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CEO Succession Practices
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Foreword

CEO succession planning is one of the chief responsibilities of directors, and this annual report by The Conference Board remains the most comprehensive source of information about how they are addressing it. You will find in these pages trends in CEO succession at S&P 500 companies over the past 16 years: its frequency, the characteristics of departing CEOs, and the qualifications of incoming CEOs. You will also learn of the succession planning practices that boards favored in 2016—from reviewing CEO performance to developing potential successors to communicating a change in leadership. And you will know the nuances behind the numbers, including in-depth analyses of succession practices by company size, performance, and industry.

In addition to tracking trends and documenting practices for succession, the 2017 report again analyzes notable succession events at a dozen S&P 500 companies. Some of these will be familiar from the headlines; others are distinguished by their unique approaches to the challenges of CEO transition. As the range of these cases suggests, succession events may vary widely in their circumstances, but the principles that should guide their execution—outlined in The Conference Board Road Map to CEO Succession Planning included in this report—remain constant.

Taken together, the report’s extensive numbers, informed analysis, and detailed cases provide a 360-degree view of CEO succession planning that is a key guide for stakeholders and for all who wish to advance the cause of good corporate governance.

Jeff Sanders
Vice Chairman and Co-Managing Partner, CEO & Board Practice
Heidrick & Struggles
Using This Report

CEO Succession Practices annually documents and analyzes succession events of chief executive officers (CEOs) of S&P 500® companies. There were 63 such cases in 2016. In addition to updates on historical trends, each edition of this report features discussions of notable cases of CEO succession that took place in the calendar year prior to publication (based on press announcements and other publicly available information), as well as the results of a survey of human resources professionals, corporate secretaries, general counsel, and investor relations officers on the succession oversight practices of their boards. This edition’s survey was administered in the spring of 2016 by The Conference Board.

PART I: CEO Succession Trends (2001–2016) illustrates year-by-year succession rates and examines the evolution of certain aspects of the succession phenomenon—including the influence of firm performance on succession and the characteristics of the departing and incoming CEOs. When appropriate, the report compares emerging trends in chief executive successions with data available from the 1970s, 1980s, and 1990s to provide a broader historical perspective. Cases of CEO succession were identified using extensive searches of corporate press releases on the investor relations and media sections of S&P 500 company websites and other publicly available information. Each member of the S&P 500 index (as of the end of 2016) was searched for certain succession-related keywords (specifically: retire, retires, retirement, succession, succeeding, succeeded, succeed, elect, elected, new chief executive, tenure, resign, resigned, depart, departure, and departed). The identification process also used data retrieved from the AuditAnalytics database, which includes information about recent senior executive departures. For each identified case, the analysis used financial data retrieved from the Compustat® Executive Compensation (ExecuComp) database and The Center for Research in Security Prices (CRSP) US Stock Database, which were accessed through Wharton Research Data Services (WRDS). Additional information was gathered from corporate press releases and other publicly available information (for example, information posted on the investor relations page of the company website).

PART II: CEO Succession Practices (2016) is divided into three sections. The first section, “Board Practices in CEO Succession Planning,” details governance practices based on data from a survey of human resources executives, corporate secretaries, general counsel, and investor relations officers of SEC-registered corporations conducted by The Conference Board in 2016. Data are analyzed by business sectors and company-size groups. For ease of reference and to avoid the excessive fragmentation of survey results, respondents were first categorized according to 10 industry groups, using their Global Industry Classification Standard (GICS) code and then aggregated into three large business sectors—manufacturing, financial services, and nonfinancial services. As for the company-size breakdown, Part II of the report categorizes all findings along four annual revenue groups (based on data received from manufacturing and nonfinancial services companies) and two asset value groups (based on data reported by financial services firms, which tend to use this type of benchmarking).
The second section, “C-Suite Leadership Development Practices” also draws on results from the 2016 survey but focuses on the features of internal programs designed to identify and groom C-suite leaders who present the attributes needed to aspire to the CEO role. Top leadership development is an essential component of CEO succession planning, and the findings discussed in these pages describe key practices adopted by SEC-registered corporations to ensure that the organization can rely on one or more CEO-ready senior executives.

