Finding the right CEO: UK banks need a new succession strategy

Though the role of CEO increasingly requires an additive set of skills and experiences that includes digital, sustainability, and purpose-driven leadership, the current talent pool for future banking CEOs is still predominantly made up of those with more traditional skill sets.

It is a challenging time to be a chief executive officer in banking, at the unprecedented confluence of a global pandemic, the politically charged Brexit negotiations, a low-interest-rate environment, and an increasingly demanding customer base. On top of the traditionally required CEO resume that shows a track record of running core banking businesses, successful CEOs today must bring a widening array of new business skills to their position, from the ability to deliver a more sophisticated digital, technological, and operating environment to articulating a clearer business vision that incorporates their organization's environmental and social impacts.

Our study of the career paths of more than 292 senior executives across UK banks shows that the current CEOs of the country's top banks—universal, mid-market, and neobanks (which we define as a bank operating entirely digitally)—have, to a very large extent, traditional backgrounds and have spent the majority of their careers in core banking functions. That finding is not surprising. It is concerning, however, that analysis of the obvious leadership pipeline—the executive committee and the layer immediately below—shows very similar profiles. That concern is heightened because the regulatory oversight of CEO appointments in British financial services institutions means that bringing external candidates into these roles is a difficult endeavor and makes the quest for diversity of thought even more challenging.

The solution to this issue lies in changing the industry's approach to succession planning. Our proprietary analysis of recent CEO appointments in financial services globally shows that, at the moment, many boards still prioritize more traditional competencies: a drive for results, resilience, effective strategy shaping, and foresight.[1] To give themselves the best chance of finding the right CEO, company leaders should put in place a robust, structured, and data-orientated succession process that begins earlier on in the careers of potential CEOs and intentionally develops broader skills and versatility in the highest-potential executives. Such a pipeline can draw from within an organization, but the board and current CEO should also consider bringing external candidates from outside of the sector in early enough to cultivate their experience in financial services, though not so early that they would lose their ability to think and operate differently by the time they are in line to become CEO. This kind of succession planning should also open the door to creating a more diverse and inclusive organization. But it won't be easy: bank boards and CEOs must make a strategic, structured commitment to developing a new CEO talent pool.

Methodology

For this article, we used our proprietary research on the backgrounds of 292 executives in industry universal banks (including the largest building societies), neobanks (those with exclusively digital propositions), and the mid-market (encompassing every UK institution with a banking license). We focused the analysis on the background and experiences of CEOs and executive committee members. For universal banks, we added in the analysis the layer below executive level for a longer-term perspective.

Keeping up with the evolving CEO profile

To understand better how the expectations for the role of the CEO are changing, we talked to chairs and current CEOs at some of the United Kingdom's biggest banks. Their views supported our perspective that while the traditional skill set that potential CEOs brought into the role is still fundamental, it is unlikely to be sufficient for the next generation of leaders.

The table-stakes requirements will continue to hold: CEOs have to know how to operate a complex, full-service, multi-product bank and must have the ability to manage evolving risk and regulatory dynamics, as well as be prepared for the unpredictable. Many current CEOs, boards, and regulators believe that direct sector experience and longevity of that experience is a prerequisite. And one senior banking leader we spoke with said that "it was hard enough before [the COVID-19 crisis] to make the necessary judgments without the direct sector experience; the current uncertainty and volatility make it even harder."

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Other must-have experience is proven P&L leadership of an end-to-end business with full accountability, as well as stakeholder engagement experience gleaned from leading teams of senior executives and interacting with institutional and retail shareholders, a seasoned board of directors, and the highest levels of government and regulatory officials. Another senior leader described the role's essentials: "A CEO must be financially astute. They must be able to run a heavily matrixed business; they need resilience, and they must be digitally savvy." A third added that "a CEO must be sales driven, growth driven, and at the same time be able to take out cost through technology."

Bank CEOs also need to show vision and strength of conviction, along with the ability to adapt to an ever more uncertain and unpredictable environment. They must be competitive and prepared to constantly evolve their business model, or, as one senior leader put it, "be good at sensing the way in which the world is moving. [CEOs] must be relentless, never satisfied with the status quo, and always pushing boundaries."

