



EgonZehnder

CEO succession analysis of European Chemical and Process Industries



Egon Zehnder Chemical and Process Industries team answers frequently asked CEO succession questions on internal versus external hiring, sitting versus step-up CEOs, tenure and diversity



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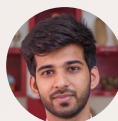
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CEO succession planning is arguably one of the most important responsibilities of any board of directors. It is also one of the most difficult ones. In our work with hundreds of CEO successions in the Chemical and Process Industries (CPI), we frequently came across the below questions:

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- 1 Should we hire externally or promote internally?
 - 2 Why hire a step-up executive instead of a sitting CEO?
 - 3 Can't you find us a young CEO?
 - 4 Can you find us candidates with diverse perspectives but who are also native speakers and a cultural fit?
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While the obvious answer to these questions is “it depends,” we wanted to address them through data and through our first-hand observations in working with European CPI companies on their CEO successions. We analyzed over 150 companies with at least €1bn in revenue over a 10-year period (Dec. 2011 – Dec. 2021) to find out how CEO succession is evolving in the European Chemical and Process Industries.

FAQ #1



Should we hire externally or promote internally?

External CEO appointments are on the rise. While half or more of CEO appointments were internal promotions over the last decade, external appointments rose from 34 percent in 2011 to 45 percent in 2021.

CEOs in 2011



External	34%
Internal	56%
Internal - Others	10%

CEOs in 2016



External	39%
Internal	53%
Internal - Others	8%

CEOs in 2021



External	45%
Internal	48%
Internal - Others	7%

Source: Egon Zehnder proprietary analysis of CEOs of 152 currently active European CPI companies with revenues above €1 Bn. "Internal-Others" include step-downs from board members, PE advisors, or family members.

External vs Internal appointments in less than €5bn and more than €5bn European CPI companies

In companies with revenues less than €5bn, external hires rose from 35 percent to 52 percent in the same period. At larger (€5bn+) companies, external CEO appointments have always been relatively low (about 35 percent over the analyzed time range).

Less than €5bn

CEOs in 2011		CEOs in 2016		CEOs in 2021	
External	35%	External	41%	External	52%
Internal	54%	Internal	47%	Internal	38%
Internal – Others	11%	Internal – Others	12%	Internal – Others	10%

More than €5bn

CEOs in 2011		CEOs in 2016		CEOs in 2021	
External	34%	External	34%	External	32%
Internal	64%	Internal	64%	Internal	66%
Internal – Others	2%	Internal – Others	2%	Internal – Others	2%

Source: Egon Zehnder proprietary analysis of CEOs of 152 currently active European CPI companies with revenue above €1bn. "Internal-Others" include step-downs from board members, PE advisors, or family members.

Possible reasons for internal versus external hiring

One reason for the higher number of **internal appointments** in larger companies is that they have a larger workforce, providing a diverse pool of executives to choose from, whom they developed over time.

When it comes to the increase in **external hires** in companies smaller than €5bn, we identified two elements driving this choice:

- Greater need to adjust strategies based on changing market dynamics, requiring companies to seek CEOs with different profiles than their internal talent pool.
- Better access to a global pool of executives than in the past.



FAQ #2

Why hire a step-up executive instead of a sitting CEO?

We found that 68 percent of today's CEOs were step-up executives with no prior CEO experience. At the time of their appointments, 47 percent of the CEOs were internal promotions and 21 percent were external. While a large portion of CEOs are step-up executives, we do see that the appointment of sitting CEOs is rising, from 15 percent in 2011 to 25 percent in 2021.

CEOs in 2011



External Sitting CEO	14%
Internal Sitting CEO	1%
External Step-up	20%
Internal Step-up	55%
Internal - Others	10%

75%
Step-up

15%
Sitting CEOs

CEOs in 2016



External Sitting CEO	20%
Internal Sitting CEO	1%
External Step-up	18%
Internal Step-up	53%
Internal - Others	8%

71%
Step-up

21%
Sitting CEOs

CEOs in 2021



External Sitting CEO	24%
Internal Sitting CEO	1%
External Step-up	21%
Internal Step-up	47%
Internal - Others	7%

68%
Step-up

25%
Sitting CEOs

Source: Egon Zehnder proprietary analysis of CEOs of 152 currently active European CPI companies with revenue above €1 Bn. "Internal-Others" include step-downs from board members, PE advisors, or family members. This number has been about 7-10% in the last decade (2011-2021).

