

CEO SUCCESSION PLANNING IN SMALL COMMUNITY BANKS: A
QUALITATIVE CASE STUDY OF A PACIFIC NORTHWEST BANK

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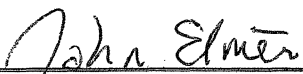
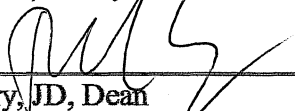
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ABSTRACT

The research case study purpose was to explore a single chief executive officer (CEO) succession at a small community bank through a qualitative investigation to identify relationships between the succession planning process and consequences. The research questions investigated were to describe and understand various consequences and dimensions of the CEO succession planning process. The results can benefit a bank's executive leadership and board of directors in developing effective succession plans. Two main frameworks form the research foundation, stakeholder theory and management practice of succession planning. These frameworks support that the outcome of CEO successor choice can have a substantial impact on the organization's strategy and success (Berns & Klarner, 2017; Cragun, Nyberg, & Wright, 2016; Zhang, Wierschem, Mediavilla, & Hong, 2016). Lack of an effective succession planning process presents a challenge for these banks that are thinly staffed and have aging CEOs and executives. Data collected from questionnaires, interviews, and archival data were analyzed for themes and triangulated to describe how the succession planning process was effective or ineffective and the resulting consequences. The data supported that the CEO succession case was an effective, successful process that reduced the risk of unintended consequences to the organization. The emergent themes and major findings were initial vision of candidate, intentional communication during transition, successor cultural fit, and trusting relationships. Other small community banks can use the major findings for succession planning to reduce the risk of negative or unintended consequences.

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CHAPTER 1: INTRODUCTION TO THE STUDY

Chief executive officers play a critical role in the successful performance of small community banks, yet the literature suggests that there is a lack of an effective succession planning process. Anderlik, Brown, and Fritzdixon (2015) conducted a survey in April 2015 of Federal Deposit Insurance Corporation (FDIC) examiners (primary regulatory agency for community banks) in three supervisory regions, and results indicated that succession planning is a significant challenge for community banks. In the survey, only around 50% of community banks have identified a potential CEO successor, and over 30% are not well-positioned to recruit from outside the bank (Anderlik et al., 2015). A chief executive officer (CEO) succession planning process is a challenge for small community banks that are thinly staffed and have aging CEOs and executive management teams. Little is known about a small community bank CEO succession planning process and the consequences of the CEO succession on the organization. This in-depth qualitative case study of a single CEO succession provides insights to small community bankers regarding practices that could result in an effective and successful CEO transition.

Background of the Problem

The major responsibility of senior executives such as the CEO is to set and achieve organizational objectives. This is supported by stakeholder theory that was summarized by Freeman who believed that executives are responsible first and foremost for creating as much value as possible for the organization's stakeholders in a business, and this creates the most value for the shareholders of the company (Freeman, Harrison, & Wicks, 2007). Given their importance, the replacement of a CEO is a critical event for

any organization because the outcome of successor choice can have a substantial impact on the strategy and success of the organization (Berns & Klarner, 2017; Cragun et al., 2016; Zhang et al., 2016).

Succession planning is a broad topic that includes identifying and assessing talent, developing leadership competencies, and building a pool of leadership candidates within an organization to ensure continuity in critical positions (Carman, Leland, & Wilson, 2010). Over the past five decades, CEO successions have been the topic of several research studies that examined the causes and implications of CEO successions. However, only a few studies focused on the broader succession planning process (Berns & Klarner, 2017).

Since 2002, Challenger, Gray, and Christmas, Inc. (2019) have been tracking CEO changes in companies in the United States that have been in business for at least two years and have ten or more employees. The January 2019 report on CEO changes noted the highest monthly total since 2002 with the top two reasons given as stepping down into other positions in the same company and retirement (Challenger et al., 2019). The average age of CEOs departing in January 2019 was 60.7 (Challenger et al., 2019). CEO departures are increasing for all businesses and succession planning processes are important to manage these departures.

In the community banking industry, succession planning is an expected control by FDIC examiners (FDIC, 2018). Despite being an expected control process, a survey conducted by Anderlik et al. (2015) of FDIC examiners in three supervisory regions indicated that succession planning is a significant challenge for community banks. In the survey, only around 50% of community banks have identified a potential CEO successor,

and over 30% are not well-positioned to recruit from outside the bank (Anderlik et al., 2015).

In 2015 about 25% of U.S. publicly-traded banks were led by a CEO who was 59 to 62-years-old, and the industry is suffering from an acute shortage of highly-skilled bankers (Parsons, 2015). Parsons (2015) noted the most common age of CEOs who sell banks is between 62- and 64-years-old and that more than half of the banks he was tracking with CEOs in this age range sold their bank in 2015. The pace of bank sales in 2015 was faster than any time in 20 years; an increasing number of and aging baby boomer bankers were noted as reasons for these bank sales that are reducing the numbers of small community banks in the United States (Parsons, 2015). Banks without a succession plan may end up merging or selling.

The American Bankers Association (2018) conducted a survey to identify CEO priorities for community banks and found that succession planning was one of these priorities. The published survey results included the following from a CEO: “The biggest challenge will be my succession plan, because no one wants to do it. If I got hit by a bus tomorrow, we have no one in line among the current staff who would even want the job” (American Bankers Association, 2018, p. 30).

Industry participants interviewed noted two other issues with community bank succession planning. One issue is the new CEO alignment with organization goals. One participant noted that when looking for a new CEO,

I would encourage the board and their strategic planning to think about what they prioritize. Is it growth, is it earnings, is it a sale? Is it staying independent, is it

staying in small business lending, what the business model is? To agree they can be clear about that. (Ext1, personal communication, February 5, 2019)

Another issue noted was,

I've seen this in a few cases is where you identify an heir apparent, but the heir apparent doesn't know that or doesn't have an interest in taking on the role. You sort of put all your eggs into one basket. Being thoughtful about who can actually fill the position and are they ready and willing to step in. (Ext2, personal communication, February 11, 2019)

The two main frameworks that can be applied to CEO succession and that form the foundation for this research study are stakeholder theory and succession planning. Stakeholder theory means that the outcome of successor choice can have a substantial impact on the strategy and success of the organization (Berns & Klarner, 2017; Cragun et al., 2016; Zhang et al., 2016). Succession planning is an approach to building a pipeline of leaders that the organization can draw from for important future roles to ensure continued leadership (Cavanaugh, 2017). FDIC examiners (FDIC, 2018) and a community banker survey (American Bankers Association, 2018) indicated that CEO succession planning needed to be a bank priority. It is important to note that a succession plan is an expectation of FDIC regulators; failure to draft such a plan can lead to criticism from regulators. A more detailed discussion of stakeholder theory and succession planning literature is in Chapter 2.

Problem Statement

The general problem is that CEOs are critical to the success of small community banks, yet there is a lack of clarity about those factors that lead to a successful CEO

succession and the impacts that a successful plan can have. This is supported by a survey conducted by Anderlik et al. (2015) who indicated succession planning is a significant challenge for community banks. Effective succession planning of CEOs may be more critical for small community banks that have aging CEOs and executive management teams. This in-depth case study of a single effective CEO succession helps inform community bank boards of directors about desirable succession planning practices that could help them avoid negative consequences. For this research study an effective CEO succession was determined by the subsequent consequences, including financial performance of one small community bank.

Parsons (2015) noted the banking industry is suffering from an acute shortage of highly-skilled bankers, and about 25% of U.S. publicly-traded banks were led by a CEO who was 59- to 62-years-old who will need to be replaced upon retirement. As of June 30, 2018, the FDIC (2018) reported that in the Pacific Northwest (Washington, Oregon, and Idaho) 59 of the 77 total banks (over 75%) were classified as a small community banks with less than \$10 billion in total assets. The boards of directors of these community banks will need to be prepared for inevitable CEO succession with an effective succession planning process. The research questions in this research study focus on small community banks and the consequences of the CEO succession planning process. The specific problem examined in this study is that too many small community banks are facing CEO attrition without effective and well-informed plans for succession. This case study is an example of an effective CEO succession at one small community bank referred to as PNW (Pacific Northwest) Small Community Bank.

Audience

Executive leadership and boards of directors can use the information in this case study to develop succession plans for CEO transition. The audience of this research is existing community banks; the FDIC regional office in their examination program where they review succession planning; various state banker associations, such as the Washington Bankers Association (WBA), who provide advisory services to banks; and the American Bankers Association (ABA), who have conducted and support banking research.

Business Administration Connection

The application of this case study will focus on the banking industry and how results can benefit executive leadership and boards of directors in developing effective succession plans for CEO transition. Effective succession planning could benefit small community banks based on a literature-supported linkage between CEO transitions and organizational consequences, including financial performance as discussed in detail in Chapter 2 literature review.

Purpose of the Study

The purpose of this qualitative case study is to examine, in depth, the relationship between the CEO succession planning process and consequences to small community banks by reviewing a single community bank's CEO succession process. An in-depth case study of a single effective CEO succession could help inform community bank boards of directors about desirable succession planning practices, which would assist the banks in avoiding negative consequences. CEO succession consequences examined in this case study included all nine components identified by Cragun et al. (2016). This case

study provides a holistic examination of more than the usual financial performance measures. It also included examining the little researched perspective of the new CEO including how the selection process impacted performance, how the CEO acted differently than expected, how expectations were established for the new CEO, and support provided post-CEO succession (Cragun et al., 2016). For more details on the nine components of consequences including financial performance measures, see Chapter 2.

The community bank in the study is referred to as PNW Small Community Bank. The study included interviews with the new CEO, departing CEO, senior executives, and board leadership involved in the CEO succession process at PNW Small Community Bank.

Significance of the Study

This is a qualitative case study about the qualities, opinions, and benefits of a successful CEO succession planning process at a small community bank. The case study includes the perspectives of the various stakeholders including employees, senior executives, members of the board, and interested parties in the community. The information gathered in the case study includes how the stakeholders benefitted from a successful CEO succession process, including subsequent bank performance that provided economic benefits to employees, senior executives, boards of directors, and owners or stockholders. It examined qualities of the succession planning process and practices that contributed to a successful transition. This case study identifies reasons to have and practices that comprise an effective CEO succession plan that can be used by other small community banks to derive the benefits of an effective succession planning process. The findings provide solutions for small community banks affected by retiring

baby boomer CEOs, for succession planning processes that ease the transition to a new CEO, and for the future success of the small community banking industry.

Methodology Overview

Methodology and Design

The design strategy is a qualitative case study with stakeholder interviews (verbal and questionnaire) and a review of archival data of a bank in the Pacific Northwest that has experienced a recent CEO succession. The use of a qualitative case study provides a holistic view of CEO succession planning and its effectiveness at PNW Small Community Bank. Existing archival data collected included call reports, news articles, and internal documentation.

A community bank that has experienced a CEO succession provides data analyzed using a single significant case study approach (Patton, 2015). The examination of succession planning at a small community bank in depth and over time manifests the important major dimensions of succession planning and provides a deep understanding of and insights into the effectiveness of succession planning (Patton, 2015). This case study captures the perspectives of different participants, and these perspectives illuminate and clarify the topic of a CEO succession and its consequences (Yin, 2015).

Overview of Population and Sample

One small community bank in the Pacific Northwest (Washington, Oregon, or Idaho) with a recent CEO succession was selected, and a qualitative single case study was performed that included interviews with bank stakeholders, including senior managers and members of the board to examine the succession planning process and consequences in depth. This single significant case study used a purposeful sampling

strategy by selecting one case that would be an exemplar of the phenomenon of interest (Patton, 2015). The purpose of selecting a single case that is accessible for intense study was to manifest the important major dimensions of a planned CEO succession and its impacts (Patton, 2015).

The number of interviewees, artifacts, practices, policies, or actions included in this case study should fall in the range of 25-50 units or items as discussed in Gentles, Charles, Ploeg, and McKibbon's (2015) study about sampling in qualitative research. The data sampling continued until information redundancy or saturation occurred and no new information was emerging in the data (Gentles et al., 2015).

Instrumentation

Stakeholder interviews included verbal questions and administering a questionnaire. These are referred to as participant questionnaires and participant interviews. The questionnaire was provided to 17 participants that included bank board members and employees, excluding the new and departing CEOs. Sixteen out of 17 (over 94%) of the participant questionnaires were completed. The questionnaire contained Likert-scale items with response options ranging from 1 (very strongly disagree) to 7 (very strongly agree) to allow for wider differentiation in responses (Willits, Theodori, & Luloff, 2016) and to ascertain the degree to which CEO succession planning influences consequences, including bank performance as described in the research questions. Verbal interviews with stakeholders included semi-structured questions (Patton, 2015). Twenty-three interviews were recorded and conducted in March 2019 either face-to-face or over the phone depending on schedule availability. Stakeholders are referred to by succession planning process perspective when the new CEO was appointed, such as outgoing CEO

(CEO1), incoming CEO (CEO2), external stakeholder (Ext1, Ext2, etc.), board of director (BOD1, BOD2, etc.), or employees including management and staff (Mgmt1, Mgmt2, etc.).

Data Collection and Data Analysis

The participant questionnaires were summarized along with researcher observations and pieces of archival data collected including performance results found in call reports. The recorded interviews were transcribed and coded. Interviews are an important source of case study evidence since they provide data on the explanations of the *how* and *why* of key events and reflect participants' insights (Yin, 2015). Coding was used to examine data gathered during interviews (Creswell & Creswell, 2017), illuminating how a CEO succession process was implemented and consequences on the organization after new CEO assumed leadership. Thematic analysis was used to compile and report the qualitative results.

Research Questions

Defining the research question narrowed down the research aim and objective to a specific area of study and guided the choice of methodology, sample selection, data collection instrument, and data analysis techniques (Doody & Bailey, 2016). The purpose of this study is to explore a CEO succession at a small community bank through a qualitative investigation of PNW Small Community Bank. The research questions investigated in this study were related to describing and understanding the various consequences and dimensions of the CEO succession planning process at PNW Small Community Bank. The research questions guiding this case study were:

1. What are the general perceptions regarding effectiveness of the following CEO succession planning processes:
 - a. The process for CEO succession planning once turnover was expected but prior to identification of successor CEO?
 - b. The execution of the succession planning process once the successor CEO was identified?
 - c. How the execution of the succession plan affects staff motivation and achievement of organizational goals?
2. What are the consequences of the CEO succession on the following:
 - a. Morale and staff motivation?
 - b. Strategic direction of the organization with the new CEO?
 - c. Financial performance consequences?
 - d. Investor or analyst reactions to the new CEO?
 - e. Call report data shown about the financial performance consequences?
 - f. Board changes such as change in members, structure, or compensation after the CEO succession?
 - g. The departing CEO?
 - h. The new CEO after succession?
 - i. Other perceived consequences?
3. What influence or changes did the new CEO background have on the organization?

Study Limitations

There are several limitations in conducting case study research that are discussed in Chapter 3. The limitations include lack of systematic procedures for the researcher to follow (Yin, 2015); therefore, the research must clarify and develop techniques (or a methodology) that are used in conducting the research. Organizing the data by the Cragun et al. (2016) nine tertiary components should result in more confident generalizability and in uncovering usable findings. Bias can occur when the researcher loses perspective as an outsider in examining the case. The researcher needs to be transparent and explicit about limiting or eliminating biases and following procedures and documentation (Yin, 2015).

