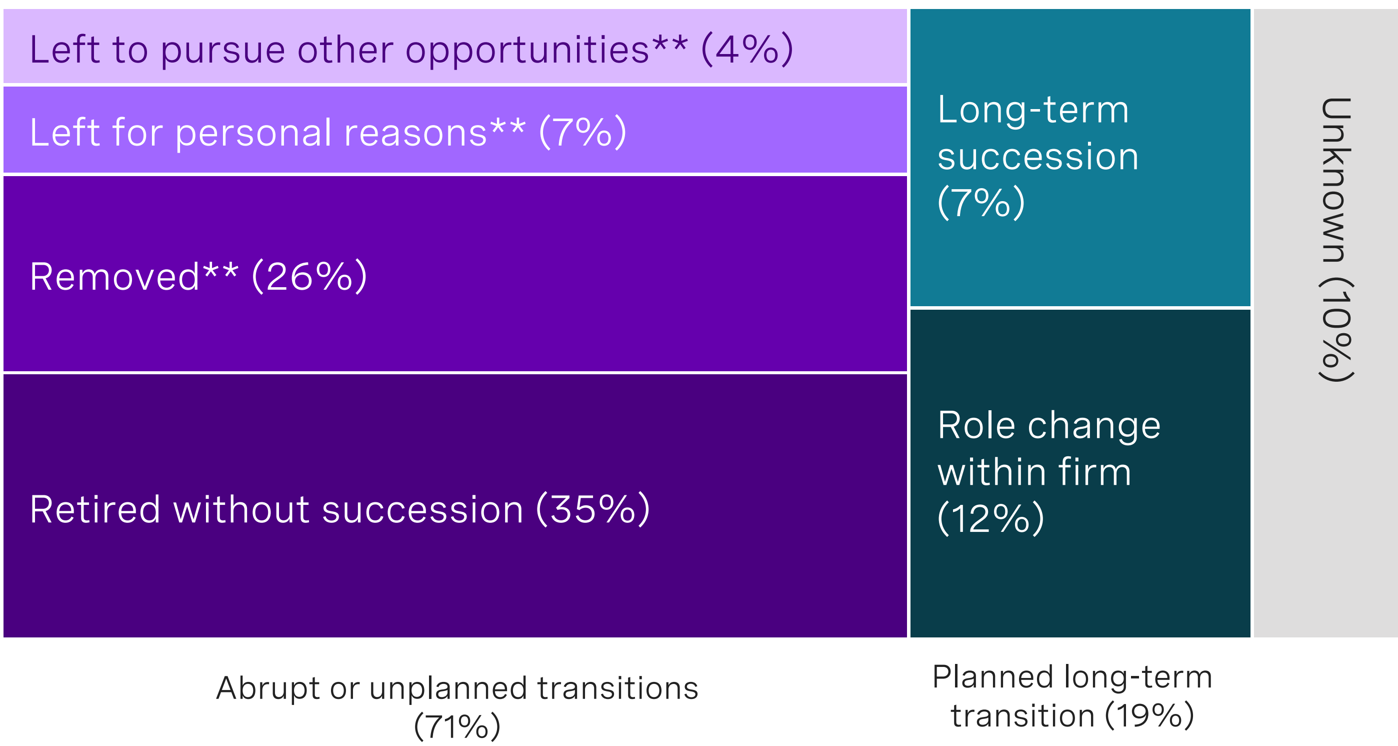
Planning for the Expected: CEO Succession in Financial Services

The past few years have marked a watershed moment for CEO successions across the global financial services sector.

Our analysis of CEO turnover data highlights a telling trend: from 2018 to 2023, there were 222 CEO changes at publicly traded financial services (FS) firms globally. Moreover, 71% of these leadership transitions were either unplanned or abrupt, driven by removals, departures to pursue other opportunities, or retirements lacking any prior succession planning. This is in sharp contrast to the mere 7% of departures that were managed through a planned long-term succession process (see Figure 1).

