

Succession Planning for Success...

And the Importance of Good Governance

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Introduction, Dan Strandy & EEC...

- 38 years on Credit Union Board of Directors
- Served multiple terms in leadership positions
- As Board Chair, oversaw CUSO formations & dissolution, charter change, CEO succession, merger actions, & strategic planning & visioning sessions
- CEO & founder of Essential Elements Consulting (7/2014)
- Strategic planning, facilitation, conflict resolution
- Category 6 Consulting resource
- Passionate advocate of the Credit Union Movement!

Succession Reality...

“Credit Unions are experiencing a CEO succession challenge unlike any other industry.” - CU Journal, 10/2018

- 64% CEOs in large CUs near or at retirement age
- 15% happy where they are, have no intention of leaving
- 8% cannot relocate for personal reasons
- 5% recently appointed
- 8% would consider an opportunity to work at another CU

More Succession Reality...

“Credit unions are at a retirement super-cycle with critically low viable successor ratios.”

“Boards spend too little time on CEO succession planning and when they do it’s often too little too late”

- CU Journal 10,2018

Succession Planning Defined...

“ Succession planning is a process for identifying and developing potential successors for key positions in an organization, through a systematic evaluation process and training.”

- Businessdictionary.com

Why do Succession Planning...

- Essential element of Board's fiduciary responsibility (for CEO and Board)
- Aging CEO population. Average age is 58*
- Aging Boards. Average age is 65*
- Presentation will focus on CEO succession (with concluding comments on good governance), and touch on Board succession

* Source is D Hilton Associates, Inc 2017/2018 SERP Survey & CU Times

Common Mistakes in CEO Succession...*

** Dr. Thomas Saporito, Chairman & CEO, RHR International*

- Starting the process too late – Board needs to take ownership early
- Not getting future leadership requirements known upfront
- Inadequate evaluation and vetting of CEO candidates
- Mishandling transition to the new CEO

Succession Planning Requires Dialog...



Our succession plan is we don't talk about it!

Succession Planning is an Important Part of Board Governance ...

- Annual review of CEO succession should include:
 - Likelihood of CEO transition in the short term
 - The Plan for Succession (Have one!)
 - Developing Scenario Strategies (more on this later)

Most Common Types of Succession...

- Planned
 - ✓ Retirement
 - ✓ Resignation
 - ✓ Scheduled relocation
- Unplanned
 - ✓ Health related
 - ✓ Recruited out
 - ✓ Removed for cause
 - ✓ Resignation

Succession Statistics ...*

- CEO Successions have increased 53% in the last six years
- 41% Planned vs 59% Unplanned
- 59% Distribution of Unplanned
 - ✓ 2% Health related
 - ✓ 20% Recruited out
 - ✓ 14% Removed for cause
 - ✓ 23% Resignation
 - ✓ Unplanned successions are the underlying reason for ongoing review & update of the succession plan by the Board

* From sample of 414 CEO departures reported in Business Insider & ceo.com

Responsibility for Leading the Succession Planning Process...

- Board of Directors has the lead
- Often delegated to one of a variety of board committees (e.g., Executive; Compensation; Ad Hoc Succession Committee)
- CEO often is a primary resource to the committee

Developing a Succession Strategy...

- First action is to assess likely changes over the next 3-5 years
 - ✓ Changes in the economy
 - ✓ Changes in the financial services industry
 - ✓ Technological changes
 - ✓ Changing CEO compensation strategies (e.g., executive benefits)
 - ✓ Credit Union culture change
 - ✓ Likelihood of CEO succession

Developing a Succession Strategy... (con't)

- Establish CEO attributes/candidate profile
- Use for internal candidate development
- Assign Internal Candidate Development Plan to CEO, with annual progress reports
- Board be in alignment and formally adopt CEO attributes
- Incorporate attributes into Candidate Profile for job announcement – make expectations known up-front

Key CEO Attributes to Consider...

- ✓ High intelligence to understand challenges & opportunities facing the credit union over the next 3-5 years
- ✓ Energy & passion
- ✓ Strong communication skills
- ✓ Ability to develop & lead a competent EMT
- ✓ A visionary with an upbeat optimistic attitude

Key CEO Attributes to Consider... (con't)

- ✓ Credibility and sound judgment
- ✓ Commitment for the long haul
- ✓ Community focus
- ✓ Hard & soft skills
- ✓ Be a good person
- ✓ Others?