Some of the reasons that companies seek an experienced, sitting CEO are:

1

Leadership team and board are newer to their roles and need a CEO that brings more experience.

2

Shareholder structures and their specific needs can have a strong influence when setting preferences for a future CEO profile.

3

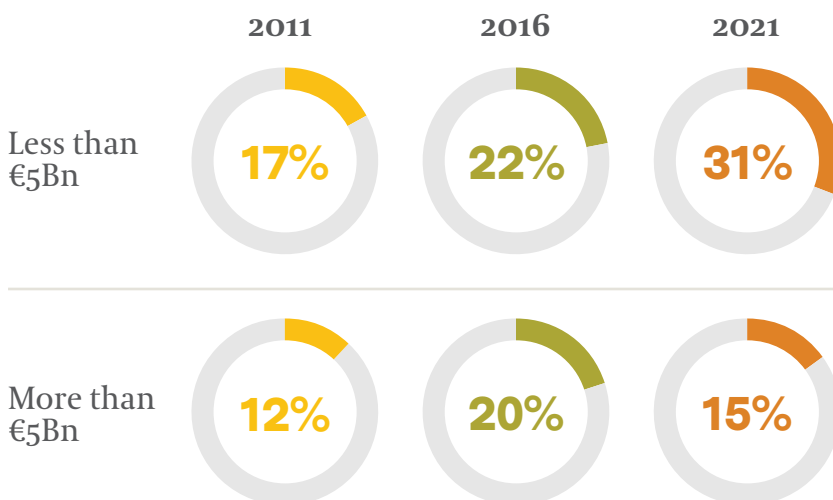
Need for more diverse experience and background in a chief executive, i.e., international experience.

2

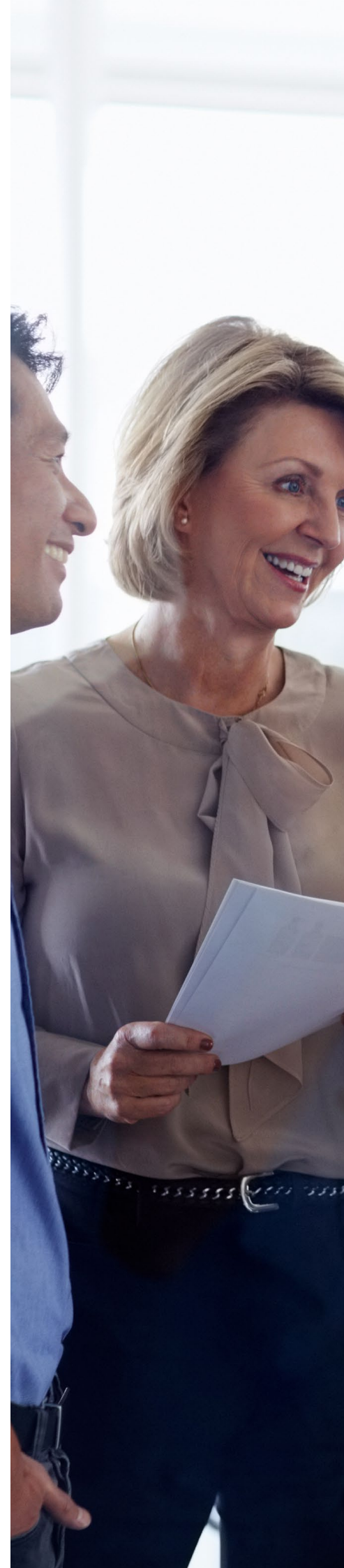
Limited capability and experience within the organization to execute a specific strategy, especially in the case of a transformation (e.g., focus on specialties versus commodities).

