

Perspective

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CEO Succession Report

12th Annual Global CEO Succession Study

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EXECUTIVE SUMMARY

CEO turnover rates return to historical levels

As the worldwide economy recovers, the number of companies appointing new chief executives has risen to rates last seen during the pre-recession years. In 2011, 14.2 percent of CEOs at the world's top 2,500 companies were replaced. That number is sharply higher than the previous year's turnover rate of 11.6 percent, yet representative of the historical seven-year average of just over 14 percent.

Challenges for the new executive class

Following the stagnant economic growth that occurred during the recent recession, CEOs in this class face high expectations and new challenges. Boards are increasingly seeking new leaders to help drive growth in a recovering global economy, which places a distinct burden on those newly elevated CEOs to prove themselves early in their tenure. Many CEOs took over large companies, companies in sectors facing disruptive market forces, and companies headquartered in emerging markets.

CEO turnover rate was highest at the largest companies

- CEO turnover rate was highest among the top 250 companies by market capitalization – just over 14 percent on average per year over the last 12 years, and nearly 2 percent higher than companies ranked 251–2,500 by market capitalization from 2000 to 2011.
- M&A-related turnover is traditionally higher among smaller companies; 2.2 percent of turnover among the bottom 2,000 companies stems from consolidation, compared to 1.3 percent at the top 100 companies.

Turnover was highest in sectors that faced disruptive market forces

- Turnover rates in the energy, telecom, and utilities sectors were 19, 18, and 16 percent, respectively.
- In the diversified industry, leadership changes took place at a rate of only 6 percent.

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Many turnover events occurred in emerging markets

- Since 2006, the number of companies among the top 2,500 based in BRIC and other emerging countries has more than doubled, rising from 10 percent in 2006 to 25 percent in 2011.
- Turnover among companies based in Brazil, Russia, and India took place at a rate of 22 percent, while the rate in the U.S., Canada, and western Europe was approximately 13 percent in 2011.
- CEO turnover at Chinese companies was only 7 percent in 2011.

Valuing prior CEO experience and new insights

As the market stabilized in 2011, companies consistently turned to CEOs from outside the company to grow and develop their organizations. Though the number of outsider CEO appointments is significantly higher than it was five years ago, insider CEOs continue to perform better, bringing higher shareholder returns and serving longer tenures.

Outsider CEO appointments maintain historical average

- In 2011, 22 percent of new CEOs came from outside their organization, compared to just 14 percent in 2007, which was a historically low rate.

Insiders continue to bring higher returns

- In 2009-2011, outgoing insider CEOs delivered a 4.4 percent shareholder return above regional market index, compared to just a 0.5 percent higher return from outsider CEOs overall.

Insiders serve longer tenures

- Over the last 12 years, outgoing insider CEOs had served their companies for an average of 7.6 years, while outgoing outsiders had served for an average of just 5.6 years.
- An insider CEO is nearly six times as likely to serve a company for nine or more years. Of the CEOs who have served for nine or more years, 85 percent have risen from within their companies.

The chairman–CEO relationship continues to evolve

Many companies recognize the pressures facing a new CEO and respond by following an “apprenticeship” model, appointing the outgoing CEO as chairman to guide the incoming CEO. Conversely, the practice of a combined chairman–CEO appointment has declined, suggesting companies are responding to corporate governance requests.

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Companies continue to follow “apprentice” model

- In North America, 37 percent of CEOs leaving after a planned succession event are appointed to chairman to act as a guide to the new executive.
- In Japan, the apprenticeship practice is much more frequent; 63 percent of companies appoint the outgoing CEO chairman.
- In Europe, only 17 percent of companies appoint the outgoing CEO chairman.
- Chairman appointments are much more common among outgoing insider CEOs; 30 percent are appointed to lead the board. Only 18 percent of outgoing outsider CEOs are appointed to the role.

Despite a slight increase in 2011, the combined chairman–CEO appointment has been declining over the past decade

- In North America, the frequency of combined appointments has declined from 40 percent in 2000 to just 18 percent in 2011.
- In Europe, the frequency of combined appointment has dropped from 53 percent in 2000 to just 17 percent in 2011.

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**Top pieces of advice for CEOs going into their first year—
from CEOs who have been there**

1. Deal with the obvious executive team changes as early as possible
2. Be wary of changing strategy too quickly, even if you think the current strategy is wrong
3. Make sure you understand how every part of the company operates and how it is performing
4. Build trust through transparency
5. Be selective in listening to advice
6. Find a sparring partner with whom you can discuss plans openly
7. Manage your time and your personal life with care

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First year at the top: From the mouths of the CEOs

As part of the annual study on CEO succession, Booz & Company conducted interviews with 18 CEOs across a variety of industries to ask what advice they had for the incoming class. Among many other suggestions, executives encouraged the new class to make necessary personnel changes swiftly in their new roles but to change strategy slowly while establishing trust through transparency.

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“Don’t listen too much to external advice,” says **Ian Livingston**, CEO of **BT Group**. “The truth be told, you’ve got to make your own call. It’s your decision, and most everyone actually knows that.”

“Strategy should be thought of simply,” says **Osman Sultan**, CEO of the UAE’s **du Telecom**; “Where are we today, and where do we want to go?”

“You cannot have two different cultures in an organization,” says **Ahmad Abdulkarim Julfar**, Group CEO of **Etisalat**. “It has to be one culture, from the top of the hierarchy all the way down. You can’t have one culture at the board and a different culture in management, because the management needs to be tightly linked to the board, and the board needs to be an extension of management.”

Ronnie Leten became CEO of Swedish equipment manufacturer **Atlas Copco** in 2009, in the midst of the economic downturn. “My first thought on becoming CEO,” he says, “was to make sure we kept going, kept visiting the customers, safeguarded the business, and saved all the areas that needed to be saved.” Leten knew he had some restructuring to do to adapt to the new circumstances, but he didn’t want to confuse the organization. His advice: “Don’t jump to conclusions immediately. Take the time to look around so you can get a full overview of the entire situation.”

For **Andre-Michel Ballester**, who was promoted from the inside to run **Sorin Group**, a Milan-based maker of medical devices, moving quickly was vital—the immediate task was to restructure the unprofitable company, selling two of five divisions and creating a very different corporate culture as soon as possible. “The first issue is to create a leadership team very quickly, making decisions on who are the keepers and who are the leavers in the first few weeks,” says Ballester.

