The CEO Decision: How PE Investors Select and Reassess Leaders from Entry to Exit

For much of the past decade, private equity (PE) performance has benefited from favorable market conditions. Cheap financing, easy multiple expansion and relatively short hold periods meant that even subpar execution could produce attractive returns.[1] These conditions peaked in 2021 and early 2022, when abundant capital, intense competition for assets and supportive financing markets drove deal activity and valuations to record levels. Many sponsors moved quickly to acquire companies at elevated entry multiples and underwrote ambitious growth plans.

Since then, the operating environment has become far more challenging. Higher interest rates, more volatile financing conditions and uncertain exit markets have coincided with geopolitical uncertainty, tariffs and supply chain disruption, and rapid advances in AI. Together, these forces have altered many of the assumptions underpinning investment theses developed at the height of the market.

This more demanding environment has increased the importance of strong, adaptable leadership. As hold periods lengthen and market conditions evolve, sponsors need chief executive officers who can lead through multiple phases of the investment lifecycle, reset priorities, and adjust the value creation plan when the original thesis no longer fits the circumstances.

The right CEO creates measurable impact. Top-quintile portfolio company CEOs generate annual shareholder returns approximately 9 percentage points above industry peers.[2] General partners (GPs) themselves attribute more than half of investment returns to portfolio company leadership, making it their highest-rated lever for value creation.[3] That significance cuts both ways: The right CEO accelerates value creation, while the wrong one can become one of the greatest sources of investment risk.

To understand how sponsors deploy this leadership lever, Russell Reynolds Associates analyzed more than 200 European PE exits completed from 2020 to 2025 by GPs managing funds of more than €5 billion. Across the 196 companies where CEO succession and executive career histories could be mapped reliably, we tracked leadership transitions from acquisition through exit and linked CEO hiring decisions to investment outcomes, focusing specifically on hold period duration.

We supplemented the quantitative findings by interviewing PE investors and operating partners, who provided additional context on CEO selection and succession decisions.

Our findings challenge a common assumption: CEO turnover itself does not appear to be an inherent problem, and a single transition is associated with almost no difference in average hold period. The greater risk arises when a foreseeable change is delayed, repeated or becomes reactive.

How investors choose CEOs

Behind closed doors, investors acknowledge that they often overestimate their ability to assess executive talent. Most investment professionals have never held an operating role, and their exposure to senior executives is often limited to board meetings, management presentations and other controlled settings.

Against this backdrop, our analysis points to five key takeaways.

01 Change is the norm, not the exception

Sixty-nine percent of deals–135 of 196–experienced at least one CEO change during the hold period. One in four of those changed CEO more than once, averaging 2.4 CEO transitions per deal.

CEO transition is therefore not an exceptional event but a defining feature of PE ownership, and often not a one-time intervention. Investor interviews suggest that this pressure may be particularly acute in the upper middle market, where rapid growth and transformation can quickly outpace existing leadership capabilities.

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02 Sponsors recruit externally, but PE experience isn't a prerequisite

External recruitment dominates CEO hiring. Among companies that changed CEOs, only 30% promoted an internal candidate, most commonly a divisional managing director (MD) or chief financial officer (CFO).

The profile of external hires is more balanced than conventional wisdom suggests. They were evenly split between executives with and without prior experience in investor-backed companies (Figure 1), suggesting that sponsors value PE experience but don't consider it a prerequisite.

