

TALENT MATTERS.

EXECUTIVE SEARCH | BOARD ADVISORY | MANAGEMENT ASSESSMENT

Board Talent, Performance & Succession: A New Paradigm

New York Bankers Association
November 2, 2022

Alan Kaplan, Founder + CEO
Kaplan Partners

KAPLAN PARTNERS

- **Founded May 1, 1994; 28 years of Governance and Succession Success!**
- **Retained executive search & board advisory across the banking & financial services sector:**
 - Regional and community banking institutions
 - Wealth management and mortgage banking firms
 - Corporate financial search
 - Financial technology
- **Board Advisory Services for:** Director succession, performance, diversity, and recruitment
- **Executive Assessment services for:** CEO succession & executive development
- Partner organization with ABA, ICBA, Bank Director plus 10 state bank associations
- Over 50% of 2020 & 2021 executive placements were diverse talent
- Since 2020, 80% of board placements have been diverse talent

ALAN J. KAPLAN

FOUNDER + CEO

- 35 years in banking executive search and talent assessment
- Credit-trained corporate banker
- Industry leader in bank succession and talent management
- Led 90+ bank president/CEO/COO succession assignments across 21 states to date
- Former Penn Liberty Bank advisory director
- National Association of Corporate Directors *Certified Director & Board Leadership Fellow*
- National speaker and author for industry associations on corporate governance, talent management, and leadership succession
- Director, Fischer-Shain Center for Financial Services, Temple University Fox School of Business
- Former global board of directors, Association of Executive Search & Leadership Consultants

OUR AGENDA

The War for Talent in Banking

- Why Talent & Succession Management are More Vital Than Ever
- New Realities of the War for Talent
- Six 2022 Talent Management Best Practices

Key Roles of Serving as a Bank Director Today

Four Foundations of Board Effectiveness

- Board Composition
- Board Practices
- Board Dynamics
- Board Succession

Summarizing Great Boards

TALENT MANAGEMENT MATTERS MORE THAN EVER

- Regulatory Scrutiny of Succession Plans Rising for All C-Suite Roles.
- DE&I are on the Regulatory Radar Screen!
- Is your bank a “Talent Destination” or a place where “Talent Departs”?
Employees, customers, competitors, communities, shareholders are all watching!
- Good Talent Management impacts the bank’s credibility in the market - along with customer & employee retention.

TODAY'S LABOR DEMOGRAPHICS

- 4,754 bank charters as of 10/24/22; we may be close to 4,000 by the end of 2025
- September 2021 National Unemployment Rate = 4.7
- September 2022 National Unemployment Rate = 3.5%
- September 2022 Labor Force Participation Rate = 62.3
- Roughly 10 million Open Jobs & 6 million Unemployed Workers Today.
- *College Educated Workers Unemployment Rate = 1.8%*

THE WAR FOR TALENT: NEW REALITIES

- 2022 ICBA Member Survey ranked Attracting & Retaining Talent a Top Three Challenge for 2022, just behind Increasing Loans and Increasing Earnings. *Nothing else came close!*
- Base level salary increases running roughly double recent norms. Mid-Year Raises or One-Time Payments Becoming Standard.
- Workers without college degrees seeing wages rise the most; their lowest acceptable wage for a new job has risen 16.5% from the end of 2019 to the end of 2021.
- 63% of Executives Plan to Adjust Compensation due to Inflation.

THE WAR FOR TALENT: NEW REALITIES

According to a 2022 Grant Thornton survey...

- 33% of people are actively looking for a new firm and role.
- 54% are not actively looking but open to change.
- 79% want flexibility when and where they work.
- 40% of workers will look for a new job if forced back to office full time.
- 45% don't believe their employer understands their needs.

THE WAR FOR TALENT: HOW WORKERS *FEEL*

- 66% of workers feel they are experiencing burnout.
- 55% of workers are feeling like they are spread too thin.
- 49% of workers say they are experiencing anxiety.
- 38% of workers say they are working extra hours without more money.
- 34% of workers say they are experiencing physical stress symptoms.

