

THE WAR FOR TALENT IN BANKING: STRATEGIES FOR SUCCESS

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Kaplan Partners

KEY TOPICS FOR TODAY

- Today's Labor Market
- Talent Management is More Vital Than Ever
- New Realities of the War for Talent
- 2024 Talent Management Best Practices
- The Role of Assessment Tools
- CEO & Board Succession
- What Lies Ahead...

KAPLAN PARTNERS

- **Founded May 1994: 30 years of Bank Board Governance & Executive Succession Success!**
- **Retained executive search & board advisory across banking and financial services:**
 - Regional and community banking institutions
 - Wealth management and mortgage banking firms
 - Middle market corporate financial and technology search
- **Board Advisory Services for:** Director succession, performance, diversity, and recruitment
- **Executive Assessment services for:** CEO succession & executive development
- **Over 50% of 2020 to 2023 executive placements were diverse talent**
- **Since 2020, 84% of board placements have been diverse talent (industry average = 59%)**

ALAN J. KAPLAN

FOUNDER + CEO

- 37 years in executive search and talent assessment
- Credit-trained corporate banker
- Industry leader in financial services executive succession, governance and talent management
- Led over 100 President/CEO succession assignments for client banks across 22 states
- 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
- Global board of directors, Association of Executive Search & Leadership Consultants

TODAY'S LABOR MARKET: DEMOGRAPHICS

- August 2024 National Unemployment Rate = 4.2%
- August 2024 Virginia Unemployment Rate = 2.8%
- August 2024 Labor Force Participation Rate = 62.7% (basically flat for over a year)
- Labor Force Participation Rate expected to DROP to 60.4% in 2032
- Still roughly 8.2 million Open Jobs & 7.2 million Unemployed Workers (~1.2 ratio)
- *College Educated Workers Unemployment Rate in August = 2.5%*

TODAY'S LABOR MARKET: CHALLENGES

- Latest Gen Z Workforce smaller than previous generations
- This is NOT a Covid-induced issue but Structural Demographics
- Slow Low Skilled Immigration impacts as well
- Less Men and more Women in the Workforce of the Future
- Most workers age 45 & under say they do not plan to work into their 60's.
- Rethinking of Job Requirements will happen more and more; skills > degrees

TODAY'S LABOR MARKET: NON-COMPETES

- FTC announced proposed elimination of non-compete provisions, *which was subsequently struck down in court.*
- Banks are NOT subject to this rule as FTC does not have jurisdiction.
- However, if it becomes law in future, bank regulators may copycat rules.
- Non-competes rare in banking except in narrow uses at highest levels.
- Focus on Non-Solicitation of Customers and Employees—will stand up to scrutiny much better.

TALENT MANAGEMENT MATTERS MORE THAN EVER

- CEO Magazine says “Retaining & Engaging Employees” is #1 Priority in 2024. Also, a Top 3 Challenge in the eyes of Boards of Directors.
- Continued High Level of Regulatory Scrutiny of Succession Plans for All C-Suite Roles
- DE&I Remain on the Regulatory & Investor Radar Screens, for both Boards & Management; now Rebranded as Inclusion & Diversity (I&D)
- Is your firm a “Talent Destination” or a place where “Talent Departs”? Employees, customers, competitors, communities, shareholders are all watching—especially for succession issues!
- Strong Talent Management impacts the organization’s credibility in the market - along with customer & employee retention

THE WAR FOR TALENT: NEW REALITIES

- Over 30% of employers say hiring talent is Remains Difficult.
- Another 31% say hiring is Somewhat Difficult. So over 60% are having trouble finding the talent they desire!
- However, 51% of employers are no longer having retention challenges, likely due to a slightly softer labor market.
- Salary increases for 2025 projected in the 4% +/- range, down a bit from 2024.

THE WAR FOR TALENT: NEW REALITIES

- 86% of workers are looking to learn New Skills
 - 56% to seek a raise, promotion or a new job
 - 48% just want to do their job better
- 86% of workers also say their organization offers Upskilling Program
- New Skills and Advancement Potential are Key for Retention
- 64% of workers work with an Under-Skilled Colleague, slowing them down
- Policies need to balance Workplace Flexibility and the Cultural, Social and Developmental benefits of being on-site. Very challenging!

