FMS Update

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Groom to Grow

Renewed interest in management training programs

ONCE upon a time, many large institutions had in place comprehensive management training programs, designed to expose promising young employees to a wide variety of departments and activities within the institution and thereby groom them for potential ascension into the executive ranks.

If this sounds like either a fairy tale or simply a product of a bygone era in which most folks also enjoyed a nice afternoon smoke at their desks, it may be because these types of large, rotational management training programs have mostly gone by the wayside in the industry today. In their place, most institutions now favor a more specialized brand of training, funneling their new hires into specific areas of the business and generally keeping them there.

At the community level, meanwhile, the notion of a formal management training program may be as fantastical and far-fetched as a sasquatch sighting or a fat net interest margin. While many up-and-coming community institution executives wisely attend external multi-year banking or credit union schools for the purposes of management training, these are generally seen as supplementary education rather than the kind of true long-term, in-depth and institution-specific training that comes from an in-house program.

However, comprehensive management training is unlikely to make a short list of priorities at a community institutions perpetually strapped for resources and fighting for survival on several more pressing fronts. Yet as they look to their future health and continued viability, community institutions may well need to start reconsidering the possibility of offering something in this vein in the context of the very real issue of succession planning.

"Succession planning is a huge issue for community institutions right now, which is why management training is also very important as institutions try to develop their future leaders," says Joshua Juergensen, a manager in the Financial Institutions practice at CliftonLarsonAllen LLP in Minneapolis, Minn. "Over the next decade, we expect to see a considerable amount of turnover at the executive level of community institutions across the country due to retirements among the Baby Boomer generation. Many institutions do not have a good succession strategy in place, or are scrambling to put one in place right now as executives near retirement."

"The problem is that the generation of bankers currently running community institutions is aging and the next generation has very limited and focused experience, as opposed to a broader experience throughout the institution," adds Jon Bruss, CEO and managing partner at Fortress Partners Capital Management, Ltd. in Hartland, Wis. "So I think community institutions are going to continue to be challenged in this area."

Thinking Ahead

Indeed, a substantial chunk of the M&A activity that has transpired in the community space over the past several years has been spurred by institutions suddenly and often unexpectedly facing an empty box at the top of the organizational chart and, without any viable candidates available, deciding on a sale or merger as the most palatable option. While the M&A route may in fact be the best choice for some institutions, the potential of being forced down that path due to the lack of a good succession plan is something that no board wants to face.

"I've seen numerous instances firsthand where there is a closely held third-, fourth- or fifth-generation family-owned community institution with no succession plan in place for someone within the family to continue the family business," says Juergensen. "As a result, the family is left with only one option as the

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existing ownership nears retirement, which is to sell."

A community institution can certainly look outside its walls to find a replacement for a retiring CEO, of course, and many boards have found the executive search process to be a perfectly acceptable way to fill that vacancy. But given the option, most would likely admit that they'd much rather have a more seamless transition to someone who's been in the institution for years and is very familiar with its customers, employees and operations.

"Executive search is always going to be plan B, and that's a decent option," says Scott McCallum, a senior advisor at Fortress Partners. "But I think most community institutions would prefer to groom someone in house, and that takes a little more thought and effort."

Marketing to Millennials

Ideally, that effort will include some version of a management training program designed to make community banking an appealing career choice for recent college graduates. McCallum says the notion hearkens back to the programs that were once so common at the big institutions, which sought to nurture long and upward-trending careers among young employees, as opposed to just providing a place to work.

"For a long time, the larger banks had very good professional development processes that were designed to give people exposure to different parts and people within the institution and turn them into 'lifers,'" he explains. "But career spans at individual institutions today are much shorter, and it's tough to sell younger people on a long career at a community institution. However, if you can find a way to get those young graduates in and get them on the right path, you'll have a much easier time eventually replacing executives who are aging and leaving."

"Very few people go to school with the intention of going into banking," Juergensen adds. "The industry as a whole needs to do a better job of making banking appealing to this demographic so they can see the benefits in working at a community institution. Building a relationship with millennials can be an important first step in bringing younger talent into community banking and hopefully keeping the next generation of bankers in the family business."

Large institutions, of course, tend to have large staffs and large budgets, making it much easier to undertake something like a formal management training program. But even if they can't afford to throw a huge amount of time or resources at a training regimen, community institutions too can certainly get started with a program that fits their needs and budget. Even a basic summer intern program that brings in local college students who may feel some affinity for working in a career that allows them to maintain a connection to their community is a step in the right direction, particularly if there haven't been any other meaningful steps taken before.

"For an institution with limited resources, an internship program can be a good way to find candidates from the local area who are looking for a finance or accounting job and get to know them," McCallum says. "It's a relatively low-risk and low-cost way to possibly identify a few people who may wind up moving up into management some day. It doesn't have to be huge, but even bringing in one or two people every summer can get the ball rolling."

Breadth and Backing

Bruss believes that one of the keys to making an internship or any other management training program work is to make sure it's focused on the right areas. While individual specialties such as credit are extremely important, the idea, he says, is to work toward the type of broader institution-wide training imparted by those big-bank management training programs of old.

"Retail banking management is an important area – not just managing the bank, but learning how to manage the people in the bank," he explains. "Especially in a community institution, the person in charge better know what's going on behind the teller counter and what's going on with the checks and the loans and everything else. He or she really has to know the nooks and crannies of the entire institution."

Perhaps just as important as content, however, is the dedication of the board and the management team to building and maintaining this type of program. Management training can easily turn into one of those projects that gets pushed to the back burner time and again as other tasks take priority, but McCallum says that community institutions staring down an aging leadership structure need to make sure it remains very high on their to-do lists.

"You need a CEO who sees the value of the management training process and really believes in it," he says. "The people that you'd hire into an internship or management training program aren't terribly expensive in terms of salary, but they do take up time and resources, so it requires patience and investment and focus on this type of training. Some institutions are still dedicated to this, but not nearly as many as in the past. The ones that are tend to be those that see the value of really developing and controlling the culture within their institutions." ■