The University of Akron presents:

Leadership and Succession Planning at Peoples Bank, Marietta, OH

Michael Moore
mdm134@zips.uakron.edu

Kenan Sprague
kns82@zips.uakron.edu

Jeff Kelbach
jak173@zips.uakron.edu

Jacob Ruocchio-Cole
jar216@zips.uakron.edu

Faculty Advisor
Dr. Bhanu Balasubramnian
bb67@uakron.edu
# Index

**Executive Summary** ........................................................................................................... 1

I. **Introduction** ..................................................................................................................... 2

II. **Financial Performance Analysis** ..................................................................................... 3
   A. *Earnings Performance* .................................................................................................... 3
   B. *Loan Portfolio Composition* .......................................................................................... 6
   C. *Asset Quality* .................................................................................................................. 7
   D. *Asset Growth* .................................................................................................................. 8
   E. *Capital Levels & Planning* ............................................................................................... 9

III. **Succession Planning: Recruiting, Development, and Retention** ......................... 11
   A. *Overview of Peoples Recruiting Practices* ..................................................................... 11
   B. *Bank’s Size and Location as Factors in Recruiting* .................................................... 12
   C. *Professional Development Program* ............................................................................. 15

IV. **Board of Directors** ...................................................................................................... 16
   A. *Board Overview* ........................................................................................................... 16
   B. *Board Diversity* ............................................................................................................ 17
   C. *Board Size and Independence* .................................................................................... 18
   D. *Compensation* .............................................................................................................. 19
   E. *Committees* .................................................................................................................. 19
   F. *Board Responsibilities* .................................................................................................. 20

V. **Correlation Analysis: Performance, Succession & Leadership Preparedness** .... 20

VI. **Primary Recommendations** .......................................................................................... 23
   A. *Improvements to Professional Development and Retention* ................................... 24
   B. *Improvements to C-suite Position and Board Succession Planning* ....................... 25
Executive Summary

This paper seeks to profile Peoples Bank from a financial perspective, evaluate its current recruitment, retention and development practices as they relate to succession planning, analyze the methods with which Peoples ensures an active succession of executive leadership, and offer suggestions as to how the bank can continue to improve.

- Peoples Bank has adopted a strategy of internal organic growth paired with external acquisitions since the arrival of CEO Chuck Sulerzyski in 2011.
- Despite negative effects on ROA and ROE initially, acquisitions have led to favorable increases of late thanks to record revenue levels in 2016.
- Operating in Ohio, West Virginia, and Kentucky, Peoples Bank pursues a multi-channel recruitment strategy that makes use of both conventional university recruitment and less common practices such as sponsoring their own case competition.
- Peoples has created a Professional Development Program to rotate entry level hires throughout the organization and eventually into a permanent role, which has been highly effective at identifying talent.
- The current succession plan makes use of a combination of internal development and external hires.
- One of their primary responsibilities of the board is the development of a formal, confidential succession plan that is core to their overall succession strategy. While not shared with us, it has been made available to regulators.
- Based on our regression analysis and other academic studies, we find that the size and independence of the board of directors does not significantly impact bank performance.
Recommendations

• Formalizing the career path of employees completing the professional development program in order to assist the bank both in recruiting and developing a deeper talent pool to promote from.

• Placing a higher emphasis on internal hires for upper level management positions in order to potentially boost the company’s performance and streamline transitions.

• Continuing to seek board diversification will help substantially reduce gaps in knowledge within the bank.

I. Introduction

On the banks of the Ohio and Muskingum Rivers is the small town of Marietta, Ohio, one of the first settlements in Ohio and its first capital. Originally chartered by the Continental Congress after the Revolutionary War, Marietta is nestled in the southeast corner of Ohio at the bottom of the Ohio Valley, serving as a gateway into the Appalachian south. One of the town’s most prominent institutions is Peoples Bank, a publicly traded community bank with assets totaling over $3 billion serving communities in Ohio, Kentucky, and West Virginia. Established in 1902, Peoples has the distinction of surviving both the recent financial crisis and the Great Depression. While the bank has experienced significant growth in recent years, thanks in no small part to excellent leadership, its heritage and future success rest on the preparedness of the bank to pass on the reins of power to future leaders.
II. Financial Performance Analysis

A. Earnings Performance

Peoples Bank has adopted a two-pronged strategy of organic growth paired with growth through acquisitions particularly since CEO Chuck Sulerzyski joined the company in 2011. Because of these recent acquisitions, year-over-year (YOY) earnings are a misleading gauge of performance in the case of Peoples Bank. For example, Peoples experienced declining net income each year from 2012 to 2015 despite increasing operating revenue in each of those years. Additionally, they experienced a significant increase in YOY earnings in 2016, mainly because 2015 earnings were dragged down by a one-time cost associated with the acquisition of NB&T Financial Group, Inc., a deal worth over $104 million, and a huge spike in Provision for Loan Losses (PLL) associated almost entirely with the removal of one borrower from the balance sheet.

