

BOARD RESPONSIBILITIES FOR SUCCESSION PLANNING

DOES SECOND PLACE COUNT? – BY DEEDEE MYERS

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Advancing Leadership Success

THERE'S NO SECOND '1ST' PLACE

Once the baton is dropped in the leadership race . . . your credit union is at risk. Strategic Succession Planning is a critical step to serving that purpose and mitigating unnecessary risk. If for any reason your CEO departs and you have not identified or groomed a “step in” or “drop in” candidate, your members are not being served. You have not adequately mitigated risk. This is not a gray area; but very black and white.

There are many reasons why a CEO may no longer be available for work. Regardless of the reason; the board has a responsibility to have potential successors ready to serve. A strategic succession plan covers all the bases for CEO departure for any reason:

- Incapacitating illness
- Sudden demise
- Surprise departure
- Under performing
- Normal retirement
- Organization restructure

Succession Planning is a process to ensure that the right people are in the right places at the right time. It is not a ‘Drive By’ event that leaves leadership to chance and risks the purpose of the credit union. The board of directors is responsible for hiring the CEO and, consequently, that future potential successors are identified and available when needed. The CEO is responsible for the development of potential successors. Ensuring proper succession to the CEO desk is a responsibility with an outcome that materially impacts the members, employees, community and the future of the credit union. It should be taken seriously as it is could be the most important decision the board will make. This article describes a systematic process for the board to ensure that the right people are ready at the right time so they can be in the right place.

One Page Interim Plan- A Warm Up

Replacement Planning is different than Succession Planning. *Replacement Planning is what most organizations do in a reactive state. It is mitigating, reducing the negative outcomes of catastrophic effects from the unplanned loses of key personnel.*

Without a replacement (interim) plan, your credit union, overnight, limits its ability to effectively compete in the marketplace. Think of it as a race. It is impossible to cross the finish line, at a reasonable pace, without training, and without

any viable race participants. It's like you are having a party and you forgot to send out the invitations.

A good place to start is to develop an Interim Replacement Plan. If the board does not have a Succession Plan they need to develop an interim plan that addresses who will step into the role of the CEO in the case of a sudden demise, an unexpected departure or an incapacitating illness. This is an interim step that would help allay issues that might arise from an unplanned catastrophic event. Once the Interim Succession Plan is completed, the board will need to start addressing a structured approach to ensure that the CEO position has worthy successors.

Here are guidelines for what information should be included in an Interim Plan:

1. The first step is to communicate the information about change in status of the CEO. Be sure to include contact information of internal and external constituents who need to know and react accordingly to the status change.
2. Next, create a list of potential candidates selected from current employees, external consultants, or in the rare case, an existing or retired board member if they possess the required expertise. Summarize your current understanding of the strengths and weaknesses of the potential interim successors. Create an understanding of how to provide the selected successor with required support to be successful in the interim.
3. Include a list of search consultants who should be called upon to provide an effective search. Ideally, these consultants should be interviewed by the board prior to the need for their service. The board should be familiar with how the search consultant works their process for identifying and recruiting top talent, the extent of their network and a fee structure.

Do the groundwork in advance so, with a telephone call, your search consultant is ready to provide a service without delay.

The Interim Plan is brief and, in most cases, a single page. Again, this plan is temporarily suited for organizations that do not have a Strategic Succession Plan and are in the process of developing one in a systematic process. It does not replace the necessary robust and strategic succession plan that mitigates potential risks in leadership gaps.

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Board Checklist

Creating an effective Strategic Succession Plan is not a one-time event. It requires effort and contribution from the entire board and the necessity to ask the right questions and the tough questions. This is serious work with an outcome that helps move the credit union forward in many ways not previously explored or ventured.

Here is a checklist for the Board to use in their commitment to ensuring that the right people are in the right places at the right time for the CEO job.

- ✓ The board will assume responsibility for developing a CEO Succession Plan, complete with competencies, and assign a core group of board members with the responsibility to guide the process.
- ✓ The board should insist on 'ready now' or 'drop in' candidates who are trained for the CEO role.
- ✓ The board of every credit union should have an understanding, at all times, of who are the potential successors and their competency development issues. Understand how each individual would perform in certain circumstances. Minimize surprises that can put the credit union at risk.
- ✓ Assuming that the CEO does not have imminent plans for retirement or departure from the credit union, he/she should be requested to present an annual evaluation of potential internal and external candidates to the board.
- ✓ If the CEO is to retire within two years, every board meeting should include a serious succession discussion. The board should understand what the CEO is doing to ensure a smooth transition.
- ✓ The board should consider an economic incentive for the current CEO to motivate their progress in succession development of potential internal candidates. This can be one of the measurements included in a performance review metric.
- ✓ The board will update the CEO position description as part of the annual strategic planning session.

