McDermott & Bull
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Financial Institutions Practice Group Co-Chairs
Brandon Biegenzahn
biegenzahn@mbsearch.com
Rod McDermott
mcdermott@mbsearch.com

SUCCESSION PLANNING AS A CORE COMPETENCY

No doubt you've heard about Sports Illustrated's winning prediction three years before it actually happened. In their June 24, 2014 issue they ran a photo of the Houston Astros with the cover line: *Your 2017 World Series Champs!* It was a bold prediction and one that seemed unlikely to happen based on the team's dismal track record. The Astros had lost 358 games since the start of the 2011 season and had won only 187. The team was purchased in 2011 by Jim Crane, a successful business owner, who finalized the buildout of his executive team in 2014. The team's executives were viewed as baseball outsiders even though some had worked in the game for a decade. Not everyone liked their aggressive style because they were known for rebuilding teams from scratch. Then, in 2017, the unthinkable happened. The young players they had hand-picked had matured into a cohesive team and the Astros won the World Series.

While the Astros may have visibility on a national scale and a payroll that's a tad bigger than your bank, you could take a similar three-year approach to succession planning at your financial institution, whether you work at a regional bank, community bank or a credit union. Attracting, developing and retaining leadership talent is both a strategic and economic necessity. The ultimate aim, of course, is to provide value to your shareholders, owners or members. Are you grooming someone to take over? Have you picked your successor, or do you have several candidates in mind? Do you know who will be running your organization in 2020 and who will sit on your board of directors? Shareholders like to see new and fresh talent coming on the board. So, don't leave planning to the day of the wake! The banking industry is aging and changes need to be made within the next few years. Regional and community banks need to be agile and nimble enough to adapt to environmental and technology changes and that goes for their senior leaders too.

"The reality is regulators need a formalized document in place for unexpected board and CEO succession whether due to retirement or illness," says ***Dave Roughton, President and CEO of $2.7 billion SAFE Credit Union*** in Folsom, CA. "We have a formalized plan in place. I've worked with my senior executive team to develop a plan so that when it's my time to transition, we'll have multiple candidates internally who can compete for the job. You've got to invest in people and identify where people's skill gaps are and then create opportunities for them. We can't be successful in what we do without the right talent."

According to ***Michael Delucchi, President and CEO of Western Independent Bankers***, there are no mandatory retirement ages for CEOs at independent community banks. "In fact, an aging C-level is currently a big concern in the banking industry especially with community banks and the lack of talented emerging leaders to fill spots that may be vacated," he said. The WIB has several initiatives to assist, including trying to bring more young people into the banking industry after the 2008 downturn. "Banking, in general, has moved away from the image of the 'trusted advisor'," Delucchi said. "We're trying to show people that there are many career opportunities in banking, how banks support their local businesses and charities, and illustrate that community banks can help local communities and cities across the country thrive and succeed."

The WIB, which has entered into a merger agreement with the California Bankers Association, and represents over 22,000 individual members from more than 140 financial institutions in the West, is providing community banks with the resources to successfully do internships and college outreach programs to attract and retain a younger generation of bankers. It is also organizing several programs and conferences focused on giving education and peer networking opportunities to the emerging leaders of tomorrow. "Helping the future of our industry from many angles is a core mission of ours in 2018," Delucchi concluded.

$12 billion Columbia Bank, headquartered in Tacoma, WA, considers it essential to have the right products and services in the marketplace at the right time, but more importantly, to have the right people behind those products and services. Formal succession/talent review sessions are held regularly with all bank leaders. The sessions include:

- An organizational analysis overview of current and future growth, challenges and opportunities; and
- A nine-box talent grid (performance versus potential) is used to facilitate a candid dialog between leadership participants that promotes open debate and multiple perspectives for a more accurate talent/development assessment (versus one person's opinion) of the individual.

"You can call it succession planning, but I call it workforce planning," says ***Dave Lawson, Chief Human Resources Officer and Executive Vice President at Columbia***. "We're developing leaders who will engage with our workforce, take care of our clients and give our shareholders value. It all starts with good leadership." A transfer of wealth between generations is coming. "What the banking industry is struggling with is to have the next generation of bankers prepared," Lawson added. "We need to develop the next generation of leaders so a transfer of knowledge doesn't leave the bank."

He was hired five years ago from the healthcare industry to put Columbia's plan in place for when leadership steps down. The Board of Directors has an age limit of 75. About three-quarters of the board has been there for under six years. A quarter of Columbia's workforce is over age 50. On the lending side, they have introduced a hand-off that begins two to three years before a senior lender retires. The senior lender is encouraged to come to the bank part-time but still receive full benefits as they work hand-in-hand with their up-and-coming replacement. "This keeps the customer and the lender connected," Lawson said. "We want to make sure we don't lose that business."