Participant bias is another limitation and therefore anonymity of individuals interviewed to conduct the research for the case study is critical. Participants may also have errors in their memory about the succession planning process that can lead to errors in the findings. Including the memories of several participants can mitigate this limitation by filling in the memory gaps and including the events from more than one perspective. Triangulation of all data collected can also mitigate these errors in participant memories.

Delimitations

The study is limited to the Pacific Northwest and may not be generalizable to other regions of the U.S. or to banks in other countries.

Definition of Key Terms

The following terms are important to the study as they provide a way for the reader to understand the scope of the research. Each term provides clarity on common verbiage within succession planning. Use of these terms explains the steps and criteria used in succession planning within PNW Small Community Bank.

Call reports. Call reports refer to financial reports of condition and income for individual FDIC-insured institutions obtained from the Federal Financial Institutions Examination Council's (n.d.) central data repository's public data distribution website. Each FDIC-insured bank is required by its primary federal regulator to file the data on condition and income within 45 days after the close of business on the last day of each calendar quarter (Federal Financial Institutions Examination Council, n.d.). The data provided on the website when conducting research was from March 31, 2001 through December 31, 2018 (Federal Financial Institutions Examination Council, n.d.).

CEO succession. Voluntary and involuntary turnover of CEO and the selection of a new CEO (Cragun et al., 2016).

Community bank. A relatively small bank defined by the Federal Reserve Board as banks with less than \$10 billion in total assets (Lux & Greene, 2015).

Succession planning process. An approach to building a pipeline of leaders that the organization can draw from for important future roles to ensure continued effective performance for the organization in both emergency situations and predictable leadership transitions (Cavanaugh, 2017).

Small Community Bank. The most common asset size cutoff for small banks of \$1 billion (Amel & Prager, 2016). The Office of the Comptroller of the Currency defines small community banks as banks with less than \$1 billion in total assets (Lux & Greene, 2015). Small community banks in this case study are defined as FDIC-regulated community banks with less than \$1 billion in assets.

Summary

Chapter 1 introduced the purpose of this qualitative research study as identifying if there is a relationship between an effective CEO succession planning process and subsequent consequences to small community banks. The study attempts to address a gap in the literature on the CEO transition at small community banks and consequences on the organization. An overview of the methodology and design, including guiding research questions, was included.

Chapter 2 is the literature review, which provides support on how to answer each of the research questions. This literature review is divided into three separate sections: theoretical background, linkage between CEO turnover and organization consequences, and measuring impact on profitability and bank performance.

CHAPTER 2: LITERATURE REVIEW

Introduction

The specific purpose of performing this literature review is threefold. First, it assesses literature to provide a theoretical background to support the need for a CEO succession planning process in community banks. Second, it determines if literature supports that a CEO succession planning process is linked to organizational consequences including financial performance. Third, it determines how impact on bank profitability and financial performance after a CEO succession should be measured as the most visible consequence that stakeholders use to measure succession success. This literature review is divided into three separate sections: theoretical background, association between CEO turnover and organization consequences, and measuring impact on profitability and bank performance.

Theoretical Background

The major responsibility of senior executives such as the CEO is to set and achieve organizational objectives. This is supported by stakeholder theory that was summarized by Freeman who believed that executives are responsible first and foremost for creating as much value as possible for the organization's stakeholders in a business, and this creates the most value for the shareholders of the company (Freeman, Harrison, & Wicks, 2007). Management's role is to ensure that the organization thrives in the long-term by acting in the best interest of all stakeholders of the organization (Freeman et al., 2007). Stakeholders in this theory include customers, suppliers, employees, managers, stockholders, bondholders, other financiers, communities, competitors, political groups, and many others (Freeman et al., 2007). An executive's job under stakeholder theory

framework is to manage all these relationships to create value for the shareholders (Freeman et al., 2007). The replacement of a CEO is a critical event for any organization because the outcome of successor choice can have a substantial impact on firm (Osborn, Jauch, Martin, & Glueck, 1981). Current literature supported that given their importance, the replacement of a CEO is a critical event for any organization because the outcome of successor choice can have a substantial impact on the strategy and success of the organization (Berns & Klarner, 2017; Cragun et al., 2016; Zhang et al., 2016).

Succession planning is a broad topic that includes identifying and assessing talent, developing leadership competencies, and building a pool of leadership candidates within an organization to ensure continuity in critical positions (Carman, Leland, & Wilson, 2010). Succession planning is an approach to building a pipeline of leaders from whom the organization can draw for important future roles and to ensure continued effective performance for the organization in both emergency situations and predictable leadership transitions (Cavanaugh, 2017). Some organizations focus their succession planning process on CEO transition while others look at all management positions.

CEO successions have been the topic of several research studies over the past five decades regarding causes and implications of CEO successions when a new CEO takes charge, but only a few studies focus on the broader succession planning process (Berns, & Klarner, 2017). Berns and Klarner (2017) found that empirical research on CEO succession frequently adopted an event-based perspective that is contrary to evidence of CEO succession as a continuous process. A continuous process involves collaboration of the exiting CEO and board with three sequential phases: pre-succession phase of grooming and assessing candidates, CEO change phase where shortlist of candidates are

evaluated and new CEO selected, and post-succession phase where CEO is evaluated on firm performance (Berns & Klarner, 2017). Berns and Klarner (2017) also found few research studies on the entire CEO succession process.

Research conducted by Schepker, Nyberg, Ulrich, and Wright (2018) found a variety of processes that occur throughout succession planning, including defining roles and responsibilities, defining firm future strategy, identifying a profile of capabilities needed in future CEOs, identifying candidates who meet the profile, developing successor candidates, selecting a successor, and transition of leadership. Understanding how these processes influence effectiveness of decisions is important to understanding CEO succession (Schepker et al., 2018). The board of directors and management should collaborate for an effective succession planning process—even though the board is the ultimate decision maker—since board members lack information about day-to-day firm operations and challenges (Schepker et al., 2018).

In the community banking industry, succession planning is an expected control by FDIC examiners (FDIC, 2018). Anderlik et al. (2015) surveyed FDIC examiners in three supervisory regions, and results indicated that succession planning is a significant challenge for community banks. The survey noted that only around 50% of community banks have identified a potential CEO successor, but over 30% are not well-positioned to recruit from outside the bank (Anderlik et al., 2015).

In 2015 about 25% of U.S. publicly-traded banks were led by a CEO who was 59- to 62-years-old, and the industry is suffering from an acute shortage of highly-skilled bankers (Parsons, 2015). Parsons (2015) noted the most common age of CEOs who sell banks is between 62- and 64-years-old and that more than half of the banks he was

tracking with CEOs in this age range sold their bank in 2015. The pace of bank sales in 2015 was faster than any time in the past 20 years. An increasing number of and aging of baby boomer bankers were noted as reasons for these bank sales (Parsons, 2015). There is concern regarding aging CEOs continuing to manage beyond their ability, including connecting with a younger workforce within an organization (Cline & Yore, 2016). Cline and Yore (2016) supported that CEO age is negatively related to firm value and performance.

Schepker et al. (2015) noted that research has revealed little about the secretive process in planning for a CEO transition even though it is a very important board governance process and is inevitable. The article called out the existence of minimal research about the succession planning process used to choose successors (Schepker et al., 2015). The American Bankers Association (2018) Community Bankers Council conducted a survey to understand the priorities for the year. Participants in the survey were 440 community banks across the United States with less than \$3 billion in assets (American Bankers Association, 2018). The survey found that succession planning was one of these priorities. The published survey results included a quote from one CEO, “The biggest challenge will be my succession plan, because no one wants to do it. If I got hit by a bus tomorrow, we have no one in line among the current staff who would even want the job” (American Bankers Association, 2018, p. 30). The survey indicated that CEO succession planning continues to be an issue for small community banks in the United States.

Association Between CEO Turnover and Organizational Consequences

Stakeholder theory framework supports that a change in the CEO is an important issue that impacts an organization's strategies and subsequent firm performance.

Decreased firm performance is one consequence of CEO succession to the organization.

CEO succession consequences are impacted by three post-succession secondary factors:

the organization, stakeholders, and the new CEO (Cragun et al., 2016). Cragun et al.

(2016) identified nine tertiary components that detail how the three secondary factors

impact the consequences of CEO succession. Table 1 summarizes these nine components

and corresponding researchers on CEO succession consequences (Cragun et al., 2016).

Table 1. *Historical Literature Regarding CEO Succession Consequences*

Tertiary Component	Researchers	Year	Summary of Theoretical Contribution in Component
Succession Process	Zhang & Rajagopalan	2004	Processes and types of successions including planned vs. unplanned (death or dismissal), relay, marathon, and interim CEO.
	Rhim, Peluchette, & Song	2006	
	Behn, Dawley, Riley, & Yang	2006	
	Chan & Ting-Ting	2011	
	Intintoli	2013	
	Marcel, Cowen, & Ballinger	2013	
Change with new CEO	Friedman & Saul	1991	New CEO changes included strategic reorientation, executive and general turnover, climate, accounting, divestures, discontinued operations, Internationalization, investment allocation, speed of changes, and resource allocation.
	Lant, Milliken, & Batra	1992	
	Weisbach	1995	
	Khaliq, Thompson, & Walston	2006	
	Karaevli	2007	
	Barron, Chulkov, & Waddell	2011	
	Geiger & North	2011	
	Chan & Ting-Ting	2011	
	Liu, Valenti, & Yu	2012	
	Crossland, Zyung, Hiller, & Hambrick	2014	
Post Succession Firm Performance	Denis & Denis	1995	Post succession performance outcomes including profitability, return on assets (ROA), return on equity (ROE), cost and revenue efficiency, achievement of firm
	Ang, Lauterbach, & Vu	2003	
	Khaliq, Thompson, & Walston	2006	
	Adams & Mansi	2009	
	Fong, Misangyi, & Tosi	2010	

Tertiary Component	Researchers	Year	Summary of Theoretical Contribution in Component
	He, Sommer, & Xie	2011	goals, growth, firm value, and long-term.
	Jalal & Prezas	2012	
Post Succession Environment Context	Gordon, Stewart, Sweo, & Luker	2000	Contingencies regarding post succession outcomes including industry, industry dynamism, environmental uncertainty and turbulence, and competitive dynamics and uncertainty.
	Westphal, Boivie, & Chng	2006	
	Karaevli	2007	
	Chen	2008	
	Ballinger & Marcel	2010	
	He, Sommer, & Xie	2011	
	Marcel, Cowen, & Ballinger	2013	
Stock and Bond Price Reaction	Worrell & Davidson	1987	Price reaction to succession based on quality of CEO, forced vs. voluntary turnover, outsider vs. insider replacement, board social and human capital, new CEO stock grants, replacement after death, and CEO gender.
	Ang, Lauterbach, & Vu	2003	
	Blackwell, Dudney, & Farrell	2007	
	Lee & James	2007	
	Adams & Mansi	2009	
	Tian, Haleblian, & Rajagopalan	2011	
Analyst Coverage	Sheikholeslami, Wilson, & Selin	1998	Coverage more accurate after succession.
	Farrell & Whidbee	2003	
	Wiersema & Zhang	2011	
Post Succession Board Changes	Farrell & Whidbee	2000	Board changes post CEO succession including turnover, outside members, compensation, structure, committees, and chairman departure.
	Farrell & Whidbee	2002	
	Florou	2005	
	Arthaud-Day, Certo, Dalton, & Dalton	2006	
	Marcel, Cowen, & Ballinger	2013	
Impact on New CEO	none cited		Lack of studies that have specifically analyzed the tenures and performance of new CEO.
Impact on Departing CEO	De Vries	1988	Studies on how succession impacted the departing CEO including next career move, severance, involvement, ownership, power, emotional, psychological, and dismissal for cause.
	Friedman & Singh	1989	
	Yermack	2006	
	Laux	2008	
	Elsaid, Davidson, & Benson	2009	
	Perry, Yao, & Chandler	2011	
	Quigley & Hambrick	2012	
	Schepker	2012	

Note. Data collected from Cragun et al., 2016.

Table 1 shows a gap in literature regarding studies of the succession consequences focused on the new CEO component since 1994. Cragun et al. (2016) indicated there are few studies that analyze the tenures of new CEOs with Barro and Barro (1990) being pointed out as the most recent study that is still used as a reference in current CEO succession literature. Cragun et al. (2016) suggested that in addition to performance measures it would be useful to examine the CEO succession process from the perspective of the new CEO, including how the selection process impacts performance, how the CEO acts differently than expected, how expectations are established for new CEO, and support provided post-CEO succession.

Cragun et al. (2016) noted that both accounting measures and equity-based measures of post-succession consequences on firm performance are the primary concerns to an organization's stakeholders. Further examination of literature regarding firm performance consequences of CEO succession was conducted. Clayton, Hartzell, and Rosenberg (2005) investigated the effect of a change in CEO on stock-price volatility. This study noted that there are several studies going back the 1990s that have already demonstrated that CEO changes have a significant impact on shareholder wealth and firm operations because a change in CEO can alter the course of a firm's performance (Clayton et al., 2005). Clayton et al.'s (2005) study explored the consequences of turnover for equity volatility based on a sample of 872 CEO changes for the period 1979 to 1995 and found that volatility effects were long-lived and statistically significant for up to two years after CEO turnover (Clayton et al., 2005).

Barakova and Palvia (2010) studied relative performance of top management using a large population of community banks including a variable indicating any change

in senior executives during the year. In this study senior executives were defined as the top three officers in the bank and included the CEO (Barakova & Palvia, 2010). The study identified cyclicalities of bank executive turnover and performance where years with higher turnover resulted in lower performance (Barakova & Palvia, 2010).

Intintoli, Zhang, and Davidson (2014) found that the financial performance was lower in firms that did not have succession plans in place at the time of CEO turnover, and the negative performance appears to be the direct result of the lack of a succession plan (Intintoli et al., 2014). Financial performance was measured by quarterly ROA and market performance, as measured by quarterly Tobin's Q, for the four quarters following CEO turnover (Intintoli et al., 2014)

Charfeddine, Arouri, and Teulon, (2015) used data from 271 U.S. firms between 1994 and 2006 in their research and revealed a significant relationship between departure of CEO and firm performance where the departure of CEO negatively affected current and future firm performance. Firm performance was measured by decreased average profit and net income, less discretionary accruals estimated with the 1995 modified Jones model using a linear regression (Charfeddine et al., 2015). The study results supported their prediction that a CEO's departure from a firm would significantly affect the firm's current and future performance (Charfeddine et al., 2015).

A search for literature regarding consequences in the banking industry was conducted. Nguyen, Hagendorff, and Eshraghi's (2015) study measured changes in market valuation of banks linked to the announcements of 252 executive appointments for 145 U.S. banks from 1999 to 2011 (Nguyen et al., 2015). This study contributed to the literature and debate on whether and how individual executives matter for firm

performance (Nguyen et al., 2015). When an executive was valuable to a bank, such as a CEO, then appointing more desirable executives resulted in increased stock value and shareholder wealth (Nguyen et al., 2015). Nguyen et al. (2015) also noted that the existing literature on CEO appointments was limited to non-financial firms, and there existed a gap in the literature regarding the banking industry. Banks are complex institutions that require specialized skills and selecting the right executives can give banks a competitive advantage (Nguyen et al., 2015). The specialized skills are required due to differences between banks and nonfinancial firms including level of regulation, bank capital structure, and complexity of business (Haan & Vlahu, 2016). Haan and Vlahu (2016) also noted that most academic papers on corporate governance exclude data from banks and the financial services sector and focus on nonfinancial firms.

