strategy&

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Briefing Document

2015 CEO Success study

Outsider CEOs

pwc

About the 2015 CEO Success study

Strategy&, PwC's strategy consulting business, annual study of worldwide CEO succession patterns examines the degree, nature, and geographic distribution of chief executive changes among the world's 2,500 largest public companies.

Outsider CEOs

Hiring an executive from outside a company to serve as chief executive officer used to be seen as a last resort — something that typically happened when a board of directors had to force out the incumbent CEO suddenly, or had failed to groom a suitable successor, or both. Over the last several years, however, more companies have deliberately chosen an outsider CEO, more often than not as part of a planned succession. In this year's report, we look at the data on outsider CEOs and the circumstances in which outsiders are being hired.

For more information on the 2015 CEO Success study, please visit:
www.strategyand.pwc.com/ceosuccess

Summary

Companies are now making a deliberate choice in their succession planning to bring in outsider CEOs. In the latest four-year period (2012–15 boards chose outsiders in 22 percent of planned turnovers, up from 14 percent in 2004–2007. That represents a 50 percent increase in the rate of outsider selection.

Industries experiencing the most disruption have brought in higher-than-average shares of outsider CEOs. These industries include telecommunications (38% incoming outsider CEOs from 2012 to 2015), utilities (32%), healthcare (29%), and energy (28%).

Outsider CEOs were *more* likely to be hired if the:

- Company was low performing
- Chairman did not have CEO experience in the same company
- Former CEO was also an outsider

Outsider CEOs were *less* likely to be hired if the:

- Chairman was hiring their first CEO at the company
- Former CEO had a long tenure
- Company was large

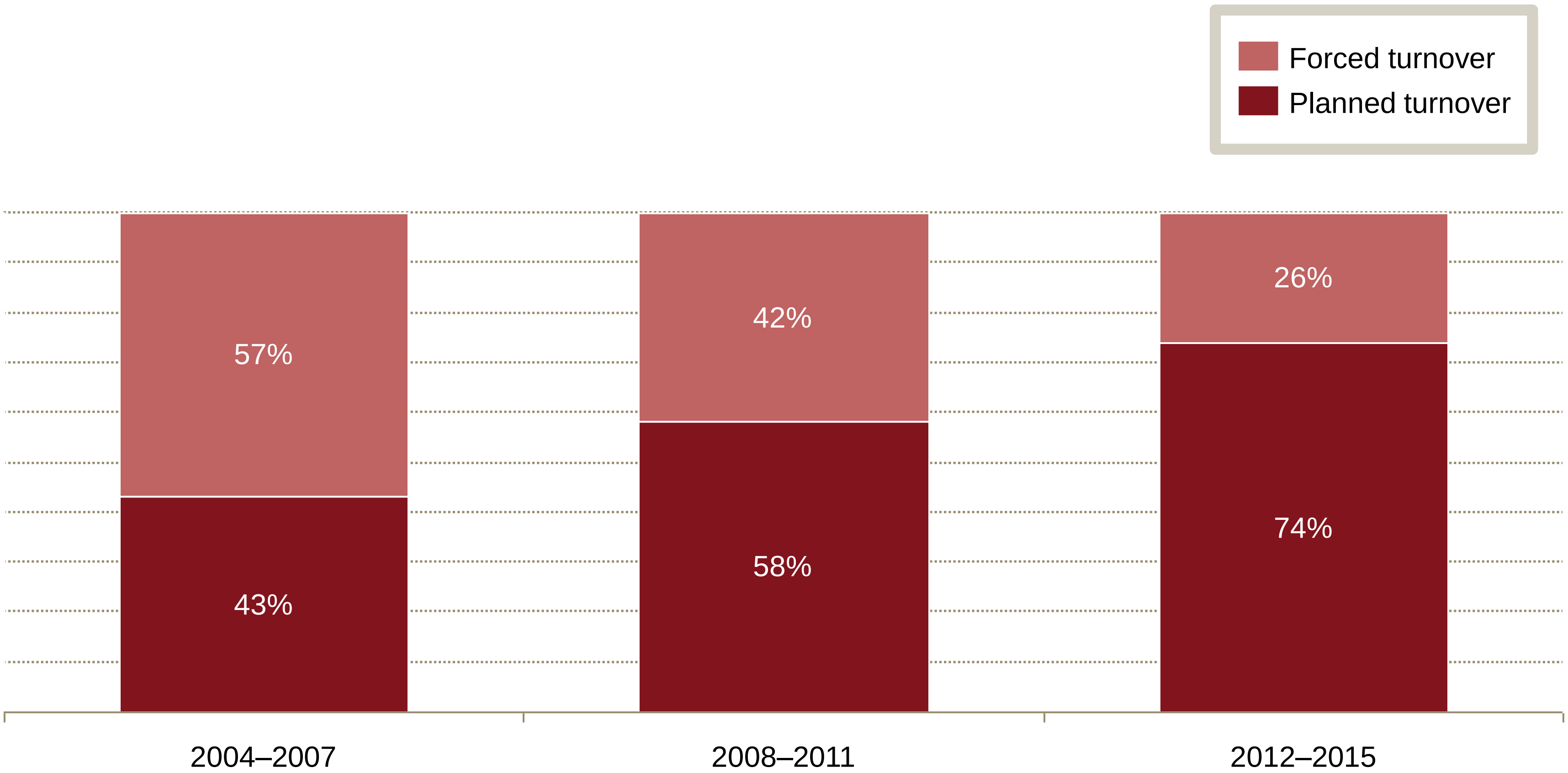
Outsider CEOs have closed the performance gap with insiders. For the third straight year, outsider CEOs have delivered higher median total shareholder returns than insiders.

Western European companies in general are hiring outsiders more reactively than proactively. Western European companies hire almost double the share of outsider CEOs compared with companies in the U.S./Canada. Additionally, outsider CEOs in Western Europe are significantly more likely to be appointed to low-performing companies and more likely to be forced out.

More outsider CEOs now come in via planned successions, showing that hiring an outsider is more of a deliberate choice than a necessity

Incoming *outsider* CEOs by turnover type

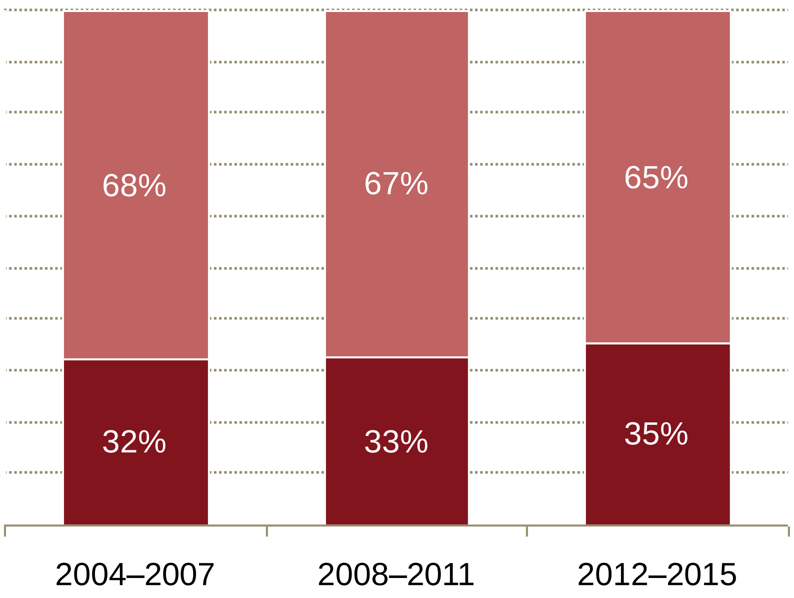
2004–2015



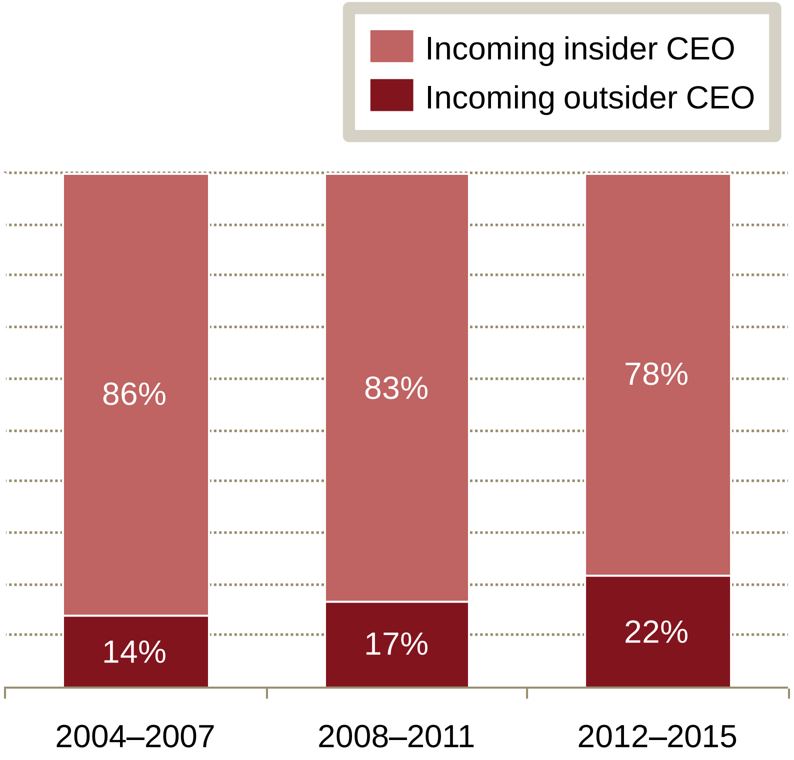
Note: Exhibit excludes turnover events resulting from M&A, interims, and events with incomplete information.
Source: Strategy& 2015 CEO Success study

Outsiders now account for more than a fifth of all CEOs hired via planned turnovers

