ESGAUGE is a data mining and analytics firm uniquely designed for the corporate practitioner and the professional service firm seeking customized information on US public companies. It focuses on disclosure of environmental, social, and governance (ESG) practices such as executive and director compensation, board practices, CEO and NEO profiles, proxy voting and shareholder activism, and CSR/sustainability disclosure. Our clients include business corporations, asset management firms, compensation consultants, law firms, accounting and audit firms, and investment companies. We also partner on research projects with think tanks, academic institutions, and the media.

www.esgauge.com

HEIDRICK & STRUGGLES serves the executive talent and leadership needs of the world’s top organizations as a premier provider of leadership consulting, culture shaping, and senior-level executive search services. Heidrick & Struggles pioneered the profession of executive search more than 60 years ago. Today, the firm serves as a trusted advisor, providing integrated leadership solutions and helping its clients change the world, one leadership team at a time. For more information, visit:

www.heidrick.com
Choosing the right CEO in a time of crisis

As the COVID-19 pandemic has been unravelling with uneven consequence on sectors and geographies, many companies have been adjusting their plans for CEO succession.

With the long-term consequences of the pandemic still unclear, in 2020 boards seeking a new CEO have had to decide among going ahead with preagreed plans, adjusting what they were seeking to respond to immediate external challenges, or pausing a planned succession to try to anticipate what kind of CEO would be more likely to prove successful long term. Despite this year’s uncertainty, however, our research and conversations with current CEOs and board members clearly indicate that while the COVID-19 crisis has reemphasized certain traditional dimensions of CEOs’ roles (such as risk management, cost efficiencies, and restructuring), prepandemic trends that layered on responsibility for areas such as purpose, sustainability, culture shaping, and diversity, equity & inclusion will continue to shape the CEO role for the longer term. Indeed, not only are CEOs expected by the board and other stakeholders to engage on all these issues, but also to lead with empathy and compassion, inspire their workforce, and activate their organization’s purpose.

The evolving role of the CEO is encouraging companies to consider a more diverse pool of talent across different levels of organizations, and to think about diversity in ways that include, and go beyond, gender, race, and ethnicity. The ninth annual CEO Succession Practices report from The Conference Board found that overall, companies have embraced wider talent pools, but so far it is the smaller companies that are more comfortable appointing CEOs with backgrounds that diverge from the comfort zone of tried-and-tested profiles of executives with prior CEO experience. As we have long advocated, that talent pool is well worth getting to know.

CEO succession today

We see four particularly notable trends in this year’s report.

Trend #1: Boards are opting for leadership continuity to navigate the COVID-19 pandemic and its fallout. Many boards have chosen to pause: the number of new CEO appointments dropped in the second quarter of 2020, suggesting that many companies are rethinking their CEO leadership requirements. Our research at Heidrick & Struggles on Fortune 100 CEOs shows a similar trend.1 At companies of any size, CEO transition in the middle of the crisis can be seen as an unnecessary risk and trigger significant disruption in an already volatile situation, and might also overlook important competencies required long term in a successful leader. On the other hand, companies that opted to move forward with the CEO succession more often appointed permanent rather

1 Route to the Top 2020, Heidrick & Struggles, upcoming.
than interim CEOs, signaling a strong leadership mandate and confidence at a time when both their people and markets require reassurance.

**Trend #2: Company performance continues to be a main driver of business leadership turnover.** High-performing companies show markedly lower turnover rates than lower-performing ones, particularly at smaller companies: in 2019, high-performing companies in the Russell 3000 Index had half the turnover of low-performing companies, at 9.4 percent compared to 19.4 percent. In today’s environment, it is increasingly important for boards to take into account factors beyond the control of senior management, including the cyclicality of the business and the competitive landscape, and understand the extent to which the CEO’s performance is influencing business results. The economic fallout of the pandemic will likely continue to affect some companies’ succession planning through the next year.

However, after peaking in 2018 amid prominent #MeToo scandals, CEO departures due to personal misconduct declined, hopefully a sign of a cultural shift and change in power dynamics and accountability. Boards and top management should continue their support for robust corporate policies that penalize any type of misconduct, and encourage employees to speak up when they experience abuse of power.

**Trend #3: The appointment of women as CEOs is on the rise, but so is their turnover.** As companies have been facing increasing external pressure to increase the number of women in their leadership teams and talent pools, there are some slow, and at times mixed, signs of progress. While the percentage of incoming CEOs who are female has been growing in recent years, it is still low, at 5.4 percent in both S&P 500 and Russell 3000. Furthermore, women’s rate of departure has reached an alarmingly high level, representing 6 percent of the CEOs departures in S&P 500 companies in 2019, almost double the 18-year departure rate of 3.7 percent from 2001 to 2018.

**Trend #4: Sources of CEO talent differ significantly depending on business sector and company size.** There are striking differences among sectors when it comes to what CEO profile they have sought. Communication services has the highest percentage of CEOs who were internally appointed and had previously served as a non-executive director, at 44.4 percent, while financial services is at the other end of the spectrum with 11.1 percent. When it comes to external hires, consumer discretionary companies lead, with 50 percent of CEOs—and real estate companies had no externally appointed chief executives. In terms of company size, The Conference Board found that smaller companies are more likely to appoint as CEO an individual who previously served on their board as a non-executive director than companies with a higher revenue, particularly in financial services and manufacturing.

**Staying the course**

No matter what qualifications a board is seeking in a new CEO, CEO succession planning should be an agenda item during any strategic board discussion. As the crisis is permanently changing the business environment, reshaping each sector in a different way with uncertain outcomes, each board needs to keep a close eye on how those changes influence the type of CEO they need and how their pipelines align to their specific requirements.
The pandemic has underscored that companies should also ensure their succession planning process focuses not only on the long term but also on identifying a ready-to-go, emergency successor for the CEO and other critical senior roles. To that end, boards need to improve retention of high-potential executives and leadership development, and they will further benefit from ensuring a critical mass of diverse candidates at each critical stage of their process.