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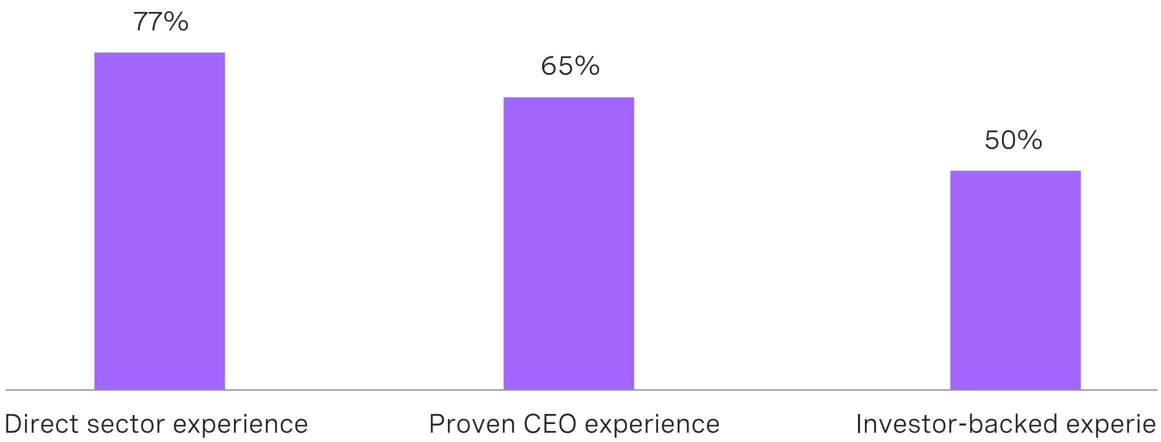
03 Sector and leadership experience matter more than PE pedigree

Sponsors appear to place greater weight on relevant sector expertise and proven leadership experience than on prior exposure to PE. This is particularly true in highly technical or regulated industries, such as healthcare, and when the investment thesis depends on M&A, specialist growth or a strategic pivot.

More than three-quarters of externally appointed CEOs were recruited from the same sector, and nearly two-thirds had previously served as a CEO in said space. Only half brought prior investor-backed experience (Figure 1).

This hiring profile reflects the demands of operational value creation. Leaders who already understand an industry's customers, economics and competitive dynamics are better positioned to translate the investment thesis into action and build momentum from the outset.

Figure 1: Experience profile of externally hired CEOs



Source: RRA analysis of externally hired CEOs within PE-backed businesses that underwent an exit event from 2020 to 2025 (N=94 of 196).

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04 Sponsor DNA shapes CEO hiring preferences

Differences in the frequency and type of CEO succession reflect distinct sponsor approaches to value creation. Across our dataset, two broad leadership philosophies emerge:

"Rebuild the team" sponsors	"Back the incumbent" sponsors
Replace the CEO in approximately 80% to 100% of deals and recruit externally in 57% to 86% of cases.	Replace the CEO in fewer than 40% of deals and rarely appoint an external leader.

Source: RRA analysis of CEOs appointed into PE-backed businesses that underwent an exit event between 2020 to 2025 (N=196 of 196)

Some sponsors treat leadership change as a component of the investment thesis rather than a response to underperformance. Others place greater emphasis on backing the incumbent CEO, strengthening the wider leadership system through experienced CFO, COO or board appointments and intervening at the CEO level only when performance or the investment thesis requires it.

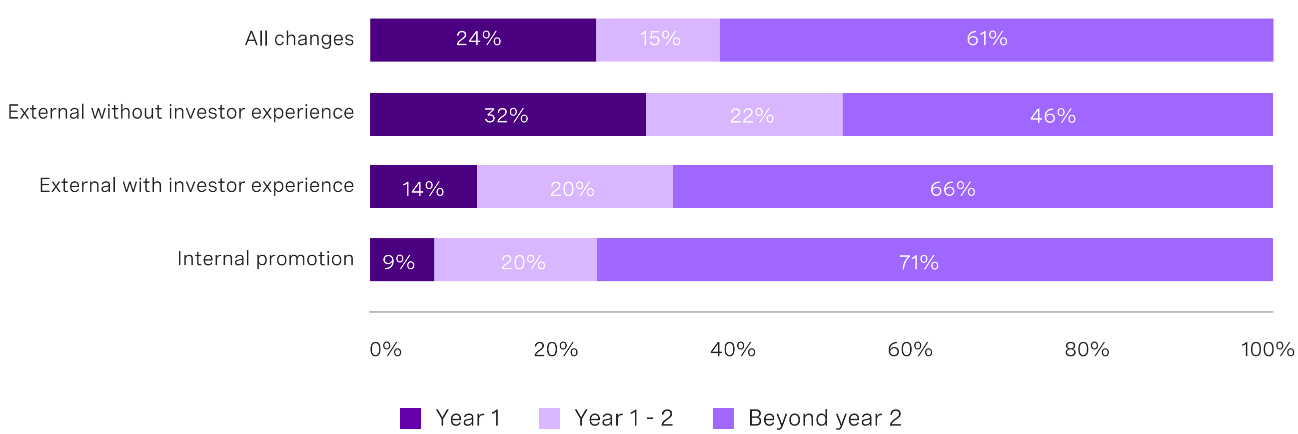
05 The CEO who leads the business to exit is rarely appointed early

