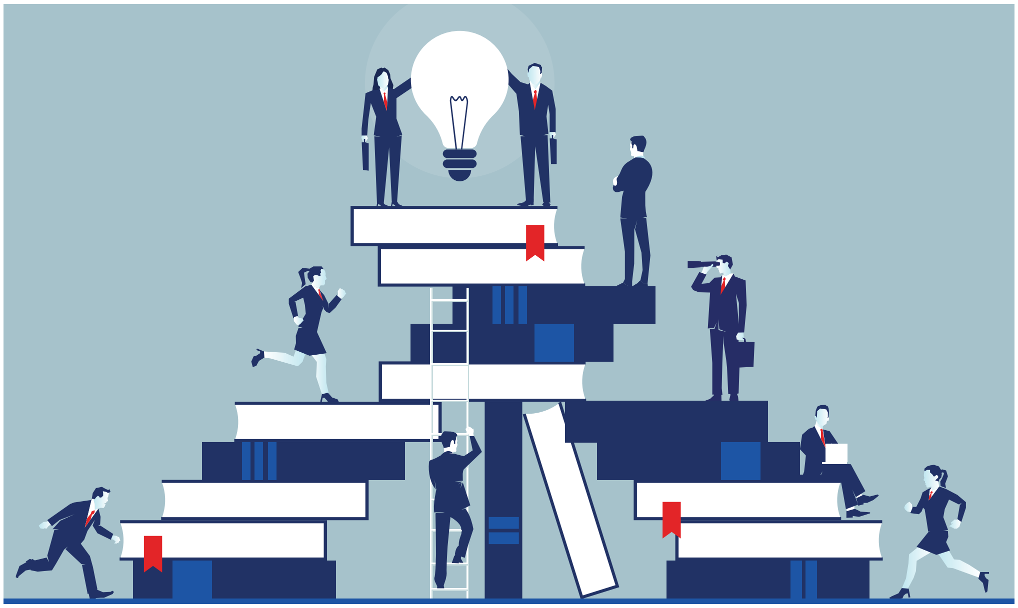
STRATEGIC ADVISORY SOLUTIONS

Building Transitional Leadership Infrastructure:

A Bridge for the Next Generation



BY BRANDI STANKOVIC

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CU SOLUTIONS GROUP

Mobilizing growth starts with a blueprint. It requires building block strategies and purposeful planning to construct and maintain a resilient, sustainable infrastructure. While credit unions continue to grapple with daunting challenges such as digital adaptation and competitive positioning, there is also an urgency to develop leadership transition plans that anticipate for change.

Credit unions need energized and motivated people who are pumped up to take the next step. That kind of positivity and progress is what is needed to drive organizations forward.

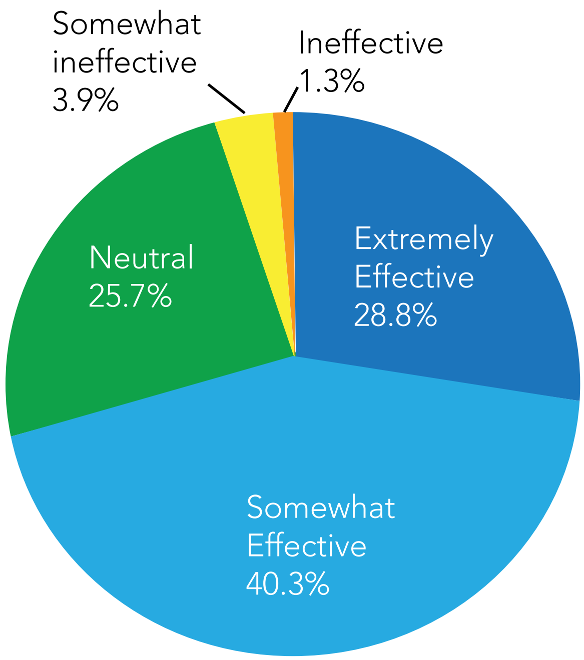
My goal is to have emerging credit union leaders know what it takes to helm these organizations, nurture their competencies and build the skill sets necessary to become CEOs. At the same time, also work with seasoned leaders to mentor, coach and make intentional decisions to build a legacy. All of us should consider: how do we leave the creditunion industry better than we found it?

