The Next CEO

Global CEO Turnover Index Annual Report

Foreword

As a leadership advisory firm focused on shaping what's next, we at Russell Reynolds Associates have a relentless appetite for new data and insights that give our clients a competitive edge. This is why we developed the Global CEO Turnover Index, which tracks data from the world's leading stock indices to determine how many listed company CEOs have left their posts each quarter. Here, in our inaugural *Global CEO Turnover Index Annual Report*, you'll find a detailed analysis of key trends in 2023—and what they mean for business in 2024 and beyond.

Chairs and directors consistently tell us that CEO succession is one of the most critical decisions boards can make: getting it wrong can burden a company with a leader who is poorly matched to its culture and strategic priorities, while getting it right can transform a business and unlock huge benefits, not least protection from potentially damaging turnover.

In short, getting succession right can deliver certainty in an uncertain world. As powerful geopolitical and macro-economic forces continue to converge and almost half the world's population head to the polls, 2024 is set to be another volatile year. Factor in technological disruption and increased investor and regulatory pressures, and it promises to be a year characterized by tension for business in general and CEOs in particular.

This report focuses on three emerging themes that will help shape boards' approach to CEO succession planning in the year ahead: the changing role of the CEO, demands for gender parity, and increased internal appointments. All of these trends point towards the growing importance of strengthening organizations' internal leadership pipelines.

Our ambition is that this report can act as an instructive and insightful roadmap for the journey ahead, and that our latest data and expert perspectives help leaders globally proceed with confidence in an ever-changing world. Throughout the year, we will continue to produce our quarterly Global CEO Turnover Index updates to ensure our clients are always one step ahead.

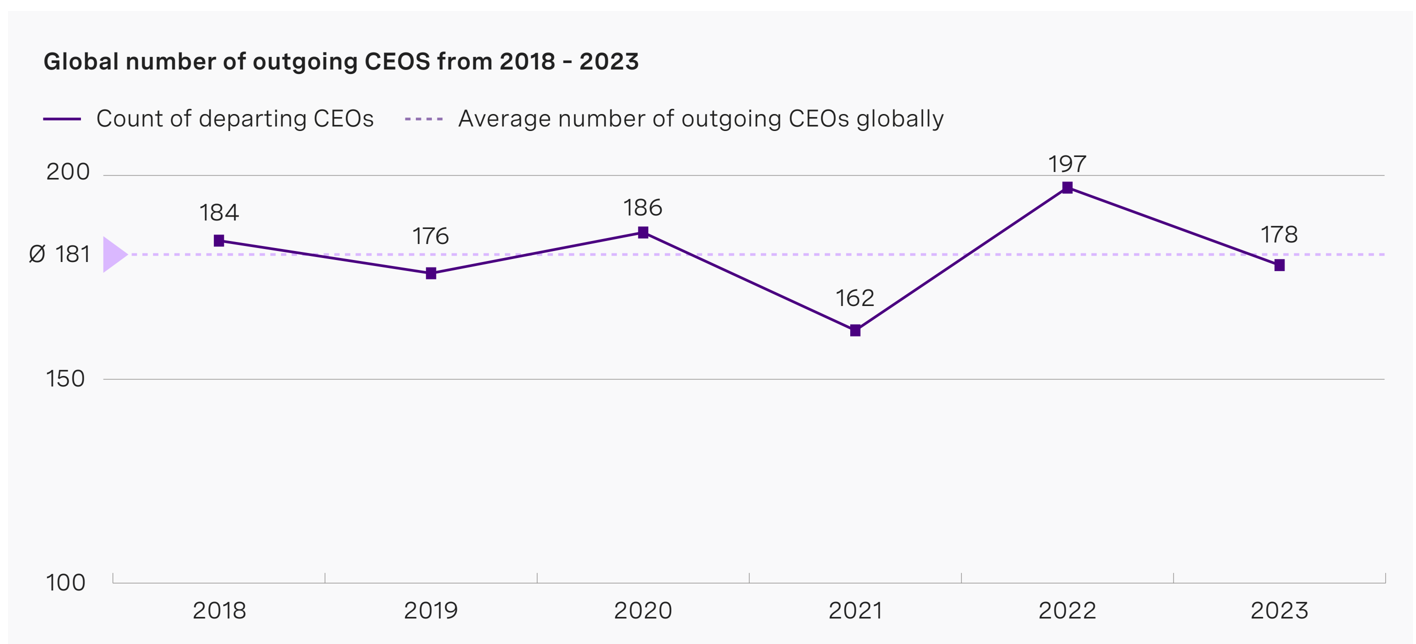
We look forward to working with you in 2024.