BEST PRACTICES: A MORE STRATEGIC APPROACH TO HUMAN CAPITAL

1. Talent Development, Career Pathing, Engagement
2. Enhance the Candidate Experience
3. Employee Flexibility...is Here to Stay but Remains a Challenge
4. Consider Assessment Tools to reduce “Mis-Hires”
5. Revisit Approach to Compensation, Talent & Hiring Strategies

TALENT DEVELOPMENT & CAREER PATHING

- Strengthen the Commitment to Career Development and Continuing Education.
The #1 Retention Tool.
- 30% of workers will move for a better Career Path!
- “Highly Engaged” Employees are much less likely to respond to outreach from competitors. 90% expect to still be there next year!
- Enhance Mentoring Programs at all levels. Remember Knowledge Transfer!
- Start Planning Early for Key Role Successors.

BANKER'S HOURS

BY CHRISTOPHER WEYANT



"Is it too early to talk about succession planning?"

THE CANDIDATE EXPERIENCE

- What kind of impression does your hiring process truly create?
- Is your “system” set up to rapidly respond to hot/interesting prospects?
- Are your managers extremely well trained in interviewing skills, and has the bank optimized its virtual interview process?
- Sell, sell, sell. This is not a Broadway audition!
- The Cost to Hire has gone up...so has the Cost of an Important Role left open for months!

FLEXIBILITY AND TALENT



FLEXIBILITY AND TALENT

New JPMorgan HQ—Opening 2025

Current workforce Statistics (2024):

- 60% in office full time, including all Managing Directors and above
- 30% in office 3 days/week
- 10% fully remote



FLEXIBILITY AND TALENT

- KPMG says 62% of workers will be back in office full-time within 3 years, double from 2022. This means next year!
- Hybrid expectations down from 45% to 34%
- Only 4% of CEOs see Fully Remote, down from 20%
- In 2023: 57% of workers were “IN” 4+ days/week; only 40% prefer it
- Some banks have done remote hiring of employees in high demand specialties, such as IT, audit, risk & compliance, who are not in market!

FLEXIBILITY AND TALENT

- In-office workers spend 25% more time in career development, mentoring and training activities than remote colleagues according to WFH Research.
- “Proximity bias” Are you unintentionally creating a double standard with employees “in” versus “out”? Gauge productivity & performance not face time.
- Are in-office employees gaining better assignments, raises or promotions?
- Have you revisited the bank’s approach to Performance Management to assist!
- If “People are our most Important Asset” have we Realigned Priorities to help managers to better manage? More Training, Coaching, Mentoring...
- *Be wary of landmines around discriminatory behavior & policy violations*

ASSESSMENT TOOLS

Consider Assessment Tools to Help Reduce “Mis-Hires”

STRENGTHS:

- Add objective perspective to candidate evaluation
- Reveals underlying personality traits
- Enhance understanding of natural candidate behaviors
- Avoid unconscious bias

CAUTIONS:

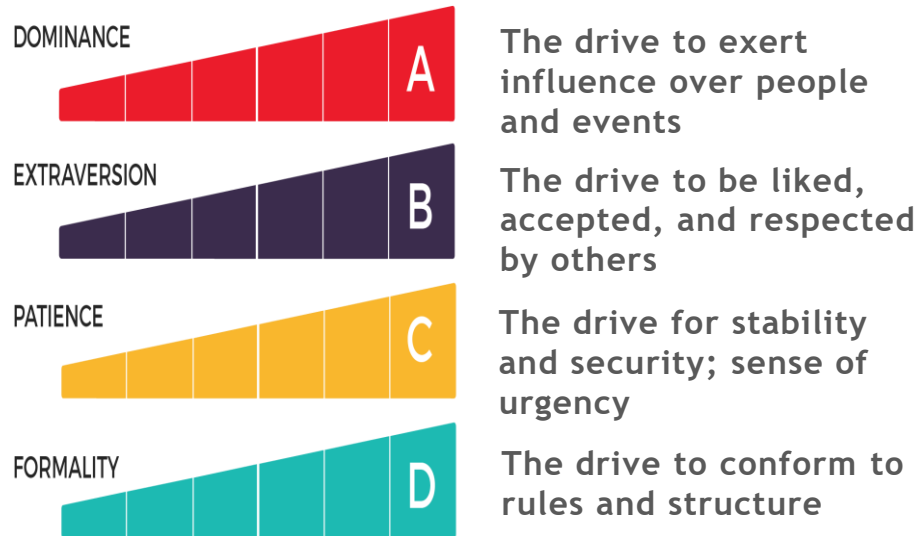
- Must be put into proper context
- Need clarity of role and desired cultural attributes
- Overemphasizing missing pieces—we all have them!
- Seeking perfection where none exists
- Are only one piece of the candidate puzzle

