



Pearl Meyer

Planning For Succession: Creating a Robust Talent Pipeline for Organizational Success

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Banks are facing a tight labor market driven by economic growth, baby-boomer retirements, and a decreasing supply of entry-level talent. If banks want to win the war for talent, the best way to do so is to look within.

- **Learn** how succession planning and talent management can become your strategic, competitive advantage
- **Explore** how CEOs and boards can partner to create effective leadership talent pipelines
- **Discover** how your organization can retain high potential talent in this competitive labor market
- **Understand** the value that a diverse talent pipeline brings to your organization

Clear Connection Between Business and Talent Management Strategies

Boards and CEOs must clearly see the connection between successful long-term strategy execution and the need for having the right people in the right roles at the right time.





Key Questions for Strategic Succession Planning

- How will the organization's strategy change over the next three to five years?
- How will I use the talent in my organization to contribute to the organization's long-range strategy?
- Are there any red flags in my organization's talent portfolio that might prevent me from achieving my goals? What talent gaps exist in my organization?
- What steps must I take to ensure the talent in my organization is prepared and aligned to achieve strategic goals & strategy (e.g., recruiting, development)?



Table Discussion #1: Reflections on Succession Planning

1. How does your organization incorporate a strategic talent plan - leadership bench strength and talent development - into its strategic plan?
2. How important is creating a healthy pipeline—diversified and ready successors—to your strategic planning process?
3. How can building a strong leadership pipeline help the board create value for shareholders?

Build, Buy, or Borrow?

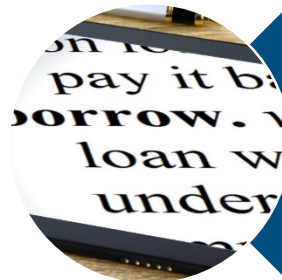
An organization's human capital strategy should include decisions on how to fill roles from the CEO down through the leadership ranks and other critical/key roles.



Build: Create a long-term succession plan and invest in assessing and developing potential leaders; build your leadership pipeline



Buy: Look to the industry for available leadership talent



Borrow: Typically used as a stop-gap measure, find temporary leadership from retirees or current & past board members



