2021 CEO Transitions

Each year, Spencer Stuart tracks CEO transitions among S&P 500 companies to provide a snapshot view of changes at the top of American business. The trends that emerge over time in this data are illuminating for boards as they make decisions about company leadership, and for CEOs themselves as they think about their future.

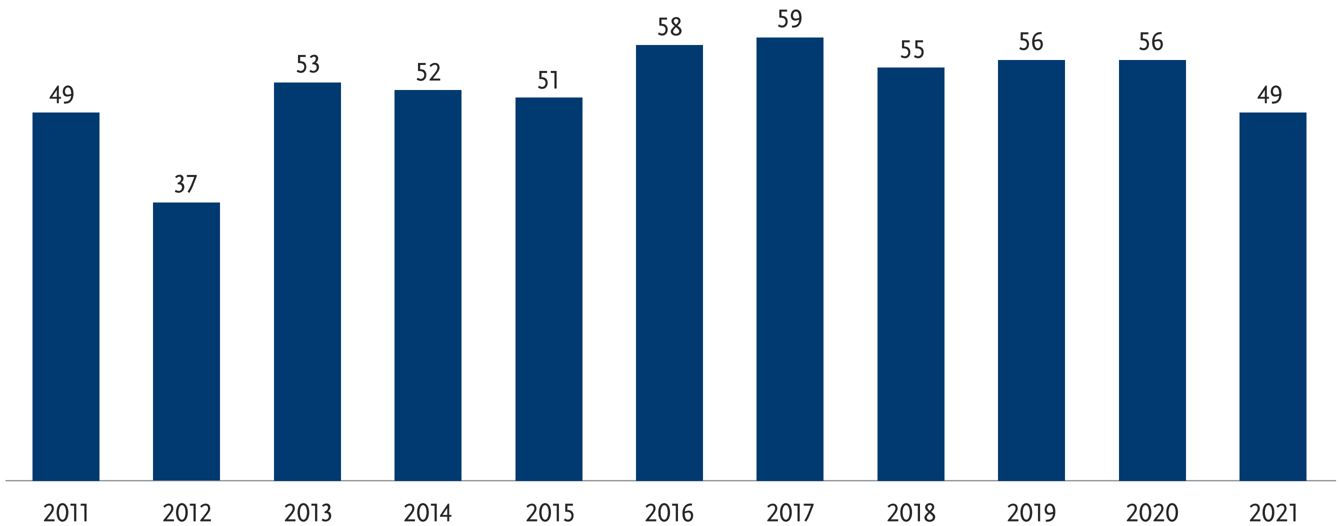
In 2021, we saw companies seek to maintain stability and continuity as the world entered the second year of the COVID-19 pandemic and the global economy began to recover. While the data indicates some companies are cautiously returning to normalcy in their succession strategies, overall, 2021 was still a year of firefighting and protection. We saw boards make decisions in service of maintaining stability during a volatile time, including fewer CEO transitions overall and, of those that did occur, fewer forced exits. We also saw a sharp increase in CEO appointees from the COO role, indicating boards are favoring operational skill sets to stabilize organizations and prepare them for strategic re-orientation in a post-pandemic world.

Ongoing disruption slowed transitions in 2021

Forty-nine S&P 500 companies appointed a new chief executive in 2021, down from 56 in 2020. Consistent with previous years, more CEO transitions took place during the first half of the year (34), but this early momentum was offset by a steep decline in transitions as the year progressed, with only 15 new CEOs named in the second half of the year. On average, CEO transitions were announced 3.5 months prior to the new CEO's effective start date. Internal promotes had 4.1 months on average between the announcement and start date, compared with 1.4 months for external hires.

While the world was optimistic the pandemic was waning in early 2021, the Delta variant's mid-year arrival, supply chain challenges and rising inflation all extended uncertainty for businesses. As our research around CEO successions during periods of crisis shows, boards tend to deprioritize transitions during turbulent times. As uncertainty wanes, transitions tend to rebound, often spiking to record levels two years after the depth of a crisis — which would put CEO transitions on track to rebound to higher levels in 2022 as conditions become more stable.

