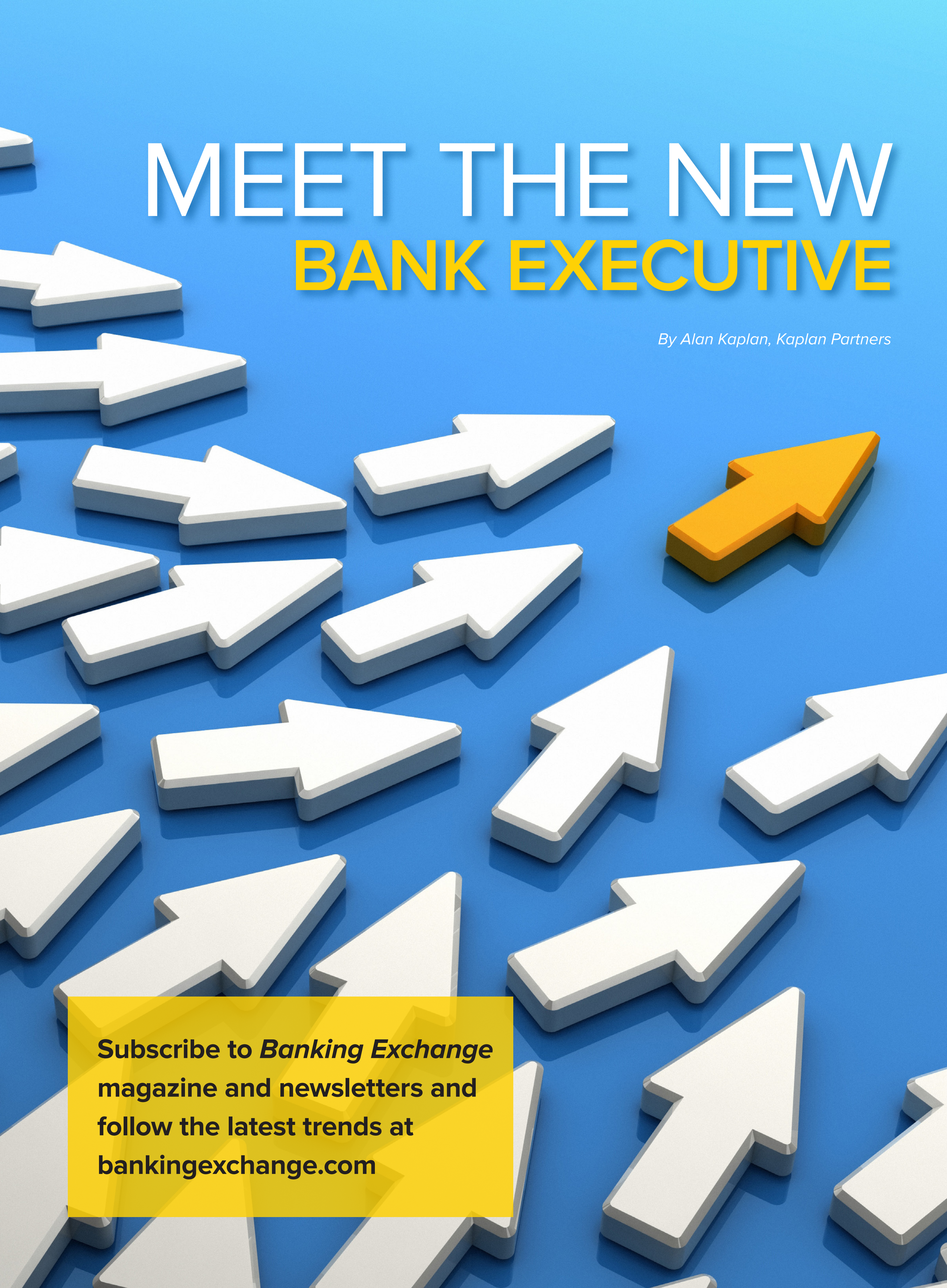
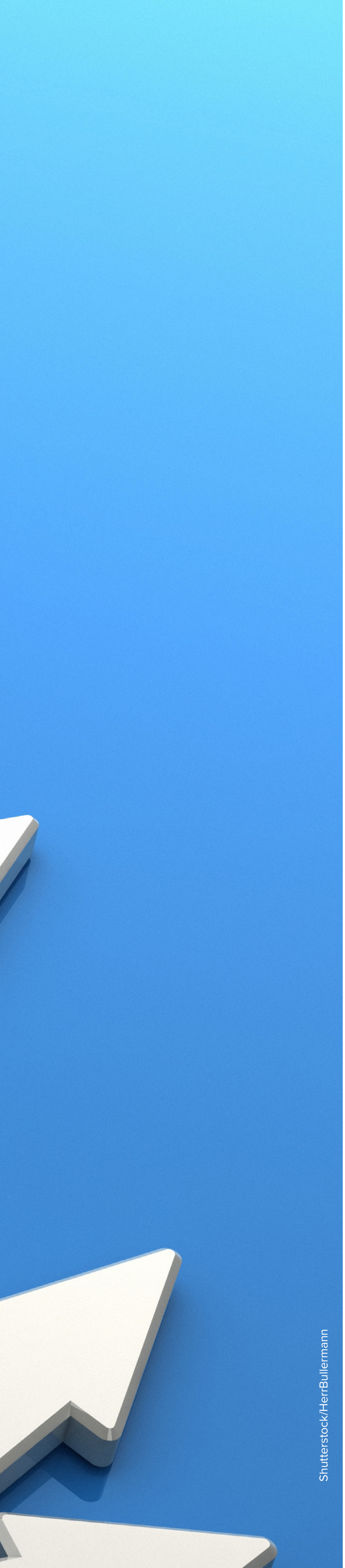
MEET THE NEW BANK EXECUTIVE

