SpencerStuart

2023 CEO Transitions

The measure of the market

Spencer Stuart has long tracked CEO turnover among S&P 500 companies to provide a snapshot view of leadership changes at the top of American business. This year, we have expanded our research and analysis to a much broader set of companies: The 2023 report includes CEO transitions data for the S&P 500, S&P MidCap 400 and S&P SmallCap 600 — and combined views of the full S&P 1500. With the S&P 1500 representing about 90 percent of U.S. market capitalization, we can share observations that represent most of the public leadership transitions in the United States.

In 2023, the number of S&P 1500 transitions declined from 2022 and have not yet returned to pre-pandemic levels. Transitions among the large-cap S&P 500 companies had been on track for a "normal" year of transitions but ultimately were lower than pre-pandemic averages, weighed down by unusually low turnover in the fourth quarter. The move toward older CEOs and, among S&P 500 companies, experienced CEOs continued. Across the full S&P 1500, the average incoming CEO age is two years older than in 2022, and almost 20 percent of new S&P 500 CEOs had previously served as public company CEOs.

What's less evident in the data is the evolution we see in how boards are thinking about the qualities and capabilities CEOs need, both today and in the future. How should the profile of CEOs evolve amid dramatic shifts in the scale, scope, pace and interconnectedness of business challenges and the broader and more complex stakeholder demands CEOs are facing?

In addition to attributes traditionally associated with CEO excellence — such as strategic thinking and the ability to get results — boards are weighing attributes that point to candidates' ability to stretch and respond to new challenges. These include systems thinkers who can make sense of the forces at play for the business, connectors who think more broadly about potential partners and ecosystems to expand opportunities, and agile operators with the skill and courage to act on the implications of these forces, the empathy to connect with diverse stakeholders, and the ability to cultivate and use an ecosystem of information and talent.

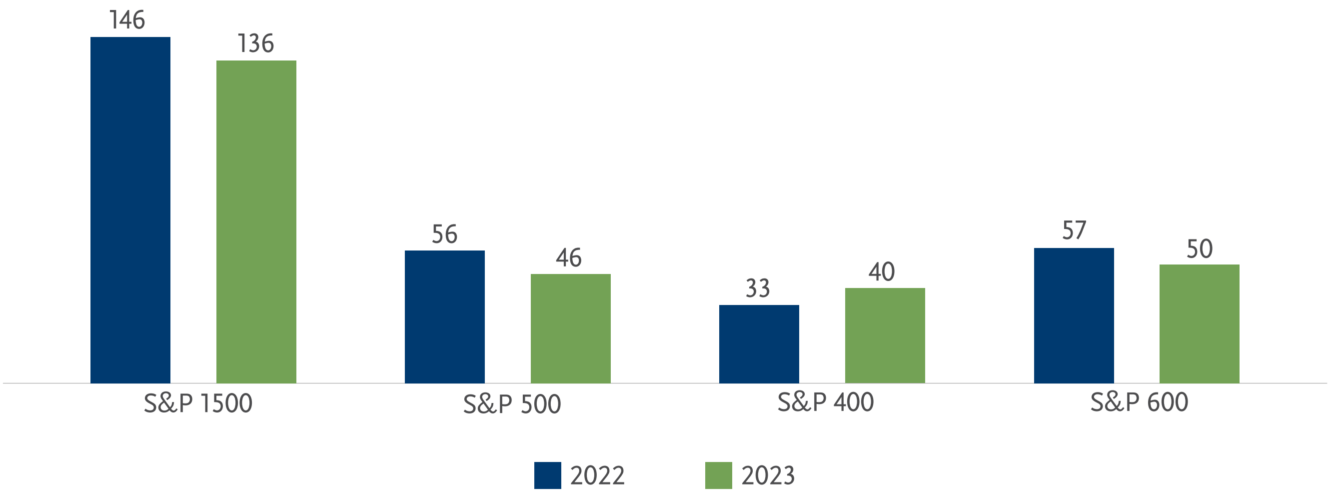
Transitions dip slightly overall, with differences across indexes