The Starting Point is the Most Important Place

There are two major competencies when deciding what type of person is needed in a particular job. The first is what we call Technical Knowledge and Job Skills, or what are commonly called *Hard Skills*. The second competency includes Performance Skills, or *Soft Skills*. Deciding what the CEO position needs in order to effectively lead is the responsibility of the Board; not the current CEO.

The starting point for these decisions is in your strategic plan. Pretend it is five years in the future, the year 2018. What will your credit union look like? Who will it serve? How will it serve? What products and services will it offer?

A word of caution . . . pretend that there is no one in the CEO job now and that the job can talk. If the job could talk, "What would it say?" This is the most effective way to move forward. If your CEO is retiring, he or she can provide input but should not be used as an example of what is needed five years in the future. Think of it like this – if your CEO plans on staying for another 15 years, he or she will need to develop, update and strengthen competencies in order to be the best CEO for your credit union over the next 15 years. The waves keep coming and the sails need to be adjusted accordingly.

The next important step is to understand "What decisions will the CEO make?" Typically, there are three decisions the CEO should make:

- 1) What businesses should we be in?
- 2) Who will lead the business units?
- 3) How will resources be allocated?

Using these three decisions as a framework is the starting place for developing a list of competencies for the CEO position. What Hard Skills are required to make these decisions? What Hard Skills are required to use knowledge effectively? Individuals typically develop their hard skills in a formal education setting and on the job. Often, they are not transferable across industry lines. Soft skills include communication, work habits, style, teamwork and presence. They are transferable across industry lines and products and services.

Hard Skills

Be specific in articulating your requirements. For example, if a college degree is required, name the disciplines that are acceptable. If prior management expertise is necessary, define

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the scope and depth of that experience. Constantly refer to your strategic initiatives and the future of the credit union to develop leadership competencies that will meet the requirements of your strategic plan.

Soft Skills

Articulating the soft skills is difficult but rewarding. To be effective in defining these competencies you will need to behaviorialize your statements. *Behaviorializing a statement means that you convert a phrase like 'effective verbal communication' to 'clear articulate speech' or 'skilled at influencing others.'* A behavior is an action that you can observe, describe and verify. Members of your board need to agree on what behavior is acceptable. *To be acceptable, the behavior needs to be observed, described and verified by two or more people.* For example, what does it really mean when someone manages conflict? Do they hand out candy bars to stop the fighting? Do they reduce the performance incentive payout? Or, are they able to express opinions directly and clearly without abuse or manipulation? Do they listen to opinions and feelings of others and demonstrate understanding by restatement? Do they communicate disagreement to persons in authority as necessary; and ask for negative feedback in order to learn?

External Resources: When to Use Them and Where are They?

Creating a robust Succession Plan for the first time may require the guidance of a trained professional with expertise in team coaching, facilitation, competency development in a financial organization and, preferably, a discipline in Leadership Development and Succession Planning. Along the path to your desired outcome you may encounter boulders and obstacles that need to be ignored, traversed or destroyed. Some issues, intentionally or unintentionally arise, involve diversity and dominance. If left to an unstructured process most succession plans will result in a "CEO look alike." Human nature naturally is comfortable with someone that looks and acts just like the current CEO especially if he is popular with most of the board. A systematic and structured process will ensure that the right questions are asked that lead to a purposeful and informed decision: What skills, knowledge and personal competencies are needed to live our strategic plan? Another reason to use a facilitator is to structure a domain where all board members are heard equally instead of one or two board members dominating the process.

Your Succession Planning Facilitator should have access to web enabled tools to structure competencies and to build a Succession Plan that can be tracked and updated.

Using a template designed for succession planning both eases and empowers the process. Your requirements are fed into the system along with assessments of potential successors. A Gap Report is automatically created and a structure for building an individual development plan for each potential successor is easily updated and viewed.

Summary

Creating a robust and fail safe Succession Plan requires a structured and systematic process. It is the boards' responsibility to decide what competencies are required to meet present and future needs of the credit union. Use the strategic plan as a beacon for developing a list of competencies, both hard and measurable skills and soft, personal mastery skills. Competencies need to be defined so there is no misunderstanding of how to measure performance of that competency. A Succession Plan needs to be updated every time there is an update in the strategic plan. The CEO Position description needs to be reviewed and updated on an annual basis. A written position description should include measurable work habits and personal skills required to achieve a work objective.

Using a qualified facilitator for your first time through a systematic process will provide a foundation for moving forward and updating your Succession Plan every year. There are certified coaches with specific disciplines in Succession Planning and online templates to document and create performance yardsticks for competencies. This is deep and serious work that will strengthen the organizational competencies and capabilities. As a member of a board that creates a robust Succession Plan, you will be adding value that will positively impact your credit union for years to come. . . . the baton will be passed in the Leadership race.

For more information regarding Succession Planning, Executive Searches, Strategic Planning or Leadership Development, please contact us at 800.574.8877 or visit us at www.ddjmyers.com.