Incoming CEOs via *forced* turnover by pedigree
2004–2015



Incoming CEOs via *planned* turnover by pedigree
2004–2015

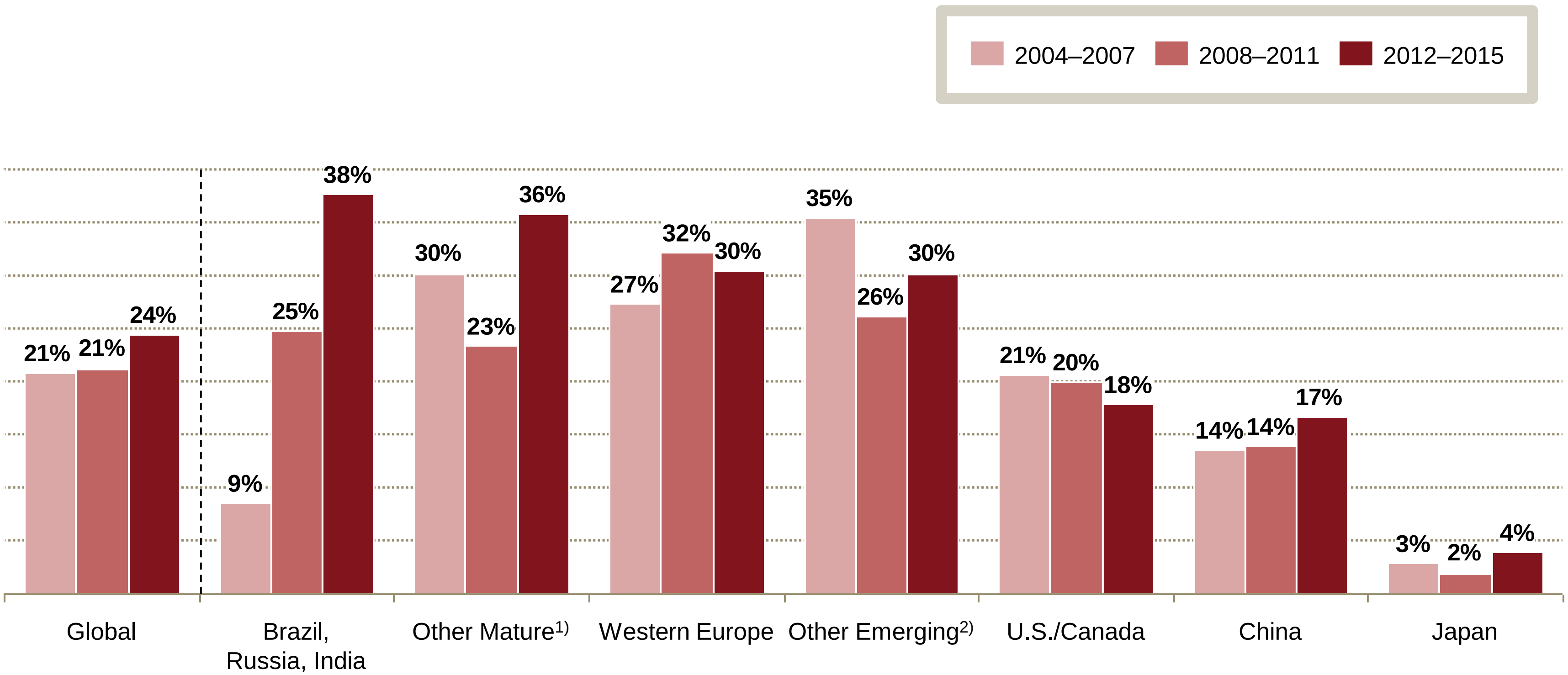


Note: Exhibit excludes turnover events resulting from M&A, interims, and events with incomplete information.
Source: Strategy& 2015 CEO Success study

Western European companies hire outsider CEOs almost twice as frequently as companies in the U.S./Canada

Percentage of incoming *outsider* CEOs by region

2004–2015

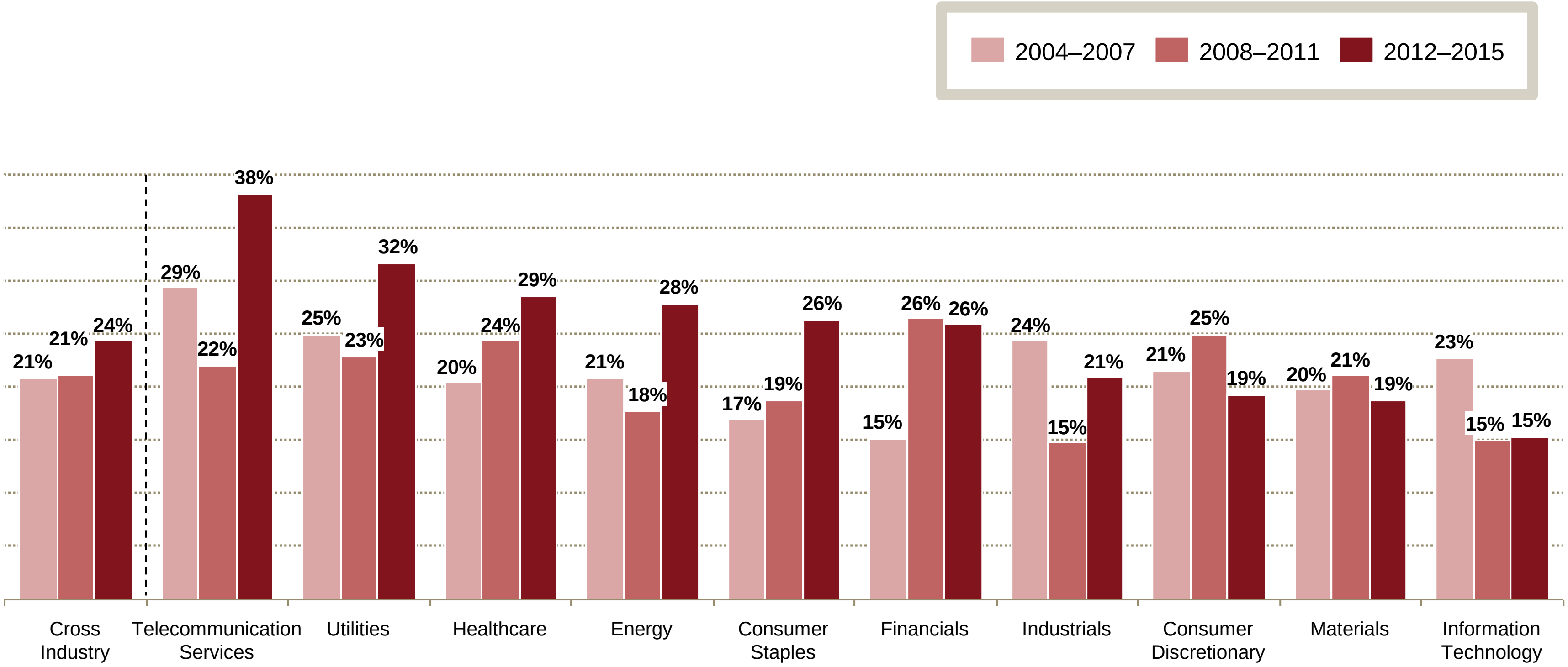


1) "Other Mature" economies include Argentina, Australia, Bahrain, Chile, Czech Republic, Hong Kong, Hungary, New Zealand, Poland, Korea.
2) "Other Emerging" economies include Egypt, Kazakhstan, Mexico, Nigeria, South Africa, Turkey, Vietnam.
Note 1: "Mature" countries are defined as per the U.N. Development Programme 2015 ranking of countries with "very high human development" (human development index >0.80); all others are "emerging" countries.
Note 2: Exhibit excludes turnover events resulting from M&A, interims, and events with incomplete information.
Source: Strategy& 2015 CEO Success study

Industries experiencing the most disruption have brought in higher-than-average shares of outsider CEOs

Percentage of incoming *outsider* CEOs by industry

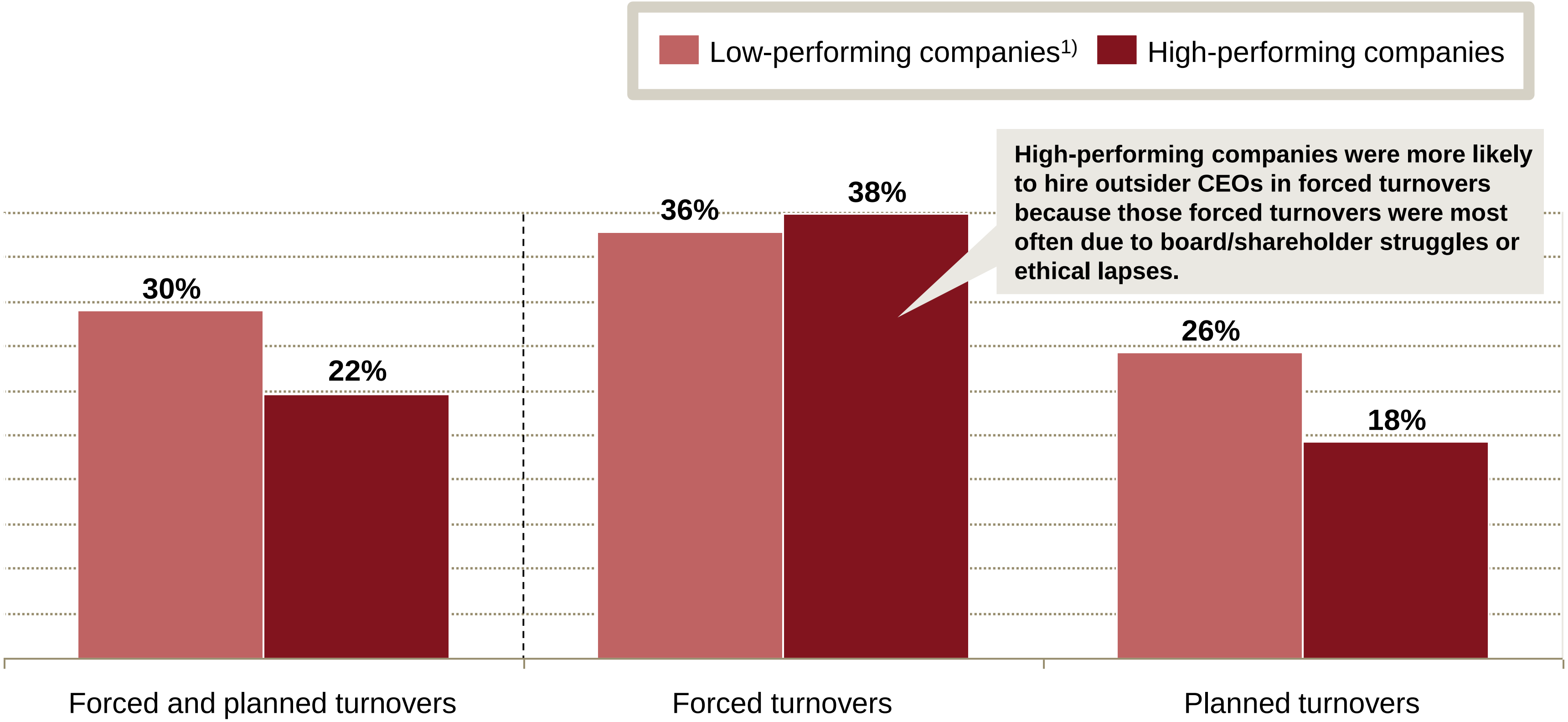
2004–2015



1) "Consumer Discretionary" includes automobiles and components, consumer durables and apparel, consumer services, media, and retailing.
Note: Exhibit excludes turnover events resulting from M&A, interims, and events with incomplete information.
Source: Strategy& 2015 CEO Success study

