



Does CEO Succession Planning Disclosure Matter?



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About the Author

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Previously, Ms. Barrett was Vice President and Senior Research Associate at The Corporate Library, where she led the firm's research on the effectiveness of the board of directors. Before joining The Corporate Library, Ms. Barrett was a Research Consultant at Towers Perrin (now Willis Towers Watson). Prior to that, she spent several years in the Family Wealth Planning practice of Arthur Andersen.

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Executive Summary

Shareowners and other stakeholders have been calling for more information about CEO succession planning. This study seeks to determine whether companies that provide better disclosure regarding their CEO succession plans have more successful CEO transitions; in other words, does CEO succession planning disclosure matter?

In order to assess this, we examined the CEO transitions that took place in a base year, 2012, which allowed us to analyze the disclosures made in the three years before the transition and the outcome of the change in the years following.

We find that:

1. Companies which executed a successful CEO transition were more likely to have provided shareowners with stronger disclosure regarding the CEO succession plan in the years prior to the leadership transition. Conversely, companies that did not execute a successful CEO transition were significantly more likely to have provided less information regarding the CEO succession plan in the proxy statements filed in the years prior to the transition.
2. More generally, disclosure regarding CEO succession planning is lacking. Nearly a quarter (24%) of the companies provided no disclosure regarding succession planning during the two years prior to the CEO change. Even when disclosure was provided, it did not include all of the information sought by investors. For example:
 - Fewer than one in ten (8%) of the companies studied mentioned the existence of a plan addressing what to do if there is an unexpected immediate need for a new CEO (e.g., in the case of the incapacitation or death of the sitting CEO), and
 - Very few companies (2%) described the process used by the board to identify CEO candidates. Similarly, only 2% of companies studied discussed how the directors are exposed to senior leaders and high-potential executives within the company.

While it cannot be concluded that a company which provides sufficient disclosure regarding CEO succession planning will have a successful CEO transition in the future, it does appear that there is a correlation between companies that have successful transitions and more fulsome disclosure. While causation is virtually impossible to prove, absent unfettered access to boardrooms, it seems plausible to speculate that the level of disclosure is indicative of the level of attention paid by the board to succession planning, and that stronger disclosure practices can be a sign that the board is focused on succession planning.

Introduction

Shareowners and corporate directors agree that CEO succession planning is one of the most important responsibilities of the board. Even successful CEO changes can be costly and distracting for the company. A failed CEO transition can create challenges for the company and all involved.

Ten years ago, in a 2005 Harvard Business Review article, business advisor and author Ram Charan proclaimed that the “CEO succession planning process is broken.”¹ Since then, however, boards have increased their focus on the issue and many companies have improved their CEO succession planning practices. In 2015, recruiting firm Spencer Stuart noted that “(i)n recent years, boards throughout the world have acknowledged the vital importance of long-term CEO succession planning.”² Indeed, the oversight of a formal CEO succession plan is a standing item on the agendas of executive sessions held in many corporate boardrooms around the US.

In order to understand how boards are addressing this important issue, many shareowners have called on corporate boards to provide disclosure about the CEO succession planning process. Several institutional investors call for companies to provide robust disclosure regarding CEO succession planning in their corporate governance policies and proxy voting guidelines. (See Appendix A).

The goals of this study were 1) to examine the existence and robustness of disclosure regarding CEO succession plans, 2) to compare the process described in the ex-ante disclosure to what took place when the board was faced with the need to replace the CEO, and 3) to understand how the patterns and types of disclosure related to the success of CEO successions. However, the general paucity of details regarding CEO succession planning prevented us from being able to answer question 2; we could not assess if boards followed their own processes for succession, since those processes were not generally disclosed in advance. However, we were able to draw meaningful conclusions about the patterns of disclosure and their correlation to successful CEO transitions.

Methodology

This report presents the results of a study of the CEO succession planning disclosures made by the Russell 3000 companies which had a CEO transition during the 2012 calendar year. We focused on changes that took place in 2012 in order to be able to assess the results of the CEO transition for the two years afterwards, in addition to the change event itself.

Data provided by Equilar Inc. was used to identify the 205 Russell 3000 companies which had a CEO transition during 2012. Among the companies on this list, only companies headquartered in the US which had a change in CEO due to a departure of the CEO for reasons such as resignation, termination, retirement and medical reasons. Departures which were the result of a merger or acquisition transaction, or a change in control of any type, were not included. Additionally, in order to be included in the study, the company had to have filed a proxy statement in each of the three years for which proxy disclosures were examined: 2010, 2011 and 2012. These modifications led to the removal of 24 companies due to missing proxy statements, 19 companies due to mergers or acquisitions, and five companies which were not incorporated in the US. The resulting number of companies included in the study was 157. Among these companies, twelve had two CEO changes during 2012 and two companies had three CEO changes during 2012. Additionally, two companies had outgoing co-CEOs (i.e., two people serving in the outgoing CEO role) and three companies had incoming co-CEOs. The result is the inclusion of 175 outgoing CEOs and 176 incoming CEOs in the study.