2016 was a record year for Peoples Bank, recognizing the highest net income level in company history and capping off six consecutive quarters of revenue growth exceeding the rate of expense growth (year over year). Mr. Sulerzyski attributes that 2016 success to loan and revenue growth in the neighborhood of 9.3% and 7.5% respectively, as well as improved asset quality and a commitment to expense management (Peoples Bank 2016 Annual Report). However, he believes that there is still work to be done, citing that as their return on total assets stands, currently at 0.94%, the bank is below the 0.99% average for its size. Peoples aspires to be much more than average, however, and would like to see ROA closer to 1.15% or 1.20%. They have set a timeline of three years to meet that goal, and they believe that this can be accomplished through further loan growth and positive operating leverage (Marsico), as well as acquisitions, which has been a huge part of their business strategy over the past five years to achieve the economies of scale (Sulerzyski).
According to Sulerzyski, revenue retention on an acquired bank is in the neighborhood of 97%, while costs are cut by about 40% and opportunities for further revenue growth are introduced (Sulerzyski). This has led Peoples to perform 6 acquisitions since his arrival, adding nearly $1.3 billion of assets to the company. The largest of these deals have included NB&T Financial Group, Ohio Heritage Bancorp, and North Akron Savings Bank.

Peoples Bank has seen volatility in their return on assets (ROA) and return on equity (ROE) as they have placed an increased emphasis on their acquisition strategy and they have had to issue new equity to do so. Their ROA increased significantly coming out of the 2008-2009 financial crisis as both their interest and fee-based income began to return to pre-recession levels, in addition to loan losses coming back down, even recovering some commercial real estate loans that had
previously incurred charge-offs. The increase in ROA reversed promptly in 2012 when they began to increase their assets through acquisitions, accounting for an added $1.14 billion in assets in five years. This continued until 2016 when Peoples recorded record revenue levels that allowed ROA to bounce back to near-2012 levels. Return on equity has shown similar patterns, increasing coming out of the financial crisis, reversing as the firm issued new equity to purchase other banks and savings institutions, and spiking again in 2016 in accordance with record earnings levels.

Peoples Bank would like their fee income to be a significant part of their operations, the target being between 35 and 40 percent of revenue (Sulerzyski). Prior to their recent acquisitions they were historically near, if not within, that range, but the buy-outs have diluted that number down to 31.98% in 2016 as only one of the acquired companies had a wealth management practice. Even with the dilution, they are still well above the peer group average of 23.37% of revenue coming from fees, which is certainly by design.
B. **Loan Portfolio Composition**

The majority of loans currently being serviced by Peoples Bank are commercial loans, with commercial real estate (CRE) loans making up 37.36% of their portfolio, and commercial and industrial (C&I) loans making up 18.99%. Residential real estate loans and lines of credit taken out against homes account for another 29.1%, and consumer loans round out the portfolio with the remaining 14.5%.

Peoples Bank’s loan portfolio composition is highly concentrated in CRE loans, which tend to carry higher credit and concentration risk due to larger balances per account than consumer loans, and repayment often being dependent on the success of the borrower’s business. Recognizing these risks, Chief Credit Officer Robyn Stevens points out that they have consistently decreased their position in commercial real estate loans and increased consumer and C&I loans since the 2008 financial crisis. We found that Peoples has decreased the commercial real estate portion from 48% of their total loans in 2008 to 37.3% in 2016, and increased their weightings in residential real estate and consumer loans concurrently. It is also worth noting that in addition to trying to reduce the risk of the loans on the balance sheet, the company has decreased their “off-balance sheet” risk as their residential real estate loans being serviced for others due to
securitization of mortgage loans has decreased from 17.24% of assets to 11.34% of assets in that time.

C. Asset Quality

<table>
<thead>
<tr>
<th>Peoples Bancorp, Inc. - Asset Quality Ratios</th>
</tr>
</thead>
<tbody>
<tr>
<td>------------------</td>
</tr>
<tr>
<td>Nonperforming Assets/Assets</td>
</tr>
<tr>
<td>Nonperforming Assets/Loans</td>
</tr>
<tr>
<td>Loans 90 days past due</td>
</tr>
<tr>
<td>Nonaccrual Loans/Loans</td>
</tr>
<tr>
<td>Prov for Loan Losses/Loans</td>
</tr>
<tr>
<td>OREO/Loans</td>
</tr>
<tr>
<td>Prov for Loan Losses/Revenue</td>
</tr>
<tr>
<td>Nonperforming Assets/(LLR+Tier 1)</td>
</tr>
<tr>
<td>NPA+ Loans 90PD/ Tang Common Equity + LLR</td>
</tr>
<tr>
<td>Nonaccrual &amp; 90PD+OREO+Reposs Assets/ Equity+LLR</td>
</tr>
</tbody>
</table>