Amel and Prager (2016) found that statistical tests indicated that variables within managers' control account for between 70% and 97% of variation in performance across community banks, suggesting that bank managers are extremely important to community bank performance.

Bexley (2016) indicated that there is evidence that banks that lose a leader cannot keep the bank on course with replacement management. Leadership to guide the bank after a CEO or another "C" level officer's loss due to death, resignation, retirement, or other reasons is a very critical issue, but few banks have a firm succession plan (Bexley, 2016).

Schepker et al. (2017) conducted a meta-analysis based on an aggregation of studies across the world that included 60 samples from 1972 to 2013 of 13,578 CEO successions and found a negative influence on short-term performance but no significant

direct effect on long-term performance. This study supported the importance of CEO succession given potential negative consequences to an organization and the need for additional research to better understanding how a new CEO can be successful (Schepker et al., 2017).

The above review of numerous sources of literature and research studies across various industries support that the change in the CEO is disruptive to an organization since they are the most important decision makers and are very knowledgeable about the organization. There exists limited literature and research focused on the banking industry about CEO turnover and the impact on banks. Most research on CEO succession consequences is focused on the financial performance of the organization. This is the most visible measure to stakeholders on whether the CEO succession was considered a success or not. The literature was reviewed to determine how to measure profitability and bank performance after CEO succession at a small community bank.

Measuring Consequences on Profitability and Bank Performance

The literature supports using the following distinct measures of bank performance as summarized in Fernandes, Farinha, Martins, and Mateus's (2018) survey of literature: stock returns, Tobin's Q, ROE, ROA, accounting earnings, cost efficiency, profit efficiency, total interest plus noninterest expenses divided by assets, bank losses, non-performing assets, financial reactions based on CAMELS indicators, pre-tax operating income, net interest margin (NIM), return on average assets (ROAA), return on average equity (ROAE), loan losses, EBIT over total assets, likelihood to participate in bailout program, and amount of bailout funds. Additional research was conducted, and the literature supports the three most common measures of bank profitability: ROE, ROA,

and NIM. These measures all consider net income but are broader measures of overall profitability that can be compared among community banks of various sizes since the measures are ratios instead of dollar measures such as net income.

Zhang et al. (2016) examined CEO turnover and firm performance measured in terms of both accounting performance and market performance. This study, while not specific to the banking industry, provides some insight into how to measure performance when there is CEO turnover. Since accounting performance is measured differently in the banking industry, studies specific to the industry were searched, and it was found that numerous studies have been conducted to determine the factors that affect bank profitability. The literature review was focused on community bank profitability measured by accounting performance after 2005 due to the pace of change in accounting standards and the implementation of more consistent international financial reporting standards worldwide in the last 10 to 15 years.

Chuo, Lamb, Minnis, and Harper (2009) studied their combined research on determinates of profitability specific to community banks (Lamb, Harper, Minnis, & Chuo, 2013). Chuo et al. (2009) conducted quantitative research to develop regression models for Citizens National Bank to explain profitability and net income of the bank and to provide bank officers insight on the relationship between bank management and profitability. The data set utilized to develop the model was Citizens National Bank's monthly financials from 2000 to 2009 (Chuo et al., 2009). The independent variables were commercial loans, agricultural loans, consumer real estate, consumer other loans, total capital, total security, and total deposits, and the model looked at the explanatory power to net income (Chuo et al., 2009). External factors included in the model

development were consumer price index, gross domestic product, and unemployment rate (Chuo et al., 2009). The regression results indicated that management can be more aggressive with loans that present higher levels of risk to increase net income (Chuo et al., 2009). In 2013, Lamb, Harper, Minnis, and Chuo (2013) expanded the independent variables considered in the statistical model and how to apply to any bank to provide insight into products that provide the greater returns and improved overall financial performance. They concluded that while the regression models provide community banks a set of independent variables most significant to net income, there is an interrelationship in the set of variables (Lamb et al., 2013). Banking executives can use the models to strengthen the competitive position, financial performance, and contributions to the community of the bank (Lamb et al., 2013). Net income was the only measure of profitability used in this study.

Al-Jafari and Alchami (2014) investigated the determinants of bank profitability in the Syrian banking sector. The purpose of their research was to identify the significant bank-specific, industry-specific, and macroeconomic determinants on bank profitability using data of 17 conventional, traditional banks in Syria from 2004 to 2011 (Al-Jafari & Alchami, 2014). In this study, bank profitability was measured by ROAA and ROAE, which are both accounting performance measures (Al-Jafari & Alchami, 2014). The study found a positive correlation between inflation rates, bank size, management efficiency, and bank profitability (Al-Jafari & Alchami, 2014). ROAA as proxy for profitability of banks was also used in an Indian banking sector quantitative study conducted by Karam and Pathneja (2016).

A Turkish bank study conducted by Topak and Talu, (2016) to determine factors affecting profitability of 12 commercial banks from 2006 to 2014 found a positive correlation between the ratio of interest from loans to interest on deposits and bank profitability, and a negative correlation between ratio of other operating expenses to total income. The common measures used as proxies for bank profitability in the study were ROA, ROAA, return on ROE, and ROAE. The study used ROA and ROE as the two dependent variables to measure profitability in the quantitative study (Topak & Talu, 2016). Topak and Talu acknowledged that external factors, such as microeconomic and interest rates, also influence profitability of the banking sector.

A European banking sector study conducted by Menicucci and Paolucci (2016) investigated the relationship between bank-specific characteristics and profitability to find the role of internal factors to achieve high profitability. The data used for this study was from the top 35 European banks between 2009 and 2013; researchers found that bank size measured by total assets has a positive correlation to bank profitability (Menicucci & Paolucci, 2016). The study measured bank profitability using the three most commonly used measures, ROE, ROA, and NIM, as the dependent variables (Menicucci & Paolucci, 2016). The ROA focuses on profit earned on total assets and reflects how well bank management uses the bank's investment resources, while NIM measures the profit earned on interest activities and represents the bank's efficiency and how investments are successful (Menicucci & Paolucci, 2016). The five bank-specific independent variables used as internal determinants of performance were total assets, ratio of equity to total assets, loans to total assets, deposits to total assets, and asset quality expressed as ratio of loan loss provision over total loans (Menicucci & Paolucci, 2016). The study found that

total assets is the significant determinant of bank profitability, higher ratio of net loans to total assets does not lead to higher profitability, the impact of deposits on ROE and ROA is positive and significant but insignificant on NIM, and provisions to total loans have a negative correlation to bank profitability (Menicucci & Paolucci, 2016).

Both accounting and equity-based performance measures are of concern to a firm's shareholders; therefore, the use of performance measures as a key outcome of CEO succession is valuable (Cragun et al., 2016). Typically, post-succession firm performance measures include both short-term and long-term profitability, ROA, ROE, cost and revenue efficiency, achievement of goals, growth, and firm value (Cragun et al., 2016).

The first cross-country quantitative study of CEO turnover in the banking industry conducted for the period 2004-2013 by Srivastav, Keasey, Mollah, and Vallascas (2017) was based on a sample of 261 large banks selected from 46 countries. In this study they classified CEO turnovers as either forced or voluntary and measured banks' accounting performance or profitability as ROA minus the mean ROA of the banking sector (Srivastav et al., 2017). The study noted that large banks have a bigger talent pool of executives to replace the existing CEO (Srivastav et al., 2017).

In addition to knowing how to calculate the profitability measures, literature was reviewed to determine the period after CEO succession that profitability should be measured. The performance measurement period reported in some past CEO succession studies ranged from one year to three years (Brockmann, Hoffman, & Dawley, 2006; Cannella & Lubatkin, 1993). Cannella and Lubatkin (1993) argued that successors with less than two years of service would be considered a new CEO. After two years of

service, CEO being new to the bank would have very little, if any, influence on the bank's performance. This two-year performance period would allow enough time to assess the new CEO's performance (Brockmann et al., 2006). Using a performance period of up to two years post-succession is consistent with prior CEO succession studies (Brockmann et al., 2006; Cannella & Lubatkin, 1993; Intintoli et al., 2014). Clayton et al. (2005) discussed that stock volatility effects were long-lived and statistically significant for up to two years after CEO turnover.

Summary

The specific purpose of performing this literature review is threefold: first, to assess literature to provide a theoretical background to support the need for a CEO succession planning process in community banks. The literature review disclosed two main frameworks about CEO succession that form the foundation for the research study; they are the stakeholder theory and management practice of succession planning. Given their importance, the replacement of a CEO is a critical event for any organization because the outcome of successor choice can have a substantial impact on the strategy and success of the organization (Berns & Klarner, 2017; Cragun et al., 2016; Zhang et al., 2016). Over the past five decades, CEO successions have been the topic of several research studies that examined the cause and implications of CEO successions. However, only a few studies focused on the broader succession planning process (Berns & Klarner, 2017). Succession planning is an approach to building a pipeline of leaders from which the organization can draw for important future roles and ensure continued effective performance for the organization in both emergency situations and predictable leadership transitions (Cavanaugh, 2017). The existence of a succession planning process in

community banks is required by FDIC regulators. If a community bank did not have a succession plan, the bank risked criticism from the regulator. Despite being an expected control process, a survey conducted by Anderlik et al. (2015) of FDIC examiners in three supervisory regions indicated that succession planning is a significant challenge for community banks. The survey noted that around 50% of community banks have identified a potential CEO successor, yet over 30% are not well-positioned to recruit from outside the bank (Anderlik et al., 2015).

The second purpose of the literature review was to determine if literature supports that a CEO succession planning process is linked to organizational consequences including financial performance. Review of numerous sources of literature, along with research studies across various industries, support that changes in CEOs are disruptive to organizations and affect subsequent financial performance since they are the most important decision maker and are very knowledgeable about the organization. Cragun et al. (2016) identified nine tertiary components that detail how the secondary factors impact the consequences of CEO succession. There exists very limited literature and research focused on the banking industry about CEO turnover and consequences to the bank, and no literature specific to small community banks and CEO turnover could be located as part of this literature review.

The third purpose of the literature review was to determine how consequence on bank profitability and financial performance after CEO succession should be measured considering this is how stakeholders measure success of change in CEO. The literature supports using the three most common measures of bank profitability: ROE (or ROAE), ROA (or ROAA), and NIM. These measures all consider net income but are broader

measures of overall profitability that can be compared among community banks of various sizes since the measures are ratios instead of dollar measures like net income. It would make sense that a potential covariant in the statistical methodology would also be the level of profitability prior to CEO succession. The literature supports using a two-year measurement period after CEO succession.

Chapter 2 includes a review on the historical literature and research studies supporting CEO succession consequences on an organization and provides guidance on how to measure financial performance of a community bank. The area that the literature seems to be lacking is about the connection between a small community bank CEO succession planning process and consequences to the organization including financial performance.

Chapter 3 provides the detailed methodology used in the qualitative case study to examine the connection between the small community bank CEO succession planning process and consequences at PNW Small Community Bank.

CHAPTER 3: METHODOLOGY

Introduction

The purpose of this qualitative case study was to examine in depth the relationship between the CEO succession planning process and consequences to small community banks by reviewing a single community bank's CEO succession process. This in-depth case study of a single effective CEO succession helps inform community bank boards of directors about desirable succession planning practices that would assist the banks in avoiding negative consequences. CEO succession consequences examined in this case study includes all nine components identified by Cragun et al. (2016). This case study provides a holistic examination of more than the usual financial performance measures. It also includes an examination of the little researched perspective of the new CEO, including how the selection process impacted performance, how the CEO acts differently than expected, how expectations were established for the new CEO, and support provided post-CEO succession (Cragun et al., 2016).

Defining the research question narrowed down the research aim and objective to a specific area of study and guided the choice of methodology, sample selection, data collection instrument, and data analysis technique (Doody & Bailey, 2016). The research questions investigated in this study are related to describing and understanding the various consequences and dimensions of the CEO succession planning process at PNW Small Community Bank. The research questions guiding this case study were:

1. What are the general perceptions regarding effectiveness of the following CEO succession planning processes:

- a. The process for CEO succession planning once turnover was expected but prior to identification of successor CEO?
 - b. The execution of the succession planning process once the successor CEO was identified?
 - c. How the execution of the succession plan affects staff motivation and achievement of organizational goals?
2. What are the consequences of the CEO succession on the following:
- a. Morale and staff motivation?
 - b. Strategic direction of the organization with the new CEO?
 - c. Financial performance consequences?
 - d. Investor or analyst reactions to the new CEO?
 - e. Call report data shown about the financial performance consequences?
 - f. Board changes such as change in members, structure, or compensation after the CEO succession?
 - g. The departing CEO?
 - h. The new CEO after succession?
 - i. Other perceived consequences?
3. What influence or changes did the new CEO background have on the organization?

Chapter 3 includes detailed discussion on the research method and design, instruments used in this research study, participants, and data analysis methods.

Research Method

The design strategy is a qualitative case study with participant interviews, participant questionnaires, and analysis of archival data of a small community bank in the Pacific Northwest that experienced a CEO succession. Existing archival data included call reports, news articles, and internal documentation. In a case study, researchers gather detailed information using a variety of procedures over a sustained period (Creswell & Creswell, 2017). The multiple sources of data include participant interviews, a participant questionnaire, and pieces of archival data to develop an in-depth case narrative with clear boundaries (Creswell, 2018). Case study research has been referred to as a triangulated research strategy that combines two or more perspectives, approaches, or data sources to construct a good explanation of observed phenomena (Cronin, 2014). Interviews are one of the most important sources of evidence in a case study since the responses can suggest explanations of the *how's* and *why's* of key events along with participants' insights (Yin, 2015).

A case study at a program level, such as PNW Small Community Bank CEO succession, included case data such as succession planning process documents, succession planning reports, interviews with stakeholders to uncover details of the succession planning process and succession planning process archival data (Patton, 2015). To gather data on the succession planning process research questions, the researcher first gathered available current and historical documents about the succession planning process. Following the reading of documents, the researcher developed a participant questionnaire and then conducted verbal interviews of available current and past PNW Small Community Bank board members, executives, and staff to get their

descriptions and observations about how the succession planning process worked. This provided different perspectives for a more holistic description of the succession planning process.

In general, the process of constructing a case study starts with assembling the raw case data, then consolidating the raw data into a manageable and accessible file used to write the final case study narrative (Patton, 2015). The case study narrative is a story for sharing about the unit of analysis, such as PNW Small Community Bank's succession planning process, with all the information to understand the case and its uniqueness that is organized chronologically or topically (Patton, 2015).

The case study narrative is analyzed through the detailed descriptions in the narrative and themes of the case (Creswell, 2018). The themes are derived from data that is commonly obtained from participant insights captured in interviews (Yin, 2015). Houghton, Murphy, Shaw, and Casey (2015) published a data analysis framework for nursing research that explained the four stages of case study data analysis: comprehending broad coding, synthesizing coding patterns, theorizing through distilling and ordering coding patterns, and decontextualizing into a coherent set of explanations. All the data gathered about PNW Small Community Bank's succession planning process was gathered into a case study narrative that is then coded for themes and analyzed following a similar data analysis framework.