This data not only underscores the volatility and unpredictability in turnover at the CEO level, but also signals an urgent need for a more strategic approach to succession planning—a theme that is increasingly becoming a focal point in our engagements with clients across the financial services sector.

Figure 1. FS CEO Departures, by type* | 2018-2023



Source: RRA proprietary analysis, FS CEO turnover, 2018-2023, n=222

*Classification of reasons for CEO departures is derived from a comprehensive review of publicly available information, including news publications, official announcements, and relevant articles around the time of each CEO's departure announcement. This categorization is intended to provide insight into overarching trends and should be interpreted within the context of the best available information at the time of the analysis.

**In certain instances, removals or departures for personal reasons or other opportunities could be a scenario accounted for within succession plans.

Succession surge: the intensifying need for proactive CEO succession

Looking ahead, the landscape of CEO turnover in financial services is poised to escalate further. Through our dialogues with clients, we are seeing an escalating focus on succession planning, underpinned by multiple indicators suggesting this will only increase in the years to come:

Limited supply of CEO-ready leaders

Since the global financial crisis, growing regulatory requirements around technical capabilities have created a generation of financial services executives with singular expertise in certain areas, rather than well-rounded leaders who are ready to become CEOs.

Complexity of the CEO role

The CEO role is now more complex than ever, especially against the backdrop of geopolitical transition, competitive complexity, technological disruption, proliferation of stakeholders, and mounting volatility. The growing realization that the CEO of the future will be radically different from the CEO of the past will place succession planning firmly on the boardroom agenda.

Increased public and regulatory scrutiny

The role of a CEO now comes with heightened public scrutiny—whether that's over issues like compensation, ethical conduct, political stances, etc. One move can dramatically make (or derail) a career, resulting in less stability in the role. Additionally, regulatory oversight concerning governance, particularly the board's fiduciary responsibilities, is intensifying the focus on long-term succession planning. Regulatory bodies and exchanges have established guidelines mandating a clear policy on CEO succession. For example, the New York Stock Exchange formally stipulates that "succession planning should include policies and principles for CEO selection and performance review, as well as policies regarding succession in the event of an emergency or the retirement of the CEO." The UK's Prudential Regulation Authority states that "firms should ensure there are appropriate succession plans in place across the Board and Executive to maintain strong governance, risk management and controls in the event there are changes in personnel."

Trends in CEO appointments and tenures

2018 marked a peak in new CEO appointments in financial services. Combined with the fact that historically, most FS CEOs have a tenure of between five to eight years, we could see a spike in departures in the next five years (see Figures 2 and 3). Furthermore, 75% of FS CEO appointments over the last five years have been internal, with this percentage rising to over 80% in the last two years, further highlighting the importance of internal successor development (see Figure 4).