In general, Peoples Bank has a reasonable loan portfolio from an asset quality standpoint, with only 0.68% of assets not performing. Some of this may be attributable to their diversification strategy of late, though no loan category is exempt from risk. For example, Peoples recorded a C&I charge-off in 2015 totaling $13.1 million, accounting for nearly 86% of their charge-offs that year, and drastically increasing their allowance for loan losses. This tangibly illustrates the riskiness of commercial loans, even beyond real estate, and the reason why Peoples is being intentional about diversifying their loan portfolio. This significant charge-off, and the drastic increase in the 2015 provision for loan losses that came as a result, are together
one of the multiple aforementioned outliers that dragged down earnings in that year (Peoples Bank Form 10-K 2015).

A common industry practice in determining the overall credit risk of financial institutions are Texas Ratios, an indicator of how much capital a bank has available compared to the total value of loans considered at risk. The capital position of Peoples Bank is very strong, with a Texas Ratio at 6.22%, which Mr. Sulerzyski lists as one of the main attributes that attracted him to the company, and Ms. Stevens cites as one of the most notable strengths of the company that made them able to survive the 2008 financial crisis, saying, “The bank had a very strong capital position, and that’s really how we survived. We had significant charge-offs throughout that period, but really that capital position is what helped us through. Capital is key to the survival of banks during crises.”

D. Asset Growth

Peoples has seen their overall loan portfolio grow 127% from 2012 to 2016, averaging nearly 23% growth per year with 7% to 8% of that growth being organic according to Mr. Sulerzyski. Substantial growth in assets in 2014 and 2015 point to four acquisitions during that time added
$1.14 billion in assets, accounting for 94.73% of their total asset growth over that span. The growth in both of these areas highlight the overarching growth strategy of the company: strong, organic growth supplemented by acquisition.

E. **Capital Levels and Planning**

Peoples Bank is one of about 400 banks in the country that sells insurance, and of those that do they are the 17th largest in that market, making it an uncommon market for community banks, and one that they’re proud of as they were the first bank in Ohio to gain insurance licensure (Sulerzyski). Their insurance division is also is a significant part of their business, accounting for more than 30 percent of their non-interest income and 10 percent of their total income. Sulerzyski, who has experience in the insurance business, mentioned that Peoples is more heavily weighted on the commercial end of the insurance business, but over time they would like to be a little bit more balanced between personal lines, commercial casualty, and benefit-based insurance. Allen and Jagtiani conclude that insurance and wealth management reduce overall risk of the firm, but increase systematic risk.
Even after the significant capital expenditures associated with the buy-outs over the past few years have decreased their capital ratios from exceptional 2012 levels, the company’s capital and leverage ratios are still comparable to the peer group, if not outperforming. A strong capital position provides Peoples with a high level of flexibility, a vital tool in an industry that is highly sensitive to economic conditions. The company has higher proportions of higher quality common equity capital.

During 2016, Peoples' total stockholders' equity increased due to higher retained earnings, which were offset slightly by the repurchase of 279,770 shares of common stock. Capital levels remained substantially higher than the minimum amounts needed to be considered "well capitalized" under Basel III banking regulations (Peoples Bank 2016 Annual Report 13).
III. Succession Planning: Recruiting, Development, and Retention

A. Overview of Peoples Recruiting Practices

The FDIC defines community banks using an array of different definitions. Generally, community banks can be described as those which receive most of their deposits and also make most of their loans to local businesses. As this is the case, often times community bankers are known as relationship bankers, as opposed to the conventional title of transactional bankers. Because of this, community banks will tend to specialize in the geographical area they cover and the local customers they serve. Establishing connections in the community can build a stable customer base which the bank can build on in the future, but there is always a challenge to keep these customers over time. Just as building and developing the customer base can pose a challenge to some community banks, growing and retaining some of the talent used to run these banks can also pose a challenge of sorts. Community banks, partially by definition, are those which are embedded in more rural areas, thus serving more tightly knit communities. These banks are not normally located in the larger metropolitan areas around the United States. These banks, like Peoples Bank, tend to have long established roots in smaller cities that are not always looking to grow in size, but rather focused on maintaining the ground they currently hold. Given the nature of their location, these banks don’t usually benefit from the draw of being in close proximity to a major metropolitan area, and this may be an obstacle for those community banks trying to continuously draw talent for the future of the company.