This case study communicates information to a variety of audiences and community bankers, and therefore goes beyond a typical research report that is descriptive in nature (Yin, 2015). Case study reporting starts with an opening vignette and then focuses on the central features and boundaries of the case (Creswell, 2018). Creswell (2018) and Yin

(2015) both describe the organization of research outcomes, first providing an extensive description of the case (case study narrative), followed by key issues or themes in the case. This case study paper contains an analysis overview with case study narrative in Chapter 4 and discussion of analysis including key themes and implications for the field in Chapter 5 (Frelin, 2015).

Community banks that have experienced a CEO succession provided data that can be analyzed using a single significant case study approach (Patton, 2015). The case study approach has its roots in psychology, law, political science, and medicine (Creswell, 2018). The methodology is familiar to social scientists since it is very popular and used by Freud for psychology and case analysis of medical problems (Creswell, 2018). Examining a succession planning process at a small community bank in depth and over time manifests the important major dimensions of succession planning processes and provides a deep understanding and insights into effectiveness of succession planning (Patton, 2015).

The researcher selected one bank that has had a CEO succession in the Pacific Northwest and performed qualitative single case study interviews with bank stakeholders including staff, senior managers, and members of the board of directors to examine the succession planning process efforts in depth. Then, based on FDIC call report data, the researcher determined whether bank performance was positively or adversely impacted by the CEO transition.

Research Design

Population and Sample

Out of these CEO successions in Pacific Northwest small community banks that occurred more than two years ago, the researcher used a purposeful sampling strategy and selected one case to be the subject of this single significant case study as an exemplar of the phenomenon of interest (Patton, 2015). The purpose of selecting a single case that is accessible for intense study is to manifest the important major dimensions of a planned CEO succession and its impacts (Patton, 2015).

The most common asset size cutoff for small banks is \$1 billion (Amel & Prager, 2016). The population is operationally defined as FDIC-regulated community banks with less than \$1 billion in assets headquartered in the Pacific Northwest (Washington, Oregon, and Idaho). There are 59 banks meeting these criteria as of June 30, 2018 as reported by FDIC (2018). The bank selected had a CEO succession that occurred at least two years ago and was used to perform a qualitative single case study that gathered data from bank stakeholders including staff, senior managers, and members of the board of directors, to examine the succession planning process and consequences in depth. This single significant case study used a purposeful sampling strategy by selecting a single case that would be an exemplar of the phenomenon of interest (Patton, 2015).

Data Collection

The three primary sources of data collection are participant questionnaires, participant interviews, and archival data. Data collected in this case study included different perspectives obtained from verbal interviews with participant stakeholders, administering a participant questionnaire, and examination of archival data including call

reports and news articles. The interview sample was purposefully selected from 10 to 15 internal bank stakeholders including staff, management, and members of the board of directors, along with three to five external stakeholders who were familiar with the bank during the CEO succession. The stakeholder participants included 19 internal bank stakeholders including senior management, members of the board of directors, and four external stakeholders who were familiar with the bank during the CEO succession.

Data was also supposed to include at least 15 pieces of archival data including call report data and news articles from the local media. The data collected included 23 pieces of archival data. The archival data included the succession plan policy, the executive team succession matrix, three local media articles, 16 quarters of call report and stock data, and participant biographies from two different websites.

Table 2 summarizes sources and units of data obtained during research.

Table 2. *Summary of Research Data Sources*

Data Sources	Units of Data Obtained	Planned Ranges of Data Units	Planned Minimum Data Points
Internal Interviews	19	10-15	10
External Interviews	4	3-5	3
Archival Data	23	15	12
Total Data Units	46	28-35	25

The number of interviewees, artifacts, practices, policies, or actions in a case study should fall in the range of 25-50 units or items examined, and the number depends on the complexity of the study topic and the depth of data collection (Yin, 2015). The number of interviewees, artifacts, practices, policies, or actions examined in this case study fell in this recommended range. This resulted in a sample size within a single case of 25-50 data sources also discussed by Gentles, Charles, Ploeg, and McKibbon (2015) regarding sampling in qualitative research.

If the planned minimum data points from each data source were not obtained, then the contingency plan was to gather research data from a second small community bank. However, minimum data points were obtained.

Instruments

Participant Questionnaires

The participant questionnaire was provided to 17 participants, which included bank board members and employees, but excluded the new and departing CEOs. Sixteen out of 17 (over 94%) of the participant questionnaires were completed. The questionnaire contained Likert-scale items with response options ranging from 1 (very strongly disagree) to 7 (very strongly agree) to allow for wider differentiation in responses (Willits, Theodori, & Luloff, 2016) and to ascertain the degree to which CEO succession planning influences consequences including bank performance as described in the research questions. See Appendix A for questionnaire questions. The questionnaires' data was consolidated to determine overall perceptions of the consequences and effectiveness of the CEO succession process. Independent Review Board (IRB) of City University in Seattle approval was obtained before data in this case study was collected. The IRB approval letter is provided in Appendix C.

Participant Interviews

A verbal interview of each participant using semi-structured questions was conducted (Patton, 2015). See Appendix B for planned interview questions. The verbal interview questions guided the conversation to pursue a consistent line of inquiry rather than a structured inquiry (Yin, 2015). The actual questions in the case study interview were fluid rather than rigid in order to be semi-structured and result in more in-depth

discussion (Yin, 2015) to form each participant's perspective. This resulted in a line of inquiry to uncover the *why* and *how* (Yin, 2015) the CEO succession process was effective or ineffective and the various consequences that resulted. The interviews were focused on the line of inquiry, and each interview was approximately 30 minutes to one hour in length, open-ended but assumed a conversational manner (Yin, 2015). IRB approval was obtained before data in this case study was collected, and the approval letter is provided in Appendix C.

Participants

The interview participants were purposefully selected from 20 internal bank stakeholders including senior management and the board of directors and five external stakeholders who were familiar with the bank during the CEO succession. Participants are referred to in the data collected and this research study by perspective when the new CEO was appointed such as outgoing CEO (CEO1), incoming CEO (CEO2), external stakeholder (Ext1, Ext2, etc.), board of director (BOD1, BOD2, etc.), or internal management or staff (Mgmt1, Mgmt2, etc.). Data collection also included pieces of archival data including call report data and news articles from the local media.

To maintain confidentiality and anonymity of PNW Small Community Bank, an employee listing with hire date was obtained from the CEO, and board members' length on the board was obtained from the bank website. Contact information was obtained from the CEO or the chair of the board. A listing of industry and community members knowledgeable about the CEO succession were obtained from the President and CEO of the Washington Bankers Association. These listings were used to identify and recruit participants for the case study. To recruit, the potential participants were contacted

directly by the researcher through email, phone, or text message. After the participants signed the informed consent form, they were considered recruited and part of the case study, and interviews were scheduled at a mutually agreed on time and location and took place either face-to-face or over the telephone.

While face-to-face interviews are preferred, telephone interviewing reduces emotional distress by the interviewee due to comfort with virtual communication. It also increases convenience when interviewee and interviewer are in geographically diverse locations and takes less time to schedule (Mealer & Jones, 2014). To maintain privacy, interviewees were asked in separate introductory telephone calls or emails to schedule the interview at a time when they would not be disturbed in an environment where they were comfortable (Mealer & Jones, 2014).

These verbal interviews of participants were recorded and conducted in March 2019 either face-to-face or over the phone depending on schedule availability. Permission was given by each participant to record the interviews. The recorded interviews were transcribed, and the transcriptions were provided to the participants to review for accuracy and clarification. The interview questions are in Appendix B. Once the interviews were recorded, transcribed, and checked for accuracy, themes were determined from the data collected. Total completed interviews transcribed in conducting this research were a little less than 24 hours. The recorded and transcribed interviews were then coded. To maintain confidentiality, the bank will be referred to in written documents as PNW Bank. The content of the interview questions supported the research questions to assess potential outcomes and to provide a holistic view of PNW Small

Community Bank CEO succession. Organizational permission was obtained from the current CEO to conduct interviews at PNW Small Community Bank.

Informed Consent

The informed consent form included a section describing participation in the study and confidentiality. Each interviewee was provided the option to withdraw from participation if desired (Christensen, 2015). To maintain mutual trust, raw materials, such as recordings and transcriptions, were secured, and references to interviewees were made using their relationship to PNW Small Community Bank and were not named in the research report (Christensen, 2015). All non-electronic data were stored in a locked box or file cabinet in a private residence and will be destroyed by shredding after three years. All electronic data was kept on a private, password-protected, encrypted external hard drive in a private residence and destroyed after three years.

The CEO reviewed and signed an organizational consent form, allowing access to PNW Small Community Bank specifically for research-related purposes. A letter of consent explaining the study was sent to each potential participant. Participants signed the consent form with the acknowledgement that their participation was voluntary. The consent forms also included a statement of confidentiality, a tape-recording clause, and a description of how information obtained in the study was to be stored and published in this dissertation anonymously. Participants received a copy of the signed consent form to retain for their personal records.

Confidentiality

Participants were assured that all comments would be kept confidential, and each participant was assigned a title with a numerical code rather than using their name. The

interview questions were transcribed to electronic Word documents as well as recorded, and then secured with other research materials on the private, password-protected, and encrypted external hard drive.

Data Analysis Methods

The data obtained from participant questionnaires, participant interviews, and archival data were analyzed for patterns and insights (Yin, 2015) to uncover a detailed description of the CEO succession process and to identify consequences of the process. This was done using a pattern matching analytic technique to give a sense of direction in analyzing the data (Yin, 2015). This case study is explanatory in nature to uncover the *how's* and *why's* the CEO succession planning led to the consequences achieved; therefore, it focused on the processes and outcomes (Yin, 2015).

Coding was used to examine data gathered about the succession planning process and consequences to provide good data on how the CEO succession process was implemented and impacted the organization including financial performance after new CEO assumed leadership. The coded data was used to uncover themes. The original coding was organized by the nine tertiary components identified by Cragun et al. (2016) to uncover major themes. Transcripts were coded further around the uncovered major themes. Major themes are described in the Chapter 4.

Trustworthiness

In the case study data obtained from participant questionnaires and interviews, pieces of archival data, including FDIC call report data on financial performance, along with researcher observations and notes in the research process, were triangulated to determine if the CEO succession had a positive or adverse impact on the bank subject.

Data triangulation increased research data validity and credibility. Researchers should use data from multiple sources to capture the complexity and entirety of the case under study (Yazan, 2015). In addition to data triangulation, in this case study, interview transcripts were provided to participants for validation and an audit trail of data, decisions, and assumptions were maintained by coding interview transcripts and linking coding to research assumptions and conclusions. To achieve auditability and increase consistency, the researcher provided transparent and clear descriptions of the research process and maintained a research diary as recommended by Noble and Smith (2015).

Triangulation

Triangulation supports the credibility and validity of the study. Due to the size and design type of the study, triangulation provides a consistent measure of interviews (Yin, 2015). Triangulation increases the accuracy and findings of the qualitative information by comparing multiple sources of data to identify corroborating evidence (Vogt, 2011). The data collected from the three primary sources (participant questionnaires, participant interviews, and archival data) were triangulated to ensure a holistic view of the succession planning process and identification of the consequences. Results of the triangulation of data were organized and reported by the nine tertiary components identified by Cragun et al. (2016).

Limitations

There are several limitations in conducting case study research. Traditionally, the greatest limitation is that case study research is difficult, and systematic procedures do not exist for the researcher to follow (Yin, 2015). To mitigate this limitation, the researcher must clarify and develop techniques or methodology that are used in

conducting the research. This chapter provided the detailed methodology that was used in the qualitative case study.

A common concern about case study research is the inability to generalize from a single case study (Yin, 2015). One limitation is that the data collected from a single organization will not be generalizable to other small community banks. Patton (2015) discussed how case studies have the problem of being localized but can be generalized more confidently using the strategy of breaking down the findings into component parts and processes to identify the essential elements. The themes in this case study were organized by the nine tertiary components identified by Cragun et al. (2016) to uncover and describe in the final report how the secondary factors impact the consequences of CEO succession. Organizing the data by the nine components resulted in more confident generalizability and uncovering usable findings that can be used for other small community banks and small organizations to guide an effective CEO succession planning process.

Researchers make many judgment calls when conducting case study data collection but must minimize bias (Yin, 2015). Bias can occur when the researcher loses perspective as an outsider in examining the case. The researcher needs to be transparent and explicit about limiting or eliminating one's own biases (Yin, 2015). Yin (2015) recommended reporting preliminary findings, while still in the data collection phase, to colleagues who can offer alternative explanations and suggestions about the data collected. Including any contrary findings in the case study can reduce the likelihood of researcher bias (Yin, 2015).

In addition, participant bias can distort the data collected in the research process. A limitation is that interviews with executives and board members could be impacted by their personal egos and as a result provide biased responses to the questions. Another limitation is fear that interview responses from current PNW Community Bank employees could impact their current employment and thus, influence their responses to the questions. It is difficult for some to honestly discuss consequences to the bank after the CEO succession. Due to this bias, anonymity of individuals interviewed to conduct the research for the case study is critical. Participants may also have errors in their memory about the succession planning process that can lead to errors in findings. Including the memories of several participants can mitigate this limitation by filling in the gaps of a single person's memory and by including the events from more than one perspective. Triangulation of the data collected can also mitigate these errors in participant memories.

Summary

Chapter 3 provided the detailed methodology that was used in the qualitative case study to examine the connection between the CEO succession planning process and consequences at PNW Small Community Bank. Chapter 4 provides the analysis of the case study data collected using this methodology.

CHAPTER 4: FINDINGS

Introduction

Chapter 4 describes the research findings, beginning with a recap of the research questions that guided the case study, followed by a review of the methodology, an overview of the description, and the presentation of the findings. The findings are organized by Cragun et al.'s (2016) nine tertiary components that detail how the secondary factors impact the consequences of CEO succession. Table 1 summarizes these nine components. The chapter is concluded with a summary of the major findings and an overall chapter summary.

Research Questions

As stated in the scope of the problem statement in Chapter 1, the research questions in this study were narrowly focused on CEO succession planning in small community banks. The specific problem examined in this study is that too many small community banks are facing CEO attrition without effective and well-informed plans for succession. This case study takes an effective CEO succession example at one small community bank referred to as PNW (Pacific Northwest) Small Community Bank and offers it as a source of information for the succession planning process. The research questions investigated in this study are related to describing and understanding the various consequences and dimensions of the CEO succession planning process at PNW Small Community Bank. The research questions guiding this case study were:

1. What are the general perceptions regarding effectiveness of the following CEO succession planning processes:

- a. The process for CEO succession planning once turnover was expected but prior to identification of successor CEO?
 - b. The execution of the succession planning process once the successor CEO was identified?
 - c. How the execution of the succession plan affects staff motivation and achievement of organizational goals?
2. What are the consequences of the CEO succession on the following:
- a. Morale and staff motivation?
 - b. Strategic direction of the organization with the new CEO?
 - c. Financial performance consequences?
 - d. Investor or analyst reactions to the new CEO?
 - e. Call report data shown about the financial performance consequences?
 - f. Board changes such as change in members, structure, or compensation after the CEO succession?
 - g. The departing CEO?
 - h. The new CEO after succession?
 - i. Other perceived consequences?
3. What influence or changes did the new CEO background have on the organization?

