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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 institution, 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 and credit unions 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 their individualized development plans 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."

SAFE evaluates staff at all levels of leadership and then senior management actively manages and reviews their career paths. Roughton works closely with SAFE's Board to conduct an annual review of succession planning on the board too, to ensure there is diversity. They look at each board member's strengths, background, industry and technical expertise, where they live and other demographic data. One innovative approach SAFE has taken is to recruit young executive MBA students who are interested in financial services as pro tempore members of the board for two years. Initially they don't have a vote but if they become a fully-fledged board member, then they do. "It's important and strategic to have a wide diversity of directors," Roughton explained. "SAFE needs board members with a wide range of executive management experience, including those who have led organizations of similar or larger size and complexity who can help guide and collaborate with me on steering the ship."

One initiative ***$3.7 billion California-based Wescom Credit Union*** has just introduced is a leadership program for a small number of managers. According to ***Keith Pipes, Executive Vice President of Financial Services at Wescom***, "in 2018 we will be identifying internal candidates to see if they would benefit from this leadership program which we're running internally through Wescom University."

Mike Schenk, VP of Research and Policy Analysis at the Credit Union National Association (CUNA) said mandatory retirement rules don't exist in the credit union world. "What it boils down to is when you find a talented and capable leader you let them serve as long as they're willing to do so." According to CUNA research, in 2016, the average age of the credit union CEO was 55.5. Overall, 53% of credit union CEOs are female and 47% are male.

Two-thirds of credit unions say they have a formal succession plan in place. If their assets are higher, the more likely they are to have a formal plan in place. Three-quarters of those with more than $100 million in assets have a plan and

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80% with $1 billion in assets do. About 13% of credit unions don't have a plan in place but expect to have one by the end of 2017. CUNA's 2017 Salary Report showed that about 7% of Credit Union Presidents, CEOs and Managers are planning to retire within the next two years.

When it comes to the board of directors, the credit union model is quite democratic. Only members who belong to the Credit Union can get a seat on the board. Every member gets one vote. Some credit unions even set term limits for the board. A 2008 CUNA study found that only 5% of Credit Unions have board term limits but it's a trend that is becoming more prevalent. This means more tech-savvy, younger members can have an opportunity to join a board thereby giving them greater diversity. Generally, it's the board of directors that is tasked with finding senior talent.

More recently credit union CEOs have started to come from banking. "Usually, it's not someone from membership but rather someone with a great deal of experience at a financial services firm," Schenk said. Unlike, say at a small, family-owned and run community bank, there is little nepotism. The reins at credit unions are not closely held by a family member and leadership is not passed down through the family.

Given the role we play in helping our credit union and 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 institution 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 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.