Figure 2. Number of new FS CEO appointments, by year 2018-2023

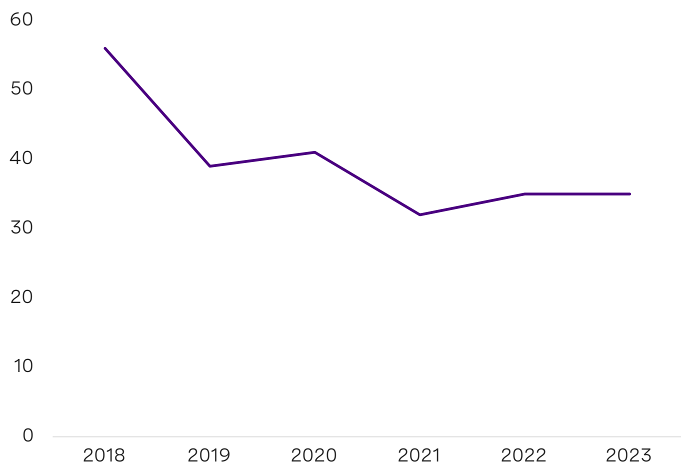


Figure 3. Average tenure of departing FS CEOs, by % 2018-2023

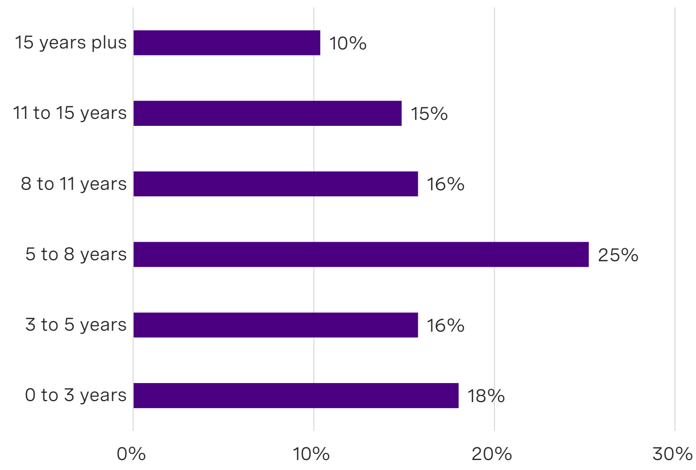
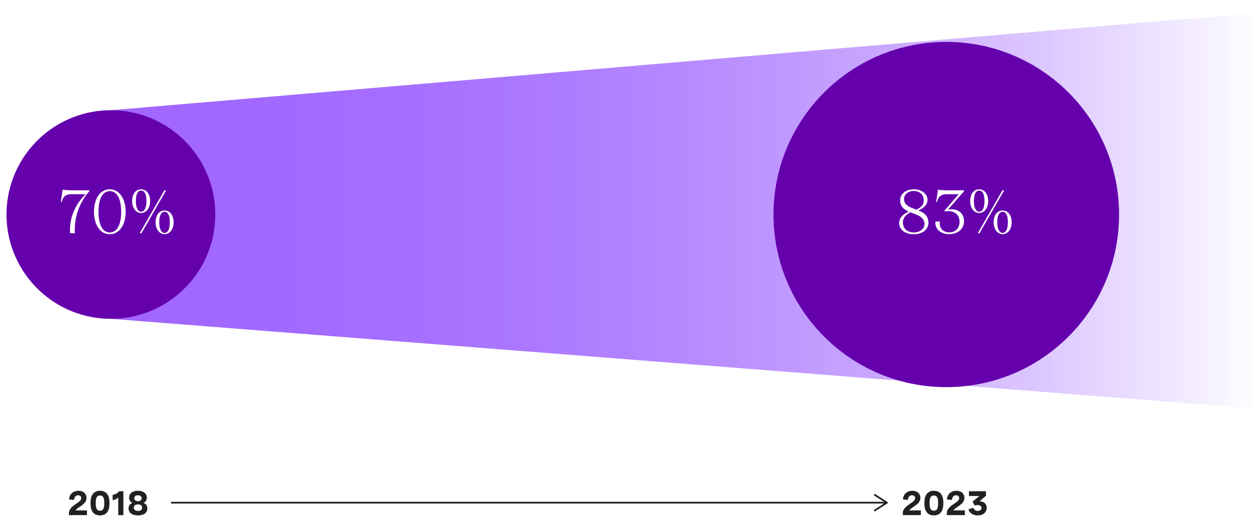


Figure 4. # of new FS CEO appointments, by % internal candidates | 2018-2023



Source: RRA proprietary analysis, FS CEO turnover, 2018-2023, n=222

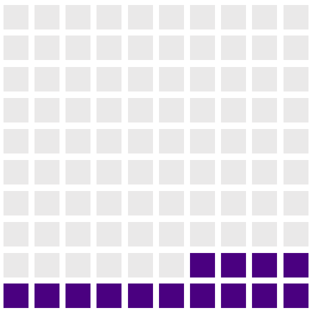
Demographic shifts

Aging populations, particularly in developed economies, are poised to create a 'retirement cliff' that could precipitate a significant number of leadership transitions. In Japan, for instance, research shows more than one in four people are at or above retirement age.

