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UK Boards don't trust their internal CEO succession planning

Is UK plc building up a critical skills deficit?

Key questions considered

1. Why are so many FTSE100 CEOs externally appointed?

2. Is UK plc producing and promoting talent with the skills & experience required for future needs? Or will UK plc become a net buyer of talent at executive levels?

3. In a competitive talent market can UK plc become more attractive?

4. Are wider stakeholders, including investors, regulators, recruitment and search agents, helping or hindering progress?

Key findings

1. **Over 50% of FTSE100 CEOs are externally appointed versus ca. 20% in the US**. This suggests that UK boards don't trust their internal CEO succession plans.

2. In the US, poor CEO succession planning is estimated to erode shareholder value by US$0.5 trillion each year. **We estimate that the equivalent amount in the UK is ca. £60-100 billion.**

3. Are all these external appointments necessary? Failing performance or company restructuring may require a CEO with a different skillset, however our findings are that out of the 100 FTSE100 CEOs, 90 came from three pathways (CEO/Divisional CEO, CFO or COO), and **of the externally appointed FTSE100 CEOs, 88% come from the same three routes.**

4. Go back one step and 80% of the CEOs have been in the same three roles, i.e. these CEOs have been 10 to 15 years in similar pathways, with only two current CEOs having changed sectors. **This means that departing CEOs are being replaced with CEOs with almost identical skillsets.**

5. **Of the externally appointed CEOs, only 6% are women** (three out of 51). Therefore these external appointments aren't bringing in noticeable diversity in skills or gender.

6. While the internal route is currently more favourable for women (seven out of 49), women are still less likely to be promoted, even if their skillset is similar to that of the men. Women represent 23% of Exco on these three pathways, **yet over June 2023 to June 2024 only two out of 17 (12%) CEO appointments were women.**

7. Diversity of gender at Exco, our research has found, is a good proxy for diversity of skills. **Focussing on technological skills or exposure to new technologies, UK Exco is found wanting compared to the US.** It is therefore likely that UK plc will become a buyer of these skills.

8. The UK produces great early-stage technology talent but so far this talent hasn't transferred to UK plc at senior levels. In the future this may become an issue. UK plc however does have the potential to retain and attract women with these skills, if it invests in these pathways.

9. **Wider stakeholders, including investors, regulators, and recruitment and search agents, may inadvertently be creating a drag on progress.** We have observed many situations where companies have chosen **lookalike candidates** to accelerate approval processes. This may explain in part why women aren't coming through as fast as they could.

10. **To be effective, talent planning has to be intentional** - not left to chance. After some improvement in previous years, progress in the UK is stalling. A few great companies can't change the tide**. Our conclusion is that UK plc may be building a critical skills and experience deficit which will be expensive to fix**.

In this research report, we analyse FTSE100 executive skills and experience using our Pathways to CEO methodology. We consider the CEO or equivalent (Senior Partner, Director General etc.) as level one (CEO); the level reporting into the CEO as executive committee (Exco) and as level two; Exco minus one (Exco-1) as level three; and Exco minus two (Exco-2) as level four.

In addition to the data analysis, we are informed by discussions with our **Lead Ambassadors**, our **General Ambassadors** and our network.

We currently speak to the leadership teams at 460 organisations, including most of the FTSE100, private companies, partnerships and public sector organisations. In addition, the network also includes senior experts at recruitment and search agencies, the judiciary, the media, and academia which totals over 1,400 leaders and experts as at 30th September 2024 (the "Network").

Many of our members are FTSE100 companies, the data included in this research however is based on our analysis of publicly available sources only.

25x25 is developing data tools which help companies assess these metrics with greater scrutiny, measure progress against more effective benchmarks and support companies on Succession & Talent Planning processes.

In 2025, we will be publishing our analysis of FTSE100 CEO Pathways versus international markets.

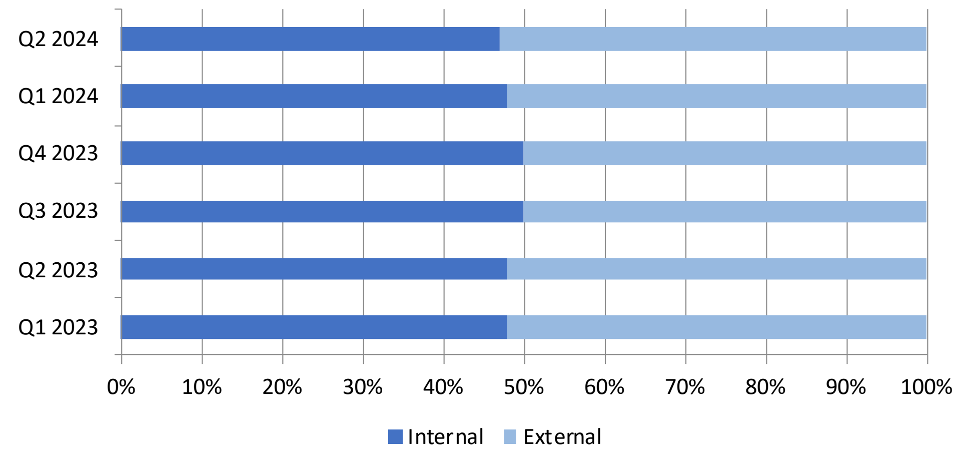
Table of contents

Section 1: External CEO appointments

Why are so many FTSE100 CEOs externally appointed?