S&P 500 CEO TRANSITIONS 2011–2021



More internal candidates, but fewer board directors, were named CEO in 2021

S&P 500 boards have long favored internal candidates when selecting a new CEO, and that trend continued in 2021. After a dip in 2020, internal promotions rose to 80% of all CEO transitions in 2021. Of these, 87% were the result of a planned succession process. The spike in external appointments in 2020 was mainly driven by CEOs appointed from the company's board of directors — what we think of as "the known outsider." No CEOs were appointed from the board in 2021, a sharp drop from 2020 when there were record appointments of this type (10% of all transitions).

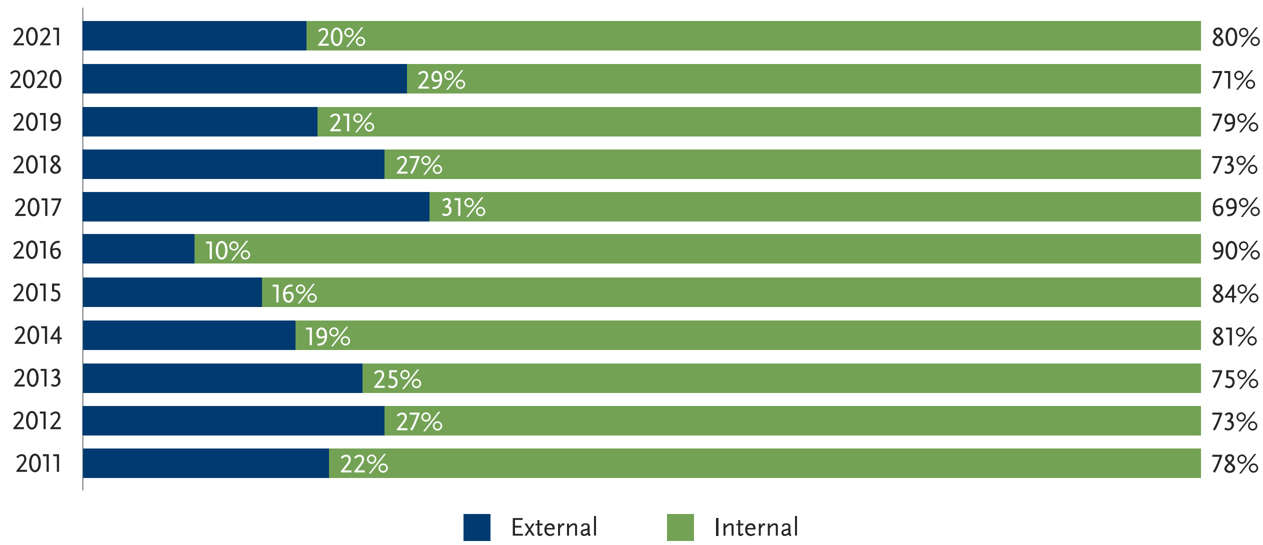
From-board appointments are permanent CEOs who serve for multiple years but are often chosen as bridge solutions — for example, to give an internal CEO candidate a few more years to develop. Given these leaders usually have prior CEO experience, boards may have gone this route in 2020 to put an experienced CEO at the helm during a period of great uncertainty. While the total lack of from-board appointments in 2021 is a bit surprising, it signals a return to pre-pandemic levels of these types of transitions. It may also indicate some companies felt more comfortable acting on planned internal successions they delayed in the early stages of the pandemic — a cautious step toward normalcy.

Who's an insider and who's an outsider?

Internal successors are internally promoted CEOs, former company C-suite executives and "insider-outsiders," who were recruited from outside the company and promoted into the CEO role within 18 months.

External successors are externally recruited CEOs and those appointed from the company's board of directors.

CEO SUCCESSORS: EXTERNAL VS. INTERNAL CANDIDATES



Why do CEOs leave?

The vast majority — 86% — of CEO transitions were attributed to the former CEO's decision to retire or step down, up from 75% in 2020. Of the remaining transitions, 6% of CEOs left for health reasons and 4% were selected as part of an M&A transaction. Resignations under pressure dropped significantly to 4% from 20% in 2020 and similarly high percentages over the past several years. The average age of outgoing CEOs was 64, versus 61 in 2020.

Here too, we see CEOs and boards striving for stability and leadership continuity. In turbulent times, forced exits for poor performance or scandal decline even more dramatically than transitions overall. Amid uncertainty, boards often opt to retain the CEO to minimize disruption to the organization during crisis, even if leadership succession was high on the agenda prior to it. The increase in the average age of departing CEOs could indicate many stayed on longer to support the company through the height of the pandemic.