But while these fundamental requirements endure, there is a growing layer of responsibilities that have more recently been blended into the role. The shift toward customer-driven digitization of financial products and services means that bank CEOs need to understand how to drive technological change, leverage data to understand their customers better and create a data-centric culture, and build teams that can rationalize legacy technology. Increasingly, CEOs have responded to changing customer and employee expectations by accelerating digital transformation, encouraging more innovation, and implementing new, agile operating models. This has also required a new form of leadership—one that recognizes that people are the key source of competitive advantage for a digital transformation in today's market.

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Future CEOs must also demonstrate their ability to shape an organizational purpose and vision that is grounded in an environmental, social, and governance (ESG) agenda, and have a track record of encouraging diversity of all kinds. It is increasingly important that CEOs are able to go beyond articulating the organizational purpose to embedding it into strategy, business principles, and company culture. As one senior leader noted in reference to ESG issues, "The key for the ESG agenda is finding how to create competitive advantage and being able to articulate it."

CEOs must be able to inspire and influence, disrupt and challenge, lead innovation, and adapt in order to successfully navigate the next phase of a sector fraught with uncertainty. One leader pointed out: "A lot of people are questioning the future of the retail banking business model in the United Kingdom. This period is not just evolution it's transformation."

1 Paul Gibson, Karen Rosa West, and Ryan Pastrovich, "Disruptive leaders: An overlooked source of organizational resilience," Heidrick & Struggles, April 1, 2020, heidrick.com.

The challenges of today's talent pool

With the evolving role of the CEO in mind, how well prepared is the industry's existing talent pool? Analysis of our proprietary data shows that when boards are seeking CEOs in financial services globally, they place the greatest emphasis on four competencies: a drive for results, resilience, experience shaping strategy, and foresight.[2] Our analysis of the current UK bank CEO talent pool shows that it is aligned with those priorities, including mostly leaders who have spent a long time in banking and other financial services organizations. The drive for results illustrates a commercial and technical bias, as executives are being assessed against their latest financial performance. The need for resilience as a key capability in financial services leaders has intensified in the aftermath of the global financial crisis and will likely be even more relevant after the pandemic subsides. In this context of navigating high-impact, low-probability events, foresight and the ability to not only anticipate trends and events but factor them into corporate strategy will remain on top of the wish list for bank CEOs across all market segments and business models.

For a better understanding of the leadership composition at the United Kingdom's top universal banks, mid-market banks, and neobanks, we analyzed the backgrounds of CEOs, members of the executive committee, and the executives reporting into the executive committee. Current CEOs do have slightly different profiles depending on whether they lead a universal bank, a mid-market bank, or a neobank. Neobank leaders bring to the table significantly more experience from outside financial services (primarily consulting and technology experience) and consequently significantly more non-core banking experience. The gap in skill sets can be explained to an extent by the radically different business and operational models; the question is whether the more traditional banking institutions can afford to continue appointing CEOs without a broader understanding of the technology that is shaping their business. Conversely, some of the biggest UK neobanks are yet to turn a profit,[3] which raises the question of whether they should also rethink their CEO profile and broaden the makeup of their executive leadership teams.

