

# BUCKING THE CEO TURNOVER TREND

Korn Ferry assessments increase the likelihood that CEOs will stay longer in their role.

Thought Leadership



## Executive Summary

A successful CEO transition is crucial as it can have profound implications on company strategy, culture, and performance. Frequent CEO turnover disrupts an organization's business agenda, can destabilize the organization across various dimensions, including shareholder trust, employee morale, market confidence, corporate reputation, and both short-term and long-term performance. Assessing and hiring the right CEOs is critical for successful leadership transitions. Korn Ferry conducted an empirical study to examine factors related to reduced early CEO attrition. We found four key takeaways for organizations:

1. In the CEO population (based on the analysis of 87,000 CEOs), about 11% of new CEOs leave their posts each year after their appointment.
2. A hiring process that uses Korn Ferry leadership assessment reduces CEO attrition in the first 3 years, a period that is critical to leadership transition and realization of a CEO's impact on an organization.
3. By the end of the third year, about 34% of new CEOs depart from their CEO roles, while less than 18% of new CEOs recommended by Korn Ferry through a comprehensive leadership assessment leave their hiring organizations. That's a 16-percentage point difference, or 47% reduction of CEO attrition in the first 3 years.
4. There is a set of leadership qualities associated with reduced early CEO attrition. CEOs who successfully transition into their new roles listen and involve others. They work across boundaries with both external and internal stakeholders toward achieving strategic objectives that transcend self-interest.

## Introduction

CEO succession is more than an event marking a transition of power but is often associated with important strategic initiatives – change in direction, adjustment in operation, restructuring, culture building, and/or reorientation of the leadership team. New CEOs are selected for a reason, and that's not typically to maintain status quo (Weng & Lin, 2012). Given the strategic consequences, any CEO succession introduces inherent risks to the organization and its stakeholders.

The transition period is a time when a new CEO shapes the future of their organizations. Early departure of new CEOs can disrupt an organization's strategic momentum, and firms with more frequent CEO turnover have lower performance (Kim, Jeong, Yiu, & Moon, 2021). Finding the right CEOs who can stay long enough to instigate and follow through on a strategic plan can have a significant impact on both a company's short-term performance and their long-term growth potential. Korn Ferry has learned how CEO attrition can be reduced through a rigorously designed selection and succession process, enhancing the odds of successful leadership transition and organizational transformation.

## The hazards of early CEO attrition

Shrinking CEO tenures have been cited as an indicator of harsher business competition and increased business volatility. According to Korn Ferry's analysis of the 1,000 largest corporations in the US, average CEO tenure dipped to 6.9 years in late 2019 (Korn Ferry, 2020). These reduced CEO tenures were even more noticeable in certain sectors. By 2022, the average tenure of CEOs on the S&P 500 Industrial Index dropped further to just 4.9 years, according to data compiled by Bloomberg (Sutherland, 2022).

Yet calculating CEO longevity based on the average number of years a CEO is in their position masks the severity of the CEO succession issue. The distribution of CEO tenures is positively skewed due to some very long-serving active CEOs (Blazek, Lewis, Jones, & Orr, 2017). Consider Warren Buffet of Berkshire Hathaway, Larry Ellison of Oracle, or Rupert Murdoch of News Corporation; they have been leading their companies for several decades. Average CEO tenure conceals the level of early CEO attrition—especially the proportion of CEOs leaving in the first 3 years—whose impact on an organization's strategic initiatives may be more detrimental.

In fact, nearly one third of CEOs leave their posts by the third year of their tenure, according to our analysis of over 87,000 CEO profiles collected from the Standard & Poor's Capital IQ dataset. The analysis found that roughly 11% of new CEOs will leave their organizations each year following their appointment (see Table 1). Excluding CEOs of non-profit organizations and private equity firms did not significantly alter these findings.

It could take several years for a new CEO to plan and implement their strategic agenda. In academic studies, management scholars look for signs of significant strategic initiative by new CEOs two years after their placements (Zhu, Hu, & Shen, 2020).

The window for a successful strategic implementation does not stay open long: on average, an inflection point arrives during the third year of a CEO's tenure (Birshan, Meakin, & Strovink, 2016). If one third of new CEOs leave their roles by the third year of their tenures, that would suggest that a substantial portion of organizations have not been able to accomplish the strategy and vision of the new CEO.