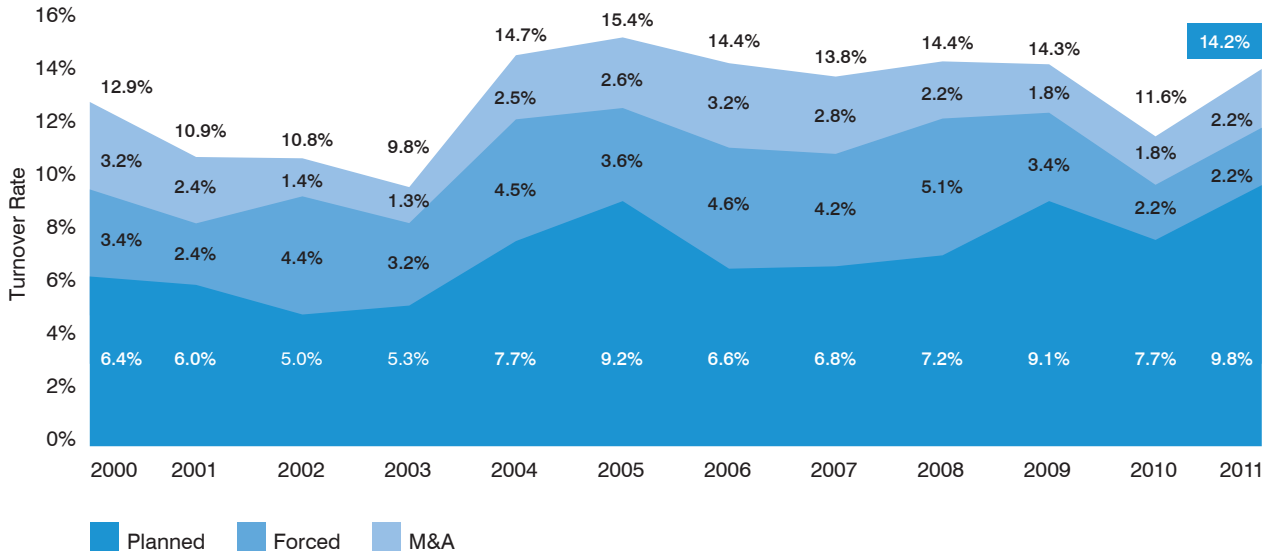
“I was looking for somebody who could literally teach me, and I found a very senior pharmaceutical executive whom I knew from the past, and who had retired in the meantime. He had enormous expertise in the area, but he was also known to be able to explain things in straightforward terms. I contacted him and he was very helpful – even excited – to help me.”
–**Roche’s Severin Schwan**

“There’s always some sort of crisis in the CEO’s first year—something that probably led the former CEO to leave—and it is key to initially focus exactly on the issues related to that crisis,” says **José Ricardo Mendes da Silva**, CEO of **Aché Laboratórios Farmacêuticos SA**, a leading pharmaceutical firm based in São Paulo.

DETAILED DATA ANALYSIS

CEO turnover rates are on the rise

CEO Turnover Rate by Succession Reason
CEO Turnover Events as % of Top 2,500 Public Companies

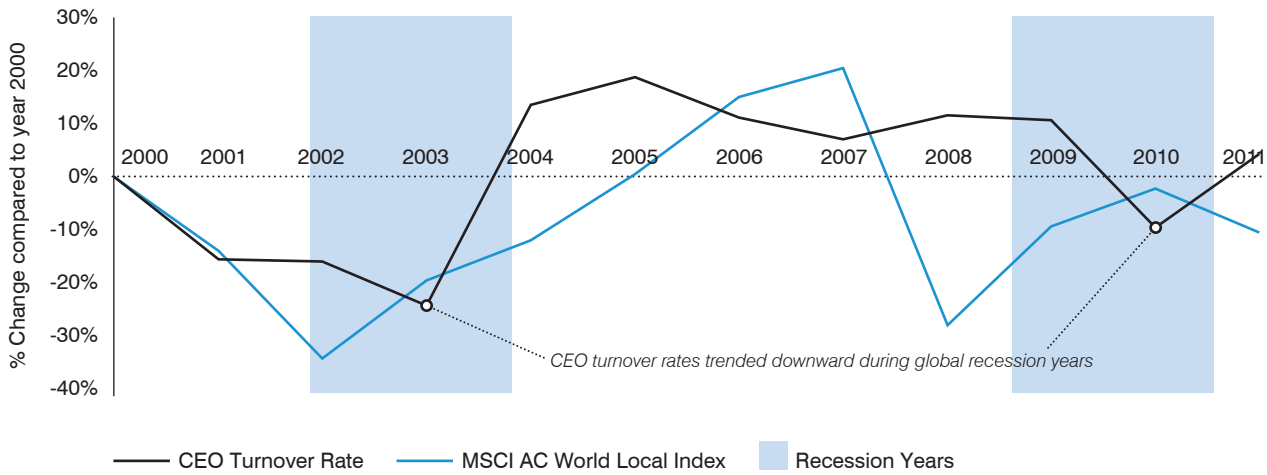


- In 2011, turnover rates rose from 11.6 percent to 14.2 percent among the CEOs of the world's top 2,500 companies.
- Though the rise from 2010 to 2011 is significant, it is largely consistent with turnover rates between 2004 and 2009, a relative plateau prior to the decrease witnessed in 2010.

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CEO turnover rates are on the rise *(Continued)*

CEO Turnover Rate vs. MSCI World Index Market Performance
Change Compared to Year 2000



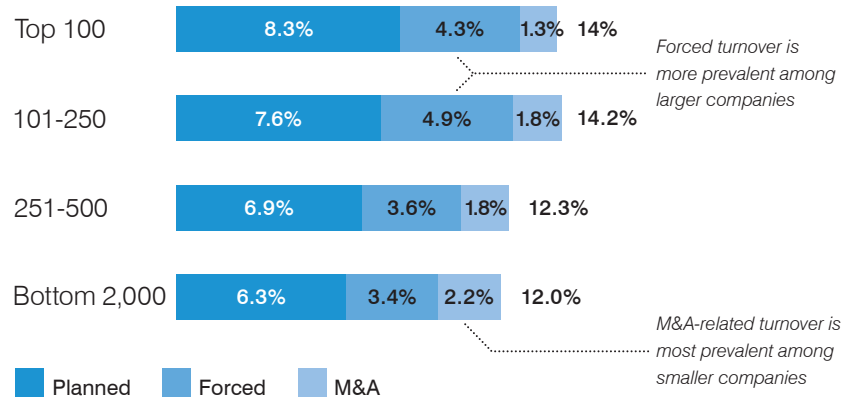
- Over the last decade, turnover has decreased during recession years. This suggests that boards are more likely to keep their chief executives during times of economic uncertainty in order to maintain stability, but are more willing to make a leadership change when economic stability returns and company outlooks improve.

