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2022 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.

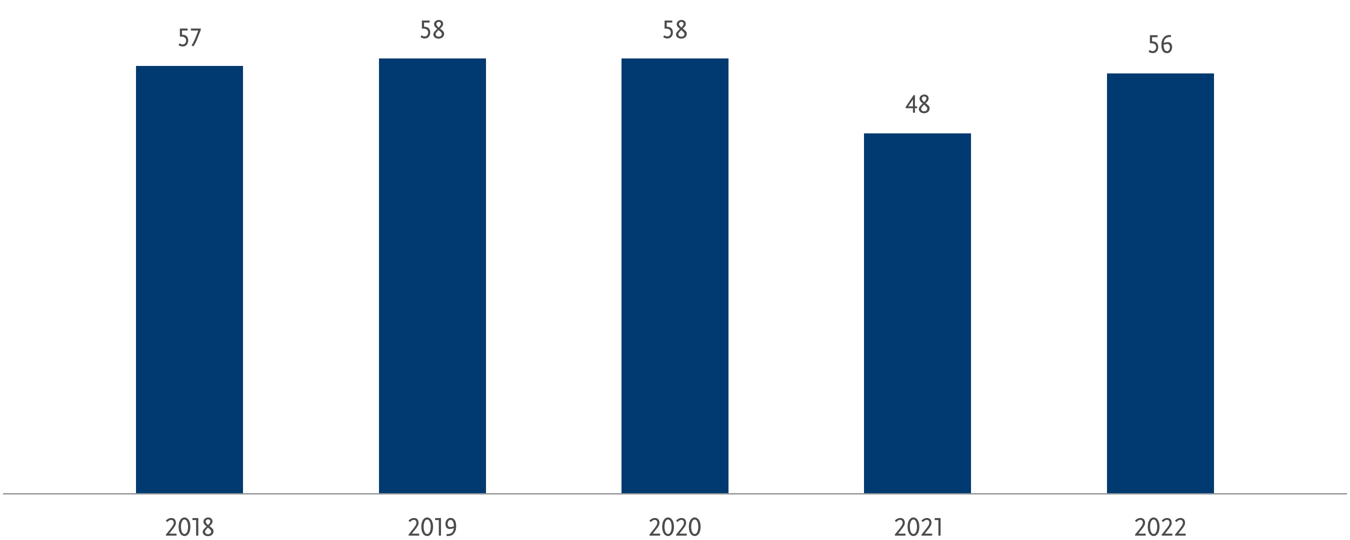
In 2022, the number of CEO transitions nearly matched that of pre-pandemic years, signaling a return to some form of normalcy at the top of S&P 500 companies. After two full years of many CEOs staying in their role longer to provide a steady hand through global uncertainties, CEO tenures and departure ages were higher than the norm in 2022. However, the class of newly appointed CEOs is significantly younger than the last few years and brings a more diverse set of prior experiences to the table, a sign boards may be making leadership decisions with a longer-term view in mind once again.

Transitions bounced back after a soft 2021

Fifty-six (56) S&P 500 companies appointed a new chief executive in 2022, up from 48 in 2021, bringing transitions back in line with pre-pandemic levels. As our research around CEO successions during periods of crisis shows, transitions usually rebound around two years after the depth of a crisis as uncertainty wanes and boards feel more confident in returning to longer-term succession plans.

Typically, more transitions occur in the first half of the year, and 2022 was no exception, with 31 transitions. Thirteen CEOs were named to the job in Q4, making it the busiest final quarter of the last decade, with the exception of Q4 2019 (14 transitions). On average, new CEOs were also announced slightly closer to their start dates than in 2021: Internal promotes had 2.8 months (versus 3.3 months in 2021) between the announcement and start date, while announcement timing for external hires (1.3 months) remained flat to last year.

S&P 500 CEO TRANSITIONS 2018–2022*



* In 2022 we made adaptations to our analytics methodology that resulted in small changes to historical CEO transition data. None of these changes are statistically significant.