Methodology

This was a single case qualitative study that explored the CEO succession planning process at a Pacific Northwest small community bank. The sample consisted of

16 completed questionnaires from bank employees and members of the board of directors, individual interviews with 17 employees (current and retired), an interview with the new CEO, an interview with the departing CEO (current chair of the board), a group interview with five of ten remaining members of the board, and individual interviews with four external participants in the banking industry who were familiar with the CEO succession. Employee participants were purposefully selected from the population of approximately 180 employees who were at the bank during the time of the CEO succession and included one retired employee who was also a CEO succession candidate. Other research data was collected to corroborate data from the interviews and questionnaires. Archival data sources obtained included a succession plan policy, an executive team succession matrix, three local press articles, 16 quarters of call report and stock data, and participant biographies from two different websites. A manual thematic analysis of the interview transcripts was performed.

In the case study data obtained from participant questionnaires and interviews, pieces of archival data, including FDIC call report data on financial performance, along with researcher observations and notes in the research process, were triangulated to determine if the CEO succession had a positive or adverse impact on the bank subject. Data triangulation increased research data validity and credibility. Researchers should use data from multiple sources to capture the complexity and entirety of the case under study (Yazan, 2015). In addition to data triangulation, in this case study, interview transcripts and, in some cases, drafts of chapter 4, were provided to selected participants for validation. An audit trail of data, assumptions, and quotes were maintained by coding interview transcripts using QDA Miner 5.0, a qualitative data analysis software, and

linking codes to research assumptions and conclusions to determine major themes. Appendix D has the QDA Miner codebook report that has final codes, including codes for Cragun et al.'s (2016) succession consequences nine components, organized by major theme. To achieve auditability and increase consistency, the researcher provided transparent and clear descriptions of the research process and maintained a research journal as recommended by Noble and Smith (2015).

The triangulated data from all sources are reported in this chapter in narrative and tabular formats organized by theme. Themes were established based on the triangulation of the data from multiple sources, perspectives from multiple participants, and the multiple analyses. A detailed description of the data collection and the analysis performed were provided in Chapter 3.

Presentation of Findings

The case study was organized according to the four themes that emerged from coding and thematic analysis from the triangulation of the interview transcripts, questionnaire results, and archival data. The themes identified were: (a) the initial vision of candidate, (b) intentional communication during transition, (c) cultural fit of successor, and (d) trusting relationships.

The themes are presented in order of the CEO succession consequences nine components identified by Cragun et al. (2016): succession process, change with arrival of new CEO, post-succession firm performance, post-succession environment context, stock and bond price reaction, analyst coverage, post succession board, impact on new CEO, and impact on departing CEO. This order of presentation is to document the holistic rigor of the case study in presenting the various perspectives and consequences of a CEO

succession. Corroborating data and perspectives from triangulation are woven in throughout the chapter. The four major findings are summarized at the end of Chapter 4 and discussed in Chapter 5.

This study included exploration of the participant perspectives and employees and board members telling the story of the bank and CEO succession under pseudonyms that were assigned to all participants and are used throughout the remainder of the study. A few pertinent quotes are attributed by succession planning process perspective when the new CEO was appointed, such as outgoing CEO (CEO1), incoming CEO (CEO2), external participant, board of director (director), or employees, both current and retired, including management and staff (internal participant). All financial performance and pricing data used throughout the remainder of the study is as of a quarter end and identified by number of quarters before or after the effective date of the CEO succession. As discussed in Chapter 2, the literature supports using a two-year measurement period after CEO succession. Therefore, two years after succession is referred to as +8Q, and two years before succession is referred to as -8Q. This is to protect the identity of the small community bank by keeping the date of CEO succession confidential.

Participant Questionnaire Results

The questionnaire is in Appendix A, and the question numbers correspond to Table 3. The questionnaire contained Likert-scale items with response options ranging from 1 (very strongly disagree) to 7 (very strongly agree) to allow for wider differentiation in responses (Willits, Theodori, & Luloff, 2016). The questions were designed to ascertain the degree to which CEO succession planning influences consequences, including bank performance as described in the research questions. The

questionnaires were administered by providing a link in an invitation email to directors and internal participants at the bank. The link automatically directed those who chose to participate to the questionnaire located on SurveyMonkey to log responses to each question. Sixteen participants responded to the survey from the 17 invitation emails. Since responses were confidential, it is unknown if the participant who chose not to respond to the questionnaire was an internal participant or director.

Table 3 has the number of responses by Likert-scale options of the questionnaires that were completed by the 16 participants representing bank employees and directors, excluding the new and departing CEOs. The response options were N/A (not applicable), 7 (very strongly agree), 6 (strongly agree), 5 (agree), 4 (undecided), 3 (disagree), 2 (strongly disagree), and 1 (very strongly disagree).

The results are discussed with related theme in this chapter to validate findings.

Table 3. *Participant Questionnaire Results*

Question Number	Related Component	N/A	7	6	5	4	3	2	1
Q1	Comp. 1		7	4	5				
Q2	Comp. 1		6	5	5				
Q3	Comp. 1		4	6	5	1			
Q4	Comp. 1		11	3	2				
Q5	Comp. 1		11	3	1	1			
Q6	Comp. 2		2	7	5	1	1		
Q7	Comp. 2		4	4	8				
Q8	Comp. 2	1	7	5	3				
Q9	Comp. 5	2	3	5	5	1			
Q10	Comp. 7	1	3	5	5	1	1		
Q11	Comp. 8		6	6	3	1			
Q12	Comp. 8		7	5	2	2			
Q13	Comp. 1		8	2	4	2			
Q14	Comp. 1		8	4	3	1			
Q15	Comp. 9		9	3	3		1		

Theme 1: Initial Vision of Candidate

The first of Cragun et al.'s (2016) tertiary component is the succession process. A review of the process for selecting the successor candidates is provided to establish context for the CEO succession planning process undertaken at the small community bank in this case study. The review will start with the CEO's decision to retire and establishing a vision for the CEO replacement by narrowing down the candidates qualified to take the CEO's place.

Establishing Vision for Candidates

The outgoing CEO planned to retire and worked at what the succession planning process would look like for about three years. CEO retirement being a planned event is consistent with interview responses from all 23 interviews conducted (see Table 3). The candidate selection process seemed to last about one year based on interview responses from the outgoing CEO and the directors. Board minutes indicated the intent to retire was discussed at board meetings at least one year in advance.

The outgoing CEO knew it was time to retire when another industry organization "needed my leadership more than the bank did" while simultaneously serving as CEO. Capacity existed to focus on the other organization while serving as CEO since the remaining executive leadership focused on running the bank. The outgoing CEO started the formal process of trying to identify candidates at least one year before his planned retirement date. The successor candidate desired by the outgoing CEO had to be someone trustworthy, who would embrace the existing culture, had more energy than the outgoing CEO, was dedicated to family, had a longer-term vision (10 years), and who could attract a following to "take the company to the next level." The outgoing CEO performed a gap

analysis that included the questions, “What are my strengths and weaknesses? Where is the organization now, and what are its strengths and weaknesses? What do we need to accomplish in this organization going forward?” This list became the vision for the future CEO of the bank. This vision reflected the planned and deliberate overall approach to the succession planning process described by several internal and external participants interviewed.

Weaknesses of the outgoing CEO desired in candidates were financial management and audit. Strength of the outgoing CEO was business development; therefore, a new executive team member was brought into the bank prior to starting the succession planning process who was strong in business development and marketing to fill the gap after the CEO left the bank. Therefore, financial management skills and experience were emphasized in the vision of the future CEO.

Successor Selection Process

Once the vision for the future CEO of the bank was determined by the outgoing CEO, five board members were hand-selected to be on a board search committee. The outgoing CEO chaired the search committee and established clear timelines for the candidate search. The directors selected to be on the search committee were those who had not only been on the board for a while but represented diverse opinions that were respected by the outgoing CEO. An outside search firm was not used for the CEO selection process.

The outgoing CEO described the first search committee meeting:

At the first meeting I recommended to the committee that we have a one-year time line for the transition. And that we keep it secret as much as possible that I

was going to retire. And that we don't advertise, and even when we decided to let the word out that I was doing a transition, we weren't going to market the position, advertise, or take applications from these people that deliver employment applications all over the world.

Internal executive-level participants and external participants were aware during interviews of the clear timeline of the search committee and desired a vision for selecting the new CEO. Internal participants below the executive level were not aware and perceived the process to be secretive. This created some anxiety in the organization as described by these participants.

The outgoing CEO went to every convention in the Pacific Northwest and throughout the United States to get to know all the community bankers and to develop a list of 19 potential candidates who had a trustworthy reputation and who impressed the outgoing CEO. During this time, the chair of the board decided to retire, so part of the outgoing CEO transition plan became to transition to the chair of the board role. The outgoing CEO had dual roles as chair of the board for about 10 months.

The board search committee asked the outgoing CEO to narrow down the 19 potential candidates that also included three internal candidates to the top five candidates for the committee to interview. The search committee then had some additional questions, so the CEO again interviewed the five top candidates to narrow them down to three candidates that were interviewed again by the search committee. The new CEO was selected from these three candidates. The new CEO was informed by the outgoing CEO that the board decision was unanimous. The board members interviewed confirmed that this was the case.

The description of the CEO selection process was very consistent with data gathered in the group interview with five of ten remaining directors who also served on the search committee. The directors noted that even though recruiting and advertising were not wide spread, the bank did post the position with two different state banking trade associations in the PNW to search for potential candidates. About the three internal candidates, the search committee was concerned about consequences if one executive team member was selected over the other internal candidates. Since an external candidate was selected the search committee did not have to deal with this concern.

The entire selection process took about one year. The internal executives, directors, and external participants all felt as if the time was about one year. Internal participants below the executive level felt as if the selection process was very quick and perceived it to be three to six months. This perceived period reflects the confidential nature of the search for a successor. One internal executive interviewed was also a potential candidate and perceived the time to be way too long and disruptive to the organization due to uncertainty created. This seemed to be an isolated perspective in the research data.

External Perspective on CEO Selection Process

One external participant noted that,

In this particular case they entrusted the decision, it seemed to me, to be led by the current CEO, which is not always the case. A lot of times it's very much driven by the board if they don't have an internal candidate lined up.

Two external participants noted that the outgoing CEO is typically not the person to select their own replacement. By allowing the outgoing CEO to run the selection process,

“It also tells me that they weren't really looking to change things up that much because if you're going to have a CEO have a big hand in picking their successor.” The board did not desire a change in strategic direction, such as a merger to no longer be an independent bank, therefore the selection process made sense to external participants. Some small community banks may seek change in strategic direction through consolidation and no longer remain an independent bank. The change in CEO is an opportunity to consolidate and not go through change in leadership that can be disruptive to an organization. As noted by CEO2:

Nothing wrong with the sales process, it's fine, but I don't believe in that. I don't believe that consolidation serves the employees. I don't believe it serves the communities. It doesn't serve the customers, but it's great for the shareholders. They get a one-time cash out, I think it's typically in a community bank, they're still selling themselves short. They're selling their income stream.

The new CEO philosophy on consolidation and remaining an independent bank were in alignment with the board of directors' and the outgoing CEO's vision for the bank.

One external participant noted that “the most successful succession plans that I've seen unfold typically, brought an individual in, worked with the bank president or the current CEO for a year and transitioned that way.” While the CEO in this case study transitioned over a short period of time, the fact that the outgoing CEO transitioned into the chair of the board role has allowed the two to work together for much longer than one year.

External participants unanimously perceived the CEO selection process to be a success and the transition to be a very smooth process. One participant noted, “A smooth

transition and stability is very good for those communities.” One external participant commented that many small community banks are forced to bring in someone from outside the community to be the successor due to lack of experience of existing executive team members and talent in the bank’s market area. Due to this, many selection processes at small community banks take up to 18 months to find an appropriate successor.

Effectiveness of Selection Process

All participants interviewed considered the selection process very effective and a positive experience for the bank. This is consistent with questionnaire responses with all responses in agreement that the process to identify a qualified successor candidate was an effective process (Q1 in Table 3). In addition, the participant questionnaire responses indicated, with all but two responses, agreement that the CEO succession process was positive and successful for the bank (Q13 in Table 3). The two responses were undecided.

The selection process was led by the departing CEO with a selection committee of the board of directors. This is consistent with questionnaire responses indicating all responses in agreement that once qualified candidates were identified, the board of directors conducted an evaluation process to make selection (Q2 in Table 3).

Participant interviews did not disclose any concerns about the qualifications and abilities of the candidate selected to lead the bank as the new CEO. The skills and experience selected was considered equal to the departing CEO with some additional skills in financial management that were expected to take the bank to the next level. This is consistent with participant questionnaire responses indicating all responses in agreement that the background of the selected candidate adequately prepared them to take on the CEO role at the bank (Q4 in Table 3). The participant questionnaire responses

further indicated, with all but one response in agreement, that the personality of the selected candidate seemed like a good fit for the CEO role and a positive influence on the organization (Q5 and Q14 in Table 3). The one response was undecided for both questions. In addition, the participant questionnaire responses indicated with all but one response in agreement that they used a well-thought out hiring and onboarding process for the new CEO (Q3 in Table 3). The one response was undecided.

Candidate Vision

The directors noted that their vision was a CEO very similar to the outgoing CEO but that the new CEO brought some additional skills and capabilities to take the bank to a new level. One director noted, the final candidate selection decision was based on recommendation from the outgoing CEO the new CEO selected was an external candidate who possessed the financial management and audit experience that were identified weaknesses in the existing executive leadership. The new CEO had experience as the CEO of a smaller, privately-held community bank in another state.

It is important to establish an upfront vision of desired characteristics and skills of a new CEO to search for a candidate who is the right fit for the strategic direction of the bank. For the right fit, consider culture (existing or desired), strengths, and the strategic plan (status quo or strategic changes). In small community banks, the strategic considerations are very important to consider first. Does the bank desire to not make changes and remain independent, change strategic direction, or seek consolidation with another bank? The answer to this question determines the skills needed to take the bank in the correct direction. It would also determine how much involvement the board wants the departing CEO to be part of the selection process. In the case examined, the departing

CEO involvement indicated that the bank was not looking to change strategically or culturally.

Assessing the strengths and weaknesses of other leadership in the bank will help identify skills and experiences needed in candidates to complement existing strengths. Prior banking executive management experience is required since banks are complex institutions that require specialized skills due to differences between banks and nonfinancial firms including level of regulation bank capital structure and complexity of business. Being small and thinly staffed, there is not the depth to compensate in existing leadership for lack of industry-specific skills in the CEO role.

Theme 2: Intentional Communication During Transition

The second of Cragun et al.'s (2016) tertiary component is the change with the arrival of the new CEO or transition from the departing CEO to the new CEO. New CEO changes or consequences discussed by Cragun et al. (2016) included strategic reorientation, executive and general turnover, climate, accounting, divestures, discontinued operations, internationalization, investment allocation, speed of changes, and resource allocation. Communication of changes expected during leadership transition is an important component of succession planning to avoid unintended consequences. A review of the transition communication processes and immediate changes is provided to extend the context for the CEO succession planning processes undertaken at the small community bank in this case study. The review will start with the announcement of the selected CEO and then discuss immediate changes at transition.