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Larger companies face higher CEO turnover rates

Average CEO Turnover Rate by Market Cap Tier
and Succession Reason: 2000–2011

CEO Turnover Events as % of Companies in Market Cap Tier



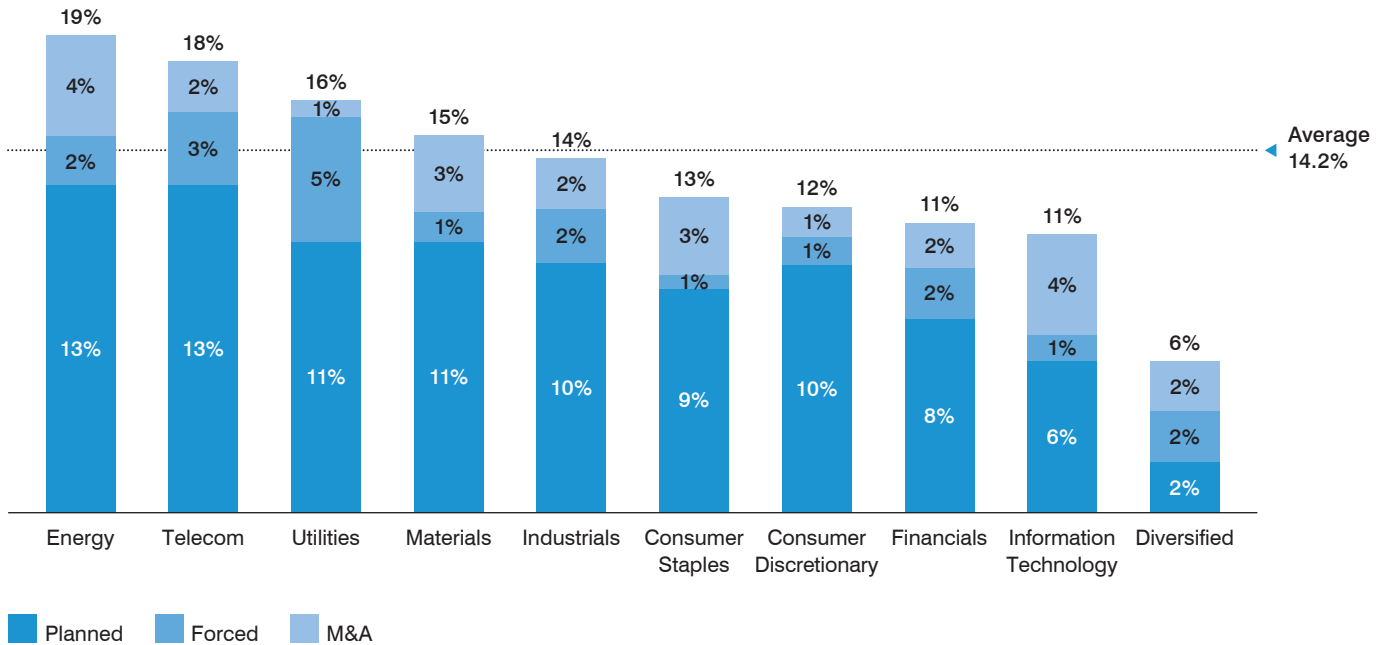
- Turnover was highest among the top 250 companies by market capitalization, a trend that has held steady from years past.
- Turnover stemming from M&A was much more common among smaller companies, which are more susceptible to consolidation.
- Forced turnovers were most common among large companies. The forced turnover rate was more than 4 percent among the top 250 companies, compared with 3.5 percent at their smaller counterparts.
- It would seem that the bigger the company, the shorter the CEO's tenure. Certainly, it is particularly hard—and exhausting—to run a very large corporation; given that difficulty, it is not surprising that boards of big companies look more frequently for a new CEO.

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CEO turnover is highest in the sectors that faced disruptive market forces

2011 CEO Turnover Rate by Industry and Succession Reason

CEO Turnover Events as % of Companies in Industry

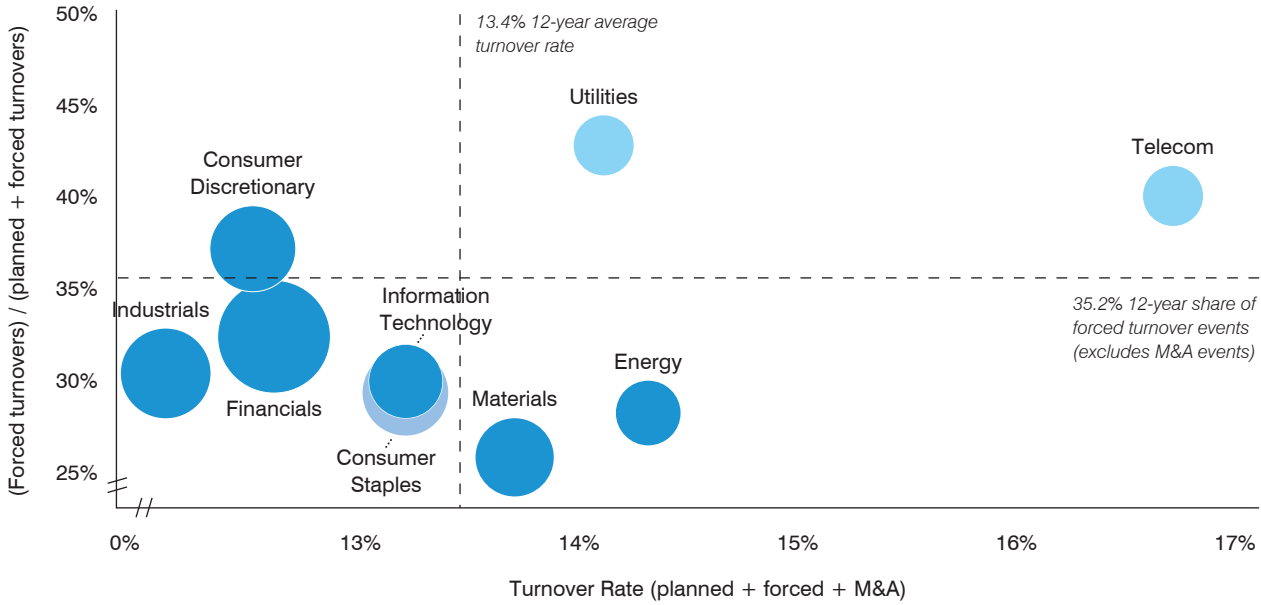


- Turnover was highest in the energy sector this year; 19 percent of CEOs in this sector were replaced.
- Telecom and utilities had high turnover rates of 18 percent and 16 percent, respectively.
- The three industries with greatest turnover typically faced disruptive market forces, resulting in more changes at the executive level.

