

Succession planning best practice in Financial Services - how to increase business performance and resilience

The Financial Services ecosystem continues to evolve in response to an increased focus on customers, regulation, resilience, security and disruptive technology. But what does this, and the need for ongoing transformation, mean for the way you plan and manage succession for leadership and other critical roles?

There are plenty of studies and statistics that highlight the succession challenge. KPMG conducted a global survey of 2,300 directors that showed only 14% of them had a detailed board succession plan.

PwC reviewed a sample of large companies that underwent forced successions and estimated they would have collectively generated \$112 billion more in market value in the year before and the year after their turnover if their CEO succession had been planned.

It's not just relevant at senior levels - a recent survey by Hireology.com showed that:

- 62% of employees surveyed say they would be 'significantly more engaged' at work if their company had a succession plan.
- 94% of employers surveyed report that having a succession plan positively impacts their employees' engagement levels.
- Over 90% of younger workers (age 18 to 34) say that working at a company with a clear succession plan would 'improve' their level of engagement.

Amongst our Financial Services clients we're seeing a marked increase in their focus on succession challenges and a greater awareness of the risks presented by weak or missing succession plans. In our experience, this focus is often driven by a combination of factors:

- An aging ExCo, many of whom are close to retirement
- Significant capability gaps between ExCo and the layer(s) below
- No clear, consistent way of quantifying potential or readiness for bigger roles
- Shorter tenure amongst employees, especially those at an earlier stage in their career
- Recognition, through experience, that succession planning isn't effective if it's purely reactive
- Increasing competition and non-traditional business models
- Regulatory requirements

Succession scenarios can take a number of forms. One is the 'run over by a bus' scenario – sudden and unexpected. Thankfully not a frequent occurrence in most businesses, but we've seen it happen, and the subsequent turmoil that occurs is significant. There is sometimes an obvious replacement but it's often a short-term measure until a more thought-through, long-term plan can be implemented.

Another scenario involves a more gradual transition as a leader expresses their intention to retire or resign and serves their notice. This triggers a succession planning process and the search for a replacement, whether internal or external.

A third scenario is also gradual but originates from a loss in confidence in a leader, possibly over an extended period. Significant damage can be averted if there's a clear succession plan, and the will and commitment to act on it.

The most positive scenario is when the business has integrated succession planning into the fabric of how they identify, develop and manage talent. So, what does this look like and how can you continue to enhance succession planning in your organisation?

Five Success Factors

From our work with a diverse range of businesses, including in Financial Services, we've identified the following five **succession planning success factors** that you can build into your approach to talent management:

1. **Clearly define role requirements:** As the market you're operating in evolves, your strategy and operating model will develop. It's critical to identify the core capabilities your business, and individual roles, require to remain competitive. The shift in focus from 'safe' and 'tried and tested' to 'innovative' and 'cutting edge' in a wide array of functions is a good example. By regularly reviewing and updating the skills, knowledge, experience and behaviours needed for success in leadership and other critical roles, you'll be better-equipped to select and develop successors who have them or the potential to develop them.
2. **Routinely involve business leaders:** Too often, succession planning is seen as a paperwork exercise or an HR initiative. Regularly involving business leaders at all levels through talent and succession reviews creates clarity, buy-in and understanding. Crucially, leaders must be held accountable for their ongoing role in identifying, developing and managing successors. There also needs to be recognition that people decisions generate an emotional response that can trump logical planning and decision-making. Passionate debate is fine if clear-cut decisions are made, in line with the best interests of the business and the individuals in question. To test these decisions, some organisations carry out emergency succession drills for key roles.
3. **Assess both performance *and* potential:** Business leaders and successors themselves are guilty of mistaking high performance for potential. There must be recognition that someone who excels in their current role won't necessarily do the same at the next level – the ingredients for success are often very different. For this reason, it's essential to measure both performance (current capability) and potential (future scope for growth) when identifying successors. Readiness can be thought of in two ways – the size of the gap in experience, behaviour and capability, and the length of time it will take to close that gap. Research into potential has revealed that certain traits such as emotional intelligence, cognitive dexterity and an appetite for learning are key. These can be quantified through objective assessment, and any gaps closed through planned development that's shaped to individual leaders. It's also important to regularly benchmark internal successors against external talent to maintain a healthy mix. Home-grown talent is important, but so is a fresh perspective.
4. **Start early, take a long-term approach but manage the pace:** Depending on the size and complexity of your organisation, you may need to plan succession several levels beneath leadership and other critical roles. Defining common career paths that are stretching but achievable will help individuals to map potential moves well-ahead of time. Clearly defined role requirements (success factor 1.) will enable them to understand what they need to develop to succeed in their next role. This is especially important if moving between role 'shapes' e.g. an operations delivery role to a business partnering role. The timing of upward progression for motivated employees is key as well – too slow and search firms take those with most potential. Too fast and individuals are set up for failure, which can damage them, their career and your business.
5. **Integrating talent management processes:** Succession planning will undoubtedly be one of several key initiatives in the talent management space. It's critical that the selection, development and deployment of your leaders is aligned to your approach to succession planning. For example, leadership development should be personalised and linked to the succession plans individuals are on. By gaining 'live' experience through projects and other activities that are relevant for their next potential role, they will be better prepared for success.

Regulation

Discussions with the Prudential Regulation Authority / Bank of England offer an additional perspective on the importance of robust succession and they provide clear, principle-based guidance to regulated businesses and they expect succession planning to support ongoing compliance with the Senior Managers & Certification Regime. The PRA expects businesses to clearly understand the technical and behavioural competency of individuals and to quantify and mitigate any gaps, both currently and in the future. They also expect succession planning to support a firm's diversity policy. The regulator can wield its influence onto companies should the situation warrant.

The introduction of the Senior Managers and Certification Regime only strengthens the focus on competence and ensuring that critical risk-accountable roles have clearly identified successors to strengthen business resilience and continuity.

Conclusion

Irrespective of business size, having a robust succession plan is sound business planning. A clear, widely communicated process helps to engage employees, identify and develop the next generation of leaders and meet regulatory requirements.

We hope you've found the article informative, interesting and thought provoking. We welcome your thoughts, experiences, insight and feedback to contribute to the discussion.



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Richard is passionate about helping leaders, teams and organisations to increase their performance through impactful and dynamic leadership and talent consulting. He has assessed, developed and advised leaders at all levels, from guiding FTSE businesses on CEO selection through to supporting front-line nurses in the NHS.

Before establishing Talent ID, Richard worked for a global people consultancy. He partnered with clients in the UK, Europe, US and the Middle East to help them identify and develop their talent and structure their organisations in the most efficient way. Prior to consulting, Richard gained his own leadership experience, training at the Royal Military Academy Sandhurst and serving for 15 years as a British Army Officer, including on overseas operations.