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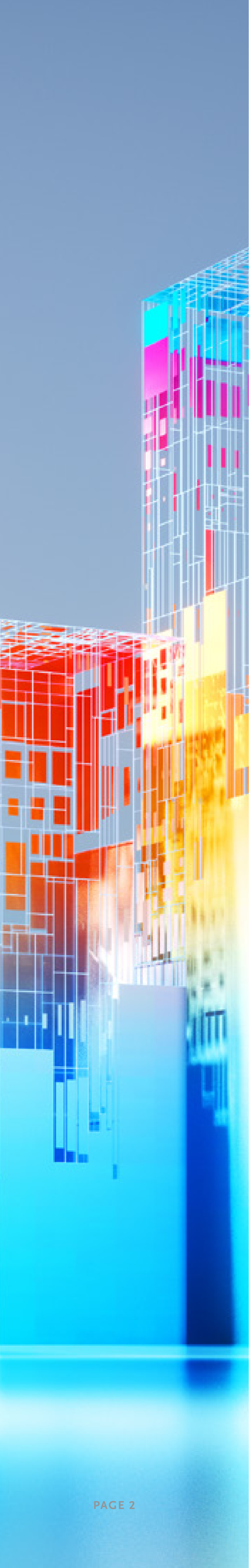
Creating Value with CEO Succession Planning: Why Private Equity Needs a New Leadership Approach

Private equity firms tend to prioritize experience when selecting CEOs — hiring leaders who have "been there, done that" related to the company's specific value-creation plan. This has generally worked well for the industry, which has generated billions of dollars for principals, investors and limited partners. But maintaining that track record will be harder going forward due to several factors — unless firms plan for them.

- **Deal complexity raises the leadership stakes for portfolio companies**. Large deals dominate the market: The average deal size in 2025 was $910 million for buyouts, and the value of deals larger than $2.5 billion increased by 72% to $600 billion between 2024 and 2025. As deal sizes grow, it is increasingly difficult to generate similar returns at a scaled level of investment. More demanding and complex value-creation agendas shift the basis of performance toward execution and innovation rather than financial engineering alone. As a result, the way sponsors govern, resource and support portfolio company leaders links directly to value creation.
- **Exit market volatility raises the value of CEO-ready talent**. Though the value of exits increased by more than 40% in 2025, the number of exits fell by 15% — and both exits and deal value are far below their 2021 peak. IPO exits nearly doubled in value between 2024 and 2025, and sponsor-to-sponsor exits have been a bright spot over the past several years, signaling firms' willingness to pay for high-quality assets. Strong management teams and a credible CEO successor can increase valuations and reduce risk in a sponsor sale or IPO and help attract co-sponsors or co-investors when bringing in fresh capital.



- **Longer hold periods increase the likelihood of mid-cycle CEO transitions**. Private equity hold times have increased. The median exit holding time was 6 years in 2025, down from a high of almost 7 years in 2022, but still historically long. More than half (52%) of PE portfolio companies had been held for four years or longer in 2025, nine percentage points more than in 2024. Amid longer hold times, mid-cycle CEO transitions become more frequent — due to CEO failure or burnout or, as value creation plans need to change over time, the declining relevance of the CEO's expertise. Mid-cycle transitions also become more consequential, as they can compress the runway for new CEOs to deliver results.

6.0yrs

The median **exit holding time** was 6 years in 2025, down from a high of almost 7 years in 2022

4.0yrs

The median **existing hold time** has been on the rise since 2023

Source: Pitchbook, Dec. 2025

- **Early succession readiness reduces transition risk and protects exit value**. In our study of PE-backed software companies, more than half had a CEO transition during their hold period; 25% of those had two or more CEO changes. The costs of replacing a CEO unexpectedly with no plan include delays, disruption, confusion for the organization and the inability to adapt fast enough to market shifts — all of which delay the exit plan and the ability to gain value from an exit. Conversely, regardless of exit type, having a ready-to-go management team adds to the exit value.

- **Experienced CEOs are in short supply, strengthening the case for executive development and succession planning**. When hiring for a portfolio company, PE firms typically prefer a proven CEO — even better, a CEO who has successfully guided a PE-backed company to exit before. But the pool of former public or PE-backed CEOs available for a new role is shallow. Our survey of former public and private CEOs found that only 7% took another CEO role; instead, most built their post-CEO life around board service, consulting and personal pursuits. Many former public company CEOs are in their 60s and not looking to sign up for another six-year commitment. By contrast, first-time CEOs, typically starting at 52 or 53, have an average runway of 8-plus years. Robust succession planning, including targeted leadership development, increases the likelihood that firms will have CEO options who are ready to take the business to the next level.