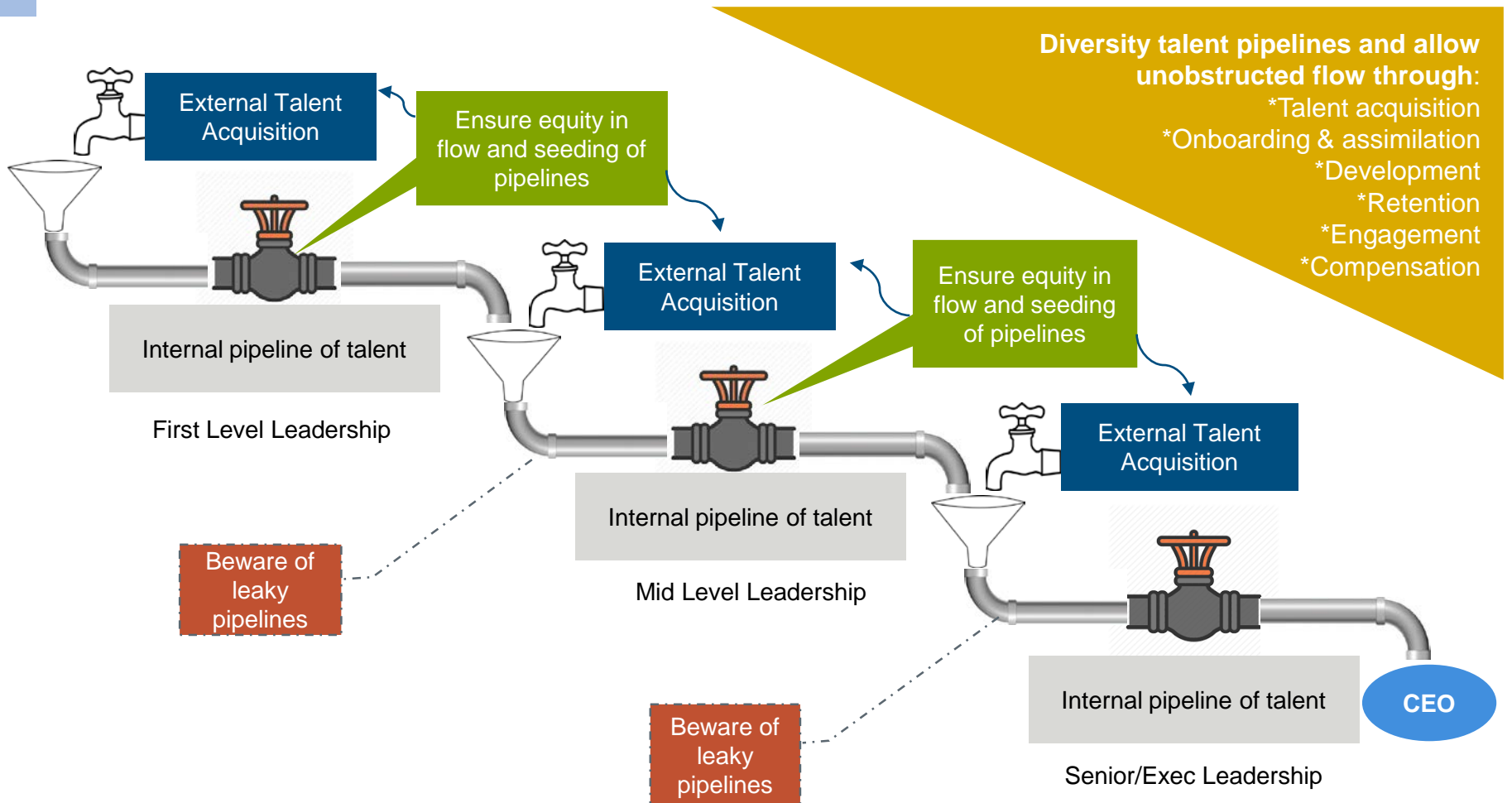
Why “Build” is the Most Effective Strategy

Unless you plan to dramatically shift your bank’s strategic direction, building your talent internally and identifying 2-3 potential successors is generally the most effective method of replacing key leadership positions.

- **Higher success rate** – average tenure in one study* showed that for externally recruited CEOs, 40% last 2 years or less and 64% last 4 years or less. Groomed successors can provide for shareholder exposure (and comfort) well ahead of the transition.
- **Shorter learning curve:** CEO transitions are fraught with shareholder risk
- **Culture fit and messaging:** Internal CEO succession sends a strong message about the importance of leadership and employee development to the organization’s success
- **Retention of high potential talent:** Potential future CEOs will see a path to career success at your organization
- **Cost/Internal Equity:** Externally recruited successors typically demand higher compensation packages than those internally promoted

* NACD presentation by Korn/Ferry International 2013

Building and Actively Managing the Leadership Pipeline



“CEO succession has long been one of the key responsibilities of the board. We see leading boards expanding their purview beyond the C-suite, to include succession plans for other key positions, including select positions two or three levels removed from the CEO.” – from *Agenda*

Table Discussion #2:

How Are You Feeling About the Health of Your Leadership Pipeline?

- What is the supply and demand for talent in your strategically critical areas?
- How are you investing in the workforce to deliver on strategic objectives?
- How are you closing gaps in pools of critical talent?
- Which leaders are you investing in? Who have you placed in critical roles and what ways are you investing in their development?
- What are the potential leaks in your leadership pipeline?