Finally, given the link between poor performance and CEO succession, boards must also ensure that their CEO succession planning and talent management strategies remain integrated into business performance reviews rather than as separate agenda items. If performance continues to be unsteady, it seems likely that more boards will face the need to navigate a leadership change earlier than they might otherwise have planned for. And the current crisis has shown clearly that companies have to be prepared for the unexpected at every single turn.

Bonnie Gwin
Vice Chairmen and co-Managing Partners, Global CEO & Board of Directors Practice
Heidrick & Struggles

Jeff Sanders
CEO Succession Practices in the Russell 3000 and S&P 500
2020 EDITION

CEO Succession Practices in the Russell 3000 and S&P 500: 2020 Edition provides a comprehensive set of benchmarking data and analysis on CEO turnover to support boards of directors and executives in the fulfillment of their succession planning and leadership development responsibilities.

The study reviews succession event announcements about chief executive officers made at Russell 3000 and S&P 500 companies in 2019 and, for the S&P 500, the previous 18 years. To provide a preliminary assessment of the impact of the COVID-19 crisis on top leadership changes, this edition is also complemented with data on CEO succession announcements made in the Russell 3000 in the first six months of 2020.

The project is conducted by The Conference Board and ESG data analytics firm ESGAUGE, in collaboration with executive search firm Heidrick & Struggles. See “Access Our Online Dashboard” on page 21 for more information on the study methodology. Visit conferenceboard.esgauge.org/CEOsuccession to access our data online.

Drawn from such a review, the following are the key findings and insights.

CEO turnover in the Russell 3000 dropped in the second quarter of 2020 as boards opted for leadership continuity to manage the fallout from the COVID-19 pandemic.

The COVID-19 pandemic and its economic fallout have been of historic proportions. Since the first lockdown measures were implemented in the United States, boards and top management teams across the Russell 3000 have worked hard to navigate the implications of the crisis on the liquidity and financial stability of their companies, the health and well-being of their employees, and the purchasing behaviors of their customers.1

CEO succession is one of the most consequential events a company may face, with possible profound effects on its strategy, its organizational culture, and its relationship with investors and other stakeholders. Therefore, it is not entirely surprising to find that, when the COVID-19 crisis suddenly disrupted business activities in the United States in mid-March 2020, some companies chose to avoid compounding existing business risks with the inevitable uncertainties of a leadership turnover.

Our data show that, while the Russell 3000 CEO succession rate for the first quarter of 2020 was substantially similar to those recorded for the same periods of 2018 and 2019, it

dropped significantly in the second quarter. Specifically, in the April 1–June 30, 2020 period, Russell 3000 companies counted only 71 CEO succession announcements—a decline of 11.3 percent from the average number of 80 CEO turnovers reported in the second quarters of 2018 and 2019.

While it is difficult to predict the future in the midst of a global health crisis, if we were to project the 11.3 percent decline into the second half of 2020, the annual Russell 3000 CEO succession rate for all of 2020 would be 7.8 percent, or 32.8 percent lower than the average annual rate of 11.6 percent reported for the 2018–2019 years.

There is also evidence that boards of directors that moved forward with their CEO succession plans have been opting for permanent replacements rather than interim CEOs. This seems a sign of their preference for a strong leadership mandate for the new CEO rather than a transitional role at a time when the workforce and the market seek reassurance about the company’s ability to fully recover from the crisis and set a future course. In particular, the rate of interim CEO appointments in the first half of 2020 was 18.1 percent, down 15.4 percent from the average annual rate of 21.4 percent recently measured for 2018 and 2019.

What’s ahead? The COVID-19 pandemic continues to wreak havoc on the US job market. Despite recent improvements, unemployment remains close to double digits and job creation well below prepandemic levels. This adverse situation puts CEO performance to the test. As hard as it is to make a prediction, the rate of CEO succession may accelerate as we enter 2021. At some companies, boards may revisit long-term business objectives and conclude that new leadership is needed. Others may conclude that the crisis offers an opportunity to revisit board leadership and add a non-executive chairman to strengthen management and avoid the upheaval and discontinuity resulting from a hasty CEO turnover event. Others may find that the crisis has highlighted gaps in the existing executive leadership, such as the need for stronger communication skills. Some CEOs may also choose to retire after leading the company through such a challenging time. For all of these reasons, The Conference Board, ESGAUGE, and Heidrick & Struggles will continue to update the dashboard in early 2021 and throughout next year.

The crisis is also an opportunity for boards of directors to continue to strengthen their planning process on CEO turnover and leadership development. Crisis preparedness practices, in particular, suggest that companies should complement their regular succession process with ready-to-go, emergency succession plans—for the CEO and other critical senior roles. In particular, in a volatile business environment subject to the unpredictability of the pandemic, boards and appropriate committees should reserve time to conduct the following emergency planning activities:

- revisit the job description of the CEO and other key functions in light of the most pressing organizational needs, which may differ not only from those mapped in

---

2 For the most recent figures, see, for example, “The Conference Board Employment Trends Index™ (ETI),” October 5, 2020; and “Unemployment Insurance Weekly Claims,” US Department of Labor (press release), September 3, 2020.
regular circumstances but also from those the board had anticipated only a few months before, at an earlier stage of the crisis;

b review the short list of candidates who meet the updated job requirements to ensure that, for any key roles, a successor or interim successor is ready to step in without any material loss of continuity in organizational leadership;

c conduct scenario exercises meant to test the organization’s preparedness to marshal the resources needed in the implementation of a sudden turnover;

d solicit updates on the effectiveness of the safety protocols adopted by the organization and the health of its employees;

e define a communication strategy meant to inform and reassure the workforce and other key stakeholders.3

A Matter of Risk Management

Underperforming consumer staples companies reported a CEO succession rate of almost 40 percent, and CEO turnovers at larger companies in the S&P 500 have been rising in recent years. These trends could become even more pronounced in the uncertain times ahead.

Company performance continues to be a main driver of business leadership turnover. Over the years, our data have consistently highlighted meaningful differences in the rates of CEO succession between better-performing and worse-performing companies.4 In the Russell

3 Also see Lee Hanson and John S. Wood, Considerations for Emergency CEO Successions, Heidrick & Struggles, April 13, 2020.