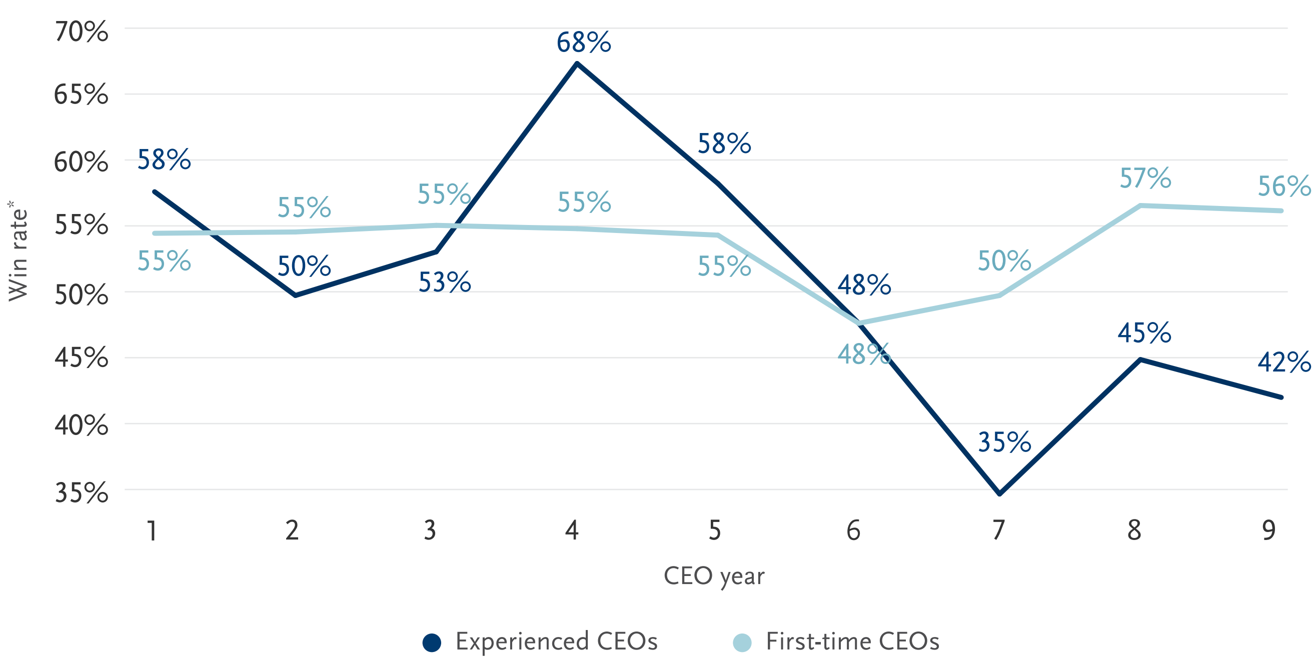
Firms can manage these risks and achieve more value at exit by planning for and maintaining strong management teams over the entire life of the asset. This means thinking differently about CEO profiles and planning earlier for CEO successors.

Consider the data: first-time CEOs outperform experienced CEOs over time

The desire for somebody who's "been there, done that" makes sense in short-term investments when the hypothesis and market conditions are unlikely to change much. With exits farther out than they used to be, what leaders need to do to create value is likely to evolve over time, increasing the risk of "résumé bias" in CEO selection. CEOs who stay longer will encounter different challenges than anticipated at the start of the investment, requiring new thinking and fresh approaches. A CEO relying too heavily on a prior playbook and who can't adjust to new demands won't go the distance.

Our research into the life cycle of public company CEOs shows that compared to high-potential first-time CEOs, repeat CEOs' toolkit runs out at about the four-year point. Over longer periods, CEOs need enough experience balanced with good judgment, agility, data-driven decision-making, a learning mindset, emotional intelligence and the ability to drive change — all critical for adapting to new and different challenges. Firms can minimize risk and increase leadership value by replacing instinct and guesswork with objective assessments to evaluate CEOs against these critical leadership attributes.

FIRST-TIME CEOs OUTPERFORM EXPERIENCED CEOs OVER TIME



* Ratio of CEOs outperforming the market during the average CEO tenure length.