Low-performing companies were more likely to hire outsider CEOs than high-performing companies, except in forced turnovers

Percentage of incoming *outsider* CEOs by company performance and turnover type
2004–2015

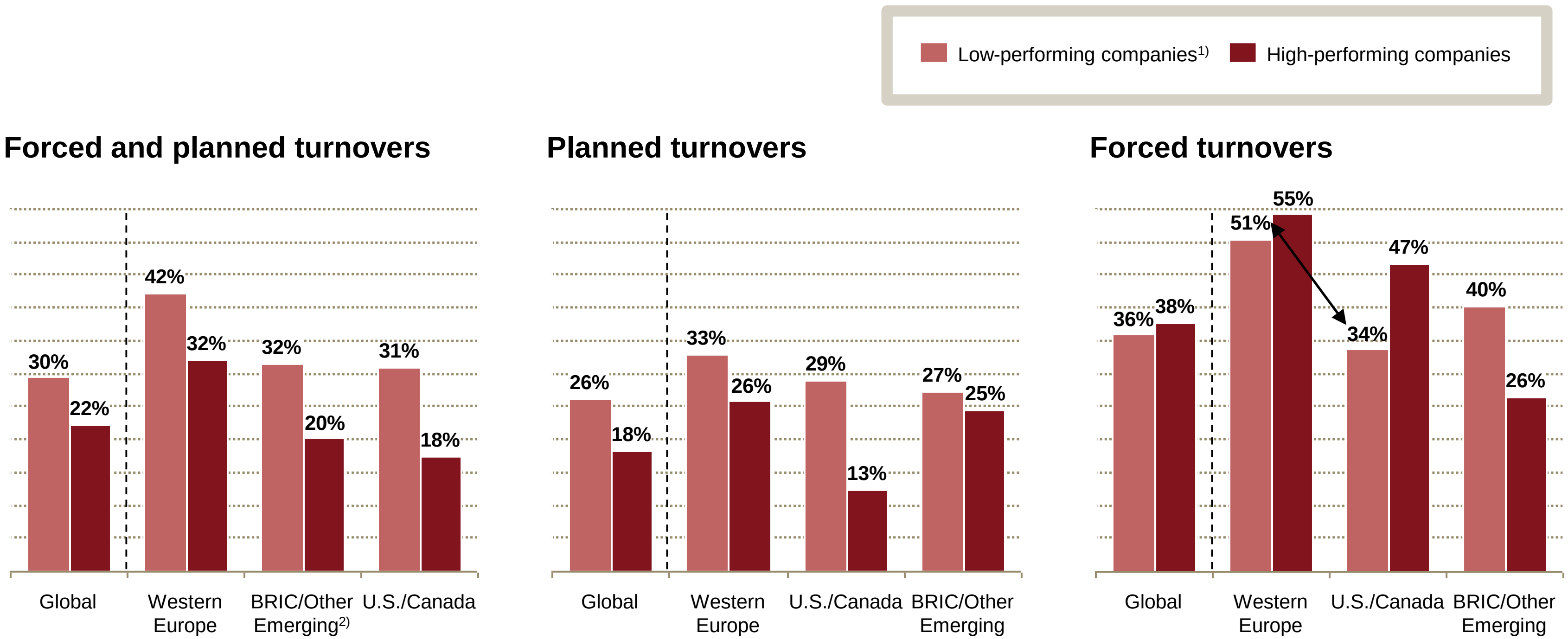


1) Low-performing companies are defined as companies whose annualized regionally adjusted total shareholder returns were in the bottom quartile over their outgoing CEO's tenure. High-performing companies are defined as companies whose annualized regionally adjusted total shareholder returns were in the top quartile over their outgoing CEO's tenure.
Note: Exhibit excludes turnover events resulting from M&A, interims, and events with incomplete information.
Source: Strategy& 2015 CEO Success study

Low-performing Western European companies were much more likely to hire an outsider CEO in forced turnover situations than companies in the U.S./Canada

Percentage of incoming *outsider* CEOs by company performance and turnover type

2004–2015



1) Low-performing companies are defined as companies whose annualized regionally adjusted total shareholder returns were in the bottom quartile over their outgoing CEO's tenure. High-performing companies are defined as companies whose annualized regionally adjusted total shareholder returns were in the top quartile over their outgoing CEO's tenure.
2) "BRIC/Other Emerging" economies include Brazil, Russia, India, China, Egypt, Kazakhstan, Mexico, Nigeria, South Africa, Turkey, Vietnam.
Note 1: "Mature" countries are defined as per the U.N. Development Programme 2015 ranking of countries with "very high human development" (human development index >0.80); all others are "emerging" countries.
Note 2: Exhibit excludes turnover events resulting from M&A, interims, and events with incomplete information.
Source: Strategy& 2015 CEO Success study

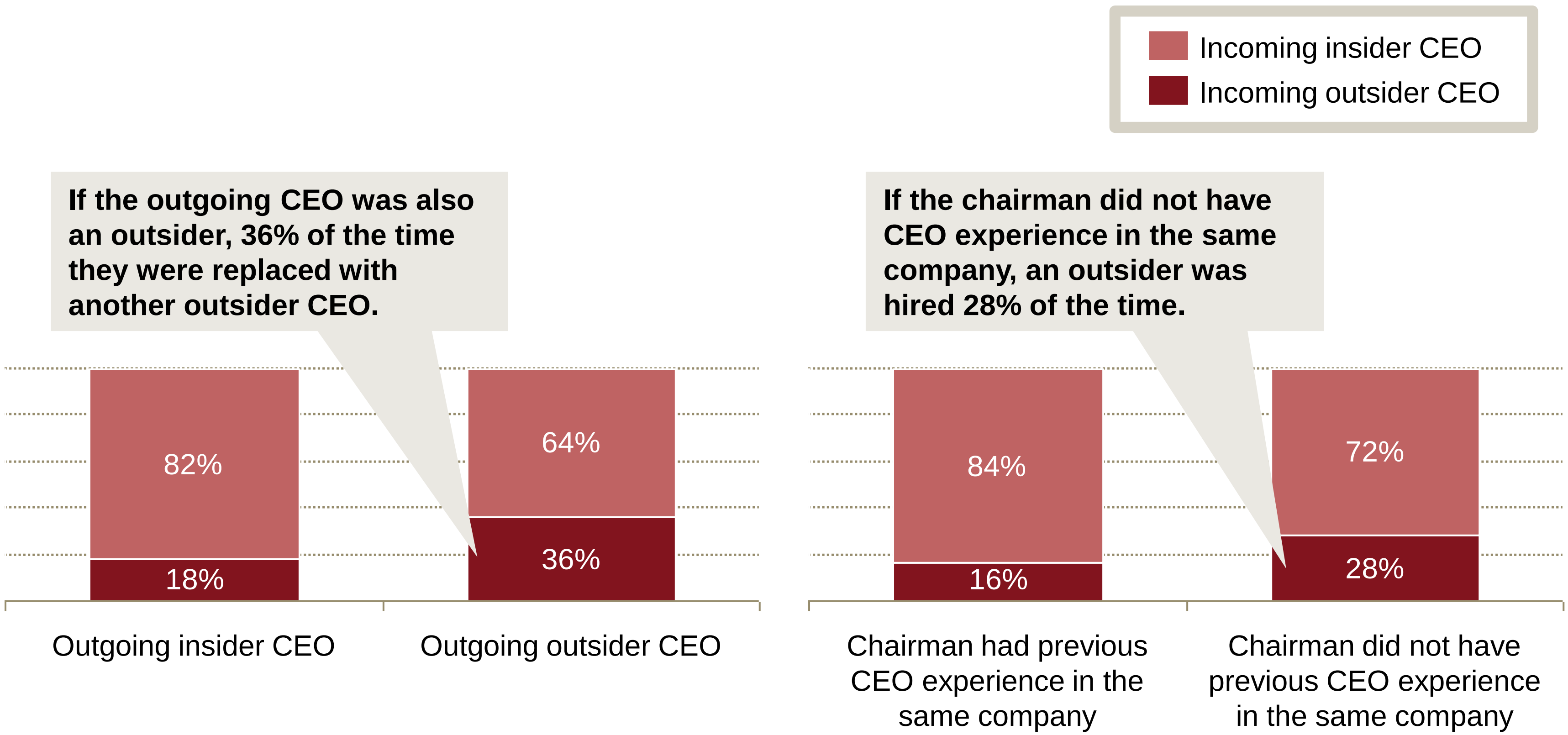
Outsider CEOs were more likely to be hired if the chairman did not have CEO experience in the same company or if the former CEO was also an outsider