6 TALENT MANAGEMENT BEST PRACTICES

1. Values & Culture Matter
2. Enhance the Candidate Experience
3. Consider Assessment Tools to Reduce Potential “Mis-Hires”
4. Employee Flexibility is Here to Stay
5. What Workers Want
6. Revisit Approach to Compensation, Talent & Hiring Strategies

FLEXIBILITY AND TALENT

- Remote Work Expectations: According to the University of Chicago, Employers on average want 20-25% of remote work time; Employees want 40-50% of the time!
- Be mindful of the new “two tier” workplace! Are you unintentionally creating a double standard with some employees “in” versus “out”? Gauge Productivity!
- How are you assisting middle managers to navigate performance management & developing workers who they now see much less frequently in person, if ever?
- Are you willing to consider remotely hiring employees in high demand specialties, such as IT, risk & compliance, who are not located your core market?

WORKER PRIORITIES

1. Salary 83%
2. Remote Work 77%
3. Flexible schedule Options 63%
4. Health Insurance 63%
5. Vacation Time 62%
6. Retirement/401(k) 50%

Four-Day Workweek! 29% (did not register significantly in the past)

➤ *82% of American workers would trade 5/8/40 for 4/10/40 for the same \$\$!*

SUMMARIZING THE WAR FOR TALENT: KEY MISTAKES TO AVOID

- Tapping the Same Old Pool & Places; Think Differently! Be Proactive!
- Moving Too Slowly: The Hiring Process must be Streamlined!
- Not considering Assessment Tools to Avoid Mis-Hires.
- Not committing to a Remote/Flexible/Hybrid Work Strategy.
- Avoiding Necessary Adjustments to Compensation & Benefits
- Failing to Sell Yourself and Your Bank!

KEY ROLES OF DIRECTORS TODAY

- Leadership Selection (#1) & Assure the “Tone at the Top”
- Evaluate Management’s Performance & Determine Rewards
- Strategic Engagement (strategy, regulatory, transactions)
- Oversight of Risk Management and Controls
- Fiduciary Responsibility (shareholders, customers, employees)
- Support the Plan & Apply Sound Business Judgment
- Do Homework and “Be Present”
- Stay Current on the Bank, Industry and Regulations
- Communicate and Refresh Governance Standards
- Community Updates, Outreach & Referrals
- CEO, Leadership Team *and* Board Succession

THE FOUNDATION OF BOARD EFFECTIVENESS

“Having the right directors on the board is the single most important factor in good governance”

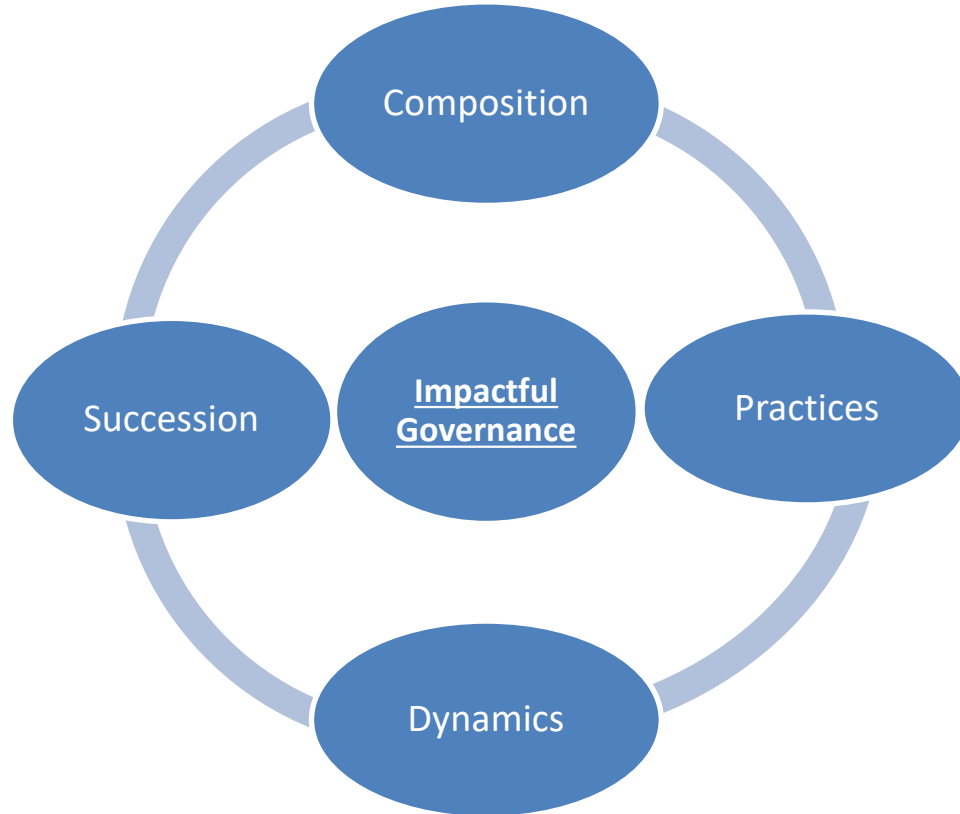
➤ ***Bill McNabb, Retired Chairman & CEO, Vanguard***