By Alan Kaplan, Kaplan Partners





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The requirements for effective leadership have changed

Today's bank leader is under greater pressure than at any time since the financial crisis. While the crisis itself was a hot mess, the Great Recession's aftermath has likely altered the course of the industry for decades to come. The two most vital ingredients today for a bank's long-term autonomy are capital and talent. Without them, a bank's future survival becomes much more of an uphill climb.

Much has been written about the tangible banking skills and technical proficiency that have become necessities for leaders today. The shopping list includes regulatory relations, balance sheet management, capital strategy, commercial credit, investor relations, risk management, technology, and strategic planning. These are all now considered table stakes for bank leaders and CEO contenders. The real challenges, however, lie in development of key leadership competencies for institutional success. We will focus here on three intangible but particularly important areas of emphasis in the human capital arena: cultural agility, workforce flexibility, and talent-centricity. There are others, but these three are critical for the future bank leader's success.

CULTURAL AGILITY & ADAPTABILITY

Let's face it: While middle-aged, white men still dominate the C-suite in banking, the growth markets—and new and future employees—do not fit this profile. Here are a few points to consider:

- Women constitute a majority of bank employees in many institutions, with rising penetration into senior management.
- Nonwhite children are now a majority of births in this country.
- More new businesses are started by women and minority members of our communities than by white males.

What does this say about a bank's future opportunities for growth? It says that bank leaders and line personnel need to develop a true appreciation for the varied needs of different customer constituencies. It says that products may need to be tailored to better take advantage of specific market opportunities. And it says that employees will likely need additional training to be in a position to serve a wider array of customers.

Bank leaders need to lead this charge by exemplifying cultural agility; that is, the ability to be comfortable with and make others comfortable with a relationship. It takes training to be able to meet differing customer types at their comfort levels, rather than expecting potential clients or prospective employees to relate to leaders in leaders' ways.

Cultural agility also involves helping workers understand how people from different backgrounds think and operate, so that a wide range can coexist and work constructively within the bank. After all, future team members will be just as diverse as future customers, and those growing customer segments want to work with people who understand their needs and business concerns.

Today's, and surely tomorrow's, new bank leaders need to possess a level of personal adaptability and cultural agility that allows them to model interactions with a multitude of constituents.

WORKFORCE FLEXIBILITY

Much continues to be written about the multigenerational workforce. We see many companies where there are three or even four generations hanging around the (virtual) water cooler. Minimally, that typically includes baby boomers (roughly ages 54 to 70), Generation Xers (roughly 33 to 53), and the still younger millennials. Each segment of this working population looks through a different lens. Understanding the priorities and drivers of each, and how to mesh them effectively, is critical to enhancing team performance and the bank's bottom line. As an example of generational differences when it comes to banking, studies show that only 38% of millennials have used a bank facility beyond a simple ATM transaction.

One recent statistic from Gallup states that of the four current workforce generations, millennials are notably the least engaged, with only 29% feeling

connected to their employers. Furthermore, according to research from private equity firm Kleiner Perkins Caufield & Byers and Independent Community Bankers of America, the rising millennial generation seeks meaningful work; high pay; a sense of accomplishment; training and development; and flexibility—in that order. Yet the same generation is known for being empathetic, humanitarian, environmental, and generally caring. How do banks connect with these future leaders to attract and keep them in the fold?

Here's where I believe banks hold a hidden advantage over many other fields. There is no industry that is more community minded than banking. No business sector supports local organizations with time and money the way banks do. Yet too often, we take this proud and locally minded behavior for granted when we should be shouting it from the rooftops, especially when recruiting up-and-coming talent on campus or elsewhere. This is how banks can win the hearts and minds of the next generation of potential leaders. Use this "community advantage" to the fullest extent possible when promoting the organization—whether to potential hires or potential customers. And it is incumbent on bank leaders of today to lead by example, which most do, in highlighting the bank's community commitments and its employees' good work in the community.

"The variable on the success of a bank's strategy is always execution. Execution comes down to people. Don't skimp"

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At the same time, banks need to make sure they have refreshed the traditional time lines of career advancement that former bankers like me grew up with. While some veteran bankers may disdain the up-and-comer who expects rewards and recognition much faster than previously provided, they need to accept that times are different. Changes in the banking industry—particularly driven by technology—have made previous rules of engagement as obsolete as the passbook account. I've heard veteran bankers lament: "It took me 20 years to make vice-president; why does she think it should happen in five?" Expectations need to shift a bit on both sides.

