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Credit Risk Ready Podcast

Host Linda Keith CPA with Mary C. Kelly

Leadership Succession Planning for Business and Banking

Hi, this is Linda Keith CPA with Credit Risk Ready, a podcast where we interview senior credit and lending professionals from community financial institutions across the United States, their regulators, and banking advisors to better understand and mitigate credit risk.

So, how does the lender recognize that a business is or should be in leadership succession mode? How long before the owner plans to exit should they start this process? What are the steps? And how has that pandemic recession upended their plans?

To help us answer those questions we have Dr. Mary Kelly, an economist and leadership expert and author of *Who Comes Next? Leadership Succession Planning Made Easy*. She consults and speaks on economics, leadership, and business at companies, government organizations, and associations.

Welcome back to the program, Mary.

Mary C. Kelly:

Hey, Linda. Thank you so much for letting me be with you. I love that we are thinking about succession planning because this is the next crisis in business.

Linda Keith:

Oh, interesting. We don't even have the one we're in over and now we're already looking at the next one? Of course.

Mary C. Kelly:

Of course. Crises beget crises and they are one on top of another.

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Linda Keith:

But you know, in some ways... I'm always the silver lining kind of a gal. In some ways, this pandemic recession may actually be making it more clear to business owners that, "Oh, shoot. I better have my succession plan in place because anything can happen." Right? Anything.

Mary C. Kelly:

You are so right, Linda. Anything can happen. You have to remember that before this crisis happened, we were enjoying about 10 really solid years of economic growth. What I saw on the leadership side was some leaders frankly got – I'll say it – a little lazy. They got a little complacent. They were doing just enough to do okay and they were okay with doing okay. But what happened with this crisis was a big spotlight was shining down on our business. All of a sudden, we could see the cracks in the foundation. When you see those cracks all of a sudden, as a leader, that's when you start scrambling before those cracks get bigger, and bigger, and bigger. This is what I see happening with leadership succession.

There's a couple of different factors. There are the people who are turning 65 at the rate of about 10,000 a day and are baby boomers. Some of them are looking around saying, "You know, I'm not so sure I want to go back to the office. Maybe I'm just going stay home." Then there's the Generation Xers who nobody cares about. They're a small segment.

Linda Keith:

I was going to say, Mary, aren't you an Xer?

Mary C. Kelly:

I'm an Xer. Nobody cares about us.

Linda Keith:

I care about you.

Mary C. Kelly:

Aw, thank you. They've been sitting here going, "Won't you people ever go home?" The baby boomers are saying, "But nobody knows what I do. Nobody can do my job as well as me and nobody's as dedicated as me." And we're like, "Guys, you're going to die in the office." Then they go, "Yeah, I'm going to die in the office. You all are going to find me on a Monday morning." We're like, "We don't want to start the week like that. Wouldn't succession planning be better?" Meanwhile, the millennials are like, "Does anybody ever get promoted at this organization? If nobody ever gets promoted, why am I going to stay?"

This is a great opportunity for us to be reassessing not just our strategic plan, but how our leadership bench gets built into that strategic plan. That is succession planning.

Linda Keith:

Right. Right. You know, I look at leadership succession planning and I can hear some of my kind of small- and mid-sized businesses saying, "Well, yeah. That's for big corporations. That's not really for me." Yet that's just not true at all. Unless you just plan to work right up 'til the day you quit, then fire everybody, and live off your retirement.

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You have to be thinking about leadership succession as well if you're going to sell the business. If you're going to grow internally. The potential people who would buy the business, or even if you are going to sell the business, you've got to build internally, the management, the bench strength, so that there's a business that somebody actually would want to buy.

Mary C. Kelly:

That is exactly right and you know that. Your business is built on the talent you have. The talent pool you've developed. But more importantly, it's also the knowledge that is contained in the people in the business.

Some of my senior execs say, "Well, nobody knows what I know." I'm like, "Well, whose fault is that?"

Linda Keith:

You know, I was going to say that earlier. When you said that earlier I thought to myself, "Whose fault is that?"

Mary C. Kelly:

Yeah. Whose fault is that? The quick solution for that is if you're thinking about, "Nobody knows what I know," and you're all very proud of that... I ask people this all the time. I'm like, "Where's your business plan?" They point to their head. They're like, "It's all up here." I'm frustrated. Because I say, "If it's all in your head and it's not written down, then it doesn't actually exist. Nobody else can figure out what to do next if you're not around to answer that question. You're not helping your people by not sharing your knowledge."