For each company included in the study, we reviewed the company's disclosures regarding the CEO change. Specifically, we examined the Forms 8-K, Items 5.02 related to the departure of the outgoing CEO and the naming of the incoming CEO, and any press releases filed with the Forms 8-K. The data collected during this review focused on determining, to the extent possible, the reason for the CEO change and the timing and thoroughness of the disclosures regarding the change.

In addition, we reviewed the disclosure provided in the company's proxy statements³ filed in each of the two years prior to the CEO change (2010 and 2011) and in the year of the change (2012) in order to see if the board provided information regarding its CEO succession planning prior to the transition. Finally, we also consulted the current governance guidelines and board committee charters in those situations where the proxy statements did not provide the information sought (e.g., to identify the board committee which oversees CEO succession planning).⁴

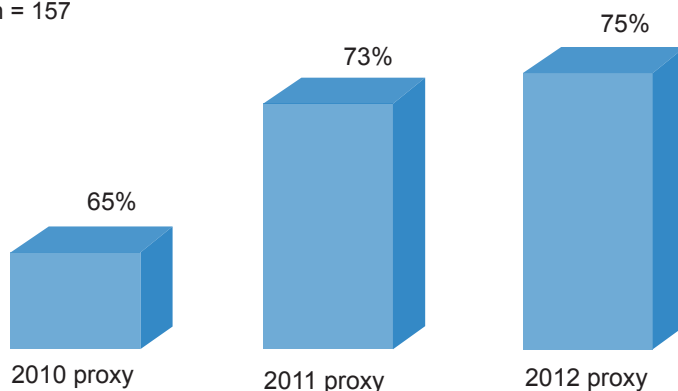
Prevalence, Placement and Substance of CEO Succession Planning Disclosure

Surprisingly, nearly one-quarter (24%) of the companies studied did not provide any discussion regarding succession planning in any of the three proxy statements filed during the 2010, 2011 and 2012 calendar years.⁵ For those companies which did include a discussion of CEO succession planning in at least one of the three proxy statements filed in 2010, 2011 and 2012, a detailed analysis of each disclosure was conducted.

One immediate observation is that the prevalence of CEO succession planning disclosure in the proxy statement increased between 2010 and 2011. This is not surprising, given that the Securities and Exchange Commission (SEC) adopted a series of enhanced proxy disclosure requirements in 2010, and also changed its approach to shareowner initiatives that sought increased CEO succession planning disclosure (See Appendix B).

Percent of study companies discussing CEO Succession Planning in proxy

n = 157



In its annual study of CEO succession practices, The Conference Board (TCB) has tracked the prevalence of disclosure regarding CEO succession planning practices in S&P 500 companies' annual disclosures⁶, including a breakdown by industry and company size. The TCB found that companies in the financial sector are more likely to include discussion of CEO succession planning in their annual disclosures than other companies. Also, the TCB research shows that larger companies, as measured by revenues, are more likely to include such disclosure than smaller companies.⁷

Where within the proxy is CEO succession planning addressed?

It is telling to consider which sections of the proxy included the discussion of CEO succession planning⁸:

Board Committee Responsibilities: As discussed further below, over half (52%) of the companies studied discuss succession planning when describing the responsibilities of the committees of the board.

Executive Compensation: One-quarter (25%) of the companies studied mentioned succession planning in the Compensation Discussion and Analysis section of the proxy because the issue is addressed in relation to executive compensation (See Appendix C). If the board is taking succession planning into account when making compensation decisions, it may be seen as an indicator of the importance the board has placed on this issue.

Board's Role in Risk Management: About one in six (17%) of the companies studied addressed the issue of CEO succession planning in the section of the proxy discussing the board's role in risk management. This may be a reaction to the SEC's stance on the issue of succession planning in relation to risk management. (See Appendix B)

Separate Section on Succession Planning: Over one in ten (13%) of the companies studied included a separate section in the proxy statement dedicated to the succession planning process. These sections were identified by a separate header or title preceding the text discussing the process.

Board Leadership: Slightly fewer (11%) of the companies studied mentioned the topic of succession planning in the section dedicated to board leadership. In many cases, this discussion indicated that the Board considered CEO succession planning when determining whether or not to separate the roles of CEO and Chair of the Board.

Individual Director Expertise: A few companies (4%) mentioned succession planning as an area of expertise brought to the board by individual directors. Interestingly, however, not all of these directors served on the committees which oversaw succession planning in the years studied.

Board Responsibilities and Practices: Some companies provide a discussion of board responsibilities and practices in their proxy statement. Nearly one in ten (8%) of the companies studied included succession planning in this discussion. Occasionally, companies include a discussion of the standing agenda items for board meetings and/or executive sessions of the board in this section of the proxy statement. A handful (3%) of companies studied provided this information and listed succession planning as a standing agenda item.

What topics were addressed in the succession planning disclosure?