Constantine Alexandrakis
CEO, Russell Reynolds Associates

01: Looking beyond the CEO

The 2023 total for departing CEOs reflects the recent trend of high CEO turnover with 178 leaving their post in the calendar year, a figure broadly in line with the annual average of 181 since 2018.

The NSE Nifty 50 saw the highest proportional turnover at 14%, followed by the Hang Seng at 13.8% and the STI at 13.3%. Turnover levels were lower across Europe, with the CAC 40 and DAX 40 both recording 5%, and the Euronext 100 slightly higher at 8%.



This level of turnover is drawing attention from investors and as a result boards will need to double down on their succession planning. And fast.

Complexity taking its toll

Luke Meynell, who leads RRA's Board & CEO Advisory Partners globally, thinks the results reflect the growing complexity of the role: "The challenges CEOs must now address have multiplied considerably, including achieving net zero, high inflation, ongoing supply chain issues and the possibility of restructuring given the uncertain economic outlook. Accordingly, boards worldwide will be carefully considering whether they have the right person in place at the top."

Rusty O'Kelley, RRA's Co-lead of the Board & CEO Advisory Partners in the US, agrees, saying that in 2024 boards are increasingly looking beyond their CEOs, fueled in part by increasing investor attention on high CEO turnover: "In their engagement meeting, we are seeing large institutional investors increasingly asking companies not only about their plans for long term CEO succession planning and emergency CEO succession planning, but also about their executive planning for the entire C-suite. This is because they're deeply concerned about CEO turnover, and they recognize that the CEO 'bench' comes from the C-suite. This level of succession planning helps prevent failures when changes happen at the top of the organization. Investors cannot model unplanned CEO succession events and they believe that long term value creation is better driven by robust talent assessment and development among the senior team and the pipeline of high potentials under them. Thoughtful, robust multiyear talent development leads to better strategic and operational excellence and, by extension, shareholder returns."

The less visible CEO

In 2024, the world is changing fast—and so is the CEO role. What boards are looking for in their next leader continues to shift significantly.

As Stephen Langton, who leads the firm's Board & CEO Advisory Partners in Asia Pacific, says: "While traditional CEOs were expected to embody their organization's success, CEOs of the future will partner with senior colleagues to create the conditions for it."

It's an important distinction to make, as he explains: "You could call it 'premature succession' but we're seeing evidence of an increase in the frequency and acceptance of CEOs stepping down from their roles, citing pressure, life priority choices, or simply that the conditions for their success are compromised. As a result, the many boards that we support on CEO successions are, more than ever, seeking CEOs of the future who will be less visible and less famous and will lead through a team. They will convene an agenda, but not be the only decision maker."

CEOs of the future may be less visible than their predecessors, but in reality, they will be even more powerful, as they'll have the strength of numerous leaders behind them. In fact, we are seeing this trend take hold sooner than expected.

Of course, no CEO is perfect. This is a concept we explored in detail last year. But this isn't something to be feared; it's something to be embraced, because when everyone acknowledges this fact it can act as a powerful catalyst for growth.

Rather than striving for perfection, organizations should embrace CEOs' flaws and use them as an opportunity for growth and development. By doing so, the organization will be more authentic, innovative, and able to manage challenges—all essential elements of long-term success.

An Outside/In approach

It's critical that CEO development is done in tandem with the company ecosystem, as RRA leadership advisor Marie Osmonde Le Roy de Lanauze-Molines highlights: "Developing a CEO in isolation from the ecosystem in which they operate leads to an Inside/Out perspective. This is insufficient, as the CEO will clearly have a direct impact on the ecosystem in which they operate."