CEO Candidate Pool for Succession...

(Also part of Succession Strategy)

- Two primary sources
 - ✓ Internal candidates (identified and/or groomed)
 - ✓ External candidates (national or regional search)
- Best to keep both sources open
- Can validate legitimacy of internal selection and/or enable change process to occur
- 57% of Credit Union CEOs selected from internal candidates, 43% external (inverse relation based on asset size)

Planning is Key to Timing of Succession...

- Determine most likely timing of CEO transition
- Determine which candidate pool to conduct search
- Establish CEO attributes/profile
- Determine how long the recruitment process will take
- Consider use of outside consultant to conduct search
 - ✓ Screens candidates to “success pool”
 - ✓ Secure employment guarantee (2-3 years) from recruiter

Advance Research & Preparation Impacts Succession Success...

- Board track high performing Credit Unions in their peer group
- Support investing in the grooming of EMT members for CEO
 - ✓ Work with CEO to identify staff
 - ✓ Cross-training, leadership coaching & mentoring
 - ✓ Expose to Board operations
- Builds knowledge & capability at both the Board & EMT levels

Succession Implications for CEO Compensation...

- Incorporate internal candidate grooming into existing CEO's compensation (incentivize)
- Recognize that new CEO compensation will, in most cases, be higher
- Incoming CEO will likely demand some form of executive compensation (e.g., 457f, 457b, split-\$)
 - ✓ Boards need to educate themselves on these complex forms of executive benefits and their costs to the credit union

Succession Implications for CEO

Compensation (con't)... (Source is D Hilton Associates, Inc 2017/2018 SERP Survey)

- SERPs are necessary for recruitment & retention
- Of the nearly 60% of CUs offering SERPs:
 - ✓ 56% are 457(f) plans
 - ✓ 27% are Split Dollar plans
 - ✓ 17% are 457(b) & other plans
- 25% of CU CEOs have less than five years in their position
- 26% of CEOs likely retire within 5 years (35% for larger CUs)
- Retention is the main reason for offering SERP (86%)

Assessing Your EMT for Possible Succession to CEO...

- Independent consultant's assessment of your EMT's strengths & weaknesses
- Complete a "gap analysis" of their technical & leadership capabilities vs. those inherent with the CEO attributes/profile
- Identify training, education & professional development steps to "fill the gap"
- Assess competitiveness with potential outside candidates

Addressing the Question of Culture vs Change...

- Internal candidates can be better equipped to maintain continuity & the credit union's corporate & community culture
- External candidates can be better equipped to bring about change, new ideas, diversification of thought
- Board needs to determine which is the primary driver for new CEO selection
 - ✓ Can internal or external candidates do both
 - ✓ Health of the credit union is also a major factor on focus of culture or change

Transitioning to the New CEO...

- Creating a robust on-boarding process not a sign of doubt, it is a show of ongoing investment in the new leader
- 40% of CEOs at large organizations fail within 18 months according to the Center for Creative Leadership
- CEO churn can lead to poor financial results
- Successful transition requires a joint effort & mutual commitment from the Board and CEO

Transitioning to the New CEO... (con't)

- A good CEO transition plan spans a year and contains five phases:
 1. Intensive knowledge sharing
 2. Communicating with stakeholders
 3. Drafting a written transition plan
 4. Sharing the transition plan
 5. Strengthening relationship with the Board

Succession Policy Makes the Plan Real..



Establishing a Succession Policy...

- Validates & codifies the Board's responsibility for this important function
- Assigns development (drafting) to Board committee (e.g., Governance)
- Determines frequency for review of the policy
- Involves the current CEO with the drafting process & have Board formally adopt policy
- Acknowledges intent to identify & groom internal candidates (but not specify who)

Succession Policy Elements...