Transition Announcement

A local newspaper announced the outgoing CEO's retirement and introduced the new CEO about three months before the effective date of the transition. The article noted that the board of directors performed an extensive search process by interviewing 19 candidates before deciding. This article was consistent with the succession selection process described. Internal executive and director participants interviewed were consistent in the number of candidates considered in the selection process. Bank staff below executive level were not aware of how many candidates were considered or whether the candidates were extensively interviewed or not.

Transition Communication Plan

Regarding transition plan, the new CEO informed one board member,

My plan is three things, people, people, and people. Build the relationships with the people inside the institution and help them understand I'm not there to change what has been an incredible institution. I'm going to just continue...I can't even say make it better because it has this stellar reputation and this stellar performance of never losing money.

The departing CEO and the new CEO together visited every department, every branch, key customers, and larger shareholders in the first 30 to 60 days after transition effective date. This was referred to by several participants interviewed as the "Road Tour" that allowed for a warm introduction and illustrated own trust in the new CEO. Internal participants noted a high level of trust with the departing CEO who, in turn, instilled trust between them and the new CEO. One intent of the "Road Tour" was for the new CEO to meet everyone at the bank to reduce anxiety about the transition. Soon after

the effective date, the new CEO presented economic conditions to the community at an event. One participant mentioned that the new CEO was a good communicator and made people feel important, including the ability to make every customer feel important no matter how small.

Additionally, the new CEO started to interact immediately with those in the bank and community on a personal level outside of work at casual functions and community events with extended family. Interviewed participants noted that the new CEO was immediately very engaged and visibly involved in the local community despite relocating from another state. The new CEO had worked hard to build relationships inside and outside the bank. Strategically, the new CEO and family would not say no to any invitations received for the first year after transition. One participant said, “So every invitation, a nonprofit event, a dinner, or those types of things, were accepted” to describe this intentional strategy. This strategy resulted in visible involvement and helped reduce anxiety with employees, customers, and the community. The new CEO not only transitioned the organizational leadership but embedded himself or herself as a participant in the community even though he or she relocated from another state.

Immediate Changes

All the participants interviewed, outside the new CEO, did not notice any immediate impact. One participant described the new CEO’s first year as observing the organization and culture. Three internal participants and the new CEO stated a variation of the cliché, “If it ain’t broke, don’t fix it” in describing the approach to leadership transition at the bank.

The one immediate change made by the new CEO was to the dress code policy at the bank. A change in dress code was requested by the existing staff to be more casual and not require suits and ties. The new CEO discussed the dress code with another senior manager who announced this change at the administrative office branch location. This ended up being a huge morale booster at the location. Most of the other branches followed the change to the casual dress code that was at each branch or location but reflected the dress of the communities and customers the bank served. During onsite fieldwork, the researcher observed few (employees and customers) in the bank location wearing a suit, and no one was wearing a tie.

An expected, an immediate impact that did not occur was the departure of some of the executive leadership team. The entire executive team supported the transition and the new CEO, including some potential candidates who interviewed for the position. One board member commented that “they stayed and supported [new CEO] for a period of time.” There were a couple of executive management team members who retired after the transition to the new CEO, but they were planned retirements and occurred over three years after CEO succession effective date.

Intentional Transition Communication

An intentional communication plan to reduce anxiety was the “Road Tour” where the departing CEO and the new CEO visited every department, every branch, key customers, and larger shareholders together in the first 30 to 60 days after the transition effective date. During the internal portions of the “Road Tour,” the new CEO set clear expectations about not changing anything about the culture or strategic plan, and that it would remain an independent bank. In addition, the new CEO intentionally worked hard

to build relationships inside and outside the bank. Strategically, the new CEO did not decline any invitations received during the first year of transition. This strategy resulted in visible involvement and helped reduce anxiety with employees, customers, and the community. The new CEO not only transitioned the organizational leadership but embedded himself or herself as a participant in the community even though he or she relocated from another state.

Theme 3: Successor is Cultural Fit

The third, fourth, fifth, and sixth of Cragun et al.'s (2016) tertiary components can be summarized together as short-term changes and reactions to the new CEO. The types of short-term consequences include post-succession firm performance, environmental context, stock and bond price reaction, and analyst coverage. When the successor is the right cultural fit for the organization, these short-term changes and reactions are in alignment with the strategic vision of the board of directors. A review of the short-term changes and reactions are provided to extend the context for the CEO succession planning processes undertaken at the small community bank in this case study. The review will start with CEO initial intent on changes and impacts on culture, and then discuss short-term changes since the effective date of transition.

Impact on Culture, Morale, and Motivation

The new CEO's intention was to not make any significant changes; specifically, the new CEO did not want the appearance of touching the existing culture. The new CEO stated,

I tried to spend all my time trying to demonstrate to the people that were here that the culture was safe. The two things that I reinforced all the time was the culture

and my commitment to independence because I know that that was top of mind for the people that were here.

If the bank did not remain independent, that would mean consolidation into a larger financial institution.

Participants' answers regarding whether the new CEO had positively impacted the morale and staff motivation at the bank was generally positive with all but two responses in agreement (Q6 in Table 3). One response was undecided, and the other disagreed with the statement. The responses to this question were the least positive of all the questions on the questionnaire with only two participants strongly agreeing with the statement. One internal participant described the morale as,

Different. There's still uncertainty. We probably need to do a better job of defining our vision and communicating that vision. Although, I don't think they're confident in the management team as they used to be 'cause they knew them real well. They're still getting to know them.

General Short-Term Changes

The various changes since the new CEO succession included revisions to financial investments held, increased investment in new technology, slight product changes, restructuring front office staff, and a few additional staff in the back-office support. Prior to the new CEO, the organization was very lean and in need of some additional staff support. Slight product changes mentioned by participants included fractional pricing on loans and how rate bumps and waivers of fees were managed. Watching rate bumps and waivers resulted in improved cost of funds. The new CEO is perceived as more accepting of technology changes to be more competitive and to

increase efficiency, including improvement in the mobile banking platform and biometric identification.

One perceived change identified in the interviews was how decision making is conducted at the executive team level. The new CEO likes to build consensus, whereas the outgoing CEO forced consensus. Under the outgoing CEO leadership, those outside the executive team thought that when everyone left the room, they had the same mindset on a decision. Under the new CEO, everyone is not sure all the executives agree on a decision and may not be leading in the same direction on some bank goals. One participant described the current executive team as going in different directions and “rudderless.” Executive teams direct the strategy of an organization; therefore, the decisions of these teams significantly influence the organization performance and should be communicated at the right tone to those below the executive team (Garg, 2017). This seems to be an unintended consequence of the CEO transition and different management styles between the departing and new CEOs.

There have been no changes in the credit culture that was designed by and still heavily influenced by the outgoing CEO. The new CEO commented that “I wouldn't touch that with a ten-foot pole.” One external participant noted that with the new CEO “changes have been very incremental, but certainly from my point of view very positive.”

The changes the new CEO made were generally perceived as very positive based on both internal and external participants interviewed. This is consistent with all participant questionnaire responses indicating agreement that the new CEO has positively impacted the strategic direction at the bank (Q7 in Table 3).

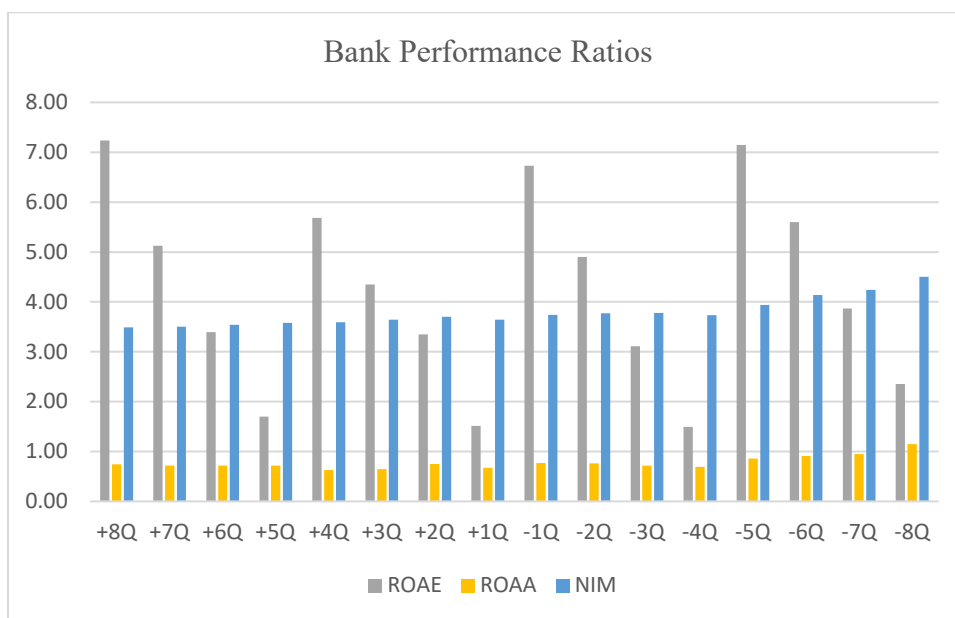
Post Succession Firm Performance

The above noted changes to the financial investment portfolio are perceived to have resulted in improved financial performance. Months after taking office the new CEO worked with the chief financial officer (CFO) and the board to look at managing the investment portfolio differently for better financial performance while managing duration to not take on too much additional risk. They achieved this using a laddering of investments into instruments with more risk than the traditional low risk Fed Funds. The CFO was surprised by the new CEO's ability to get the investment portfolio change approved by the board. This restructuring of investments and increased profitability were noted by nearly all the internal participants (employees and board members). The participant questionnaire responses indicated that all but one agreed that the new CEO had positively impacted the financial performance at the bank (Q8 in Table 3). The one response was not applicable.

To evaluate firm performance, call report data from the Federal Financial Institutions Examination Council (n.d.) Uniform Bank Performance Reports was obtained. Data obtained or calculated on bank performance data were ROAE, ROAA, and NIM. Bank performance measures were discussed in Chapter 2 as appropriate performance measures to consider post-CEO succession. From the call report data, ROAE was calculated by taking the net income for the period and dividing it by average bank capital (or equity). ROAA was listed in the call report data as net income as a percent of average assets, and NIM was listed in the call report data as net interest income to average earning assets. Table 4 compares these three performance ratios from two years after succession to two years prior to succession. The two-year period post-

CEO transition was supported as appropriate in the literature review in Chapter 2. Review of the chart does not disclose any significant consequences or changes in the ratios as a result of the CEO succession.

Table 4. *Quarterly Bank Performance Ratios*



Note. Performance ratios obtained or calculated from the Federal Financial Institutions Examination Council's (n.d.) call report data.

Post Succession Environment Context

During participant interviews, there was no mention of consideration of successor candidates not experienced in the banking industry. There were concerns expressed by internal and external participants about potential successors from outside the communities served by the bank. The candidates pool considered in the selection process did not include candidates outside the banking industry but did include several candidates outside the community and state in which the bank was located.

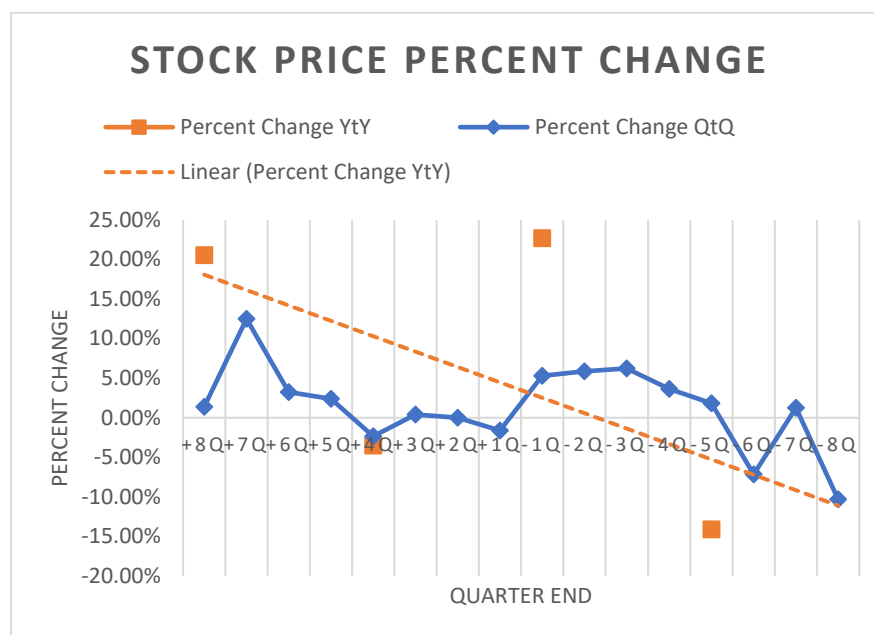
Banks are highly regulated by FDIC, and it is required that the FDIC approve the appointment of CEOs. The outgoing CEO informed the FDIC of the selected candidate

and requested their formal approval of the candidate as the new CEO. The selected candidate was perceived as very capable by the regulators based on experience as the CEO of another FDIC-regulated bank and approved without any concerns. Prior experience as a CEO and support of the regulators assisted in the new CEO being approved quickly.

Stock and Bond Price Reaction

PNW Small Community Bank has stock that is traded but has no issued bonds in the markets. Therefore, bond price reaction could not be examined as part of the case study. The stock is traded over the counter (OTC) and held by approximately 750 shareholders, and while publicly-traded, the stock is not listed on a major United States Exchange. The largest individual shareholder at around 20% ownership is a member of the board of directors and was a participant in the interviews.

Historical stock prices and volumes for PNW Small Community Bank stock were downloaded from NASDAQ.com (n.d.). The stock is not traded frequently, and the trading volumes were reviewed for two years before and after CEO succession, and no major changes in trading volume patterns were detected. The stock prices were analyzed as of quarter end starting two years prior to CEO succession to March 2019. Since the succession effective date, the stock price has increased an average annual rate of 12.45%. The average annual rate of increase from two years prior to the succession to March 2019 was 12.11%. Table 5 shows the quarterly and annual change in stock price from two years after succession to two years prior to succession and shows a positive linear trajectory of stock prices looking at year-to-year changes at year end starting with two years prior to the effective date of the CEO succession.

Table 5. *Quarterly and Annual Stock Price Changes*

Note. Percent change returns calculated from NASDAQ.com (n.d.) data.

The outgoing CEO perceived that the shareholders received news of hiring the new CEO very positively. As part of the transition, the outgoing CEO took the new CEO out to introduce him or her to the shareholders. Since shareholders had high trust in the outgoing CEO, they accepted the selection of the new CEO. The participant questionnaire responses indicated that most participants agreed that bank stockholders reacted positively to the announcement of the identity of the successor CEO (Q9 in Table 3). Two responses were not applicable, and one response was undecided. Due to the infrequent stock trading and the new CEO maintaining the existing strategic plan, the “not applicable” and “undecided” responses were not unexpected.