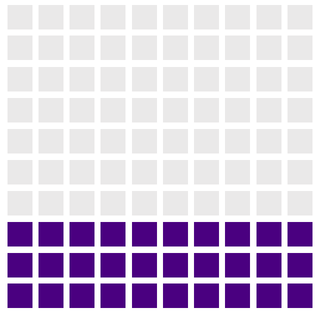
It is increasingly clear that CEO succession will be the one of the most defining challenges for financial institutions in the coming decade. Many leading financial institutions, from blue-chip names to smaller family-led institutions, are publicly announcing - or at least signalizing their commitment to - putting in place robust succession plans. This strategic foresight is crucial not just for the stability of these institutions but also for their continued relevance and success in a rapidly evolving financial landscape.

A vastly underprepared industry

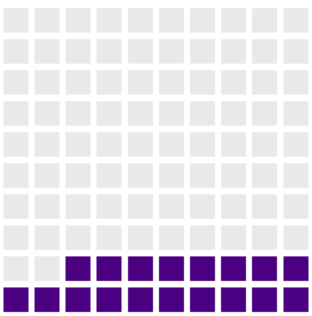
Despite the fact that CEO succession might very well be the most important decision financial institutions can make, according to our Global Leadership Monitor, the financial services industry is vastly underprepared. Most are not adequately prioritizing succession, starting the process too late, and are unclear around best-practices. In fact, for many, it is still treated like a one-off event triggered by an abrupt departure.



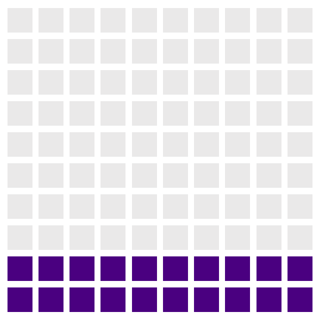
Only **14%** of FS boards/CHROs say that they are confident in their organization's existing succession plans



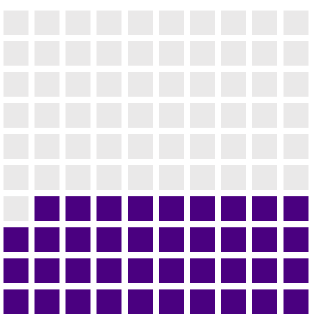
Only **30%** of FS boards/CHROs say they have potential CEO succession candidates identified



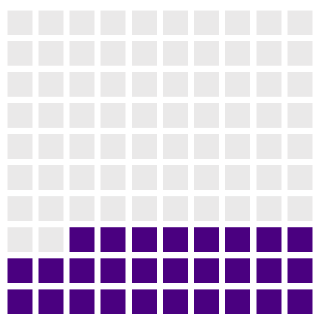
Only **18%** of FS boards/CHROs say they have discussed trigger scenarios for CEO succession



20% of FS boards/CHROs say they have had zero conversations about CEO succession



39% of FS boards/CHROs say that they do not have a strong, diverse, internal pipeline of succession candidates



28% of FS executives believe that their board does not have a successful succession strategy for the C-Suite

Source: RRA Global Leadership Monitor 2023, n=64 FS CHROs and Board Directors / n=136 FS executives

The makings of an effective CEO succession process

Over our decades of experience helping clients navigate what is undoubtedly one of the most complex and high-risk decisions their organizations will ever undertake, we have distilled several key learnings and best practices:

Plan thoughtfully

Establish clear timeframes, roles, and responsibilities. Develop a set of tailored criteria that match your current and future needs and devise a thorough interview and screening process to assess against that criteria. Continuously monitor and improve. Have an emergency plan.

Run a dual track

Internal candidates are the backbone of succession planning and need to be managed carefully. However, don't rule out external candidates. While internals are stronger in terms of specialized industry knowledge and culture fit, externals can offer different skill sets and a fresh perspective.

