

Calculating the Cost of CEO Succession Planning

By Ian Dawson, Yi Yi, and Chase Bonin

SUCCESSION PLANNING is a frequent topic of boardroom conversation. But as the average CEO tenure has decreased and scrutiny of CEO pay has surged, the dialogue may take on a new level of urgency. Such discussions have many dimensions, including whether the next CEO should come from within or be recruited externally.

We compiled information about 45 CEO transitions at S&P 500 companies from January 2022 to January 2024. The data reflect compensation details (base salary, target annual bonus, and the grant date fair value of “regular” annual equity awards) for both internal and external CEO hires. While the decision to promote from within or leverage external talent is specific to each company, our findings could be a starting point for boardroom conversations on succession strategy.

Summary of Findings

The data show a few interesting trends:

- About 76 percent of CEO transitions were internal promotions.
- Internally promoted CEOs earn 84 cents for every dollar paid to the outgoing CEO.
- CEOs hired from outside the company make about the same as their predecessors.
- One-time award amounts received by internal talent were 80 percent lower than one-time awards received by external talent.
- External transitions were 55 percent more likely to include a one-time award.

Among the analyzed companies that promoted from within, new CEOs most often previously served as chief operating officer (55%) or chief financial officer (17%). Comparatively, external hires were most likely to have been a CEO (44%) or the head of a business unit (50%). Such differences contextualize the higher costs of hiring externally; internal transitions appear to grow their talent from within, while external transitions often pay a premium for experienced executive talent.

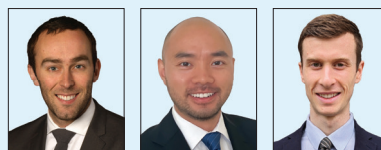
Weighing the Pros and Cons

When choosing whether to promote from within or recruit external talent, boards weigh a constellation of variables. For instance, internally promoted CEOs in the dataset had a median

tenure of 15 years. That could shorten any assimilation period and thus improve the odds of a smooth transition. Internal promotions may also offer advantages such as operations familiarity, being a known cultural fit, and having an awareness of board dynamics. Conversely, there are any number of circumstances that may indicate a need to hire externally. If a transition is prompted by a public crisis of confidence in the company's overall leadership, for example, the potentially higher cost of external recruitment might be worth it.

Proactive Succession Strategy

A December 2023 survey from Deloitte and the Society for Corporate Governance, *Board Practices Quarterly: CEO Succession Planning Processes*, shows that companies tend to begin the planning process about two years in advance of a CEO's departure. Notably, about one-third of respondents said that they had no current succession plan. No matter what path a company chooses in terms of internal versus external hiring, there is likely a benefit to being proactive about succession planning. [D](#)



IAN DAWSON (left) is a principal with Deloitte Tax LLP and leader of the US Executive Compensation practice. **YI YI** is a senior

consultant with Deloitte Tax LLP's Global Employer Services Executive Compensation practice. **CHASE BONIN** (right) is a consultant with Deloitte Tax LLP's Global Employer Services Executive Compensation practice.

Deloitte is a NACD sponsor, providing directors with critical and timely information, and perspectives. Deloitte is a financial supporter of the NACD.

As used above, Deloitte refers to a US member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (DTTL). This article contains general information only and Deloitte is not, by means of this article, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This article should not be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte shall not be responsible for any loss sustained by any person who relies on this article. Copyright © 2024 Deloitte Development LLP