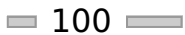


# CEOs and Boards Are Putting Succession Plans to the Test

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## Top executive succession rates climb as challenges multiply and boards gain confidence.

CEOs in 2021 were relatively comfortable in their roles, but 2022 could set records for CEO departures, according to *CEO Succession Practices in the Russell 3000 and S&P 500: Live Dashboard*, a project of The Conference Board and ESG data analytics firm ESGAUGE.

The project, conducted in collaboration with executive search firm Heidrick & Struggles, found that, as of July 2022, the annualized succession rate of Russell 3000 CEOs is up to 11.6%, after a 2021 rate of 9.6%. The annualized succession rate for S&P 500 CEOs in 2022 sits at 11.4%, an increase from the 2021 rate of 10%. The findings show retirement-age CEOs departing at higher rates, with a succession rate of 24.2% in the Russell 3000 (compared to 20.8% in 2021) and 21.5% in the S&P 500, up from 2021's 24.3% rate.



The reporting suggests two reasons for the

uptick in CEO succession. The first is the desire for CEOs to exit, spurred on by the pressures of leading during a time of unprecedented crisis, including the COVID pandemic, the current geopolitical unrest and the possibility of a looming recession. Second, the report argues, boards may be more prepared for change. After a time during which the key goal was returning to stability, boards may now feel that their succession plans have been stress-tested, strengthened and

readied to be acted upon.

The statistics find different industries at varying stages of succession readiness. CEO turnover is highest in the utilities, health care and consumer discretionary sectors, with rates of 19.6%, 13.9% and 13.3%, respectively. The real estate and communications industries, however, are holding on to their CEOs, with succession rates of 7.4% and 8.7%. There does not seem to be a correlation between company size and readiness for succession, with Russell 3000 companies under \$100 million in revenue recording an annualized succession rate of 14.7% and companies with over \$50 billion in revenue coming in at 13.1%. However, mid-sized companies (those with annual revenue between \$5 billion and \$9.9 billion) are recording a low CEO succession rate of 7.8%.

The rate of forced CEO successions was low in 2021, and it continues to be so in 2022. As of May 2022, the rate of forced successions sits at 2.3% (compared with the relative historical average) in the Russell 3000 and 0% for the S&P 500, which has a historical average of 9.8%.

One finding from the report underlines the importance of an emergency succession plan maintained by the board. Among S&P 500 companies, 6.9% of CEO successions announced from January to July 2022 were due to death or physical/mental incapacitation, a number that is down from 2021's 10% but still more than the 3.6% rate reported in 2020. In the Russell 3000, 2.9% of CEO successions were attributed to the same causes, down from 3.5% in 2020 but up from 2020's 2.3%.

Boards continue to favor internal candidates for the CEO position. In 2021, 71.1% of Russell 3000 company boards and 86.6% of S&P 500 boards promoted from within. As of June 2022, the rate of internal promotions to the CEO position has risen to 72.7% in the Russell 3000. S&P 500 companies saw a miniscule decline to 86.2% in the same category.