THE OPPORTUNITY

The number of Baby Boomers retiring or approaching retirement will continue to increase over the next five years with roughly 50 percent of the credit union industry's executives leaving their posts, according to a 2016 survey from D. Hilton Associates. As a result, the talent pool for credentialed, competent and most importantly, tenured executives will recede. When this happens, there will be a shortage of qualified executives to lead the next generation.

Forward-thinking credit unions prepare for the unexpected. You never know when a top executive will resign, fall ill, be removed during a merger and acquisition, or abruptly leaves for personal reasons. While more than three in four credit unions report having a succession plan in place for their CEO, the D. Hilton survey indicates that 26 percent feel indifferent as to its effectiveness and five percent say the plan is altogether ineffective. Clearly a greater focus on succession for all C-suite positions is needed if credit unions want a competitive edge in the market.

How effective is the succession plan for the CEO?



Even among $1B+ credit unions, 19% were neutral when considering the effectiveness of the CEO succession plan.

Source: D. Hilton Board Survey Results 2016

Three Succession Plans Your Credit Union Needs

Preemptive planning is a prudent practice that requires collaboration and input by the CEO, board and the credit union's HR department. The three types of succession plans credit unions should be designing to prepare the next chain of command include: a CEO Succession plan, board succession plan and an emergency succession plan. Each is defined as follows:

- **CEO Succession Plan** — A plan that makes accommodations for a planned executive departure and addresses such issues as: hiring criteria for new CEO; impact on staff and budgeting; timeline for departure, communications and financial stability through and beyond a changing of the guard.

- **Board Succession Plan** — A board member-driven document that determines the direction credit union members want their boards to strive towards, identifying potential replacements and defining onboarding practices.

- **Emergency Succession Plan** — A roadmap defining best practices in cases of a sudden departure, short-term or extended absence, illness or death.

Look Inside the Box

Change never comes easy. When you are in the throes of a leadership transition and seeking viable replacements, it makes sense to consider internal candidates first. Internal candidates are a stronger culture fit for credit union employees who are already familiar with the individual and a have a grasp of what they can expect. Credit union leadership has the advantage of knowing the internal recruit's work ethic, social prowess and competencies.

CU Solutions Group Strategic Advisor Eric Schornhorst partners with credit unions all over the country developing strategies to boost engagement and productivity as they undergo transitional change.

According to the D. Hilton study, only 40 percent of credit unions reported they had a board succession plan in place.

“If you have viable candidates who may not be ready for a top-level position but want to invest in grooming them, then we would work with them for a few years to keep them on track and develop their leadership skillsets,” Schornhorst said. “We anticipate concerns such as: Does the credit union have viable candidates? Do they want to choose from internal candidates only or go outside the credit union?”

He added, “It’s important to consider ramifications of going outside — first off, that could leave those internal candidates who were passed up feeling slighted. Secondly, it may have a negative impact on the culture — such as uncertainty and low morale.”

CUSG Strategic Advisors approach transitional leadership by facilitating a participatory session with credit unions’ top executives. In cases of vetting candidates for the CEO position, they help the credit union narrow the field of candidates by identifying a few contenders (internal or external). Then they assign the candidates a series of questions to expound on, including their vision for the credit union under their leadership.

“We work with the board as they review the answers to determine if any positives/negatives stand out or surprise them,” said Schornhorst. “Then, we determine next steps such as does leadership want to interview all of these candidates in person or narrow the field further? Once the candidates are chosen, they are interviewed in person, and more than likely, asked to do a presentation.”

