A lot of bank boards struggle with succession planning. The Bryn Mawr Trust Co. decided to get started early.

GETTING SUCCESSION PLANNING RIGHT

BY **ED AVIS**

When Ted Peters announced in 2011 that he wanted to retire three years later from his position as CEO and chairman of The Bryn Mawr Trust Co., the board of directors formed a search committee, hired a consultant, and considered the bank's strategy.

But those steps were hardly the first in the $2.25 billion asset banking company's succession journey.

"Succession planning has been an on-going process at the bank," says Frank Leto, now president and CEO at the 19-location bank headquartered in suburban Philadelphia. "In previous years we had developed a succession plan for the C-suite, whereby each of us designated a day-one successor in case of emergency, and we came up with a five-year succession plan, meant more for management development."

Bryn Mawr Trust's succession process—which included long-term planning, outside professional assistance, and connection to the bank's strategy—resulted in a smooth transition to a new CEO. But some banks are less fortunate.

"Succession has always been vital to the long-term success and continuing independence of banks of all sizes, but it has been dealt with inconsistently by boards of directors," says Alan Kaplan, CEO of Kaplan Partners, an executive search firm in Philadelphia, Pennsylvania, that specializes in financial institutions. "I think that banks that don't grapple with succession put themselves at risk."

A well-considered succession plan is important for a number of reasons.

First, bank regulators expect a succession plan, and are becoming more insistent on that. "We've been seeing a refocusing by bank regulators, and to some extent the investor community, on governance, and succession planning is part of that," says Walt Mix, managing director and financial service practice group leader at Emeryville, California-based Berkeley Research Group.

Second, a bank with a good succession plan is more likely to fill a vacancy expeditiously, which is especially significant given the fact that the pool of qualified candidates is shallower these days than a decade ago.

"Banking is not as attractive an employment opportunity for a lot of leading graduates these days," says Lisa Cannell, owner of consulting firm Talent Strategies and Solutions LLC and senior director of human resources at Darden Graduate School of Business at the University of Virginia in Charlottesville, Virginia. "And there is not as much infrastructure for training bankers. It used to be that larger banks had training programs, and smaller banks fed off that."

Third, a succession plan telegraphs to staff and other stakeholders that the bank is planning ahead. It identifies future leaders at the institution and ultimately makes a transition go more smoothly.

Succession Planning Checklist

Tap each icon to view and check off each entry on the checklist.

- **Develop a succession plan before the need arises; ideally, when a new CEO is hired.**
- **Develop an emergency plan and a long-term plan.**
- **Build in ongoing assessments of all potential C-suite executives.**
- **Engage the CEO for perspective, not ultimate decision-making.**
- **Tie your succession planning to your strategic plan.**

Cannell says boards should start developing the succession plan way before the actual need arises. In fact, she says planning should begin the moment a new CEO is hired. Starting then lets the CEO know that creating the plan is part of the bank's process, not something prompted by dissatisfaction with the CEO.

A typical succession plan comes in two parts: An emergency plan to

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U.S. Bank M&A Advisory League Tables[1]		
Rank	Advisor	Number of Transactions
FY 2012 - YTD 2015[2]		
1	Sandler O'Neill	157
2	Stifel / KBW	144
3	Hovde Group, LLC	43
4	**FIG Partners, LLC**	**40**
YTD 2015		
1	Sandler O'Neill	16
2	Stifel / KBW	12
3	**FIG Partners, LLC**	**7**
4	Hovde Group, LLC	6

[1]Includes FDIC-Assisted Transactions [2] Updated as of May 7, 2015

Bank of the Carolinas
Agreed to be Acquired by
Bank of the Ozarks
Financial Advisor
May 2015

Espirito Santo Bank
Agreed to be Acquired by
Investor Group
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April 2015

Carolina Alliance Bank
Agreed to Acquire
Pinnacle Bank
Financial Advisor
March 2015

Lenox National Bank
Agreed to be Acquired by
Adams Community Bank
Financial Advisor
April 2015

Community Financial Shares, Inc.
Agreed to be Acquired by
Wintrust Financial
Financial Advisor
March 2015

ProFinancial Holdings, Inc.
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American Commerce Bank N.A.
Financial Advisor
February 2015

First NBC
Enters into Agreement with FDIC to Acquire
First National Bank of Crestview
Financial Advisor
January 2015

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replace an executive if he or she suddenly departs, and a long-range plan aimed at talent development.