ASSESSMENT TOOLS

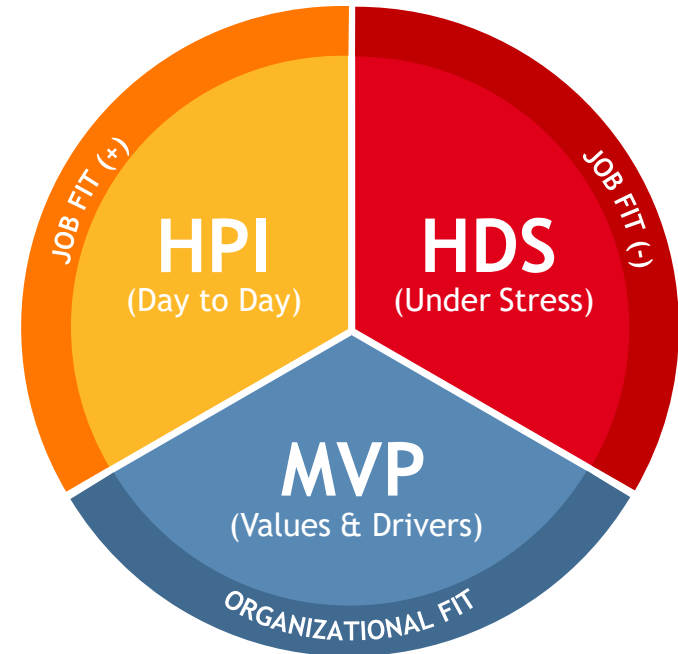
THE WHOLE EXECUTIVE



PREDICTIVE INDEX



HOGAN ASSESSMENT



REWARDS AND COMPENSATION

Revisit Rewards Programs at Every Level; Pay For Performance is critical!

- Enhance the incentive potential, both short and long term. You Must Differentiate High Performers; True “A” Players are worth the investment.
- Is there an equity or equity-like component to compensation to lock folks in?
- Counteroffers on the Rise...AND ALMOST 50% of Employees would ACCEPT ONE!
- Banks must think “out of the box” on Creative Retention/Benefit Programs:
 - *Student Loan Repayment; Expanded Family Leave; On-Site Childcare; Transit Discount Programs; Pet Insurance*

PET BENEFITS?!

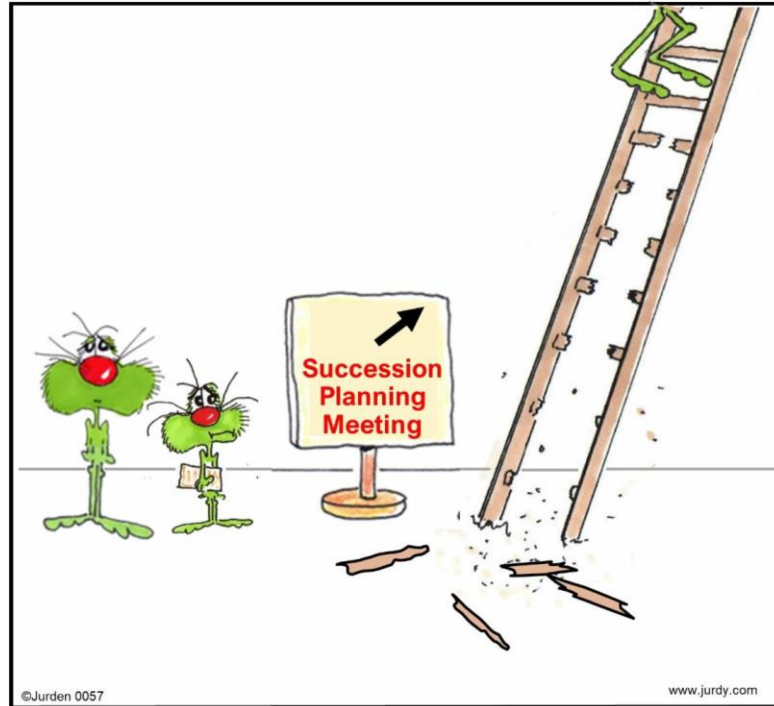
- PET INSURANCE
- PAWTERNITY LEAVE
- PET BEREAVEMENT DAYS
- BYDTW DAYS



HIRING TACTICS

- Many young adults are not ready for 4-Year College (yet). Send teams into local high schools or community colleges to talk about bank careers that DO NOT require a 4-Year degree. Then remind workers that if they want to get a degree, you may support continuing education and perhaps even offer tuition reimbursement.
- Enhance your digital presence from a hiring perspective. Add stories about new hires/promotions to the Home Page of your website.
- Has Human Resources brought forward plans for Career Pathing & Talent Development, especially for High Potentials? Is the HR and Recruiting Team strong? Many banks lack sufficient horsepower here.