Candidates are scored based on criteria tailored to the credit union. To prevent bias from seeping into discussions, the advisor will facilitate the session, steering the group towards an objective consensus. Once the candidate is agreed upon, the facilitator also helps to craft an offer letter to the candidate of choice.

Right Leaders in the Right Seats

As you narrow your search for the right-fit candidate, you will be defining what characteristics and abilities are requisite to lead you into the next era.

Remember, think about the importance and power of diversity in your grooming and developing of internal talent as well as selection of your leadership. Do your executives represent our membership? Do you have people of all ages? Do you have both men and women?

With big banks' money, and fintech firms and big tech companies invading credit union territory, the next generation of leaders will be confronted with complex, evolving challenges. You will need a leader who can navigate disruption and advance your mission, one who will pivot as needed and strive to:

- Be more technologically literate
- Learn to deal with uncertainty
- Clearly and effectively communicate (interpersonal, verbal and written)
- Share insights with the team
- Lead with a member-centric focus
- Recruit and groom a new generation of leaders
- Embrace innovation

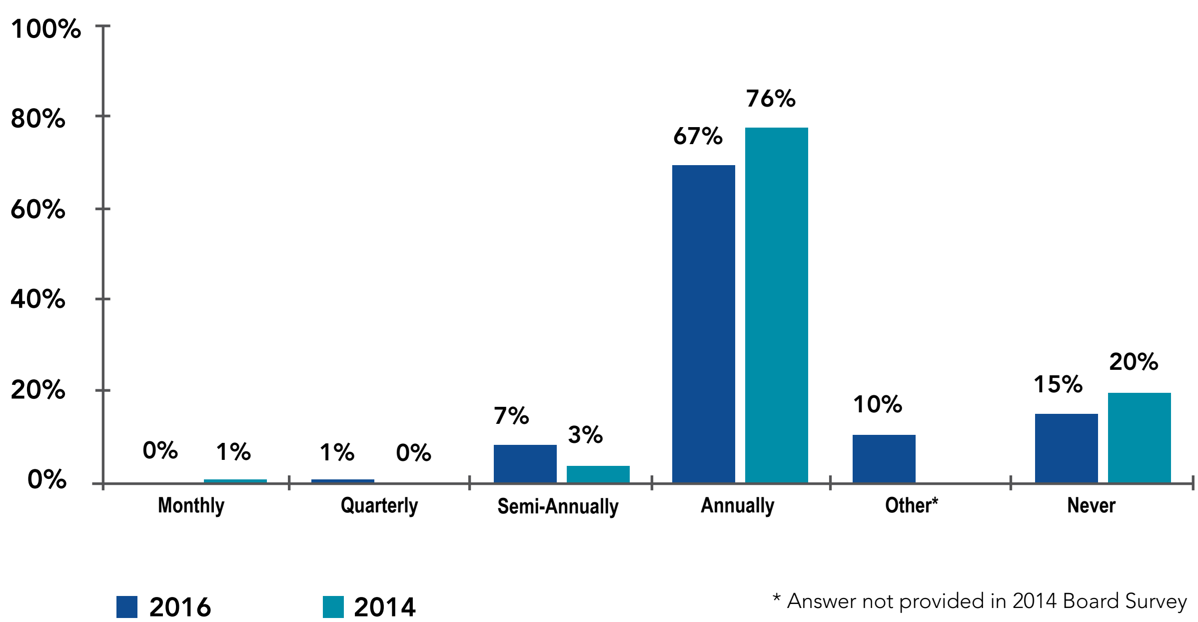
Private-Company CEOs are Concerned About Cyber Threats and the Availability of Key Skills

Source: PwC, 21st Annual Global CEO Survey

The leaders you put in the driver's seat today are the ones developing your team of tomorrow. When CEO succession is the transition priority, the board drives the effort by ensuring an effective transition plan is in place and well communicated in a thoughtful and intentional way. The board's role is to support current leadership and the entire organization as it goes through the motions of transition and encourage the development of qualified candidates to fill critical positions.