Among companies that changed the CEO, over 60% appointed the executive who ultimately led the business to exit after the second year of ownership (Figure 2). Only 24% made that appointment during the first year, while 15% did so between years one and two.

The timing of these appointments differs markedly by CEO profile (Figure 2). External hires without prior investor-backed experience were appointed earliest, with almost one-third (32%) joining during the first year. By contrast, two-thirds of external hires with such experience were appointed after year two.

Internal promotions occurred latest, with nearly three quarters (71%) taking place after the second year of ownership. This reflects that internal promotions are either well-sequenced or not the sponsor's initial preference. More than one-third of internally promoted CEOs (34%) were the second, third or fourth CEO appointed during the investment before ultimately leading the business to exit.

Figure 2: Average timing to hire CEO who led the company to exit



Source: RRA analysis of CEOs appointed into PE-backed businesses that underwent an exit event from 2020 to 2025 (N=135 of 196)

Why year two becomes the decision point

The concentration of CEO appointments after year two is consistent with broader market evidence. AlixPartners found that CEO turnover in PE-backed companies typically peaks around the second year of ownership, after management teams have had 12 to 18 months to execute the value creation plan.[4]

For many investments, the first 12 to 24 months provide the evidence required to assess the investment thesis and the incumbent leadership. Reporting cycles, board interactions and operational milestones reveal whether the CEO can deliver on the value creation plan and lead the business through its next phase. A leader who effectively stabilizes a company may be less suited to accelerating growth, executing acquisitions or preparing for exit.

This mismatch becomes more likely when market conditions alter the original value creation plan. Longer hold periods and greater economic uncertainty require CEOs who can adapt across multiple phases of ownership rather than excel in only one set of circumstances.

The appointment date, however, doesn't necessarily indicate when the decision to change was made. An external search may take three to six months, followed by notice periods and non-compete restrictions of another six to 12 months. A CEO named 18 months into the hold may result from a search initiated shortly after acquisition. The start date marks the conclusion of the succession process, not the beginning of the sponsor's decision-making.

Year two can therefore represent either a natural reassessment point or the visible conclusion of a succession process initiated much earlier. The critical issue isn't whether a CEO starts before or after year two but whether the sponsor identifies the need for change early enough to protect the investment thesis.

The investment risk is lost time, not CEO change

A single CEO transition is rarely a problem

A single change in leadership was associated with almost no difference in average hold period: 5.5 years for companies that retained the acquisition CEO and 5.8 years for those that made one change.

However, the pattern shifted sharply once succession became repeated. Average holds rose to 8.5 years with two CEO changes, 9.2 years with three and 11.0 years with four (Figure 3A).

The apparent cost, therefore, lies not in succession itself, but in repeated leadership resets. Each transition can disrupt strategic continuity, delay execution and require boards and management teams to realign around a new leader.

The relationship between leadership changes and hold periods is associative rather than causal, as repeated changes may also indicate a more difficult underlying investment case. Even so, the data and interviews point in the same direction: one timely and decisive transition can preserve momentum, while repeated resets compound existing execution and market challenges.