The emergency plan names individuals who can quickly fill the shoes of departed executives.

"In one case a 53-year-old guy dropped dead on the tennis court," Kaplan remembers. "They brought in an interim CEO from the management team. In another case the CEO left after two years and they brought back the old CEO."

In contrast, the long-term part of the succession plan assumes a more orderly transition of power. It articulates the characteristics of each position, focuses on employee development, and ties in with the strategic plan of the organization.

In order for the long-term plan to succeed, it should be connected to the bank's normal personnel assessment program. In particular, the progress of individuals who are identified as potential future leaders should be evaluated. And the characteristics of those individuals should be compared to what the bank needs, based on the strategic plan.

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TIM O'ROURKE, CEO, MATTHEWS, YOUNG

for succession," says Tim O'Rourke, CEO of Hillsborough, North Carolina-based consulting firm Matthews, Young. "It should be an on-going process that the board engages in on a regular basis."

Inevitably, the day comes when the board faces a vacancy at the top. Whether the CEO departs suddenly or announces his or her retirement three years hence, the board must spring into action.

"The sitting CEO should play a very small role in choosing his or her successor. It is one of the most important responsibilities of a board and it needs to be divorced from management."

JACK O'KELLEY, RUSSELL REYNOLDS ASSOCIATES

At Bryn Mawr Trust, a CEO succession subcommittee was formed, and one of its first tasks was to look at the bank's strategy through the prism of the upcoming vacancy.

"We engaged a CEO-process consulting firm and they interviewed every director, asked where the bank was going, and came out with a full report," says Ted Peters, who was the departing CEO at Bryn Mawr and now is CEO of Bluestone Financial Institutions Fund. "The thrust of the report was, 'Where is the bank going? What kind of leader do we need to take us there?'"

That consultant's report advanced the board's thinking to the next level. Since the bank had an on-going succession plan, a viable internal candidate had already been identified. But the committee still wanted to evaluate other candidates.

"Despite a strong internal candidate, we ensured we had enough time to open up the search to outside candidates," says Bryn Mawr Bank Corp. board member Andrea Gilbert, who chaired the subcommittee. "This enabled us to validate the strengths of the internal candidate, and identify areas of development opportunities."

Peters, the outgoing CEO, was chairman of the board at Bryn Mawr in addition to being CEO. He was an ex-officio member of Gilbert's subcommittee, so he was heavily involved in the search for his successor.

Experts differ on how much the CEO should be involved in a search. Jack O'Kelley, leader of the Board Effectiveness Practice at New York-based consulting firm Russell Reynolds Associates, says that while a departing CEO was probably involved in grooming internal candidates, when the selection process begins in earnest, he or she should step back.

"The sitting CEO should play a very small role in choosing his or her successor," he says. "It is one of the most important responsibilities of a board and it needs to be divorced from management."

On the other hand, the outgoing CEO does have a deeper understanding of the CEO position and its challenges than the board does. That knowledge should be exploited, O'Rourke suggests.

"When I'm leading a board through the process I will typically ask the retiring CEO to address the question of what does the future hold and what knowledge, skills, and abilities will be more important than in the past," O'Rourke says. "And then let the board talk on its own and think about those issues."

Bryn Mawr ended up choosing Leto six months before Peters left. Leto was immediately promoted from executive vice president of Bryn Mawr's Wealth Management Division to chief operating officer and worked closely with Peters during those months, ensuring a smooth transition. When he formally assumed the CEO spot in January 2015, he was ready.

It was the culmination of a multi-year process that started with clarifying the bank's strategy and ended with transitioning to a new leader who could advance that strategy.

"The ultimate goal when you have a succession process," Kaplan says, "is to not only feel great about whom you selected, but about how you got there." **|BD|**

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