Most of FTSE100 Chairs consider internal promotion as the preferred route for CEO succession[1], yet **51% of FTSE100 CEOs appointments are externally appointed compared to ca. 20% in the US[2]**.

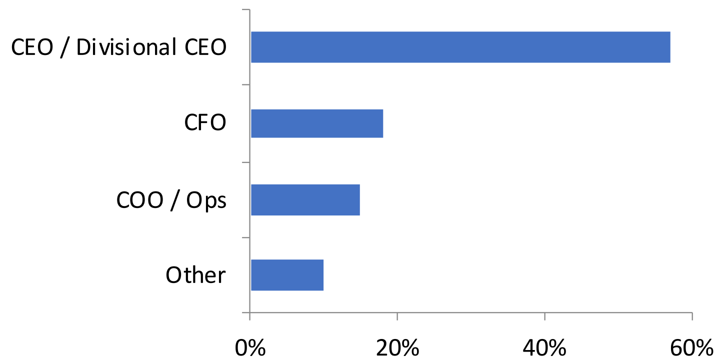
Chart 1: FTSE100 CEOs internal vs external appointments (%)



Note: 25x25 considers as external appointment if promoted to CEO within three years of joining the company.
Source: 25x25 Analysis based on publicly available data, as at 30th June 2024.

Failing performance or company restructuring may require a CEO with a different skillset, however our findings are that out of the 100 FTSE100 CEOs, 90 came from three routes, a CEO or Divisional CEO, Chief Financial Officer (CFO) or Chief Operating Officer (COO.)

Chart 2: FTSE100 CEO Pathways, based on prior role (%)

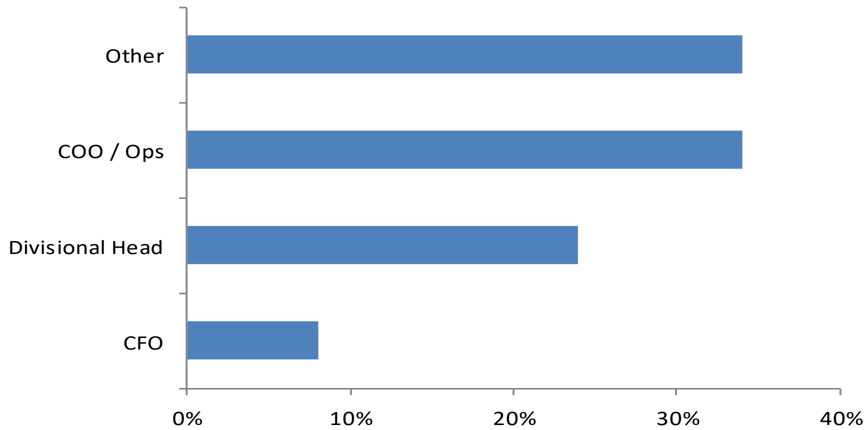


Notes: 25x25 considers prior role as the role up to three years before CEO appointment.
Other includes NED (5%), Commercial (2%), Founder (2%) and Strategy & Digital (1%).
Source: 25x25 analysis based on publicly available data, as at 30th June 2024.

[1] Based on 25x25 surveys with its Network undertaken over 2021 to 2024.
[2] Heidrick & Struggles

As company structures are built around business, operational and financial lines, perhaps this ascendancy isn't surprising. The US however presents a broader base of pathways, as shown by Fortune 100 CEOs.

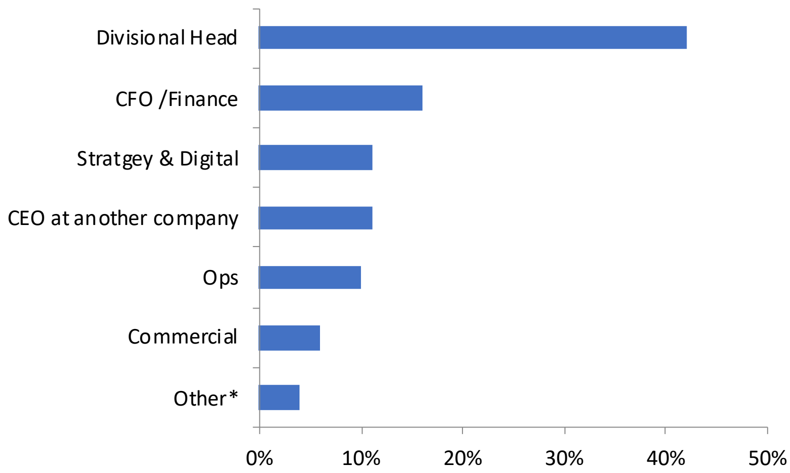
Chart 3: Fortune 100 CEO Pathways, based on prior role (%)



Source: Heidrick & Struggles CEO and Board Practice Report 2023.

And if we go back one step, to the role prior to the prior role to CEO, **80% of the current FTSE100 CEOs were on the same three routes**. This means that for 10-15 years, the great majority have developed their skills and experience in narrow silos.