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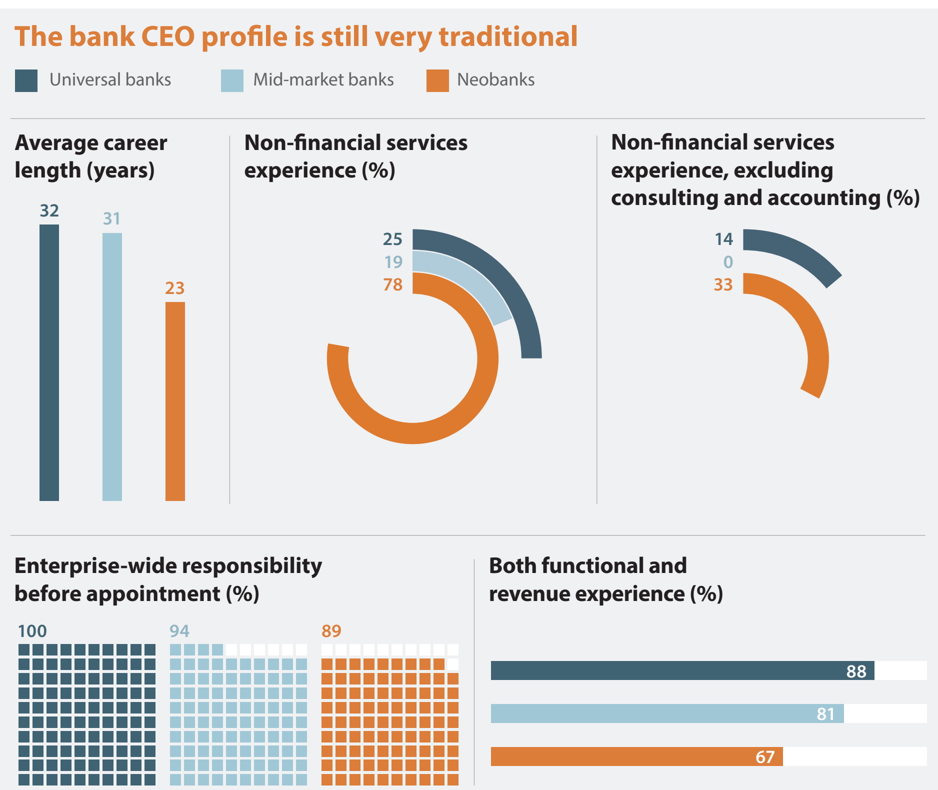


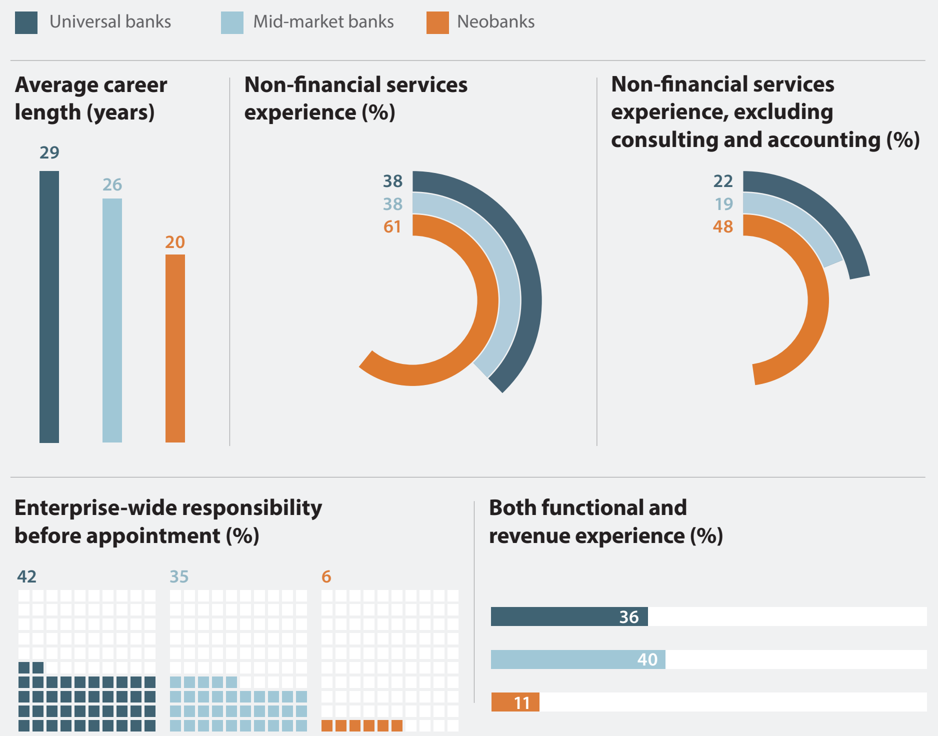
Source: Heidrick & Struggles analysis of 33 CEOs of the United Kingdom's biggest banks

2 These four competencies are reflected in Heidrick & Struggles' META framework, which outlines the leadership behaviors that differentiate high-performing organizations, teams, and leaders: the ability to mobilize, execute, and transform with agility.