"What we need is an Outside/In approach. The preparation of an internal CEO candidate should fit with the specific ecosystem, and this should be supported by a customized approach that can build the link between assessment and development, accelerate the preparation, and secure the risk for the board."

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Marie-Osmonde Le Roy de Lanauze-Molines, leadership advisor, RRA

02: Equality at the top – it's time to close the gender gap

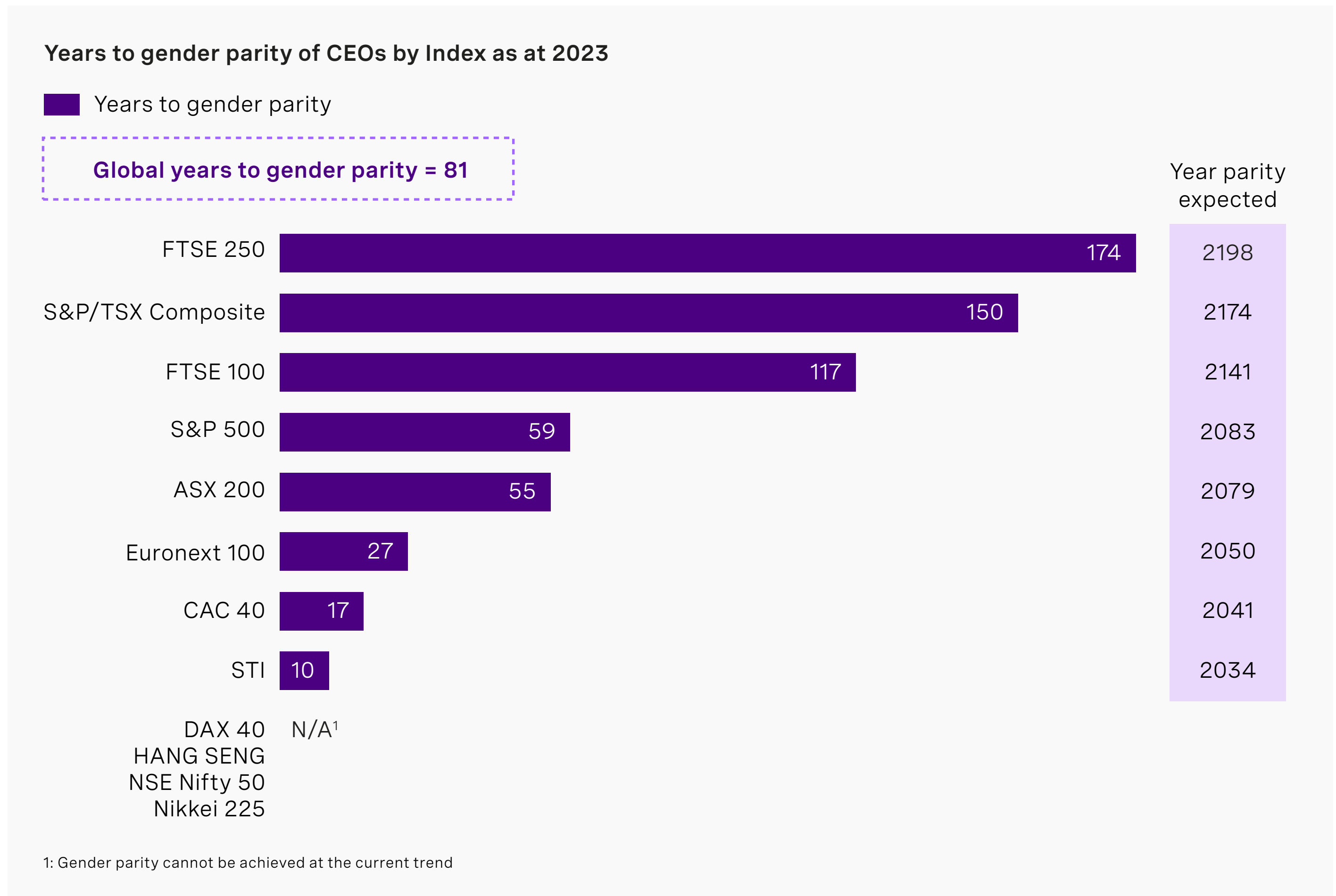
When it comes to gender parity, 2023 saw progress—but not enough of it. While last year saw the joint (with 2022) highest recorded proportion of women CEOs appointed to the world's leading indices, this number was only 12%.

