CEO Succession Planning: A Strategic Imperative for U.S. Bank Boards and their CEOs

The U.S. banking environment showed impressive resilience over the last eighteen months. The KBW Bank Index is up over 15% year-to-date through Q3, current (and future predicted) rate cuts are beginning to take hold, and the 2024 Fed stress test shows all 31 of the largest U.S. banks have sufficient capital to withstand a highly stressful recession. Overall, there's optimism around the industry experiencing some tailwinds rolling into 2025.

While a handful of banking's traditional systemic and cyclical risks have subsided, one threat remains overlooked amongst many U.S. banks: poor C-suite succession planning—specifically for CEOs—continues to pose a significant risk.

CEO succession is a major strategic priority, and too many boards fail to have world-class succession processes firmly in place. Our examination of CEO transitions of the top U.S. regional banks ($20B - $250B assets) over the last decade shows that approximately half of these banks did not approach succession planning in a thoughtful and pragmatic manner.

CEO succession is one of the most important governance roles of the board and an essential responsibility of the incumbent CEO - why is it often overlooked at such a high risk for the board, employees, shareholders, and customers?

Established CEOs with successful tenures tend to cloud the urgency and good corporate hygiene necessary for robust succession plans. Additionally, the parochial nature of the regional banks puts a greater emphasis on communal relationships and reputational history, often leading to a cult of personality holding sway over hard and necessary conversations.

Studies show community and regional banks are more complacent in their efforts to actively discuss and develop tangible strategic succession plans. According to the Bank Director's 2024 Compensation & Talent Survey, just 18% of U.S. banks with under $100B in AUM have identified a CEO succession candidate along with a timeline and plan of action. For the majority of respondents, the risks and consequences of disorganized succession can result in significant financial and operational challenges.

The price of complacency in succession planning

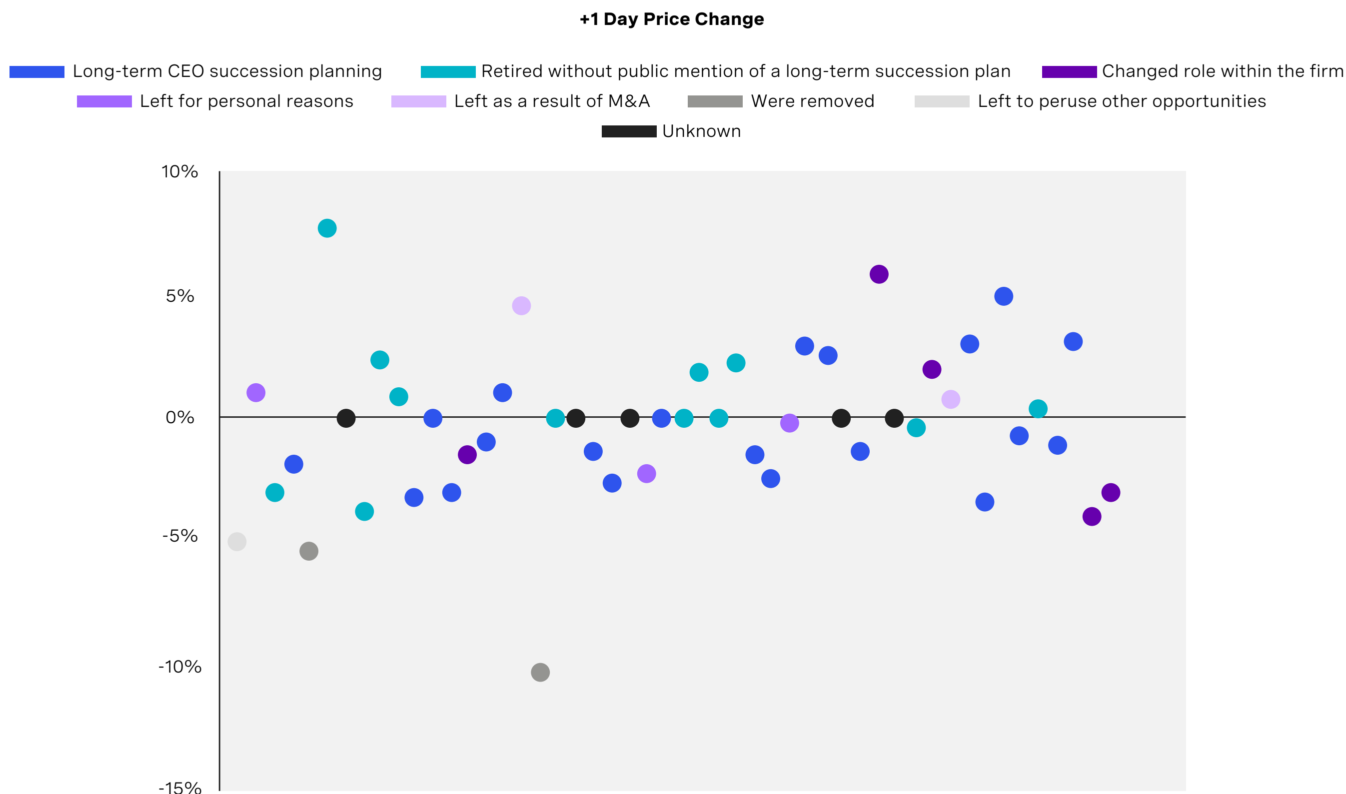
The implications of poor CEO succession planning on financial performance are clear. As reported by the Harvard Business Review, poorly managed CEO and C-Suite transitions in S&P 1500 companies result in nearly $1 trillion in lost market value annually. The risk is greater within the regional bank segment, where mismanaged CEO succession can exacerbate cultural distress and create institutional factionalism that is much harder to overcome than at their larger peers.