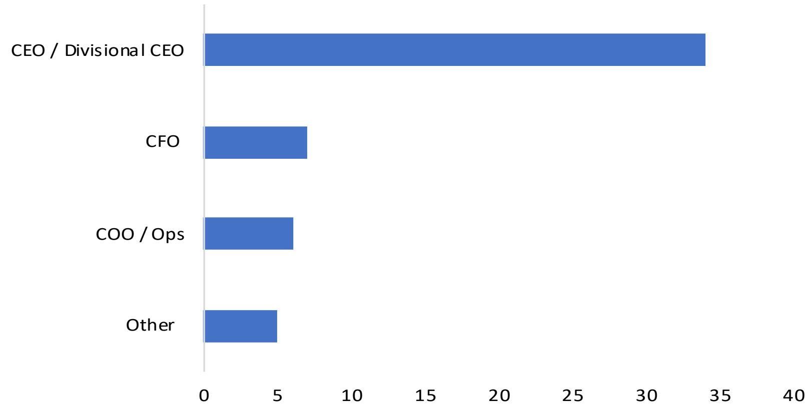
Chart 4: FTSE100 Pathways to CEO, based on role prior to prior role (%)



Notes: Other include Founder (2%) and NED (1% - Stella David at Entain).
Source: 25x25 Analysis based on publicly available data, as at 30th June 2024.

Delving a bit deeper, we see that 88% of the external appointments are coming through the same three narrow pathways, and mainly from similar sectors (only two out of the 51 CEOs changed sectors). **This suggests that the external route is not being used to broaden skills & experience.**

Chart 5: FTSE100 externally appointed CEOs, based on prior role (%)



Note: Other includes NED (3%) and Commercial (2%).
Source: 25x25 Analysis based on publicly available data, as at 30th June 2024.

Also, as only 6% of the external appointments were women (three out of 51), this route isn't helping to diversify either skillset or gender.

Is this a problem?

In the US, poor CEO succession planning is estimated to erode shareholder value by US$0.5 trillion each year[3]. Using the same methodology we estimate a potential erosion of £60-140bn in the UK.

Table 1: Impact of poor CEO succession planning on shareholder value

Indicator	US [1] ($bn)	UK [2] (£bn)
Index	S&P1500	FTSE All-Share
Market capitalisation	36,429	3,750
HBR shareholder value loss calculation		
Cost of external hire [3]	**0.5%**	***0.5%***
Value	182	19
Loss of intellectual capital at source [4]	**0.70%**	***0.70%***
Value	255	26
Insufficient preparation of candidates [5]	**0.30%**	***0.30%***
Value	109	11
Total	**546.43**	**56.25**
% External CEO appointments [6]	20%	51%
Adjusted [7]	**546.43**	**143.44**

[1] HBR estimates[4]
[2] 25x25 estimates
[3] Rakesh Khurana and Nitin Nohria of Harvard Business School
[4] Hanno Lustig (UCLA), Chad Syverson (University of Chicago), Stijn Niewerburgh of New York University
[5] Olubunmi Faleye of Northeastern University
[6] 25x25 Analysis based on publicly available data
[7] Adjusted to reflect the fact that external CEO appointments are ca. 2.5x higher in the FTSE than in the S&P

[3] Harvard Business Review May-June 2021
[4] Ibid

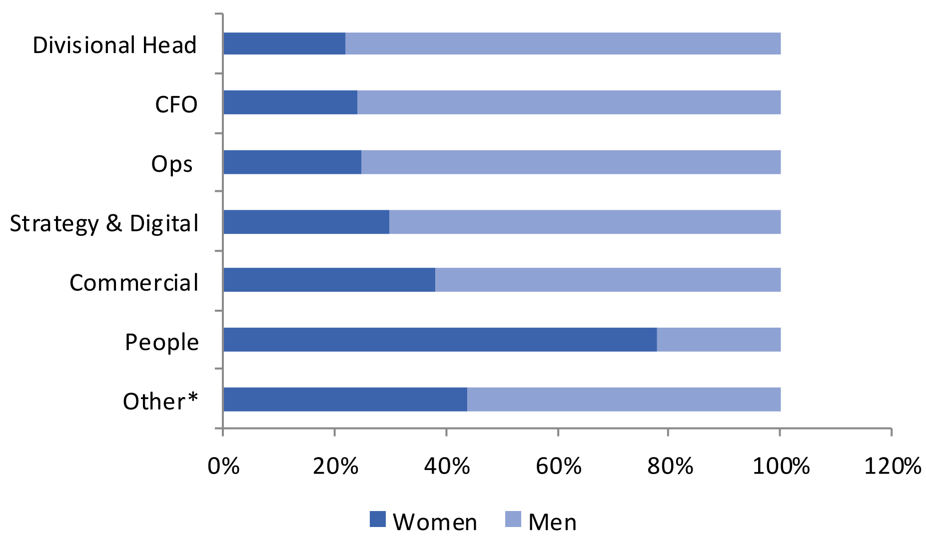
In addition to the erosion of shareholder value, we believe there is a structural skills deficit that is building-up which may be expensive to remedy.

Boards and recruitment and search agents speak of the need for a breadth of skills and experience, but currently the data shows that this isn't being achieved. In-depth studies are undertaken to identify and test for potential, aptitude, vision and other leadership attributes - and we believe this **analysis is very necessary for successful and effective talent planning**. But given the narrowness of the routes into CEO, it appears that the weighting of these additional attributes or criteria may be low in the final selection process.

In our research, we show there is a strong correlation between gender and skillset promotion to Exco[5]**,** and therefore we use gender as an indicator.

Currently, **10% of the FTSE100 CEOs are women**[6] and on Exco women represent on average 23% of people on the three, currently, most probable routes to CEO.

