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CEO Succession Planning Is a Critical Task for Community Bank Boards

By: Daniel Potter, Laura Hay

In an era of rapid change and increasing complexity, effective CEO succession planning has become a paramount concern for community banks. **Yet, many institutions are woefully unprepared for leadership transitions, putting bank stability and sustainability at risk.** According to a 2024 Bank Director survey, 40% of respondents anticipate their CEO retiring or resigning within five years, but only 18% have a succession plan in place. This lack of preparedness can leave boards scrambling when faced with unexpected leadership changes or a retirement announcement with a short lead time.

Community banks face distinct challenges in succession planning:

1. Limited Talent Pool: The scarcity of executive talent with a deep understanding of local markets and customer needs is a significant hurdle, especially for banks in non-metro areas. Recruiting from larger institutions may create different challenges as the executives adapt to a smaller organization with less infrastructure.

2. Escalating Compensation Costs: Competition for talent often forces banks to offer above-market compensation and “make whole” packages to attract external candidates, which may have a trickle effect down the rest of the executive leadership team.

3. Cultural Preservation: External hires can disrupt organizational culture and morale, particularly when internal candidates feel overlooked. An internal promotion or an external hire is likely to significantly increase retention risk for the self-perceived CEO successors left behind. To a lesser, but still important degree, the broader executive team is at greater retention risk during and following a CEO transition.

4. Evolving Skill Requirements: Today’s CEOs must possess a broader skill set, blending traditional banking acumen with expertise in addressing revenue growth, increased compliance costs, risk management, industry disruption and technological advances.

To navigate these challenges, boards must adopt a proactive and comprehensive approach to succession planning:

1. Establish and Communicate Clear Expectations of Management: Boards must take the lead to oversee the succession process, and hold management accountable to develop a formal plan, identify potential successors, cultivate relationships in the region and establish robust leadership development programs.

2. Identify and Align Needs Through Talent Assessments: The skills required in the future may not be the same as today. Boards and management should identify the core and evolving competencies required in a CEO successor such as strategic vision, leadership, innovation, risk management, people management and relationship skills.

3. Cultivate a Leadership Pipeline: Implement a robust development program that includes stretch assignments, mentorship and targeted training to build a diverse pool of internal candidates. By doing so, organizations can develop a robust pipeline of succession-ready executives with well-rounded experience and skills, increasing the likelihood of identifying strong internal candidates.

4. Formalize the Succession Plan: Develop a detailed, documented plan that outlines various succession scenarios (e.g., emergency and long-term successors), candidate readiness levels and implementation timelines.

5. Support Succession Through Compensation Actions: Consider whether certain compensation actions may support the retention of key internal candidates and the smooth transition of duties. Actions may include retention awards, adjustments to compensation as responsibilities are transitioned and the use of employment agreements.

6. Maintain Ongoing Review: Treat succession planning as a continuous process, regularly updating the plan to reflect changing organizational needs and market conditions. It is a best practice to review the succession plan on an annual basis.

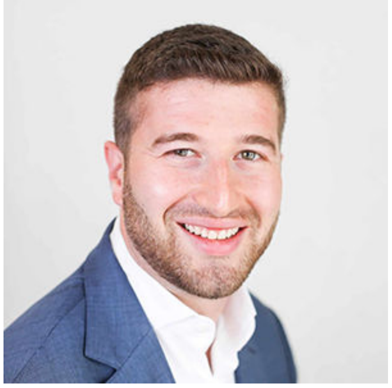
Community bank boards must recognize that effective succession planning is not just a best practice — it's a critical governance responsibility that directly impacts long-term viability. It is not enough to have a cursory plan or to address the issue only when a transition is imminent. Instead, boards must:

1. Hold management accountable to develop an emergency and long-term succession plan and engage in regular succession and talent development discussions.

2. Invest in robust leadership development programs to create a strong talent pipeline.

3. Look to external resources to gain fresh perspectives on potential sources for executive talent, leadership development and succession plan support.

By embracing these practices, community banks can transform succession planning from a potential vulnerability into a strategic advantage. In doing so, they not only safeguard their institutions but also position themselves to succeed in an increasingly competitive and complex banking landscape.



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