The board of directors has the responsibility for the oversight of CEO succession planning, including the development, maintenance and implementation of the CEO succession plan. By far, the topic most commonly addressed in the proxies studied was the identification of which board committee, if any, oversees the CEO succession planning process. Over half (52%) of the companies studied – or more than two-thirds of those with any disclosure (68% of disclosing firms) -- specifically stated which committee(s) had responsibility for CEO succession planning in their proxy statements during any of the study years. (See Appendix D)

While none of the companies studied provided a truly comprehensive description of the CEO succession plan in their proxy statements during the timeframe studied, some companies did address some of the key features of CEO succession plans:

Role of the Full Board: Nearly one in six (16%) of the companies studied provided a description of the role the entire board plays in the CEO succession planning process. This information is important when the development and monitoring of the plan is delegated to a board committee, in order to make sure that the entire board is aware of the key features. Ultimately, the entire board is responsible for the CEO transition, so it is important that all directors are knowledgeable about, and supportive of, the plan.

Frequency with which the CEO Succession Plan is Reviewed: Only one in ten (10%) of the companies studied disclosed how frequently the board reviews the CEO succession plan. While some boards report that they review the plan annually, most of these boards used more general language, such as “regularly,” to describe the frequency of reviews.

Emergency CEO Succession Plan: Fewer than one in ten (8%) of the companies studied mentioned the existence of a plan addressing what to do if there is an unexpected

immediate need for a new CEO (e.g., in the case of the incapacitation or death of the sitting CEO).

Process Used to Identify Candidates: Very few companies (2%) described the process used by the board to identify CEO candidates. Similarly, only 2% of companies studied discussed how the directors are exposed to senior leaders and high-potential executives within the company.

CEO Changes in 2012

While each case of CEO transition is unique, there are some generally accepted measures of a successful transition. One common measure of the “success” is the financial performance of the company in the years following the transition. This study, however, takes a different approach by examining non-financial indicators of the success of the transition. The factors considered were:

- Was a permanent CEO named, or did the board name an interim CEO?
- Was an internal candidate promoted to CEO, or was an external candidate hired?
- Are the CEOs named in 2012 still in office? If not, why not?
- What was the timing of the announcement regarding the CEO transition?

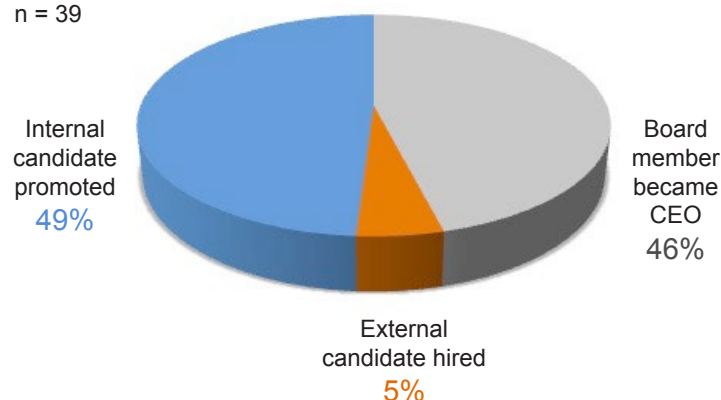
Was a permanent CEO or interim CEO named?

One approach occasionally used by boards faced with an unplanned CEO departure is to name an interim CEO. While there may be circumstances where this approach is necessary, many experts feel that it can be an indication of a lack of succession planning. For example, the consultants at Strategy& (the strategy consulting firm formerly known as Booz & Co.) say that the naming of an interim CEO “suggests indecisiveness and creates uncertainty.”⁹

Among the companies included in our study, about one in five (22%) of the CEO

Sources for Interim CEOs Named in 2012

n = 39



changes studied resulted in the naming of an interim CEO rather than a permanent CEO. This led to 39 interim CEOs and 137 permanent CEOs studied. About half (49%) of the interim CEOs were previously serving as an executive at the company. It was also common for a board member, often the board chair or lead director, to step in as interim CEO; this was the case at 46% of the companies which named an interim CEO. Only a few (5%) of the interim CEOs were hired from outside the company.

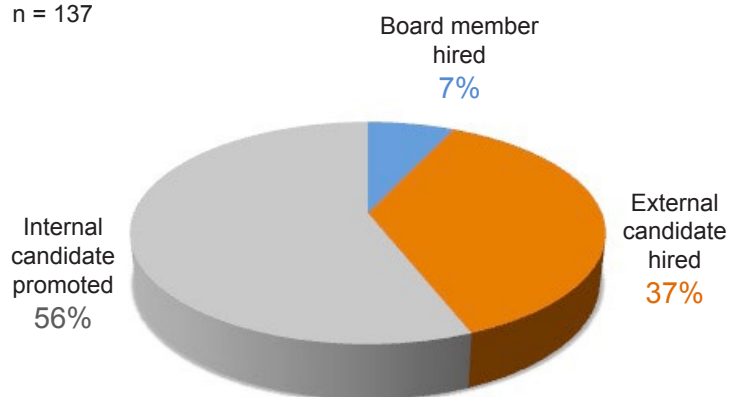
In retrospect, the term interim was largely correct: fewer than one quarter (21%) of the interim CEOs named at study companies in 2012 were subsequently given the role of CEO on a permanent basis. Interestingly, however, all of those interim CEOs who were named as permanent CEOs continued to serve in the CEO role for at least two years.

