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A Tale of Two CEO Succession Plans

By: ***Jack Milligan, editor in chief for Bank Director***
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In January 2014, the board of directors at Union Bankshares Corp. decided that it was time to begin considering a successor to President and Chief Executive Officer G. William "Billy" Beale, who at 65 was starting to think about his own retirement. This was a pivotal time for the now $8.1 billion asset bank, which is headquartered in Richmond, Virginia. The 2013 acquisition of Charlottesville, Virginia-based StellarOne Corp. had nearly doubled the company in size, and eight of the StellarOne directors joined the board of the merged company. The newly expanded board was firmly committed to a growth plan that would take it past $10 billion in assets, where several important regulatory requirements would kick in, so the new CEO would have to be capable of managing a larger bank in a more rigorous regulatory environment.

Managing an orderly and ultimately successful CEO succession process is one of the board's biggest responsibilities, and can be a stressful situation under the best of circumstances. And, in this instance, the eight directors from StellarOne and 11 directors from the old Union would have to work together on a potentially sensitive issue, despite the fact that they were still getting to know each other. Beale says the board engaged a consultant to help it develop a consensus on the kind of individual it was looking for, and the directors ultimately agreed on a set of expectations for the new CEO's work experience and competencies.

"It was obvious from what the board was looking for that this was going to be an outside search [rather] than being filled [internally]," says Beale. "At that point it was pretty much the typical routine for headhunters [with] lots of names and lots of resumes."

The board started out looking at multiple candidates but eventually narrowed its search to two individuals. And in late August, Union announced it had hired 51-year-old John Asbury as president and Beale's designated successor. A native Virginian, Asbury had previously been president and CEO of privately held First National Bank of Santa Fe, a multi-state bank with locations in New Mexico and Colorado. Asbury will become CEO in January 2017.

"**I think the key piece of it was getting the board, which had really never worked together before, aligned around the work experiences and competencies** we wanted in John," says Beale. Ultimately, Union's greatly expanded board (which now stands at 18 members) oversaw an orderly process that brought in a qualified individual to succeed its incumbent CEO. Or, to put it more bluntly, the Union board did its job.

"I think that CEO succession is the single most important responsibility of a board of directors," says Alan Kaplan, CEO of the executive search firm Kaplan Partners. "I don't think a board has any more important decision than who leads the organization, unless at some point they're going to sell or merge the company."

Kaplan says that three years is a reasonable amount of time for a board at a community bank to set aside for management of the succession process, although a much larger bank might need four to five years. The experience at Union shows that it can be done in less time as well. It's probably a good idea for the board to delegate hands-on management of the process to a subcommittee of the board, like the compensation or governance committees, although some banks set up special committees just for that purpose. For example, Union established a special search committee that had seven directors, headed up by the holding company's independent board chair, Raymond D. Smoot, Jr.

"It gets very time consuming," says Kaplan of the succession management process itself. "You're meeting with consultants, meeting with internal candidates and external candidates. It's not until that process gets whittled down to a short list that "most of our clients think it makes sense to get the full board involved," he adds.

Sometimes the biggest challenge that boards face in managing the succession process is dealing with the incumbent CEO. For starters, many bank CEOs are at best ambivalent about the retirement issue. Some of their foot dragging is simple human nature. For many CEOs, theirs is a dream job that they are very reluctant to give up. The financial crisis, which wreaked havoc on the stock options of many younger bank CEOs, is also a factor in the retirement plans for many individuals. "People who 10 years ago at age 55 might have said they'd love to retire at 60, but at 60 they didn't have what they had at 55," Kaplan says. "Now they're 65 and they might still be in it."

The board will also have to determine what role the current CEO will play in the succession process and how much influence they will have over the final decision. "In most situations, with a planned orderly succession where no one is being forced out, the retiring CEO has an important role in participating in the interview process because they are your most experienced banker," Kaplan says. But the process itself should be under the control of the board and not the outgoing CEO. "While I think the voice of that CEO in the process is very important, and they should be a very important participant, I do not believe the CEO should drive the process," he says.

The board will also have to decide whether to select an internal candidate to succeed the incumbent CEO or recruit someone from the outside. Either approach can be successful, and they both entail certain risks. For the internal candidate, it's a question of whether they have the experience and skills the bank will need going forward. **For external candidates, a common concern is whether they will be able to work effectively in the bank's culture**.

One bank that has a long tradition of developing internal candidates to succeed their chief executive is Park National Corp., a $7.4 billion asset bank in Newark, Ohio. The current president and CEO, David L. Trautman, was chosen to succeed C. Daniel DeLawder in January 2014. At that point, Trautman had been with the company for 34 years, and had been president since 2005. DeLawder, who had been CEO for 15 years when Trautman succeeded him, felt the younger executive Trautman deserved the opportunity to finally run the bank. "I just thought that it was probably time," DeLawder says.

DeLawder, who has served as chairman of the board since 2014, says the other directors were a little surprised when he first raised the succession issue in 2013 and recommended Trautman as his successor because he, DeLawder, was then only 63 and fully capable. "I've still got game," he quips. "I could still be running the place." And even though Trautman had been a director since 2002 and was well known to the other directors—and "was a large part of our historic success," according to DeLawder—his selection as the new CEO was not a foregone conclusion as far as the board was concerned. Trautman ended up meeting separately with every Park National director in an extensive interview process as the board did its due diligence. "The board did its job," DeLawder says. "It was very thorough."

There were no external candidates, according to DeLawder, which is hardly surprising since Trautman is just the fifth Park National CEO since 1928, and all four of the previous CEOs came from inside.

The biggest risk of mismanaging the CEO succession process is that it could ultimately put the bank at risk of receiving a takeover bid from another institution. StellarOne announced in March 2012 that it had initiated a CEO succession plan "in contemplation of the planned retirement" of its then-CEO, O.R. Barham, Jr. In fact, Barham had informed the StellarOne board a few years prior that he was considering retirement, and the board had already been working on a succession plan. According to the bank's former chief talent officer, Lisa Cannell, now chief human resources officer at the University of Virginia's Darden School of Business and also founder of the consulting firm Talent Strategies and Solutions LLC, the board looked at several internal candidates to replace Barham but ultimately decided to recruit someone from the outside. Working with an executive recruiter, the bank did settle on an outside candidate to succeed Barham. "But by the time we finally got the person identified, Union came in with an offer," Cannell says. [For more on this, and CEO succession, see *Bank Director* digital magazine's Talent Issue.] Beale, who had long eyed the possibility of merging with StellarOne, eventually made an offer to acquire the bank, which the StellarOne board accepted in April 2013. In effect, Beale made himself Barham's successor.

According to Beale, the two characteristics that Union's board were looking for was someone who had run businesses in a banking environment that were much larger than Union's current size, and were also multi-state in nature. Asbury fit the bill since he had held senior level positions at two of the largest banks in the country—Regions Financial Corp. and Bank of America Corp.—and had also managed a multi-state franchise at First National Bank of Santa Fe. "They wanted someone who had been down that path before," Beale says.

Clearly, the Union board is expecting Asbury to grow the bank and expand its franchise beyond Virginia. Interviewed just eight days after taking over as CEO, Asbury has a lot on his management plate at the moment. But one of his priorities going forward will be to make sure the company has a good management succession process in place.

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