Of the people appointed to lead global companies, just 22 were women, as opposed to 156 men.

The Euronext 100 and ASX 200 indices saw the highest proportion of women CEOs appointed at 25% each, with the Hang Seng and FTSE 100 not far behind at 20% and 19% respectively. But the DAX 40, CAC 40, Nikkei 225, NIFTY 50 and STI did not see any women appointed CEO in 2023.

Whichever way you look at it, we are a long way from true gender balance at the top. Indeed, our research shows public companies are 81 years from gender parity in CEO appointments.

Progress differs considerably between markets. The STI and CAC 40 are further ahead, currently 10 and 16.5 years away from gender parity at the top respectively. The S&P 500 is tracking below average at 59 years until parity, whereas the FTSE 100 is even further behind, at 117 years. More alarmingly, based on today's numbers, some markets—the Hang Seng, Nikkei 225, and DAX 40—may never reach gender parity.



> "In early 2024, we are living through an unprecedented degree of change at the top of businesses. It's time to aim high and use this opportunity to rebalance the leadership, not reinforce old paradigms. Our research clearly demonstrates that women are just as effective across leadership metrics as men, even outpacing them when it comes to coaching and developing direct reports."

Laura Sanderson, UK lead and EMEA co-lead, RRA

Appointing more qualified women CEOs is not just the right thing to do, it also brings material benefits to businesses.

One way for women to show up more clearly on the succession radar is to acquire necessary board experience through non-executive director (NED) roles. Increasing, women board representation at NED level has a very beneficial accelerator effect on the pipeline of women CEOs, particularly if internal talent development processes have been lacking.

Laura Sanderson continues: "The good news is that we are standing at a critical time when we can accelerate progress. First, there are now more opportunities for women to get board experiences earlier in their executive careers. Second, the rise in the proportion of women nomination committee chairs and members will help mitigate any unconscious bias in the CEO appointment process. We must grasp this opportunity to move on from the belief that the CEOs of the future need to look, sound, and behave like those from the past."

A level playing field for CEOs?

Following a number of high-profile women CEO departures in 2023, boards will also benefit from better understanding women's reasons for leaving CEO roles. We found that women are more likely to retire for personal reasons, with 16% of women citing this factor versus 5% of men in 2023. Interestingly, we also found that women are more likely to be fired than men (34% versus 25%).

"My view is that women CEOs are penalized more severely than men in the media for two things: underperformance (women CEOs get fired more quickly for this)—or for any perceived hubris or limelight seeking. Today's CEOs are expected to be more of a public figure than ever before, and the relative scarcity of female CEOs automatically gives them a higher degree of prominence. If you're a woman, you are under more pressure to visibly outperform, and woe betide you if you're seen to be enjoying the profile of the CEO role too much."

Laura Sanderson, UK lead and EMEA co-lead, RRA

RRA's Marie-Osmonde Le Roy de Lanauze-Molines puts forward evidence of what she calls "the hesitancy gap".

"It's time to start taking the preparation of women for CEO roles far more seriously. Organizations still aren't organized enough to prepare the internal candidate in a fair way—and they still lack a healthy pipeline of women CEO successors. Organizations need to invest more in their women leaders. Addressing this bias is a critical next step."

Boardroom rules and practices can certainly help. As Laura Sanderson points out, the practice of appointing women as NEDs—aided by term limits—at top UK companies has allowed more women to gain the necessary board experience to be considered for CEO and helped put the FTSE 100 in the top half of indices on gender parity of appointments.

And Marie-Osmonde Le Roy de Lanauze-Molines adds that, in France (one of the top performers on gender parity), it's normal practice for CEOs to be appointed for fixed terms of four years, creating more opportunities to appoint women to the top job.