Analyst Coverage

PNW Small Community Bank is very small, and analysts do not regularly cover the stock. After the CEO succession, there were no changes in the lack of analyst

coverage of the stock. Therefore, no consequence data are available to examine this component in the case study.

Cultural Fit

Selecting a candidate who is the right fit for the organization and culture reduces the risk of unintended consequences. In this case study the executive leadership team lacked expertise in financial management and auditing, but the selected candidate filled these gaps. Additionally, the selected candidate had been the CEO of a small community bank before transition. As a result, participants interviewed apologetically noted the new and departing CEOs were equally liked for different reasons. This demonstrates how good the correct cultural fit was for the organization. The departing CEO was very well-respected and liked by everyone and many were sad. The new CEO was equally liked but also recognized for additional skills and abilities from which the organization will benefit. One unintended consequence noted relates to the executive team in the bank and the perception that the team is no longer on the same page with strategic initiatives.

Theme 4: Trusting Relationships

The seventh, eighth, and ninth of Cragun et al.'s (2016) tertiary components can be summarized as impacts on key leadership relationships. The relationships considered were impact of succession on board, new CEO, and departing CEO. When the new CEO became the successor, prior relationships between the board, the new CEO, and the departing CEO were fundamentally changed. These changes in relationships resulted in various consequences for the organization and those involved.

Chair-CEO Relationship

The new CEO and departing CEO knew each other as peers and friends prior to the transition of roles. An external participant noted that it is difficult to really know someone from the interview process alone, especially the intangibles, such as ability to work with the existing team, a humble attitude, and an ability to motivate and inspire. The outgoing CEO had prior knowledge of these intangibles, and this allowed for a quicker transition with existing mutual trust that did not need to be built. This prior trusting peer relationship was noted by internal and external participants as one of the reasons this transition went so smoothly.

Between the announcement of the new hire and when the new CEO arrived at the bank, about 90 days, this existing relationship resulted in the departing CEO being able to tell employees about the new CEO on a personal level, including information about his or her family and their search for a new home. This allowed employees to know more about the new CEO before arrival and helped reduce anxiety about the unknown qualities of their new leader.

Post Succession Board

As noted, the departing CEO transitioned to the chair of the board role prior to transitioning out of the CEO role. Since becoming chair of the board, the outgoing CEO has been focusing energy on improving the board performance. This improvement is part of a three-year plan for the board of directors that included restructuring board committees and recruiting new board members. The participant questionnaire responses indicate that most participants agreed that the new CEO has positively impacted the board of directors at the bank (Q10 in Table 3). One participant disagreed with the

statement. One response was undecided, and one was not applicable. These responses are not surprising since the outgoing CEO continues to have a significant influence over the board's operations and decisions. The researcher's observation is that the new CEO's influence over the board appears insignificant with the outgoing CEO as the chair of the board. One board member noted that "we still have people around the board room that look to [CEO1] as the leader."

Impact on New CEO

The new CEO moved to the community with a conscious effort to be accepted in the new community and the bank. When asked how he or she behaved differently, the new CEO answered,

Listen more, speak less. Not dictate. It was required in my last institution; it's not required here. I really tried to build consensus and lead to an example versus we're at point A and we're going to get to point B and this is how you're going to get there and go do it. I haven't done any of that here, I haven't had to.

Two external participants perceived that the new CEO may be frustrated with not being able to make changes as quickly as desired or with being hampered by the departing CEO remaining as chair of the board. The new CEO did not seem concerned about this and stated,

I may have taken things on a different pace. At the end of the day, it's not my bank, I don't own it and its incumbent upon me to build consensus for change. I would've possibly done things a little bit quicker, but I knew that coming into it. It wasn't like I had some kind of awakening after I got here, I knew [CEO1] personally pretty well.

One external participant noted that the new CEO seemed happy with everyone understanding that making changes slowly is not a concern.

The participant questionnaire responses indicated that all but one agreed that the new CEO has acted and behaved as expected after one year in the role (Q11 in Table 3). The one response was undecided. In addition, the participant questionnaire responses indicated all but two participants agreed that the new CEO personality is as expected after a year in the role (Q12 in Table 3). Two participants were undecided.

The new CEO had the board approve an executive team succession plan policy in the first year at the bank. The purpose of the policy is to anticipate both planned and unexpected circumstances that would warrant the need to provide for orderly transition of key management personnel. The policy identified potential successors in the event of temporary leave, voluntary or involuntary termination, retirement, and death of each executive team member including the CEO. The plan identified potential successors by name, position, or in some cases, temporary consultant with required skill sets or the option for an external search for replacement beyond a temporary leave. The new CEO is already thinking about his or her own retirement and wants to identify an internal candidate who is ready about two years beforehand to step into the CEO position in about ten years.

As noted, the new CEO and departing CEO knew each other as peers and friends prior to the transition of roles. The new CEO noticed an immediate change in their relationship. While the CEO-chair relationship is one of mutual trust, their personal relationship had fundamentally changed. This change in the relationship was described as follows by the new CEO,

I fully expected to modify our friendship and believe that is the only way forward for the chair/CEO role to go forward. We cannot be friends in the simplest definition and we talked about this prior to the transition. I recall saying something like 'it's a casualty of the transition'. It is something that needs to occur for many reasons, as the roles are different. Most importantly, from my perspective, is the perception of others. If we were viewed as close friends by people within the bank, board members, or community members, that would be of concern (no objectivity).

Impact on Departing CEO

The participant questionnaire responses indicated, with all but one response in agreement, that the outgoing CEO is involved and has a positive influence on the organization (Q11 in Table 3). One response disagreed with this statement. The new CEO described the departing CEO's involvement as "still a very strong presence and influence, but you can't argue with that it serves this bank so well. How do you argue with success?"

This level of involvement was echoed by an external participant who noted that the departing CEO is "a pretty actively involved chair." One participant noted that as the CEO, there was a lot more responsibilities on the departing CEO's plate, and the transition resulted in fewer responsibilities. This may have been a dramatic change in the level of involvement in the bank's business. One participant expressed concern that the departing CEO may have retired too early and misses this higher level of involvement. This may not be the case as one external participant noted that the departing CEO seemed relieved, happy, and calmer after the transition. One internal participant very positively

perceived the departing CEO's continued involvement as "Got other hobbies, other things [CEO1] wants to do, and is sticking with us in the transition. [CEO1] is a serious Brainiac, and I really honor [CEO1's] desire to continue ... to see us continue to succeed."

Trusting Relationships

The trusting relationships identified in this case study prior to transition were departing CEO with board, departing CEO with entire bank, and pre-existing chair with the CEO. CEO succession planning is typically a board of directors driven process. The existence of a trusting relationship between the departing CEO and the board allowed for an effective succession planning and successor selection process driven by the departing CEO. As part of transition, the bank trust with the departing CEO and communication of the pre-existing chair-CEO trusting relationship resulted in the effective transfer of the trust to the new CEO.

The distrusting relationships identified in this case study were between staff below the executive management team who did not have transparent communication about the CEO planning and successor selection process during the entire process. The consequences of this was anxiety about what will happen to the bank. Given that in some cases, a small community bank will choose consolidation instead of searching for a successor CEO, the unknown status and details on the succession planning process created stress for several participants interviewed. There was perception that some employees left the bank during this period due to the stress and anxiety. Remaining distrust is evidence that some participants below the executive team level are not sure all

the executives are leading in the same direction on a bank goal and perceive the executive team as going in different directions.

Summary of Four Major Themes

Overall this CEO transition was a success, and the process to select a new CEO was effective and considered smooth and seamless by participants interviewed. The emergent themes on why the CEO succession in this case study was effective and successful are initial vision of candidate, intentional communication during transition, cultural fit of successor, and trusting relationships. Below is summary of the key points in the four themes.

Initial Vision of Candidates

It is important to establish an upfront vision of desired characteristics and skills of the new CEO to search for a candidate who is the right fit for the strategic direction of the bank. For right fit, consider culture (existing or desired), strengths, and the strategic plan (status quo or strategic changes). In small community banks the strategic considerations are very important to consider first. Does the bank desire to make changes and remain independent, change strategic direction, or seek consolidation with another bank? The answer to this question determines the skills needed to take the bank in the desired direction. It would also determine how much involvement in the selection process the board wants from the departing CEO. In the case examined, the departing CEO involvement indicated that the bank was not looking to change strategically or culturally.

Assessing the strengths and weaknesses of other executive leadership in the bank will help identify specific skills and experiences needed in candidates to complement existing strengths. In the small community banking industry, prior banking executive

management is required since banks are complex institutions that require specialized skills due to differences between banks and nonfinancial firms, including level of regulation bank capital structure, and complexity of business. Being small and thinly staffed, there is not the depth to compensate in existing leadership for lack of industry specific skills in the CEO role.

Intentional Communication During Transition

An intentional communication plan to reduce anxiety was the “Road Tour” where the departing CEO and the new CEO visited every department, every branch, key customers, and larger shareholders together in the first 30 to 60 days after transition effective date. This allowed for warm introductions and handoff of trust by illustrating own trust in the new CEO. During the internal portions of the “Road Tour,” the new CEO set clear expectations about not changing anything about the culture, the strategic plan, and for the plan to remain an independent bank. In addition, the new CEO intentionally worked hard to build relationships inside and outside the bank. Strategically, the new CEO did not decline any invitations received for the first year of transition. This strategy resulted in visible involvement and helped reduce anxiety with employees, customers, and the community. The new CEO not only transitioned the organizational leadership but embedded himself or herself as a participant in the community even though he or she relocated from another state.

Successor is Cultural Fit

Selecting a candidate who is the right fit for the organization and culture reduces the risk of unintended consequences. In this case study the executive leadership team lacked expertise in financial management and auditing, but the selected candidate filled

these gaps. Additionally, the selected candidate had been the CEO of a small community bank before transition. As a result, participants interviewed noted the new and departing CEOs were equally liked for different reasons. This demonstrates how good the correct cultural fit was for the organization. The departing CEO was very well-respected and liked by everyone, and many were sad. The new CEO was equally liked but at the same time recognized for new skills and abilities that the organization will benefit from over time.

Trusting Relationships

The trusting relationships identified in this case study prior to transition were departing CEO with the board, departing CEO with the entire bank, and the pre-existing chair-CEO relationship. CEO succession planning is typically a board of directors driven process. The existence of a trusting relationship between the departing CEO and the board allowed for an effective succession planning and successor selection process driven by the departing CEO. As part of transition, the bank trust with departing CEO and communication of the pre-existing chair-CEO trusting relationship resulted in the transfer of the trust to the new CEO.

The distrusting relationships identified in this case study were between staff below the executive management team who did not have transparent communication about the CEO planning and successor selection process during the entire process. The consequences of this was anxiety about what would happen to the bank. Given that in some cases small community banks consolidate instead of searching for a successor CEO, the unknown status and details on the succession planning process created stress for several participants interviewed. There was perception that some employees left the

bank during this period due to the stress and anxiety. Remaining distrust is evidenced by some participants below the executive team level not being sure all the executives are leading in the same direction on a bank goal and perceive the executive team as going in different directions.

Chapter Summary

Overall, this CEO transition was a success, and the process to select the new CEO was effective and considered smooth and seamless by participants interviewed. The emergent themes on why the CEO succession in this case study was effective and successful are initial vision of candidate, intentional communication during transition, successor is cultural fit, and trusting relationships. A successful and smooth transition reduced the risk of unintentional consequences to the organization.

In Chapter 5, study findings are merged with the research questions, and conclusions are drawn about how the emergent themes align with the guiding research questions. Also, the alignment of the findings to the problem statement and how the findings apply to business administration are described. The implications of the findings for bank senior managers and boards of directors, recommendations for future studies, and closing commentary are provided in Chapter 5.

CHAPTER 5: CONCLUSIONS AND DISCUSSION

Introduction

The purpose of this qualitative case study is to examine in depth the relationship between the CEO succession planning process and consequences to small community banks by reviewing a single community bank's CEO succession process. An in-depth case study of a single effective CEO succession could help inform community bank boards of directors about desirable succession planning practices that would assist the banks in avoiding negative or unintended consequences. In this study the CEO succession planning process was explored at a small community bank located in the Pacific Northwest by investigating, describing, and understanding the various consequences and dimensions of the CEO succession planning process. The research questions guiding this case study were:

1. What are the general perceptions regarding effectiveness of the following CEO succession planning processes:
 - a. The process for CEO succession planning once turnover was expected but prior to identification of successor CEO?
 - b. The execution of the succession planning process once the successor CEO was identified?
 - c. How the execution of the succession plan affects staff motivation and achievement of organizational goals?
2. What are the consequences of the CEO succession on the following:
 - a. Morale and staff motivation?
 - b. Strategic direction of the organization with the new CEO?

- c. Financial performance consequences?
 - d. Investor or analyst reactions to the new CEO?
 - e. Call report data shown about the financial performance consequences?
 - f. Board changes such as change in members, structure, or compensation after the CEO succession?
 - g. The departing CEO?
 - h. The new CEO after succession?
 - i. Other perceived consequences?
3. What influence or changes did the new CEO background have on the organization?

The research questions were driven by the gap in the CEO succession planning literature that has ignored the small community banking sector, and exploring that gap was the priority of this study. Through the exploration of these questions, the study fulfilled its purpose: having a better understanding of how the CEO succession planning process at a small community bank contributes to the consequences for the bank and stakeholders including employees, bank leadership, stockholders, community, departing CEO, and new CEO.

The general problem central to this research study is that CEOs are critical to the success of small community banks, yet there is lack of clarity about those factors that lead to a successful CEO succession and the impacts that a successful plan can have on banks. This is supported by a survey conducted by Anderlik, Brown, and Fritzdixon (2015) that indicated succession planning is a significant challenge for community banks.

Effective succession planning of CEOs may be more critical for small community banks that have aging CEOs and executive management teams. This in-depth case study of a single effective CEO succession helps inform community bank boards of directors about desirable succession planning practices, which could assist the banks in avoiding negative consequences. For this research study, an effective CEO succession was determined by the subsequent positive consequences, including financial performance of one small community bank.

Overall, the CEO transition in this case study was a success, and the process to select a new CEO was effective and considered smooth and seamless. The major findings and emergent themes on why the CEO succession in this case study was effective and successful are initial vision of candidate, intentional communication during transition, successor is cultural fit, and trusting relationships.

Discussion of Findings and Conclusions

The major themes and findings are summarized and discussed below along with the conclusions, including practical application to other small community banks that resulted from the findings. The major findings and emergent themes on why the CEO succession in this case study was effective and successful are initial vision of candidate, intentional communication during transition, cultural fit of successor, and trusting relationships.

As discussed, the intent of the research study was to inform community bank boards of directors about desirable succession planning practices that would assist the banks in avoiding negative or unintended consequences. Each major finding has recommendations that other community banks can use in their succession planning

process to reduce negative and unintended consequences in their CEO succession. The findings and conclusion support the purpose of the research and provide solutions to the problem statement guiding this research study.

Initial Vision of Candidates

It is important to establish an upfront vision of desired characteristics and skills of the new CEO to search for a candidate that is the right fit for the strategic direction of the bank. For right fit, consider culture (existing or desired), strengths, and the strategic plan (status quo or strategic changes). In small community banks the strategic considerations are very important to consider first. Does the bank desire to remain independent, change strategic direction, or seek consolidation with another bank? The answer to this question determines the skills needed to take the bank in the desired direction. It would also determine how much the board wants the departing CEO to be involved in the selection process.