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CEOs of utilities and telecom companies have been most likely to be dismissed

Average CEO Turnover Rate by Industry vs. Succession Reason: 2000–2011



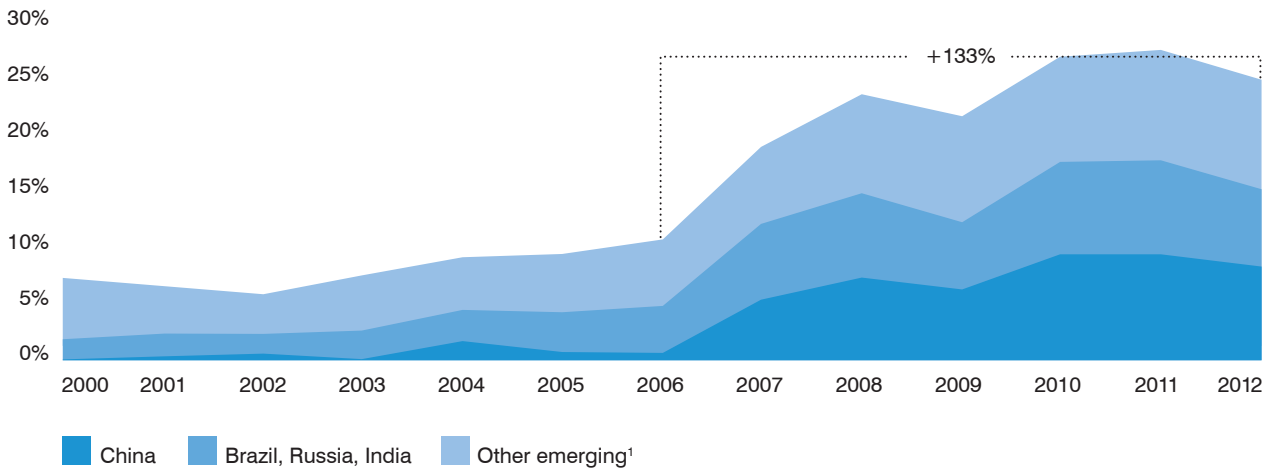
● Size of circle represents number of turnover events between 2000 and 2011

- Forced CEO turnover among utilities and telecom companies from 2000 to 2011 represented 43 percent and 40 percent, respectively, of all turnover events in those sectors, significantly higher than in other sectors.

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Emerging countries boast a greater share of the world's largest companies

Regional Breakdown of Top 2,500 Public Companies by Market Capitalization at January 1
Companies from Emerging Economies as % of Top 2,500



1) Other emerging economies are Turkey, Saudi Arabia, South Africa, Mauritius, Nigeria, Mongolia, Kazakhstan, Egypt, etc.

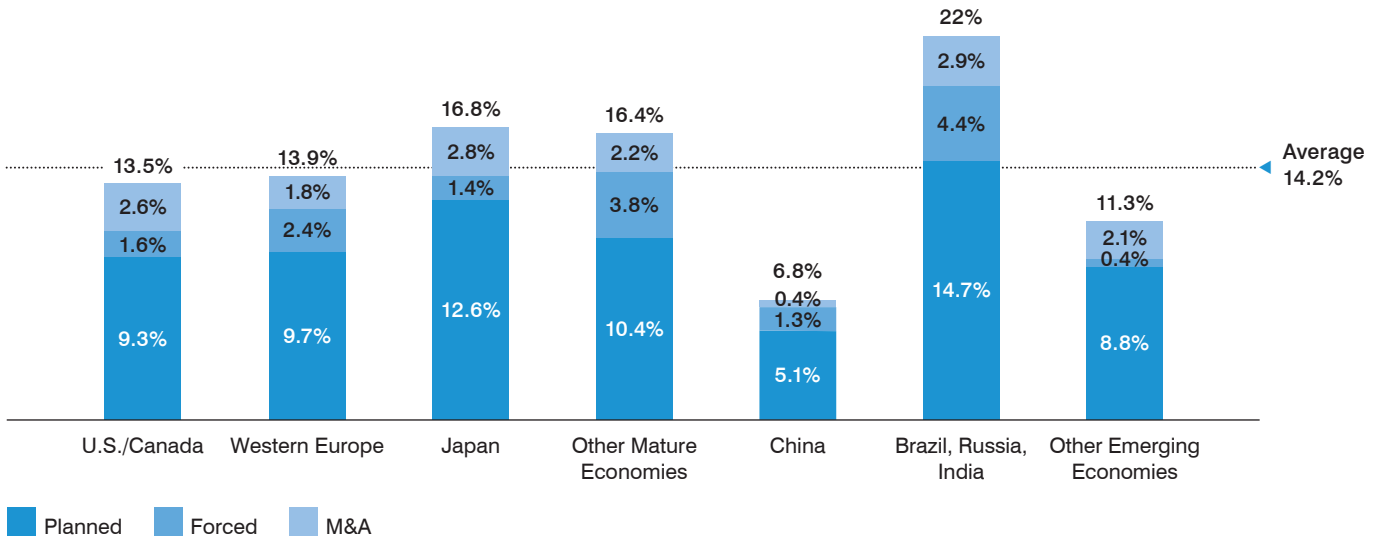
- Since the beginning of 2006, the proportion of companies headquartered in the BRIC and other emerging countries in the top 2,500 companies by market capitalization has more than doubled, rising 133 percent, from 9.4 percent in 2006 to 24.6 percent at the end of 2011.
- Since the start of 2006, the proportion of top 2,500 companies headquartered in western Europe dropped from 26 percent in 2006 to 19 percent at the end of 2011.
- The U.S. and Canada maintained an average 30 percent share of top companies, even during the recent recession.
- Companies from emerging countries now account for one-third of all companies in the financials sector and nearly 40 percent of companies in the materials sector.

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Growth in emerging markets brings new leadership

2011 CEO Turnover Rate by Region and Succession Reason

CEO Turnover Events as % of Top 2,500 Companies

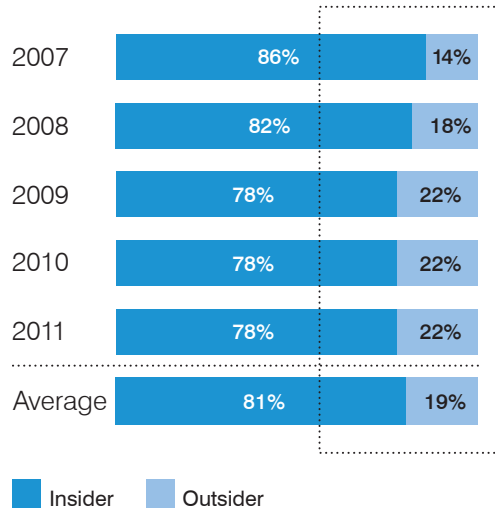


- Turnover in 2011 among companies based in Brazil, Russia, and India took place at a rate of 22 percent, while the rate in the U.S., Canada, and western Europe was just more than 13 percent.
- China had only a 7 percent turnover rate.