To attract talent in the immediate area of its branches, Peoples Bank, as noted by CEO Chuck Sulerzyski, tries to establish itself as an employer of choice by using different methods to establish their name. Peoples Bank recruits at colleges throughout the bank’s territory in West Virginia, Ohio, and Kentucky by coming to career fairs and different recruiting events throughout
campus. While many other companies and competing banks may do the same, Peoples Bank makes effort to go beyond the traditional recruitment stage. For the past five years, Peoples Bank has fostered its own undergraduate case study competition, drawing teams from sixteen universities annually from Ohio, West Virginia, and Kentucky. Hosted at facilities at the nearby Marietta College, this competition draws self-motivated students from some of the area’s best universities. Peoples Bank is also eager to participate in other student-lead competitions such as the CSBS Competition, in order to broaden their image to nearby universities. Although, many of these students will pursue opportunities at other places, hosting and participating in these competitions allows Peoples Bank to expose themselves to a self-selecting talent pool of soon to be college graduates. Through all of these methods, Peoples Bank attempts to promote its image of company culture and its Professional Development Program in the hopes of becoming an employer of choice. Peoples also offers very competitive benefits to their employees, including health insurance, flexible spending accounts, retirement savings, and compensation for continuing education. Peoples highly encourages advanced degrees and certifications, with an offer to pay for a third of an advanced degree out of pocket, a third out of what amounts essentially to a subsidized loan which can be forgiven, and leaving the remaining third up to the employee (PEBO). In this way, Peoples stands toe to toe with many much larger organizations.

B. Bank’s Size and Location as Factors in Recruiting

The prominent players in the banking industry may benefit from their name familiarity when trying to draw customers and talent to their organization. Smaller community banks have a much less powerful regional outreach and tend to focus their efforts within the boundaries they serve. Aside from obvious strategic differences and financial capabilities, the two different sized banks also have different methods for attracting their next employees from the available talent
pool. Located usually in larger cities, more well-known banks can rely somewhat on the fact that millennials are easily drawn to the amenities that the urban environment offers. In some ways, the lure of the urban environment itself can attract a sufficient amount talent on its own. For this reason, smaller community banks in cities like Marietta may have to adjust their pitch to the next wave of talent. While Marietta, Ohio may not offer many of the same urban amenities as Columbus or Cincinnati, it should be known that smaller cities may bring a much different aspect of attraction to new talent. Not everyone desires the congestion and fast paced lifestyles often associated with these metropolitan areas, and smaller rural places can offer advantages of their very own.

Director of human resources Matt Edgell noted that the Marietta area is great for those who enjoy outdoor activities that may not be available in more urban environments. He also noted the presence of nearby Wayne National Forest, as a place for outdoor enthusiasts. CEO Chuck Sulerzyski also noted the opportunities associated with cheaper costs of living. The Marietta Parkersburg area is much more affordable than other large Ohio metropolitan areas, making it easier for employees to own homes earlier in their career. While the affordability might be a benefit to those just beginning their careers, it was another point of interest throughout the interviews that smaller cities are also attractive to those looking to settle down toward the ends of their careers. More rural places such as Marietta and the surrounding area may be attractive to those looking to settle down or even raise a family, as opposed to its urban counterparts.

As mentioned, Peoples Bank has locations in Ohio, West Virginia, and Kentucky. Most of the Ohio branches are located in the southern half of the state, but there’s also a small presence in the northeast Ohio region. The majority of branches lie in the southeastern Ohio as well as between Cincinnati and Dayton. The branch presence in West Virginia and Kentucky is limited to the northern most portions of the states that border Ohio. Much of the area they serve is located in the
Appalachian regions of these states. To take a closer look at this region, we can use Appalachian Ohio as a benchmark. The Appalachian region as a whole covers parts of 12 other states, but covers 32 counties in the southeastern and eastern parts of the Ohio. Much of the region’s economy once relied heavily on manufacturing, agriculture, and mining, but has slowly tried to diversify its economy with time. This region, though, ranks as one of the poorest regions of Ohio, without the presence of many higher paying jobs. In 2011, this Appalachian region had a poverty rate of 17.50%, more than 1% more than the state as a whole, and nearly 2% greater than the nation as a whole. The 2011 per capita income was $29,269 compared to Ohio overall average of $37,836 and the US figure of $41,560. The unemployment rate for Marietta’s Washington county stands at 7.9% compared to the Ohio average of 5.9%, as of February 2017 (“Appalachian Counties Profile”). Appalachian Ohio also has lower educational attainment averages than non-Appalachian Ohio. For example, 16.4% of Appalachian Ohio’s population over 25 has less than a high school diploma as opposed to 12.5% for the rest of Ohio. Also, only 14.9% of Appalachian Ohio’s population over 25 has at least a bachelor’s degrees, whereas the rest of the state is much higher at 25.4% (Pollard and Jacobsen).

