

Russell Reynolds ASSOCIATES

The Right CEO for the Next Phase: Rethinking Private Capital Portfolio Company Succession

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Most CEOs in place at acquisition won't lead the company to exit. Planning for that from day one is a value lever in its own right.

A single CEO change adds almost nothing to the investment hold period: 5.8 years to exit vs. 5.5 years when the CEO is retained. A second change takes it to 8.5 years.[1] Funds invest significant energy to ensure the best leadership is in place. Succession planning doesn't get the same attention, even though our research suggests that many portfolio company CEOs will be replaced before exit. Despite longer hold periods and increasing pressure to deliver against the value-creation plan, succession planning remains a reactive event, rather than a sustained discipline.

There are many ways to prepare for leadership change. To help private capital firms do it well, Russell Reynolds Associates examined the patterns that recur across leadership transitions and transactions in private equity and infrastructure: what tends to go wrong, what the strongest firms have in common and where value is most often lost.

Methodology

Our analysis draws on Russell Reynolds Associates' proprietary engagement data from more than 250 CEO and C-suite appointments at portfolio companies backed by private equity and infrastructure investors in EMEA, supplemented by 15 market interviews and our recent study of CEO succession across 196 European private equity exits from 2020 to 2025.[1] All findings are anonymized and, where quantitative, reported in aggregate.

The internal succession gap

In listed markets, boards are increasingly choosing internal candidates over proven CEOs, because they know those candidates have been well prepared, developed and set up for success.[2]

However, the reverse holds in private equity, where internal succession is rare. Between 60% and 70% of PE-backed companies change CEOs during ownership,[3] and in a study of large U.S. buyouts, more than 75% of incoming CEOs were external hires, and most were outsiders with no prior tie to the business.[4]

These outcomes reflect a lack of preparation. Asked how many of their portfolio companies have a documented CEO succession plan, one talent partner we interviewed estimated it was fewer than 25%. Where plans exist, they rarely look far ahead. Our 2025 Global Board Culture and Director Behaviors Survey found that only 8% of directors at organizations with a formal CEO succession plan said it extended five years or more ahead.[5] One senior infrastructure investor could recall only a single successful internal CEO transition across their portfolio.

Board processes typically cover interim leadership in the event of a sudden departure, but they rarely produce a permanent successor. Retention is a structural problem: An executive with genuine CEO potential rarely waits out a hold period as a deputy. Without a defined path to the top job or a meaningful share of the equity upside, they leave to run something else, and the internal succession option disappears with them.

Investors may assume an external hire solves the problem, but the external pool is narrower than it looks. The CEO briefs we see stack four reasonable requirements: someone who's run this kind of business before, at this scale and complexity, under sponsor ownership, and through the phase the business is entering. Each requirement narrows the field, and together they leave a short list. Mapping the market early, before a search is forced, keeps both the internal and external routes open.

Assess for the phase ahead

Beyond current performance, a test for any CEO is whether they can lead the next phase of the investment. Transitions are often triggered late, by a missed refinancing, a stalled integration or an approaching exit. The real failure comes earlier: the assumption that the leader who delivered in the previous phase is equipped to deliver the next.

A phase-fit assessment asks two questions in parallel:

- Is the CEO delivering against the current plan?
- Is the CEO the right leader for the phase the business is entering?

Replacement is the most expensive way to resolve a gap in phase fit, and in most cases the answer is to build around the CEO: a stronger CFO or COO, a chair who's run the next phase before, targeted coaching, or a deliberate widening of the team's capability ahead of the next phase. Where a change is needed, timing matters: Companies that appointed a new CEO in their first year of ownership exited after 4.4 years on average, vs. 7.7 years when the appointment came after year two.[1] The point of asking early about phase fit is to keep the cheaper interventions available while there's time to use them.

The same analysis sets out four stages at which the CEO decision is made or deferred (Figure 1):

01 Due diligence to signing.

The team is assessed before it's inherited. Define what the CEO role will demand under the new plan, form a view on the incumbent and benchmark the succession options in the market. Is this the right CEO to underwrite, and what would it cost to change?

02 Close and first 100 days.

The inherited team is tested against the new plan rather than the one it was running. Confirm fit across the top team, set the CEO's mandate explicitly, and either commit support or start a search. Can this CEO deliver against the investment thesis?

