THE CRITICAL STEPS IN SUCCESSION PLANNING

"Companies are not properly developing their pipelines of future leaders. In PricewaterhouseCoopers's 2014 survey of CEOs in 68 countries, 63% of respondents said they were concerned about the future availability of key skills at all levels. The Boston Consulting Group cites proprietary research showing that 56% of executives see critical gaps in their ability to fill senior managerial roles in coming years. HBS professor Boris Groysberg found similar concerns in his 2013 survey of executive program participants: Respondents gave their companies' leadership pipelines an average rating of 3.2 out of 5, compared with an average score of 4 for current CEOs and 3.8 for current top teams. Equally troubling were responses to other kinds of questions in the survey: No talent management function was rated higher than 3.3, and critical employee development activities, such as job rotations, were scored as low as 2.6. In other words, few executives think their companies are doing a good job identifying and developing qualified leaders. Recent executive panel interviews conducted by [researchers] confirm that this view is widespread. Only 22% of the 823 leaders who participated consider their pipelines promising, and only 19% said they find it easy to attract the best talent" - Excerpt from the article "21st Century Talent Spotting," by Claudio Fernández-Aráoz. Published in *Harvard Business Review* in June 2014.

Talent is scarce, and with or without you, the fight for the next generation of banking leaders has already begun. If want your bank to exist and be dominant ten years from now, then you need to be talking about Succession Planning right now.

For some reason, Succession Planning has this aura of complexity and obscurity. From the outside, it appears that successors are either chosen on personal criteria (he/she is close to the CEO) or on secret criteria that no one knows. If done incorrectly, your employees will look at the plan as say "Really? That guy is going to be our next leader?" But when done correctly, Succession Planning is extremely simple and follows a logical path where everyone can understand your decisions.

Step 1 – The first step is to define the long term strategy and core values for your bank. For regular readers of the Human Capital articles, you know that everything in your bank needs to be aligned to and driving your long term strategy which will differentiate you from the rest of the market. Within the Succession Planning process, your long term strategy and core values set clear criteria and expectations for your future leader.

Step 2 – Once you have a clear long term strategy and set of core values, you can translate the bank's strategy into requirements for your leaders. If your ten year plan is to be a technology driven bank, and the successor to your CEO is uncomfortable using MS Office, then you clearly messed up on your Succession Plan. Too often Succession Planning focuses on finding the people with the skills to perform the position today, instead of looking for the people who can perform the future version of the position.

Step 3 – The third step builds off of the leadership profile you created to assess the people within your bank. Do any of your finance people have the skills/potential to fulfill the role of CFO five years from now? The leadership profile, based on the strategy, gives you the opportunity to assess your people for the critical skills of the future. The assessment will show you where you have strengths and gaps within your Succession Pipeline.

Step 4 – Once you know your Pipeline's strengths and gaps, you can begin creating a plan to build upon your strengths and to address your gaps. For the areas of strength within your Succession Pipeline, you will need to make sure you are continuing to develop, compensate and invest in these talents. You want to make sure that these talented people stay within your bank and don't turn your area of strength to a gap. To address the gaps, you will have to decide whether you can develop your internal resources to fill this future role, or whether you need to bring in external talent through recruitment.

Step 5 – The final step within the Succession Plan is to continuously revisit your analysis and decisions to ensure they are still aligned to the bank's long term strategy. We recommend revisiting your Succession

Plan at least once a year. We also recommend following up on your action plans to address the gaps at least once a quarter. You need to make sure the steps are taken to fill your Pipeline and ensure that you have the right leaders with the right skills for your bank's future.

Next month, the Human Capital Banking partners (*The Findley Group* and *Young & Associates*) will be leading series of workshops at the *California Independent Bankers Seminar*. We will specifically be covering the five steps of Succession Planning as they relate to leadership succession and board succession. It will end with a table discussion where you can hear directly how other banks are addressing their Succession Pipeline. We hope to see you there, but until then we hope you gain some learnings from these five Steps of Succession Planning.

1) Start with Your Strategy

Every aspect of the Human Capital strategy within your bank needs to be based off your bank's long term strategy. We don't believe in investing in your people because it feels good or is the right thing to do. Every people process and investment you make needs to help you get closer to achieving your bank's strategy. Any HR process, leadership process, training course, compensation practice or talent process that isn't aligned to your long term strategy is a waste of time and money.

Now when I talk long-term strategy with banks, I immediately receive some goals on assets, equity, and other financial performance metrics. But often, that is all I get. I don't hear anything as to how their customers might change or evolve. I don't hear anything about how the bank will need to grow and evolve its services to fit these future customers. And I definitely don't see a long-term differentiation strategy that clearly articulates how their bank will beat their competitors. These things are critical to define, not only for the success of your bank, but also for the success of your Succession Plan.

Your bank's long-term strategy will make it easier to select your future leaders. Imagine two banks. Bank A's strategy is limited to financial performance (triple assets in 10 years + double the equity). Bank B's strategy also has financial goals (triple assets + double equity), but they plan on achieving this through embracing new technology, and expanding into 3 new markets. When it comes time to identify the next generation of leaders, Bank B already knows the key areas they will prioritize: candidates will have to be strong in technology and growth/expansion.