3 David Dawkins, "The sad demise of Europe's neobanks," *Forbes*, August 24, 2020, forbes.com.

The analysis of the executive committees shows more experience outside financial services than among CEOs, but the gap between neobanks and others is still significant, particularly when compared to universal banks. Still, a surprising number of neobank executive team members were long-term financial services professionals. Furthermore, the percentages of executive committee members with enterprise-wide responsibilities and those who have both functional and revenue experience drops drastically to less than half for universal and mid-market banks, and dwindle to 6% and 11%, respectively, for neobanks. That should be an immediate call to action for companies to assess their pipelines and identify approaches that will help them develop their senior leaders into executives who fit their ideal future CEO profile. This should include broadening their senior leaders skill sets by providing them with exposure to wider product and enterprise knowledge, including experience leading multiple functions.

Executive committee members' profiles don't show significantly more differentiable backgrounds



Source: Heidrick & Struggles analysis of 181 executive committee members of the United Kingdom's biggest banks

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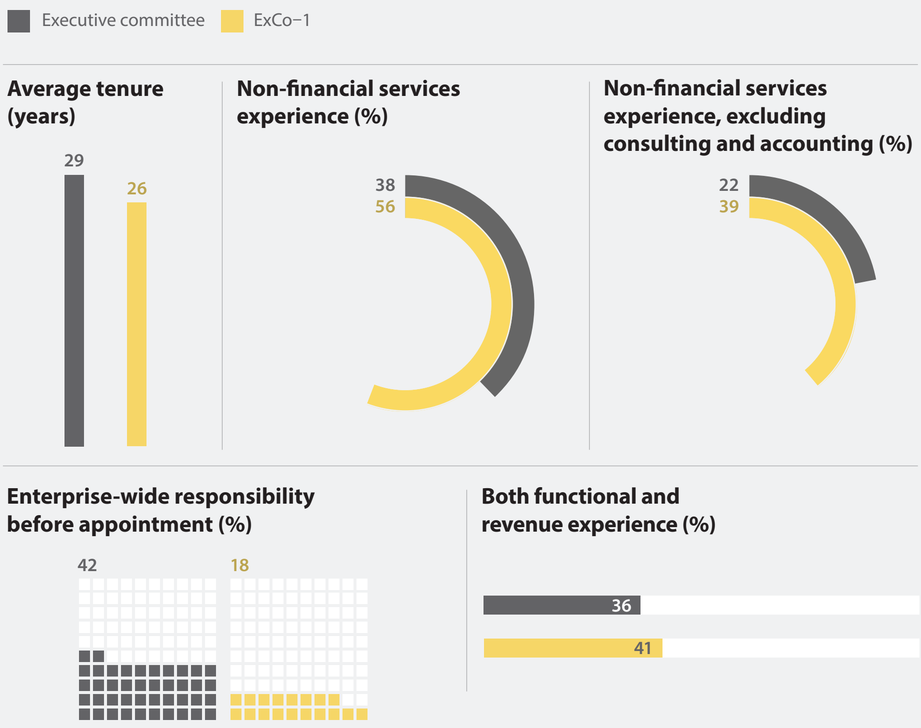
Taking an even longer view, there is a mixed picture at the level below the executive committee in universal banks, where executives have more non-financial services experience than the next layer up, but even less enterprise-wide responsibility. While the latter makes sense considering the two different levels of seniority, gaining enterprise-wide experience can be a difficult challenge outside a clearly mapped succession plan.

The level below executive committee shows more cross-sector experience, but less enterprise-wide know-how



Source: Heidrick & Struggles analysis of 66 members of the United Kingdom's biggest banks

On the face of it, some of the data looks positive: 39% of that group has non-financial services experience when you exclude consulting and accountancy, compared to 22% of the executive committee level. But on closer inspection, even those with experience outside financial services who are promoted into enterprise-wide leadership roles have spent, on average, 14 consecutive years in the industry before that promotion. This raises the question of how diverse their thinking really is by the time they are in a leadership role.

Casting a broader net for future banking CEOs

In a context where all three banking segments could face challenges in finding their ideal next CEO, how can boards and CEOs create a wider pool of talent for future CEOs? Our view is that they should take a two-prong approach to succession planning: a targeted track and a broad and systemic one.