Chart 6: FTSE100 Exco roles by gender (%)



*Other includes Communications & Corporate Affairs, Regulatory & Compliance, and Legal.
Note: Companies reporting Exco data: Q1 23 (85), Q2 23 (85), Q3 23 (88), Q4 23 (87), Q1 24 (89), and Q2 24 (88).
Source: 25x25 analysis of publicly available data, as at 30th June 2024.

From our conversations with our Network, which includes the great majority of the decision-makers for the FTSE100 appointment processes, we don't believe the lack of promotion of women to CEO roles is due to any specific bias against women *per se*.

In recent years, we have in fact seen an increase of women coming into these three CEO pathways. In 2021, the average number of women in these pathways was 15%-17%[7] compared to 22%-25%

[5] For a more in depth analysis of this correlation see our first Research Report published in December 2023.
[6] We exclude Darktrace CEO Jill Popelka given the acquisition by Thoma Bravo completed in October 2024.
[7] 25x25 started its data analysis in 2021, but only started publishing its results in March 2023.

currently. Given that the average tenure of a FTSE100 CEO is ca. 5.3 years[8], there are only so many openings for new CEOs. **The problem is however that of the new CEO appointments made from June 2023 to June 2024, only 12% were women (two out of 17).**

This suggests that there may be other forces at play which place more scrutiny on women's CVs, regardless of their skills and experience, and account in part for this low conversion rate. We discuss this issue further in section 4.

Ultimately we are concerned that the narrowness of pathways may place UK plc at a future competitive disadvantage, and that these appointment outcomes are at odds with our members' objectives, as these view the need to diversify thought leadership as very necessary.

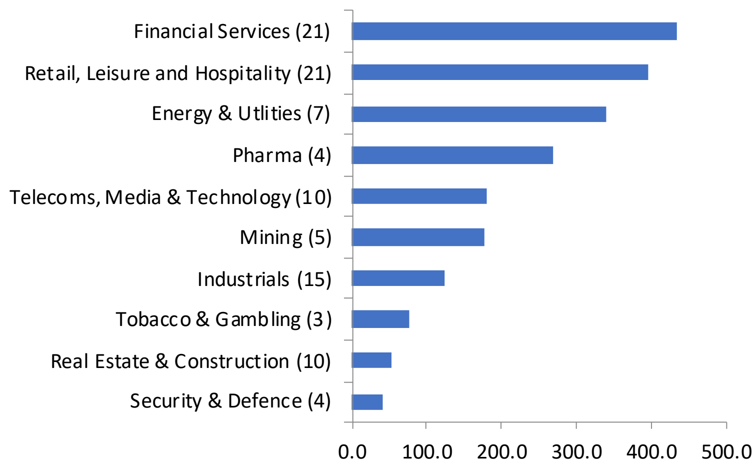
[8] UK Board Index, Spencer Stuart

Section 2: FTSE100 Skills & Experience

Is UK plc producing talent with the required skills and experience for the future, or will it become a net talent buyer?

In order to assess future needs and skills, we analyse the FTSE100 by sector. Here we have grouped the FTSE100 into ten clusters based on transferable skills and experience.

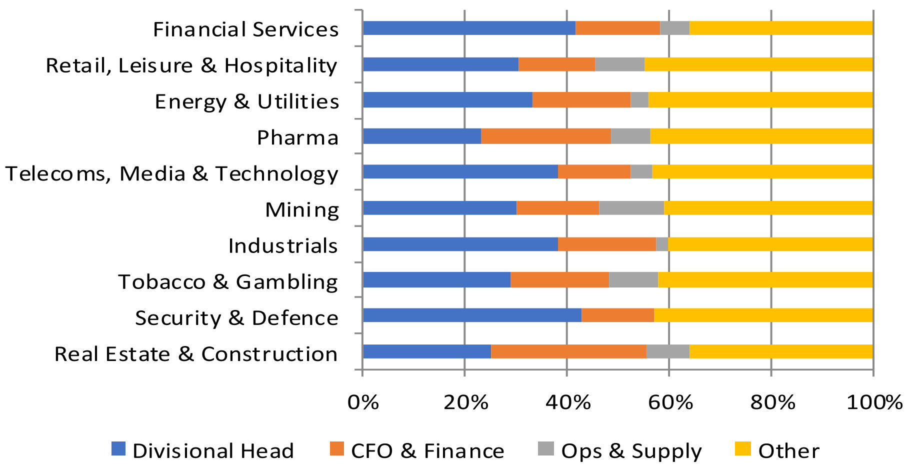
Chart 7: FTSE100 market capitalisation by 25x25 cluster (£bn) (number of companies by cluster)



Source: 25x25 analysis of publicly available data, as at 30th June 2024.

Although each sector has some variation across the three main routes, together, each cluster shows a similar split of **ca. 60% in the three narrow pathway roles and ca. 40% in alternative routes**.

Chart 8: FTSE100 Exco role by 25x25 cluster (%)



Other includes: Strategy & Digital, Commercial, People, Comms & Reg, Other Finance, Legal & Company Secretary
Source: 25x25 analysis of publicly available data, as at 30th June 2024.

There appears to be some correlation between those sectors with the largest market capitalisation and a) the number of women CEOs and b) the highest percentage of women on Exco on the most probable pathways to CEO.