Focus on development

Development in the long-term succession context is specific to the unique requirements of the CEO role, which needs to consider the ecosystem in which the CEO will operate. Coaching is not enough.

Start early

It's never too early to start planning for your next CEO. It's not just about finding a single leader - it's about setting up guidelines, processes, search, training, mentorship and monitoring that will provide you with a sustainable talent pipeline for years to come.

Be considerate of the incumbent

When it comes to deciding on the ideal profile for the next CEO, in talking about the 'wish list' or desire for 'the future,' one can inadvertently appear to be dissatisfied with what you have. Real care should be taken to avoid misinterpretation and alienating the incumbent CEO.

Align stakeholders

The best succession plans are ones where boards, sitting CEOs, and CHROs can come together to plan, measure, and mentor future leadership candidates. A robust and constant feedback loop is required to ensure everyone feels included, and there needs to be trust from all parties.

Craft a forward-looking role profile

The CEO of the future will be different from the CEO of the past. Taking time upfront to craft a forward-looking success profile that considers the required leadership characteristics for the future – as well as the related trade offs – will be key.

Enhance retention

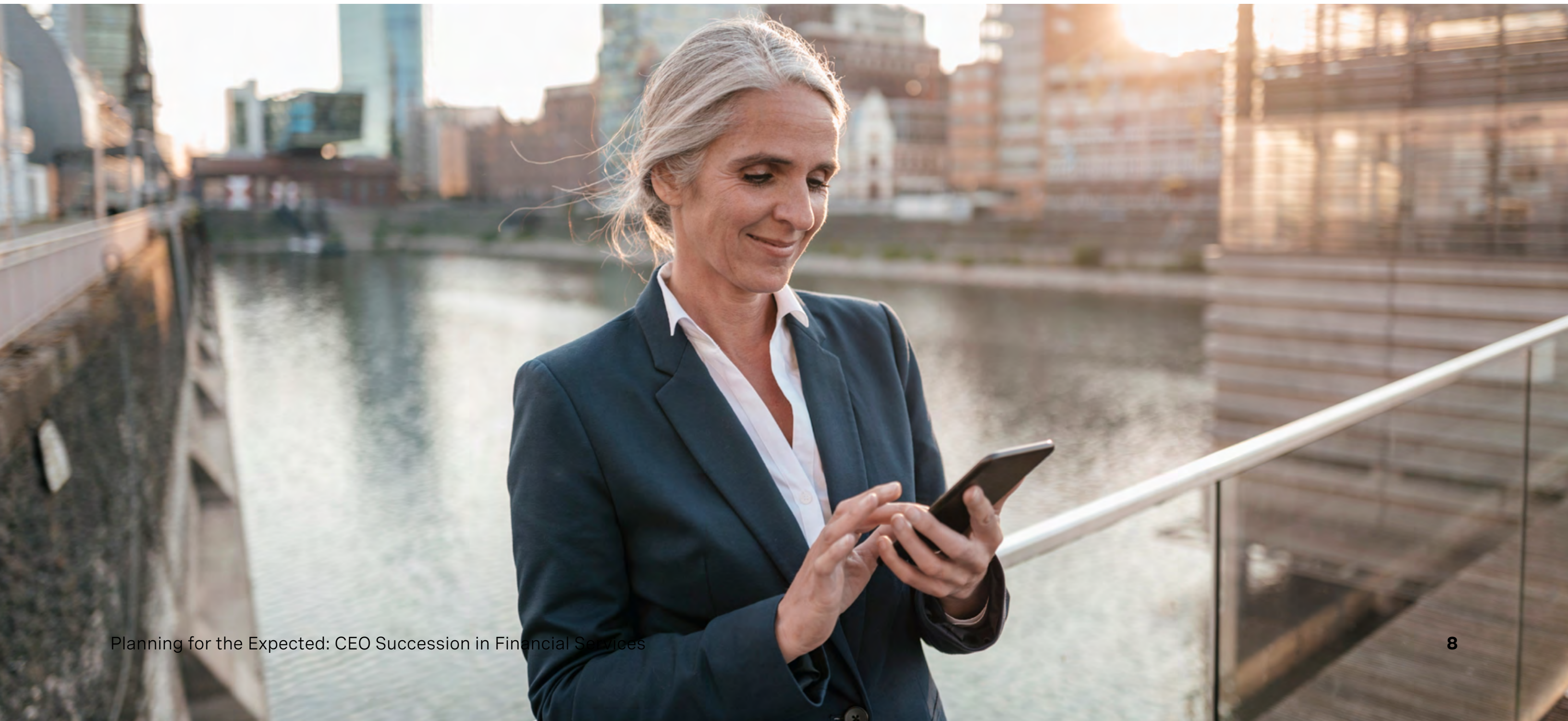
There can only be one successful CEO candidate. Build parallel development paths for those not chosen so that they still feel supported and appreciated. Even if they're not ready for immediate succession, they may still be strong candidates for future succession cycles.