The third section, “Communication Practices in CEO Succession,” uses a detailed review of the CEO succession announcements made for the 63 cases of S&P 500 companies that had a succession event in 2016. The succession announcement analysis is intended to offer guidance for the development of an external communication plan—another fundamental aspect of the CEO succession planning process, especially given increasing shareholder scrutiny of the organization’s preparedness to the transition.

When present in charts or tables included in Part II of the study, the letters “n/a” refer to data points for which the number of observations was less than five and ultimately considered insufficient to conduct any statistically meaningful aggregate analysis.

Survey-based data included in Part II should be interpreted with caution. The report offers a comprehensive set of charts segmenting aggregate data across industries and size groups. However, due to the limited size of some these segments, findings should be interpreted as a meaningful indication of the choices made by a select group of companies rather than statistically reliable evidence of trends and prevailing practices. For this reason and in the interest of full transparency to the reader, each of the figures included in these pages, including those representing the frequency of survey responses, discloses the size of the underlying sample.

PART III: Notable Cases of CEO Succession (2016) includes summaries of 12 noteworthy CEO succession events at S&P 500 companies in 2016. The section highlights the circumstances surrounding each transition based on important information made public by the company and/or obtained from reputable outside sources. All case studies were chosen by The Conference Board.

The Conference Board Road Map to CEO Succession Planning, which is included as an appendix, outlines a series of steps to help directors organize succession planning, integrate it with existing board responsibilities, make it transparent both within and outside the company, and, ultimately, define it as an ongoing element of business strategy. The approach is intended to be straightforward, practical, and efficient, transforming succession planning from a responsibility that may be avoided to one that is embraced. Because succession planning is not a process in which one size fits all, flexibility is built into the guide, consistent with the complexity, sensitivity, and customized leadership demands that individual companies face.
Responsibility for succession planning belongs in the boardroom and nowhere else. The board of directors is legally authorized, temperamentally suited, and in possession of the authority and experience needed for effective succession planning. The issues that can lead boards to neglect succession planning are primarily organizational—and, to a lesser degree, political, psychological, and cultural. However, boards can overcome these issues if they are willing to codify the process and make it integral to and continuous with their duties of governance, business oversight, risk management, and strategic decision making. The hope is that CEO Succession Practices will provide boards with practical assistance related to the performance of these responsibilities.

TECHNICAL NOTES

The Conference Board CEO Succession Practices classifies companies in several ways, including by industry (using broad industry definitions from the Standard Industrial Classification system), CEO age, and company financial performance (based on stock returns).

Means and percentages in this report are descriptive, not prescriptive, and have been used to identify the latest practices and emerging trends. Unless otherwise specified, figures reported in the commentary refer to mean (or average) survey results.

When reference is made to the S&P 500, most of the corresponding charts illustrate findings by referring to both the number of companies and the percentage of the total sample. To avoid confusion in the review of these two sets of information, the reader should be aware that the companies included in the S&P 500 vary throughout the year, as companies are added and removed from the index. Our analysis is also limited to some extent by data availability constraints. The apparent discrepancy between the number of companies and sample percentages reported in certain instances is therefore due to the actual number of companies in the S&P 500 index that were examined at a particular point in time. Chart 1, on page 18, is based on the aggregate number of S&P 500 companies examined for the purpose of this study in each year of the sample period.

Cases of CEO succession were identified using extensive searches of corporate press releases on the investor relations and media sections of S&P 500 company websites. This search process is then cross-checked against a variety of outside sources, including information from the National Association of Corporate Directors (NACD), the Compustat Executive Compensation (ExecuComp) database, and the AuditAnalytics database. The emphasis is on announcements of succession events. Hence, the analysis will include successions that will not be final until 2017 and instances in which the incoming CEO has yet to be named. This focus on announcements will, from time to time, create apparent discrepancies relative to other sources of succession analyses that track completed succession events (particularly when succession events are due to be completed on January 1 of the following calendar year). For each identified case, the analysis used financial data retrieved from ExecuComp and The Center for Research in Security Prices (CRSP) US Stock Database, which were accessed through Wharton Research Data Services (WRDS). Additional information was gathered from corporate press releases.