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Outsider appointments maintain historical average

Insider vs. Outsider **Incoming** CEOs

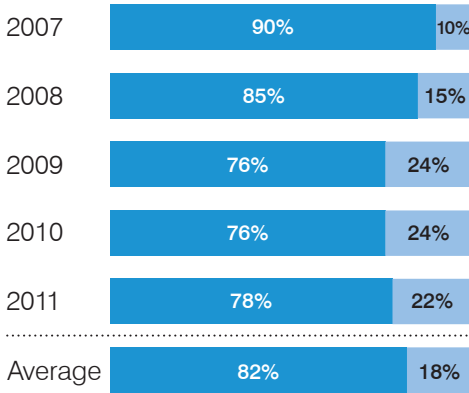


- Though CEOs rising from within their companies make up the largest proportion of new CEOs, appointment of chief executives from outside the company in 2011 remained at 22 percent for three years, which is notably higher than the historically low rate of 14 percent in 2007.
- The trend of increasing outsider appointments suggests that companies may be bringing on leadership from other industries and geographies to grow their companies, given industry convergence and the importance of global experience in today's business environment.

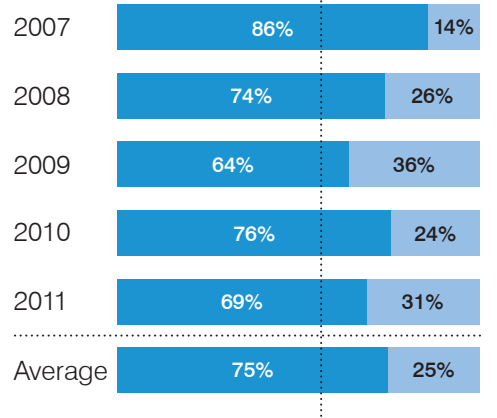
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CEO outsiders are more frequent in western Europe than in U.S./Canada

Incoming CEOs in **U.S./Canada**
Insider vs. Outsider



Incoming CEOs in **Western Europe**
Insider vs. Outsider



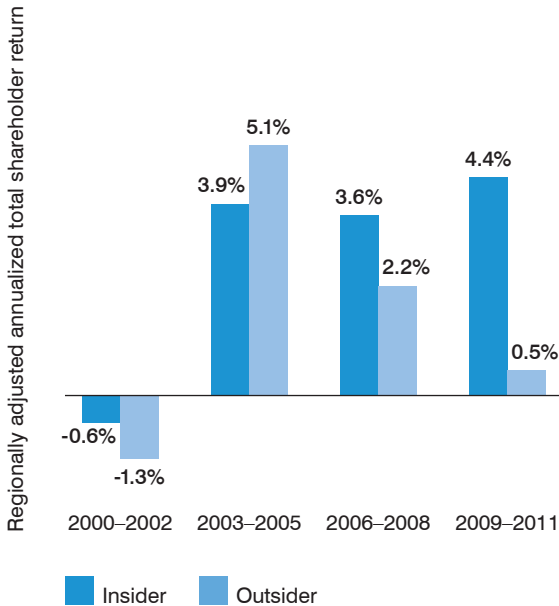
■ Insider ■ Outsider

- Appointments of outsider CEOs in western Europe have risen from 14 percent in 2007 to 31 percent in 2011, increasing 7 percentage points over 2010.
- In the U.S./Canada, 10 percent of new CEOs originated from outside their company in 2007. In contrast, 22 percent of those appointed in 2011 were outsiders.
- The significant difference between the two geographies in frequency of outsider appointments suggests an ongoing disparity in governance philosophies.
- The increasing reliance on outsiders suggests that some companies are making an effort to change their culture at the senior executive level and are seeking CEOs with experience in other regions. Furthermore, boards may be taking into consideration their fiduciary duty to seek candidates from outside their company.

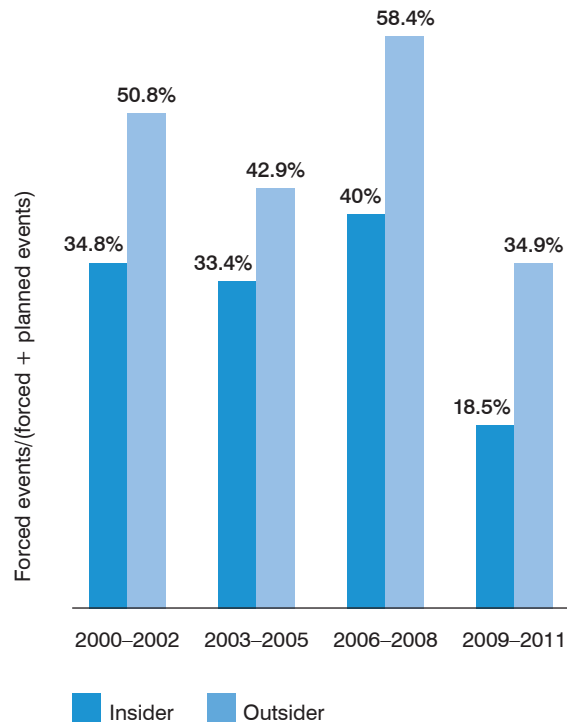
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Insiders continue to perform better than outsiders

Median Shareholder Returns of Companies with CEO Turnover—Insider vs. Outsider Outgoing CEOs



Average Percent of Forced CEO Turnover Events—Insider vs. Outsider Outgoing CEOs



Note: Excludes turnover events resulting from M&A, interim CEOs, and events with incomplete turnover information. "Regionally adjusted" measures TBR performance relative to a regional index (e.g., S&P 500, Brazil Bovespa, FTSE 100, CAC 40)