While many of the branches of Peoples Bank are located in these relatively more rural portions of the states they serve, many are still close to major metropolitan areas. Many of the branches are located less than an hour from the top four metropolitan areas by population, so although branches tend to serve relatively less urban environments than some larger banking counterparts, the customers and employees of Peoples Bank in many cases can still enjoy the attractions and amenities of these larger cities from suburbs or outlying towns just as many others do.

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cincinnati</td>
<td>2,137,406</td>
</tr>
<tr>
<td>Cleveland</td>
<td>2,077,240</td>
</tr>
<tr>
<td>Columbus</td>
<td>1,836,536</td>
</tr>
<tr>
<td>Dayton</td>
<td>799,232</td>
</tr>
<tr>
<td>Huntington-Ashland</td>
<td>361,580</td>
</tr>
<tr>
<td>Parkersburg-Marietta</td>
<td>162,056</td>
</tr>
</tbody>
</table>

Source: 2010 Census
C. **Professional Development Program**

Once talent has been attracted and is ready to begin the early career stages, Peoples Bank will often put them through a career development program to further enhance the workers’ abilities as well as further grow the base of human capital. The Professional Development Program of Peoples Bank is one of the keystones to developing and training employees for future leadership positions within the bank. There have been numerous examples of movement within the company from recent Professional Development Program graduates, but as of recent, some of the recent C-suite hiring has come from external sources. Three of the five current executive officers have been hired externally from other banks or organizations. Current CEO Chuck Sulerzyski brought experience from Cleveland based KeyBank upon his arrival in 2011. John Rogers, the standing Chief Financial Officer and Treasurer, came from Pittsburgh based PNC in 2011 and Chief Commercial Banking Officer Daniel McGill brought over a decade of experience from FirstMerit Bank in Akron, Ohio. The Chief Credit Officer Robyn Stevens and Chief Administrative Officer Carol Schneeberger have both had extensive experience at Peoples Bank before being named to their executive positions.

In interviews at Peoples Bank’s headquarters in Marietta, Ohio, CEO Chuck Sulerzyski had noted that the bank would like to have much less external hiring in the next five years than it had done in the previous five. And although looking externally for open executive positions may initially draw skepticism, it can be noted that external hires can be a source of fresh leadership and knowledge, especially when looking at specialized positions such as Chief Information Technology Officer. For example, Mr. Sulerzyski noted that his hiring was specific to the circumstances of the time and the nature of the problems Peoples Bank faced after coming out of the recent financial crisis. While the problems at the time made for somewhat of a ‘fire drill’
transition, Mr. Sulerzyski noted that his skills and experience in the banking industry helped to get the company back on steady ground. In the future, Mr. Sulerzyski noted that Peoples Bank would ideally like to consider the longer term strategy of the bank and the preservation of its cohesive culture in addition to recruiting someone who has the skills and experience needed to adjust to the ever changing market. As for the next wave of C-level executives, Mr. Sulerzyski expects more of these hires to come from within the bank, as Ms. Stevens and Ms. Schneeberger have done in the past. Peoples Bank has definitely proven to be capable of developing and establishing talent to take control of these positions in the future.

IV. Board of Directors

A. Board Overview

CEO Chuck Sulerzyski describes the board of directors as being one of the strengths of the company as well. “We have a good, strong board. It continually refreshes itself, and I’ve been very pleased at how it’s developed over my tenure.” In the Peoples board, the roles of CEO and chairman of the board are separate, with the chairman, currently Mr. David L. Mead, being an independent director. As per section 4 of Peoples Bank’s Corporate Governance Guidelines “This structure enhances independent oversight of management performance, which is a key component of efficient corporate governance and overall risk management”. The recent news that United Airlines CEO Oscar Munoz will not be promoted to chairman and CEO is adequate proof that what Peoples is doing is one of best practices, though this separation is not unambiguously positive, and there is little research to support the required separation of these roles (Larcker & Tayan).

The company has to comply with regulations associated with their corporate governance and regulatory bank ratings. Some of these regulations include Sarbanes-Oxley, Dodd-Frank,
NASDAQ listing requirements, SEC regulations, and management ratings in the CAMELS rating of banks. We wanted to interview the chairman of the board or any one of the other board members to discuss the impact of these regulations on corporate governance and succession planning, but we were informed that the chairman did not think it is appropriate for the board to be directly involved in our discussions. It is for this reason that much of our findings are based on the publicly available information and what Mr. Sulerzyski and other executives in the company shared with us during our recorded discussion, which is in accordance with section 3(d) of their Corporate Governance Guidelines, which states that “the Chief Executive Officer and other members of senior management are responsible for speaking on Peoples’ behalf.”