None of the commentaries included in this report should be viewed as a recommendation on planning or administering a CEO succession process, which, for its complexity, does not lend itself to generalizations. For this reason, The Conference Board recommends that companies develop a plan for CEO succession with care, after considering the specific circumstances each organization faces in the current marketplace, including overall strategic priorities and future business needs. In some instances, the underlying data retrieved from the databases listed above are modified across time. The report revises and notes prior years’ information when such changes arise.
Key Findings

CEO succession planning is among the most challenging tasks required of the board of directors. It is a time-consuming process in which board members must re-evaluate strategic objectives, assess the interplay among skills, personalities and organizational culture, motivate employees and inspire investors—all while seeking the full collaboration of the existing chief executive. Failure to carefully plan the next leadership transition can have disastrous consequences for the company and undermine its reputation and credibility.

To make an informed decision, the board should understand not only the technical knowledge and experience necessary to effectively lead the company into the future, but also the context and practices of an effective succession planning process. To provide background information on succession practices and be of assistance to companies performing this critical task, CEO Succession Practices documents and analyzes all CEO succession events that took place at S&P 500 companies in the last 16 years. Additional analysis is based on findings of a survey that The Conference Board conducted in 2016.

CEO exits from underperforming companies rise to a level unseen in 15 years, driven by an exceptional number of dismissals in the retail and wholesale trade sector and the protracted weakness of oil and gas extraction companies. In 2016, The Conference Board recorded among S&P 500 companies a record high CEO succession rate of 12.6 percent—the highest since 2005 and higher than the 2001–2016 average of 10.9 percent (Chart 1). But it is the rate of CEO turnover at poorly performing companies (i.e., with an industry-adjusted two-year total shareholder return (TSR) in the bottom quartile of the S&P 500 sample) that stood out for growing sharply from 12.2 percent in 2015 to 17.1 percent in 2016 (Chart 2). In other words, in 2016, the CEOs of poorly performing companies had a 40 percent higher probability of being replaced than in 2015 and a 60 percent higher probability of being replaced than the CEOs of better-performing companies. The 17.1 percent succession rate is much higher than the 2001–2016 average of 13.9 percent and the highest seen since 2002, when 21.2 percent of poorly performing CEOs left their post. The major driver of this surge in 2016 is the exceptional number of CEO dismissals in the wholesale and retail trade sector, which, battled by a stronger dollar, weak emerging markets, and the rise to dominance of online competitors such as Amazon, was widely reported as among the biggest job cutters in recent years. Among retail companies, CEO dismissals were 50 percent of the total succession tally for 2016, compared to 14.3 percent in the prior year. Oil and gas extraction companies also experienced a spike in dismissals, with 75 percent of CEO succession cases in 2016 classified by The Conference Board as disciplinary, compared to 25 percent in the prior year (Chart 5).

The stability seen in the succession rate of better-performing companies may indicate that increased scrutiny over executive pay and performance has started to produce results. The succession rate of better-performing companies has shown minimal year-on-year fluctuation, especially in recent years and when compared with the succession rate of worse performers. In the last three years, in particular, the succession rate of CEOs of better-performing companies varied from 9.2 percent to 10.6 percent—for an average of 9.6 percent for the entire 15-year period covered by the study. In comparison, in the last three years, the CEO succession rate of poorly performing companies ranged from 11.3 percent 17.1 percent.
Even in years of higher CEO turnover, such as 2016, the succession rate among better-performing companies was only 15 percent higher than the prior year, while the succession rate of poorly performing companies jumped by 40 percent. The finding may reflect the pressure that new regulations and shareholders are putting on listed companies to introduce more rigorous metrics of long-term financial performance and ensure the alignment of CEO compensation with such measurable results. In today’s governance and investment climate, CEOs who achieve better performance benefit from even greater job stability while underperforming CEOs are even more exposed to public scrutiny. Such scrutiny may ultimately limit the board’s discretion to keep the underperformer.