To illustrate this issue in the context of U.S. banks, we analyzed the short-term price reactions of 50 publicly traded banks following the initial CEO succession announcements [Figure 1].

Unsurprisingly, we found that banks experienced the most significant short-term impact on shareholder value when their CEOs left abruptly and without any public announcement of a long-term succession plan. These banks saw their stock fall by an average of 7% the day following the announcement, and subsequently finished 8% lower one month later. This drop in market value affects shareholder returns, employee morale, and customer perception - ripple effects the tightly knit banking communities cannot afford.

Conversely, robust succession planning can enhance company valuations and investor returns by 20% to 25%. Our analysis indicates well-prepared transitions shield investors from disruptive market value declines on the day of the announcement. Furthermore, banks that publicly emphasize their succession plans experienced an average 6% increase in stock price one month after the CEO transition was announced.

Figure 1: Bank short-term stock price change following press release announcements of CEO transitions



Source: RRA Analysis of CEO transitions in publicly traded U.S. banks valued between 2014 - 2024, n=50*.
*Methodology: We analyzed CEO transitions in 50 U.S. banks selected based on their substantial total assets size and status as publicly traded entities. This approach excludes outliers and ensures a focused examination of how CEO changes impact shareholder value and market dynamics within the banking sector.

The shiny object trap

A common pitfall in CEO succession planning is the allure of the external candidate. Too often, boards have heightened expectations of who they can attract and how quickly the process will unfold. Add in compensation expectations, aggressive buyouts, non-competes, and relocation considerations (which have shifted dramatically post-COVID), and a process that starts at resignation is already unduly challenged.

While hiring externally brings fresh perspectives, novel strategies, and is often the correct strategic move, it also present risks. RRA's Global CEO Turnover Index Annual Report indicates that CEOs hired internally tend to remain in their positions for an average of 1.4 years longer compared to those hired externally. Additionally, external hires are more prone to being terminated, with 30% being fired versus 24% of internal hires.

This is not to discourage external hiring; on the contrary, these risks are negated when complemented by a well-designed succession process. Since the focus on external candidates often diverts attention from the crucial need for strategic internal talent development, succession planning addresses this issue up front. Robust coaching and development programs derived from succession planning result in a greater number of qualified internal placements.

U.S. banks must address three key areas that undermine succession planning:

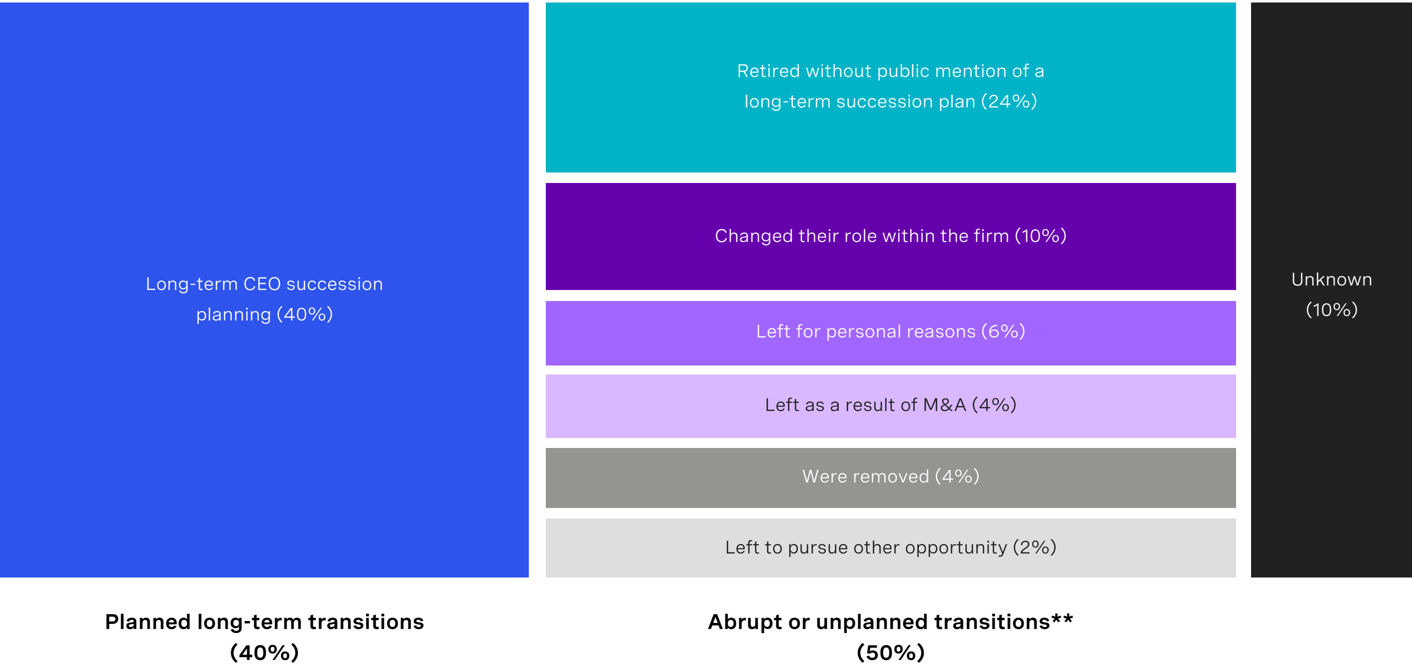
1. **The lack of a tangible, real-time succession plan**
2. **Poor internal leadership development**
3. **Insufficient board involvement**

By focusing on these three critical areas, banks can refine their succession strategies and better utilize their internal talent, ensuring greater stability and continuity of leadership.

Lack of attention to long-term succession CEO plans

Unanticipated CEO departures are on the rise. Our analysis of CEO succession plans across U.S. banks reveals that 50% of CEO transitions were considered abrupt or unplanned, owing largely to retirement without prior mention of a strategic succession plan [Figure 2].

Figure 2: Bank CEO departures by type*



Source: RRA Analysis of bank CEO departures over the last 10 years, n=50

*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.

Additionally, we found that C-suite executives at mid-sized banks stay at their organizations for 15 years on average, and have been in their current roles for an average of 6 years. While long tenures often imply stability at the top of the house, a closer look reveals a potential looming retirement cliff.

The average age of current banking CEOs is 58, and nearly 25% of banking C-level executives are 65 or older, according to our research. This suggests that banks may soon be encountering a leadership vacuum that can only be countered with established succession plans. This gives next generation leaders the time to develop, and the board the space to evaluate their growth against the external talent market.

These statistics beg for boards to be attentive to the development and execution of a robust, long-term succession plan, one that balances the potential strengths of the internal executive team with potential outside talent.

Poor internal leadership development

Effective CEO succession planning goes beyond selecting new leaders; it also hinges on cultivating and nurturing internal talent pipelines. At U.S. banks with less than $250B total assets, there's a limited pool of realistic, qualified senior executives who are ready for the CEO role.

Internal promotions tend to build organizational loyalty, support employee retention, and capitalize on existing intellectual capital while avoiding the costs associated with outside hires and the higher risk of failure. Mapping internal talent against succession needs is crucial for identifying and nurturing top performers who embody the bank's culture and strategic vision.

Investing in leadership development programs prepares future leaders and strengthens overall organizational resilience in the face of leadership changes. Too many banks believe they have top-notch C-suite development programs, yet they find themselves caught off guard when unexpected openings arise, leading them to seek outside talent. This is an avoidable outcome and one that lies square on the shoulders of the board, CEO, and CHRO.

Insufficient board involvement

The above emphasizes the need for the board to be an active player in the succession process. Despite the criticality of CEO succession planning, many bank board's currently lack a proactive approach.

According to RRA's Global Leadership Monitor, only 14% of financial services boards and CHROs express confidence in their organization's succession plans, with 39% reporting inadequate internal pipelines of succession candidates.

This disconnect underscores the need for heightened board engagement and oversight in succession planning efforts. Boards must prioritize talent development initiatives, establish clear succession criteria, and foster a culture of continuous learning and leadership development within the organization.

How can banks ensure effective leadership transitions?