The Board's Expanding Role: Succession Planning and Talent Development

“Far from trying to second guess or micro-manage the senior management team, boards understand that these human capital issues present real, strategic business challenges, risks, and opportunities to their companies.” - Pearl Meyer, “The Compensation Committee Agenda for 2019”

Roles and Responsibilities Shifting

- From emergency succession planning only to short and long-term succession planning
- From CEO succession to monitoring the overall health of the leadership and talent pipeline: do we have the right people, in the right roles, at the right time to support our strategic plan? Look at roles 2-3 levels removed from CEO
- From succession planning to succession management and talent development – actively managing the talent pipelines
- From talent risk management to employee engagement – can we motivate and retain our high performers?

Scorecard Metrics

- Succession plans for key roles: emergency successors, number of ready now, ready soon, ready 2+ years
- Turnover rates: high performing talent and overall voluntary turnover
- Leadership bench strength: number of high performers/high mobility (potential) for key roles 2-3 levels below CEO by function and organizational unit
- Leadership development: number of ready soon and ready 2+ who move into next readiness category within 12 months
- Engagement scores: overall trends by function and organizational unit

Explore Partnering for Organizational Success



The Board's Expanding Responsibility:

- Connect strategic talent plan to strategic objectives to minimize risk and maximize shareholder return
- Ensure a leadership succession strategy that incorporates talent 2-3 levels below C-suite
- Invest in intentional development opportunities and experiences for potential CEO and C-suite executives
- Understand overall health of the organization's leadership pipeline

CEO/Management Responsibility:

- Work with board on talent strategy and ensure flawless execution
- Determine key roles that are critical to future organizational success
- Actively monitor and manage succession plan
- Identify and invest in future leaders
- Plan your leadership legacy

**What would you add, change, and/or delete?
What role do you think is most important?**



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For Board Review: Sample Succession Scorecard

Keep running totals of succession preparedness and tallies against plan—*as with any other business initiative*

Succession Positions	Ready Now #	Ready 1-2yrs #	Ready 3+ #	High Potentials (# of people in pool)
CEO	0	1	2	30
COO	1	3	1	
CFO	3	3	4	
CMO	2	2	1	
CTO	0	1	3	
CHRO	2	1	2	
Total	14	11	13	38
			Total Talent Pool	68*

Metric	Target	Actual	Gap	Comments
Ready Now coverage				
% of roles with RN successors				
Ready 1-2 years coverage				
% of roles with RN successors				
Ready 3+ years coverage				
% of roles with RN successors				
# of successors identified				
- % female				
- % minority				
# of successors identified				
- % female				
- % minority				
Turnover in talent pool				
- % female				
- % minority				
Readiness movement				
- Conversion ready 1-2 to RN				
- Conversion ready 3+ to 1-2				
% of development plans completed in 12 months				