CEO turnover reached a record high among consumer products companies, another signal that the sector is bracing for new strategic and market changes. Analysts contend that the consumer products industry is among the most vulnerable to today’s changes and disruptions. Multiple factors are driving the transformation of the business sector, including: shifts in consumer spending patterns, the advent of the “Internet of Things,” a changing mindset across market segments (with older age groups joining the ranks of digital users and younger generations embracing a new breed of sustainable products), as well as a shift in the global marketplace due to the expanding middle class in the Asia-Pacific region. That these changes require fresh leadership and a renewed strategic vision is confirmed by data on CEO turnover, which, at 20 percent (up from 10.2 percent in the prior year), was by far the highest of all industries in 2016 and among the highest ever recorded by The Conference Board for a single peer group of companies.

In contrast, companies in the manufacturing and services industries reported the lowest overall succession rate by industry, or less than 8.0 percent for each sector (Chart 4).

Much-talked about, gender diversity continues to be elusive at the helm of the largest US public companies, as only six of the 63 CEO positions that became available in the S&P 500 in 2016 were filled by a woman. In 2016, only 9.5 percent of the total number of CEO turnovers recorded by The Conference Board among companies in the index resulted in the appointment of a female candidate. The newly named CEOs include Adena Friedman of NASDAQ, Shira Goodman of Staples, and Michele Buck of The Hershey Company (Table 7). However discouraging it sounds, this finding is far from the worst in recent years if one considers, for example, that only one woman was named CEO of a S&P 500 company in 2015—the lowest share reported by The Conference Board since 2010. The highest percentage of incoming women CEOs is 18.2 during 2011, when 10 of the 55 cases of CEO succession resulted in a woman as the new chief executive (Chart 15). Overall, female representation in S&P 500 top leadership has grown significantly since 2001, when there were only six women CEOs. That number rose to its highest levels in 2013 and 2014, when it hit 24 in both years. The highest impact of female CEO departure was seen in 2010, when four of the then 12 women CEOs in the S&P 500 (or 33.3 percent) left their position; in the same year, as in 2015, only one of them was replaced with another woman. In 2011, however, the number of incoming women CEOs (10) far exceeded the number of female departures (four), therefore reversing the decline in the total number of S&P 500 women CEOs registered in 2010 (Chart 17).
In the last two years, the highest percentage of female appointments (10 percent) was seen in the finance and insurance industries, while consumer product companies have the highest number (six) of women CEOs (Chart 18). (The case study section of this report, which starts on page 86, discusses a recent example of appointment of the first woman CEO at a company: Tricia Griffith of The Progressive Corp.)

**After years of sharp rise, the succession rate of older CEOs has started to normalize at levels seen before the financial crisis, confirming the completion of a generational shift in business leadership** Following the 2008 financial crisis, The Conference Board study reported an acceleration of the rate of succession of CEOs aged 64 years or older: in the 2009–2014 period, their average turnover rate was 25.5 percent, compared to the 8.1 percent seen for younger CEOs. In the last couple of years, however, this phenomenon came to a halt: older CEOs departed in 2015 and 2016 at a rate of 15.1 percent and 16.1 percent, respectively, which is much more aligned with the historical succession rate that The Conference Board reported for their age group in the 2001–2008 period (Chart 3). Overall, this finding suggests that a generational shift in executive leadership might have run its course amid an improvement in firm performance and general economic context. Today, among S&P 500 companies, only 11 CEOs (or fewer than 3 percent of the total) are aged 72 or older: They include Warren Buffett (88) of Berkshire Hathaway, Fred Smith (72) of FedEx, Stefano Pessina (76) of Walgreens Boots Alliance, and Ralph Lauren (77) of the eponymous apparel company; in all cases but one—Seifi Ghasemi (72) of Air Products & Chemicals, named CEO in 2014—these individuals have led their companies for many years or even decades (Table 6). New incoming CEOs are, on average, in their early- to mid-fifties, while the appointment to the top job of executives aged 60 or older is quite uncommon (Chart 13).