Manage transition carefully

Succession does not end with the announcement and appointment of the new CEO. Begin transition planning months in advance of the CEO's official start date and continue the process well into the first phase of the new CEO's tenure. This will ensure he or she is set up for success.

Integrate CEO and C-Suite Succession

CEO succession cannot be conducted in isolation from the broader C-Suite. Organizations need to build a broad talent bench for a range of CEO-feeder roles. Keep in mind that CEO and C-Suite succession goes hand in hand and is a complex 3D chess game.



A complex interplay between the board, the incumbent, and the CHRO

Boards, incumbent CEOs, and CHROs each play a unique but important role in the CEO succession process. For each group, start by asking:

The Board and NomCo:

De-risking succession is the ultimate litmus test for boards

- Is there a clear timeline for CEO succession?
- What are the different scenarios under which a CEO succession could happen, and do you have a plan for each?
- Has the board already aligned upon a CEO role profile that considers leadership qualities and competencies needed to make the organization successful in the future?
- Have you established an objective assessment framework by which to evaluate candidates and are you developing your talent towards said framework?

The Sitting CEO:

Succession is your legacy

- What is your vision for your organization for the next 5-10 years? What's the strategy to achieve that vision?
- Do you have the right structures in place to help you get to that vision? Do you have the right ExCo / leadership team in place? If not, where are the gaps / what's missing?
- How do you feel about the strength of your current succession talent bench?
- As you think about your own succession, what is the legacy you would like to leave behind from your tenure, and through your exit?

The CHRO:

A high-stakes, high visibility, balancing act

- When it comes to CEO succession, how can you establish your influence and impact with the board and have a meaningful seat at the table?
- How deeply interactive has your firm's CEO succession been so far? How engaged are the various stakeholders? How linked is the process to the overall organizational strategy?
- Is there a clear division of roles, responsibilities, and ownership when it comes to CEO succession?
- Have internal candidates already been identified and / or assessed? Is there a near-, mid- and long-term development plan in place for each internal candidate?
- Have your internal candidates been benchmarked against the external market, and do you have a clear picture of "what good looks like"?

Planning for the future via CEO succession

Due to the current tenure of CEOs, most sitting CHROs and many boards have never orchestrated a CEO succession process before. At this unique point in time, CEO succession is a high impact undertaking fraught with landmines, with significant impact on shareholder value, company image and brand, employee morale, board effectiveness, and the CEO's own legacy. It's a high-stakes process that is further complicated by strict qualification and regulatory requirements, which further limits the viable candidate pool.