Was an internal candidate promoted to CEO, or was an external candidate hired?

An oft-cited indicator of an effective succession planning process is the ability of the board to identify an internal candidate to become the new CEO, rather than having to recruit from outside the firm. Many studies have shown the benefits of hiring an internal candidate to replace an outgoing CEO. In a global study of CEO turnover, Strategy& found that inside candidates “perform better and last longer.”¹⁰ Another commonly-cited benefit is the notion that an internal candidate brings “institutional knowledge and an understanding of the company’s culture.”¹¹ On the other hand, a study by Spencer Stuart found that if a company is in crisis, it is better to bring in an outsider to take over as CEO.¹²

Sources for Permanent CEOs Named in 2012

n = 137



Most (56%) of the 137 permanent CEOs in our study were promoted from inside the company. Most often, these executives served in a COO role immediately before being named CEO in 2012. More than one-third of the incoming permanent CEOs (37%) were hired from outside the company. At 7% of the companies studied, the new CEO named in 2012 had previously served the company as a director rather than as an executive.

Some experts view the naming of a board member as a permanent CEO problematic and evidence of a lack of proper succession planning. One concern with this approach is that if there is any expectation that a board seat is a path to the CEO's office, the director serving with that path in mind may not act in an unbiased manner when it comes to matters regarding the evaluation of the current CEO's performance.

Are the CEOs named in 2012 still in office? If not, why not?

One measure of the success of a CEO transition is how long the new CEO stays in office. Given the fact that, as discussed above, any CEO departure is costly to the company, one goal of a CEO transition is to avoid having to go through another transition in the near future. Therefore, a new CEO who does not stay in office very long cannot be deemed as a successful replacement.

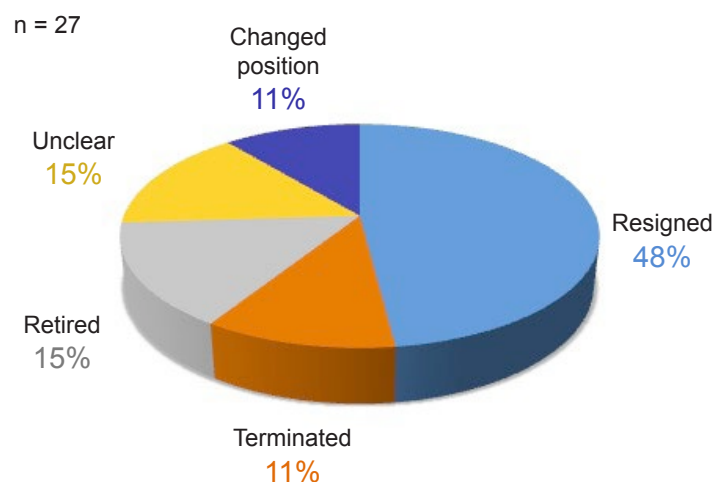
Since our study focuses on CEO transitions which took place during the 2012 calendar year, we were able to assess whether or not the new CEO was still in office as of the company's most recently-filed proxy statement, which would indicate a tenure of at least two years. Of course, two years is not a long tenure; the average tenure of S&P 500 CEOs who left the CEO position in 2012 was just over eight years.¹³ So, we are setting the bar for success low.

At the 137 companies which named a permanent CEO in 2012 80% were still serving as CEO as of the company's most recent proxy statement. That means, of course, that 20% of the companies – or one in five -- have had to undergo another CEO transition despite having named a permanent CEO in 2012.

We wanted to determine the reason for these CEOs' departures, so the Form 8-Ks and attached press releases were reviewed for the 27 companies where the CEOs who took office in 2012 are no longer serving in that role. It should be noted that companies are usually circumspect when announcing CEO departures, and so it is often difficult to know the real reason a CEO is leaving.

As shown in the chart below, it was most common for the company to publicly state that the CEO resigned. Often, the reasons for such resignation are general statements such as “to pursue other interests” or “for family reasons.” One in five (18%) of the CEOs at the 27 companies retired relatively soon after taking office. Additionally, several (11%) of the CEOs were terminated by the board. Another 11% of the CEOs studied are still with the companies, but serving in a role other than CEO.

Reason for Permanent CEO Departure after 2012



What was the timing of the announcement regarding the CEO transition?

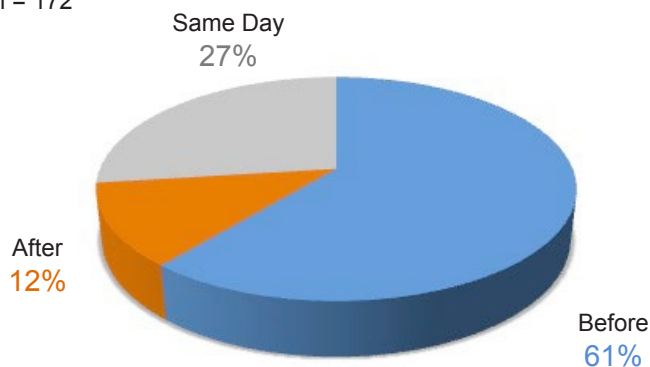
According to The Conference Board, “the development of an external communications plan” is “a fundamental aspect of the CEO succession planning process, especially given the increased shareholder scrutiny of the company’s preparedness for leadership transition events.”¹⁴ In order to avoid surprise or concern among the company’s employees and shareowners, communication from the company regarding the upcoming CEO transition should be clear and timely. Ideally, the board would announce the fact that the CEO will be leaving the company well before the planned departure, along with some description of the succession process to follow, even if the future CEO is not named at that time.