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To be successful, the targeted approach must be high on the agenda of the board, as well as that of the current CEO and CHRO. It must be focused on structured succession planning that takes into account people much earlier in their careers than is now the norm. Executives at the level below the executive committee should come into their roles with a clear development plan that aims to close their individual skill set gaps in order to have the best chance of being appointed to the executive committee. Other recent Heidrick & Struggles research shows that a significant number of the current CEOs leading some of today's largest companies left their previous employer while at the executive committee level in order to advance their careers.[4] Such talent loss presents a particular risk for companies already struggling to find top talent. Organizations can prevent this by taking advantage of an increasing number of tools that include tailored assessments, HR data and analytics, and leadership development frameworks in order to understand gaps and broaden executives' skill sets in terms of both functional and business exposure, as well as the softer skills that are becoming more important to success in the CEO role. One of the leaders we talked to said, "We must make it in people's interest to move across different functions and businesses, and we as leadership teams have to do more to create roles to develop an individual's skill set."

4 *Route to the Top 2020*, Heidrick & Struggles, forthcoming on heidrick.com.

A targeted approach also includes a commitment to bringing in talent from outside the industry and making sure the new hires gain the industry knowledge and mindset they need to feel included.[5] There is a large pool of executives with market-leading experience in many of the newer aspects of the CEO's role outside of financial services, especially expertise in technology and operating style. External CEO candidates will likely face more intense scrutiny, as one of the senior leaders we talked to pointed out: "If hiring an external candidate, they must be 30 to 40% better than the internal options." Going beyond sector boundaries will also throw into the mix the regulatory constraints facing UK banks, as companies are very unlikely to hire an executive with limited industry experience directly into the CEO role. The complexity of the hiring process means that, even more than with internal potential candidates, there must be a clear plan put in place to demonstrate how the organization is going to give this talent pool the best chance of success. Timing is also important, as banks have to find the right balance of bringing potential leaders in with enough time to understand the new organization, but not so far out to reduce the advantage of a fresh perspective that comes with a hire from outside the sector. Any bank will have a better chance of attracting talent when it shows it can successfully integrate someone from a different sector.

More broadly, in parallel with the expectation that future CEOs will have different expertise and skill sets than current or former CEOs, boards are also recognizing that no CEO can succeed alone. A systemic, longer-term approach to succession planning in which the board thinks about the entire team it builds around the top role, not just the CEO in isolation, is the second step to success for UK banks. Boards will also need to factor in the way C-suite roles evolve and consider with each new appointment whether the scope of the position has changed and what the potential implications are rather than automatically bringing in someone with an identical profile. One senior leader said, "Every time someone leaves at the executive level, there should be a debate about whether the role should be changed or reshaped to offer development to more people, rather than automatically replaced like for like."

Boards will be able to drive more successful CEO succession programs if they can establish and own a sophisticated set of data-oriented metrics to understand their top team's capabilities and track them on a consistent basis. While these metrics and approaches should be customized for each company's needs, beyond operational success, they should at a minimum measure leaders' digital dexterity, agility, and drive to build an inclusive culture. With the advancement of data analytics and artificial intelligence, companies have access to advanced HR analytics tools that allow them to identify, measure, and develop high-potential talent on a wider scope of metrics that includes, among others, financial performance, employee engagement, agility, and innovation.

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Conclusion

The evolution of the role of the UK banking CEO is ongoing. The long-term implications of the pandemic and a still-unpredictable Brexit outcome will have an enduring impact on what customers expect from banks. Companies should look further down into their organizational hierarchies to identify individuals with the right potential and custom-design career journeys that complement their existing skills and provide access to a broad spectrum of experiences. At the same time, boards should actively seek to bring talent into their organizations with enough time to make sure those people have the opportunity to acquire the critical sector acumen that will allow them to successfully compete with their peers coming through internal tracks and understand their teams better. A wider talent pool and a custom-designed career path for all aspiring CEOs will help banks find the right CEOs and, by extension, raise the stakes industry-wide.

5 Alice Breeden and Brian Klapper, "Successfully shifting mind-sets to accelerate performance," Heidrick & Struggles, February 20, 2020, heidrick.com.

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