One doesn't need to look too far for cautionary tales of CEO succession gone wrong: a top successor candidate pulling out of the process and leaving the company scrambling last minute, an incumbent CEO unwilling to pass on the baton, a PR or health crisis that triggers an emergency replacement...this is not just fodder for TV dramas, but situations we encounter often when partnering with clients on their CEO succession journeys. Building out a thoughtful structure around succession, with a clear plan and an aligned internal and external team, could go a long way in ensuring accretive value creation instead of disruption.

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About Russell Reynolds Associates

Russell Reynolds Associates is a global leadership advisory firm. Our 500+ consultants in 47 offices work with public, private, and nonprofit organizations across all industries and regions. We help our clients build teams of transformational leaders who can meet today's challenges and anticipate the digital, economic, sustainability, and political trends that are reshaping the global business environment. From helping boards with their structure, culture, and effectiveness to identifying, assessing and defining the best leadership for organizations, our teams bring their decades of expertise to help clients address their most complex leadership issues. We exist to improve the way the world is led.

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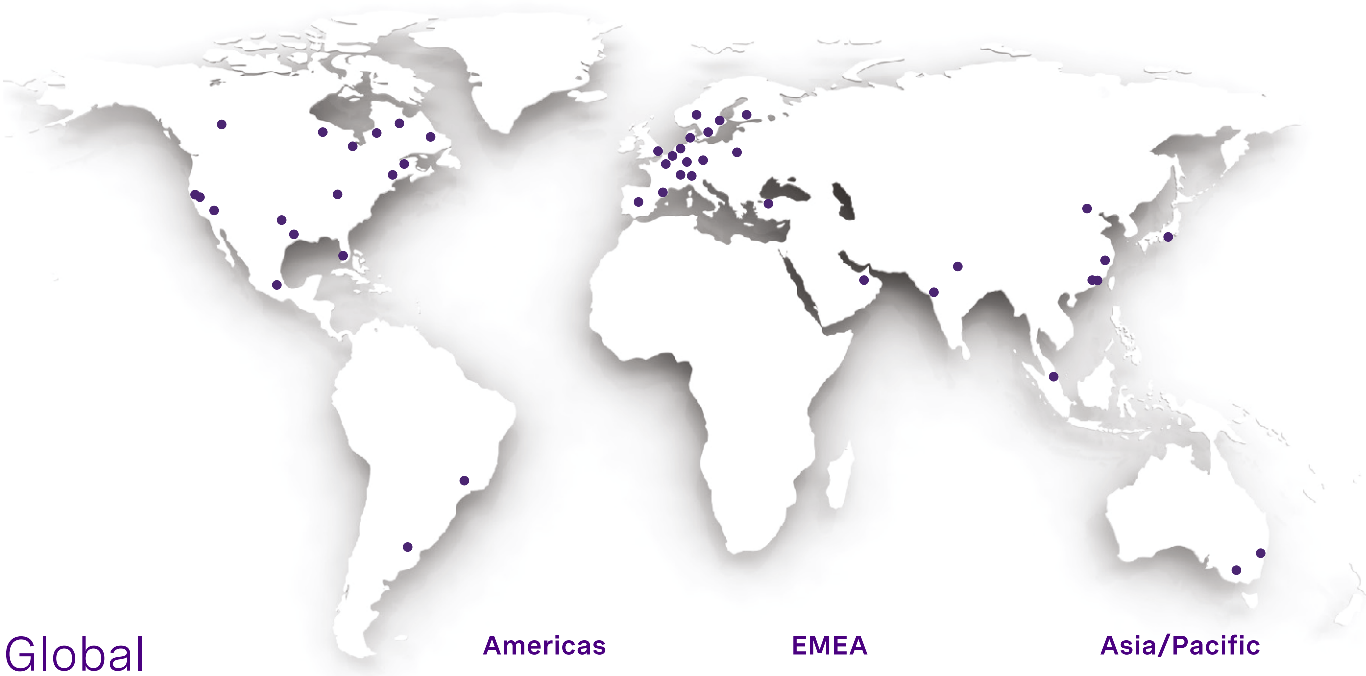

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