S&P 1500 transitions have not bounced back to pre-pandemic levels, and overall fewer companies appointed new CEOs in 2023. Across the S&P 1500, 136 companies named new CEOs, a decline from 146 in 2022. After the strongest first quarter of the year in a decade (58 transitions versus 65 in 2013), transitions trailed historic averages the remainder of the year and were particularly soft in the fourth quarter. We believe some CEOs held on to wait for an economic rebound, and many boards pushed succession timelines out to retain a seasoned CEO in the face of continued macroeconomic, social and geopolitical instability.

Forty-six S&P 500 companies appointed a new chief executive in 2023, down from 56 in 2022 — and fewer than the historically low level of 48 during the pandemic year 2021. CEO transitions among MidCap 400 companies rebounded to 40 in 2023, after hitting a 10-year low of 33 transitions in 2022. Fifty SmallCap 600 companies appointed new CEOs, a decline from 2022.

Our research into CEO succession 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. That has generally played out among larger companies, but we have observed different patterns among mid-cap and small-cap companies.

S&P 1500 CEO TRANSITIONS, 2022–2023



The consumer and healthcare industries had the highest CEO turnover in 2023, with 11 percent of CEO roles turning over during the year. The financial services sector had the lowest, with 7 percent turnover. Again, we see instability outside the company drive a desire for stability inside the company.

TRANSITIONS AND TURNOVER BY INDUSTRY 2023

	Number of S&P 1500 transitions	Share of total 2023 transitions	Number of CEOs currently active on S&P 1500	Turnover
Consumer	32	24%	290	11%
Financial Services	27	20%	374	7%
Healthcare	18	13%	168	11%
Industrial	40	29%	467	9%
Technology, Media, Telecommunications	19	14%	218	9%

Internal appointments declined, driven by the S&P 500

Just under 70 percent of new S&P 1500 CEOs in 2023 — 68 percent — were internal appointments, a decline from 72 percent in 2022. Seventy percent of MidCap 400 new CEO appointments and 62 percent of SmallCap 600 appointments came from inside the company. We continue to see strong divergence between the public and private capital markets, with public boards opting for a perceived less disruptive internal option while private investors more often seek to recruit external leaders (typically 75 percent or more of the time).

Large- and mid-cap companies have historically leaned more heavily toward insider appointments than smaller companies as they can more easily leverage a divisional president or similar management structure to train well-rounded P&L leaders. In 2023, 74 percent of new S&P 500 CEOs were internal appointments, compared with 82 percent in 2022. We believe the dip in 2023 reflects a couple factors. More large companies faced market disruption or poor performance, making them more open to external candidates. At the same time, many management teams that matured together over the past four years through the pandemic did not experience the typical turnover, leaving some companies without logical internal successors.

68%

S&P 1500 internal appointments in 2023 vs. **72% in 2022**

INSIDER/OUTSIDER SPLIT FOR S&P 500, S&P MIDCAP 400 AND S&P SMALLCAP 600

	S&P 500		MidCap 400		SmallCap 600	
	Insider	Outsider	Insider	Outsider	Insider	Outsider
2023	74%	26%	70%	30%	62%	38%
2022	82%	18%	73%	27%	61%	39%

Thirty-two new S&P 1500 CEOs in 2023 (24 percent) were external appointments, and another 11 (8 percent) were appointments from the board — what we think of as "the known outsider." This is an increase from 2022, when there were seven appointments from the board (5 percent). CEOs appointed from the board often serve as a bridge solution when there is not a "ready now" internal successor or to provide stability in a challenging time. They tend to be experienced CEOs and may not have the runway or desire to serve a long tenure. After a spike in from-board appointments in 2020, when 13 percent of successors were appointed from the board, 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/CEOs and "insider-outsiders," two-step appointments who were recruited from outside the company and promoted into the CEO role within 18 months.