So, the quick and easy way to do that is hire somebody to shadow you for three days. Do all the meetings with you. Do everything and then take copious notes, transcribe everything, and figure out what it is you know. Then come back two weeks later and ask a series of questions of everybody around you what they wish they knew that you know. There are all kinds of ways to get that knowledge out of your head. That's one technique.

Another technique is my military-turnover-by-design technique. As you know, I spent 25 years on active duty in the Navy. Some of my clients are like, "How does that relate to business?" So, here's what I want to share with your audience. Think about the organization you're in. Now think about every single person in that organization is gone in either two years or three years from the day they started. That's it. Think about being in charge of an organization where one-half to one-third of your workforce is gone every single year. How do you keep running? How do you keep going? For us, it's a readiness factor. How do we keep our readiness levels up? How does everybody know how to perform with different teams, work with different people, and make all this stuff happen?

We have to do a few things that I think the military does well that the civilian world might think about. That is we have to constantly reiterate our vision. We have to be constantly reinventing what we're doing next. We have to be thinking out ahead of what's going to happen next and planning for that. We have to be training people constantly. We, as leaders, have to be very present and you have to be ready to go right away. That's where if you hire great people, they are ready to go right away. If you're hiring somebody who says, "Well, I'll take six months to get to know the job. Then I'll take six months into

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starting to get good at the job. Then I'll take another year to maybe perfect that." No. That's way too long. We've got to accelerate the onboarding process. We've got to help people get started right away. Help people move forward. Because it's not just the person at the top who's impacted by a shift.

A lot of times we think about succession planning, we're thinking about Arne Sorenson, of Marriott, who just passed away. We think, "Oh, gosh. What's going to happen to Marriott after he died? That's so sad." He had cancer. Cancer is a terrible disease. But they had a plan. So, guess what, Marriott is still going to run like a company because they had a plan in place.

However, with some businesses, if that top person leaves, or something happens to them, or they take a job somewhere else, that maybe that next level of people underneath them are wondering, "What's going to happen to me? What happens to me if the boss leaves and goes to another job? Are they taking me with them? Am I stuck here? Is the new person going to keep me?" All of a sudden, you think the movement of one person may just be one person, but it affects a variety of levels. It doesn't even need to be the person at the top. What if it's the CFO? What if it is your chief lender? What if?

Think about those people in any organization who are really critical and, oh gosh, once we get into small businesses, that's a whole other topic.

Linda Keith:

It is. One of the things that lenders have to first think through on their own and then maybe ask some careful questions is – I'll call it bench strength – what's behind the owner or the subject-matter expert within that consulting firm? But we can't assume it's not there. Because, as an example, CPA firms are famous for this. Smaller CPA firms regularly actually do have an arrangement with another small firm in town. That if you were ever hurt, or whatever it was, that they've already got a plan. In farming, that's often the case where something goes wrong. And boy, the neighbor farmers are right there.

When we look at whether there is a leadership succession plan, whether there are others within the organization that could step up if a major leader is taken out, I think we have to ask questions because we often can't tell by looking.

Mary C. Kelly:

Oh, so true. We cannot tell by looking. But one of the easy questions is, "Do you ever think about a time when you're not going to be here? You ever think about retiring? You ever think about what it's going to be like in that next chapter of your life?" Some of these folks say, "No, I'm never going to retire." My dad was that way, too. I totally get it. They look at retirement as really just a miserable time. "What am I going to do? Sit around and watch TV all day?" One of the things I asked is, "What would excite you?"

It's the Gen Xers, but really the baby boomers; they are redefining how we retire. When our baby boomers talk about retirement, I hear four things: They want to maintain a sense of purpose; they want to be surrounded by people they care about; they want to continue to pursue their passions; and they want to keep their pets. They like their pets. These retirement homes that say, "Well, you're allowed one small dog under nine pounds and a wee little kitten." That's just not going to work for the baby boomers who have Saint Bernards. They look at that and go, "I don't want to live like that." No. We're going to have to rethink retirement homes.

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This is where, by the way, some of your lenders are involved with some commercial real estate development. Malls. Malls are the new, cool way to retire. You can move into the mall. We've already got the food court. We just need to install a pool and a bar and we are set.