Incoming CEO pedigree by outgoing CEO pedigree

2004–2015

Incoming CEO pedigree by chairman pedigree

2009–2015

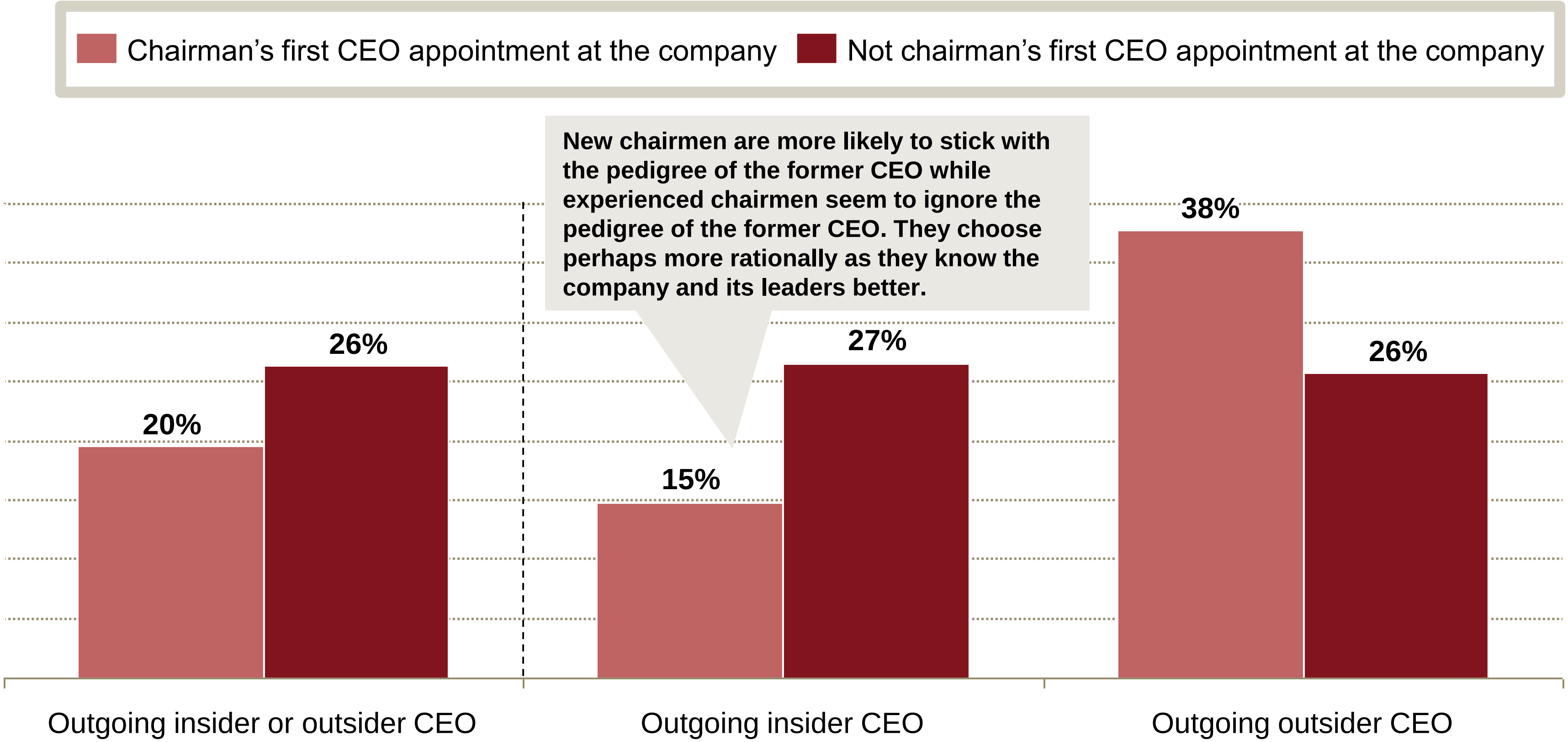


Note: Exhibit excludes turnover events resulting from M&A, interims, and events with incomplete information.
Source: Strategy& 2015 CEO Success study

Chairmen who are hiring their first CEO at the company are less likely to appoint an outsider CEO unless the former CEO was also an outsider

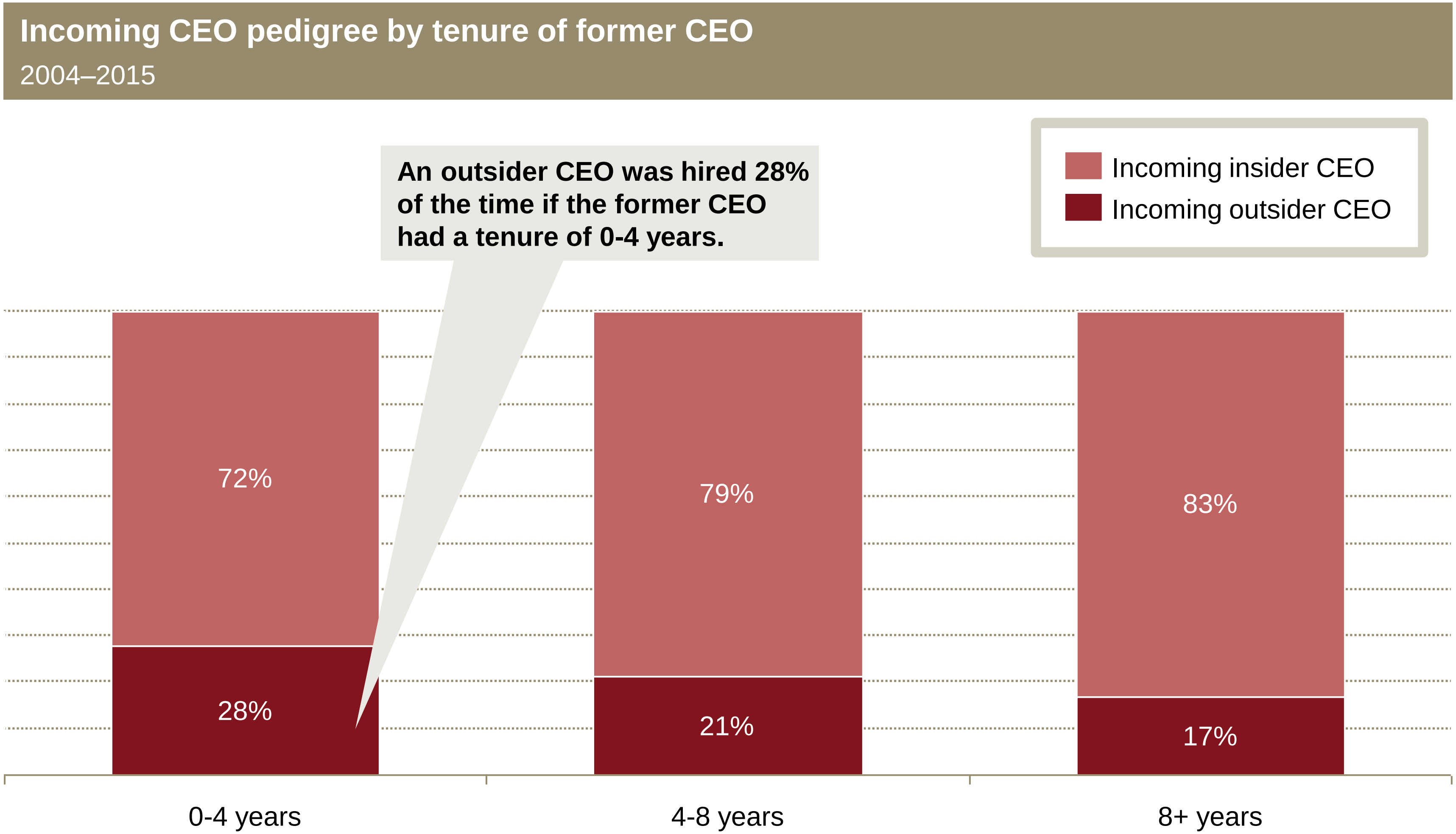
Percentage of incoming *outsider* CEOs by whether it was the chairman's first CEO appointment at the company and former CEO pedigree

2009–2015



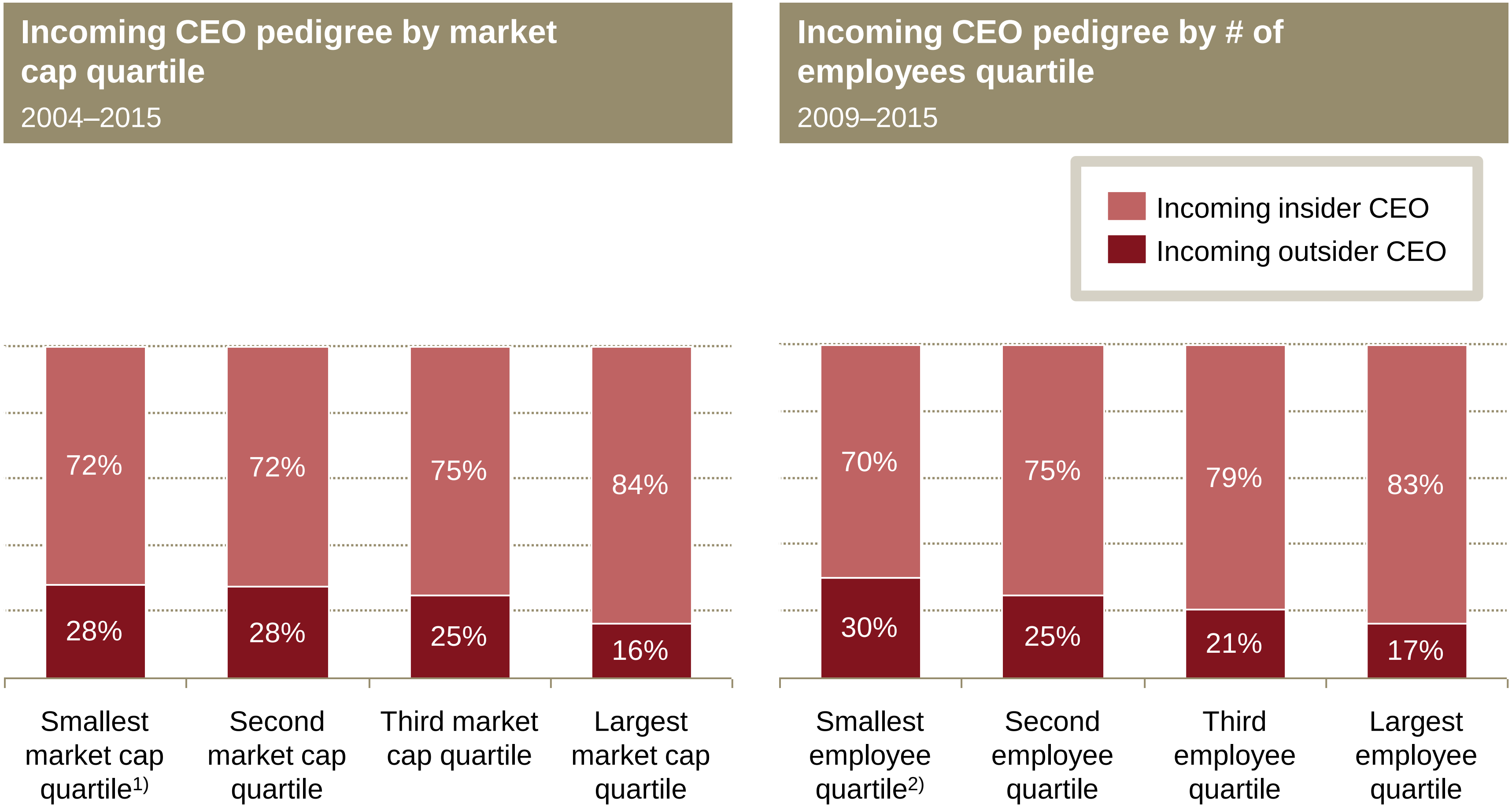
Note: Exhibit excludes turnover events resulting from M&A, interims, and events with incomplete information.
Source: Strategy& 2015 CEO Success study