Figure 3A: Number of CEO changes and average hold period (years)

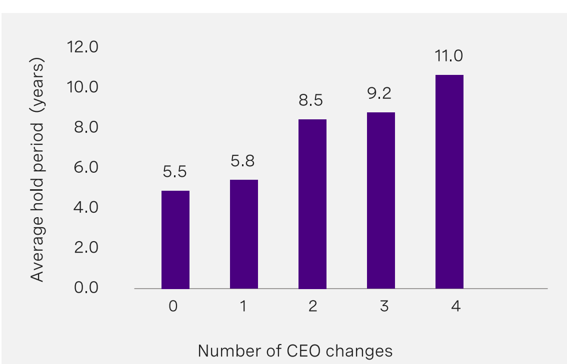


Figure 3B: Timing of CEO changes and average hold period (years)

Source: RRA analysis of CEOs appointed into PE-backed businesses that underwent an exit event between 2020 to 2025 (Figure 3A N=196 of 196, Figure 3B N=135 of 196)

Source: RRA analysis of CEOs appointed into PE-backed businesses that underwent an exit event between 2020 to 2025 (Figure 3A N=196 of 196, Figure 3B N=135 of 196)

Earlier appointments are associated with shorter holds

Companies that appointed a new CEO during the first year exited after 4.4 years on average, compared with 7.7 years when the appointment occurred after year two (Figure 3B).

Despite this similarly strong association, the comparison also requires caution. The sample covers exits completed from 2020 to 2025—an unusually volatile period that may have affected both succession timing and hold duration. The finding should therefore be interpreted as directional rather than causal.

The investor implication is nevertheless clear. The cost may lie less in changing the CEO than in delaying action once a leadership mismatch becomes apparent. Sponsors that act decisively can preserve momentum behind the value creation plan. Those that hesitate risk spending successive reporting cycles trying to recover execution before ultimately making the same change under greater pressure.

These findings are consistent with broader market evidence. AlixPartners reports that 83% of PE investors believe unplanned CEO turnover lengthens hold periods, while nearly half say it also reduces returns.[5] Taken together, the evidence suggests that leadership transitions aren't inherently costly. The greater risk arises when a foreseeable change is delayed, repeated or allowed to become reactive.

CEO archetype alone doesn't predict returns

The available data doesn't indicate a robust relationship between CEO archetype and investment returns. Differences in sector mix, geographic exposure, deal complexity and other investment characteristics make it difficult to isolate the effect of CEO profile from the wider factors influencing performance.

Each archetype included both exceptional exits and value-destroying investments, and no single profile consistently outperformed the others in our sample. Outcomes appear to depend less on archetype alone than on whether the CEO's capabilities match the investment thesis and whether the leadership decision is made at the right time.

Why good sponsors still delay action

The evidence suggests that delay is costly and that the industry recognizes the problem. Every investor and operating partner interviewed emphasized the importance of leadership due diligence and the need to improve the success rate of CEO appointments. Yet the more difficult challenge may be structural. The investment approval process can make leadership concerns harder to surface once a deal has been signed.

By signing, the investment committee (IC) has typically approved a price above competing bids, the deal team has built a relationship with the incumbent CEO, and both have endorsed the asset, the value creation plan and management's ability to deliver it. Raising concerns about the CEO at signing, or soon after completion, can therefore feel like reopening a central assumption of the underwriting. It raises two uncomfortable possibilities: Either the leadership requirement has changed, or from the outset the deal team misjudged the capabilities required.

Replacing a CEO is costly, disruptive and time-consuming. Deal teams may therefore wait for another quarter, budget cycle or set of year-end results before escalating concerns to the same committee they persuaded to approve the investment. What begins as prudent evidence-gathering can become a bias toward delay, allowing a manageable leadership mismatch to develop into a broader value creation problem.