Linda Keith:

So, repurpose our strip malls, huh?

Mary C. Kelly:

That's it. I'm looking at the big shopping malls. You know the kind. They're all inside and have the food court in the middle. I'm telling you; this would be great. Look at all that great indoor space. Anyway, I do think that some commercial real estate is going to shift.

When it comes time to succession planning in our businesses... We talked for a second about small businesses. I want to loop back around to that. Over 75% of small businesses say they would like to sell their business. The obstacles that get in the way of them selling their business include, "I don't know how to value my business. I don't know how to put a value on it." Lenders can help with that. Some of the other problems are, "I don't know how to find someone who'd want to buy it." Guess what? Lenders can help with that. "I'm not sure that I have anything to sell," which, again, lenders can help them figure that out. "I'm not sure when I'm going to want to pass this on." Guess what? That is all part of your strategic plan, which includes your succession planning.

Now, some family businesses say, "You know, my son/my daughter, we're just going to pass it along to them." If the kids love the business, that is a viable plan. If they don't love the business, if they say, "Well, you know, I could take over the business. Or I could go work in a forest park or something to be a park ranger." If they're kind of lukewarm on the concept, it's probably not the right person to pass it on to. They have to love the business. They have to love the hustle. They have to love the entrepreneurship. And they have to want it. This is where some parents, I think, work really hard on a business, then they want to pass it on to their kids, and maybe their kids are just not interested. Then they force it. Then the business fails. Then it makes you feel as though your legacy is lost because the business is lost.

Linda Keith:

Or the business doesn't fail. But the adult children now running it later decide, "I'm not going to do this." They sell it and then the parents feel just devastated because their baby got sold by their baby. Like, "Oh, my gosh."

Mary C. Kelly:

That is exactly right, Linda. Their baby got sold by their baby. They had this sense of betrayal, and it creates drama.

So, the whole idea behind a great succession plan is to figure out what the business needs to do. Because it's not just the person at the top. It's that next level of leadership coming behind them. It is then the talent behind that. Your top emerging talent. Your young professionals. It's your transition planning team. The what-if team. If something happens, who is the team that jumps into place?

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But it's also your customers. Your customers. This is where our businesses need help. We need to help them see that their customers want to know that there's a plan in place. You had said that some CPA firms have agreements with other firms just in case. Mine does. That was one of the questions I asked her. I said, "Hey, if something happens to you, who are you partnered with that will take over my tax situation?" She goes, "Here's the list." She had it down. I was like, "Oh, okay."

In the book that I wrote with Meredith Elliot Powell, the *Who Comes Next* book, we do case studies. There are customers who did not do business with companies because it was a one-person shop, or a small shop, and they did not have a solid succession plan. Especially in the financial industry. They said, "You know what? We'd love to do business with you. But if something happens to you, where do we go?" They were like, "Oh, I think maybe my kids are going to take over." No, no. That is not a plan. That is a thought. That is an ideation. That does not a plan make.

Then, our suppliers. Our suppliers want to know that our business is still going to be around. They want to know that if they have a delivery, whatever happens to us, that the business is going to continue.

Linda Keith:

We can switch this back again to this lender focus. I would suggest that if when you ask, "What are your retirement plans?"... Which by the way, I remember the first time my commercial lender asked me that question. I was in my early 50s, I think, but she simply said, "What are your retirement plans?" I had to look in the mirror and see if I had some new gray hairs. Like, "Why did you ask that?" I almost sort-of fell off my chair.

But if you do ask and their answer is, "Oh, I'm never going to retire," I'm thinking that might be a risk factor to the lender. Because you recognize that they aren't doing anything about this.

Mary C. Kelly:

It is kind of a red flag it. Also, for again, many of the baby boomers. They take that as a badge of honor. "I'm never going to retire." They think that that is comforting in some way. That that's reassuring. Really, it's not. What the lender wants to hear is, "Oh, we've got a solid succession plan. Here's what it looks like. I brought in a team of experts. They spent a year in my business putting this thing together. In fact, not just me, but my entire top tier. We could all decide to leave tomorrow, and everything would be fine." That's what we want.

In the military, again, you have to be prepared for everybody leaving and leaving sometimes quicker than you would think. That's normal in the military. It's not so normal in the civilian world. But this is where, again, capturing your knowledge and having a planned step forward for who would do what when. That means looking internally at your talent. It also means looking externally if you need to. But it also means having a transition team in place that has the plan, so that nobody is surprised, nobody gets caught unaware, and most importantly, your customers are not affected.