This uptick in the appointment of sitting CEOs, as our analysis reveals, is also driven by smaller companies (less than €5bn). In 2011, only 16 percent of these smaller companies appointed sitting CEOs. Today, 31 percent of these smaller companies have appointed sitting CEOs. By comparison, the percentage of sitting CEOs within larger companies fluctuated between 12 percent and 20 percent from 2011 to 2021 (15 percent in 2021).

Number of External Sitting CEOs hired by revenue range



Source: Egon Zehnder proprietary analysis of CEOs of 152 currently active European CPI companies with revenue above €1bn.





While all these reasons are valid, often the **key factor in a CEO appointment is the availability of the desired CEO profile at the time of transition**, regardless of whether that successor is sitting CEO or step-up executive, internal or external, etc.

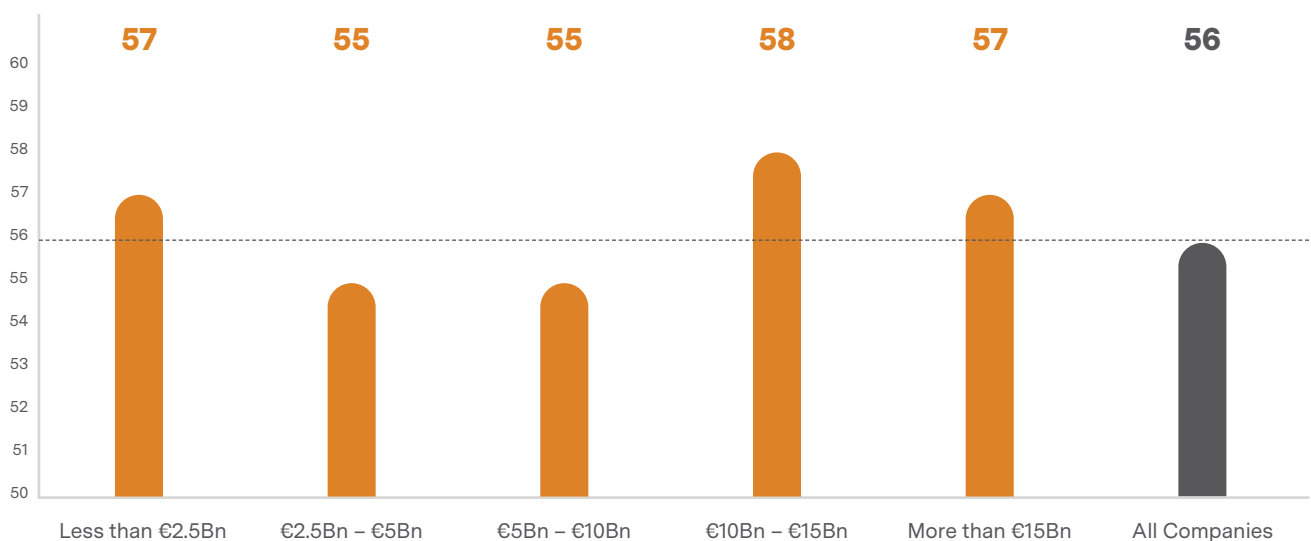
FAQ #3



Can you find us a CEO with 10+ years of “runway”?

Companies tend to want CEOs with longer runway. Interestingly, the average starting age of all the active CEOs in Dec. 2021 was 50. This includes the step-up and sitting CEOs. This resonates with the fact that the majority of CEO hires were step-ups.

Average age of CEOs by company size in December 2021



Source: Egon Zehnder proprietary analysis of CEOs of 152 currently active European CPI companies with revenue above €1Bn.

However, the average age of active CEOs as of Dec. 2021 was 56 years, which means when seeking a Europe-based CEO with longer runway (e.g., with an age of about 50 years), companies will likely end up with a step-up appointment.

On the contrary to wanting a young CEO, when it comes to finalizing the CEO profile, experience of the executive aligning with the strategies and vision of the organization outruns runway.