We examined all of the Forms 8-K, Items 5.02 filed with the SEC by the study companies in relation to the departure of the outgoing CEOs in 2012. The chart below presents the findings of an analysis of the dates on which the forms were filed in relation to the outgoing CEO’s departure.

Most companies studied did communicate the upcoming CEO transition in a timely manner. In 61% of the cases examined, the public filing was made prior to the CEO's departure. However, more than one-quarter (27%) of the companies studied filed the public filing announcing the CEO departure on the same day that it was effective.¹⁵ More than one in ten (12%) of the companies studied filed the Form 8-K announcing the departure of the CEO after the effective date of the leadership change. The apparent last-minute or after the fact nature of these filings could call into question the effectiveness of the CEO succession plan. However, it should be noted that in certain circumstances (e.g., the firing of the CEO), this timing may be prudent. (NB: These statistics do not include the sad circumstances at three of the study companies where the CEO transition was necessary due to the death of the sitting CEO. Of course, in these unfortunate circumstances, there is no possibility for filings to be made beforehand.)

Date Form 8-K Announcing CEO Departure was Filed in Relation to Effective Date of Departure

n = 172



When was the new CEO announced?

In a model CEO succession, the incoming CEO would be announced to the public at the same time that the outgoing CEO's departure is announced. Of course, this is not possible in every situation. For example, sometimes the future retirement of the CEO is made well in advance of his or her last day in the role, and so the public announcement regarding the planned retirement date is announced well before a replacement is chosen. In this circumstance, the fact that the CEO's replacement is not named in the same announcement may be evidence of the execution of an existing succession plan.

Analysis of the public announcements of the CEO successor upon the 2012 CEO departures indicates that well over three-quarters (83%) of the companies studied named the incoming CEO at the same time as announcing the departure of the outgoing CEO. Among those companies whose public filings did not reflect this pattern, the most common reason was the retirement scenario described above. The average time between the announcement of the CEO transition and the announcement naming the new CEO was four months in the cases where there was a time gap.

Does CEO Succession Planning Disclosure Correlate with the Quality of the Transition Itself?

In order to assess whether or not there is a link between CEO succession planning disclosure and the success of the CEO transition, we established criteria for a successful CEO transition. There are differing opinions regarding what a successful CEO transition looks like; therefore, one commonly-accepted definition has yet to be established. For purposes of this study, the following criteria were set to evaluate the success of the 2012 CEO transition:

- The departure of the outgoing CEO departure is announced before the effective date of his or her departure
- The board named a permanent, not interim CEO
- The new CEO is named within three months of the announcement regarding the outgoing CEO's departure
- The new CEO was an internal executive candidate prior to being promoted to CEO, rather than being an external hire or a member of the board
- The new CEO stayed in the CEO role for more than two years

As previously discussed, succession planning disclosure is very inconsistent and frequently totally lacking. Therefore, we developed a relative ranking system to judge disclosure of one company against the disclosure of the other companies in the cohort of companies with CEO transitions in 2012. This approach was based on the prevalence and features of CEO succession planning disclosure, as discussed in the section of this report titled Prevalence, Placement and Substance of CEO Succession Planning Disclosure.

A company's disclosure was deemed to be "stronger" if it mentioned CEO succession planning in its proxy statements filed in at least one of the three years studied and that the mention of the topic falls into at least two of the four categories examined previously: Role of the full board, frequency of CEO succession plan review, emergency CEO succession and the process used to identify candidates. If a company does not mention succession planning, or if it only mentions the topic in relation to one of the topics listed above, the disclosure is considered "weaker" for purposes of our analysis.

Successful CEO Transitions

Fifty of the CEO transitions studied were categorized as “successful” based on the criteria above. Specifically, in these 50 transitions, the Form 8-K announcing the transition was filed before the effective date and the new CEO was an internal candidate who was still serving as CEO as of the most recent proxy.

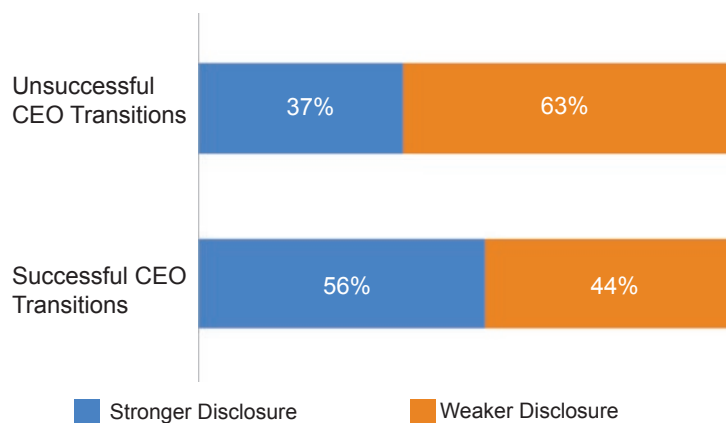
As you can see in the chart below, 56% of these companies had stronger disclosure regarding CEO succession planning and 44% had weaker disclosure. This finding indicates that it was more likely for a company that had a successful CEO transition in 2012 to have had provided more disclosure about their CEO succession plan in the years prior to the transition.