The longer the tenure of the former CEO, the less likely an outsider CEO was to be hired



Note: Exhibit excludes turnover events resulting from M&A, interims, and events with incomplete information.
Source: Strategy& 2015 CEO Success study

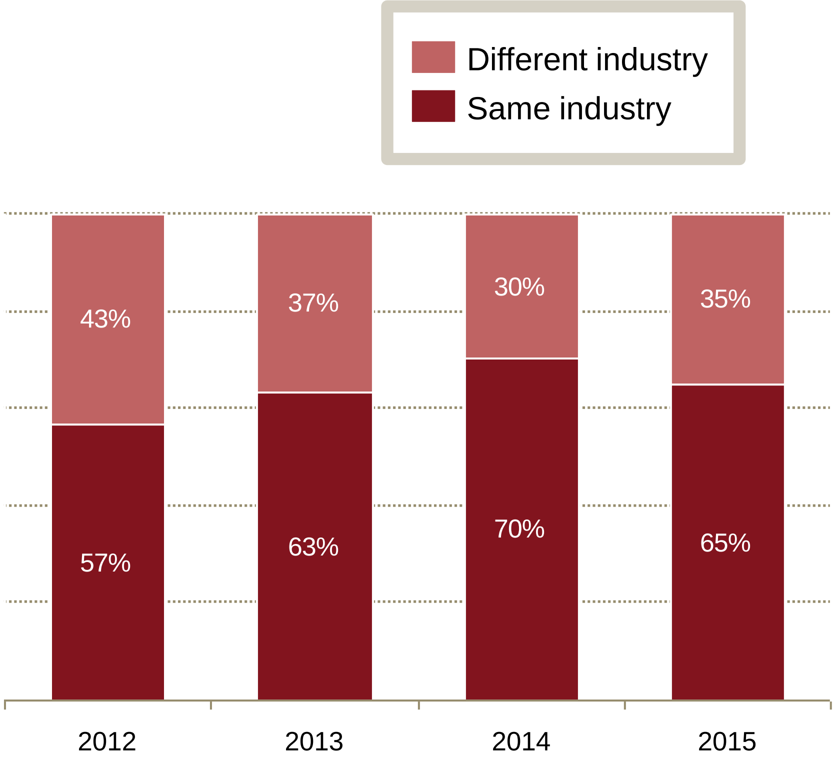
The larger the company, the less likely it was to hire an outsider CEO



1) Market cap quartile was based on company ranking in world's 2,500 largest. Companies ranked 1,876–2,500 were in the smallest quartile. Companies ranked 1–625 were in the largest quartile. Largest market cap quartile companies had a market cap value in 2015 of more than US$19.7 billion.
2) Smallest employee quartile companies had 12–6,109 employees. Companies in the largest employee quartile had 41,278–2,200,000 employees.
Note: Exhibit excludes turnover events resulting from M&A, interims, and events with incomplete information.
Source: Strategy& 2015 CEO Success study

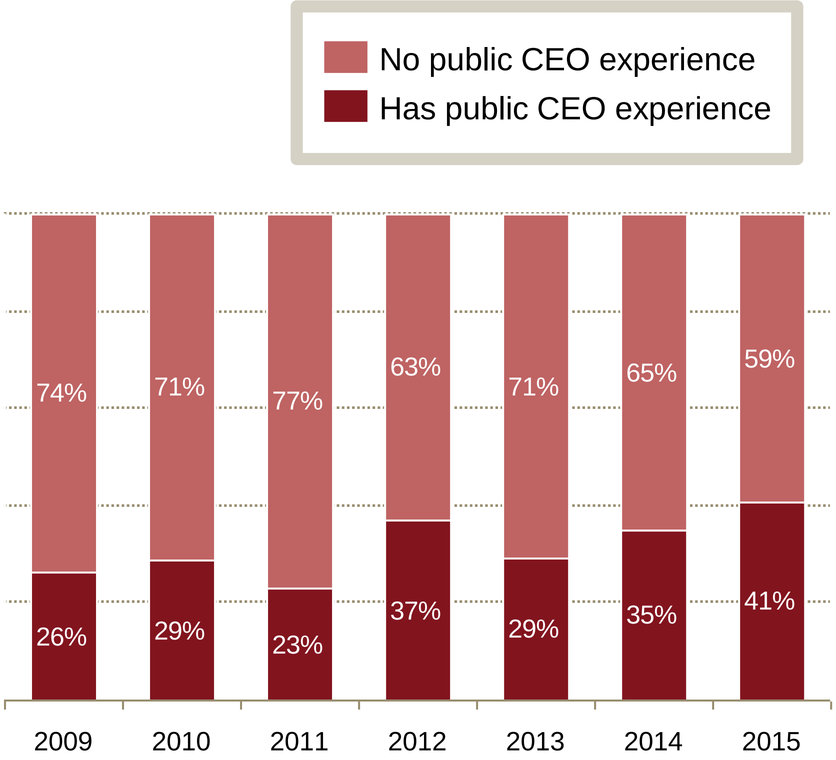
More recently, companies have been hiring outsider CEOs with more industry and CEO experience

Incoming *outsider* CEO from same or different prior industry[1)] compared with current company industry, 2004–2015



Incoming *outsider* CEO with prior public CEO experience

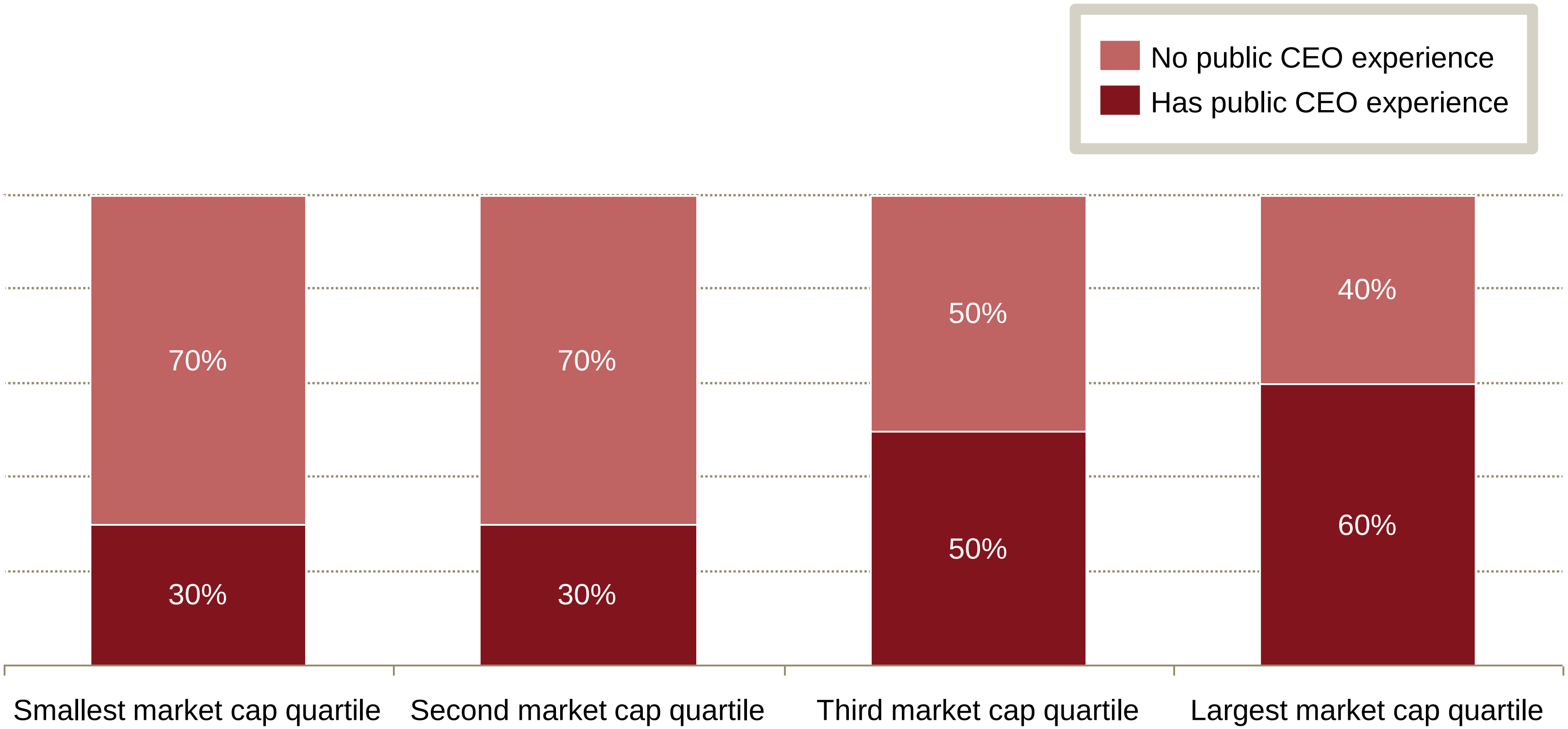
2009–2015



1) Exhibit shows incoming CEOs who joined their company as CEO, broken down by whether they had worked in the same or a different industry immediately before joining the current company.
Note: Exhibit excludes turnover events resulting from M&A, interims, and events with incomplete information.
Source: Strategy& 2015 CEO Success study

In 2015, in the largest companies, 60% of incoming outsider CEOs had previous public CEO experience