- Temporary absence greater than 30 days
 - ✓ Need to establish temporary succession using existing staff
 - ✓ Parameters for allowing & approval process
 - ✓ Steps to extend the leave of absence
- Permanent departure – Planned
 - ✓ Notice provisions
- Permanent departure – Unplanned
 - ✓ Immediate action steps by Board (24-72 hours)
 - ✓ Appointing & developing an interim CEO
- Implement the recruitment process
 - ✓ Use CEO attributes/profile

Board Succession Policy also Important...

- Focus on Board leadership
- Codify the process for electing officers
- Address handling of leadership planned or unplanned vacancies
- Have process for replacing a Board member during their term
- Establish attributes for Board leaders and position descriptions

*Key Board Attributes to Consider...**

➤ Interpersonal Competencies

- ✓ Strategic Thinking – Understand & process complex information, provide guidance and direction with long term focus
- ✓ Mental Agility – Ability to operate effectively in ambiguous or changing situations
- ✓ Continuous Learning – Identify & address learning & development needs
- ✓ Interactive Communication – Listen to others, foster open communication
- ✓ Collaboration – maintain a collegial relationship with others

*Key Board Attributes to Consider *... (Con't)*

➤ Performance Competencies

- ✓ Critical Thinking & Decision Making – Analyzes information & thinks beyond the current state of the Credit Union
- ✓ Risk Oversight – Identify and assess risk while striving to attain CU objectives (e.g., ERM , including cyber security)
- ✓ Governance – Understand role of the Board & how differs from the CEO
- ✓ Financial Literacy – Understand key financial ratios, statements, and other data to oversee performance & identify opportunities

* Taken from Verity CU Exceptional Board Competencies Guidance Document

A Few Comments on Good Governance...*

- The CU strategic challenge is to successfully execute the CU's core mission as a financial cooperative
- Key to achieving this core mission has always been, and continues to be, strong, effective governance
- The central actor in good governance is the Board of Directors
- The Board is accountable for the governance of the CU
- Impossible to speak of CU governance without at the same time attending to strategic goals & objectives

* Source, Credit Union Strategic Governance, Liverpool John Moores University, January 2017

Key Functional Areas for the Board...

- Defining the purpose and strategic direction of the Credit Union
- Delegating executive authority & responsibility to the CEO
- Retaining authority and responsibility for the governance structure and process
- Ensuring effective oversight, monitoring, control and support of the CEO in managing performance of the business

Three main areas of Board Oversight...

- Culture, Ethics & Values – ensure distinctiveness of the CU as a member-owned financial cooperative
- Strategic & Financial Planning – central to an effective system of governance is board oversight of strategic planning and setting of organizational and financial objectives
- Risk & Compliance – the board defines and establishes the CU's risk appetite, within legislative and regulatory constraints, and its risk governance framework within board policy

Board – Management Relationship...

- A key principle of governance is that boards delegate executive authority to the CEO to manage the strategy and operations of the CU
- Board need professional expertise of a CEO in strategic analysis, preparing a business plan, and providing organizational development
- Focus of the board needs to be on the vision, values, purpose direction, policy and strategic goals of the CU
- CEO has responsibility & authority over all management, strategic & operational activities that have been put in place to achieve the agreed objectives

Board – Management Relationship (Con't)...

- A principle of effective governance system is clarity of expectations
- The CEO relates to and is accountable to the single voice of the board, not any individual director, including the chair
- For the CU to flourish, the Board – CEO relationship must be built upon mutual respect, trust, and a collaborative partnership
- Ensure written defined levels of delegated executive authority are commensurate with board expectations of responsibility

Role of the Board Chair in Good Governance...

- Has responsibility for ensuring the board carries out its responsibilities and functions efficiently and effectively
- Acts as the primary liaison between the board and CEO
- Both the Board chair and CEO are accountable to the board
- Relationship between the chair and CEO is best characterized in terms of mutual support in which ideas, plans, and decisions can be explored and critiqued – helps ensure no surprises to the board

Conclusion...

- Succession planning is an important Board responsibility to ensure uninterrupted executive leadership
- The process is multi-faceted and requires ongoing effort in effective Board Governance & collaborative CEO relationship
- Comprehensive succession planning has three pillars: 1) CEO succession; 2) Internal Candidate Grooming; and 3) Board leadership succession

THANK YOU!

Questions?

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