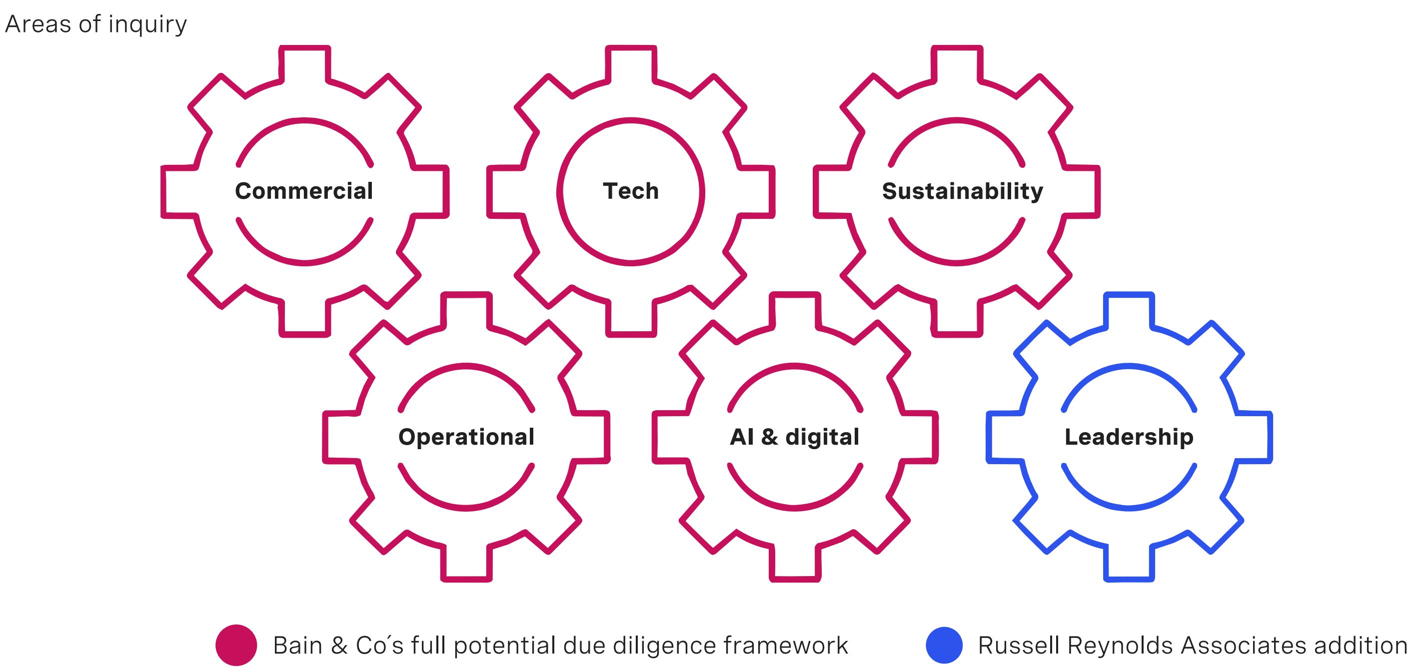
Underwriting the CEO

Leadership should be underwritten with the same rigor as every other component of the investment thesis. CEO selection isn't a year-two portfolio management issue. It's one of the earliest and most consequential investment decisions a sponsor makes.

Diligence has broadened considerably. Bain & Co.'s full potential due diligence framework encourages sponsors to assess an asset's commercial, operational, technology, AI and digital, and sustainability potential before signing (Figure 4).[6] Every one of these workstreams produces a plan, each which is only as executable as the CEO and leadership team responsible for delivering it. Our findings suggest that leadership should be assessed with equal prominence (Figure 4).

Figure 4: Value creation and leadership diligence framework

What is the company's full potential?



Leadership diligence turns on four questions before acquisition:

1. **Thesis fit:** Does the incumbent CEO have the capabilities to execute the value creation plan?
2. **Gap closability:** Where gaps exist, can the incumbent close them quickly enough, or will a successor be required?
3. **Succession optionality:** What credible succession options exist inside and outside the organization?
4. **Requirements evolution:** How might the leadership requirements change across the investment lifecycle?

Answering them in diligence lets sponsors test the leadership assumptions beneath the investment thesis, identify succession options early and act before execution drifts. It turns CEO selection from a reactive portfolio intervention into a term of the underwriting.

Beyond due diligence: The CEO decision playbook across the investment lifecycle

Endorsing the CEO at entry is the starting point of the leadership decision, not the end of it. As the business moves through the first 100 days, growth, transformation and exit preparation, the capabilities required of the CEO may change. Sponsors should reassess leadership fit at every stage of ownership, using predefined review points and decision criteria while keeping internal and external succession options current and benchmarked.

Updating the leadership view as conditions change should be treated as disciplined reassessment, not as evidence that the original investment case was wrong. Figure 5 sets out the questions, interventions and decisions required at each stage of the investment lifecycle.