Incoming outsider CEO prior public CEO experience by market cap quartile
2015



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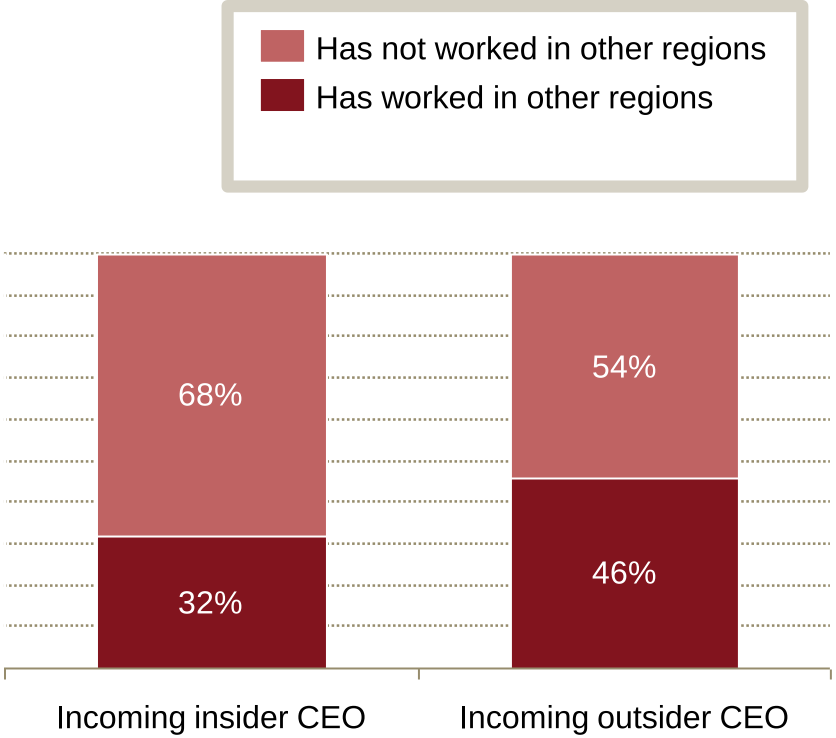
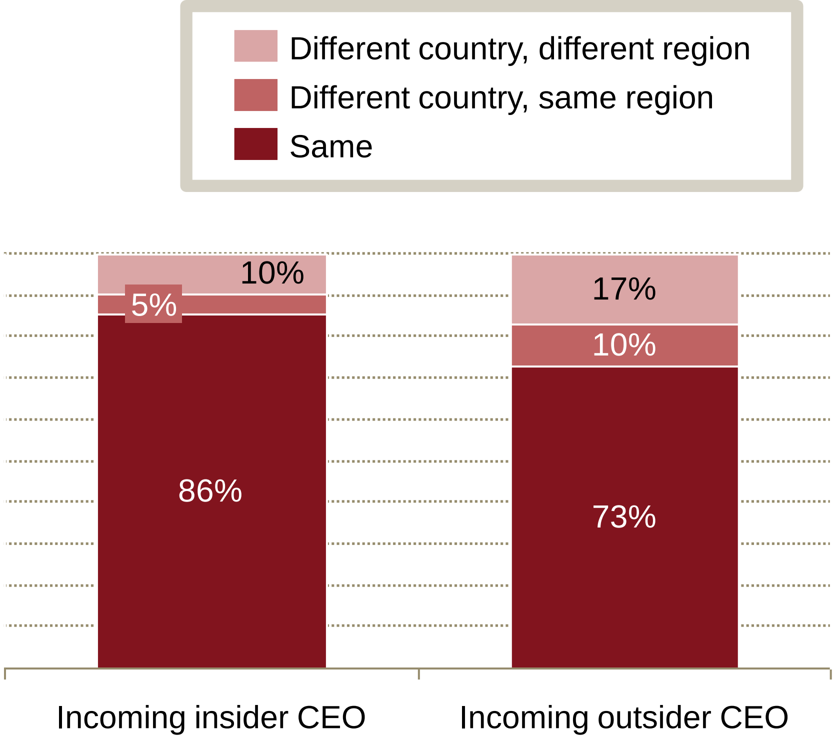
Note: Exhibit excludes turnover events resulting from M&A, interims, and events with incomplete information.
Source: Strategy& 2015 CEO Success study

Outsider CEOs were more likely than insiders both to have international experience and be of different nationality than their company HQ region

Incoming CEO experience[1] in different regions compared to company HQ region
2012–2015



Incoming CEO nationality compared with company HQ region
2009–2015

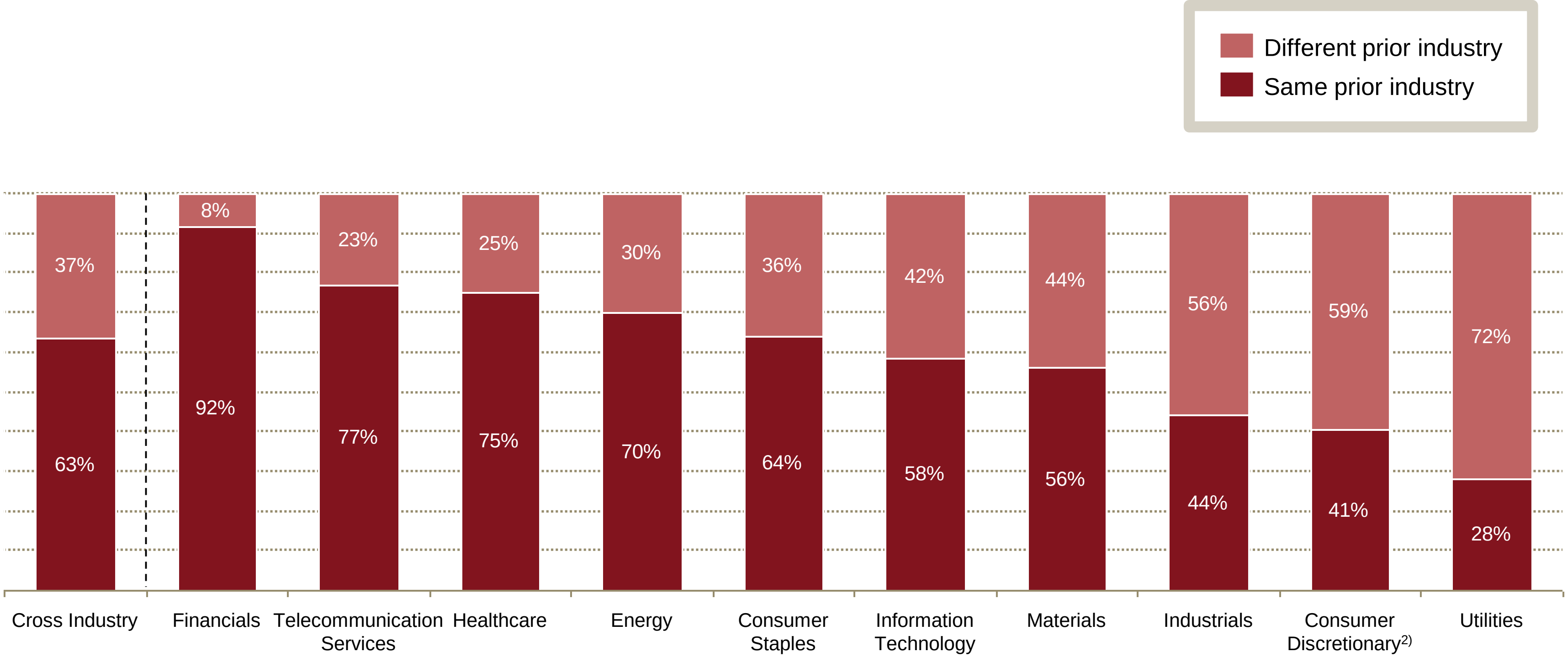


1) "Experience in different regions" means incoming CEOs' experience in regions other than company HQ region.
Note: Exhibit excludes turnover events resulting from M&A, interims, and events with incomplete information.
Source: Strategy& 2015 CEO Success study

The financials industry hired almost all its outsider CEOs from its own industry

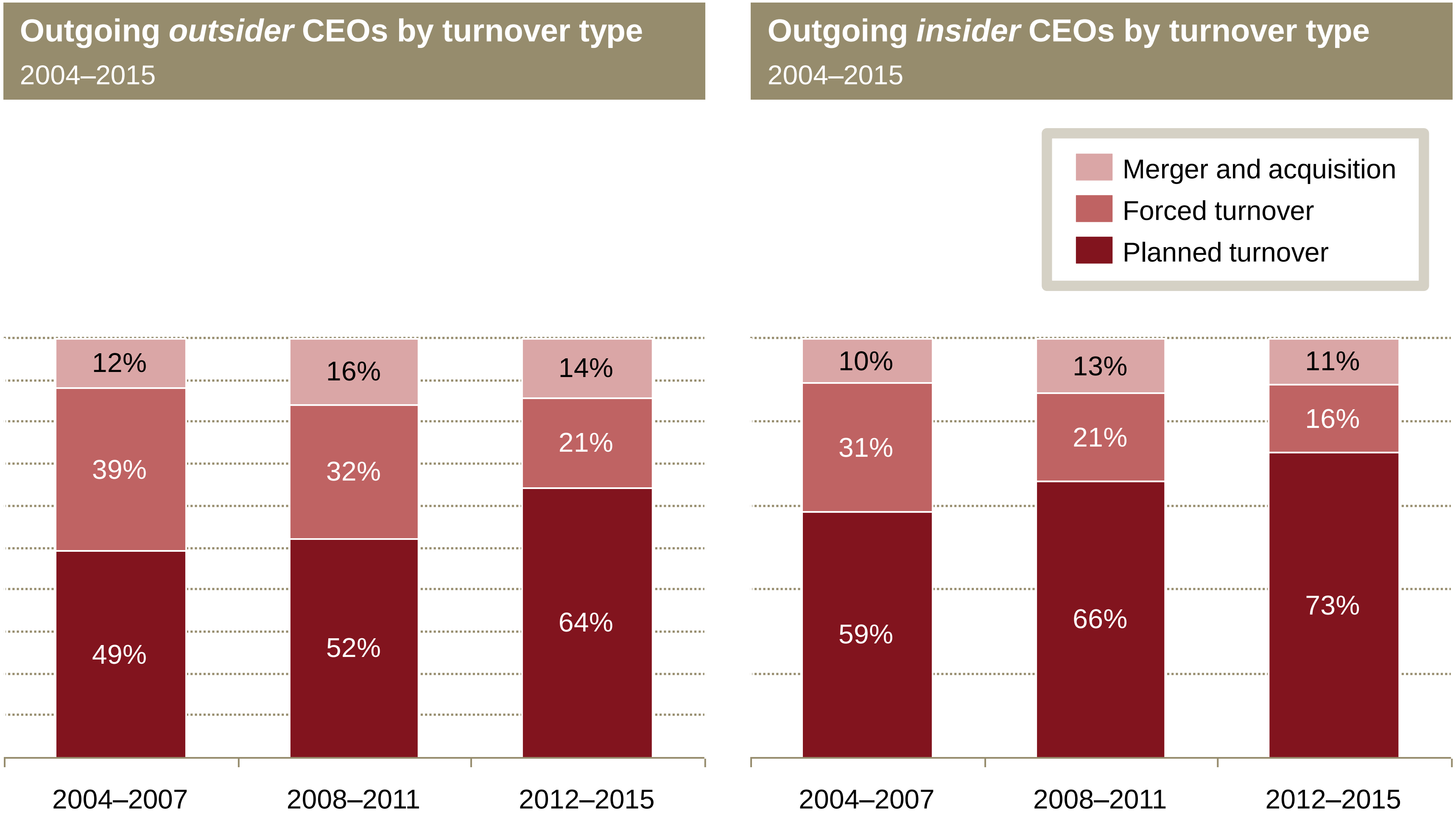
Incoming *outsider* CEO from same or different prior industry[1] compared to current company industry