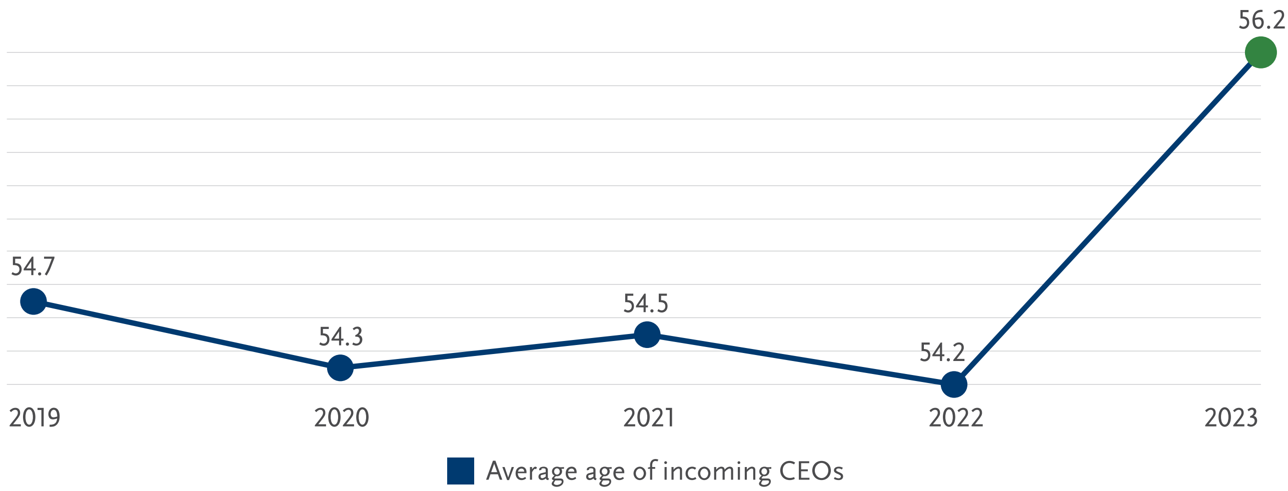
External successors are externally recruited CEOs and include those appointed from the company's board of directors.

CEO tenure falls, while the starting age of CEOs reaches a 10-year high

The average age of outgoing CEOs across the S&P 1500 was 61.6, lower than the 62.4-year average in 2022 and on par with a trend we have seen in recent years. Across the full S&P 1500, the average tenure of outgoing CEOs dipped from 9.9 to 9.0 years, which is on the lower end of the historical range. S&P 500 CEO tenure, at 8.9 years, continued to decline from its 2021 peak of 11.2 years and 10.2 years in 2022. During the pandemic, tenure peaked for S&P 500 CEOs, as many CEOs stayed in the role longer to provide a safe pair of hands amid the disruption.

Incoming CEOs were notably older in 2023, with the average age at start for S&P 1500 CEOs reaching an all-time high of 56.2 years, more than a year older than the prior high of 54.8. The jump is especially noteworthy in the S&P 500, where the average age dipped to 53.8 in 2022 and bounced back up to 56.4, continuing a longer-term trend of rising CEO age. This is not surprising in a more uncertain period when leaders who have lived through more economic cycles are leaned on more heavily.

AVERAGE AGE AT START FOR NEW S&P 1500 CEOS 2019–2023



Why do CEOs leave?

Consistent with prior years, the vast majority of CEO transitions were attributed to the outgoing CEO's decision to retire or depart for another role or for personal reasons. Planned departures drove 86 percent of S&P 1500 transitions in 2023, the same as in 2022. Resignations under pressure rose to 10 percent from 5 percent in 2022, boosted by an increase in oustings among S&P 500 companies — from 7 percent in 2022 to 16 percent in 2023. Three MidCap 400 CEOs and three SmallCap 600 CEOs departed under pressure. Resignations under pressure grew as performance waned at more companies and board members felt pressure from investors to take action. We also saw more scrutiny of leaders for non-financial performance, with some leaving voluntarily or under pressure due to increasingly complex stakeholder management demands. These departures are even more common at S&P 500 companies, where media and investor scrutiny are more intense.