B. **Board Diversity**

Diversity and experience are clearly evident priorities in board member selection. The age of the directors’ range from 43 to 65 years, with the average age being 57. They have a superannuation age of 70 years, which is the reason for the retirement of two of their board directors last year who had served since 2004, including Richard Ferguson, who had served as the chairman of the board. There are also four females on the board of directors, something that Sulerzyski describes as being unique. “We’re proud of the fact that we have four females on our board. That’s very unusual. Females are underrepresented on boards in general, which makes no sense to me.”

Even beyond the demographic diversity on the board, and perhaps even more important, is the diversity in professional experience. Represented in the board are directors who have had successful careers in a variety of industries, including an attorney who has served as special counsel to the Ohio Attorney General’s Office since 1994, a retired physician who spent 24 years in ophthalmology, and their newest board member, Terry Sweet, who was elected to the board in
January 2017, brings 30 years of public accounting and financial services experience to the board. Sulerzyski thinks that the role of the community bank board has changed and is in the process of change. “Historically, people who were on community bank boards were large customers or ‘who’s who’ in the community or in the market and the movement is much more to skills – so ‘Who’s the financial expert? Who has an understanding of cyber? Who has an understanding of emerging technologies?’ That is an indication of what you’re looking for. It’s really the skills and the background.” Sulerzyski went on to mention Terry Sweet, who was a partner at KPMG, one of the big four accounting firms, and David Dierker, who ran the administrative functions of SunTrust Bank, so they have an abundance of quality and diversity in the talent represented on their board of directors.

Management believes they will continue to have a say in what skills they desire to see added to the board as directors are identified and recommended by the Peoples’ Governance and Nominating Committee, per section 4 of the bank’s Corporate Governance Guidelines. Management believes that whomever that committee appoints will be supported by shareholders assuming that the bank continues to be a steady, dependable performer for its shareholders, with returns superior to those of its peers regardless of operating conditions (Peoples Bank 2016 Annual Report). Peoples has a staggered board, upon which directors are elected for a three-year term, which delivers continuity to the upper-level management. Those up for re-election this year include Tara M. Abraham, James S. Huggins, and Brooke W. James, and their re-election will be done at the bank’s Annual Meeting on April 27, 2017. (Peoples Bank 2017 Proxy Statement)

C. Board Size and Independence

The overall size of Peoples board is to be between nine and 15 board members, with 13 members on the board currently. Per NASDAQ listing requirements, the board must have a
majority of independent directors. There are no term limits for directors based upon the belief that there is value in acquired experience and insight over time (Peoples Bank 2017 Proxy Statement).

The board meets no less than nine times each year, though Mr. Sulerzyski says that they typically have 12 meetings – six face-to-face and six telephonically. The Executive session of independent directors is held at least twice a year, and no members of Peoples management is to be present at these sessions (Peoples Bank 2017 Proxy Statement).

D. Compensation

Independent directors are compensated for their contributions to the board, and this is done in a few ways: cash payment or fees earned, common stock awarded, and pensions or nonqualified deferred compensation being the main ones. Their compensation packages for 2016 ranged from $53,304 to $74,514 in fair value, with the median director earning $57,849, which is just below the median board compensation (McCormick) for a bank their size of about $60,000 (Mahlum 20).

E. Committees

The board has five standing committees, each chaired by a different independent director: Audit, Compensation, Executive, Governance, and Nominating and Risk. The Audit Committee and the Risk Committee’s primary functions are the oversight of risk of the board. The Risk Committee provides the primary oversight of significant risks on an enterprise-wide level while the Audit Committee looks more closely at management’s actions to address compliance, legal, and operational risks. The Compensation Committee works in conjunction with regulators to evaluate all risks posed by the bank’s compensation programs and attempts to limit any unnecessary risks these programs pose both to the bank and program participants. Through these committees and strong working relationships with management, the board is able to actively
oversee and manage the key aspects of risk to which Peoples is exposed (Corporate Governance Guidelines).

The role of members in the committees is critical, particularly in view of the developments related to Wells Fargo scandal recently, where there is a movement not to elect 12 of the 15 board members by the shareholders, particularly from the Audit and Compensation committees. The Governance and Nominating Committee is responsible for making recommendations regarding the assignment of directors to various committees and who should chair each committee. After reviewing the recommendations from the Nominating Committee, the board will appoint chairs and members to committees on an annual basis, and will review annually with a focus on balancing the benefits of continuity against those of diversity of experience and viewpoints (Corporate Governance Guidelines).