2004–2015



1) Exhibit shows incoming CEOs who joined their company as CEO, broken down by whether they had worked in the same or different industry immediately before joining the current company.
2) "Consumer Discretionary" includes automobiles and components, consumer durables and apparel, consumer services, media, and retailing.
Note: Exhibit excludes turnover events resulting from M&A, interims, and events with incomplete information.
Source: Strategy& 2015 CEO Success study

Historically, outsider CEOs were much more likely to be forced out than insiders, but the difference has narrowed

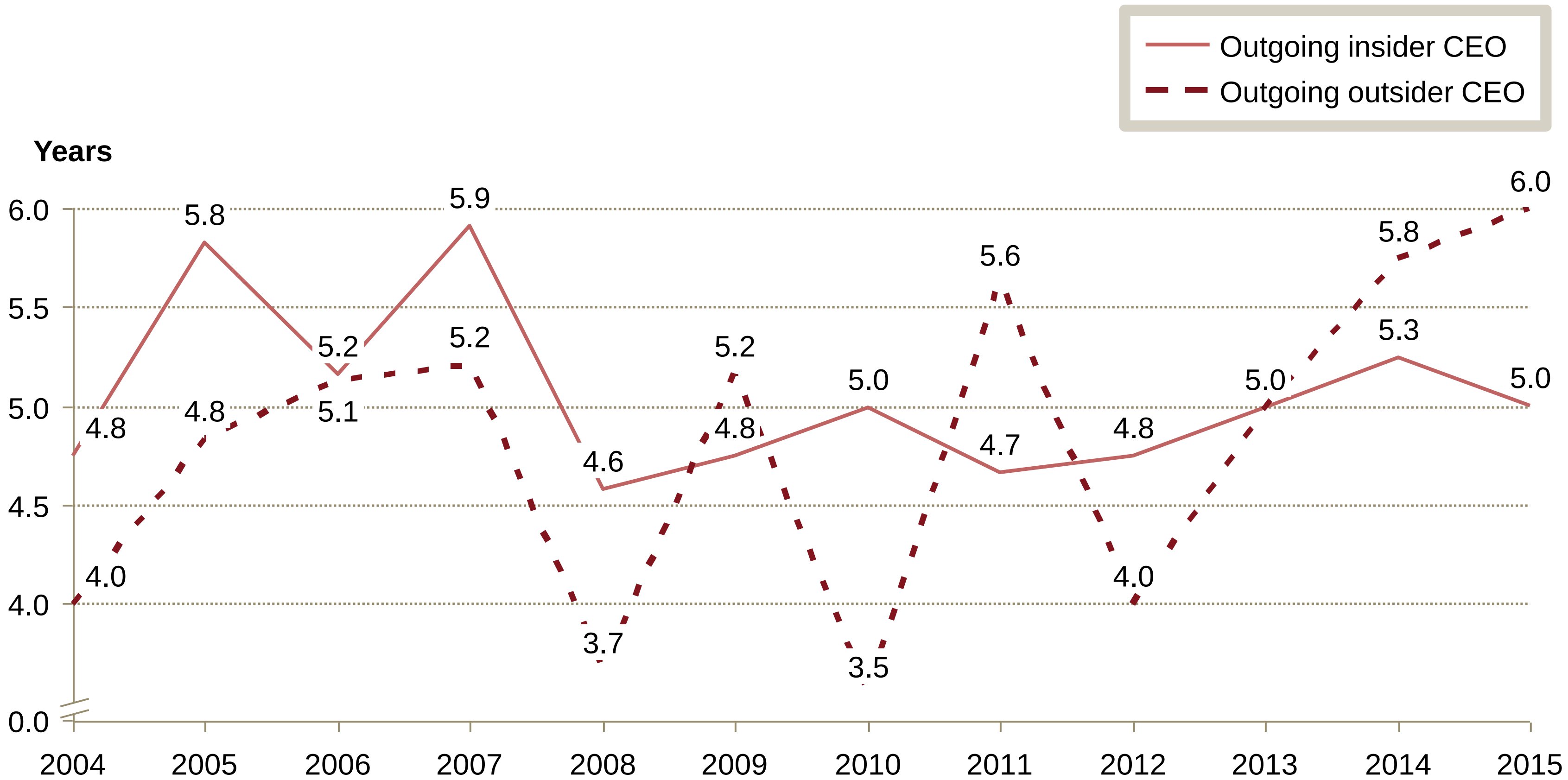


Note: Exhibit excludes turnover events with incomplete information.
Source: Strategy& 2015 CEO Success study

Outgoing outsider CEOs have had longer median tenures than insider CEOs over the last two years

Outgoing CEO median tenure by pedigree

2004–2015

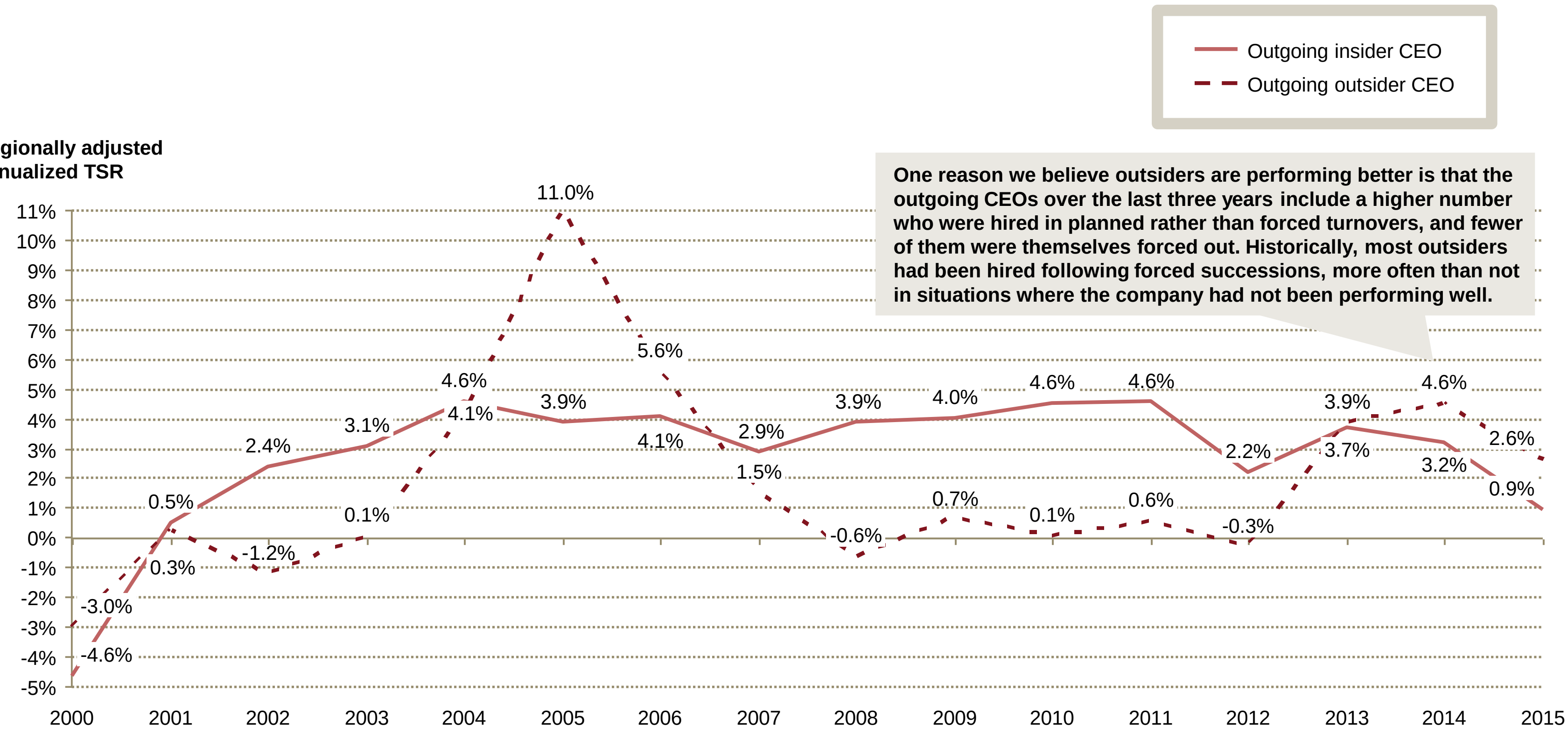


Note: Exhibit excludes turnover events with incomplete information.
Source: Strategy& 2015 CEO Success study

For the third straight year, outsider CEOs have delivered higher median total shareholder returns than insiders