REFINING KEY ROLES OF DIRECTORS TODAY

Redefining TSR: Talent, Strategy & Risk

- Leadership Selection (#1) & Assure the “Tone at the Top”
- Evaluate Management’s Performance & Determine Rewards
- Strategic Engagement (strategy, regulatory, transactions)
- Oversight of Risk Management and Controls

FOUR FOUNDATIONS OF BOARD EFFECTIVENESS



BOARD COMPOSITION

Three Key Elements of Board Composition

- Director Attributes and Skills
- Director Tenure & Board Repopulation
- Board Diversity

BOARD COMPOSITION



Useful Traits of Effective Board Members (NACD)

- Able and Willing to Commit Needed Time
- Strong and Nuanced Intellect
- Informed Judgment
- Integrity; Courage to Tackle Tough Issues
- Good Listening Skills
- Ability to Present Opposing Views in Constructive Manner
- Ability to Debate then Coalesce Around Consensus
- Diversity of Cultures, Thoughts and Experiences
- Strong Financial Acumen

BOARD COMPOSITION

Director Skills

- Are you conducting an annual survey to determine the collective skills represented on the Board?
- Have you developed a matrix of desired skills, whether already existing or needed going forward?
- Shift the thinking from who do we know/who are we comfortable with to “what skills do we need to add to the collective to maximize our effectiveness as a Board.”

BOARD COMPOSITION



SKILLS IN DEMAND ON BANK BOARDS TODAY...*Where are your gaps?*

- Cybersecurity / Information Technology
- Digitization; Marketing/Branding/Social Media
- CEO Experience (sitting or prior)
- Qualified Financial Experts
- Meaningful Board Governance (Public or Private)
- Strategic Human Capital & Executive Compensation Experience
- Larger Bank Leadership Experience
- Risk Management & Regulatory
- Industry / Customer Skills Specific to our Business
- *Ideally wrapped in a candidate who adds to board diversity!*

BOARD COMPOSITION



Director Tenure

- Average Public Company Director Tenure now 7.9 Years; 15% > 10 years
- 30% of Boards STILL Do Not Disclose or Have a Retirement Age
- 96% of Public Boards have Retirement at 72+
- 39% of Boards Fix Retirement at age 72, and declining!
- 48% of Public Boards have Retirement at 75+, up from 19% in 2010
- Only 6% of Boards Currently have Term Limits, up from 3%.
 - *Disney, P&G, Target, Wal-Mart, MasterCard, GE, Raymond James, The Hartford, Air Products*

BOARD COMPOSITION

Director Tenure

- Boards Average Age is now 63, up from 62 ten years ago.
- Average Board Size Remains Flat at 10.7 Directors
- 90% of Boards now Elect All Directors Annually; less so in Banking
- Only 10% of S&P 500 Boards now elect for 3 Year terms; was 32%.
- *Board Seats are not lifetime appointments!*

* Data Courtesy of Spencer Stuart

BOARD COMPOSITION

Diversity

59% of all new public Directors now women and/or minorities!

- *22% of NEW directors last year were from Diverse Populations*
- *47% of NEW Directors are Women*
- *43% are First Time Directors*

- **Roughly 32% of US Public Board Members are women.**
 - *Up From 16% a dozen years ago.*

- **S&P 500 Public Boards are:**
 - **26% Black**
 - **9% Asian**
 - **6% Hispanic**

* Data Courtesy of Spencer Stuart & Heidrick & Struggles

BOARD PRACTICES

Three Key Board Practices:

- **Prospective vs. Retrospective Agenda**
- **Engagement in Strategic Issues**
- **Oversight of Leadership Succession**

BOARD PRACTICES

Are We Looking Through the Windshield or Rear View Mirror?