REASONS FOR CEO DEPARTURE S&P 1500

86%	10%	3%	1%
Former CEO retired or departed	Former CEO resigned under pressure	Change of control	Health reasons

More COOs and divisional CEOs promoted to CEO

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. Following 2022 when we saw a bump in CFO-to-CEO promotions, 2023 was the year of the chief operating officer. Fifty-seven percent of new S&P 1500 CEOs were promoted COOs or presidents, a jump from 43 percent in 2022. Divisional CEO appointments also increased, to 24 percent from 17 percent in 2022. This is just below the historically high level of DCEO appointments we saw in 2017 and 2019 (26 and 25 percent, respectively). CFO appointments represented just 5 percent of transitions, down from 15 percent in 2022. Five percent of appointments were "leapfrog" leaders, hired from below the second layer of management, down slightly from 9 percent in 2022 when a notable number of CEOs were appointed from advisory and other C-suite roles. These shifts reflect the impact of longer-term succession planning in which boards engage many years prior to a transition to build out more thoughtful transition paths.

MOST NEW S&P 1500 CEOs WERE APPOINTED FROM FOUR "LAST-MILE" ROLES

57%
Promoted from COO or enterprise president roles

24%
Promoted from a divisional CEO or president role

5%
Promoted from CFO

5%
"Leapfrog" appointments from below the C-suite

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

Looking across the indexes, the COO role is the most common route to CEO, followed by divisional CEO. "Leapfrog" appointments are consistently more common among mid-cap and small-cap companies than the S&P 500. No leapfrog appointments were made among S&P 500 companies in 2023, but 9 percent of MidCap 400 and SmallCap 600 appointments came from below the C-suite.

Most new CEOs are first-timers

The majority of newly appointed S&P 1500 CEOs, 82 percent, are serving in their first public company CEO role. This has been largely consistent over the past five years, though we observe somewhat greater volatility within indexes. For example, 78 percent of incoming S&P 500 CEOs were first-time public company CEOs in 2023, versus 93 percent in 2022. Among the MidCap 400, 88 percent of new CEOs in 2023 were first-time public company CEOs, up from 85 percent in 2022, as were 82 percent of new SmallCap 600, the same as in 2022. Of course, almost all internal appointments are first-time CEOs, making this an unsurprising finding.

Consumer companies were most likely to appoint experienced CEOs, with 31 percent of all incoming CEOs having prior experience as a public company CEO.

Gender diversity just misses 2022's historic high

Thirteen percent of all new S&P 1500 CEOs (17) were women, just below the historic high of 14 percent in 2022. These appointments bring the total number of female CEOs on the S&P 1500 to 111 out of 1,517, or 7 percent.

Small-cap companies appointed the largest share of women: 14 percent of incoming SmallCap 600 CEOs were women. Among S&P 500 companies, 11 percent of CEO appointees were women, on par with recent years, and the number of active female S&P 500 CEOs rose from 38 to 40 (8 percent). All five of the incoming S&P 500 female CEOs were internal appointments, compared with 71 percent (29) of the newly appointed male CEOs.

Looking across sectors, industrial companies appointed the largest share of women, with seven of 40 new CEOs (18 percent). The consumer and industrial sectors have the highest percentage of active female CEOs at 9 percent. The healthcare and technology, media and telecom sectors each added one new female CEO. The technology sector has the lowest overall representation of active female CEOs.

ACTIVE S&P 1500 FEMALE CEOs BY INDUSTRY

	Female CEOs	Male CEOs	% female CEOs
Consumer	26	264	9%
Financial Services	22	352	6%
Healthcare	13	155	8%
Industrial	41	426	9%
Technology, Media, Telecommunications	9	209	4%

Few CEOs are appointed board chair when they start

The percent of new CEOs who are also immediately named chair has been declining steadily over time. In 2023, just 4 percent of new S&P 1500 CEOs were also named board chair upon appointment, a slight increase from 3 percent 2022.