Unsuccessful CEO Transitions

We deemed CEO transitions to be “unsuccessful” if any combination (i.e., more than one) of the following apply: the Form 8-K naming the new CEO was filed more than three months after the announcement of the departure of the outgoing CEO; an interim CEO was named; a board member or an external candidate was named CEO; the CEO was no longer serving as of the most recent proxy. This analysis led to the identification of 41 unsuccessful CEO transitions.

Among those companies, only 37% had stronger disclosure regarding succession planning and 63% had weaker disclosure. This pattern indicates that it is less likely

Disclosure Comparison



that a company which had an unsuccessful CEO transition to have provided stronger succession planning disclosure in the years leading up to the leadership change.

The chart above shows the clear difference between the levels of disclosure regarding CEO succession planning by companies which had two different categories of CEO transitions. Of course, one should be careful to not attribute causation to these findings; however, it is telling that on average the companies that did execute a successful CEO transition were significantly more likely to have more robust disclosure than those companies with unsuccessful transitions.

While we cannot conclude that disclosure about CEO succession planning predicts that a successful CEO transition can be expected in the future, we can say that there is a correlation between the pattern of disclosure and the success of CEO transitions. Of course, causation is virtually impossible to prove, absent unfettered access to boardrooms. However, it seems plausible to speculate that the level of disclosure is indicative of the level of attention paid by the board to succession planning.

Appendix

Appendix A

Excerpts from Institutional Investor Governance Policies/Voting Guidelines

Council of Institutional Investors

“The board should approve and maintain a detailed CEO succession plan and publicly disclose the essential features in the proxy statement. An integral facet of management succession planning involves collaboration between the board and the current chief executive to develop the next generation of leaders from within the company’s ranks. Boards therefore should: (1) make sure that broad leadership development programs are in place generally; and (2) carefully identify multiple candidates for the CEO role specifically, well before the position needs to be filled. To that end, the plan should address both short and long-term succession scenarios.”¹⁶

BlackRock Inc.

“There should be a robust CEO and management succession plan in place at the board level that is reviewed and updated on a regular basis. We expect succession planning to cover both long-term planning consistent with the strategic direction of the company and identified leadership needs over time as well as short-term planning in the event of an unanticipated executive departure. We acknowledge that both internal and external management candidates may be considered, as informed by required skill sets and cultural fit considerations and as appropriate to the company’s circumstances. We encourage the company to explain its executive succession planning process, including where accountability lies within the boardroom for this task, without prematurely divulging sensitive information commonly associated with this exercise.”¹⁷

California State Teachers Retirement System

“The board should have and disclose the process of CEO succession planning to ensure companies are well-prepared to have a successor in the event of a planned or an unexpected departure of the CEO. The CEO succession plan should include a development process that considers leadership skills, experiences and competencies in identifying and assessing internal and external candidates to achieve the company’s future business strategy. The CEO succession plan should address short and long-term succession scenarios.”¹⁸

California Public Employees Retirement System

“The board should proactively lead and be accountable for the development,

Appendix A, continued

implementation, and continual review of a CEO succession plan. Board members should be required to have a thorough understanding of the characteristics necessary for a CEO to execute on a long-term strategy that optimizes operating performance, profitability and shareowner value creation. At a minimum, the CEO succession planning process should:

- a. Become a routine topic of discussion by the board.
- b. Extend down throughout the company emphasizing the development of internal CEO candidates and senior managers while remaining open to external recruitment.
- c. Require all board members be given exposure to internal candidates.
- d. Encompass both a long-term perspective to address expected CEO transition periods and a short-term perspective to address crisis management in the event of death, disability or untimely departure of the CEO.
- e. Provide for open and ongoing dialogue between the CEO and board while incorporating an opportunity for the board to discuss CEO succession planning without the CEO present.
- f. Be disclosed to shareowners on an annual basis and in a manner that would not jeopardize the implementation of an effective and timely CEO succession plan.”¹⁹

TIAA-CREF

“One of the board’s most important responsibilities is the selection, development and evaluation of executive leadership. Strong, stable leadership with proper values is critical to the success of the corporate enterprise. The board should continuously monitor and evaluate the performance of the CEO and senior executives, and should oversee a succession plan for executive management. The board should disclose the succession planning process generally.”²⁰

Recent Changes in Succession Planning Disclosure

The Securities and Exchange Commission's Proxy Disclosure Enhancements, proposed in July 2009, increased the information companies must provide in their proxy statements regarding many topics that relate to succession planning, including the company's board leadership structure and board's role in risk oversight, though it did not specifically mandate any particular type of succession planning disclosures.²¹ The final rule was adopted by the SEC in December 2009 and was effective in February 2010.