While the average age of a CEO is going up, tenure is going down. Our analysis showed that the average tenure of CEOs dropped by 50 percent, to about 6 years compared to 12 years in 2011.

While age is one factor in deciding to hire a CEO, it is not a limiting criterion.

CEO TENURE IS SHORTENING

Average Tenure by Revenue Range: All Companies

	CEOs in 2011	CEOs in 2016	CEOs in 2021
Less than €2.5Bn	11	9	5
€2.5Bn – €5Bn	14	12	7
€5Bn – €10Bn	12	10	6
€10Bn – €15Bn	12	9	7
Above €15Bn	11	9	5
Total average tenure in European CPI Companies	12	10	6

Shortening CEO tenure is a trend across all industries. [Another study](#) by Egon Zehnder on 214 large, publicly traded companies worldwide found that about half of them had appointed three or more CEOs between 2011 to 2020. In addition, CEO departures are becoming more frequent: Almost every year since 2011 has set a record. One reason behind the frequent transitions is that there have been more mergers and acquisitions and spin-offs, leading to the creation of new companies and the disappearance of historic conglomerates, such as Hoechst, Ciba-Geigy, Rhône-Poulenc, and others. We expect this trend to continue, given the increasing activities of PE firms in the industry.

FAQ #4



Can you find us a CEO with diverse experience and who is also a good cultural fit?

The hiring of international CEOs is on the rise, with about one-third of current CEOs in Europe working in countries outside of their own.

CEOs in 2011



CEOs in 2016



CEOs in 2016



Countries with more acceptance to expats

CPI companies headquartered in countries such as Switzerland, Belgium, and the Netherlands have significantly higher appointments of expat CEOs than the European average. Further, these countries witnessed a significant increase in the expat appointments since 2011. In 2021, more than 50 percent of the CEOs appointed in these countries were expats.

Belgium



14% 63% 63%

Netherlands



20% 30% 57%

Switzerland



56% 74% 71%

CEOs in 2011 CEOs in 2016 CEOs in 2021

Countries with less acceptance to expats

By comparison, Germany, France, and the UK (which comprise 40 percent of our surveyed companies) are predominantly led by their own nationals.

France



7% 6% 7%

Germany



7% 10% 16%

UK



23% 29% 23%

CEOs in 2011 CEOs in 2016 CEOs in 2021

Some of the reasons for more and less acceptances of expats in these six markets are:

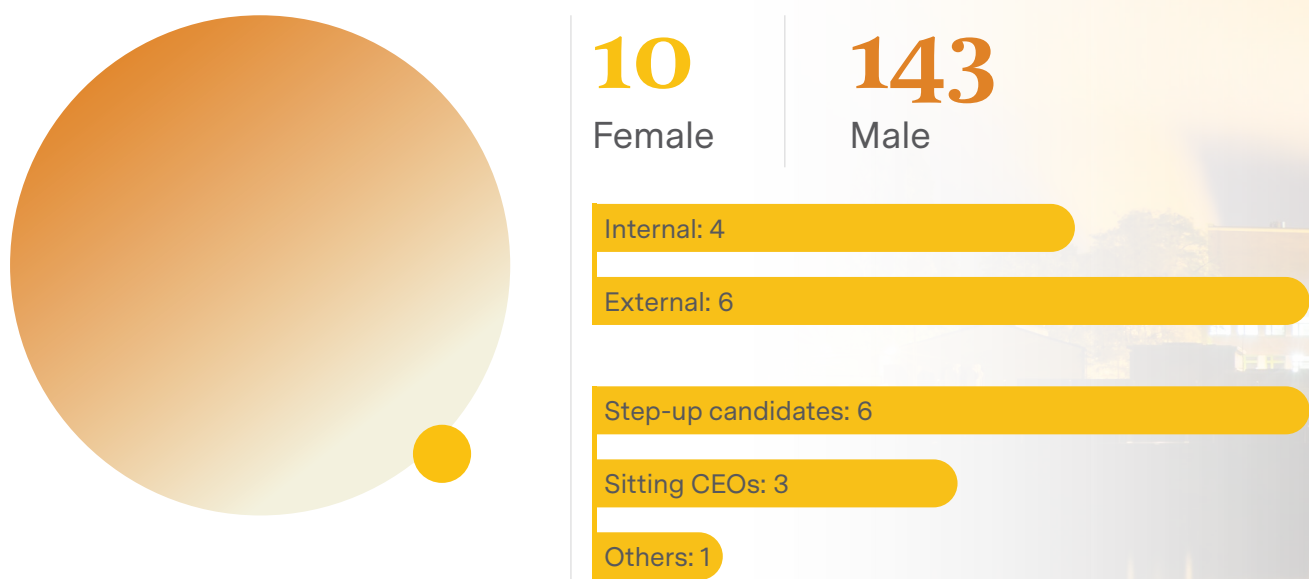
Companies headquartered in **larger countries in Europe (France, Germany and UK)** tend to have cultures that are strongly influenced by their home markets, making it feel risky to bring in non-nationals into the top role. In addition, talent pools tend to be bigger in larger countries creating less of a need to look abroad for the next CEO.