Board succession and recruitment continues to be a challenge for credit unions. According to the D. Hilton study, only 40 percent of credit unions reported they had a board succession plan in place. Issues like term limits, recruitment and position rotation have been contention points. Roughly 17 percent of credit unions state they have term limits in effect, yet ironically only one in three believe term limits should be in place. As far as recruiting new board members, only 25 percent of directors say they feel it's easy to do compared to 40 percent who lament a higher degree of difficulty. Finally, half of credit unions surveyed require rotation of the chair position while 28 percent require rotation of other officer positions. Moving forward, it will be imperative to balance the fresh perspective of new directors with veteran leadership to find common ground on vision and initiatives.

How Often Does the Board Review its Succession Plan?



* Answer not provided in 2014 Board Survey

Source: D. Hilton Board Survey Results 2016

Sealing a Deal

The lack of a succession plan can play a role in forcing the hand of unintended consequences such as pursuing a merger and acquisition (M&A) opportunity.

"In some cases, succession planning is not a priority for a credit union, and they find themselves in a situation where they are unprepared for a CEO's departure," Schornhorst said. "This can lead an organization to feel that a merger may be a better option than replacing a CEO."

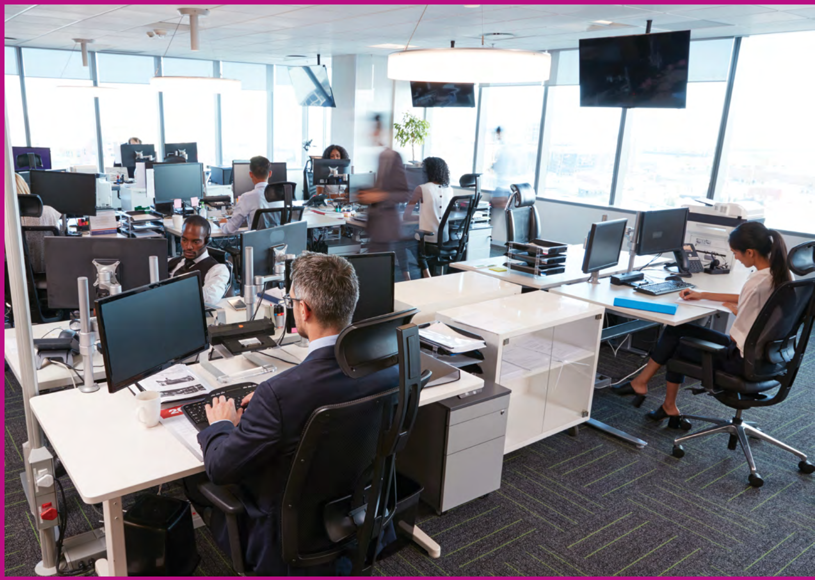
In recent years, there has been an uptick in M&As in the credit union industry. Transitional planning is essential if your credit union is contemplating or undergoing this transformative change.

An M&A preparedness plan underscores all the logistics to execute a successful merger such as:

- The terms
- Trade-offs
- Staff impact
- Operations
- Resources
- Assigning a point person to oversee negotiations
- Loan portfolios
- Financials
- Partnerships
- Products and services
- Due diligence

However, be prepared to anticipate challenges along the way.

During and after a merger, inevitably there will be tension and uncertainty in the workplace. Employees will question who will stay and who will go, what positions will be eliminated altogether and if there will be changes to pay or benefits, among others.



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It is paramount to address these valid concerns through a clearly articulated transition plan, then follow up with staff periodically to allay fears and minimize culture shock. After all, merging two organizations that have conducted business differently paves the way for frustration, lower morale and possible employee turnover.