03 Value creation.

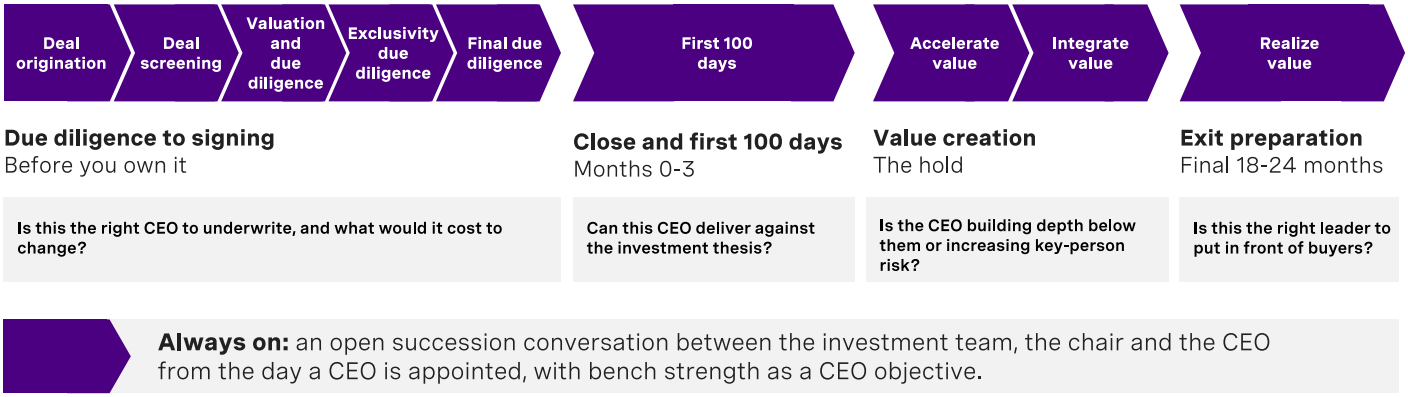
The plan is delivered and functions professionalized. This is also where a change in plan, market or performance can demand a different CEO profile. Review at milestones rather than continuously, and keep succession readiness live. Is the CEO building depth below them or increasing key-person risk?

04 Exit preparation (final 18-24 months).

The team itself is now part of what's being sold. Pressure-test the CEO for the sale process, agree terms for the CEO and key leaders to stay through the sale, and keep emergency cover in place. Is this the right leader to put in front of buyers?

Figure 1: Continuous succession planning across the deal lifecycle

The CEO question comes up at four points. The succession conversation runs throughout.



Source: Russell Reynolds Associates proprietary analysis, 2026

Exit puts leadership in the spotlight

The sharpest of these transitions is exit. In the run-up to a sale, the question for investors and boards is straightforward, yet seldom pressure-tested: Does the leadership team have the depth, credibility and cohesion the next owner will need to see?

The moment a business enters the exit window, leadership itself becomes part of what's being assessed. By then, the weaknesses are visible and largely unfixable. There's no time to develop a CFO who's not ready or to replace a CEO without resetting the timetable. The result is a discount, a delay, or both.

The firms we spoke with typically begin formal exit preparation 18 to 24 months before the target sale date. That earlier window is where leadership decisions can still be made without disruption: completing critical hires, starting long-lead development and giving the CEO a clear mandate to reshape the team while there's still time to do so. The sellers who stand out replace generic claims with evidence.

Investors increasingly plan the exit from the day they buy, and test that plan rather than assume it.

On Bain & Company's Dry Powder podcast, Advent International's John Maldonado describes the shift: Selling an asset used to be a given, he says, because you did your job over five years, hired a bank and the company moved off the shelf. Exits now require what he calls a new muscle. Advent asks any deal team that presents a list of likely buyers to validate it: "Go talk to those tier one buyers today and understand why they are not at the starting line for this opportunity now."[6]

The same discipline applies to the management team.

What the buyer can't see

A sale process rarely offers a clear view of a leadership team's capabilities. Financial, operational and commercial diligence tell a buyer a great deal about the business but little about the team dynamics, decision-making and cultural influence that determine whether value holds after the deal. Sale processes reward polish: Every management team presents as top-tier, presentations are rehearsed, and access is compressed. As a result, most buyers reserve judgment on the team until they've seen it at work in the first three to six months of ownership.