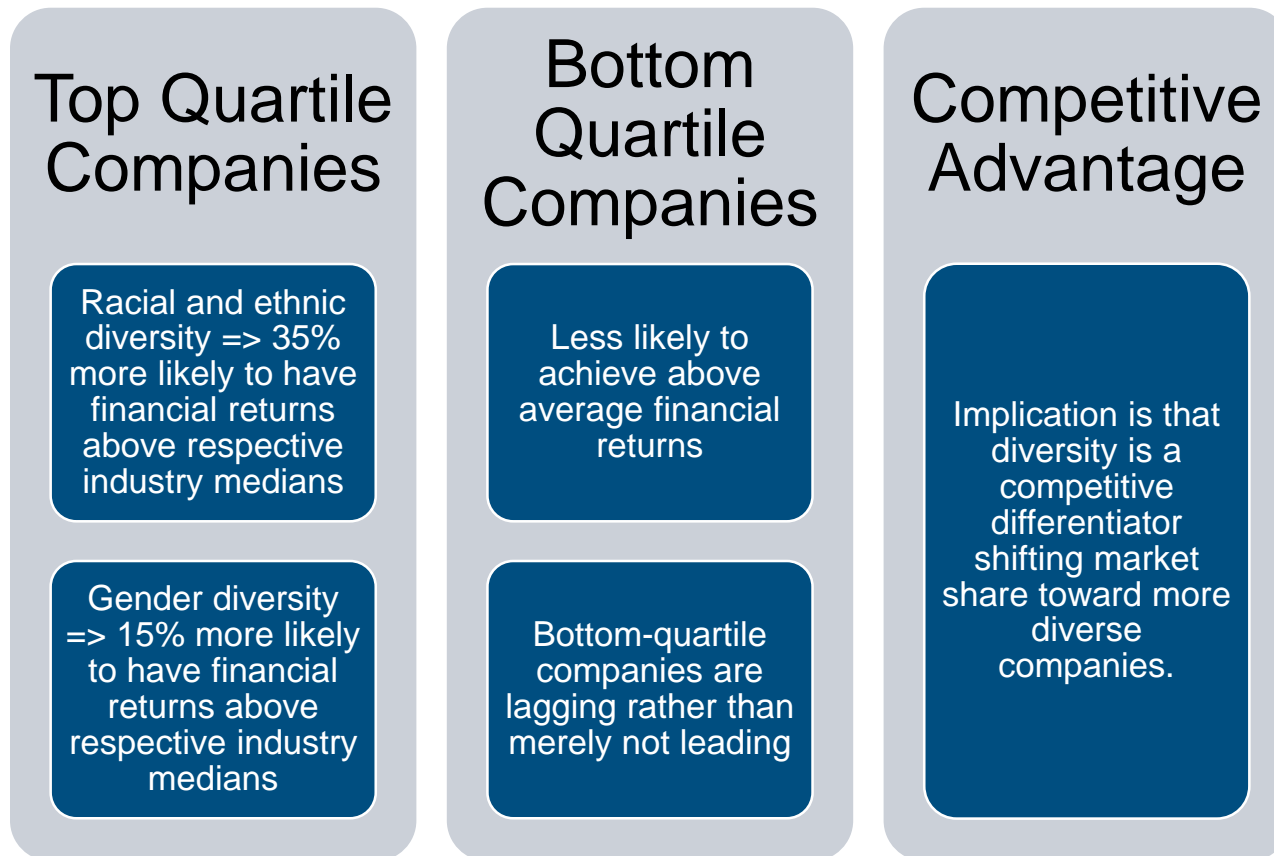
Retaining a Strong Leadership Pipeline

Compensation plays a key role in retaining identified successors in the leadership pipeline.

- Pay programs act as clear signals
 - Loud message as to what's important (whether interpreted correctly or not)
 - Influence on key employee behaviors – consciously and subconsciously
- A strategic approach to pay can yield significant benefits
 - Higher likelihood key employees will focus energies on activities that support your unique business strategy
 - Greater chance of attracting and retaining the type of leaders necessary to achieve the bank's unique objectives
 - Tangible way to support the bank's culture of professional growth, personal development and opportunity to share in the long-term success of the organization



How diversifying your talent pipeline pays off



* statistics from 2015 McKinsey study



Table Discussion #4:

- What strategies (compensation and non-compensation) have you used to retain key talent?
- What have you been doing to diversify your talent pipeline?

CFO asks CEO: "What happens if we invest in developing our people and then they leave us?"

CEO: "What happens if we don't, and they stay?"



Key Takeaways

- **It's good business** to ensure that the board and CEO have succession plans in place and are actively managing and monitoring
- Board and CEO **partnership is critical**—board view is 50,000 feet level and in service to strategic plan and shareholder return
- The **board's important role** in strengthening the talent pipeline:
 - Identify critical future skills for CEO
 - Identify potential CEO talent and possible key development roles
 - Sponsor development of CEO candidates
 - Invest in retention strategies
- **Retaining** key talent
 - Ensure that key talent is getting development opportunities and board visibility, and compensation is competitive
- The importance in focusing on **diversity in your pipeline**
 - Diversity pays off! Ensure that succession pipeline is diversified and that gender and racial diversity are represented in the senior leadership roles



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