## Rigorous assessments reduce early CEO attrition

While performance may be considered the major reason for early CEO dismissal, the root cause can often be traced to what extent a new CEO fits the strategy, culture, board and the executive leadership team. So how can boards be certain they are handing the reins to successors that demonstrate the best fit and stay long enough to bring in the desired leadership and organizational outcomes?

A Korn Ferry study demonstrates the benefit of leveraging a rigorous assessment process in hiring new CEOs. Table 1 contrasts the attrition rates of CEOs from different sources—first, a benchmark comparison made up of the general CEO population obtained from Capital IQ database; second, CEOs recommended by Korn Ferry who participated in foundational assessment that includes structured behavioral and market-based interviews and a standardized psychological testing, and last, CEOs recommended by Korn Ferry who, in addition to interviews and psychological testing, participated in a comprehensive assessment process that included simulations. These additional assessment methods provide an in-depth and comprehensive evaluation of leadership qualities of CEO candidates. All three groups represent a broad range of industries.

**Table 1.** Accumulative CEO attrition rates across time.

Year CEO departs	General CEO pop. (N= 87,142)	CEOs recommended from KF Foundational Assessment (N=520)	CEOs recommended from KF Comprehensive Assessment (N=86)
Within 1 year	11.6%	5.4%	2.4%
Within 2 years	23.1%	18.2%	9.6%
Within 3 years	33.8%	30.0%	17.6%
Within 4 years	44.4%	37.3%	33.8%
Within 5 years	54.7%	48.0%	40.3%
Within 6 years	65.8%	58.7%	44.3%

**Note.** All differences from the General CEO Population are statistically significant.

## Key findings

CEOs hired through interview and psychological testing have consistently lower attrition rates than the general CEO population in every year after their placements. CEOs recommended by Korn Ferry after the comprehensive assessment had even lower attrition rates. By the end of their third year, less than 18% of them had left their roles, which is nearly 16 percentage points lower than the general CEO population.

The further reduction of early CEO attrition can be attributed to extra assessment components. Of the 152 CEOs that had been through this process, a hierarchical regression analysis detected that the simulations provided incremental validity over the interview and psychological assessment in predicting CEO attrition rates ( $\Delta R^2=.02, p=.09$ ). The simulations are designed to represent a condensed year on the job, focusing on realistic business challenges that elicit the specific behaviors crucial to success. Participants are required to familiarize themselves with industry and company data to complete, among others, setting strategic priorities with the board, reviewing operational performance with direct reports, explaining financial results with investors, mobilizing the top leadership, and building the culture. Simulations offer opportunities to observe candidate behaviors and styles from multiple angles, thereby enhancing the reliability and validity of the assessment (Goff, 2014).

Some in-depth assessment participants became CEO even though they had not been recommended by Korn Ferry. The table below contrasts the three-year attrition rates of recommended CEOs against those who had not been recommended by Korn Ferry.

**Table 2.** Attrition rates of recommended versus not recommended CEOs.

CEO departure time	Not recomm. (N=33)	Recomm. with reservation (N=56)	Recommended (N=86)
Within 1 year	6.3%	3.6%	2.4%
Within 2 years	19.3%	9.8%	9.6%
Within 3 years	31.0%	30.0%	17.6%

**Note.** The linear-by-linear association chi-square test is statistically significant,  $\chi^2=3.652, df=1, p=.06$

Over 30% of CEOs that were not recommended by Korn Ferry left their job within three years, while less than 18% of those recommended by Korn Ferry did so within the same timeframe. This finding provides additional evidence of the better recruitment outcomes of a hiring process that uses rigorously designed assessments.

## Leadership qualities associated with long CEO tenure

Disruption is accelerating, leaving no honeymoon for most new CEOs in today's business environment. New CEOs are immediately challenged by their boards to make an impact and deliver strong results. Finding CEOs who can hit the ground running and rapidly implement their plans is critical to building an organization's strategic agility.