This could suggest that robust Succession & Talent Planning leading to better diversity, whether of gender or skills, leads to a better financial performance, and we will explore this aspect in more detail in our forthcoming research.

Chart 9: FTSE100 women on most probable CEO pathways*

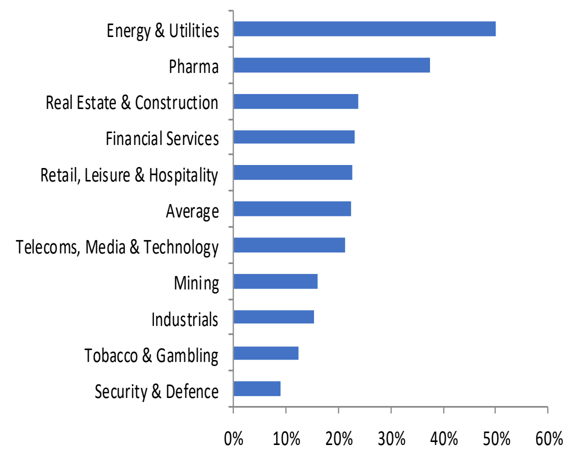
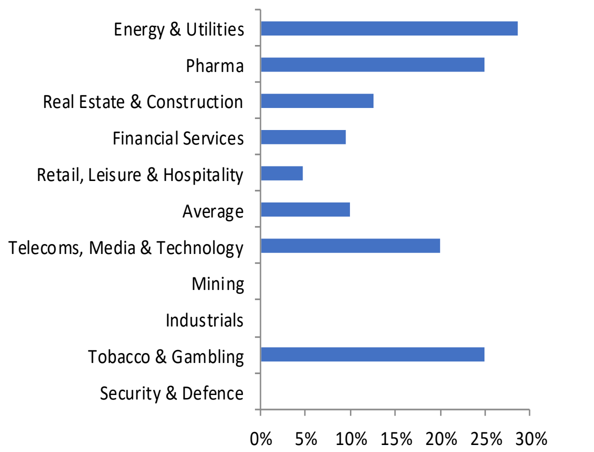


Chart 10: FTSE100 women CEOs by cluster (%)



*Based on current pathways and includes Divisional Heads, CFO and COO.
Source: 25x25 analysis of publicly available data, as at 30th June 2024.

If we correlate gender to skills, this suggests that FTSE100 might also be struggling to promote diversity of skills and experience.

Zooming in on technological skills or exposure to new technologies, we consider that the UK is extremely underweight compared to the US.

In the US, technology stocks account for 35% of the S&P 500[9] while the UK currently has two stocks considered as technology stocks by the London Stock Exchange Group: Experian and Sage[10].

In the US, women represent 27% of people on Exco on the three most probable routes to CEO (11 out of 41). At Experian, there are two women out of the seven people on these routes, i.e. 29%. At Sage, only one person on Exco would be included in the 25x25 analysis count, and that is the CFO, who is a man.

The large US tech companies are still growing at very high rates (estimated revenue growth is at 9.8% for 2024[11]), and are therefore still attracting and developing a great wealth of new leaders at senior levels. While some of this Talent may leave their current companies, generally it tends to not leave the US market.

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[9] Including Apple (7%), Microsoft (6.7%), Nvidia (6.3%) Alphabet (3.8%), Amazon (3.4%) and Meta (2.5%).
[10] We exclude Darktrace given the acquisition by Thoma Bravo completed in October 2024.
[11] NASDAQ 2nd August 2024.

Does the FTSE100 need this type of technological skills and experience?

Drawing on the assessment of some of the key business leaders today:

"*We have to prepare ourselves for a more digitised and more climate-orientated future. This means we also need to redefine the role businesses play in society, and what it means to be resilient.*"[12]
Paul Thwaite, CEO NatWest Group

"There have been waves of technology disruption historically. We are on the cusp of another one with AI. AI will impact every facet of our business."[13]
Ken Murphy, CEO Tesco

"Each year seems to bring more challenges for company boards – a more demanding operating environment in the context of geopolitical shifts, technology advancements and of course, the ongoing complexity of the energy transition."[14]
Helge Lund, Chair bp and Chair Novo Nordisk

"I think there is a real opportunity for next gen technologies to improve the biggest challenge of the [pharmaceutical] sector, which is the productivity of R&D." [15]
Emma Walmsley, CEO GSK

"For businesses, we announced Global Fabric, which will enable organisations to seamlessly and securely connect to multiple clouds and seize the advantages of digital automation and artificial intelligence (AI), and we've also launched new customer solutions via collaborations with companies such as Google, SAP and Microsoft," [16]
Allison Kirkby, CEO BT Group

"Vodafone will invest $1.5 billion over the next 10 years in cloud and customer-focused AI services developed in conjunction with Microsoft." [17]
Margherita Della Valle, CEO Vodafone

It appears that for many FTSE100 companies, new technologies are central to their strategies.

Our concern is that while many of our members and thought leaders have invested significantly in improving talent pipelines, there is a large majority of UK plc companies who haven't made the same investment. A few companies can't change the tide or create the necessary critical mass.

12 NatWest Business Insights 2024
13 FT Live, September 2024
14 2023 Annual Report
15 Fortune June 2023
16 2024 Annual Report
17 Vodafone Press release January 2024.

We recognise that not all leaders need to possess these technological skills. However, greater exposure and experience of working with new technologies is likely to provide a greater competitive edge.