That's an expensive way to find out. Forensic referencing during pre-deal diligence draws on the people who've worked around the team, such as advisors, former board members and former executives, to give a confidential read on the personalities and capabilities of the top team and how they work together. A first view can land within one to two weeks, when the finding can still change the price or the value-creation plan.

How successful firms handle CEO succession

From our interviews, four practices seem to be prevalent among the firms that handle succession well. None of them are particularly revolutionary.

01 Assess leadership against phase as well as performance.

Establish phase fit at acquisition and revisit it at each transition: the end of integration, mid-hold review, exit preparation. The aim is to keep phase fit front of mind without second-guessing the CEO every quarter.

02 Anchor succession in the investor-chair-CEO relationship, beyond the annual cycle.

A developed relationship among the three is what allows honest discussion of the next phase. Where there's trust, the hard questions get asked in time; where there isn't, surprises come late.

03 Make succession a transparent and continuous conversation.

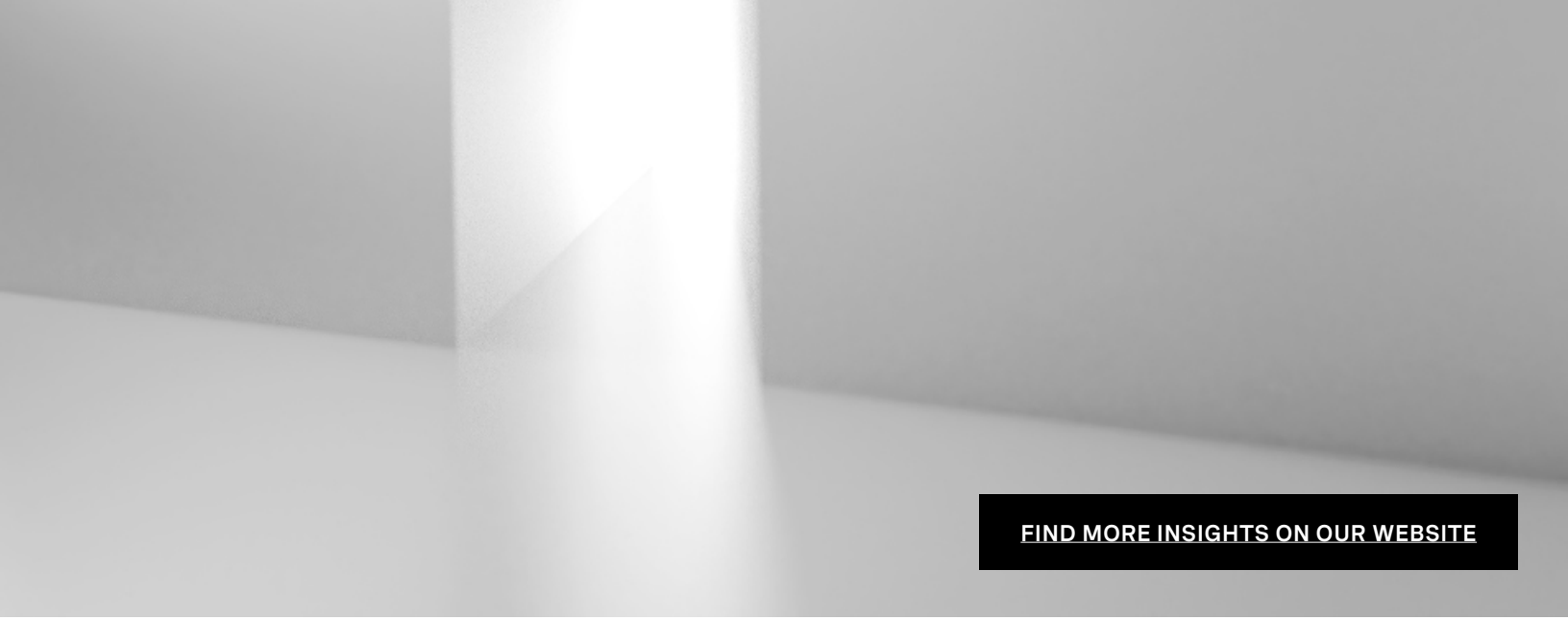
The firms that do this best begin discussing succession from the moment a CEO or key executive is appointed. Succession becomes an ongoing dialogue about the future needs of the business and the development of leadership capability. Radical transparency reduces the stigma around succession planning, creates alignment between investors and management teams, and ensures that leadership transitions are seen as a natural part of value creation rather than a signal of underperformance.