4 For the purposes of this analysis, performance is defined as the two-year total shareholder return (TSR) minus the two-year TSR of all index companies in the same industry: “better-performing” companies’ industry-adjusted TSR falls in the top three quartiles for the index; “worse-performing” companies’ industry-adjusted TSR falls in the bottom quartile for the index.
3000, the average 2019 rate of CEO succession was 9.4 percent for better-performing companies and 19.4 percent for worse-performing companies. For S&P 500 companies, the rates were 11.3 percent and 20.2 percent for better-performing and worse-performing companies, respectively. Moreover, CEO successions at worse-performing companies in the S&P 500 have been trending upward: while the average rate for the 15-year period from 2001 to 2015 was 13.7 percent, it increased to 18 percent in the period from 2016 to 2019.

These differences are further accentuated in the business sector analysis. In particular, worse-performing consumer staples and utilities companies in the Russell 3000 reported significantly higher rates of CEO succession (40 and 75 percent, respectively) than the rate among worse-performing real estate companies (5.9 percent). Ownership structures and the need to set a new strategic course in certain business industries may help to explain these wide gaps.

What’s ahead? While underlying stock performance continues to be a key driver of turnover, in today’s era of stakeholder capitalism (which many CEOs embrace⁵), business leaders are expected to balance the demands of multiple constituents (e.g., investors, customers, employees, suppliers, and communities) while creating durable shareholder value. This means not only that the CEOs at financially underperforming companies may come under scrutiny by a broader array of stakeholders, but also that CEO performance in serving multiple stakeholders can increasingly be a cause for leadership change. When evaluating performance, directors may take into account factors beyond the control of senior management, including the cyclicity of the business, the competitive landscape, and adverse macroeconomic circumstances.⁶ However, the increased public scrutiny and additional demands placed on CEOs may make it even more difficult for boards to retain an underperformer.

While boards remain vigilant in assessing shifting customer interests and rapidly changing business environments, they should exercise equal care in evaluating the leadership pipeline. CEO succession planning should be an agenda item during strategic discussions and should remain, along with talent management strategies, integrated into business

---


performance reviews rather than placed as a separate agenda item that is reviewed annually. One way to accomplish this is by developing a strategic leadership profile, which creates a natural bridge from the discussion of company strategy to succession planning by identifying the skills, experiences, and personal attributes that the CEO of the future will require in order for the company to achieve its strategic goals.7 If the rate of CEO succession continues to trend upward in the coming years, as shown in particular among the worst performers in the S&P 500, more boards will face the need to navigate a leadership change.

After peaking in 2018 amid prominent #MeToo scandals, CEO departures due to personal misconduct have declined. Forced CEO departures are mainly caused by poor company performance, with substantial differences across size groups.

The share of “forced” CEO successions has declined in the last year, in both the Russell 3000 (where 7.6 percent of all succession events announced in 2019 were nonvoluntary, down from 8.6 percent in 2018) and the S&P 500 (with only 14.9 percent of forced CEO successions, down from 17.7 percent in 2018 and 15.5 percent in 2017).8

In 2019, in the Russell 3000, the leading causes of forced or unplanned CEO departures were underperformance (59.3 percent of all forced departures), personal misconduct (11.1 percent), and financial misconduct (7.4 percent); the remaining 22.2 percent of forced departures were due to reasons such as a disagreement between the CEO and the board of directors. There is a similar pattern of evidence for the S&P 500, in which the leading causes of forced CEO departures were underperformance (60 percent of forced departures) and personal misconduct (20 percent); there were no forced departures due to financial misconduct in 2019, and the remaining 20 percent of unplanned departures were for other reasons.

The year-on-year analysis reveals a steep decline in the number of forced CEO departures due to personal misconduct, in both the Russell 3000 and S&P 500. Among Russell 3000 companies, forced departures due to personal misconduct declined from 44.8 percent of the total number of forced departures in 2018 to 11.1 percent in 2019. Similarly, among S&P 500 companies, personal misconduct cases conducive to CEO departures declined from 54.5 percent of the total number of forced departures in 2018 to 20 percent in 2019. Across business sectors, the consumer discretionary and health care sectors were the only two sectors to report forced CEO departures due to personal misconduct in 2019, while financials and information technology were the only two sectors that reported forced CEO departures due to financial misconduct.

Overall, the share of forced CEO successions among S&P 500 companies is twice as high as that of the Russell 3000 (as mentioned above, 14.9 percent versus 7.6 percent, respec-

---


8 For the purposes of this report, we make a distinction between succession events announced in any given year that are considered “forced” rather than “planned” or of other types, based on a review of company press releases and associated media coverage of succession events.
tively, in 2019). The size analysis conducted across the Russell 3000 is even more telling: in 2019, 25 percent of all CEO successions announced in the group of companies with annual revenue of $50 billion and higher and with annual revenue between $10 billion and 24.9 billion were forced, compared to only 10.8 percent of those announced by companies with annual revenue under $100 million and 4.8 percent of those announced by companies with annual revenue in the $100 million–$999 million group.

What’s ahead? It is well known that a healthy corporate culture has a positive correlation with company performance. The #MeToo movement against sexual harassment resonated profoundly within the business community and motivated employees to speak up about situations of personal misconduct they have experienced or witnessed in the workplace. This has provided boards of directors with new insights into the private behaviors of top management. And, at times, boards found themselves needing to take action. These types of scandals bear a tremendous business risk, well beyond the immediate financial costs, with reputational repercussions that may reverberate for years.

The substantial decline in forced CEO succession events due to personal misconduct is both heartening and concerning: heartening if it is an indication that a cultural shift has

---

indeed taken place and those in a position of authority now understand that their abuse of power will no longer be tolerated, but concerning if it means that, after the media attention has abated, companies have reverted to a situation where employees may again feel anxious about speaking up.