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CEO SUCCESSION

Oversight of CEO and Leadership Succession

- Roughly 2/3 of Boards Formally Discuss CEO Succession only once/year.
- Around 20% of Boards Discuss CEO Succession 2-3x Annually
- Under 10% % of Boards Discuss CEO Succession at least Quarterly.
- 2% of Boards Rarely Discuss CEO Succession

- 75% of Boards Have Both **Emergency** & Long-Term Plans.
- 21% Have Only an Emergency Plan.
 - *A Few Still Have No Succession Plans of Any Kind!*

CEO SUCCESSION

- CEO Succession is a Board's #1 Responsibility! Only 38% of bank boards rate themselves as very effective here.
- Start planning far in advance, at least 3 years. It's a process, not an event.
- Build true plans for LT development of potential successors.
- Use outside coaching; consultant/process manager; external industry training programs.
- Boards should expect regular reports on the progress of development.

BOARD SUCCESSION

Director Skills

- Is your Board conducting an annual survey to determine the collective skills represented on the Board?
- Has your Board developed a matrix of desired skills needed to be added 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 SUCCESSION



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

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

BOARD SUCCESSION

Director Tenure

- Average Public Company Director Tenure remains 7.8 Years, but 11 Years in Banking
- Boards Average Age is 63.4, basically flat from ten years ago
- 33% of Boards STILL Do Not Disclose or Have a Retirement Age
- 98% of Public Boards have Retirement at 72+
- 60% of Public Boards have Retirement at 75+, up from 30% in 2014

* Data Courtesy of Spencer Stuart & Bank Director

BOARD SUCCESSION

Director Tenure

- Average Board Size Remains Flat at 10.8 Directors
- 89% of Public Boards elect all directors Annually—a Declassified Board
- 11% of Public Boards still have 3-Year Terms
- Only 7-8% of Boards Currently have Term Limits
- Average CEO Tenure is 7.2 Years; longer in banking

* Data Courtesy of Spencer Stuart & Bank Director

BOARD COMPOSITION

Diversity

68% of all new public Directors now women and/or minorities!

- *26% of NEW directors last year were Diverse Directors*
- *42% of NEW Directors are Women*
- *Total Diverse Directors = 58% (some directors are both)*

- **Roughly 34% of US Public Board Members are women.**
 - *Up From 19% a decade ago.*

- **18% of Independent Board Chairs are women.**
- **7% of Independent Board Chairs are diverse directors**

* Data Courtesy of Spencer Stuart

BOARD SUCCESSION


Board Assessments

- 99% 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 Public Boards do Individual Performance Assessments; Half of these do them but not annually. Only 18% of Banks do them Annually, 10% Less Often.
- Evolve to Peer Evaluations—28% have Third Party involvement to help smooth the way.
- Surveys consistently indicate that 35-40% of board members might need to be replaced over time.

* Data Courtesy of Spencer Stuart & Bank Director

WHAT WORRIES ME IN 2024...

- The Potential 4-Day Workweek! (this did not register significantly in the past)
 - *82% of American workers would trade 5/8/40 for 4/10/40 for the same \$\$!*
 - *Over 8% of workers now have a 4-Day Work Week, according to Gallup.*
- The Rise of Union Movements...service businesses are at risk!
- Banks that avoid Strategic Thinking about Talent, Career-Pathing and Succession Management due to Wishful Thinking about benefitting from a Soft Economy or Potential Recession. The Long-Term Demographics are too Problematic!
- Boards that fail to accept their Responsibility for CEO and Director Succession!



THE FUTURE OF BANKING WILL BE ALL ABOUT CAPITAL, LIQUIDITY AND TALENT. SUCCESSFUL BANKS MUST HAVE THE STRONGEST POSSIBLE TEAM OF HIGHLY TALENTED LEADERS, DIRECTORS, AND REVENUE GENERATORS, TO SURVIVE AND THRIVE IN THE FUTURE.

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