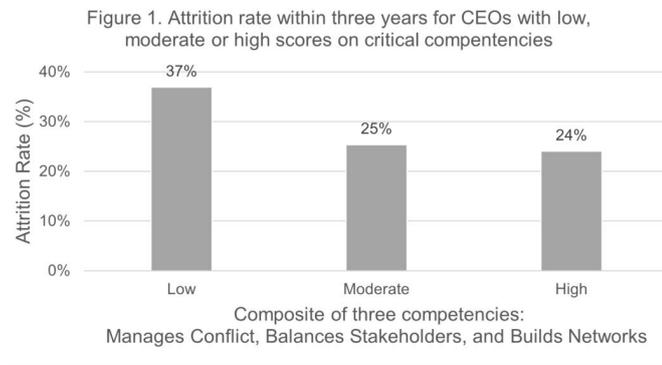
The question becomes "Who is the *right* CEO?"

Common sense points to visionary CEOs who possess the business insight and contextual intelligence to lay out and execute winning strategies for their organizations. However, when it comes to predicting who can stay long in their roles, this research highlights the importance of the new CEO's interpersonal style and emotional intelligence. The results of the Korn Ferry analysis suggest that long-staying CEOs are empathetic. They listen and involve others, tend to act in a "collaborative" manner. These findings echo the Korn Ferry series, CEOs for the Future, that stresses the "radical humanity" to lead (Remick & Orr, 2020).

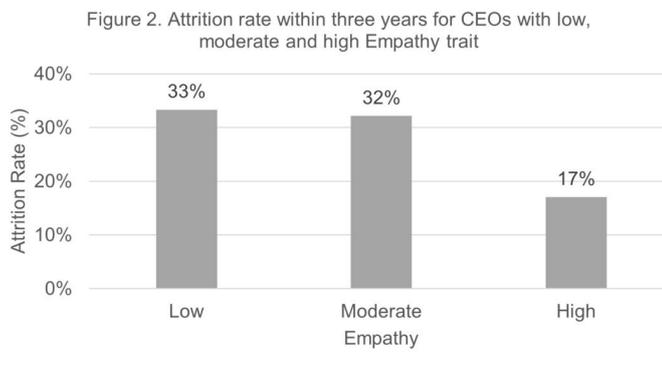
We used the sample of CEOs (N=379) whose psychological assessment data are available to investigate how CEO attributes affect CEO tenure. Korn Ferry's analyses uncovered several leadership qualities that are statistically significantly related to CEO attrition rates.

Three competencies were found to be associated with reduced attrition (i.e., longer-serving CEOs). The three competencies are Manages Conflict, Balances Stakeholders, and Builds Networks. These competencies allow new CEOs to establish collaborative and constructive relationships with different stakeholders, enabling them to rally the necessary support behind their strategic initiatives. Figure 1 (on next page) illustrates the impact of these competencies on early CEO attrition. The sample was evenly split into three sub-samples based on their composite competency scores.

CEOs who have scored low on these three competencies are 54% more likely to leave their hiring organizations within three years than those who have scored high on these competencies.



One trait, Empathy, has a significant impact on early CEO attrition. Empathy describes the extent to which a person can stand in others' shoes and demonstrate the willingness to understand others' perspectives. Figure 2 (below) shows the impact of Empathy on early CEO attrition. The sample was again evenly split into three sub-samples based on their Empathy scores. CEOs who have scored low on Empathy are 94% more likely to depart from their CEO roles within three years than those who have scored high on this trait.



Two drivers, Collaboration and Independence, are significantly related to early CEO attrition. Collaboration refers to the degree to which a person prefers work-related interdependence, group decision-making, and group-based goal setting and pursuits. CEOs who score high on Collaboration build consensus, share responsibilities, and rely on teamwork to achieve business goals. The driver Independence, on the other hand, illustrates a person's preference toward avoiding organizational constraints, setting and pursuing their own vision.

Figure 3 (below) shows the impact of Collaboration driver on three-year CEO attrition. The likelihood of attrition within three years for those who have scored low on Collaboration is almost doubled compared to those who have scored high on this driver.