It may take some time to sort out the factors at play here—and the impact that the focus on racial equality in the wake of George Floyd, and not just gender equality, has on CEO turnover. It does seem clear, however, that the focus on leadership by example will continue. For this reason, boards and top management should continue their support for robust corporate policies where instances of misconduct—at any level of the company—are followed by swift disciplinary action so that employees feel emboldened to speak up. These practices should include:

- Stating a clear commitment from the top to eradicate intolerance and abuse and promote a safe environment where employees can count on each other and on the upper ranks of the organization to respond to wrongdoing. Tone at the top is crucial to build trust and set an example for everyone.

- Codifying and internally communicating a protocol for those on the receiving end of a situation of abuse of authority to file complaints without fear of retaliation (and for third parties to report inappropriate interactions they may have witnessed). Information obtained through a hotline or other reporting channels should rigorously be anonymized and elevated, including (in the appropriate actionable format) to the board of directors. It is also important that the human resources department or whoever takes the lead in handling these complaints be perceived by employees as a safe and trusted place. As recently as March 2020, a widely publicized survey revealed the distrust employees still have for their HR department.\(^\text{10}\)

- Ensuring full collaboration among key departments. Complaints about employee misconduct can sometimes be “siloed” within the internal human resources, employment law, or compliance functions. Moreover, unlike for reports of financial misconduct, which are typically handled by the compliance function and reported to the board’s audit committee, companies may not have consistent and robust processes for reporting discriminatory misconduct to the board. It’s important to ensure that the internal compliance, human resources, and employment law functions work in tandem on these matters, which should be appropriately reported to one or more board committees.

- Conducting a periodic assessment of corporate culture. In addition to receiving incident reports as noted above, the board or its committees should be provided with periodic reports of key human capital management metrics (on employee satisfaction and engagement, diversity and inclusion, talent acquisition and retention, and pay equity within the workforce, among others) that enable it to evaluate corporate culture and the likelihood that an occurrence of personal misconduct may occur.

• Adding language to employment contracts to discourage personal misconduct. Termination clauses, in particular, should explicitly define “cause” to prevent severance payments or stock vesting in instances of misconduct.11

Women represent only about 5 percent of sitting CEOs in each index. While the percentage of incoming female CEOs has been growing in recent years, so has their rate of departure, which in 2019 was higher than the 18-year average. Female CEOs are more likely to be found at smaller companies and less likely in IT, financial services, and real estate sectors.

Women represent approximately 5.4 percent of sitting CEOs among companies in both the Russell 3000 (162 female CEOs) and S&P 500 indexes (27 female CEOs). This percentage has been similar from 2017 through 2019. While it is common to read about the dearth of women among the highest ranks of corporate America, less attention has been given to the characteristics of the companies that women currently lead. Yet those companies could offer valuable lessons on how to steer progress in female and other minority representation in business leadership. Our comprehensive Russell 3000 analysis of business sectors and company size groups helps us to shed more light on these traits.

Real estate, financials, and information technology companies report the lowest percentage of women CEOs (3.1 percent, 3.4 percent, and 3.6 percent, respectively). Utilities (10.7 percent), communication services (7.6 percent), and consumer discretionary companies (7.5 percent) have the highest. Fran Horowitz of Abercrombie & Fitch, Mary Barra of General Motors, Lynn Good of Duke Energy Corporation, Julia Hartz of Eventbrite, and Shar Dubey of Match Group are some of the women on the list of female Russell 3000 CEOs in these industries.

The analysis by company size provides further insights. Most female CEOs are found at manufacturing and nonfinancial services companies with annual revenue of less than $4.9 billion (specifically, 107 of 137 female CEOs of manufacturing and nonfinancial services companies in the Russell 3000, or 78.1 percent). Among real estate and financial firms, most female CEOs lead companies with asset values between $1 billion and $9.9 billion (16 of 25 female CEOs of real estate and financial companies in the Russell 3000, or 68 percent). Of the 122 real estate and financial firms with asset values greater than $25 billion, only five are led by a woman (or 4 percent of the companies in this size group).

While figures on the gender of incoming CEOs are encouraging, they are in fact countered by findings on CEO departures. Together, these sets of numbers explain why progress

11 There is a vast body of literature on how to strengthen corporate culture and eradicate sexual harassment in the workplace. For a summary of key practices compiled by legal advisers and HR practitioners, see Matthew Herzberg, “Find Your Place on the ‘Culture Continuum,’” Heidrick & Struggles, December 7, 2017; Mirande Valbrune, “Emerging Human Resources Trends in the Wake of #MeToo,” Forbes, August 20, 2018; Allegra Lawrence-Hardy and Kathy Glennon, “#MeToo Today: The Evolution of the Movement and Practical Tips for Employers,” Corporate Compliance Insights, October 10, 2019.
across indexes continues to be remarkably slow. Among the Russell 3000, 8.2 percent of incoming CEOs were women, an increase from the 8 percent of 2018 and the 4.3 percent of 2017. Among the S&P 500, 10.4 percent of incoming CEOs were women, a significant increase from the 18-year rate of women CEO appointments of 5.8 percent from 2001 to 2018, and the third highest rate of incoming female CEOs in the entire 19-year historical period tracked by this study.

However, approximately 6.2 percent of 2019 CEO departures in the Russell 3000 were women, and they also increased from the 4.1 percent found in 2018 and the 3 percent of 2017. Women also represented 6 percent of 2019 CEO departures among the S&P 500, which is alarmingly higher than the 18-year departure rate of 3.7 percent from 2001 to 2018. Ultimately, among the Russell 3000, there was a net increase of seven female CEOs from 2018 to 2019, based on 29 incoming and 22 departing female CEOs. In the S&P 500, there was a net increase of three female CEOs from 2018 to 2019, based on seven incoming and four departing female CEOs.

What’s ahead? The growing pressure from the investment community and other stakeholders to accelerate progress on workforce and management diversity is not going to abate anytime soon. In fact, the public calls for racial justice that followed the death of George Floyd in Minneapolis in May 2020 have further invigorated actors who have been committed to the corporate diversity cause for years.