Median total shareholder returns[1)] by outgoing CEO pedigree

2000–2015

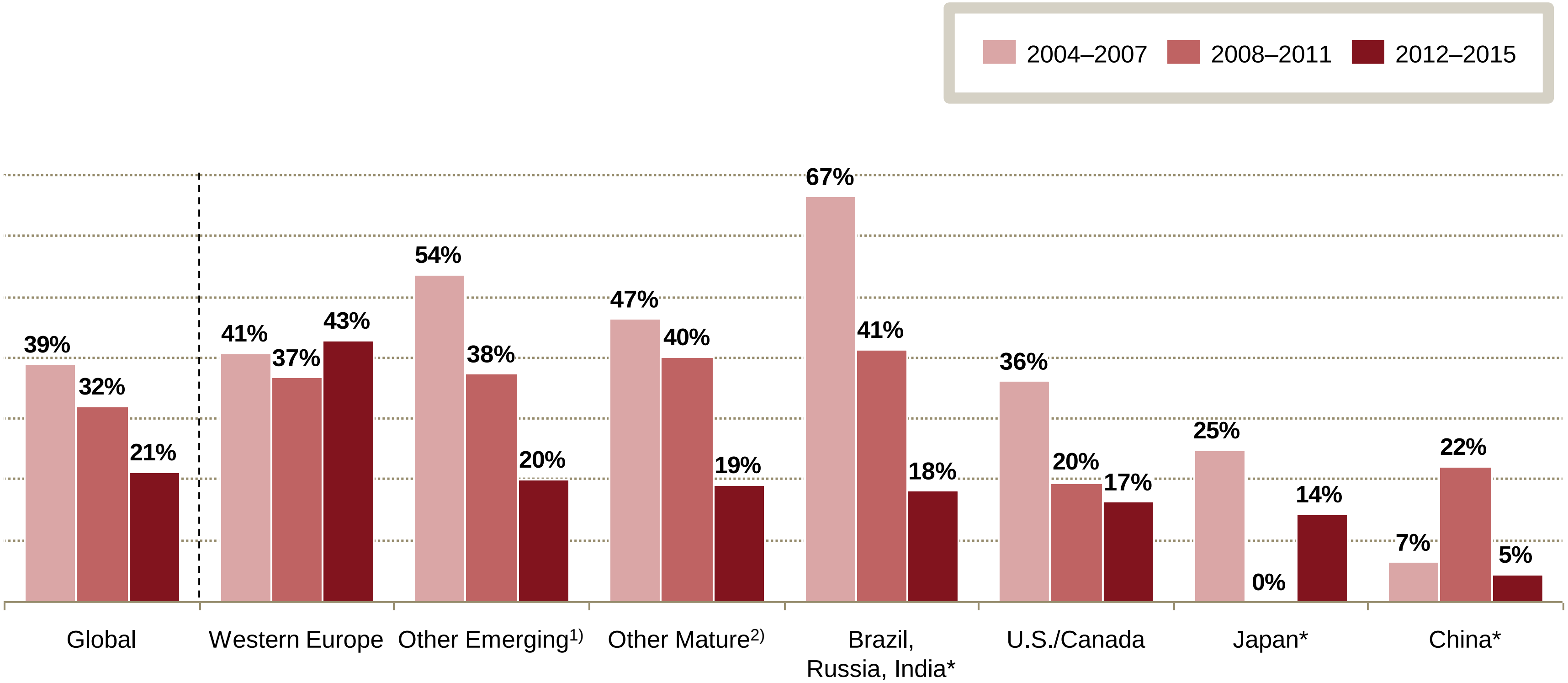


1) Total shareholder returns are annualized over outgoing CEOs' tenure and are regionally adjusted, meaning that performance is measured relative to a regional index (S&P 500, Brazil Bovespa, FTSE 100, CAC 40, etc.).
Note: Exhibit excludes turnover events with incomplete information.
Source: Strategy& 2015 CEO Success study

Most recently, outsider CEOs in Western Europe have been significantly more likely to be forced out than outsiders in any other region

Percentage of outgoing *outsider* CEOs via *forced* turnovers by region

2004–2015



1) "Other Emerging" economies include Egypt, Kazakhstan, Mexico, Nigeria, South Africa, Turkey, Vietnam.

2) "Other Mature" economies include Argentina, Australia, Bahrain, Chile, Czech Republic, Hong Kong, Hungary, New Zealand, Poland, Korea.

**Sample size in Japan and China not significant for all 12 years. Sample size in Brazil, Russia, India not significant from 2004–2007.*

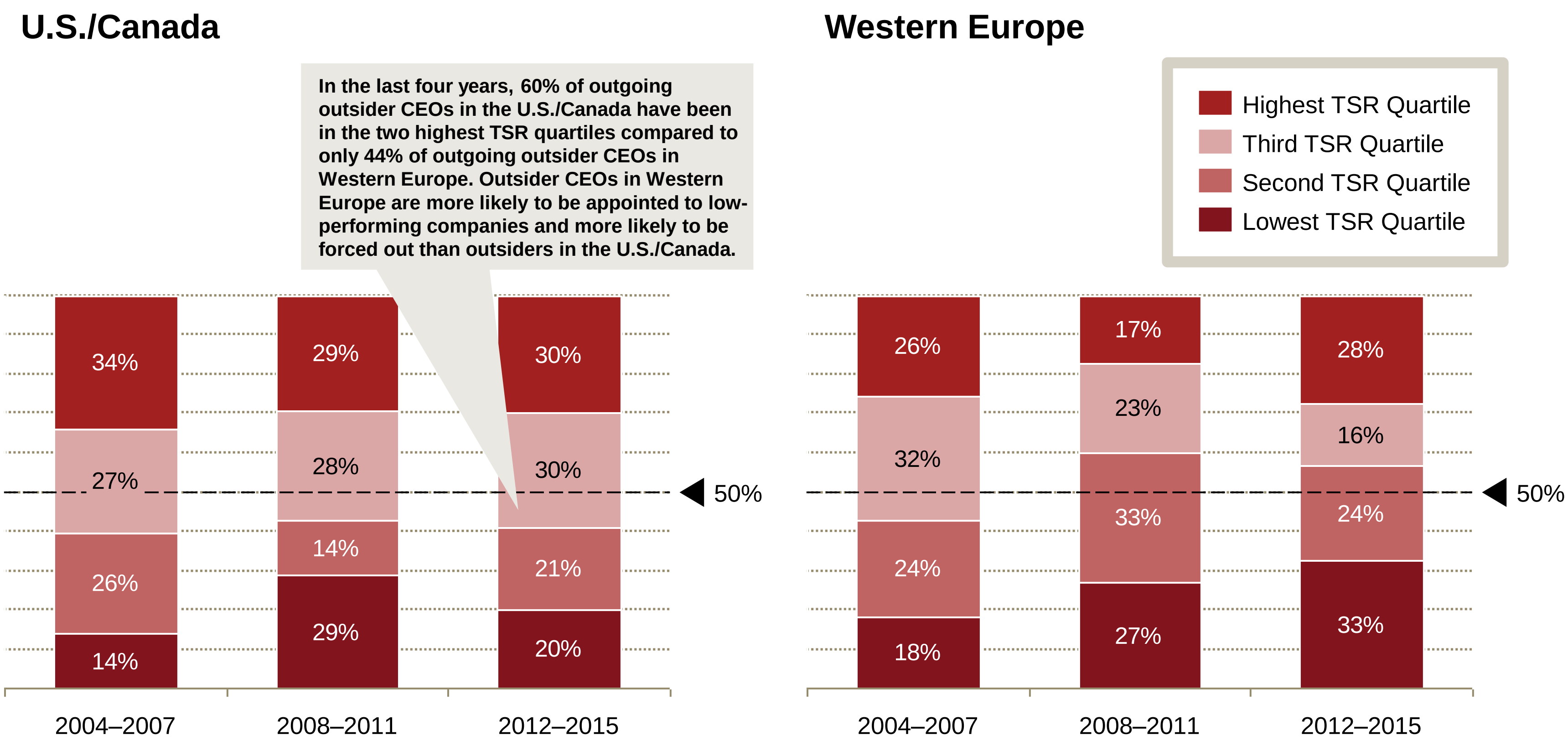
Note 1: "Mature" countries are defined as per the U.N. Development Programme 2015 ranking of countries with "very high human development" (human development index >0.80); all others are "emerging" countries.

Note 2: Exhibit excludes turnover events with incomplete information.

Source: Strategy& 2015 CEO Success study

Outsider CEOs in Western Europe consistently perform worse than those in the U.S./Canada

Outgoing *outsider* CEO by quartile of annualized shareholder returns[1)]
2004–2015



1) Total shareholder returns are annualized over outgoing CEOs' tenure and are regionally adjusted, meaning that performance is measured relative to a regional index (S&P 500, Brazil Bovespa, FTSE 100, CAC 40, etc.).
Note: Exhibit excludes turnover events with incomplete information.
Source: Strategy& 2015 CEO Success study

Definition of terms

Succession: A succession event is defined as when a CEO leaves office, regardless of whether or not a new CEO is selected to take his or her place, or when the company's leadership structure changes to add CEOs.

We group the succession reasons into three categories:

- M&A
- Forced
- Planned (successions that are the result of neither M&A nor a forced removal)

We determine whether a succession is forced or planned using reports in the press, analyst reports, and the knowledge of Strategy& consultants from around the world.

Insider versus outsider CEO:

- **Insider:** A CEO is considered an insider if he or she worked at his or her current company *at least one day* before becoming CEO.
- **Outsider:** A CEO is considered an outsider if he or she was hired directly from a company other than the one he currently leads.

TSR: All total shareholder return figures we use are annualized TSR over the total tenure of outgoing CEOs and are regionally adjusted, meaning that performance is measured relative to a regional index (S&P 500, Brazil Bovespa, FTSE 100, CAC 40, etc.)

Methodology

The CEO Success study identified the world's 2,500 largest public companies, defined by their market capitalization (from Bloomberg) on January1, 2015. We then identified the companies among the top 2,500 that had experienced a chief executive succession event between January 1, 2015, and December 31, 2015, and cross-checked data using a wide variety of printed and electronic sources in many languages. For a listing of companies that had been acquired or merged in 2015, we also used Bloomberg.

Each company that appeared to have changed its CEO was investigated for confirmation that a change occurred in 2015, and additional details — title, tenure, chairmanship, nationality, professional experience, and so on — were sought on both the outgoing and incoming chief executives (as well as any interim chief executives). Company-provided information was acceptable for most data elements except the reason for the succession. Outside press reports and other independent sources were used to confirm the reason for an executive's departure.

Finally, Strategy& consultants worldwide separately validated each succession event as part of the effort to learn the reason for specific CEO changes in their region. To distinguish between mature and emerging economies, Strategy& followed the United Nations Development Programme 2015 ranking. Total shareholder return data over a CEO's tenure was sourced from Bloomberg and includes reinvestment of dividends (if any). Total shareholder return data was then regionally market adjusted (measured as the difference between the company's return and the return of the main regional index over the same time period) and annualized.

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