Figure 5: The CEO decision playbook across the investment lifecycle

	Due diligence to signing	Close and the first 100 days	Value Creation	Exit preparation
Critical questions	Is the incumbent the right CEO for this thesis, and what creidble alternatives exist?	How will the sponsor align, support and hold the CEO accountable from day one?	Are the CEO and the top team still fit for the next phase of value creation?	Is the CEO ready to lead the exit, and are leadership risks understood and mitigated?
Potential interventions	**Define the CEO scorecard.** Translate the value creation plan into required outcomes, experiences and non-negotiables.	**Confirm CEO and top team fit.** Assess the full leadership team against the investment plan, not just the CEO.	**Review at milestones and phase shifts.** Reassess leadership when the plan changes, performance deviates or the business enters a new phase.	**Pressure-test the CEO for exit.** Assess the CEO's ability to sell the equity story and growth trajectory and defend key risks under buyer diligence.
	Assess the incumbent. Use structured assessment, market intelligence and forensic referencing.	**Set the 100-day mandate.** Convert the scorecard into priorities, KPIs, governance, decision rights and board cadence.	**Diagnose the constraint.** Determine whether the limiting factor is the CEO, top team, organization's design, governance or board.	**Rehearse the pro-cess.** Prepare the CEO for management presentations, buyer questions and sustained scrutiny.
	Benchmark succession options. Map credible internal and external candidates, including availability, notice periods, cost and trade-offs.	**If retained, build effectiveness.** Close gaps by deploying coaching, operating partner support, targeted hiring and top-team reinforcement.	**Increase effectiveness.** Use CEO coaching team, development, board effectiveness and resets where appropriate.	**Underwrite succession risk.** Maintain internal options, emergency cover and external benchmarks so key-person exposure is clear.
	Make the IC decision explicit. Record a keep/support/replace view, together with triggers, timing and replacement costs.	**If replacing, select and appoint.** Initiate search against the scorecard, test finalists through referencing, and develop a transition plan.	**Maintain succession readiness.** Develop internal successors and keep an externally benchmarked shortlist current.	**Secure continuity.** Agree on stay-through economics, role clarity and transition terms where buyer confidence depends on the CEO.
Decision Output	The CEO decision is explicit before signing. The keep/support/re-place view, the replacement route and the downside timing are clear.	The leadership plan is in motion. The CEO is in the seat or a search is underway, and the mandate, governance cadence and leadership gaps are agreed upon.	CEO fit remains an active decision. Gaps are diagnosed early, support is targeted, and succession options stay live.	Leadership is diligence-ready. CEO readiness, succession, continuity and transition risks have been addressed before the sale proccess begins.

Five principles for CEO selection and reassessment

This playbook defines when leadership decisions should be made and what each stage should produce. Five additional principles can strengthen the judgment applied within that process and improve the likelihood of selecting the right leader.

01 Hire for the investment thesis, not PE pedigree alone

Prior investor-backed experience can be valuable, but it shouldn't outweigh alignment with the value creation plan, the organization's starting point and the likely phases of ownership.

02 Assess leaders against the full range of situations they may face

Referencing and assessment should test the capabilities required for the specific agenda, whether growth, M&A, restructuring, cost reduction or a strategic pivot. They should also examine whether the CEO can adapt when assumptions change, including through higher financing costs, demand shocks, margin pressure and delayed exits. Generic assessments, familiar CV signals and performance in favorable conditions are insufficient.

03 Bring operating judgment into the room

Pair deal teams with operating partners and former executives who have held comparable roles and observed senior leaders at close range. Their pattern recognition can help assess how candidates build teams, retain talent, make trade-offs and lead under pressure. These qualities are difficult to judge in interviews, board meetings and management presentations alone.

04 Set up first-time CEOs to succeed

Many internal appointments involve executives assuming the CEO role for the first time. Structured onboarding, coaching, active board support and complementary leadership appointments can materially improve their prospects of success and should be agreed upon as part of the hiring decision.

