Succession Planning Part 1

Directors' Responsibilities for Succession Planning

By Willard Bunn, Colonnade Advisors

With the multitude of issues such as capital adequacy, asset quality, cyber attacks — the list goes on — all competing for attention, bank directors must remember that the first requirement of a board is to make sure the company has a CEO who is competent to run the business as judged against adequate yardsticks of performance. In that connection, directors are responsible not only for monitoring the competence of the incumbent but also for the grooming of the CEO's successor. Directors also need to pay attention to the CEO's departure style to ensure an effective transfer of power. An incorrectly handled process can upset years of careful planning. And, of course, failure to perpetuate the institution with effective leadership will leave it vulnerable to sale or merger, likely at a reduced valuation.

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Succession Management

With the incumbent CEO, the directors presumably have years of experience and have conducted at least an annual formal review session, not to mention giving regular and timely advice. Of course, one of the major goals for any CEO is grooming a successor, so that topic presumably receives ongoing attention during regularly timed performance reviews.

Like the board, the CEO faces numerous issues tugging for his or her attention, but selecting future leadership remains a paramount issue. In my salad days, I traveled to New England for Chemical Bank (now JP Morgan). I recall the chairman or CEO of the First National Bank of Boston — the region's largest bank — saying that succession was his primary item of discussion with the bank's president and chief operating officer.

Happily, companies have numerous tools at their command to recruit, develop and retain potential leaders, including:

- Sending potential leaders (PL's) to outsourced training sessions, such as those offered by the IBA and leading business schools, so they can build experiences with people beyond their own banking world;
- Asking PL's to give regular reports to the board so directors can get acquainted with them;
- Appointing PL's to committees outside of their normal competencies to assess their capacity for growth; and
- Establishing a good working relationship with an executive search firm to recruit external talent if required. It is reasonably standard to request that a search firm complete a regular external talent mapping exercise or succession planning report so that the board is aware of potential external leadership options, and is able to benchmark internal candidates versus going outside for a next CEO.

Passing the Baton

To assure the smooth transfer of power, the company's board also needs to pay close attention to the departure style of the outgoing CEO so the baton will be passed without it being dropped. Twenty-five years ago in a book titled *The Hero's Farewell*, Professor Jeffrey Sonnenfeld identified the four major types of leadership departure styles:

- Monarchs, who choose not to leave voluntarily but either die in office or are overthrown;
- Generals, who leave reluctantly and spend their retirement planning a comeback;
- Ambassadors, who retain close ties with their former firms; and
- Governors, who willingly serve a limited time and leave to pursue new interests.

Understanding how these leadership styles affect the transition process can enable both CEOs and their firms to better prepare for the changes to come.

Summary

Executive successions are rarely easy, especially today when many of our business leaders are treated like rock stars with commensurate salaries and perks. Firm deadlines for succession will ease some, but not necessarily all, of the natural problems of leadership change.

The simple fact is that although people don't like change, they like uncertainty even less. One important by-product of successful succession planning is eliminating uncertainty in a company's work force and among its other stakeholders. Alignment in their views on the proper person to run the firm and on the timing of his or her ascendancy will provide the right background for the firm to successfully prosecute its strategic plan. IB

About the author: Willard Bunn is a managing director of Colonnade Advisors, a boutique investment banking firm, and an IBA Associate Member.