Successful CEO succession planning demands a strategic and proactive approach tailored to each bank's unique challenges and opportunities. Key recommendations to ensure a well-prepared succession process include:

- **Early and continuous planning:** Develop and execute a continual succession process that allows for thorough assessment of internal talent that strategically aligns with organizational goals. Multi-year succession planning minimizes disruptions and allows for seamless leadership transitions.
- **Identify and develop top internal talent:** Invest in leadership development programs tailored to specific organizational strengths and areas of concern. Identify high-potential executives early in their careers and provide them with opportunities for growth, mentorship, and C-suite/board exposure.
- **Conduct external talent benchmarking:** Regularly benchmark internal talent against industry standards and external candidates to ensure competitive advantage and strategic alignment. External talent assessments provide valuable insights into market trends and potential gaps in internal capabilities.
- **Regular board review and involvement:** Establish clear governance structures and processes for overseeing succession planning efforts. Regular board reviews of succession plans ensure transparency, accountability, and alignment with organizational goals. Board members should actively participate in talent discussions, leveraging their expertise to measure and opine on future leaders.
- **Inclusion of the outgoing CEO:** Consult with the incumbent CEO throughout the succession planning process. By leveraging this experience, knowledge, and insights, the outgoing CEO can support the incoming leader, ensuring a smooth transition and continued organizational success.

By adopting these best practices, U.S. banks can mitigate risks, enhance continuity, protect shareholders, and position their companies and cultures for sustained success amidst leadership transitions. Effective CEO succession planning is an absolute must that safeguards organizational stability and nurtures a culture of leadership excellence essential for long-term growth and resilience.

Robert Voth co-leads Russell Reynolds Associates' Consumer & Commercial Financial Services Practice. He is based in Chicago.

Elizabeth Lang is a member of Russell Reynolds Associates' Financial Services Knowledge team. She is based in New York.

Cem Turan leads Russell Reynolds Associates' Financial Services knowledge team. He is based in London.

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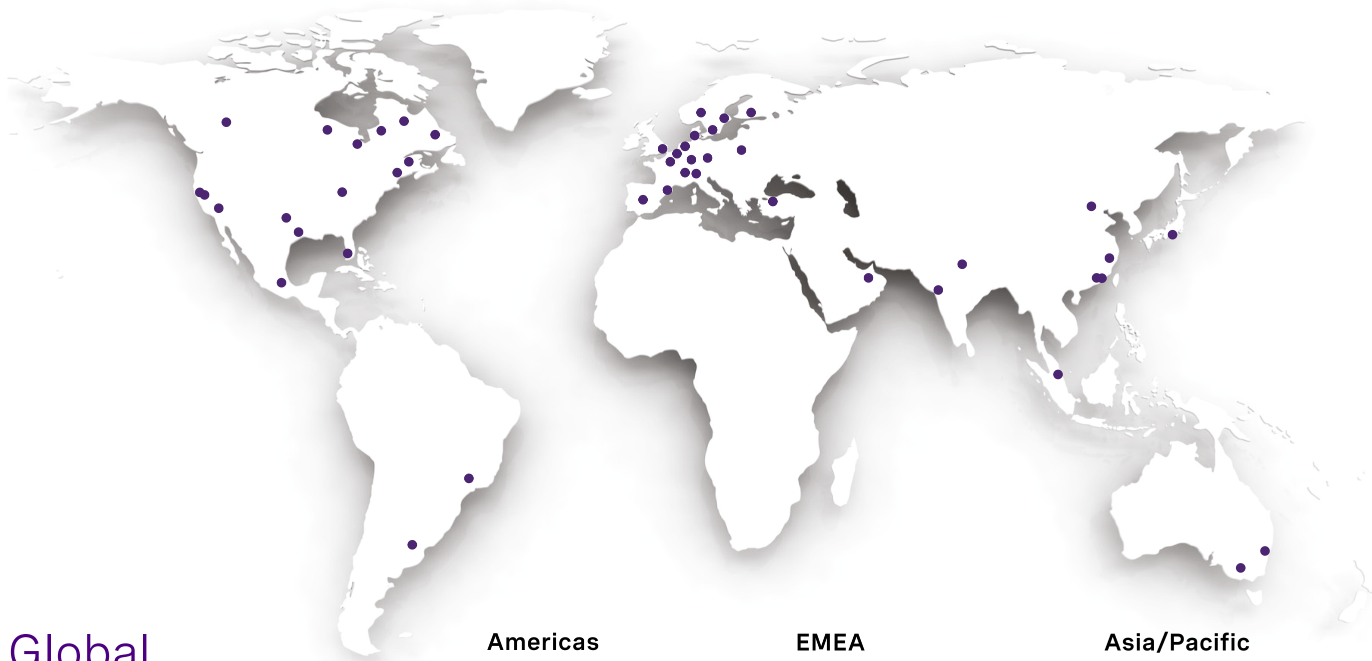

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