We also know that role models matter hugely in terms of attracting and recruiting new Talent, and we know that the most talented candidates will be attracted to companies that they perceive will develop their skills.

If companies can't provide these types of skills in-house, the cost of acquisition for these specific leadership skills will only become higher. This expense will only be compounded if the necessary Talent needs to be attracted from higher-paying markets.

Does UK plc have sufficient role models to attract new Talent with the skillset required for future needs? And if it doesn't, could UK plc make itself more attractive? We discuss this question in the next section.

Section 3: Can the UK become a more attractive talent market?

In a competitive talent market how attractive is UK plc?

The UK has thriving AI, Quantum, Cybersecurity, Biotechnology and Computer-Vision communities, and these new technologies are considered to be highly critical or strategic for future needs. Therefore in terms of developing Talent with necessary skills for the future, we could consider the UK as well placed.

The issue that the UK has had, to date, is on scaling-up. While the UK provides a fabulous environment for early stage innovation and as such attracts scientists and innovators globally, Post-Series B companies and founders tend to look for funding outside the UK. This means that this Talent is often developed either outside the UK or by non-UK companies.

In addition, the London Stock Exchange (LSE) often struggles to retain or attract these types of issuers. ARM, one of the largest UK founded tech IPOs, chose to list in the US and we have seen other recent situations where the LSE has lost out to other US and European listing markets.

The UK might not be able to compete against the US in terms of funding (whether Venture, Private Equity or Capital Markets), but we understand that not all Talent is motivated by funding and/or remuneration packages alone.

As we have seen with the younger generations, a strong sense of purpose, a healthy work-life balance and a comfortable working environment is important, and we believe that these factors will become increasingly important in career decision-making.

Also, while women only received 1.8% of the VC funding in 2021, 5% of the public unicorns (6 out of 124) were led by a woman CEO and 15% were founded by a woman (19 out of 124)[18], **which suggests that despite difficult environments, women survive**.

There are already some partial success stories including Darktrace, one of the three FTSE100 tech companies in the FTSE100 this year, and PureTech Health, one of the three FTSE250 tech companies. Both founded by women.

Darktrace is one of the very few start-ups that have made it all the way through to a FTSE100 company, even if ultimately, like so many UK start-ups, it has been bought out by US capital.

Poppy Gustafsson left on announcement of the Thoma Bravo takeover but has joined the UK Government as Investment Minister which is a very positive sign.

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[18] Women in business

Case Study 1: Darktrace, a FTSE100 company
- Darktrace, a cybersecurity company, was founded in Cambridge in 2013 by Poppy Gustafsson among others. Poppy became the CEO in 2016 and Darktrace listed in 2021. - In July 2024, Darktrace moved up into the FTSE100 becoming one of three FTSE100 technology stocks and Poppy became the 11th woman CEO, briefly. - In September 2024, as a result of the Thoma Bravo takeover bid, Poppy stepped down and Jill Popelka, a US National, was appointed CEO. - Jill joined Darktrace as an NED in January 2024 and became COO in July 2024. - Previously, Jill had been at SAP, where for 12 years she ran SAPSuccessFactors, one of the leading HR platforms in the world. - Thoma Bravo's acquisition of Darktrace was completed in October 2024.

PureTech Health was launched by an American entrepreneur in London, which again opted to list on the LSE. However once again, once the funding came in for Seaport Therapeutics, Daphne joined as CEO and has returned to the US.

In this situation, we didn't retain the Talent but for many years Daphne has been a UK based role model for many Biotech founders.

Case Study 2: PureTech Health, a FTSE250 company
- PureTech Health, a biotechnology company, was founded in the UK by Daphne Zohar, an American entrepreneur, in 2005. - In 2015, PureTech Health listed on the London Stock Exchange. - In 2023, Daphne was nominated as one of the most influential people in Biopharma. - In April 2024, Daphne stepped down from PureTech Health to become the CEO of Seaport Therapeutics, partially owned by PureTech Health, after it closed its US£100million Series A round.

So how does this help?

Just as the UK has focused its innovation capability on specific spheres of influence (such as AI, Quantum, Biotech, Cyber and Computer-Vision), UK plc could also consider being strategic about its Talent, and talented executive and senior women with business exposure to new technologies might be a good bet. **As mentioned, to attract new talent role models matter and having some strong examples in leadership is a good starting point.**

At CEO levels, representation is similar across the UK and the US, with 10% women CEOs in the FTSE100 and 10% in the Fortune 500 (52 women CEOs)[19]. At Exco levels however, the FTSE100 has better representation, with women representing 22% of Divisional Heads, 24% of CFOs and 25% of

[19] Fortune, 1st June 2024.

Ops/COOs versus the Fortune 100, where women represent ca. 21% of Divisional heads, 18% of CFOs and 11% of COOs[20].

There has been much successful litigation by women in the US including:

- In 2022, **Google** settled £118mn for a pay-equity suit[21].
- In 2023, **Amazon** was accused of systematic gender discrimination in pay[22].
- In 2024, **Apple** was caught in a lawsuit based on its hiring practices and performance evaluations, which the women alleged pushed a wage gap between men and women[23].
- In July 2024, The EU antitrust chief Margrethe Vestager hit back at **Meta**'s newly introduced pay or consent advertising model[24].
- In July 2024, the Civil Rights Department of California reached a $14.4 Million Settlement with **Microsoft** over alleged Parental and Disability Leave Discrimination[25].