04 Build leadership depth throughout the hold.

Even with an external CEO, you need a talent bench beneath them: someone to step up in the interim and a team that can carry the business through each phase change. That depth comes from deliberate development of the next two layers down, and it remains one of a portfolio's most underused sources of value, both in delivering against the plan and at exit. In infrastructure, those layers also carry the regulatory, capital-project and commercial risk that decides whether the plan holds.

The strongest firms go a step further and treat succession capability as a leadership KPI. CEOs and key executives are measured on the strength of the bench they leave behind as well as the results they deliver. A credible succession plan increases organizational resilience, reduces key-person risk and enhances value at exit. Succession readiness creates value in its own right.

What separates the firms that get this right is the habit of running these practices together. They run parallel assessments: Is the CEO delivering against the plan, and is the CEO matched to the phase ahead? For investors and chairs, the work is to make that second question routine at every phase transition, including when performance is on track. Done consistently, succession stops being a disruption and becomes a value lever.



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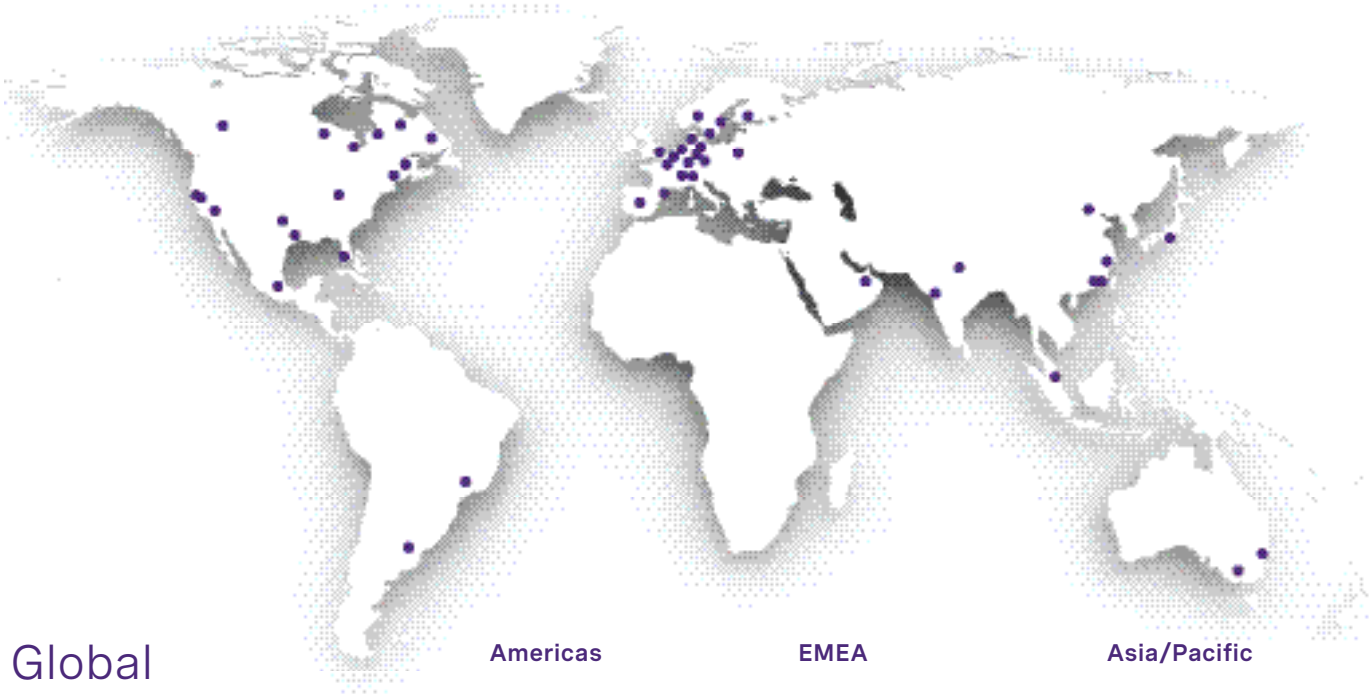
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About Russell Reynolds Associates

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