Another change came when the SEC changed its stance on shareholder proposals regarding CEO succession planning. A number of shareowners had submitted proxy proposals calling for more disclosure regarding CEO succession planning in the years leading up to 2009. According to the SEC's Staff Bulletin dated October 27, 2009, "[t]hese proposals generally requested that the companies adopt and disclose written and detailed CEO succession planning policies with specified features, including that the board develop criteria for the CEO position, identify and develop internal candidates, and use a formal assessment process to evaluate candidates."²² Many companies submitted requests to be allowed to exclude these proposals because they addressed ordinary business operations, and the SEC had granted those requests. However, the SEC changed their stance with the issuance of the October 2009 bulletin, stating: "We now recognize that CEO succession planning raises a significant policy issue regarding the governance of the corporation that transcends the day-to-day business matter of managing the workforce. As such, we have reviewed our position on CEO succession planning proposals and have determined to modify our treatment of such proposals."²³

Incorporating CEO Succession Planning into Executive Compensation Programs

Some shareowners and experts have called for companies to incorporate CEO succession planning into their executive compensation programs. For example, Relational Investors has identified succession planning as one of the three most common causes of financial underperformance, and suggest the inclusion of succession planning as a consideration when it comes to compensation decisions and to disclose this information to shareholders.²⁴ More generally, a Blue Ribbon Commission report on the Compensation Committee published by the National Association of Corporate Directors in 2015 suggests that “pay plans ...[should] reward executives for promoting the development of talent internally.”²⁵

A number of companies did incorporate succession planning into their executive incentive compensation programs. While many of the study companies identified as having mentioned succession planning in relation to executive compensation did so in a general manner, the following companies provided detail as to how it was used in the executive compensation program:

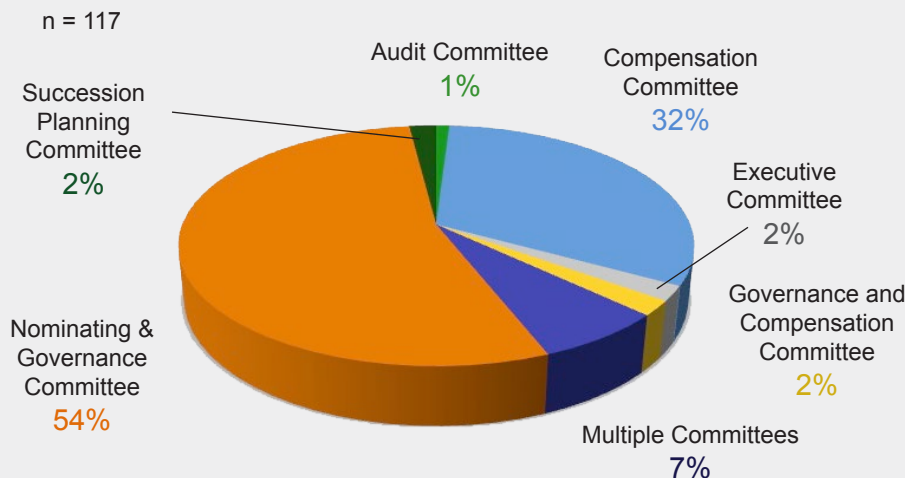
- Airgas Inc. provided its Chairman and CEO a discretionary bonus in 2012 for “working with the Committee and the Board to implement the succession plan that positions Airgas for the future.”²⁶
- FBL Financial Group Inc. awarded its interim CEO a performance-based restricted stock award, which included a goal of “codifying a succession planning framework.”²⁷
- Hanger Inc. included an individual goal of “executive progression and succession transition activities” for its retiring CEO.²⁸
- Legg Mason Inc. incorporated the “enhanc[ement of the] company’s management succession planning and strategic planning processes” as a performance measure for the CEO’s incentive award.²⁹
- Louisiana-Pacific Corp. included the following in its list of individual goals incentive purposes for the CEO: “Lead the efforts for succession planning for all senior management positions to ensure that plans are in place to meet both short-term and long-term goals of the organization”³⁰
- McDonalds Corp. had an individual performance factor in its incentive plan for its CEO which “includes a robust succession planning process, which focuses on ensuring that McDonald’s has the right leadership talent to drive success today and tomorrow.”³¹

Board Committee Oversight of CEO Succession Planning

Study company disclosures beyond the proxy statement were examined to identify which, if any, board committee had the responsibility for overseeing CEO succession planning.³² However, one-quarter (25%) of the study companies did not name a board committee responsible for CEO succession planning. At 15% of the companies studied, it was reported that the entire board had responsibility for CEO succession planning. At three (2%) of the companies studied, the board reported that the CEO is responsible for the CEO succession planning process. We were not able to identify the person or group responsible for the oversight of CEO succession planning at nearly one in ten (8%) of the companies studied.