This suggests that despite the recent improvements at Exco level at US tech companies, these cultures are still complicated and that achieving the ultimate CEO position may not happen for a while.

We believe this could produce a potential recruitment advantage for UK plc. However, as mentioned previously, talent planning must be intentional. UK plc would need to demonstrate that it is fully engaged in breaking down glass ceilings.

If UK plc could make itself more attractive to executive women with this desirable skillset, we believe it would attract others, of any gender, with interesting and required skillsets, but who perhaps have alternative CVs and work experiences. This would provide UK plc with a greater competitive edge and enhance productivity in the UK generally we believe.

However, for this to happen UK plc must become more attractive faster than other markets.

Unfortunately, currently progress seems to have stalled. PWC suggests that "year-on-year data shows an overall slow pace of change, suggesting it will take over 45 years to close the gender pay gap in the UK"[26].

For UK plc to keep or create a competitive edge on talent & skills it will have to take immediate and focussed action, we believe.

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[20] Heidrick & Struggles
[21] Bloomberg, 11th June 2022.
[22] Seattle Times, 21st November 2023.
[23] CNN, 13th June 2024.
[24] Reuters, 1st July 2024.
[25] Civil Rights Dept. State of California
[26] PWC, June 2024.

Section 4: The impact of wider stakeholders

Are wider stakeholders, such as investors, regulators and recruitment agents, helping or hindering?

As shown in this report, CEO progression in the FTSE100 is narrow, siloed and non-diverse, whether we consider skillsets, experience or gender.

For the FTSE100 CEOs:
- 90% come through three routes (CEO/Divisional CEO; CFO or COO), and prior to that 80% were on the same three narrow routes;
- 90% are men;
- 51% are externally recruited, and 88% of those externally recruited came through the same three routes;
- Women represent 23% of Exco members on these three routes, but only 12% of the new CEOs appointments over the last year were women (two out of 17); and
- Only 6% of those externally recruited are women (three out of 51).

Therefore, FTSE100 averages shouldn't be considered as an adequate benchmark for identifying progress or best practice, and this is one of the reasons why our members have pooled resources for 25x25 to develop proprietary data tools using the member companies' data, in order to provide better benchmarks.

Yet, even with member companies who are fully engaged and committed to improving Succession & Talent Planning and executive gender-balance we have seen recent CEO appointments following these same narrow pathways.

Why we ask, having researched this question for four years and with over 460 companies, are these **lookalike or like-for-like appointments** so prevalent?

Here, we consider the possible impact of wider stakeholders, such as investors, regulators, and recruitment and search agencies, on the CEO selection processes.

Regulators

We believe that one of the constraints affecting regulated companies is the pressure they are under to appoint **lookalike candidates, as this is a safe way to reassure regulators and investors**. This pressure becomes particularly visible when the incumbent CEO departs unexpectedly or suddenly.

The result of this wider stakeholder pressure may explain why there are so many cases where the immediate or "run-over-by-a-bus" successor plan is populated by people who fit the accepted traditional lookalike characteristics. This approach to CEO succession planning in itself sets a precedent.

As we are told, this approach doesn't preclude candidates with a less typical set of skills and experience from being considered for the CEO role. But as the data confirms, in an emergency situation the more "alternative" candidates for the CEO role are unlikely to be selected.

As a result, and this is confirmed by conversations with our network, the comparisons between the various candidates then become about those who are "traditional" aka "safe" versus those who are deemed "alternative" aka "riskier". And generally women have different CVs to men.

Another external factor may be the macro-economic environment. Again, during tougher times, there may be a greater chance that traditional candidates are chosen. Until ultimately the traditional pipeline dries up and an external candidate (which may well be riskier) gets selected.

"I think boards in the UK are becoming more and more risk averse. And some of that's being driven by some of the governance rules that we've got. And therefore, if you're looking for somebody and if you think you've got a financial crisis coming, maybe the easiest person to appoint is your Chief Financial Officer. But what you've got to look at, and I think what the best boards do, is they look at the qualities of the individual. They look at their abilities."

Chris O'Shea, CEO Centrica

While some regulators are taking a very-proactive stance on CEO Succession & Talent Planning already, generally we believe regulators would benefit from taking a closer and more data-driven approach on how companies are using benchmarks in their decision-making processes. As discussed in this report, using index averages such as the FTSE100 as a benchmark is unlikely to drive any significant improvement.

"I look at the Bank of England and I would say they've been at the forefront. This started under Mark Carney [encouraging] balance on the boards and continues under Andrew Bailey, from the very top level of the MPC (Monetary Policy Committee) down through their deputy governors. Succession planning is a big conversation they'll have with every financial institution at the moment. So I do think they do well on it. Some of this is done through regulation and reporting, and trying to hold up the standards very well internally."

Katie Murray, CFO NatWest

There is much legislation in place and the volume of data that is collected by many regulators is quite high, placing a significant burden on the smaller companies. The issue is how to make the data actionable. This is a key problem that our proprietary 25x25 framework and data tools address.

25x25 would be happy to work more closely with regulators to determine the key metrics that can drive progress; and to assess how companies are benchmarking their progress.

Investors

Despite the seismic changes in investment companies over the last twenty years, the leadership teams and the routes for progression into the leading roles haven't changed much. For most of the investment companies we have analysed, talent planning is still very much based on siloed pathways.