- Regulatory Climate Has Caused Much “Reviewing”; Lots of Looking Back at Recent History on Compliance, Earnings, Loans, Risks, etc.
- Hard to Maintain Forward Looking Approach to *Governance*
- Set Appropriate Parameters for CEO and *Let Management Manage*
- Despite the Environment, Most Boards Want More Time to Focus on *Talent, Strategy & Risk*
- *Boards Need to Find the Right Balance Between Monitoring the CEO and Bank Performance, and Looking Ahead*

BOARD PRACTICES

Engagement in Strategy

- Is Our Strategic Plan Real or Cookie Cutter?
- Is the Board Willing to Challenge Management on Assumptions?
- Do we have a plan to tackle the growing demands of ESG?
- Does our CEO have the Talent and Resources to Execute the Plan?
 - *How do we Hold Management Accountable (beyond money)?*
- Is the Bank Serious About Innovation as well as Threats From Digital Transformation and Non-Bank Financial Competitors?

BOARD PRACTICES

Oversight of CEO and Leadership Succession

- 69% of Boards Formally Discuss CEO Succession only once/year.
 - 20% of Boards Discuss CEO Succession 2-3x Annually
 - Only 9% of Boards Discuss CEO Succession at least Quarterly.
 - 2% of Boards Rarely Discuss CEO Succession

 - 74% of Boards Have Both **Emergency** & Long-Term Plans.
 - 21% Have Only an Emergency Plan.
- *A Few Still Have No Succession Plans of Any Kind!*

BOARD DYNAMICS

Three Keys of Board Dynamics:

- Quality of Debate and Discussion
- The Board/Management Relationship
- Board Committees

BOARD DYNAMICS

Defining a “Great” Board: Quality Conversations:

- 88% of Directors View the Quality of Dialog & Debate as a Differentiator for Great Boards.
- 77% of Directors Believe that Great Boards Encourage the Asking of Tough Questions.
- 73% of Directors Believe that Great Boards are a Substantial Component of Corporate Success.
- 62% of Directors Think Diversity of Thought and Experience Around the Board Table are Important.

BOARD DYNAMICS

Defining a “Not So Great” Board

- 77% of Directors Cite a Lack of Boardroom Candor.
- 68% of Directors Mention the Lack of Mutual Respect and/or a Collaborative Board Culture.
- 53% Believe that a Lack of Director Independence From Management Undermines the Board’s Effectiveness.
(Directors too close to the CEO)
- 39% Think Someone on the Board Should be Replaced.

BOARD DYNAMICS

Board/CEO Relationship

- 63% of Boards now have the CEO as the only insider, up from 40%.
- Average CEO Age 58, up 2 years in a decade
- Independent Directors now 85% of Directors; CEO typically the sole Insider.
- 47% of Public Boards Have CEO as Chair
- 53% of Public Boards Split CEO and Chair Roles

BOARD DYNAMICS

Board Committees

- Develop Clear Committee Charters and Span of Accountability
- *Example:* Broaden Compensation Committee to “Human Capital and Compensation Committee” and empower to address Talent Development and CEO & Executive performance.
- Allow Committees to do the “heavy-lifting” in their areas, and report back to the board. Board meetings need to be mostly strategic and not redundant.

BOARD SUCCESSION

Three Key Elements of Board Succession:

- Director Performance Expectations
- Board and Director Assessments
- Board Culture

BOARD SUCCESSION

Director Performance Expectations

- Every Board should document the Roles, Responsibilities, Standards and Expectations of Directors:
 - Nom/Gov Committee Should Review & Refresh Regularly
 - Install Mechanisms for Tracking and Reviewing Performance
 - Be Willing to have “Tough Love” Conversations

- *It's difficult to hold people accountable when the expectations are not clearly communicated*

BOARD SUCCESSION

Director Performance Expectations

Consider Adding:

- A Formal New Director Onboarding Program
- A Board Mentor for New Directors
- Codify Expectations up front and in writing
- Set the table regarding Continued Board Service based solely on performance against expectations
- Make sure materials are posted to Board Portal far enough in advance and expect Directors to review ahead of time