F. Board Responsibilities

Mr. Sulerzyski describes the responsibilities of the board of being primarily twofold: succession planning in terms of CEO selection and management, and the strategic direction of the company as a whole. The board has an actively managed succession plan in place that is revisited and reviewed annually in detail. They spend time talking through the top 25-30 professionals in the company and what succession and development looks like for them. Though this plan is highly confidential and was not shared with us, it is provided to regulators (Sulerzyski). Because of its confidentiality, it is difficult for us to assess the alignment of this strategic plan with their long-term goals. Regardless, it seems clear that this plan has been a driving force behind their recent success in recognizing, developing, and retaining talent. The board also has a strategic plan in place that was created in 2011 that is refreshed every other year. It is a guiding method for the
management of Peoples Bank, and from it is drawn their highly emphasized strategy of strong organic growth paired with external acquisitions.

V. Correlation Analysis: Performance, Succession and Leadership Preparedness

In an attempt to relate the changes in leadership at Peoples Bank to the changes in bank performance, we ran a regression of historical leadership data from 1990 through 2016 on performance measures such as return on assets (ROA) and net interest margin (NIM). To discover what effects, if any, leadership has on a bank’s performance, we also account for some of the major environmental characteristics of both the bank and the general economy. The dependent variables of the two models, ROA or NIM, give a performance valuation of the bank over the studied period. GDP growth is included to account for general economic conditions, meaning larger negative figures indicate relatively harsher conditions than the year before and vice versa. NPA/Loans90PD represents non-performing assets plus loans that are 90 days or more past due as a percentage of tangible common equity and reserves. NPA/Loans90PD could be a way to categorize the bank’s risk-taking strategies and may also reflect on the customer base of which the bank interacts with. To capture the effect of technological improvements, we use the ratio intangible assets as a percentage of total assets as a proxy. Since 2012, more accurate expense categories such as software expense or electronic banking expense are available, but we do not have those specific numbers for the entire time period over which we wish to see leadership effects on performance. The other three categorical variables present in the model all represent changes of upper level management. The CEO1 variable represents the first serving CEO Robert Evans. CEO2 represents Mark Bradley and his succeeding interim CEO David Mead and current CEO Chuck Sulerzyski is omitted to serve as the reference group. For the CFO position, CFO1 represents John Conlon, CFO2 represents both Carol Schneeberger and Donald Landers because of their short, one year
term length, CFO3 shows Edward Sloan, and current CFO John Rogers is omitted as the reference group. The variable for board hire indicates whether a new member was added in that year.

The regression results table shows the results of our two regressions, with the Net Interest Margin model having less variables due to potential multi-collinearity issues. We see that the coefficients, or intercept adjustments, for CEO and CFO are positive in one model and negative in the other. Most of the coefficients were not statistically significant, except for those of the CEO, CFO, and intangible assets.

The signs of the coefficients on the other variables, though, tend to be consistent with what we would expect theoretically. We would expect banks to perform better in periods of higher overall economic growth, and it might be reasonable to assume that riskier loans (NPA/90 day past due) would be associated with lower performance indices. The intangible assets figure was included in hopes that this might capture items such as customer relationships, trademarks, and other patented technologies, but we see a sign opposite of what would be expected if increased use of technology helped the bank to perform better. Although the coefficient of intangible assets suggests that higher intangible assets lead to lower performance, this variable may be capturing the effects of mergers and acquisitions.

As the major changes to software and payment systems have occurred in the past few years, we may have to wait for the effects of those technology investments in the future. In 2015, Peoples

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>t-statistic</th>
<th>Coefficient</th>
<th>t-statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth</td>
<td>5.9149</td>
<td>1.59</td>
<td>0.0164</td>
<td>0.67</td>
</tr>
<tr>
<td>NPA/Loans90PD</td>
<td>-0.0195</td>
<td>-1.27</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Intangible Assets</td>
<td>-32.2900</td>
<td>-6.12**</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>CEO1</td>
<td>0.5998</td>
<td>1.73*</td>
<td>-0.0053</td>
<td>-2.41**</td>
</tr>
<tr>
<td>CEO2</td>
<td>0.3171</td>
<td>1.29</td>
<td>-0.0051</td>
<td>-3.68**</td>
</tr>
<tr>
<td>Board Hire</td>
<td>-0.0848</td>
<td>-0.96</td>
<td>-0.0006</td>
<td>-0.86</td>
</tr>
<tr>
<td>CFO1</td>
<td>-0.9857</td>
<td>-2.66**</td>
<td>0.0095</td>
<td>3.69**</td>
</tr>
<tr>
<td>CFO2</td>
<td>-0.9080</td>
<td>-2.68**</td>
<td>0.0095</td>
<td>4.31**</td>
</tr>
<tr>
<td>CFO3</td>
<td>-0.3302</td>
<td>-1.74*</td>
<td>0.0021</td>
<td>1.42</td>
</tr>
</tbody>
</table>

R2: 0.90  Adjusted R2: 0.85  N: 27

Note: ** and * denote statistical significance at the 5% (or better) and 10% levels, respectively.
updated its core banking system to enhance the customer experience. In addition, other technology improvements such as a streamlined digital banking and a wider network of surcharge free ATMs are also expected to allow Peoples Bank to improve performance and increase customer satisfaction.