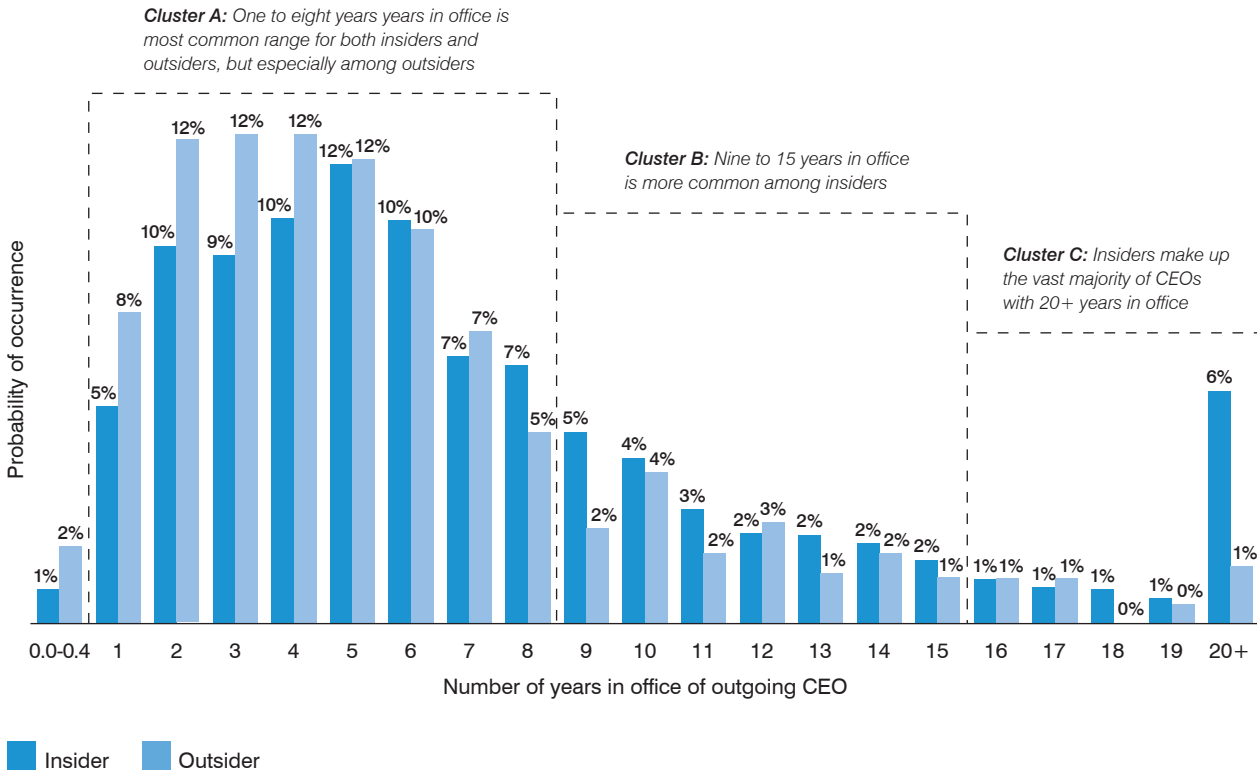
- Insiders have typically delivered better shareholder returns over their tenure and have been less likely to be dismissed.
 - ▶ From 2009 to 2011, insiders delivered a median 4.4 percent shareholder return above regional market index, while outsiders delivered just 0.5 percent.
- Insiders were less likely to be forced from their positions.
 - ▶ For insiders over the past three years, 19 percent of non-M&A-related turnover events were forced, while for outsiders this proportion was 35 percent.
- On average, insiders stay in office nearly two years longer than outsiders and make up the vast majority of CEOs who remain in office for more than 20 years.
- The better performance of insider CEOs is likely due to their “tribal knowledge” of their companies.

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Tenure for insiders has historically been longer than outsiders' tenure

CEO Tenure in Office—Insider vs. Outsider Outgoing CEO: 2000–2011

Likelihood of Turnover Event by Tenure in Office

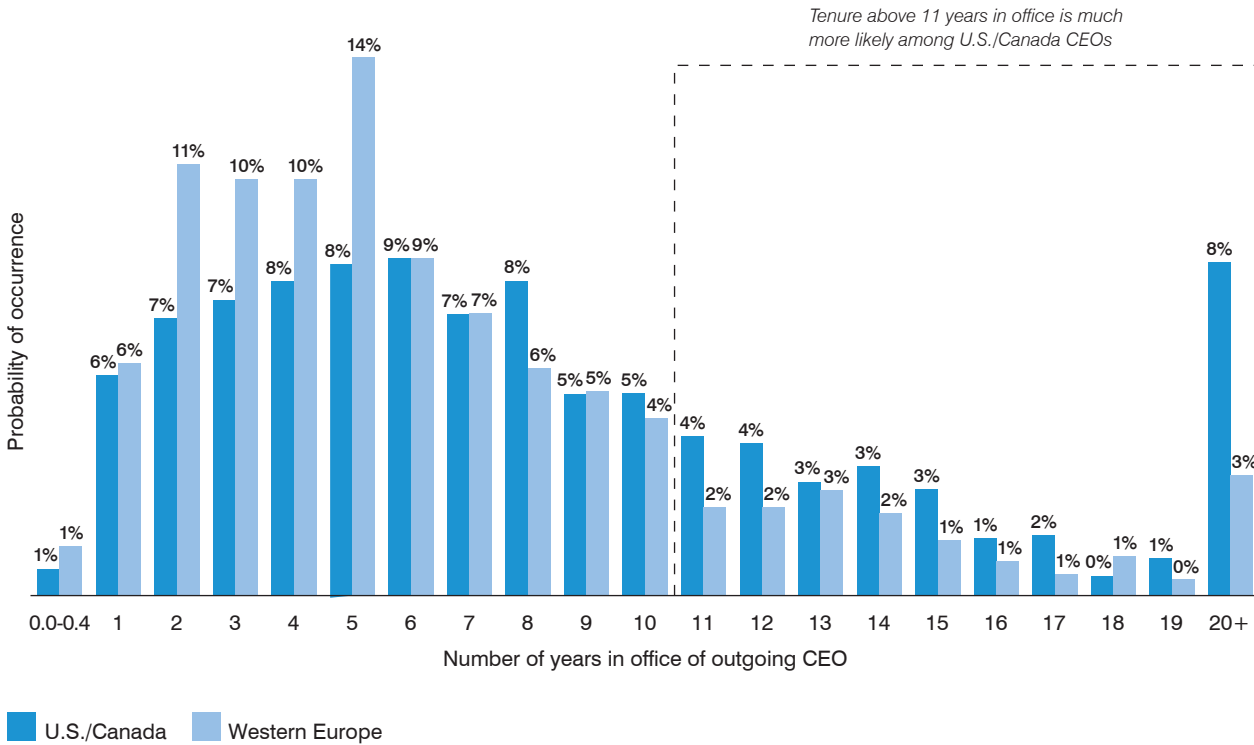


- An insider CEO is nearly six times as likely to serve a company for nine or more years.
- Of the CEOs who have served for nine or more years, 85 percent have risen from within their companies.
- Six percent of all insider CEOs have stayed in the office for 20 or more years, whereas only 1 percent of outsider CEOs have remained in office for so long.