05 Institutionalize leadership reassessment throughout ownership

Build formal review points, decision criteria and succession resources into the investment plan from the outset. When new evidence changes the leadership view, act early and update the plan rather than allowing attachment to the original decision to delay intervention.

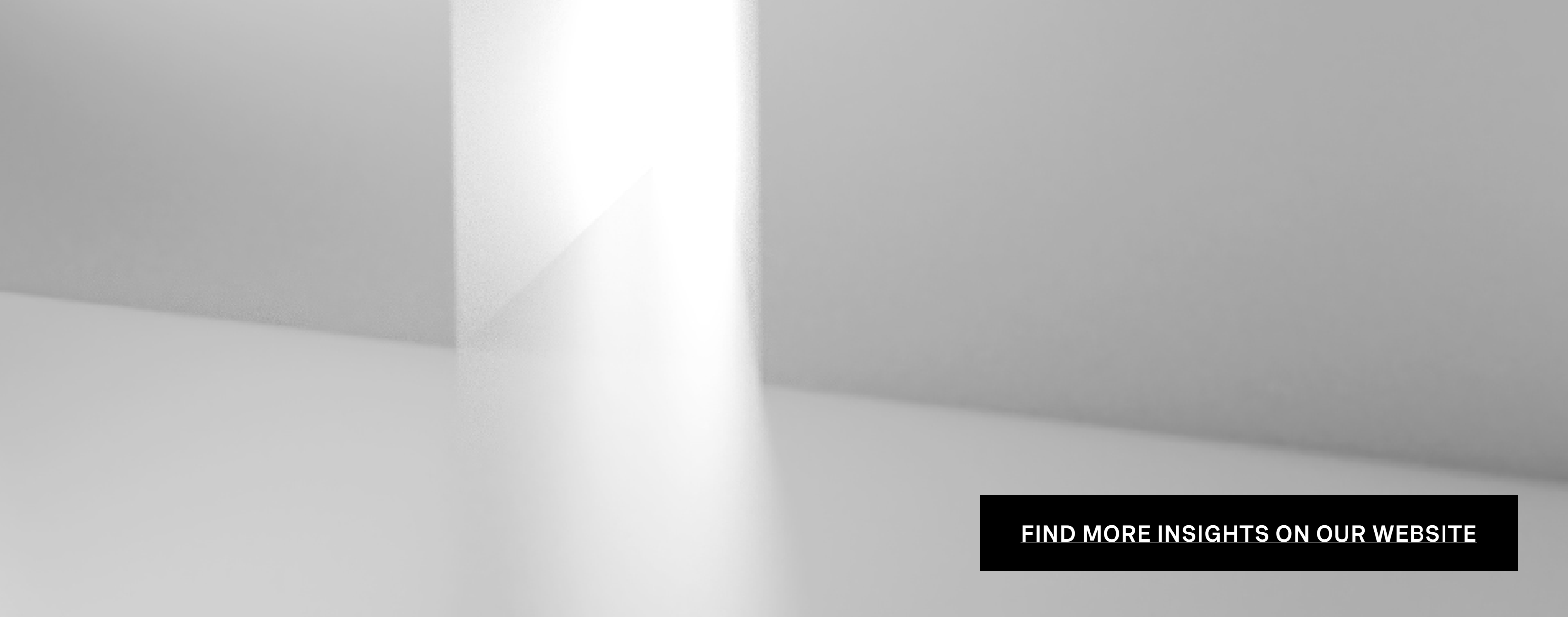
The right CEO turns an investment thesis into a reality

The evidence points to a simple but consequential conclusion. Leadership isn't merely one value creation lever among many. It's the capability that determines whether the investment thesis can be executed successfully.

The strongest sponsors make three leadership decisions well: They appoint CEOs whose capabilities match the investment thesis, they act early when the leadership requirement changes, and they avoid repeated resets that disrupt execution, erode momentum and extend ownership.

This discipline is particularly important today. Many sponsors are still working through investments made near the peak of the 2021 and 2022 cycle under more volatile and less forgiving operating, financing and exit conditions. As returns depend increasingly on operational execution, sponsors need CEOs who can adapt the value creation plan without sacrificing pace or strategic focus.