- In August 2020, State Street Global Advisor sent a letter to all board chairs of public companies in its investment portfolio stating that it expects “specific communications” to shareholders regarding, among other things, the role of diversity in the company’s human capital management practices and strategy, measures of diversity of the company’s global employee base, future diversity goals, and the description of the role the board is expected to perform in overseeing diversity and inclusion.12

• Legislative and regulatory initiatives are underway, at the federal and state levels, to mandate corporate disclosure of board and workforce diversity. Most recently, after the 2018 mandate for corporate boards to meet specific quotas for female directors, California approved a new law extending the quota approach to the representation of other minority groups.\(^{13}\) Similar laws, whether instituting diversity quotas or requiring additional disclosures, were adopted in the states of New York, Illinois, and Washington,\(^{14}\) while two bills setting new diversity disclosure requirements for all publicly traded companies are advancing in the US Congress.\(^{15}\)

• In August 2020, the US Securities and Exchange Commission (SEC) amended Regulation S-K Disclosure to require additional disclosure regarding human capital resources, including any material human capital measure or objective on which the company focuses in managing its business.\(^{16}\) While the provisions are broadly defined, they will expose companies to additional investor scrutiny.

• In late September 2020, the Office of the New York City Comptroller issued a news release indicating that, in response to a letter that had been sent to S&P 100 CEOs earlier in the summer, nearly half of the companies in the index had committed to publicly disclosing the information on their workforce demographics that they annually report to the US Equal Employment Opportunity Commission. The office also indicated that it would target directors of companies that did not comply with its request and vote against their reelection.\(^{17}\)

• Sustainability disclosure standards, such as those set by the Global Reporting Institute (GRI) and the Sustainability Accounting Standards Board (SASB), extend to human capital practices and are gaining in prominence among US issuers. According to the most recent edition of The Conference Board Sustainability Practices Dashboard, 51 percent of the 250 largest US public companies by annual revenue disclose using GRI guidelines in their CSR reports, up from the 45 percent recorded in the prior year.\(^{18}\) As of June 2020, 215 US public companies had adopted SASB-compliant sustainability reporting (often augmenting them with additional metrics under GRI guidelines).\(^{19}\)

---

\(^{13}\) Assembly Bill No. 979, California Legislature—2019-2020 Regular Session, as signed into law on September 30, 2020. Under the new law, an “underrepresented community” includes individuals who self-identify as Black, African-American, Hispanic, Latino, Asian, Pacific Islander, Native American, Native Hawaiian, Alaska Native, gay, lesbian, bisexual, or transgender.

\(^{14}\) 2019 N.Y. Laws Ch. 747 (S. 4278); 2019 Ill. Legisl. Serv. Public Act 101-0589 (H.B. 3394); 2020 Wash Legisl. Serv. Ch. 194 (S.S.B. 6037)


\(^{17}\) News Release, New York City Comptroller Scott M. Stringer, September 28, 2020. Under federal laws, all companies with 100 or more employees must annually submit a report to the US Equal Employment Opportunity Commission (EEOC) stating the number of employees who fall within certain racial, gender, and job categories. Some companies resist publicly disclosing their “Consolidated EEO-1 Report” because they believe that the mandated categories do not align with their particular organizational structures. To overcome this resistance, the Office of the New York City Comptroller recommends integrating the disclosure of the Consolidated EEO-1 Report with any additional qualitative or quantitative disclosure that may be needed to describe the company’s specific circumstances.


\(^{19}\) See Paul Rissman and Andrew Behar, “A Successful Season for SASB-Based Shareholder Resolutions,” Harvard Law School Forum on Corporate Governance, June 12, 2020. For the current list of adopters of SASB standards, also see “Companies Reporting with SASB Standards” on the SASB website.
We expect boards of directors and senior executives to step up their commitment to bringing racial and ethnic diversity, not only gender diversity, to the front and center of leadership development programs. There is extensive literature, including from The Conference Board, on how business organizations can advance diversity, equity, and inclusion, from the lower ranks of the workforce to top management. In general, companies that are succeeding at this task are embracing technology and taking a holistic approach to redesigning internal practices—ranging from talent sourcing and selection to establishing equity KPIs meant to surface gaps and vulnerabilities, and from better understanding employee experience to supporting learning and development opportunities.

It should also be noted that CEO diversity does not depend only on programs focused on management; board diversity can also play a role. We are seeing that, increasingly, companies choose to draw their new CEOs from their board of directors (see our finding on page 18). Therefore, as boards become more diverse, so may the population of CEOs who come from boards. Moreover, more diverse boards will bring access to new “networks” of leading talent for consideration, further increasing the diversity of the CEO population.

Other notable findings

On CEO age

The average departing CEO in both indexes is about 60 years old and has been in the position for seven years. In the S&P 500, the average age of departing CEOs is 60.2 years, or identical to the average measured for the entire historical period since 2001 for which The Conference Board and ESGAUGE have collected annual data. In the Russell 3000, the average departing CEO age is only slightly lower, or 59.5 years of age. The Russell 3000 analysis by business sectors shows a somewhat wider range, from the highest average departing CEO age calculated among companies in the real estate and financials sectors (61.9 and 61.6 years of age, respectively) to the lowest recorded among companies in the consumer discretionary and consumer staples sectors (57.6 and 57.5 years of age, respectively).

It’s still good to be in your 50s if you want to become a CEO, but the average incoming CEO in the S&P 500 is somewhat older than historical trends, and there is a wide average age variation between small and large financial companies. The average age of an incoming CEO in the Russell 3000 was 55.3 years in 2019, in line with the average age of 54.5 years and 54.6 years calculated for 2018 and 2017, respectively. In the S&P 500, incoming CEOs in 2019 were 54.6 years old, which is somewhat higher than the 53.2 years found on average for the entire historical period since 2001 for which The

---

20 The World Economic Forum has recently published a toolkit on corporations’ use of technology in the service of diversity, equity, and inclusion efforts. See Diversity, Equity, and Inclusion 4.0, World Economic Forum, June 2020


Conference Board and ESGAUGE have collected annual data. Across business sectors, the oldest incoming CEOs are seen in the communication services and consumer staples sectors (57.7 years and 56.7 years, on average, respectively), while the youngest are in the energy and industrials sectors (51.9 years and 53.5 years, on average, respectively). Among manufacturing and nonfinancial services companies in the Russell 3000, the average incoming CEO age was remarkably similar across revenue size groups. By contrast, among real estate and financial companies, the average incoming CEO age among companies with asset values between $500 million and $999 million was 10.3 years younger than the average age of an incoming CEO among companies with asset values greater than $100 billion (49.5 years and 59.8 years, respectively).