We need to increase the size of the pool

Despite these glimmers of hope, O'Kelley is clear that we need fundamental structural change to CEO feeder roles if we're going to shift the needle: "Just look at the number of women running P&Ls across the major index companies. While the proportion of women CEO appointments in 2023 is small, it makes sense given how few women act as CFO or run P&Ls—roles that are often tapped for CEO.

"The reality is that this isn't going to change anytime soon. It's a pipeline training question—until women have more P&L/CFO responsibilities, the numbers are going to be small. It's going to be decades before we reach gender parity because we need to get people through pipelines. To fix this, we need stronger measures to ensure pipelines are gender balanced."

Gender and CEO tenure: Evidence of the glass cliff?

Our research shows that men hold CEO roles longer than women. Globally, the average tenure for women CEOs in 2023 was 4.1 years, compared to 8.7 years for men.

In the FTSE 100, women hold the CEO role for an average of 4.6 years, as opposed to 7 years for men. The S&P 500 saw women holding CEO roles for an average of 2.1 years, while men held them for 9.9 years, on average.

While it's difficult to make any concrete claims from these figures, given how few CEO seats are held by women at the world's top public companies, the numbers do add weight to the "glass cliff theory," which contends that women are often appointed to senior roles at especially difficult moments for organizations and then subjected to particular scrutiny.

RRA's Laura Sanderson believes that the glass cliff theory and 'gendered' thinking both contribute to the mismatched expectations which often lead to the removal of women CEOs: "We are not recognizing what good looks like in some women CEOs in the way that we should."

03: Factor 30 is hotting up

Given recent trading conditions, it is perhaps unsurprising that internal CEO appointments hit an all-time high in 2023.

Globally, of the 178 CEOs appointed in 2023, 77% were internal hires.

Within the CAC 40 and the Nikkei 225, every single CEO appointment in 2023 was internal. The ASX 200, S&P 500, Euronext 100 and NIFTY 50 were closer to the average (with 79%, 76%, 75% and 67% respectively) and although the figures were notably lower for the STI and DAX 40 (both 50%), the prevailing internal trend is growing increasingly stronger by the year.

There are several factors driving the trend: shareholder pressure on the basis that an internal candidate is generally lower risk and lower cost; media pressure on the basis that an external appointment may create short-term shareholder value but quickly dissolve; and cultural pressure on the basis that an internal promotion to CEO is more likely to inspire and encourage current staff to embrace their own connected learning opportunity.

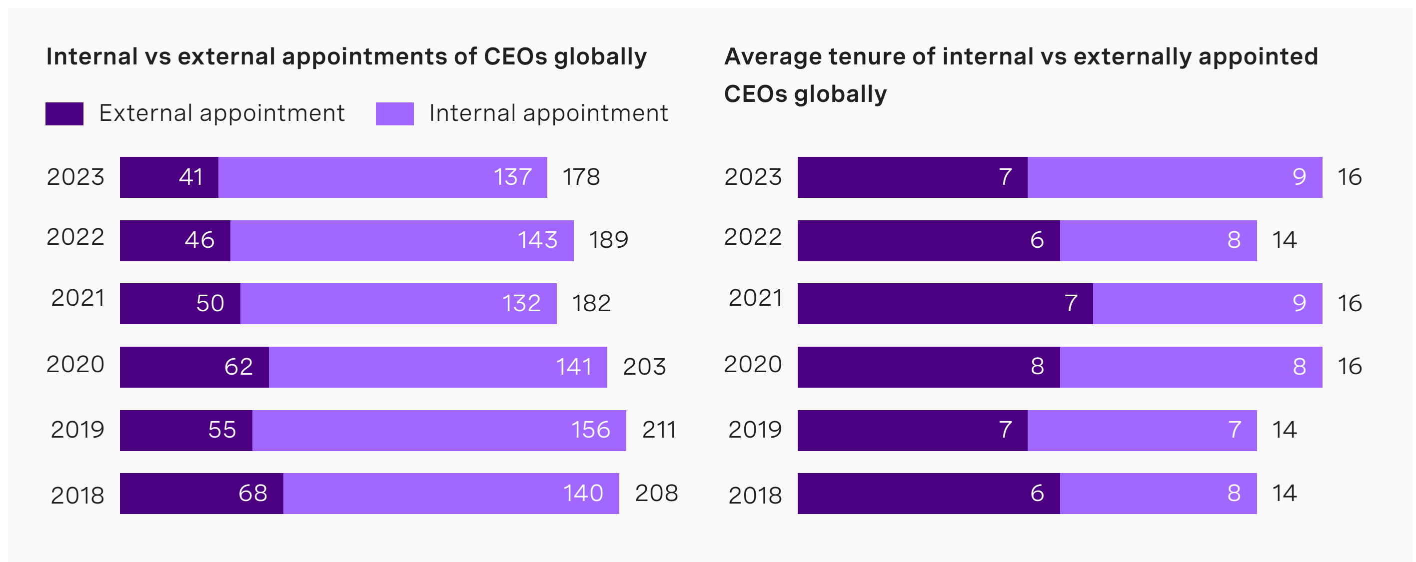
> "Boards are looking for consistency in candidates, as well as demonstrated ability to deliver within the organization. It's one reason why internal appointments are increasing."
>
> **Luke Meynell, global lead, RRA's Board & CEO Advisory Partners**