2) Create the Profile for the Future Leader

As you saw with the example between Bank A's weak strategy and Bank B's comprehensive strategy, the clearer the strategy the easier time you will have in identifying successors. But even if you have a clear long-term strategy, many companies and banks fail to take the next step. They fail to link the criteria for succession planning to the strategy. Instead they use the profile/role requirements of the current leader to dictate what the successor should look like.

That succession strategy may have worked 30 years ago when change was slower in the industry. But today, you need to be thinking about your future needs. Let's imagine your current CEO is a marathon runner, and his ability to run and run and run has made your bank successful. It is very easy to think that the next CEO should also be a marathon runner. But maybe your bank ten years from now doesn't need a marathon runner, but a triathlete. This new leader may not be able to run as long as his/her predecessor, but instead, the new leader has a more diverse set of skills.

The process of building the profile for your future leader is quite easy. While there are different methods, we at Human Capital Banking recommend using different sources (long term strategy, current leader, input from Board/leadership team, etc…) to identify all the different requirements for the future role. Once you are done gathering all the possible requirements, it is time to prioritize them in terms of how critical they are to the bank and how rare they are in the population. In the end, the Career

Profile and your Succession Plan should only focus on the most critical and most difficult to find skills. Selecting your future leaders on anything else is just a waste of time.

3) Assess Your Talent

Once you know what you are looking for, you can begin assessing your current levels of talent. When assessing talent, Human Capital Banking likes to look at two criteria: What is there current level of performance, and what is their potential to fill the leadership roles? For discussing current performance, we always recommend looking at a three year average of performance. Anyone can have one great year or one bad year. By looking at the employee's performance over time, you can have a clearer prediction of their performance in the future.

When discussing potential, you need to use the career profile you created in step 2. Assess your people on each skill that you have determined is critical for the future role. We recommend using a simple rating scale per skill: the employee's current skill level meets the criteria, there is a gap in the skill level but it can be improved, or the employee will not be able to meet the criteria. You need to do this rating on all the critical skills, and not just on the employee as a whole. By knowing your employees' skill levels you will be able to create a Succession Plan that builds upon their strengths and helps them develop their gaps in skill.

4) Build Your Succession Plan

A Succession Plan isn't just about identifying names of successors (that is the easy part). Where a Succession Plan becomes valuable is by building employee development plans and external recruitment plans to ensure you have the people needed to deliver your strategy. We recommend the following guidelines for internal development and external recruitment to fill the Succession Roles:

- Internal Development – Use the 70-20-10 ratio when deciding developmental actions. 70% of development should come from on-the-job experience, such as taking a developmental role in a different function. 20% of the development is coaching and mentorship from the appropriate leaders in your bank, and the 10% comes from external actions like training courses, books, or external coaching. This ratio isn't just a best practice, it is from scientific research on how people learn and develop. Don't think that sending a person to an MBA will give them the skills to be the next leader. Instead invest time and developmental roles in them. People learn the most lasting skills when they get their hands dirty, not in a classroom.

- External Recruitment – Make sure you are using your future career profile to identify the skills you need for succession, and prioritize those future needs over current needs. Hiring someone that cannot be a next generation leader is a wasted opportunity. This might mean you say no to some candidates that could be successful in today's environment, because they don't help you achieve your long term strategy. This is a tough decision, but one that leaders of Premier Performing Banks need to be willing to make.

5) Continuously Follow Up on Your Succession Plan

A Succession Plan that is gathering dust in a draw is almost as bad as not having a Succession Plan to begin with. The value of a Succession Plan is only through continuously checking on the status of the actions. We suggest that a bank's leadership team revisits their Succession Plan every quarter. You need to be seeing progress in addressing your gaps. Your people need to be working on their developmental actions, and you need to be bringing in the external talent that fills your strategic gaps. We also recommend that the board reviews the Succession Plan once a year, and gives input on the succession actions proposed.

How Human Capital Banking Can Help You Differentiate Yourself

From our experience, most banks are thinking about Succession Planning too short term. They are worried about someone filling the job tomorrow, or just trying to fulfill the regulators requests. Premier Performing Banks always have an eye on the long term success, and with that in mind they are always building their people towards achieving that future success. They know how to use their long-term differentiation strategy to identify the requirements of their future leaders, and then they assess their people and build their Succession Plan to ensure those requirements are met. That is one of the critical ways Premier Performing Banks ensure they have the talent to outperform the market.

With the right mindset, long term Succession Planning can be an easy value adding strategy for your bank, and this is where Human Capital Banking wants to support you. Our partners have led countless strategic retreats over the past 30 years and can help your bank differentiate itself. From there, our Human Capital services are designed to translate your bank's strategy into clear people actions. We will help you identify which of your people is best suited to lead your ten year vision. We will help you develop and grow your people to make sure they have the right skills needed for your strategy. We will help you select the best candidate for an open position that not only fits the job criteria, but also has the best organizational fit with your bank.

We want to be your bank’s partner in differentiating yourself from every other bank. Whether it is Human Capital Banking, The Findley Group, or Young & Associates, we can help you build your strategy for success. If you would like to read any of the past Human Capital articles, especially the "Differentiator" series, you can find them all on www.HumanCapitalBanking.com

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