BOARD SUCCESSION

Board Assessments

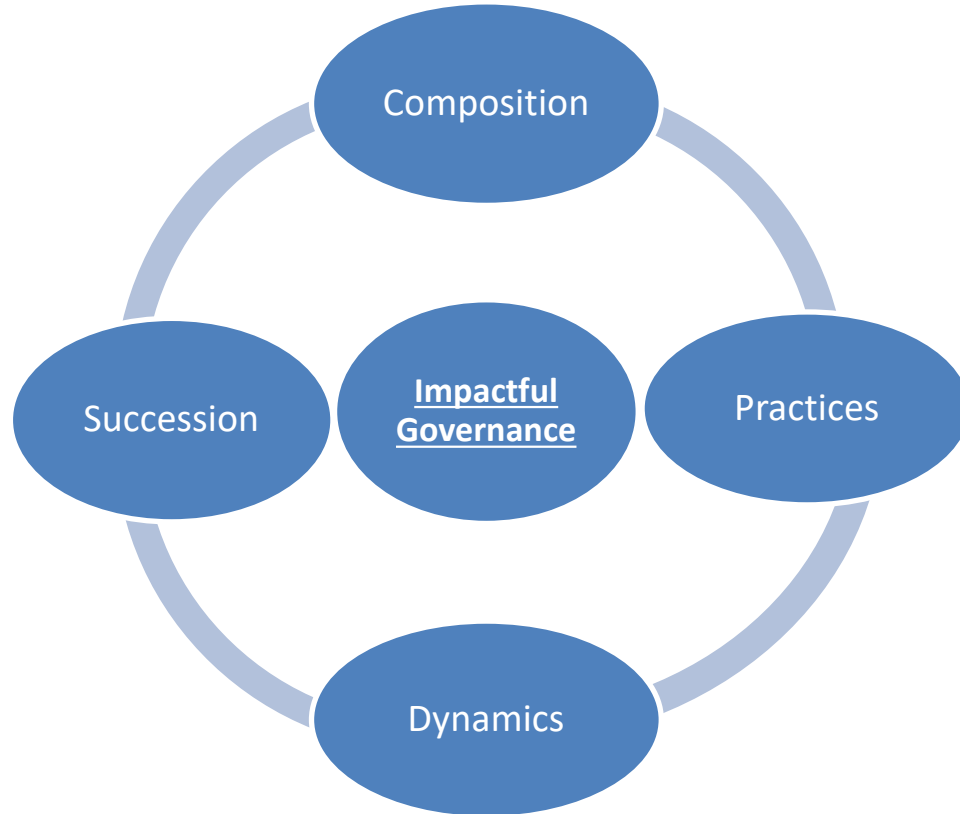
- 98% of Boards Conduct Some Kind of Annual Evaluation:
 - General Board Survey of Structure, Operations, Issues
 - Self Assessment: What do I Bring to the Party?
 - Individual Evaluations: What do I Think of my Colleagues' Contributions?
- 47% of Bank Boards now do Annual Performance Assessments; 23% do them but not annually. 30% do not conduct them at all. (*Bank Director*)
- Evolve to Peer Evaluations-Third party involvement here often smooths the way.
- Surveys consistently indicate that 35-40% of board members might need to be replaced over time.

BOARD SUCCESSION

Board Culture: Proactively Build a “Strategic Asset Board”

- Process not controlled by CEO, but by Nom/Gov. Committee.
- Utilize a Skill Matrix: Existing and Needed Going Forward.
- Cast a Wide Net—not just “who do we know”.
- Embrace Diverse Perspectives!
- Think Outside the Box, and Not Just Local.
- Have a Board Interview Process, not just an Invitation.
- Review Board Fit and Chemistry: Boardroom Culture is key.
- Expect Candidates to Conduct Robust Due Diligence on you!
- Increase Director Accountability & Clarify Performance Expectations.


FOUR FOUNDATIONS OF BOARD EFFECTIVENESS



WHAT MAKES GREAT BOARDS GREAT

Summarizing Great Boards:

- Encourage Quality Boardroom Dialog, Debate & Agendas.
- Ask Tough Questions in a Constructive & Thoughtful Manner.
- Directors Focus on Governing, Not Managing!
- Gather a Diversity of Skills, Perspectives and Experiences.
- Focus on the Big Items: Risk, Strategy, Succession, Governance.
- Regularly Assess Performance of the CEO & Leadership Team.
- Conduct Group, Self and Eventually Director Peer Evaluations.
- Proactively Plan for Board Replenishment!



THE FUTURE OF BANKING WILL BE ALL ABOUT
CAPITAL AND TALENT. BEYOND ABUNDANT
CAPITAL, SUCCESSFUL INSTITUTIONS WILL
NEED THE STRONGEST POSSIBLE TEAM OF
HIGHLY DIVERSE AND TALENTED BANK
DIRECTORS, LEADERS AND PRODUCERS, TO
SURVIVE AND THRIVE IN THE FUTURE.

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