The question is no longer whether leadership matters. It is whether sponsors can identify and select the right CEO early enough, reassess that choice decisively as circumstances change and provide the support required to deliver the investment thesis across the ownership cycle.



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Footnotes

[1] Bain & Co., Global Private Equity Report 2026, https://www.bain.com/insights/topics/global-private-equity-report/

[2] McKinsey & Co., CEO alpha: A new approach to generating private equity outperformance, 2023, https://www.mckinsey.com/industries/private-capital/our-insights/ceo-alpha-a-new-approach-to-generating-private-equity-outperformance

[3] AlixPartners, Eighth Annual Private Equity (PE) Leadership Survey, 2023, https://features.alixpartners.com/private-equity-leadership-survey-2023/

[4] AlixPartners, 11th Annual Private Equity Leadership Survey, 2026, https://www.alixpartners.com/media/cegnapww/11th-annual-pe-leadership-survey.pdf

[5] AlixPartners, Eighth Annual Private Equity (PE) Leadership Survey, 2023, https://features.alixpartners.com/private-equity-leadership-survey-2023/

[6] Bain & Co., Global Private Equity Report 2026, https://www.bain.com/insights/topics/global-private-equity-report/

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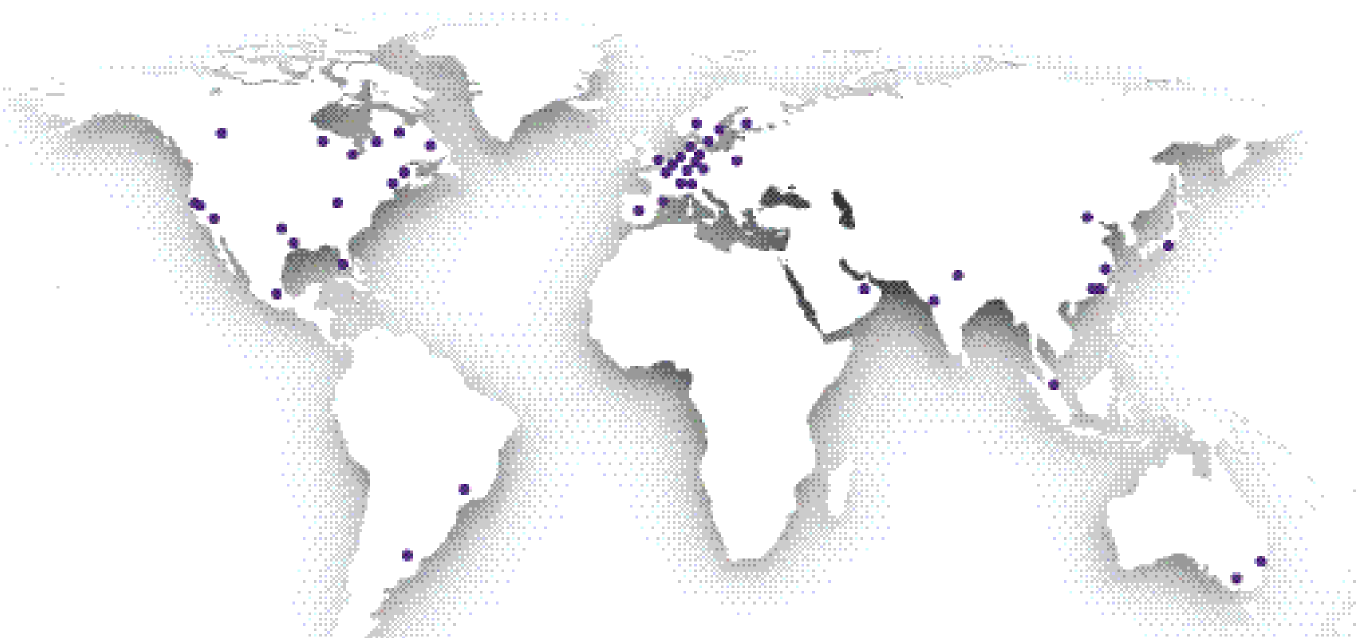

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