In the case examined, the departing CEO involvement indicated that the bank was not looking to change strategically or culturally. Any small community bank not looking to change things could follow the same approach and use the departing CEO to manage the succession planning process. If a small community bank wants to seek consolidation with another bank instead of remaining independent, they should consider looking for CEO candidates with experience providing leadership in a bank consolidation. Deciding on consolidation strategic change may be difficult for the departing CEO to accept, and it would be best to not allow the departing CEO to manage the succession planning process. To reduce the risk of others on the executive teams from leaving the bank, the board of directors should execute change of control agreements if these are not already in place.

The CEO succession process should be more secret than in the case study to reduce the risk of employees and customers leaving the bank prior to consolidation announcement. The board of directors should use an outside recruiter to manage the CEO selection process to provide an independent and objective view of candidates who fit the desired vision.

If a small community bank continues to remain an independent bank, then assessing the strengths and weaknesses of other executive leadership in the bank will help identify specific skills and experiences needed in candidates to complement existing strengths. In the small community banking industry, prior banking executive management is required since banks are complex institutions that need specialized skills due to differences between banks and nonfinancial firms, including level of regulation bank capital structure and complexity of business. Being small and thinly staffed, there is not the depth to compensate in existing leadership for lack of industry specific skills in the CEO role.

Established upfront vision for desired characteristics and skills of the new CEO for right fit and strategic plans for the bank will guide the board of directors on what the candidates should look like and interview questions to ask these candidates. When an outside recruiter is used by the bank to identify and interview candidates, this vision can be used as a guide, so the CEO selection process is in alignment with the strategic direction of the bank.

Intentional Communication During Transition

An intentional communication plan to reduce anxiety in this case study was the “Road Tour” where the departing CEO and the new CEO visited every department, every

branch, key customers, and larger shareholders together in the first 30 to 60 days after transition effective date. This allowed for warm introductions and handoff of trust by illustrating own trust in the new CEO. During the “Road Tour” the new CEO set clear expectations about not changing anything about the culture, the strategic plan, and the decision to remain an independent bank. In addition, the new CEO intentionally worked hard to build relationships inside and outside the bank. Strategically, the new CEO did not decline any invitations received for the first year of transition. This strategy resulted in the visible involvement and helped reduce anxiety with employees, customers, and the community. The new CEO not only transitioned the organizational leadership but embedded himself or herself as a participant in the community even though he or she relocated from another state.

This “Road Tour” communication during transition worked well in the case where no changes in strategic direction were desired with the new CEO. If change in strategic direction were desired by the new CEO, it would be recommended to not include the departing CEO on the “Road Tour.” In that case, the new CEO would need to communicate clearly about changes in strategic direction of the bank. Depending on the size of the organization, it may not be practical for the new CEO to visit every department, every branch, key customers, and larger shareholders in the first 30 to 60 days after transition effective date. In the case of a larger bank the departments, branches, customers, and shareholders visited during the “Road Tour” need to be more strategically selected or could be organized more regionally where key managers are visited with the intent to communicate to those in their departments or locations.

Successor is Cultural Fit

Selecting a candidate who is the right fit for the organization and culture reduces risk of unintended consequences. In this case study the executive leadership team lacked expertise in financial management and auditing, and the selected candidate filled these gaps identified during developing the vision for a successor. The selected candidate had been the CEO of a small community bank before transition, and the new CEO was a good cultural fit for the organization with new skills and abilities that the organization will benefit from over time.

The candidates' pool considered in the selection process did not include candidates outside the banking industry but did include several candidates outside the community and state in which the bank was located. This is consistent with the literature review in Chapter 2 that noted banks are complex institutions that require specialized skills due to differences between banks and nonfinancial firms, including level of regulation bank capital structure and complexity of business (Haan & Vlahu, 2016; Nguyen et al., 2015). In addition, banks are highly regulated by FDIC, and it is required that the FDIC approve the appointment of CEOs. Prior experience as a CEO and support from the regulators assisted with the new CEO being approved quickly.

Other small community banks should consider only candidates with executive management experience in the banking industry. Internal candidates selected should have a transition period to allow them to work side by side with the departing CEO to gain insights into what it takes to be the CEO of a small community bank. Internal candidates have the advantage of understanding the bank's culture and how to operate within the culture that exists at the bank.

External candidates should have prior CEO experience or a high enough executive leadership role to learn firsthand what it takes to be the CEO of a small community bank including managing the bank in the absence of the CEO. During the candidate interview process explaining and understanding the culture of the bank should be included. This helps ensure that the culture is a fit for the candidate and the candidate will be a fit in the bank's culture.

Trusting Relationships

The trusting relationships identified in this case study prior to transition were departing CEO with the board, departing CEO with the entire bank, and the pre-existing chair-CEO relationship. CEO succession planning is typically a board of directors driven process. The existence of a trusting relationship between the departing CEO and the board allowed for an effective succession planning and successor selection process driven by the departing CEO. As part of transition, the bank trust with departing CEO and communication of the pre-existing chair-CEO trusting relationship resulted in the transfer of the trust to the new CEO.

There is existing research into the chair-CEO relationship. The chair-CEO relationship is an emotional bond; however, conscious distancing is considered appropriate to keep the relationship functional (Koskinen & Lamsa, 2016). In most cases a new CEO and chairperson could benefit from training and coaching in their relationship to maintain joint, open discussions (Koskinen & Lamsa, 2016). This would be important if the two individuals do not know each other. Developing a trusting relationship will provide a foundation for them to work together to lead the organization. This will be

particularly important for a bank that intends to make strategic changes in the business model of the bank.

The distrusting relationships identified in this case study were between staff below the executive management team who did not have transparent communication about the CEO planning and successor selection process during the entire process. The consequences of this was anxiety about what would happen to the bank. Given that in some cases small community banks consolidate instead of searching for a successor CEO, the unknown status and details on the succession planning process created stress for several participants interviewed. As previously discussed, the “Road Tour” communication plan would help build trust between the new CEO and bank employees.

Practical Application of Findings and Conclusions

The major themes and findings in this case study informs community bank leadership and boards of directors about desirable succession planning practices that could assist the banks in avoiding negative or unintended consequences of CEO succession. Other small community bank leadership, by clearly developing the initial vision of candidate, having intentional communication during transition to employees and community, ensuring the successor is cultural fit, and developing or maintaining trusting relationships, can help ensure a successful and effective transition to a new CEO. A successful and smooth transition reduced the risk of unintentional consequences to the organization.

Recommendation for Action

Small community bank executive leaders and boards of directors should take a proactive approach in CEO succession planning. Having a clear vision of what the new

CEO is expected to do will inform the required skills and experience needed in the vision of the new CEO. This vision will help ensure cultural fit for the organization.

Communicating clearly to all stakeholders about the succession planning process and transition of leadership will reduce anxiety and help develop trusting relationships for all parties involved. While the case study examined a successful CEO transition, the lack of communication with lower level employees during the candidate search caused unnecessary anxiety. Bank leadership should consider more communication during candidate search to reduce anxiety and consequences of this anxiety such as employees leaving organization. The retention of key employees during CEO transition would lead to a successful transition. The key takeaways in this case study can be summarized as paying close attention to trust and social connections in the selection process and transition communication. Trust and social connections will determine if the CEO succession is a successful and effective process.

Recommendation for Further Research

A few years after the chair of the board retires, this case study could be updated to see how the change impacts the culture and strategic plan of the bank. Will the velocity of adopting new technology or taking on more investment risk result in further improvement of financial performance? What will be the consequences to the credit culture over which the chair exercises significant influence? How will this impact the new CEO, executive leadership team, or the board's behavior and risk appetite?

This study can be recreated at another small community bank. The questionnaire could be rewritten to be more specific to the participant perspective separating executive from non-executive perceptions. In addition, research across various small community

banks could explore commonalities and differences between successful and not-so-successful CEO transitions under different circumstances than a planned retirement.

Further research can be conducted into the changes in relationships and impact on trust between the outgoing and the new CEO at other small community banks. This research could consider how the relationship changes depending on whether the selected candidate is someone who used to work for the CEO or not. How does the relationship change over time as the roles each person takes on change?

The participants in the study mentioned that in some cases small community banks consolidate instead of searching for a CEO successor. This has been cited as the reason for consolidation in industry studies such as Bank Director (2016) that surveyed 206 chief executives, chief financial officers, chairmen, and directors of U.S. banks regarding mergers and acquisitions (M&A). One survey question asked, “Why would you sell the bank, other than to get the best deal for stakeholders?” (Bank Director, 2016). The results of this question indicated that 15% of the banks cited the inability to find new talent to replace the existing CEO and/or executives (Bank Director, 2016). In the September and October 2018 updated survey of 184 bank executive and directors of U.S. banks regarding M&A, there was an increase to 21% of the banks citing the lack of a CEO or executive successors as the reason to sell (Bank Director, 2019). This is consistent with the notion that CEO succession is a critical event that can affect the future performance of an organization. Additional research can be conducted across small community banks in the Pacific Northwest to see if CEO succession is a key driver in the decision to seek out consolidation, which results in the reduction of the number of small community banks.

Concluding Statement

Chief executive officers play a critical role in the successful performance of small community banks, yet the literature suggests that there is lack of effective succession planning processes. A chief executive officer (CEO) succession planning process is a challenge for small community banks that are thinly staffed and have aging CEOs and executive management teams. There are two main frameworks that form the research foundation – stakeholder theory and management practice of succession planning that supports the outcome of CEO successor choice – that can have a substantial impact on strategy and success (Berns & Klarner, 2017; Cragun et al., 2016; Zhang et al., 2016). The study addresses a gap in the literature on CEO transition at small community banks. There is little known about a small community bank CEO succession planning process and the consequences of the CEO succession on the organization. This in-depth qualitative case study of a single CEO succession provides insights into small community bankers on practices that could result in an effective and successful CEO transition.

This study contributes to the body of management practice of succession planning knowledge by adding holistic information about the little-known area of CEO succession planning and consequences at small community banks. Additionally, it highlights potential avenues for future research into succession planning and consequences of succession planning in the small community banking industry.

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APPENDIX A: Participant Questionnaire

The questionnaire contains Likert-scale items with response options ranging from 1 (very strongly disagree) to 7 (very strongly agree) designed to ascertain the degree to which the CEO succession planning influenced consequences to the bank.

Question Number	Question
Q1	The process to identify qualified successor candidates for CEO was an effective process.
Q2	Once qualified potential successors were identified the board of directors conducted an evaluation process to make selection.
Q3	The bank used a well thought out hiring and onboarding process for the new CEO.
Q4	The background of selected candidate adequately prepared them to take on the CEO role at the bank.
Q5	The personality of selected candidate seemed like a good fit for CEO role when selection was made.
Q6	The new CEO positively impacted the morale and staff motivation at the bank.
Q7	The new CEO positively impacted the strategic direction at the bank.
Q8	The new CEO positively impacted the financial performance at the bank.
Q9	Bank investors and analysts reacted positively to the announcement of the identity of the successor CEO.
Q10	The new CEO positively impacted the board of directors at the bank.
Q11	The new CEO has acted and behaved as expected after 12 months in the role.
Q12	The new CEO personality is as expected after 12 months in the role.
Q13	I consider the CEO succession process to be positive and successful process for the bank.
Q14	I consider the new CEO to be a great fit and positive influence on the organization.
Q15	The outgoing CEO is involved and still has a positive influence on the organization.

APPENDIX B: Participant Interview Questions

Interview questions:

1. Was the change in CEO planned or very unexpected?
2. Describe the CEO selection process.
3. Do you consider the CEO selection process a success? Why or why not.
4. Did the selection process affect the new CEO's performance when they took office?
5. How does the type of succession process used affect the consequences of CEO success?
6. How does the speed of the succession process affect the consequences of CEO succession?
7. What was the immediate impact of new CEO at time of succession?
8. How are investment changes made because of CEO succession?
9. How are the stakeholders affected by CEO succession?
10. Did the new CEO act differently than what was expected by the board?
Employees?
11. Did the selection or onboarding of the new CEO affect performance?
12. How important were the specialized skills and capabilities of the new CEO in effectiveness of transition?
13. If new CEO successor had a different set of capabilities how would performance be affected?
14. What were succession planning process activities that made the succession planning process effective or ineffective.
15. What would you advise another bank to do during their CEO succession process?
16. How is the departing CEO still involved in the bank?
17. Would you consider the CEO succession process a success? Why or why not.

APPENDIX C: IRB Approval Letter



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Institutional Review Board Certificate of Approval

IRB ID# Gehrke_Williamson120718

Principal Investigator (if faculty research):
Student Researcher: Christina Gehrke
Faculty Advisor: Laura Williamson
Department: SOM_DBA

Title: CEO succession in small community banks: A qualitative study of PNW Bank.

Approved on: December 7, 2018

Renewal Date: December 7, 2019

- Full Board Meeting Date of IRB meeting: _____
- Expedited Review (US)
- Delegated Review (Can)
- Exempt (US)

CERTIFICATION

City University of Seattle has reviewed the above-named research project. The proposal was found to be acceptable on ethical grounds. The Faculty Advisor Laura Williamson and the student researcher Christina Gehrke have the responsibility for any other administrative or regulatory approvals that may pertain to this research project, and for ensuring that the authorized research is carried out according to the conditions outlined in the original Ethical Review Protocol submitted for ethics review. This *Certificate of Approval* is valid for the above time period provided there is no change in experimental protocol, consent process, or documents.

Any significant changes to your proposed method, or your consent and recruitment procedures should be reported to the Chair of the Institutional Review Board in advance of its implementation.








ONGOING REVIEW REQUIREMENTS

In order to receive annual renewal, a status report must be submitted to the IRB Chair for Board consideration within one month of the current expiry date each year the study remains open, and upon study completion.

Brian Guthrie Ph D, RSW, RCSW
Chair, IRB City University of Seattle

IORG-IRB REGISTRATION: IORG 0009788/IRB registration number: IRB000627 CITY UNIVERSITY OF SEATTLE IRB #1

APPENDIX D: QDA MINER CODEBOOK

-  **Theme 1 Initial Vision**
 -  **Establishing Candidate Vision**
 - Candidate Vision
 - Planned or unexpected
 -  **Successor Selection process**
 - Comp 1 Succession Process
 - Candidate Selection Process Description
 - Process Speed
 - Secret Process
 - Effectiveness of Process
-  **Theme 2 Transition Communication**
 - Comp 2 Change with new CEO
 - Immediate Changes noted
 - Transition Communication Plan
-  **Theme 3 Cultural Fit**
 -  **New CEO Impacts or Changes**
 - Investments
 - Technology
 - Staffing
 - General
 - Successor Capabilities
 - Bank Overall Culture
 - Credit Culture
 - Comp 3 Post Succession Performance
 - Comp 4 Industry Environment Context
 - Comp 5 Stockholder and Price Reaction
-  **Theme 4 Trust/Relationships**
 - Comp 8 Impact on New CEO
 - Comp 9 Impact on Departing CEO
 - Comp 7 Board Changes
 - Trust