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Plan For Unplanned CEO Transitions
Alan J. Kaplan, Founder & CEO
Kaplan Partners

Since the founding of our firm over thirty years ago, we've been fortunate to assist clients with over 100 President or CEO succession projects across the financial services landscape. When reviewing these successful assignments with an eye towards common themes, I was struck by the number of leadership transitions that occurred *unexpectedly*. While the frequency of unplanned changes at the top of the house truly surprised me, the causes of these unexpected changes varied widely, including:

- Surprise/Early Retirement
- Resignation for Personal/Family Reasons
- Termination for Poor Performance
- Termination for Inappropriate Behavior
- "Nudged Out" by the Board After Staying Too Long Without a Plan
- Death or Serious Illness

One only needs to read the news in any major business publication to see that literally almost every day the CEO of a major public company, private-equity backed enterprise or financial institution exits for one reason or another. Unplanned transitions simply occur much more often than we like to think about.

The vast majority of bank boards, whether public, private or mutual, are well aware of the need to have an "Emergency Succession Plan". Our regulators require this of course, and it is a best practice to regularly refresh this plan as time passes and conditions/options evolve. Even banks with new leaders—whether selected internally or externally—should review and revise the emergency plan shortly after a new leader arrives and annually thereafter.

For example, a new leader selected internally after a comparative evaluation process may have been the emergency choice, requiring the identification of a new backup plan. Or the "name in the envelope" as it is often called, may retire or simply depart concurrent with a new leader's arrival, forcing a fresh assessment of the talent pool of internal emergency successors.

Sometimes we observe that when a new leader is promoted from within the organization, the prior CEO remains on the board or as an “advisor” to the bank. In these situations, the recently retired CEO may be an excellent choice to step in during a time of unexpected upheaval. However, this plan really only works if the need for the emergency fill-in occurs (unfortunately) not long after the transition itself takes place—perhaps a few years at most. This also assumes that the interim replacement had a high level of continuing engagement at the board level. Otherwise, this plan could backfire due to a lack of currency with the bank, regulatory climate, and broader industry dynamics.

The goal of an emergency succession plan is not necessarily to solve a longer term CEO succession issue. Rather, it is to keep the train on the tracks, and to reassure employees, customers and communities that the bank’s continuity is not tied to any one individual. This allows the Board of Directors time to evaluate options, potentially recruit or elevate a new leader, and to just breathe after this unexpected event.

Some directors and even CEOs think this cannot happen to their institution, whether because of the youth of their leader or the faith they have in the depth of the team. However, in my home state of Pennsylvania already this year there have been three unexpected leadership transitions in the industry. As the saying goes, “stuff happens” and the more prepared the board is to “expect the unexpected”, the more likely that the bank can maintain its momentum and continued independence.

Alan J. Kaplan is Founder & CEO of Kaplan Partners, a retained executive search and board advisory firm headquartered in Philadelphia. Kaplan Partners is a longstanding partner with Bank Director. You can reach Alan at 610-642-5644 or alan@KaplanPartners.com.