Today's recent college graduates, in addition to being tech savvy, are typically driven to succeed, anxious to collaborate, and want to work for a company that gives back to the community. Again, this plays to banking's strengths. We are a technology-enabled, team-oriented, community minded industry. We need to reinforce that "this is not your grandfather's bank" in our recruiting messages and performance feedback. This creates opportunities for the bank to compete for talent and become known as a "destination employer," and for the industry as a whole to be perceived as leading edge rather than over-the-hill.

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TALENT CENTRICITY

The banking industry's ongoing challenges are occurring at a time when the industry's crop of potential leaders is actually shrinking. Despite the continued consolidation of the industry—we're now losing several hundred banks annually to mergers—the ranks of folks who can lead a bank in today's climate is not keeping pace with retiring CEOs.

The other great talent shortage lies in the quest for trained commercial lending professionals. In the past few months alone, I've been asked by bank clients from Maine to Connecticut to Ohio about my thoughts on the shortage of quality lenders in the market. The answer is simply that the shortage persists and will not get better anytime soon. It's not a regional issue; it's national.

By way of example, back in the mid-1980s when I served as a management trainee learning to underwrite corporate loans at First Pennsylvania Bank in Philadelphia, there were 10 to 12 banks in town with formal credit training programs. These banks—some of which had multiple classes annually—turned out hundreds of hungry, young lenders eager to deploy their newfound credit skills. Today, programs are smaller, stealthy (out of fear of poaching), and more on-the-job than classroom oriented. True, some large banks like Wells Fargo and PNC continue to offer commercial training programs, but the nature of those programs has changed dramatically.

This means that bank leaders who can attract talent to their organizations will have a distinct advantage. In the battle for new loans in crowded markets—which many still are—the banks with more and better lenders on the street will win. The tools and products are important, as is the credit approval process, but the supply of lenders will continue to lag the demand for talented producers. It's the same in the battle for technology talent. Remember, stars have the most options as to where they will deploy their talents. Plus, stars want to work with stars and other "A" players. Unless it's a crisis move, "A" players will choose an opportunity where they are working with or for a well-known company, and where they feel they are best set up for success.

One of the added complexities for many banks, particularly community banks, revolves around the dynamics of compensation, especially for senior officers and revenue drivers. Too many banks continue to lament the cost of talent, rather than accept the rules of supply and demand.

Here's my view: If you can attract a star lender to your bank—especially a strong producer—pay the market rate for the talent, even if it upsets your compensation chart. Why? Because a true star player generates an annuity stream of new business, and a "B" player simply does not. The lesser performer, while almost always less expensive, is never cheap enough relative to the ROI of the more proven player.

With regard to executive leadership, the same principles apply. Top talent wants to work with other top performers, and a bank CEO who can attract top players—whether directly or via a third party—gains a competitive edge. High growth banks, such as New York's Signature Bank and Sterling Bank, have not only benefitted from an influx of veteran talent, but the attraction of top talent is a core business strategy.

Banks that choose to play it safe with regard to talent—whether in the executive ranks; in key areas like technology and customer experience; or in the hiring of revenue generators—do run the risk of being penny-wise and pound-foolish. We are living in an industry time of "go big or go home" when it comes to human capital. The variable on the success of a bank's strategy is always the execution, and execution always comes down to people. Don't skimp on getting as many difference-makers on the team as possible.

The future of banking remains bright, despite the challenges facing bank leaders today. The difference between banks that are able to grow and remain independent and those that aren't may unexpectedly come down to their leaders' "soft" skills—how banks adapt to changing employee and customer markets; navigate the different workplace expectations of up-and-comers; and approach the talent market overall. Failing to shift focus to these factors may come at a very high price. ■

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Adopt a skill-based board

While the evolution of the requirements needed for bank leaders today will continue, the same can be said for bank directors. Boards are under more scrutiny than ever from governance activists, shareholders, Wall Street analysts, activist investors, and community leaders. Even mutual saving banks and privately held institutions face more scrutiny from regulators and key constituents. Expectations for director performance have never been higher.

Community banks in particular tend to have long-tenured board members. Continuity can be good, provided director skill sets are relevant and the board does not become too close to the CEO, compromising objectivity. However, many bank boards have begun to focus more on the collective skills represented around the board table, and have started to use a skills-based approach when making retention and recruiting decisions.

There are skills that nearly all boards need more of. First is technology, from risk management and growth perspectives. There also is high demand for directors with strategic planning, marketing/branding, human capital, or prior CEO experience.

The real place for improvement, however, is often in how the board behaves. Research shows that how a board operates is critical to determining if it is a truly valuable strategic asset. Director willingness to discuss vital issues—such as strategy, CEO succession, transactions, and risk—is important for institutional success.

Also key is diversity of thought, perspectives, and experiences. Move beyond a "stale, pale, and male" board.

Today's bank director needs to be a subject matter expert in an important area, but also a collaborative, communicative, engaged partner. The more willing a board is to tackle the toughest business issues, and encourage and respect divergent views, the more likely the bank will succeed.