Columbia has internal coaches and external coaches to help develop staff too. Each member of the staff has their own development plan so they're ready to fill the next internal position when it becomes available. For example, if they see an internal candidate who's not quite ready yet to be CFO, they will give him hooks to entice him to stay, for example, by developing a compensation plan or giving him supplemental equity. "We're continuing to build people for the future so we don't lose them," Lawson explained. The approach is obviously working. In Columbia's critical-to-fill positions, turnover is just under 8%. Even when they're buying banks, they take notice of key talent who may be marked for executive-level positions down the road. Lawson believes: "There will be future shortages if we don't develop the next tier or the tier below it."

Broadly speaking, banks either have no mandatory retirement age or they set their own age limits which means retirement age can vary from institution to institution and from state to state. Generally, the chairman of the board or a board committee is responsible for finding senior executive replacements. The ***Bank Director's 2017 Compensation Survey*** demonstrated that 29% of those surveyed expected their bank's CEO to retire within the next five years. The median age for bank CEOs is 57. There are 58% aged between 50 and 61, 26% between 62 and 73, and 2% aged between 74 to 86. The survey also revealed that most banks are unprepared for these coming changes. About 48% of bank directors and senior executives said their bank did not have a successor to replace the CEO. About 38% of respondents whose CEO was aged 62 or older had not identified a successor. Only 45% had both a long-term and an emergency succession plan in place.

In the past four months, ***$11 billion Banc of California*** in Santa Ana, CA has gone through a considerable amount of change too and welcomed new blood. It has a new President and CEO, new CFO, new Chief Compliance Officer, new Head of Deposits and a new Head of Real Estate Banking in addition to five out of nine new board members. "We're more focused on having a great team of leaders for today who have long career runways and broad experience" said ***Doug Bowers, President and CEO of Banc of California***. "In a world where a leadership team can be very precious you need to figure out who can do what next. Developing broader stroke executives to step up is key because you never know what's going to happen," he said. The bank now has a very good executive team in place and is focused on its mid-level talent to develop real client people. "I think we're a fun and interesting story," he added.

Brandon Biegenzahn
biegenzahn@mbsearch.com

Rod McDermott
mcdermott@mbsearch.com

Given the role we play in helping our bank clients with succession planning, we have identified a number of common practices of high performing institutions who are prepared for the next iteration of the industry. Here are some solutions your bank can adopt now to be ready for leadership change:

- Groom internal talent by developing internal curricula or by bringing in outside agencies or executive coaches;
- Expand a manager's responsibilities (not only does this help to develop your leader, it is a massive retention tool…and it's free);
- Cross-train staff by having them work in different functions;
- Bring in new executive-level talent with a long enough runway to engage in sustained succession planning of your existing team (new executives also bring diversity of thought and best practices developed while at different institutions and can assist in breaking from the "this is how we've always done it" thinking);
- Bring in new second-level talent who can be groomed to ultimately step into that senior executive role (we advise a minimum tutelage period of 24 months, but advise upwards of three to five years, if possible);
- Seek out up-and-comers from other institutions who are sharp, but still need to round out their skillset (right now the time is ripe to pull well trained, but siloed junior big bank candidates); and
- Address board succession planning. It's the right time to bring in a range of experience on the board with members who can address the changing landscape of how consumers interact with their financial institution.

About the Firm and the Author

McDermott & Bull is a full-service executive search firm with a dedicated Financial Institutions practice. The firm's Financial Institutions Practice Group partners with boards and senior leadership teams to align talent strategies with business strategies for banks, credit unions, asset managers and investment advisory firms. Clientele include the likes of BNY Mellon, Golden 1 Credit Union, First Republic Bank, Silicon Valley Bank, SAFE Credit Union, First American Trust Company, Bank of Marin, Technology Credit Union, Western Federal Credit Union, Luther Burbank Savings, East West Bank, Houlihan Lokey, Washington Trust Bank, Exchange Bank and United Capital.

Brandon Biegenzahn is the President of McDermott & Bull, and he co-chairs the firm's Financial Institutions Practice Group. Brandon is a corporate attorney by trade having practiced with Sheppard, Mullin, Richter & Hampton, and Buchalter Nemer in their corporate finance and real estate finance departments, respectively. Brandon received his Bachelor of Arts from the University of Southern California and his Juris Doctorate from Penn State.