Providing strategic and consistent messaging can be one effective way of improving loyalty and trust. Communicate clearly, openly and frequently by developing a comprehensive communication plan. This proactive strategy should make provision for a communications team as the delegate to prepare messages for employees.

It is critical that leadership communications are intentional, transparent, positive and timely. If employees see all levels of leaders working to unify the team by developing a cohesive culture, the lower the turnover will be.

While M&A oversight is a grueling, time-consuming process that requires stamina, resources and energy, retaining an independent third-party would help with the heavy lifting before, during and after the deal. Hiring subject-matter experts in navigating the M&A process would go a long way to ensure a smoother transition as they conduct due diligence and delve into the essentials including: terms, scope, governance, CEOs, elections, staff, regulatory compliance, integration, communication and sustainability.

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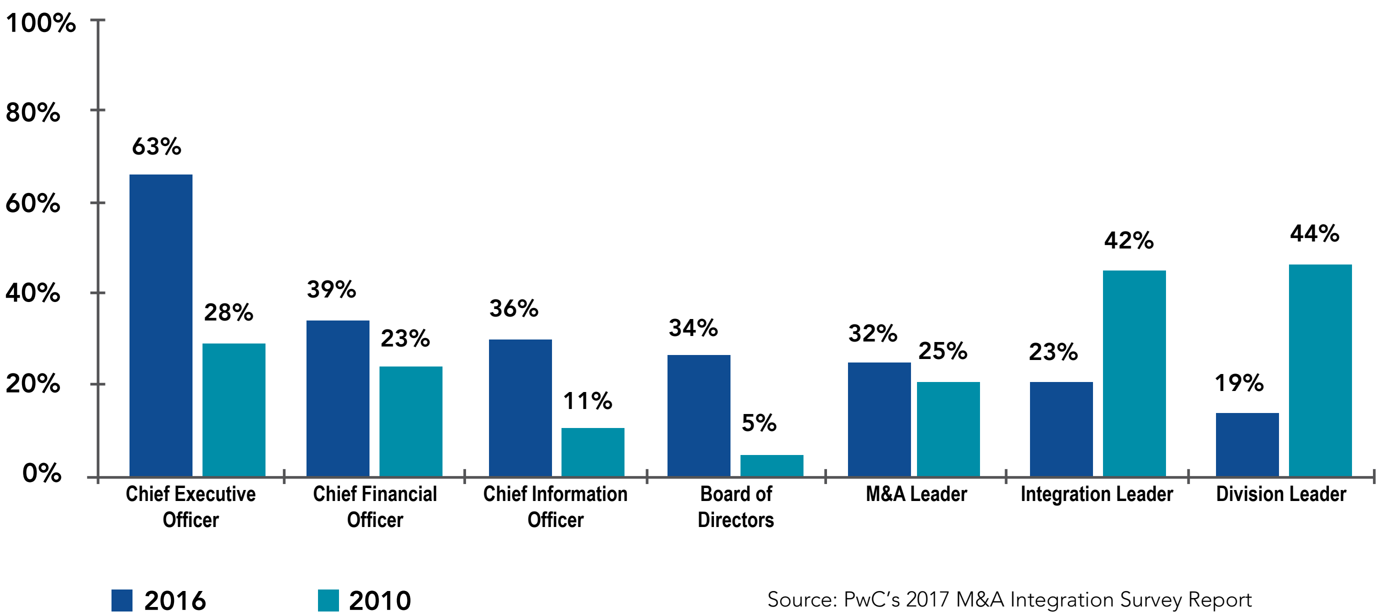
Succession planning can help your credit union be more competitive with fresh perspective at the helm and is a sound investment in your sustainability. The exercise strengthens core values, energizes the organization and holds leadership more accountable. But to integrate an effective succession management plan, there needs to be a dotted line between what an organization values as non-negotiable competencies and the core strategies of the organization.

