

CEO Succession Promises to Be Difficult

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Many bank chief executives are nearing retirement, and a big test will be finding their successors.

"It is a widespread problem," said Rod Taylor of the executive recruiting firm Taylor & Co. "There are simply not enough trained, experienced executives that can be the CEO of a bank when these CEOs start to retire."

Sheer numbers are a factor. Baby boomers dwarf the next generation. Banks did not capture a fair share of the roughly 41 million people who make up Generation X, as that group entered the work force during the banking crisis of the early 1990s and found opportunity elsewhere.

Taylor traces the problem to the early '90s, when many cut training to save money. This led to a generation of bankers with limited expertise.

Recruiters say they would have no trouble finding strong CEO candidates if smaller banks are willing to consider outside talent. They point to regulatory agencies and big banks as hunting ground.

"Banks could easily find somebody at a larger bank with a lesser title," said Rick Rummage, managing partner of executive search firm Rummage Group. "It would be a big step up."

Rummage said a massive wave of consolidation should diminish the impact of a talent shortage. Some industry watchers said the number of

banks could be halved in coming years, which will mean more executives looking for work and fewer CEO jobs available.

Of the 499 banking companies traded on the Nasdaq and New York Stock Exchange with a CEO position listed, roughly 36% have CEOs that are 60 or older, according to data by Hovde Financial. Most other top executives are younger, though; 73% of chief financial officers and 62% of chief operating officers are 55 or under.

The problem many banks have is that even top-level managers moved up the ranks by focusing on one area.

"Nobody put money into training in the last 20 years, because there wasn't any need to," said Rusty Cloutier, the CEO of MidSouth Bancorp Inc. in Lafayette, La. "If you needed a position filled, you waited until the next big buyout and hired people from that."

Cloutier, 63, is working on a succession plan. He said that, given the industry's training gap, he expects to give someone a thorough grounding before turning over the reins several years from now.

One bank that has cross-trained all along is Merchants and Farmers in Kosciusko, Miss. Managers are often assigned to "driving committees" to work on initiatives. For example, commercial lenders might help with retail products.

The approach helps staff get familiar with other departments, said Hugh Potts Jr., the chairman and CEO of the bank and its parent company, the \$1.6 billion-asset First M&F Corp. It paid off after M&F's president left in 2009. The title went to Jeffrey Lacey, who worked his way up at Merchants and Farmers and has been its

president since 2008. "We considered people outside of the company, but the preference tilted to talent in the company," Potts said.

More banks should adopt use such training practices, said Karen Hartnett at KJH Consulting. "Banks need to start working on

succession today for five or 10 years from now," she said. "You need credit skills training for retail guys and management skills training for commercial guys. You need to have those most talented people switch jobs and learn the other side."