Additionally boards want to send a message that they have been doing their job by constantly and effectively planning for successions. This means unplanned emergencies as well as systemic future planning have been effectively prepared for.

RRA's Steve Langton sees boards apply the 'Factor 30' theory when selecting their CEO candidates. "For a board to appoint an external candidate, we are told they have to be at least 30% better than an internal candidate. On the face of it, the weakness of the internal candidate is that they haven't yet been a CEO. The external candidate is likely to have been a CEO and be more mature with more personal wealth and more choice. But as a result of this, they may not want to do five years in the role and boards also perceive the risk that they could be seeking the short-term glamour of waving a magic wand."

Our data supports this, revealing that internally appointed CEOs serve, on average, 1.4 years longer than those who were externally appointed. When we examined the reason for leaving, we also found that external hires are more likely to be fired (30%) than internal hires (24%).

RRA's Rusty O'Kelley is seeing the internal trend playing out across the US: "I'm not surprised internal hires last longer, as they know the culture better and tend to be promoted when the company is doing well. Whereas externals are typically brought in if there's a succession failure or the company isn't doing well and needs a change of direction."



Based on all of the above, Steve Langton concludes that "More and more boards are confidently making internal CEO appointments and being praised for it because it works."

Laura Sanderson echoes this view: "The trend towards the appointment of internals is basically a good thing, given the elevated risks associated with bringing in an external candidate, together with the usual time lag between an external candidate being announced and them being in a position to be effective in the CEO role, which can be up to two years."

Internal and first-time go hand in hand

In 2023, 86% of appointed CEOs were first-timers, which is broadly in line with the five-year average (88%).

Steve Langton points to a clear link between the rise of internal appointments and the healthy rate of first-time CEO appointments: "Clearly, we are seeing a trend in the increase of internal CEO appointments, but this is also the reason we're seeing such an increase in first time CEO appointments—because they're internal appointments, they've almost certainly not been a CEO before. I can definitely envisage a short-term scenario where almost all of the world's CEOs have been promoted from within."

But he also warns that CEO search should not become 'an emergency service': "Whilst the shareholder, media and cultural pressures outlined earlier are all likely to continue, we need to be careful that we don't allow CEO search to be an emergency service. There is far too much at stake for that to happen."

Steve Langton also reflects that, whether an internal or external hire, the number one attribute for a CEO is the ability to learn: "When we consider the qualities required for a CEO, there's a long list: strategic thinking, emotional intelligence, communication skills, gravitas, leadership. But by far the most important thing that determines CEO success is their learning ability. Are they willing and able to constantly learn?