On gender, we have found the investment companies to be among the worst performers.

Women represent ca. 12.5% of the total number of the global portfolio managers, but only 5.0% of the global assets under management are run by women-led teams, and only 0.6% are run by women-only teams compared to 36.9% run by men-only teams. **In the UK, 5% of funds are run by women-only teams versus 81% run by men-only teams**.[27]

In Private Equity (PE), women account for ca. 15% of investment roles at Managing Director level with men almost three times more likely to be promoted to principal level[28]. **In the UK, only 11% of investment roles at this level are held by women**[29].

Yet these investors have a considerable influence on CEO appointments.

> *"[Investors] are definitely very interested in succession planning. We've gone through two big events, a change of a CEO and of the chairman, and our investors have been very involved in those processes, and they've asked questions. So I do think the interest in succession planning in its widest sense, is definitely there. If I was marking [the investment community] end of term report card on gender balance, I think I would probably put them in "could do better". As a CFO, I spend a huge amount of time with fund managers and with investors, and it really is a population that is still predominantly male. I go to a number of different investment houses, and there won't be a single woman in the room. And often, if there is, she'll be the ESG specialist."*
>
> **Katie Murray, CFO NatWest**

The problem is that if an organisation hasn't asked itself questions about why its Succession & Talent Planning is failing to promote diversity of skills & experience, it is unlikely to be able to assess if others are doing so correctly or not.

Recruitment and search agents

The extent of external CEO appointment in the UK means that recruitment and search agencies have a much greater role in candidate selection than they do in the US market, given that FTSE100 companies appoint over 50% of their CEOs externally compared to ca. 20% in the US.

25x25 works with over 60 recruitment and search agencies and has some great ambassadors in this community, and we understand that many are keen to help companies diversify their leadership teams.

[27] Alpha Report 2024, Citywire
[28] McKinsey
[29] Level20, 2023 Report

In their searches however, recruitment and search agencies are bound, to a certain extent, to the job specifications provided by the companies' Chairs or Nominations committees. And in the absence of any active pressure from investors to diversify leadership skills and experience, many companies don't broaden their job specs, which start with: *"To be a CEO you have to have been a CEO".*

It is important to note that however professional these recruitment firms are, and however much they wish to encourage more diversity, their business model, for the most part, is based on placing the highest paid candidate in the shortest space of time. **This revenue model will for the most part favour by default lookalike candidates**.

Section 5: Conclusion

It is critical that talent planning in the UK becomes more intentional.

From our conversations over the last four years with our members and wider network (460 organisations), most leadership teams consider Succession & Talent Planning very seriously. Our concern is that the overall gap between stated ambitions and outcomes is very wide.

Most leadership teams, including the Chairs and other board members, consider that:

- Their preferred route for CEO succession is internal – yet this isn't happening in the majority of cases;
- Breadth of experience produces better leaders – yet this isn't happening in over 80% of cases;
- Silo promotion doesn't create the best leaders – and yet this is happening in over 80% of cases; and
- Gender diversity is of importance – yet there are only 9 women CEOs[30] in the FTSE100, and while women represent 23% of people in the most probable current routes to CEO, women are still less likely to be promoted to CEO (from June 2023 to June 2024 only two out of seventeen new CEO appointments were women).

So what is causing this mismatch between stated intent and actual results? Is it a lack of systematic intent or are wider forces at play?

On balance, our analysis so far is that the wider community of investors, regulators and recruitment and search agencies is not exerting any real pressure on companies to be more systematic about their talent planning.

Additionally, this wider community may not have sufficient exposure to people coming through the internal process. An investor, say, may have had a much greater interaction with a CEO at another company than with the potential internal candidates, and the same can be said for a recruitment and search agency. An incoming Chair who hasn't had much exposure with a company faced with the issue of a sudden CEO appointment may well have to rely on external sources to support the CEO succession planning.

Our analysis also helps us understand better why it is taking so long for women CEOs to come through.

Yet the US is much more effective about its internal succession planning, with only ca. 20% of its Fortune 100 CEOs being appointed externally. We also understand that certain US companies are tracking the impact of external appointments and the preparation of internal candidates more precisely.

[30] As at November 2024

The US also has been more effective at scaling technology stocks and therefore developing senior leaders from technology or with exposure to new technologies.

Given the current resistance to people with different skillsets and experience in the FTSE100, UK plc could be building up **a deficit in skills and experience which may become very expensive to fix – especially if this requires hiring Talent at executive levels.**

Certain organisations are determined to improve, and these are the founding members of 25x25. These companies have pooled resources and learnings which 25x25 has converted into a framework and data analytics tools, some of which have been made freely available to all users.

25x25 encourages Chairs and board members, CEOs and CPOs to be much more intentional and data-driven about their Succession & Talent Planning and can help any organisation, private or public, but the process is elective.

Only those organisations that want to improve will, and like many systemic risks, the full extent of the cost will only materialise when urgent remedial action is required.

This is why 25x25 strongly recommends a proactive, forward-looking approach to talent planning, and can help in the following ways:

- **Membership** – please contact us for details.
- **Consultation** – for companies or organisations not yet ready for membership, a consultation is a useful start, and please contact us for details.
- **Free self-assessment tools developed with our members** - available on our website.
- **Specific research** – please contact us for details.

For more information, see our website and for news follow us on LinkedIn.