REASONS FOR CEO TRANSITIONS

86%	6%	4%	4%
Former CEO retired or stepped down	Health reasons	M&A	Former CEO resigned under pressure

More than half of new CEOs were promoted COOs/presidents

In 2021 we saw a marked shift in the type of experience incoming CEOs brought to the table. While most new CEOs were first-time public company CEOs, 22% came in with prior public company CEO experience — higher than the recent average of 16%. We also saw a large uptick in CEOs who were promoted from the COO/president role — 55% of all transitions, up from 36% in 2020. At the same time, divisional CEO appointments dropped from 29% of all transitions in 2020 to 22% in 2021. The average age of incoming CEOs in 2021 was 56, slightly higher than in 2020.

Our research shows that CEOs typically ascend from four "last-mile" routes to the top: COOs, divisional CEOs, CFOs and "leapfrog" leaders promoted from below the C-suite. COOs were historically the most common promote, but in recent years, appointments from divisional CEOs had been increasing, with the two nearly converging in 2020. What we're seeing now is a departure from that trend toward convergence. A few factors could be driving this. While COO roles vary across organizations, they are often masters of operational complexity who have both an enterprise view and insight into strategic priorities. This positions them as a natural "heir apparent" who will bring a safe pair of hands to the CEO role, making them even more attractive to boards seeking to project stability. Boards also prioritize skill sets for key moments in time, and as companies grapple with deep operational challenges like delays or even breaks in their supply chains, the operational skill set is likely becoming more critical.

Disappointingly, 2021 also saw a drop in the percentage of women appointed to the CEO role: Only 6% (3) of all new CEOs were women, down from 14% (8) in 2020. The female leadership talent pipeline is a known problem: Our research shows that women are vastly underrepresented in the four "last-mile" roles, and the share of women is lower among the two most common feeder roles of COO and divisional CEO (4 percent) compared with leapfrog candidates and promoted CFOs (10 percent). We do not see gender-specific performance differences, but it's clear that women do not yet have equal access and representation on the predominant paths to the CEO role. The pandemic has exacerbated the problem, with 1.1 million women leaving the workforce overall. While the impact of the past two years has tended to be greater further down in organizations, many senior-level women are evaluating their careers and aspirations in light of the pandemic, with some women saying "enough" to poor cultures that don't support their advancement. Progress won't happen overnight, but boards can use succession planning to intentionally grow, develop and accelerate a more diverse talent pipeline, by looking beyond the most-likely successors to include high-potential, seemingly long-shot possibilities who could become the CEO with the right development and opportunities.

MOST NEW CEOs WERE APPOINTED FROM FOUR "LAST-MILE" ROUTES TO THE TOP

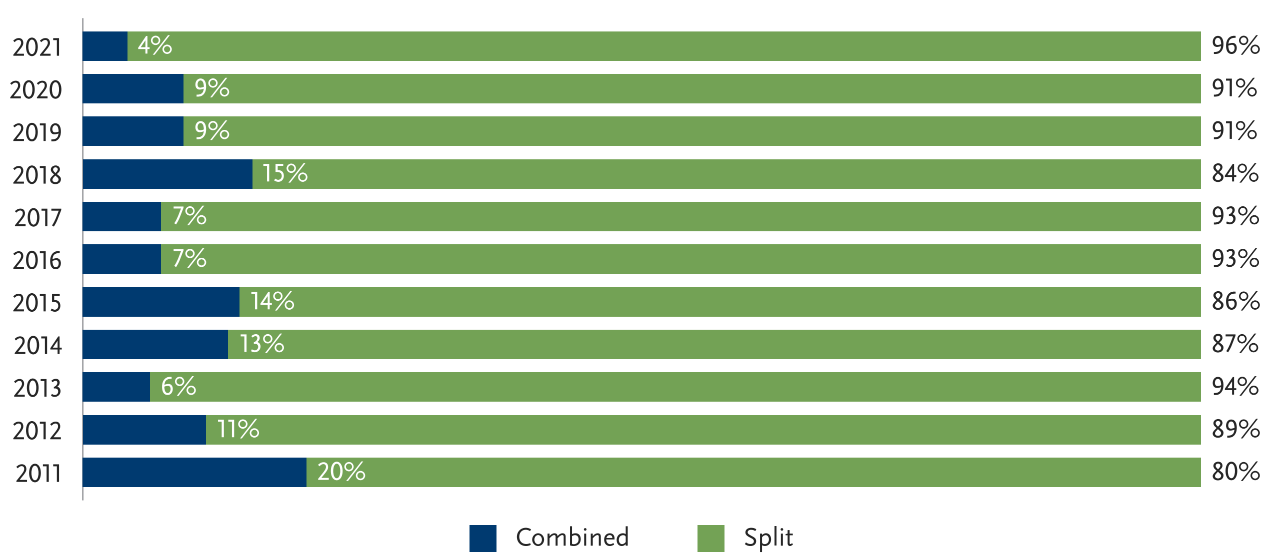
55%	22%	4%	2%
Promoted from COO or enterprise-wide president roles	Promoted from a divisional CEO or president position	CFOs immediately prior to appointment	"Leapfrog" candidates — promoted from below the C-suite

