A look at recent CEO succession trends can provide useful context as boards seek to sharpen their thinking around executive handoffs.
Many factors can trigger a CEO succession — from benign causes such as an executive’s retirement to more ominous developments such as a dip in company performance, an unexpected illness, or a fractious relationship with the board. Given the potential disruption to the organization, the decision to switch leaders isn’t undertaken lightly. Research and our experience indicate that the level of succession planning varies significantly across companies and industries, suggesting that many companies aren’t fully prepared for the transition. To better prepare for an executive handoff, it’s useful for boards to understand recent succession trends.

Heidrick & Struggles collaborated with The Conference Board on the 2015 edition of CEO Succession Practices, which documents and analyzes succession events of CEOs at S&P 500 companies each year. While the rate of successions in 2014 among these organizations was in line with the annual average since 2001, a deeper dive into the results sheds light on a number of trends within succession planning that can help senior executives and boards alike better understand — and strengthen — their vital business relationship with the CEO.
Key drivers of CEO succession

Several factors can lead a board to replace a CEO, including company performance and disciplinary action. Nearly every year since 2001, the annual succession rate of CEOs at poorly performing companies exceeded that of their better-performing counterparts. Not surprisingly, the probability of CEO succession is higher in the years following poor financial performance.

From 2013 to 2014, however, the likelihood of CEO succession among companies in the top three quartiles of the S&P 500 rose three percentage points, to 9.9%, a level much closer to that of companies in the
bottom quartile. Why the smaller gap? It could signal a change of leadership in cases where CEOs had previously prolonged their tenure to avoid altering investor confidence, or it perhaps represents rising expectations among high-performing companies.

In 2014, disciplinary successions\(^1\) were at their lowest level since 2005, with an average dismissal rate of just 15.9% of total successions, down from 23.8% in 2013. While a rebounding economy likely contributed to the falling dismissal rate, the dip is also partly explained by the fact that, from 2010 to 2013, one in four companies each year replaced its CEO, leaving fewer boards in search of new chief executives.

**FIGURE 3**

**Disciplinary departures, %**

![Disciplinary departures chart]


Demographics of departing CEOs

Trends on the age and tenure of departing CEOs can give companies a useful baseline for their own succession planning discussions. For example, the succession rate for a CEO who is at least 64 years of age reached 28.6% in 2014, the highest level of the past few years and almost three times the average succession rate for the S&P 500 in 2014. By contrast, among younger CEOs, the average succession rate was just 6%. Given the time it takes to put a new CEO in place, boards could consider ramping up their preparations as their CEO approaches this age threshold.

The length of a CEO’s tenure can also provide competitive insights. In 2009, at the peak of the financial crisis, the CEO of an S&P 500 company held the position for an average of 7.2 years, the shortest average tenure registered by The Conference Board and down from the highest average of 11.3 years reported in 2002. However, CEO tenure in large companies started to rebound soon after, rising to 8.4 years in 2011, 9.7 in 2013, and 9.9 in 2014 — the longest tenure since 2002.

\(^1\) A CEO disciplinary succession is defined as a departure occurring prior to the age of 64 and when industry-adjusted total shareholder returns is in the bottom quartile of all S&P 500 companies.
FIGURE 4  CEO succession rate by departing CEO age, %


FIGURE 5  Departing CEO average tenure (in years)

Effective succession planning

The key to ensuring a smooth leadership transition is having an established process that supports strategic decision making and the communication of a company’s broader vision. However, The Conference Board research found significant variations among S&P 500 companies and boards in how they approach the succession planning process (a finding consistent with our own experience).

Smaller companies devote far fewer resources to succession planning compared with large corporations. At businesses with less than $100 million in annual revenues, just 22% of boards reported reviewing their CEO succession plan once a year. By contrast, nearly 86% of the largest companies — those with more than $20 billion in annual revenues — revisit their plan at least once a year. The boards that pay the most attention to CEO succession planning are those at companies with revenues of $5 billion to $9.9 billion.