The Russell 3000 has more CEOs who are 65 or older than under 50, with the oldest in the real estate and financials sectors. The average age of a sitting CEO is 57.7 for companies in the Russell 3000 and 58.6 for the S&P 500. Across business sectors, the average age of a sitting CEO ranges from 56.1 years for information technology companies to 59.4 years for financial companies. Among manufacturing and nonfinancial services companies in the Russell 3000, the average age of a sitting CEO ranges from 56.2 years for smaller companies (annual revenue under $100 million) to 59 years for larger companies ($50 billion and higher). Among real estate and financial organizations, the average age of a sitting CEO ranges from 57.6 years for companies with asset value in the $500 million–999 million group to 61.8 years for the largest companies with assets valued at $100 billion and higher.
While the information technology sector is often portrayed as employing younger executives, the average CEO at an IT company is only 1.6 years younger than the typical CEO in the Russell 3000. Despite the perception that younger generations of business leaders may find more opportunities in the information technology sector, the average information technology CEO is 56.1 years old, or only 1.6 years younger than the typical Russell 3000 CEO.

On CEO tenure

Departing CEOs are serving in the role for fewer years, and their tenure in the S&P 500 is its shortest since 2009. In the Russell 3000, the average tenure of a departing CEO was 6.9 years, which reflects a decline from 9.3 years in 2017. This decline was also detected in the S&P 500, where the average departing CEO tenure of 7.8 years is the shortest tenure for departing CEOs found since 2010 (when it was 7.7 years) and represents a sharp decline from the 10.8 years reported for 2015.

More than 10 percent of sitting CEOs in the Russell 3000 have been on the job for 15 years or longer. Of CEOs in the Russell 3000, 11.1 percent have a tenure of 15 years or longer. In comparison, 9.8 percent of CEOs have a tenure of seven years or more than seven years but less than 10 years; 5.2 percent have a tenure of 10 years or more than 10 years but less than 12 years; and 5.8 percent have a tenure of 12 years or more than 12 years but less than 15 years. The highest percentage of sitting CEOs with a tenure of 15 years or longer is found in the communication services sector (15.1 percent), while the lowest is in utilities (2.7 percent). Nearly a quarter (23.8 percent) of financial and real estate companies with asset values of $500 million or less have a tenure of 15 years or longer—the highest percentage seen across the company size analysis. In the S&P 500, the percentage of sitting CEOs with a tenure of 15 years or longer is lower than in the Russell 3000—or 8.2 percent.

On the sources of CEO talent

Cases of companies that choose to appoint a non-executive director as their next CEO are on the rise. Non-executive directors have become a significant source of CEO talent, representing 20.8 percent of insider CEO appointments among the Russell 3000 in 2019. The rate is higher than the 16.4 percent rate found in 2017 and the 18.9 percent rate of
2018. Among the S&P 500, 14.8 percent of insider CEO appointments were serving as non-executive directors at the company—up from 10 percent and 14.3 percent in 2018 and 2017, respectively. The practice of appointing a non-executive director to the CEO role is particularly prominent among smaller companies: 38.9 percent of inside CEO promotions at manufacturing and nonfinancial services companies with annual revenue under $100 million involve an individual who had been serving as a non-executive director at the company, compared to only 9.1 percent of those at companies with annual revenue in the $25 billion to $49.9 billion segment.

COVID-19 may have partially halted the trend from the first few months of 2019 of companies increasingly choosing to appoint interim CEOs while they conduct a thorough search for the new leadership. We noted above that, during the second quarter of 2020 and at the onset of the COVID-19 crisis, companies have generally opted for permanent CEO appointments rather than interim solutions. These data, if confirmed for the rest of 2020, represent a departure from the trend of entrusting a leadership transition to the experienced hands of an interim executive (most often, the board chair or a senior independent director)—a trend The Conference Board had documented over the last few years. In 2019, nearly one-quarter (23.1 percent) of incoming CEOs in the Russell 3000 were appointed as interims—up from the 19 percent rate recorded in 2017 and the 19.8 percent rate of 2018. In the S&P 500, 14.9 percent of incoming CEOs were appointed as interims—up from the six-year average rate of 11.7 percent reported for the index from 2013 to 2018. The proportion of incoming CEOs who were appointed as interims seems comparable across business sectors.

Outsiders being appointed to the CEO position, though not common, continues to be more prevalent among Russell 3000 than S&P 500 companies. In the Russell 3000, 37.7 percent of 2019 incoming CEOs were outsiders, while the remaining 62.3 percent were insiders. These insiders had an average tenure-in-company of 11.4 years in 2019, with 19 percent of them reporting a tenure of more than 20 years with the company. The numbers are lower in the S&P 500, where only 19.4 percent of 2019 incoming CEOs were outsiders, compared to 80.6 percent of insiders. The rate of 80.6 percent is higher than the eight-

---

23 For the purposes of this report, an "insider" CEO is defined as an executive who served at least one year with the company prior to being promoted to the CEO position. An "outsider" CEO is defined as an executive who served less than one year with the company prior to being elevated to the CEO position.
year rate of insider CEO appointments of 77 percent calculated for the entire 2011–2018 period. These insiders had an average tenure-in-company of 15.7 years in 2019, which is consistent with the 18-year average of 15.5 years from 2001 to 2018. Of the 2019 insider CEOs, 35.2 percent have a tenure of more than 20 years with the company, which is higher than the six-year average rate of 32.7 percent reported from 2013 to 2018.