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Leadership in U.S./Canada has historically lasted longer than in western Europe

CEO Tenure in Office by Region: 2000–2011
Likelihood of Turnover Event by Tenure in Office



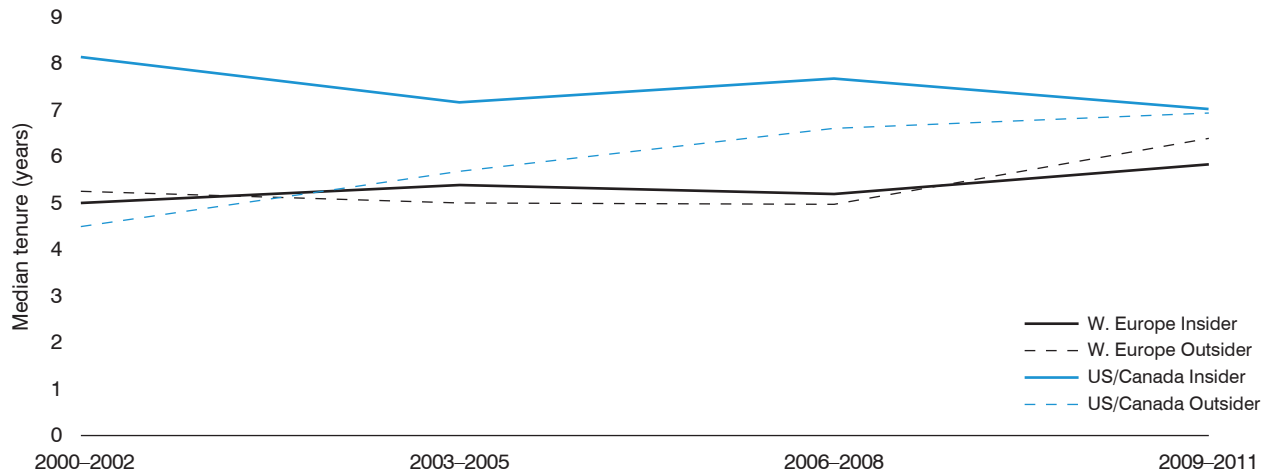
Note: Excludes turnover events resulting from M&A, interim CEOs, and events with incomplete turnover information.

- Over the last decade, many more CEOs of companies in the U.S./Canada remained in office for more than 10 years than did their counterparts in western Europe.
- Eight percent of all CEOs in the U.S./Canada have stayed in the office for 20 or more years; only 3 percent of CEOs of companies in western Europe have stayed for so long.

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Differences in tenure among CEOs in U.S./Canada and western Europe as well as among insider and outsider CEOs are decreasing

Median CEO Tenure in Office—Insider vs. Outsider Outgoing CEO by Region



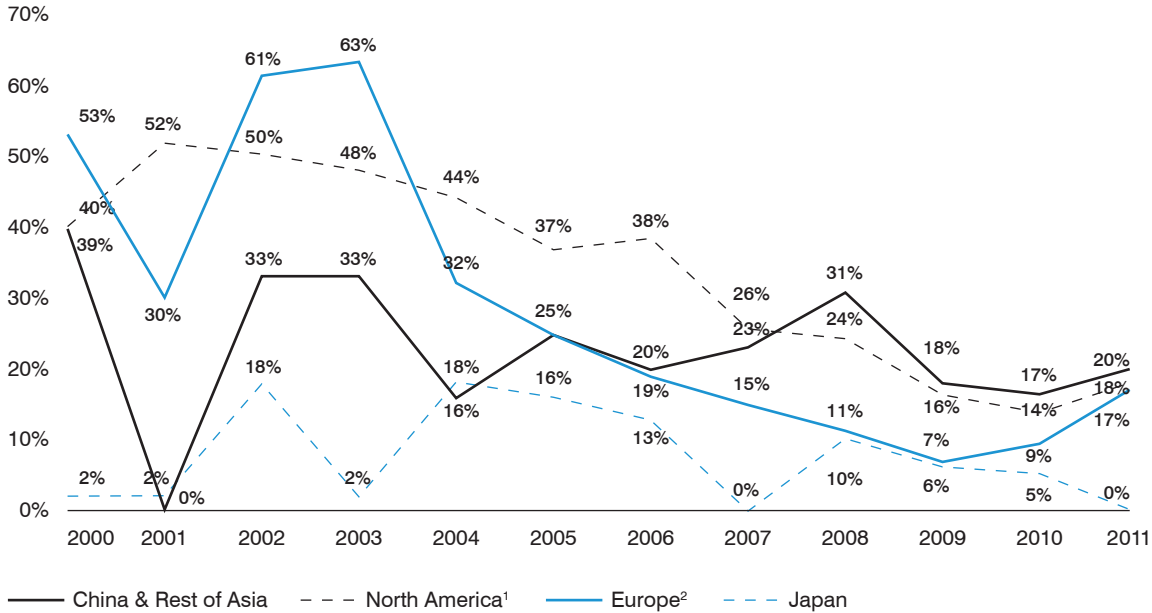
Note: Excludes turnover events resulting from M&A, interim CEOs, and events with incomplete turnover information.

- Differences in insider/outsider CEO tenure in U.S./Canada are narrowing.
 - ▶ In 2000–2002, insider CEOs held tenures significantly longer than those of CEOs originating from outside their company, with median tenures of eight and 4.5 years, respectively.
 - ▶ In 2009–2011, the gap narrowed, and CEO tenures for both insiders and outsiders neared a median of seven years.
- In western Europe, tenures for insider and outsider CEOs have been very similar over the past 12 years, historically around five years, but rose slightly in 2009–2011 to six years, which narrowed the gap with their counterparts in the U.S./Canada.