Internal appointments continue to be the majority

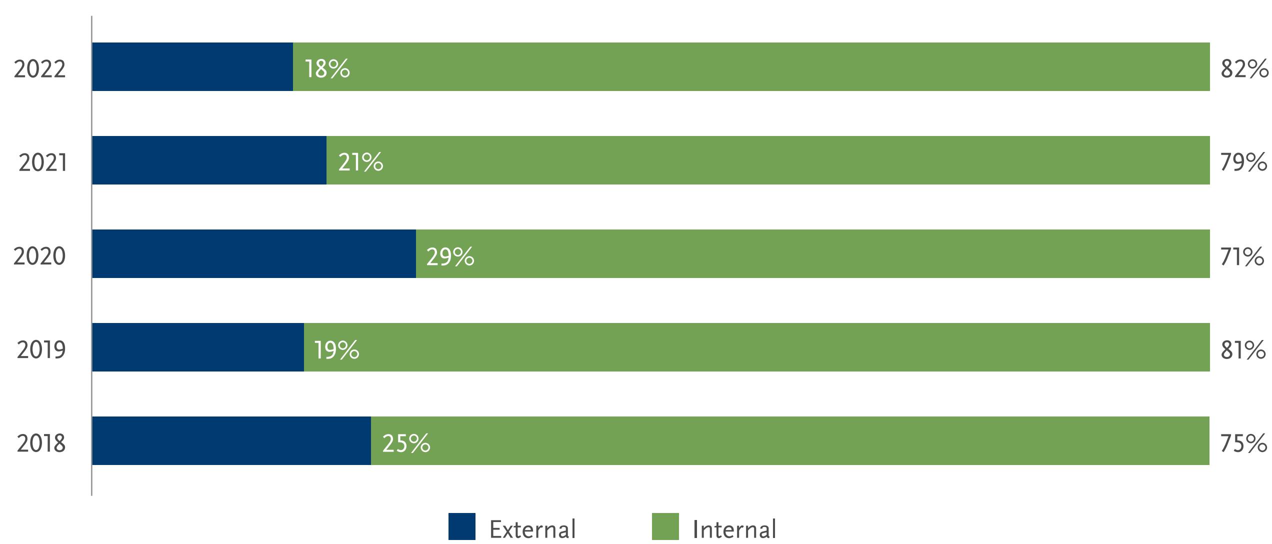
S&P 500 boards continue to favor internal candidates when selecting a new CEO, with internal promotions at 82 percent of all transitions in 2022, the highest proportion since 2016. Even through the pandemic years, this 80/20 split has held remarkably steady. Eighteen percent of new CEOs were external appointments, with just one CEO appointment (2 percent of total) from the board — what we think of as "the known outsider." CEOs appointed from the board often have shorter than average tenures, providing a bridge solution when there is not a "ready now" internal successor or giving stability in a challenging time. After a spike in from-board appointments in 2020, these types of transitions dropped in 2021 and 2022, as companies began acting more on planned successions that they may have delayed in earlier stages of the pandemic.

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

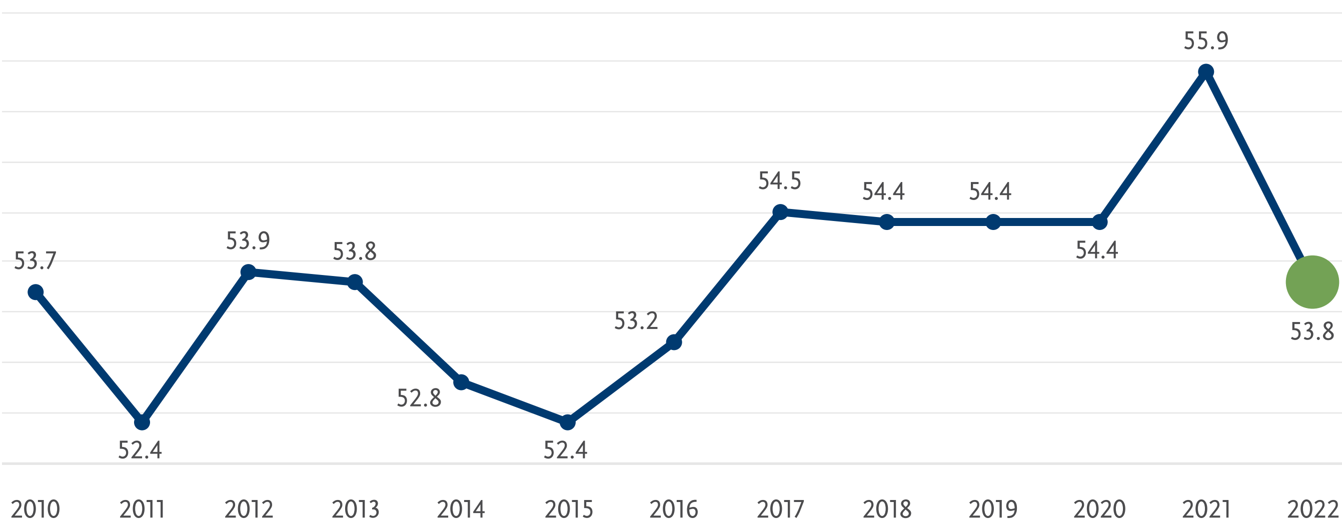


CEO tenures and departure ages remained high, but start ages dropped sharply

The average tenure and ages of departing CEOs continued to trend high in 2022 (10.2 years, age 62.6), as it did in 2021 (11.2 years, age 64.2) but are starting to normalize. Between 2011 and 2020, the average tenure of outgoing CEOs had never exceeded 10 years. This confirms the hypothesis we expressed last year that many CEOs stayed on longer throughout the pandemic to provide continuity and experience in a period of unprecedented uncertainty.