The coefficients for CEO suggests that at least some of the CEO variables are statistically significant in both regressions. Also, five out of six CFO categorical variables were significant on some level, possibly indicating an observable difference of performance based on their hires. Additionally, the variable for board member change was found to have no statistical significance in the model. Our model results, albeit simplified and non-significant, are consistent with several academic studies that board size or independence does not affect performance (Boone et al.; Pathan and Skully). Adams and Mehran also examine bank board structure and performance using 34 years of data, and find that the composition of the board has little relationship with performance, which is also consistent with past research on non-financial firms. Our results regarding the CEO and CFO variables would suggest that different executive changes affect the performance measures of ROA and NIM differently. Of course, due to model simplicity and a very low number of observations, these conclusions must be interpreted with caution.

VI. Primary Recommendations

Peoples Bank employs a succession strategy that relies on developing internal candidates and supplementing them where necessary through external hires. This process is vitally important to the strategic direction of the firm, and can also have a significant impact on bank performance. Our conclusions and recommendations take a two pronged approach: A) Improvements to Professional Development and Retention, and B) Improvements to C-suite position and board Succession Planning.
A.   *Improvements to Professional Development and Retention*

While many firms offer rotational programs such as that offered by Peoples Bank, it seems less common in community banks. In fact, Peoples is the only community bank we have encountered with such a program. Peoples Bank offers this program in an effort to groom candidates for positions throughout the company, with a strong focus on the branch manager position. Based on our discussion with Matthew Edgell, the Senior Vice President of Human Resources, it became clear to us that Peoples Bank exercises rigorous planning to determine the permanent assignment of candidates who complete the rotational program, while deliberately not planning what their future would look like after that position. After a candidate has completed their rotation and taken on a permanent role, whether as a branch manager or in an internal position, their path forward is thus more ambiguous. In Matt’s words, “the sky’s the limit” for what one might do after taking on a permanent role. This opportunity for growth is exciting, but it exposes Peoples Bank to two potential risks. First, it can create ambiguity surrounding the career path a prospective employee may take. For some young people this may be exciting, but for others it can be frightening. One could easily posit that there are essentially two types of prospective employees: those who are willing to accept high risk for a higher reward, and those who prefer a steady and less unpredictable future. Considering that Peoples Bank tends to recruit a high proportion of their candidates from rural areas, such as the nearby Marietta College, it seems safe to say that many of those candidates will likely fall in the category of seeking a steady and less unpredictable future. Second, it could pose a possible retention problem. Employees without a clear idea of their career path may find it tempting to make a lateral move to a different company in an effort to minimize uncertainty. An additional recommendation we would make is the development of a written talent management program. Currently Peoples sends staff members to acquired banks in order to smooth
the integration process, and eventually staff members from acquired banks are incorporated into the overall talent pool of Peoples Bank. As this process continues, formalizing a written talent management program would allow Peoples Bank to more completely oversee the available talent that they have to work with.

B. *Improvements to C-suite Position and Board Succession Planning*

The final suggestions that we would make relate directly to the planning of upper-level management and the board of directors. In a paper on CEO succession planning, Zhang and Rajagopalan explain that while external hires of CEOs are seen as superior and are thus slightly more common, they actually have a negative impact on ROA after three years when compared to internal hires. While the current CEO of Peoples Bank is an obvious exception to this, this seems consistent with the idea that internal hires, particularly those coming from a C-suite position within the firm, are best suited to comprehend all of the issues facing it and hit the ground running. Considering that the board of directors already has a formalized process for succession planning for the CEO and upper-level management, we recommend exercising a special emphasis on the internal hires that in our interviews Peoples expressed they already desire to make. Finally, the board should continue to diversify its members, particularly in regards to recruiting members with information security, insurance management, and personal financial planning.

In conclusion, it is our recommendation that Peoples Bank attempt to absolve some of the ambiguity surrounding climbing the career ladder by creating a more structured pathway and extend current CEO hiring practices to other C-suite executives, while also seeking to continue adding to their already well-diversified board. This will allow them to more smoothly channel rising stars into roles that translate more naturally into leadership positions, and safeguard Peoples Bank’s impressive history and performance for many years to come.
Works cited


Peoples Bancorp, Inc. Form 10-K 2015, 2016. Web. 10 April 2017