The remaining three-quarters (75%) of the companies studied disclosed the committee(s) responsible for the oversight of CEO succession planning. More than half of those 117 companies reported that the nominating and/or governance committees being the most commonly cited. The second most prevalent committee overseeing CEO succession planning was the compensation committee. In a number of cases, when the compensation committee has the added responsibility of succession planning, the title includes the term “management development,” or something similar (e.g., “Compensation & Leadership Development Committee”). A few study companies reported that the committee overseeing succession planning used both “governance” and “compensation” in the committee title (e.g., “Compensation & Corporate Governance Committee”). Audit committees and executive committees were also noted as being responsible for CEO succession planning. It was very rare for a study company to have a committee with the sole purpose of overseeing succession planning in 2012. In some cases, the company cited multiple committees with the responsibility for overseeing CEO succession planning.

Committee Overseeing Succession Planning



Endnotes

- 1 Ram Charan, “Ending the CEO Succession Crisis,” Harvard Business Review, February 2005.
- 2 George M. Anderson, Tessa Bamford, Julie Hembrook Daum, and Bertrand Richard, Spencer Stuart, Spencer Stuart PoV2015.
- 3 The proxy statements were selected for review for two reasons: 1) shareowners are calling for this information to be provided consistently, in a convenient manner, and for it to be updated at least annually, and including the information in the proxy statement would meet these criteria and 2) while the corporate governance guidelines and committee charters currently in effect were collected for this study, the versions of these documents which were in effect during the three years prior to the CEO transition were not available for all companies studied.
- 4 It should be noted that the current guidelines and charters may not be the same as those which were in effect in 2012 when the CEO succession took place.
- 5 In fact, one company stated the following: “Our Compensation Committee and our Board of Directors have not yet established a succession plan for our chief executive officer” for two years of the study. (Ampio Pharmaceuticals proxy statements filed on 10/21/11 and 10/24/12)
- 6 The company universe and methodology used in The Conference Board’s analysis differs slightly from that used throughout this report.
- 7 Jason D. Schloetzer, Matteo Tonello and Melissa Aguilar, The Conference Board, “CEO Succession Practices” 2012 Edition and 2015 Edition.
- 8 The percentages in this section add to more than 100% because many (38%) of the companies studied mention succession planning in more than one location in the proxy.
- 9 Ken Favaro, Per-Ola Karlsson & Gary L. Neilson, Strategy&, “The \$112 Billion CEO Succession Problem,” s+b, Summer 2015.
- 10 Gary Neilson and Per-Ola Karlsson, Strategy& (Originally published by Booz & Company), “*CEO Succession 2000-2009: A Decade of Convergence and Compression*,” May 12, 2010.
- 11 Annalisa Barrett, Equilar Inc., “*CEO Turnover: Findings from a study of CEO departures at S&P 1500 companies between 2007 and 2010*,” 2011.
- 12 James M. Citrin and Dayton Ogden, Spencer Stuart, “*Succeeding at Succession*”, Harvard Business Review, November 2010.
- 13 Jason D. Schloetzer, Matteo Tonello and Melissa Aguilar, *CEO Succession Practices 2013 Edition*, The Conference Board, page 16.
- 14 Jason D. Schloetzer, Matteo Tonello and Melissa Aguilar, *CEO Succession Practices 2013 Edition*, The Conference Board, page 30.
- 15 For purposes of the study, the “same day” is recorded for any filings made on the effective date, as well as filings which were dated one day prior to or one day after the effective date.

- 16 Council of Institutional Investors, “*Corporate Governance Policies*,” Section 2.9, Updated April 1, 2015.
- 17 BlackRock Inc.’s Proxy Voting Guidelines for US Securities, February 2015, page 4.
- 18 CalSTRS Corporate Governance Principles, April 3, 2015, page 7.
- 19 CalPERS Statement of Investment Policy for Global Governance, March 6, 2015, pages 21-22.
- 20 TIAA-CREF Policy Statement on Corporate Governance, 6th Edition, page 11.
- 21 Securities Exchange Commission, Release No. 33-9089: Proxy Disclosure Enhancements, December 16, 2009.
- 22 Securities Exchange Commission Division of Corporate Finance, Staff Legal Bulletin No. 14E (CF), October 27, 2009.
- 23 Securities Exchange Commission Division of Corporate Finance, Staff Legal Bulletin No. 14E (CF), October 27, 2009.
- 24 David Batchelder, Relational Investors LLC, “*What Do Investors Really Want: Inside the Mind of an Activist Investor*,” Relational Investors LLC Presentation to Corporate Directors Forum, October 8, 2013.
- 25 National Association of Corporate Directors, “Executive Summary: Report of the NACD Blue Ribbon Commission on the Compensation Committee,” 2015.
- 26 Airgas Inc. proxy statement dated 7/9/12
- 27 FBL Financial Group Inc. proxy statement dated 3/31/10
- 28 Hanger Inc. proxy statement dated 4/2/10
- 29 Legg Mason Inc. proxy statement dated 6/16/11
- 30 Louisiana-Pacific Corp. proxy statement dated 3/17/11
- 31 McDonalds Corp. proxy statement dated 4/9/10
- 32 For those companies which did not disclose this information in the proxy statements filed during the study years, governance guidelines and/or committee charters were reviewed.