donnell said the key was that the three had worked as a team, ensuring a smooth transition, and the company’s board continually looked at succession issues.

Even now, according to O’Donnell, “the board continues to discuss succession at executive sessions and during a dedicated board meeting each year.”

By contrast, other large firms have flunked succession planning, some because original plans fell through and there was no backup, some through sheer ignorance of the need to do it. O’Donnell noted that Coca-Cola’s board botched a key transition in spite of the advantage of a five-year notice.

Causes and results of lack of planning

O’Donnell addressed four facets of succession planning during a session at ABA’s National Conference for Community Banking.

First, why is succession planning so difficult? O’Donnell blames the following factors: procrastination; inability to imagine the need for it; the perception that no one else can fill the CEO’s shoes; unwillingness to consider death or disability; or, simply being too busy.

Second, why is succession planning so important? O’Donnell boiled it down to key buzzwords: retirement; termination; resignation; personal crisis; death; disability; industry change; mergers and acquisitions; and governance requirements.

Third, who cares about succession planning? Investors, customers, business partners, employees, regulators, and the community at large all do

Fourth, what happens when a bank hasn’t addressed succession planning? O’Donnell outlined the risks:

* Loss of continuity
* Stress on business
* Reduced employee morale
* Lost productivity
* Loss of business
* Negative impact on revenue
* Shareholder concerns

All this said, O’Donnell warned bankers that a real plan is “more than a single page, or scratches on a napkin.”

Ten keys to successful succession

O’Donnell then covered ten suggested steps to getting succession right.

1. Be proactive, not reactive.

The worst thing a bank can do is wait until succession is thrust upon it by events. In emergencies, “band aids” or temporary solutions are used. Appointments won’t serve strategic purposes in such cases.

2. Think strategically.

Building on that point, O’Donnell suggested that bankers think of strategic planning and succession planning as parts of one process. “For banks,” she warned, “people are your business, and your future strategy relies on your future leaders.”

3. Engage all stakeholders in the succession debate.

The full board, the outgoing CEO, and top managers all have unique input to the search for a successor. O’Donnell is of the school that sees the board—not the present CEO—as being in the “driver’s seat.” The outgoing CEO should collaborate in the succession process, but shouldn’t be the driver, she said. For the board to play this role, however, it must have a genuine role in strategic planning as well.

4. Be prepared to look outside the bank.

Internal candidates for succession are generally preferred, according to O’Donnell, because they help maintain a consistent culture and continue the previous CEO’s momentum.

However, she added, while there’s a promise of stability going forward, that may not pan out. Sometimes the presence of an internal winner implies that there were internal losers as well. And those people—valuable where they are to the bank—may decide to seek other posts.

A trap of the internal candidacy is the supposed heir apparent. “Don’t promise anybody anything,” O’Donnell cautioned. When the time for succession comes, the heir apparent may be more apparently not quite ready, or, even after succeeding to the job, may prove ill-suited.

Sometimes, too, the bank may benefit most from new blood. There is also the risk that new blood won’t synch with the bank. And it will also likely be more expensive than an internal successor.

5. Plan ahead by developing internal talent.

“This is critical for all levels of management succession,” said O’Donnell. “It builds organizational bench strength. There are all kinds of executive positions.” This also sends positive messages to employees regarding opportunities for growth and can help attract and retain talented employees.

One twist on this idea: Expand on the number of staffers who have an opportunity to speak to the bank’s board.

“I often hear, from directors, ‘I’m not that familiar with Joe’,” when a name comes up for succession to an opening, said O’Donnell. Gradual exposure over time helps directors get used to new faces that may someday fill senior posts.

Indeed, later in her presentation, she suggested that boards get used to the idea of looking below the first and second tiers of the bank for potential talent. “Sometimes, when we’re not looking, those people go elsewhere,” she warned.

6. Remember that “It’s a journey, not a destination.”

Management succession demands ongoing thought, rather than a one-time discussion. That’s because, especially these days, a bank’s needs and priorities are subject to constant potential to change.

7. Define a formal assessment process.

An ad hoc approach won’t produce the results the bank and the board want. The board and management need to come up with a structure both for top management succession, and for evaluating external and internal candidates for succession at other levels.

8. Recognize that your #2 is not always ready, willing, or able to become your #1.

“I’ve had many COOs tell me—behind closed doors—that they don’t want to become CEO,” said O’Donnell. Often, “these folks are very dedicated, and are willing to be emergency successors, but not long-term successors.”

It is a misconception that COOs are always CEOs-in-waiting. Many COOs have an internal, operational focus, while CEOs typically have an external, strategic focus. In recent banking assignments, she noted, she has been finding that business developers, chief lenders, and other such employees are coming up as successors to CEOs.

To cover the bank’s bases, O’Donnell favors establishing a pool of candidates, rather than a focus on a single candidate.

9. Ensure proper transition.

When the new CEO takes over, the old CEO’s role is to facilitate transition, and then “get out of the way,” said O’Donnell. It is important to avoid having them become a long-term lame duck. Preferably, the transition period where both new and old CEOs are on board shouldn’t last more than six to nine months, she said.

10. Start early (now)!

O’Donnell suggests beginning succession planning two to five years before the potential need. In addition, she suggested thinking not only about planning years before the CEO leaves, but also to plan ahead for two or three positions. This can, among other purposes, help the bank spot future stars and develop them for future, unspecific roles.