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Combined chairman–CEO appointments decline

Percent of Incoming CEOs Who Also Hold the Position of Chairman



1) United States, Canada, and Mexico

2) Including Russia

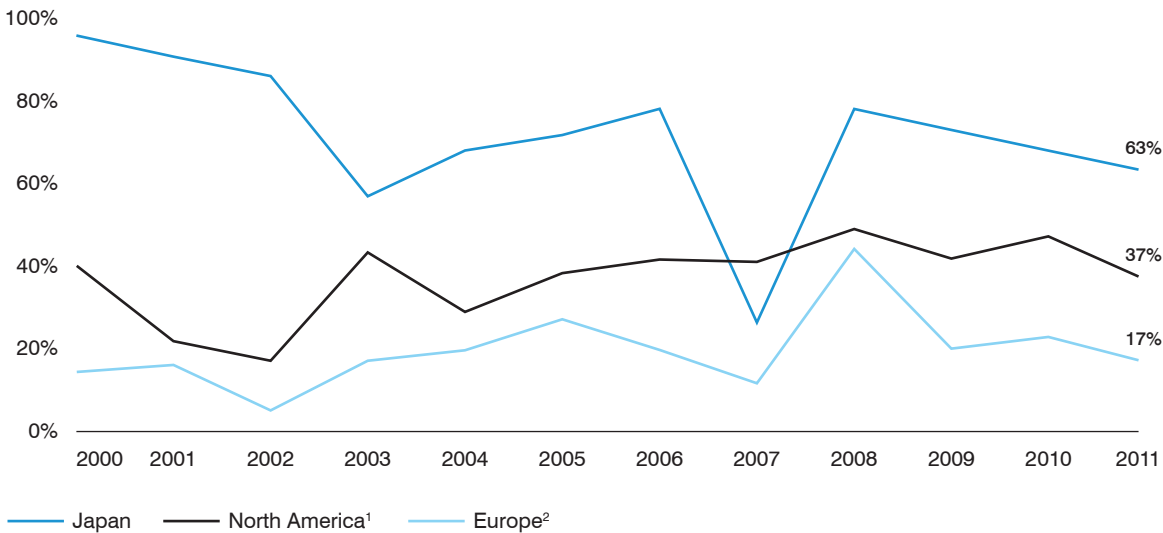
- In North America, the frequency of combined chairman–CEO appointments among incoming CEOs has declined from 40 percent in 2000 to just 18 percent in 2011.
- In Europe, combined appointments have dropped from 53 percent in 2000 to just 17 percent in 2011.
- In Japan, the frequency of combined appointments has dropped from 10 percent in 2008 to 0 percent in 2011.
- Regulatory requirements may be responsible for the disparity in the rate of combined chairman–CEO appointments.

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The apprenticeship model continues

"Apprenticeship" Model by Region

Percentage of Outgoing CEOs in Planned Turnover Events Who Became or Remained Chairman



1) United States, Canada, and Mexico

2) Including Russia

Note: Excludes turnover events resulting from M&A, interim CEOs, and events, with incomplete turnover information.

Only outgoing CEOs who experienced a "planned" succession event are included in this sample.

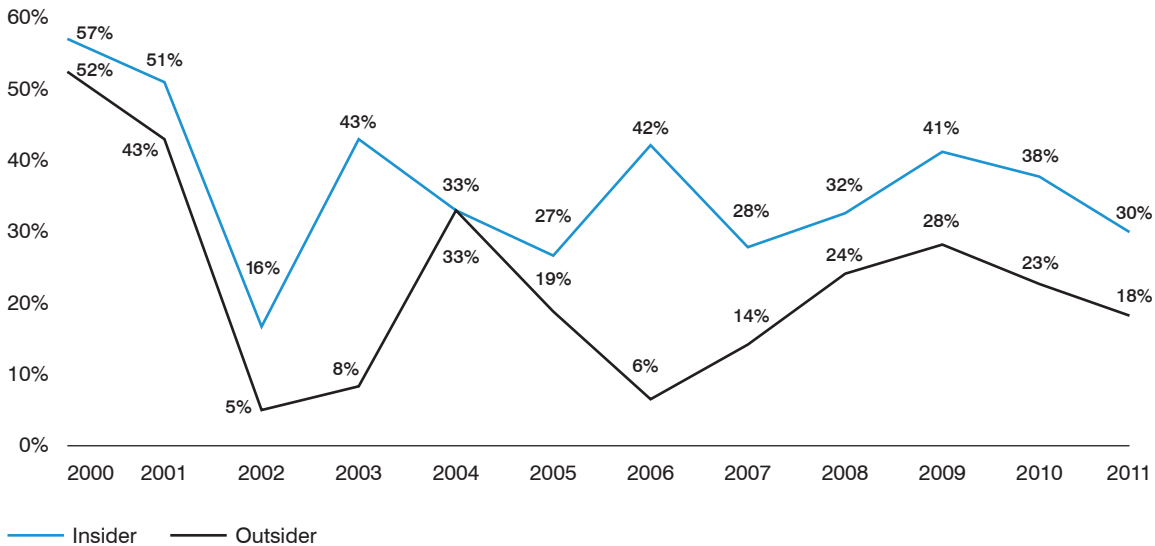
- Over the last decade, companies have continued to appoint the outgoing CEO as chairman of the board in order to apprentice the incoming CEO. The continued use of this practice across all regions suggests that boards understand the difficulty that CEOs tend to face in their first years in office.
- The rate of the apprenticeship practice remained somewhat steady in North America, ranging from 40 percent (of all planned succession events) in 2000 to 37 percent in 2011.
- Europeans continued to appoint outgoing CEOs to chair the board at a fairly steady rate, ranging from 15 percent in 2000 to 17 percent in 2011.
- The apprenticeship practice is strongest in Japan, but has dropped from 95 percent in 2000 to 63 percent in 2011.

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Insiders are more likely to become chairman

“Apprenticeship” Model by Insider vs. Outsider Outgoing CEO

Percentage of Outgoing CEOs in Planned Turnover Events Who Became or Remained Chairman



Note: Excludes turnover events resulting from M&A, interim CEOs, and events with incomplete turnover information. Only outgoing CEOs who experienced a “planned” succession event are included in this sample.

- Over the past 12 years, insider CEOs have been consistently more likely to be appointed chairman after a planned succession event than their outsider counterparts.
 - ▶ In 2011, insider CEOs were 12 percentage points more likely to be appointed chairman than their outsider counterparts.
- The practice has become less prevalent among both insiders and outsiders; between 2000 and 2011, the frequency of this so-called apprenticeship model has decreased.
 - ▶ It decreased from 57 percent to 30 percent for insider CEOs.
 - ▶ It decreased from 52 percent to 18 percent for outsider CEOs.

METHODOLOGY

This 2011 CEO Succession study identified the world's largest 2,500 public companies, defined by their market capitalizations (from Bloomberg) on January 1, 2011. To identify companies among the top 2,500 that had experienced a chief executive succession event, Booz & Company cross-checked data across a wide variety of printed and electronic multi-language sources. Additionally, the company conducted electronic searches for announcements of retirements or new appointments of chief executives, presidents, managing directors, and chairmen during calendar year 2011. For a listing of companies that had been acquired or merged in 2011, Booz & Company used Bloomberg. Booz & Company also conducted supplemental research for regional CEO changes not identified by other sources. Total shareholder return was sourced from Bloomberg and includes reinvestment of dividends (if any). Total shareholder return data was then regionally market-adjusted and annualized. To distinguish between mature and emerging economies, Booz & Company followed the United Nations Development Programme 2011 ranking.

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