The majority of outgoing CEOs remained on as board chair, a big departure from 2020

In 2021, there was a notable increase in outgoing CEOs staying on as board chairs after their departure — rising from 38% in 2020 to 63% in 2021. This move becomes more likely when the outgoing CEO has an internal successor — and is almost guaranteed when this is the result of a planned succession process. The outgoing CEO can provide critical knowledge and mentorship as the new CEO transitions, and, when following best practices, this relationship can lead to strong performance during the former CEO's tenure as chair. Of the outgoing CEOs that stayed on as chair after stepping down, 69% had previously worn the hat as part of a combined CEO/board chair role.

As in past years, the vast majority of boards appoint a separate board chair when naming a new CEO. Only two new CEOs in 2021, 4%, were also named chair of the board upon appointment, slightly less than in 2020.

IS THE NEW CEO ALSO THE BOARD CHAIR?



Looking Ahead

In 2022, we expect to see a normalization back to long-term trends around CEO transitions, including a rebound in new CEO appointments. However, as we publish this data, new known COVID cases are rising in the US, supply chain and inflation woes continue, and geopolitical tensions are high due to Russia's escalating war in Ukraine. Are we starting to see what would have been considered a period of crisis in the past become more of the norm in terms of the backdrop boards and CEOs must make decisions against? If so, the most effective leaders will focus on the human elements of leadership — such as strong relationships, empathy, trust, culture, fluid collaboration and information sharing — that are critical for creating the conditions that enable people and organizations to respond agilely to change.

What's clear is the complexity and dynamism that emerged over the last two years are here to stay, heightening the importance of getting CEO succession right and shifting the way companies think about what makes an effective leader.

Editor's note: Transitions data in the article "*Covid-19: Is Your Board Hitting the Brakes on CEO Succession?*" include the appointment of co-CEOs, even when no CEO transitioned out of the role and the transitions of CEOs whose companies were added to the S&P 500 later (i.e., company was not an S&P 500 company at time of transition but is now an S&P 500 company). Our quarterly/annual CEO transitions reports define transitions as incoming CEOs who replace an outgoing CEO only at companies listed in the S&P 500 at the time of transition.

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About Spencer Stuart's CEO Practice

No leadership position has a greater impact on an organization's long-term value than the chief executive officer. Drawing on our deep understanding of the talent market and groundbreaking research on CEO transitions and performance, our consultants help boards, CEOs and CHROs navigate important issues surrounding CEO selection and development.

About Spencer Stuart

At Spencer Stuart, we know how much leadership matters. We are trusted by organizations around the world to help them make the senior-level leadership decisions that have a lasting impact on their enterprises. Through our executive search, board and leadership advisory services, we help build and enhance high-performing teams for select clients ranging from major multinationals to emerging companies to nonprofit institutions.

Privately held since 1956, we focus on delivering knowledge, insight and results through the collaborative efforts of a team of experts — now spanning more than 70 offices, over 30 countries and more than 50 practice specialties. Boards and leaders consistently turn to Spencer Stuart to help address their evolving leadership needs in areas such as senior-level executive search, board recruitment, board effectiveness, succession planning, in-depth senior management assessment, employee engagement and many other facets of culture and organizational effectiveness. For more information on Spencer Stuart, please visit **www.spencerstuart.com**.

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