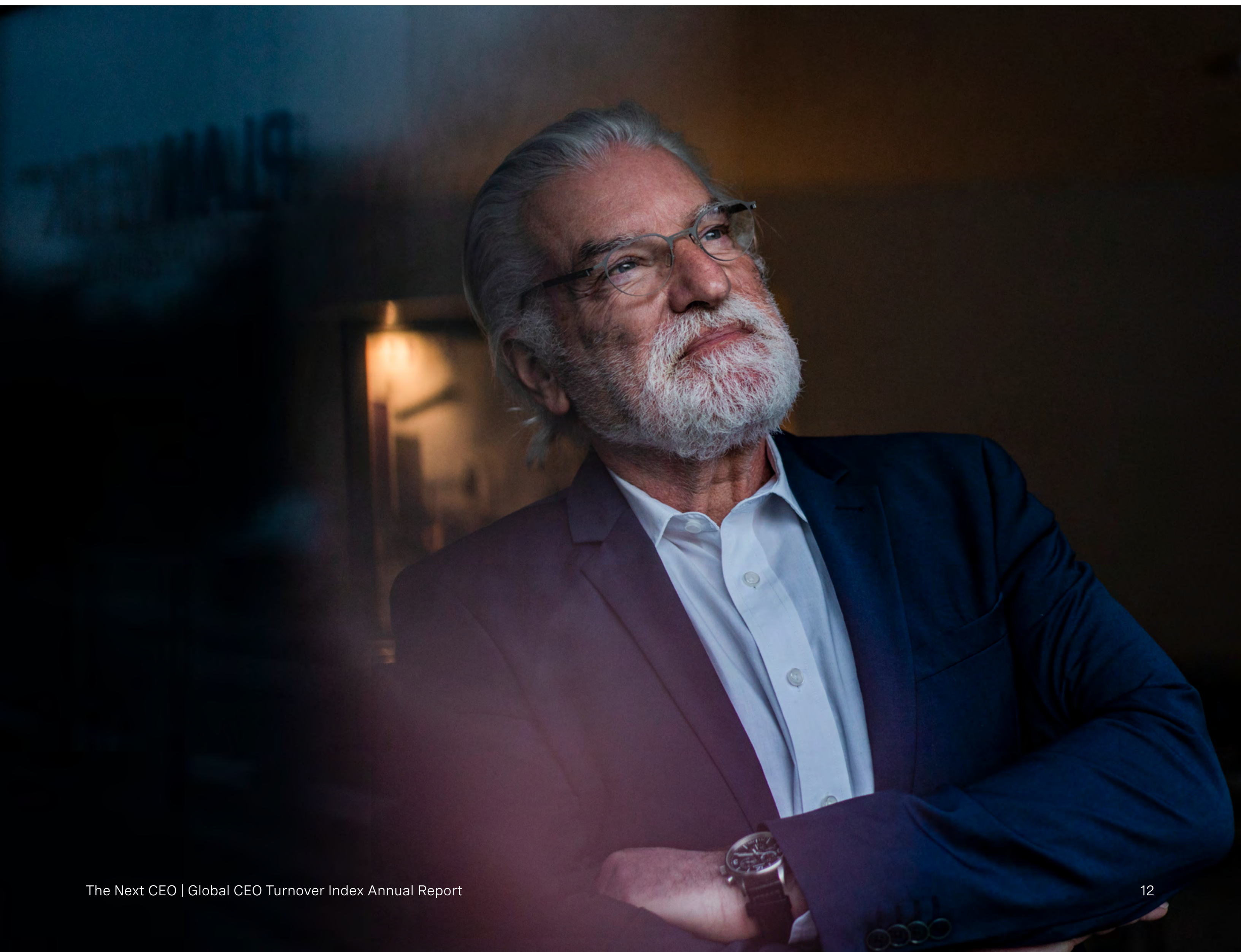
"Arguably, an advantage with internal CEOs is that they tend to be restlessly paranoid that what worked yesterday won't work tomorrow, which means that learning is right at the top of their 'to-do' list."

What's next for CEOs?

Three key themes will determine boards' approach to CEO succession planning in the year ahead: the changing role of the CEO, demands for improving gender parity, and increased internal appointments.

These trends point towards the growing importance of strengthening organizations' internal leadership pipelines. With our latest data revealing the continuing trend of high CEO turnover in 2023, investors are keeping a keen eye on developments and the spotlight is turning towards the C-suite bench.