There are notable differences in the sources of CEO talent across business sectors. Strategic needs and talent availability in individual industries may explain such divergent numbers. The proportion of insider CEOs who previously served as a non-executive director was highest in the communication services sector (44.4 percent) and lowest among financials (11.1 percent). Real estate and utilities companies reported the highest rate of insider CEO appointments (100 percent and 92.9 percent, respectively), while consumer discretionary and energy companies recorded the lowest (50 percent and 52.6 percent, respectively). The average tenure-in-company of an insider CEO appointment was highest among utilities companies (18.7 years) and lowest among companies in the communication services sector (4.9 years). Overall, the data suggest that senior managers of communication services companies have the fastest inside career track to the chief executive role (64.3 percent of 2019 CEO succession cases were insiders, with an average tenure-in-company of less than five years).
Access Our Online Dashboard

*CEO Succession Practices in the Russell 3000 and S&P 500: 2020 Edition* reviews succession event announcements about chief executive officers made at Russell 3000 and S&P 500 companies in 2019 and, for the S&P 500, the previous 18 years. The project is a collaboration among The Conference Board, executive search firm Heidrick & Struggles, and ESG data analytics firm ESGAUGE.

Data from *CEO Succession Practices in the Russell 3000 and S&P 500: 2020 Edition* can be accessed and visualized through an interactive online dashboard. The dashboard is organized in five parts.

**Part I: CEO Succession Rates** illustrates year-by-year succession rates and examines the effects on those rates of firm performance and CEO age—two key determinants of top leadership changes. The section also includes details on forced versus voluntary CEO successions.

**Part II: CEO Profile** provides demographic statistics on CEOs who are currently serving in the Russell 3000 and S&P 500 indexes—including their age, age diversity, gender, tenure, and tenure diversity.

**Part III: Departing CEOs** and **Part IV: Incoming CEOs** are similarly structured, with the demographic profile of departing and incoming CEOs, the balance between incoming and departing female CEOs, and a review of the reasons (where stated) for CEO departures.

**Part V: Placement Type and Other Practices** complements the information of the previous sections with data on CEO placement type (whether an inside promotion or an outside hire), the tenure-in-company of inside CEO appointments, the inside appointment of “seasoned executives” who have been with the company for 20 years or longer, and the appointments as CEO of non-executive directors. The section ends with data on other succession practices such as the joint election of incoming CEOs as board chairs, the choice of interim CEOs during phases of leadership transition, and the quarterly distribution of CEO succession announcement and effectiveness dates.

Throughout the five parts of the dashboard, data are segmented by business industry and company size. The industry analysis aggregates companies within 11 groups, using the applicable Global Industry Classification Standard (GICS). For the company-size breakdown, data are categorized along seven annual-revenue groups (for manufacturing and nonfinancial services companies) and seven asset-value groups (based on data reported by financial and real estate companies, which tend to use this type of benchmarking). Annual revenue and asset values are measured in US dollars.

The Russell 3000 Index was chosen because it represents more than 98 percent of the total capitalization of the US publicly traded equity market. Comparisons of Russell 3000 data with the S&P 500, another commonly followed equity index, are also included to offer an additional perspective on the difference between large and small firms. Figures and illustrations used throughout the report refer to the Russell 3000 analysis unless otherwise specified.

The Russell 3000 sample distribution is illustrated in Exhibits 1 through 4. To highlight historical trends, the most recent S&P 500 data are compared with CEO turnover announcements The Conference Board has collected for each of the full calendar years since 2001. The Russell 3000 historical analysis is more limited and starts with 2017 data.
**Exhibit 1—Sample Distribution, by Index**

<table>
<thead>
<tr>
<th>Index</th>
<th>n=</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russell 3000</td>
<td>2,994</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>500</td>
</tr>
</tbody>
</table>


**Exhibit 2—Sample Distribution, by Business Sector (GICS)**

<table>
<thead>
<tr>
<th>Business Sector (GICS)</th>
<th>n=</th>
<th>Percent of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communication Services</td>
<td>119</td>
<td>4.0%</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>336</td>
<td>11.2%</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>108</td>
<td>3.6%</td>
</tr>
<tr>
<td>Energy</td>
<td>168</td>
<td>5.6%</td>
</tr>
<tr>
<td>Financials</td>
<td>551</td>
<td>18.4%</td>
</tr>
<tr>
<td>Health Care</td>
<td>515</td>
<td>17.2%</td>
</tr>
<tr>
<td>Industrials</td>
<td>406</td>
<td>13.6%</td>
</tr>
<tr>
<td>Information Technology</td>
<td>386</td>
<td>12.9%</td>
</tr>
<tr>
<td>Materials</td>
<td>132</td>
<td>4.4%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>198</td>
<td>6.6%</td>
</tr>
<tr>
<td>Utilities</td>
<td>75</td>
<td>2.5%</td>
</tr>
</tbody>
</table>

The full sample for the purpose of all of these Exhibits is the Russell 3000.