Build CEO succession readiness across the hold period

CEO transitions happen for many reasons: CEOs themselves may leave mid-hold for age or other considerations. Sponsors may want to replace a CEO for performance or to prepare the company for exit, whether a sale to a sponsor or corporate buyer or an IPO. Having a ready CEO to lead the company post the transition adds to the exit value because it is difficult — and expensive — to secure a new CEO in these scenarios.

Firms can maintain momentum and avoid disruption from a leadership change by investing in ongoing succession planning — before a transition needs to happen. Early, ongoing succession planning that produces viable internal candidates and includes insight into the external talent market provides sponsors with optionality around people relatively inexpensively. Start by assessing talent internally to identify who on the inside could potentially stretch into key roles over specific timeframes, and keep a finger on the pulse of relevant best-in-class talent outside the company for CEO and all other pivotal roles. Keep this view evergreen by regularly refreshing the view on internal leaders' development progress and shifts in the external talent landscape.

Talent requirements can and should change as people and business needs change, and sponsors must not be slow to act if the CEO doesn't have what it takes to get the company to exit.

Review talent as rigorously as you do business performance

Most PE sponsors are religious about monitoring financial and operating performance but are less rigorous in assessing talent. Waiting until performance declines to decide the company has the wrong CEO is too late.

PE sponsors should continually analyze how the business is progressing, what needs to be done and whether the company has the right people to do it. Firms should be regularly evaluating the skill sets of the leadership team in relation to business performance and needs, considering questions such as: How is the team doing? How's the CEO doing? And how are the jobs to be done shifting? Do we still have the right team and leader for what needs to be achieved? Conducting annual talent reviews and interim pulse checks establishes a performance rhythm and produces a fact base on which to pose, discuss and answer these questions.

More firms are piloting rigorous annual performance reviews for CEOs and management teams, although we see inconsistencies in the approach and rigor of these evaluations across mid-cap and mega funds. Firms that both monitor performance and support the CEO, forging alignment on the value creation plan, setting clear expectations and communicating transparently, enable better execution and long-term success.

WHY PE FIRMS DON'T PLAN FOR CEO SUCCESSION — AND WHY THEY SHOULD

The Fallacy	How It Shows Up	The Risk	What Leading Firms Do
The Entry Trap	*"Once we close, the CEO knows what to do."*	The CEO who wins the deal may not be the one who executes it to exit. Unplanned replacement compresses the runway and stalls the VCP at the worst moment.	Align CEO, team and sponsor around the VCP on Day 1. Replace résumé bias with scorecard-based assessment against the specific value creation thesis.
The Timeline Trap	*"We'll be out before it becomes an issue."*	Median hold is now 6 years, increasing the odds of a CEO transition mid-hold.	Review leadership against the VCP on the same cadence as financial performance. Risks surface when there's still time to act.
The Abdication Trap	*"The next buyer will put in their own person anyway."*	When no one owns it, no one does it. Buyers pay a premium for ready management; no bench means leaving value on the table.	A named, ready successor attracts buyers and co-investors and directly impacts deal terms. Proactive succession is a return-protection strategy — not an HR exercise.
The Compliance Trap	*"The CEO and CHRO present the team at the annual talent review. Box checked."*	Annual reviews surface yesterday's problems. By the time performance signals a leadership gap, the bench-building window has already closed.	Treat succession as a continuous capability. The bench is built across the hold — creating optionality at every stage: mid-cycle replacement, sponsor sale or IPO.
The Half-Measure Trap	*"We already know what's out there."*	A market map tells you who exists — not who's right for your thesis and could step in tomorrow. It does nothing for the internal bench. When you need to move, you're back at square one — under pressure.	Use market mapping as the starting point — then pair it with objective assessment against the VCP and internal bench development. Intelligence without a process is just a list.
The Deference Trap	*"Talent is the CEO's domain."*	When the CEO's skills stop fitting the business, contractual deference leaves you with no move and no time. Loyalty becomes a liability.	Objective assessments remove the politics and give the board and CEO shared language for a business risk discussion.

Source: Spencer Stuart analysis drawn from CEO succession advisory work in private equity

Private equity firms have been stunningly successful over the past several decades, generating billions of dollars for their principals, investors and limited partners. Having the right CEO at the helm has been central to this successful model. Firms should recognize that they are likely to face more talent disruption in the life cycle of their investments, and be ready for it by defining leadership with adaptability in mind, proactively planning for leadership succession, and tracking and supporting talent.

About Spencer Stuart

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