As a result, in 2024, we need to look beyond the CEO and ensure that benches are both diverse and fully empowered to step up, as and when they are required to do so. While our data shows this is already starting to happen, now is the moment to step up the pace as we prepare today's C-suite for tomorrow's challenges.



Methodology:

- CEO turnover data from before 2023 is based on the constituents of each index as of March 2023, so doesn't account for companies that moved on and off the indices before then.
- Classification of reasons for CEO departures is derived from a comprehensive review of publicly available information, including news publications, official announcements, and relevant articles around the time of each CEO's departure announcement. This categorization is intended to provide insight into overarching trends and should be interpreted within the context of the best available information at the time of the analysis.

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About Russell Reynolds Associates

Russell Reynolds Associates is a global leadership advisory firm. Our 600+ consultants in 47 offices work with public, private, and nonprofit organizations across all industries and regions. We help our clients build teams of transformational leaders who can meet today's challenges and anticipate the digital, economic, sustainability, and political trends that are reshaping the global business environment. From helping boards with their structure, culture, and effectiveness to identifying, assessing and defining the best leadership for organizations, our teams bring their decades of expertise to help clients address their most complex leadership issues. We exist to improve the way the world is led.

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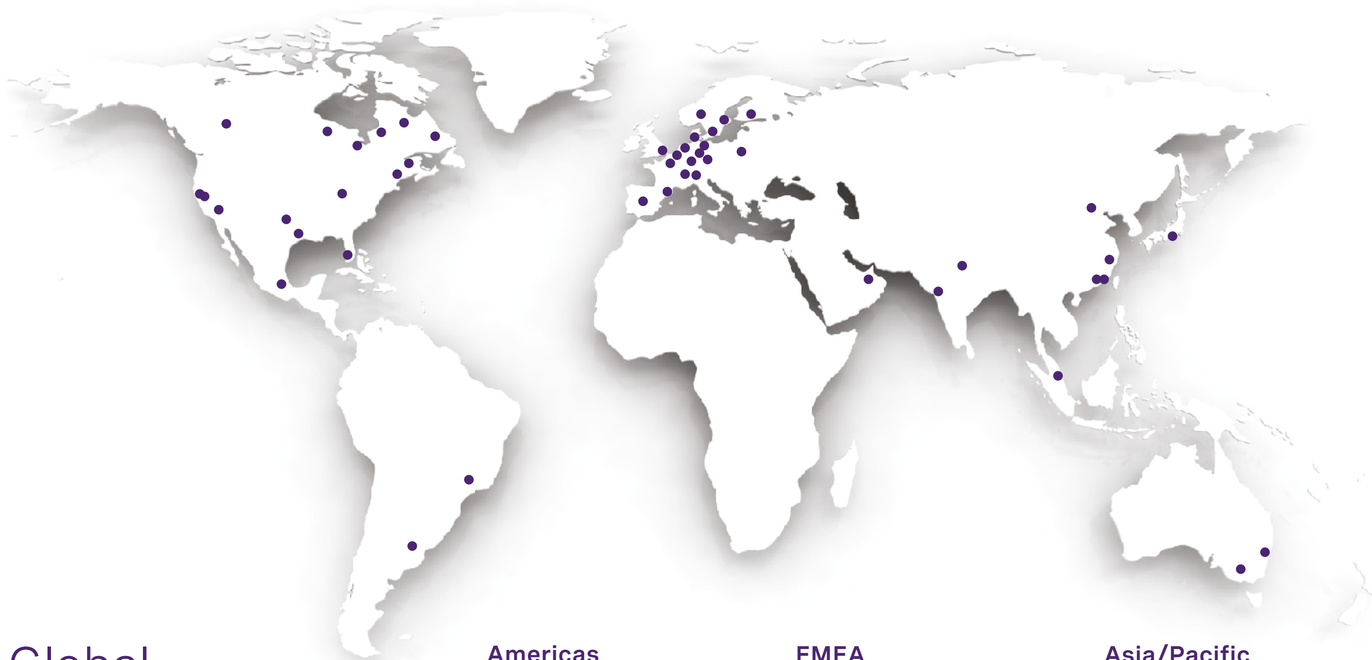

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