Companies headquartered in **smaller countries (Switzerland, Netherlands and Belgium)** need to compete in other countries and are already utilizing international talent pools early on in their evolution. Because of this, the company language is often English and the barriers to appoint a non-national CEO are much lower.

Gender Diversity

When it comes to gender diversity, European CPI companies are still predominantly led by men, with only 10 women in CEO roles in our analysis of 152 companies. Of these 10 female CEOs, six were hired externally. Lower female representation in the top role is not exclusive to CPI companies, but a reality across industries. Recently there has been a trend in the appointment of female CEOs in the future as diversity continues to advance.

Female CEOs are still underrepresented



Source: Egon Zehnder proprietary analysis of CEOs of 152 currently active European CPI companies with revenue above €1bn. "Others" include step-downs from board members, PE advisors, or family members.



Conclusion

There are no universally correct answers to each of these questions, and boards must be thoughtful about not only the type of chief executive they need in the short-term but the skills and perspectives they need in a leader in the future. The best succession plans are the ones that are ongoing and extend several years into the future, with development plans for internal candidates and a strong eye on the type of external talent that might need to be brought in as the business evolves.





About Our Chemical and Process Industries (CPI) Team

Egon Zehnder is the only major, global executive recruitment and leadership advisory firm with a dedicated Chemical and Process Industries (CPI) team. With more than 50 consultants and 20 researchers globally, we have handled hundreds of CEO succession and related advisory engagements. We work with companies ranging from niche, fine chemical companies to global segment leaders, from multinational to PE-backed to family-owned companies. We help our clients in all aspects of leadership work, identifying, assessing, and attracting CEOs, developing succession executives, assessing boards of directors and team and individual development.



Have questions? We'd love to talk more.



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About Egon Zehnder

Egon Zehnder is the world's preeminent leadership advisory firm, inspiring leaders to navigate complex questions with human answers. We help organizations get to the heart of their leadership challenges and offer honest feedback and insights to help leaders realize their true being and purpose.

We are built on a foundation that supports partnership in the truest sense of the word and aligns our interests with the interests of our clients. Our 550 consultants across 63 offices and 36 countries are former industry and functional leaders who collaborate seamlessly across geographies, industries and functions to deliver the full power of the Firm to every client, every time.

We partner closely with public and private corporations, family-owned enterprises, and non-profit and government agencies to provide a comprehensive range of integrated services, including executive search, leadership solutions, CEO search and succession, board advisory and diversity, equity & inclusion. Our leadership solutions cover individual, team and organizational effectiveness, development and cultural transformation. We work with world-class partners including Mobius Executive Leadership, a transformational leadership development firm. In addition, we have partnered with Paradox Strategies, co-founded by Harvard University Professor Linda Hill, to develop the Innovation Quotient (IQ), a proprietary culture diagnostic.

We believe that together we can transform people, organizations and the world through leadership.

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