Average S&P 500 CEO age at appointment had been rising over time, peaking at about 56 in 2021. This rise intensified during the pandemic, as boards leaned toward CEO candidates with more experience to draw on: As many as one in six newly appointed CEOs were over the age of 60. This trend came to an end in 2022; the average age of newly appointed CEOs fell notably last year (Exhibit 1) to 53.8, down from 55.9 in 2021. This is the largest year-over-year drop we have seen in the S&P 500 since 2000. Nearly 30 percent (16 out of 56) of appointed CEOs were under the age of 50. Coupled with the slight spike in internal appointments, this age drop could indicate boards are adopting longer-term views on CEO succession again, and that they are willing to appoint leaders with less proven experience, but the raw potential to be great CEOs.

AVERAGE AGE AT START FOR NEW S&P 500 CEOs



Why do CEOs leave?

The vast majority — 86 percent — of CEO transitions were attributed to the former CEO's decision to retire or step down, on par with 2021, when 85 percent were attributed to retirements. Resignations under pressure remained flat at 7 percent, compared with 6 percent in 2021. Amid uncertainty or challenging market conditions, you're less likely to see forced exits as boards focus on minimizing disruption to the organization and potentially extend more tolerance for underperformance. Of the remaining transitions, 7 percent of CEOs left for health reasons, and for the first time since Spencer Stuart has collected CEO transition data, none were selected as part of an M&A transition.

REASONS FOR CEO TRANSITIONS

86%
Former CEO retired or stepped down

7%
Health reasons

7%
Former CEO resigned under pressure

COO-to-CEO promotions fell while CFO-to-CEO appointments rose

Our research shows that CEOs typically ascend from four "last-mile" roles: COOs, divisional CEOs, CFOs and "leapfrog" leaders promoted from below the C-suite. In 2021, there was a large uptick in CEOs promoted from the COO/president role — 55 percent of all transitions, up from 36 percent in 2020. COO appointments remained the most common route to the top in 2022, but dropped to 43 percent of all transitions, while divisional CEO appointments stayed relatively flat at 21 percent versus 23 percent in 2021. A spike in CFO-to-CEO appointments, at 16 percent of all transitions, up from 4 percent in 2020, accounted for the difference. Five percent of appointments were "leapfrog" leaders, hired from below the second layer of management. As we shared last year, boards often prioritize skill sets for key moments in time; as companies prepare for a possible recession in 2023, the CFO skill set is likely becoming more critical — not only fiscal pragmatism, but also for their ability to adeptly manage Wall Street, investors and a high-inflation environment.

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

43%
Promoted from COO or enterprise-wide president roles

21%
Promoted from a divisional CEO or president position

16%
CFOs immediately prior to appointment

5%
"Leapfrog" candidates — promoted from below the C-suite

Remaining appointments came from other C-suite roles, former public company CEOs, and former non-executive/advisor roles.

Gender diversity sees small gains

While the gender split at the top of American business is still woefully imbalanced, in 2022 we saw a welcome improvement in the overall gender diversity of S&P 500 CEOs. Thirteen percent (7) of all new CEOs were women, up from 6 percent (3) in 2021. Six of these replaced outgoing male CEOs, bringing the percentage of female S&P 500 CEOs to 7.4 percent, up from 6 percent at the end of 2021, according to research from Catalyst. As with younger CEOs ascending to the role, we see this as a positive shift among boards away from "the proven leader" (who is typically white and male) and toward high-potential leaders who are likely to drive outsize impact over a longer runway. We look forward to seeing how this trend evolves.

No new CEOs assumed the board chair role at time of appointment

In 2022, none of the 56 CEO transitions in 2022 involved the appointment of a CEO who also became board chair upon appointment. This is a continuation of a longer-term trend; the percent of new CEOs who are also immediately named chair has been declining steadily over time. Forty-eight percent of outgoing CEOs stayed on as board chair after their departure, down from the spike we saw in 2021 (63 percent) but higher than in 2020, when 38 percent of outgoing CEOs stayed on as board chair. CEOs are more likely to remain on as board chair when there is an internal successor, especially when the transition is the result of a planned succession process. The outgoing CEO can provide critical knowledge and mentorship as the new CEO transitions, especially as younger and more first-time CEOs take on the role. As our research shows, this relationship can lead to strong performance during the former CEO's tenure as chair, when following best practices for using the role effectively. Of the outgoing CEOs that stayed on as chair, 70 percent were appointed executive chair.

IS THE NEW CEO ALSO THE BOARD CHAIR?

Looking ahead

Coming off a year where CEO transitions rebounded to pre-pandemic levels and new CEOs started at younger ages, it is tempting to declare things are back to normal. But with a recession looming on the horizon, we may again see a slight dip in transitions in 2023. What we knew as "normal" prior to 2020 is unlikely to ever return in full, which makes it all the more important for boards to find CEOs who can deftly synthesize the changing context for the business, tap into the collective intelligence of the team around them, and build organizational resilience to effectively respond to evolving priorities.

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 *"Crisis Put CEO Successions on Hold in 2020. Expect a Rebound in 2021."* 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 S&P 500 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 that leadership has never mattered more. 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, on their stakeholders and the world around them. 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 non-profit 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, particularly in the context of the changing stakeholder expectations of business today. For more information on Spencer Stuart, please visit **www.spencerstuart.com**.

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