Why and How to Put a Solid Succession Plan in Place Now

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Reap benefits by taking these key succession planning steps today.

Having a comprehensive succession plan can help credit unions achieve their goals, mitigate leadership transition risk, maintain cultural continuity and instill confidence in the organization.

Recognizing the many and significant benefits of succession planning, the National Credit Union Administration approved a proposed rule in January 2022 that would require boards of federal credit unions to "establish and adhere to processes for succession planning" for "officers of the board, management officials, executive committee members, supervisory committee members and (where provided for in the bylaws) the members of the credit committee to provide continuity of operations. …In addition, the proposed rule would require directors to be knowledgeable about the FCU's succession plan."

"This rule is intended to help ensure the continuity of vital credit union leadership," says Jennie Boden, president/CEO of Quantum Governance L3C, Henniker, New Hampshire. "Central to the ruling is that there is a road map in place to address critical gaps in leadership and that directors, committee members and executives are all knowledgeable about, and can act on, that road map when the need arises.

"While the … rule only applies to FCUs," Boden continues, "we understand that the board hopes to encourage and strengthen succession planning for all credit unions. This is a standard that we wholeheartedly support.

"Today there is understandable concern among and about smaller credit unions when it comes to succession planning," she adds. "The result of a small credit union not having a succession plan in place is often the need [for that credit union] to merge or be acquired when no apparent successor emerges in the wake of a leadership transition."

Despite succession planning best practices and regulatory guidance, many organizations currently don't have a succession plan. A report on LinkedIn finds that only 35% of organizations have a formalized succession planning process for critical roles. Charles Shanley says he's not seeing much succession planning activity in the credit union space, either.

"Unfortunately, there's not a lot of succession planning going on," notes Shanley, CEO of CUES Supplier member Shanley Search Partners LLC, which was assisting eight credit unions with their CEO searches when he gave this interview. "It's unfortunate, because having a plan is not only conducive to preparedness and decision-making, but credit unions can use it to support their top differentiating factor—their culture. A solid succession plan cultivates a talent pipeline, with trained employees ready to assume responsibilities without missing a beat."

Talent Evaluation a Key Part of Succession Planning

"The first step [in succession planning] is to do a SWOT (strengths, weaknesses, opportunities and threats) analysis and identify business concerns over the next one to five years," Shanley says. "Outline critical positions to support strategic goals and business continuity, along with your team's skills, knowledge and evident gaps in experience. What talent are you missing?What is preventing someone from moving into a new role? Then focus on high-potential employees, outlining a plan to develop their leadership potential.

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"By cultivating your internal team and promoting from within, you increase morale among all employees and can more fully develop all positions throughout the organization," he adds.

The talent evaluation part of succession planning often gets shortchanged—a situation that can directly impact an institution's bottom line, Shanley says. With no succession plan in place, credit unions may be forced to hire from the outside because there is no internal talent in the pipeline.

"There's been a shortage of chief lending officers for more than 20 years, and this situation could be vastly improved with appropriate succession planning," he asserts. "There's also a shortage of digital experts who are difficult to find and expensive to attain later."

CEO Succession as an Inflection Point

CEO succession is a material inflection point in any institution's growth, development and future sustainability, says Alexander Stein, Ph.D., founder of Dolus Advisors, a strategic leadership firm headquartered in New York City. "It embodies an important opportunity for the organization to consider a host of matters beyond changing its chief executive—for instance, culture, diversity, strategic vision, enterprise growth and branding.

"Choosing a replacement chief executive is among the most consequential decisions any organization may ever tackle," Stein says. "Executive succession is not a simple or formulaic operation. Equally important to assessing a prospective leader's

qualifications is accurately forecasting how a new leader might impact organizational culture and performance."
Stein recently served as the consulting advisor to the board of a multi-billion-dollar credit union as it implemented its CEO succession plan. He shares his observations:

"The process began when the credit union's long-time president and CEO announced their retirement and concluded when the successor was selected among the finalist candidates during a special board meeting one year later. This was the organization's first chief executive transition in many years and was a transformational turning point in the institution's history."

Once the timeline for departure was clear, the process of implementing the succession plan began in earnest with the formation of an executive search task force to manage. The task force was charged with guiding the complex workstreams centrally while periodically keeping the board informed of activities and progress. Task force members included the board chair, two directors, the SVP/human resources and organizational development, and an executive assistant hand-picked for exceptional capabilities, discretion and professionalism. The principals of an executive search firm became critical partners in identifying and vetting a pool of high-caliber candidates and guiding other later-phase aspects of the process.

While ultimate authority over CEO succession resides with the board, Stein says, executive succession and transition, as a practical matter, should always involve the intentional, thoughtful, coordinated collaboration of multiple stakeholders—and the more educated and prepared the board and all stakeholders are, the better.

Best Practices in CEO Succession

Stein notes that while there are many well-established guidelines for how to do succession planning, there's no universal recipe for picking a good CEO or even the right one for a given organization.

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"Start by creating a CEO job description, detailing the attributes, skills, experience and characteristics sought in a leader aligned to a consensual vision of the institution's direction into the next decade and beyond," he says. "Also, treat CEO succession as an iterative multidimensional process." Like many complex projects, succession planning requires coordinated collaboration among disparate stakeholders.

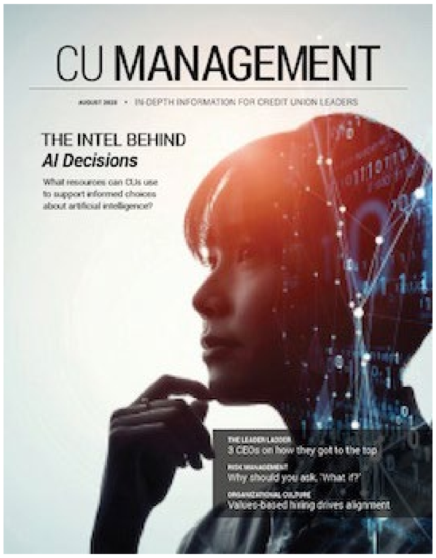
"Equal in importance to the pragmatic assessment of a prospective leader's tangible skills, experience and record of success—and their apparent suitability and desirability—is accurately separating signal from noise in psychological and psycho-social predispositions," continues Stein.

"That means," he clarifies, "understanding that insights about core character traits, often obscured by impressive credentials and persuasive social presentation (charisma, charm or other superficial façade), are critical to forecasting how a new leader might impact organizational culture and performance."

Shanley offers advice to current leaders about how to leverage succession planning to ensure the longevity of their organizations.

"If you're a CEO, take steps to find the people who want to move up in your organization. Provide educational opportunities, and give them more responsibility," he says. "Go department to department; identify weaknesses and where training is needed. Identify those employees who aspire for more. Consider changing out the responsibilities of the C-suite consistently, so they can better prepare by switching out their roles."

Owner of Fab Prose & Professional Writing, **Stephanie Schwenn Sebring** *assists credit unions, industry suppliers and any company wanting great content and a clear brand voice. Follow her on Twitter @fabprose.*



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