Board members and senior management are increasingly accountable for deal success

Percentage reporting compensation linked to deal success goals:



Source: PwC's 2017 M&A Integration Survey Report

Make it Happen

Whether you face a merger, an emergency succession, or you just want to groom the bench, you can ensure a smooth and deliberate leadership transition and prevent potential pitfalls by following these tips:

1. Gain the commitment of your board and staff to manage transition purposefully.

2. Identify current and potential challenges and define the leadership qualities needed to confront them.

3. Form a succession planning team, including members from the board, HR leaders and the CEO.

4. Develop an executive transition timeline for succession.

5. Build a career profile for internal high-performing candidates; identify development opportunities for these high performers to expand their leadership skillsets so you can draw from this pool of leaders when the time comes.

6. Cross-train current staff to minimize the disruption from unanticipated staffing changes.

7. Devise a plan to support repositioned employees, either with leadership development opportunities, coaching, mentoring or goal setting.

8. Develop a comprehensive communication plan covering the before, during and after phases of a leadership transition.

9. Roll out an on-boarding program with best practices that underscores your credit union's purpose, priorities and desired outcomes; those that help new board members and CEOs assimilate so they feel confident in their roles.

10. Enlist the help of a succession planning coach who will provide open and honest feedback and align succession development with the mission, vision, culture and direction of the credit union.

SMALL CREDIT UNION PERSPECTIVES

Shifting from a Reactive to Proactive Approach

It is vital that all credit unions, regardless of size, have a succession plan. All leaders eventually part ways with their credit union. It is inevitable. People retire or move on. Filling the bench with the right leadership can transform your credit union from mediocre to exceptional.

It's critical to understand the gaps in your leadership pipeline, identify high-caliber candidates and take a proactive approach in organizational readiness by grooming a go-to group of candidates who can step in where there is an unexpected vacancy. You can avoid long wait times to fill an empty office with the right candidate by making succession planning a top strategic priority.

HOW CU SOLUTIONS GROUP CAN HELP

A Coach in Your Corner

Strategic Advisory Solutions advisors parlay an authentic and tailored approachto ensure a smooth and successful transition. They work with your leadership to drive positive change in your organization. As subject-matter experts with deep industry experience, they will align transitional planning with your mission, vision, culture and strategic direction. They help you motivate and engage while helping you resolve conflict and develop situational awareness. Strategic Advisory Solutions' advisors cross-pollinate expertise with facilitation, so your credit union leaders become more confident, insightful and approachable, as well as becoming part of a stronger network of future leaders.

STRATEGIC ADVISORY

To stand out among your competitors, you need industry-intuitive partners who offer insights and solutions to enhance value for members and who are focused on your credit union's big picture. Strategic Advisory Solutions works with you to identify priorities and objectives by developing a customizable plan that provides high-level strategic direction to take your credit union to its next level of excellence. Our consultative, client-centric approach helps you overcome strategic challenges in the areas of:

- Board governance
- Risk management and compliance
- Strategic planning
- Leadership, coaching and speaking engagements to educate

Read more in CU TrendScan

CUTrendScan.com

CU TrendScan is a quarterly digital publication that explores trends within the credit union industry. Focusing specifically on the areas of technology, marketing, and HR performance, CU TrendScan takes a closer look at the issues that drive the industry forward.

More about Strategic Advisory Solutions

CUSolutionsGroup.com/Strat

Our advisors are long-tenured subject-matter experts who collaborate with credit unions to help drive change, make tough decisions and implement key development strategies. We go beyond the limits of consulting, so you can achieve your desired outcomes and strengthen bottom-line growth.

We assess your goals, risks and programs to craft strategy, modernize governance and measure ROI through a results-driven approach. We design an actionable plan that ensures your credit union's culture aligns with strategic initiatives. We focus on reducing staff turnover through employee engagement and provide executive coaching and HR performance tools to create and sustain a culture committed to innovation, reinvention and fulfilling your credit union's vision.

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