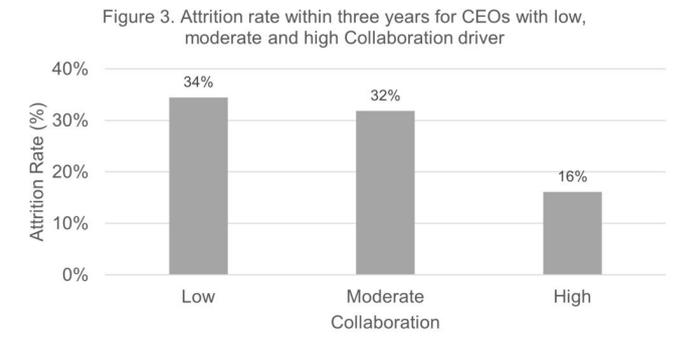
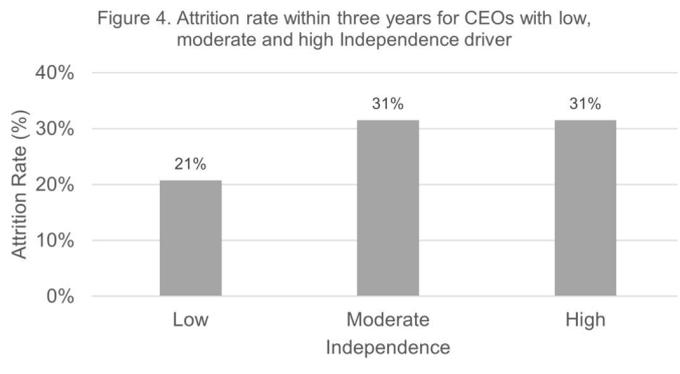


Figure 4 illustrates the impact of the Independence driver on early CEO attrition. CEOs who have scored high on Independence are 48% more likely to leave their jobs within three years than those who have scored low on this driver.



## Evolving CEO selection criteria

Making a successful transition to the top post in an organization can be very challenging for most new CEOs in today's highly uncertain business environment. This challenge raises many practical implications for how new CEOs should be selected. At least one factor should be considered by boards and organizations—not only should the new CEO demonstrate the right strategic capabilities—but they've got to have the characteristics and level of fit that will ensure sufficient longevity in the role to be able to design, introduce, and execute their strategic agenda. Reducing early CEO attrition therefore has a significant impact on organizational success.

Choosing the next CEO is a high-stakes proposition. This Korn Ferry research demonstrates that a CEO selection process that is empowered by rigorous assessments can significantly reduce early CEO attrition. The process combines multiple methods, often including a structured interview, psychological assessment, business simulations, and 360/reference interviews to provide a comprehensive evaluation of CEO candidates. And with rigorous assessments, Korn Ferry can more accurately evaluate the fit between CEO candidates and hiring organizations.

Our research identifies several leadership qualities that are specifically related to CEO attrition. At the behavioral level, CEOs who are able to rally support behind them are more likely to withstand the pressure. They work across boundaries with many stakeholders both external (e.g., partners, investors, customers, community, and/or board) and internal (e.g., their immediate team, other leaders, and employees), and are skilled at networking, solving conflicts, and balancing different stakeholder interests. These capabilities are supported by their personality and motivation, predisposing them to listen to others, look beyond their own points of view, and consider how others may think or feel. They are not egocentric, but rather, are motivated to achieve common objectives through collaboration and partnership.

This style of leadership that puts an emphasis on partnership and reconciliation of stakeholder interests is consistent with the enterprise leadership profile that Korn Ferry has been advocating for—a leadership model that underscores the capability to think through the enterprise, integrate different perspectives, and multiply the impact through connection and inclusion (Boulard et al., 2021).

CEO turnover is rising again after a short period of stagnation during the pandemic (Stevenson et al., 2023). The uptick in CEO departures highlights a shift in the economic environment that is characterized by increased unpredictability and stakeholder complexity. Boards would benefit by ensuring the consideration of the personal characteristics of new CEOs—including the characteristics that enable them to build and navigate increasingly complex stakeholder relationships.

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### About Korn Ferry

Korn Ferry is a global organizational consulting firm. We work with our clients to design optimal organization structures, roles, and responsibilities. We help them hire the right people and advise them on how to reward and motivate their workforce while developing professionals as they navigate and advance their careers.

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