**FIGURE 6**

Frequency of CEO succession plan review (by annual revenues), 2014 %

<table>
<thead>
<tr>
<th>Annual Revenues</th>
<th>Once a year</th>
<th>More than once a year</th>
<th>Less than once a year</th>
<th>When circumstances warrant</th>
<th>Never</th>
</tr>
</thead>
<tbody>
<tr>
<td>$20 billion and over</td>
<td>53.6%</td>
<td>32.1%</td>
<td>14.3%</td>
<td>13.8%</td>
<td>14.3%</td>
</tr>
<tr>
<td>$10 billion–$19.9 billion</td>
<td>62.1%</td>
<td>24.1%</td>
<td>16.1%</td>
<td>9.7%</td>
<td>14.7%</td>
</tr>
<tr>
<td>$5 billion–$9.9 billion</td>
<td>71.0%</td>
<td>16.1%</td>
<td>14.7%</td>
<td>13.3%</td>
<td>2.7%</td>
</tr>
<tr>
<td>$1 billion–$4.9 billion</td>
<td>69.3%</td>
<td>14.7%</td>
<td>14.7%</td>
<td>3.2%</td>
<td>19.6%</td>
</tr>
<tr>
<td>$100 million–$999 million</td>
<td>58.9%</td>
<td>14.3%</td>
<td>14.3%</td>
<td>3.6%</td>
<td>3.6%</td>
</tr>
<tr>
<td>Under $100 million</td>
<td>22.2%</td>
<td>7.4%</td>
<td>63.0%</td>
<td>3.6%</td>
<td>7.4%</td>
</tr>
</tbody>
</table>


Related thinking on heidrick.com
When looking inside for your next CEO

6 A board member’s guide to CEO succession trends
The relationship between the CEO and the board

The importance of maintaining an independent board has increased in recent years, a nod to its objective advisory role. S&P 500 companies take a variety of approaches in designating responsibility for monitoring CEO performance and hiring within the board. At around two-thirds of companies with more than $1 billion in annual revenues, the full board of directors manages CEO succession planning — an indication of the task’s importance to the board.

Only a small fraction of companies assign CEO succession planning oversight responsibilities to a dedicated stand-alone committee of the board. However, the research did find a direct correlation between a smaller company size (revenues less than $1 billion) and the assignment of CEO succession planning to the nominating/governance committee.

### FIGURE 7
Responsibility for CEO succession planning (by annual revenues), 2014, %

<table>
<thead>
<tr>
<th>Annual Revenues</th>
<th>Full board of directors</th>
<th>Compensation committee</th>
<th>CEO succession planning committee</th>
<th>Nominating/corporate governance committee</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $100 million</td>
<td>14.3%</td>
<td>3.4%</td>
<td>3.1%</td>
<td>2.6%</td>
<td>1.8%</td>
</tr>
<tr>
<td>$100 million–$999 million</td>
<td>18.8%</td>
<td>3.4%</td>
<td>3.1%</td>
<td>2.6%</td>
<td>1.8%</td>
</tr>
<tr>
<td>$1 billion–$4.9 billion</td>
<td>14.3%</td>
<td>3.4%</td>
<td>3.1%</td>
<td>2.6%</td>
<td>1.8%</td>
</tr>
<tr>
<td>$5 billion–$9.9 billion</td>
<td>64.5%</td>
<td>18.8%</td>
<td>12.5%</td>
<td>28.1%</td>
<td>3.8%</td>
</tr>
<tr>
<td>$10 billion–$19.9 billion</td>
<td>72.4%</td>
<td>20.7%</td>
<td>3.4%</td>
<td>28.1%</td>
<td>3.8%</td>
</tr>
<tr>
<td>$20 billion and over</td>
<td>67.9%</td>
<td>20.7%</td>
<td>3.4%</td>
<td>28.1%</td>
<td>3.8%</td>
</tr>
</tbody>
</table>


While CEO successions happen for many reasons (expected and unexpected) there is one constant — they are inevitable. Yet many boards aren’t prepared. Developing a better understanding of the trends around succession, and learning how other companies have handled them, can represent a tangible starting point for boards looking to improve how they handle these vital transitions.

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CEO & Board Practice

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