Linda Keith:

Yeah. A major client I just landed about three months ago, that was one of their questions. "If for some reason, you weren't able to do all these virtual meetings on this topic, who does it in your place?" It was a perfect question. It was one that I needed to have an answer to.

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I'm going to make two pretty concrete suggestions for the listeners. One is that as you are working with this business, try to develop relationships with more than just the person you usually connect with. If you usually connect with the business owner, what about having relationship also with their CFO, or their major manager, or whatever? So that if something does happen to the person you normally connect with, you already have a strong relationship with the person who's going to step into that space, even if it's temporary.

Then the reverse is true. I always, as a commercial borrower, made sure I had a relationship with more than one person at the bank. Because I did not want someone to be promoted to some other position and I'm now talking to somebody who has no idea what I do or how I do it. We don't have a relationship of trust. It's a disaster. So, multiple connections, both from the financial institution and from the business, are critical.

Well, Mary, what a wealth of information. As usual, I feel like we just got started. I do like to give my listeners some ideas for resources for the borrowers. So, in the show notes, I have links to your book *Who Comes Next? Leadership Succession Planning Made Easy*. Did I hear that that was you and Meredith Elliott Powell as the authors?

Mary C. Kelly:

Yes. We worked on a project together and just had the best time working together for this one financial institution. It was a year-long project. The CEO looked at us and said, "I'd really liked this in a book." We said, "But we just gave you this huge binder of things." And the CEO said, "No. Like a book I can keep on my bedside because I need to hear this stuff all the time." We looked at each other and we went, "Okay. You'll have it in six months." When you already know something, it's not that hard to write it. We had the book done in about six months. It came out. It's called *Who Comes Next? Leadership Succession Planning Made Easy*. It also comes with a tools workbook so that especially small businesses can start this process right away.

Linda Keith:

For those who have been listening for a while, you will have heard Meredith Elliot Powell, also, on our podcast talking about sales in this crazy economy.

You also have an online program on leadership succession, I think, that includes a one-hour webinar that's aimed at current executives, business owners, and board members. If one of our listeners just needs to feel, themselves, that they have a better handle on leadership succession, so you confidently have these conversations with your borrowers, I highly recommend that as well. We will link that in the show notes.

So, Mary, thanks so much for helping us out with this today.

Mary C. Kelly:

Linda, thank you so much for having me.

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Linda Keith:

Thanks for joining us on the Credit Risk Ready podcast. Subscribe, comment, or share on social media to stay connected and spread the word. Join me next time as we bring our bank, our customers, and our communities through the recession safe and sound.

Take care.

Resources

- Book: *Who Comes Next? Leadership Succession Planning Made Easy*
<https://productiveleaders.com/product/who-comes-next-leadership-succession-planning-made-easy/>
- Website:
www.ProductiveLeaders.com/2021Success

About Mary C. Kelly

From her days as a naval intelligence officer to her role as one of today's most influential economists, Commander/Dr. Mary C. Kelly has carved out an unforgettable career in leadership. Former chief of police, professor, realtor, and HR Director, Mary has spent over 25 years teaching and training more than 40,000 military and civilian personnel.

Mary is the author of 13 books on business growth, leadership, and today's economy. She is a speaker, coach, and trainer who has worked with hundreds of organizations and companies across the globe.

About Linda Keith

Linda Keith, CPA, draws on her 30-plus years of experience consulting with and training lending institutions; background in public accounting; 15-plus years as CFO of the family residential construction company; and experience as an examiner with the Washington State Auditor's Office and as adjunct faculty in Accounting Principles and Managerial Accounting to help lending and credit professionals say "yes" to good loans.

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Of course, you know those are not consecutive years or she'd be over 100 by now!

Linda is known by her clients to be both practical and funny. In fact, there is a movement afoot to change the 'P' in CPA to stand for 'Playful'. The fact is people absorb ideas and learn better when they are having a little bit of fun. So, Linda brings the fun along with her practical knowledge and depth of understanding to provide credit analysis training and presentations that make a difference.

She is the founder of Lenders Online Training, a virtual classroom approach to improving tax return and financial statement analysis capabilities; the host of the Credit Risk Ready Podcast; and a consultant/trainer on credit risk to banks and credit unions across the country.

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