More boards named an executive chair to support the transition

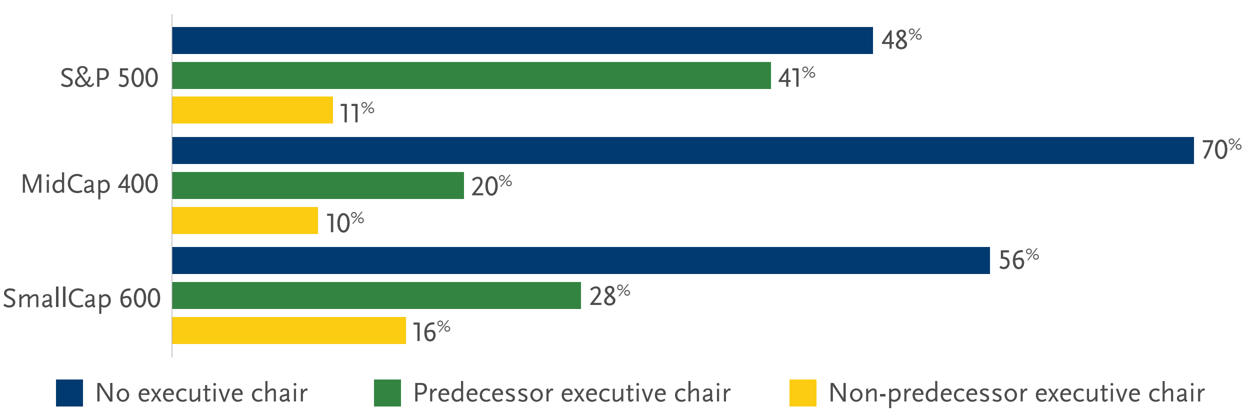
In the past several years, we have seen an uptick in the share of boards appointing an executive chair to smooth the transition from a successful long-time CEO to an internal candidate or to provide continuity following an external CEO appointment. Almost half of incoming S&P 1500 CEOs — 43 percent — were appointed alongside an executive chair. Mid-cap companies were least likely to adopt this practice, with 30 percent having an executive chair through a CEO transition.

The executive chair is most likely to be the outgoing CEO. In 41 percent of S&P 500 CEO transitions, the former CEO is named executive chair. A non-predecessor was executive chair for 11 percent of the transitions. Among mid-cap and small-cap companies, 20 percent and 28 percent, respectively, of executive chairs active in the role when a CEO is appointed were the predecessor. In most cases, executive chairs serve for a short tenure, roughly one to two years.

EXECUTIVE CHAIR STATUS S&P 1500

57%	30%	13%
No executive chair	Predecessor executive chair	Non-predecessor executive chair

EXECUTIVE CHAIR STATUS BY INDEX



An executive chair can provide stability and continuity during the early transition period to a new CEO, ideally providing strategic insight and hands-on onboarding support to the new CEO during the transition. However, our research on the executive chair model finds mixed performance; more than half — 54 percent — underperformed their peers, by an average of 14 percent. The remaining 46 percent overperformed by an average of 14 percent.[1] There can be an upside to having an executive chair — when there is trust and a clear division of responsibilities between the CEO and executive chair.

1 Performance was measured using CAGR, which discounts performance by the number of years and is not purely cumulative as opposed to TSR. We then compared average company CAGR values over the executive chair's tenure to the average CAGR of their relative peer group. Peers were generated using S&P Capital IQ's back-end algorithm that factors in (1) analyst coverage, (2) financials/trade price requirement, (3) company location, (4) revenue and (5) industry coverage. Companies with executive chairs that are public, U.S. based and have a market cap of +500M were included in the analysis.

About Spencer Stuart's Board & CEO Practice

Drawing on our deep understanding of the challenges facing boards and CEOs, along with our groundbreaking research on CEO and board performance, our consultants help boards, CEOs and CHROs navigate the high-stakes leadership decisions that make a critical difference for the future of their teams and organizations.

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 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, 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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