**Exhibit 3—Business Sectors, Industry Groups and GICS Codes**

<table>
<thead>
<tr>
<th>Business Sector</th>
<th>GICS Code</th>
<th>Industry Group</th>
<th>GICS Subcode</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communication Services</td>
<td>50</td>
<td>Media &amp; Entertainment</td>
<td>5020</td>
</tr>
<tr>
<td>Communication Services</td>
<td>50</td>
<td>Telecommunication Services</td>
<td>5010</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>25</td>
<td>Automobiles &amp; Components</td>
<td>2510</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>25</td>
<td>Consumer Durables &amp; Apparel</td>
<td>2520</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>25</td>
<td>Consumer Services</td>
<td>2530</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>25</td>
<td>Retailing</td>
<td>2550</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>30</td>
<td>Food &amp; Staples Retailing</td>
<td>3010</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>30</td>
<td>Food Beverage &amp; Tobacco</td>
<td>3020</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>30</td>
<td>Household &amp; Personal Products</td>
<td>3030</td>
</tr>
<tr>
<td>Energy</td>
<td>10</td>
<td>Energy</td>
<td>1010</td>
</tr>
<tr>
<td>Financials</td>
<td>40</td>
<td>Banks</td>
<td>4010</td>
</tr>
<tr>
<td>Financials</td>
<td>40</td>
<td>Diversified Financials</td>
<td>4020</td>
</tr>
<tr>
<td>Financials</td>
<td>40</td>
<td>Insurance</td>
<td>4030</td>
</tr>
<tr>
<td>Health Care</td>
<td>35</td>
<td>Health Care Equipment &amp; Services</td>
<td>3510</td>
</tr>
<tr>
<td>Health Care</td>
<td>35</td>
<td>Pharmaceuticals, Biotechnology &amp; Life Sciences</td>
<td>3520</td>
</tr>
<tr>
<td>Industrials</td>
<td>20</td>
<td>Capital Goods</td>
<td>2010</td>
</tr>
<tr>
<td>Industrials</td>
<td>20</td>
<td>Commercial &amp; Professional Services</td>
<td>2020</td>
</tr>
<tr>
<td>Industrials</td>
<td>20</td>
<td>Transportation</td>
<td>2030</td>
</tr>
<tr>
<td>Information Technology</td>
<td>45</td>
<td>Semiconductors &amp; Semiconductor Equipment</td>
<td>4530</td>
</tr>
<tr>
<td>Information Technology</td>
<td>45</td>
<td>Software &amp; Services</td>
<td>4510</td>
</tr>
<tr>
<td>Information Technology</td>
<td>45</td>
<td>Technology Hardware &amp; Equipment</td>
<td>4520</td>
</tr>
<tr>
<td>Materials</td>
<td>15</td>
<td>Materials</td>
<td>1510</td>
</tr>
<tr>
<td>Real Estate</td>
<td>60</td>
<td>Real Estate</td>
<td>6010</td>
</tr>
<tr>
<td>Utilities</td>
<td>55</td>
<td>Utilities</td>
<td>5510</td>
</tr>
</tbody>
</table>

Exhibit 4—Sample Distribution, by Company Size

### Annual Revenue

<table>
<thead>
<tr>
<th>(All companies except Financials and Real Estate)</th>
<th>n=</th>
<th>Percent of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $100 million</td>
<td>315</td>
<td>14.0%</td>
</tr>
<tr>
<td>$100-999 million</td>
<td>733</td>
<td>32.7%</td>
</tr>
<tr>
<td>$1-4.9 billion</td>
<td>736</td>
<td>32.8%</td>
</tr>
<tr>
<td>$5-9.9 billion</td>
<td>189</td>
<td>8.4%</td>
</tr>
<tr>
<td>$10-24.9 billion</td>
<td>175</td>
<td>7.8%</td>
</tr>
<tr>
<td>$25-49.9 billion</td>
<td>46</td>
<td>2.0%</td>
</tr>
<tr>
<td>$50 billion and over</td>
<td>51</td>
<td>2.3%</td>
</tr>
</tbody>
</table>

### Asset Value

<table>
<thead>
<tr>
<th>(Financials and Real Estate companies)</th>
<th>n=</th>
<th>Percent of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $500 million</td>
<td>22</td>
<td>2.9%</td>
</tr>
<tr>
<td>$500-999 million</td>
<td>40</td>
<td>5.3%</td>
</tr>
<tr>
<td>$1-9.9 billion</td>
<td>454</td>
<td>60.6%</td>
</tr>
<tr>
<td>$10-24.9 billion</td>
<td>111</td>
<td>14.8%</td>
</tr>
<tr>
<td>$25-49.9 billion</td>
<td>55</td>
<td>7.3%</td>
</tr>
<tr>
<td>$50-99.9 billion</td>
<td>22</td>
<td>2.9%</td>
</tr>
<tr>
<td>$100 billion and over</td>
<td>45</td>
<td>6.0%</td>
</tr>
</tbody>
</table>

The full sample for the purpose of all of these Exhibits is the Russell 3000.


Data in this report are descriptive, not prescriptive, and should be used only to identify the latest practices and emerging trends. None of the commentaries included are intended as recommendations on succession planning, leadership development, or other board oversight practices in the field. On the contrary, The Conference Board, Heidrick & Struggles, and ESGAUGE recommend that such strategic and governance decisions be made after careful consideration of the specific circumstances the company faces in the current marketplace, including its talent assessment, strategic priorities, and business needs.

Access the dashboard at: conferenceboard.esgauge.org/CEOsuccession
Online Dashboard Table of Contents
Visit: conferenceboard.esgauge.org/CEOsucce$$ion

PART I: CEO SUCCESSION RATES
CEO Succession Rate
CEO Succession Rate Across Performance Quartiles
CEO Succession Rate Across Age Groups
Share of Forced CEO Successions

PART II: CEO PROFILE
CEO Age
25 Oldest CEOs in the Russell 3000
25 Youngest CEOs in the Russell 3000
CEO Age Groups
CEO Gender
Female CEOs in the Russell 3000
CEO Tenure
25 Longest Tenured CEOs in the Russell 3000
CEO Tenure Groups

PART III: DEPARTING CEOs
Departing CEO Age
25 Oldest Departing CEOs in the Russell 3000
25 Youngest Departing CEOs in the Russell 3000
Departing CEO Gender
Departing Female CEOs in the Russell 3000
Departing CEO Tenure
25 Longest Tenured CEOs in the Russell 3000
25 Shortest Tenured CEOs in the Russell 3000
Reason for CEO Departure
Forced CEO Departures

PART IV: INCOMING CEOs
Incoming CEO Age
25 Oldest Incoming CEOs in the Russell 3000
25 Youngest Incoming CEOs in the Russell 3000
Incoming CEO Gender
Incoming Female CEOs in the Russell 3000
Incoming (vs. Departing) Female CEOs

PART V: PLACEMENT TYPE AND OTHER PRACTICES
Placement Type (Inside Promotion vs. Outside Hire)
Outside CEO Hires in the Russell 3000
Tenure-in-Company of Inside CEO Appointments
25 Russell 3000 Inside CEO Appointments
Non-Executive Directors Appointed as CEOs
Russell 3000 Inside CEO Promotions Who Were Non-Executive Directors of the Company
Joint Election of Incoming CEO as Board Chair
Interim CEOs
Appointments of Interim CEOs in the Russell 3000
CEO Succession Announcement Date, Quarterly Prevalence
CEO Succession Effectiveness Date, Quarterly Prevalence