**Departing CEO tenure in 2016 was nine years, but five percent of S&P 500 companies are led by CEOs with tenures of 20 years or longer** In 2009, at the peak of the financial crisis, the average CEO of an S&P 500 company held the position for 7.2 years, the shortest average tenure registered by The Conference Board and down from the 11.3 years found in 2002. However, departing CEO tenure in these large companies started to rebound soon after, rising to 8.4 years in 2011, 9.7 in 2013, 9.9 in 2014, and 10.8 in 2015. (In 2015, the number was partly skewed by Rupert Murdoch of media empire 21st Century Fox, who left his post after a 36-year tenure). In 2016, departing CEO tenure was nine years, close to the 8.9-year average reported by The Conference Board since 2001 (Chart 10). Several factors, including stricter board oversight practices introduced after the Enron scandal and the public scrutiny over pay for performance, may help explain the decline in CEO tenure observed in the 2003–2010 period. The slight reversal of the trend that started in 2011 is likely due to improved economic conditions as well as the natural deceleration of the generational change that a decade of shorter tenure data had been signaling. The longest-tenured CEOs currently serving at S&P 500 companies include Leslie H. Wexner of fashion retailer L Brands Inc. (who has been on the job for 54 years), Buffett of Berkshire Hathaway (47 years), and Alan Miller of hospital management company Universal Health Services (39 years). With a 21-year tenure, Jeff Bezos of Amazon.com also made the list of longest-serving CEOs (Table 3).
The appointment of outsiders to the CEO role continues to decline, as more companies rely on their internal leadership development programs and are sensitive to cultural continuity. As part of their effort to improve succession planning, companies continue to invest in leadership development and robust executive preparedness assessment programs. In 2016, 85.7 percent of incoming CEOs were “insiders” promoted to the CEO position after serving at least one year with the company (Chart 19). The remaining 14.3 percent were “outsiders,” having served less than one year with the company. These findings represent a clear break from the past, as corporate boards better appreciate the importance of grooming senior talent and maintaining an insider list of CEO-ready executives that won’t disrupt existing organizational practices and culture. Outside recruitment will remain important, but it tends to be viewed more narrowly as the channel of choice to navigate sharp strategic corrections or accelerate organizational changes. Only four years ago, in 2013, the percentage of outsiders was 23.8 percent, compared to 76.2 for insiders.

One out of 10 CEO successions in 2016 were navigated by an interim CEO, a role once used only in situations of emergencies and unplanned transitions. Gradual transitions have become more common and so has the option for the appointment of interim CEOs. In each of the last two years, approximately 10 percent of CEO succession events involved an interim appointment (Chart 24). This has happened, for example, at the media company Viacom, the office supplier Staples, and the discount travel Priceline Group (Table 12). In these and other cases, the length of service for interim CEOs ranged from one month to nearly two years, with two boards (Viacom and Staples) ultimately offering the permanent position to the executive serving in the interim (Bob Bakish and Shira Goodman, respectively). Previously used in situations of emergency, the practice no longer necessarily reveals shortcomings in the planning process or the need to indefinitely prolong the search for a successor. Instead, it can be implemented for a variety of reasons: to audition the person who is already expected to become permanent CEO; for the interim to groom the eventual candidate to the position; or to serve as “seat warmer” and better manage the public relations aspects of a lengthier leadership transition.

The immediate appointment of the incoming CEO as board chairman has become a rare exception, as proxy advisors and the investment community increasingly demand independent board leadership. Only 6.4 percent of the successions in 2016 involved the immediate joint appointment of the new CEO as board chairman—the lowest level ever reported by The Conference Board (Chart 23). This finding should be reviewed in conjunction with data on board practices evidencing the growing propensity of US companies, including the larger ones, to either strengthen the independence of the board of directors and ensure a separate and impartial leadership of the oversight body or use the succession as a way for the incoming CEO to earn the additional title of board chairman. In 2016, nine of 10 companies that underwent a CEO succession either already had a board chairman or appointed an outsider to the role who met securities exchange independence standards.
Policies that permit retaining a departing CEO on the board are also waning, as companies likely have become more sensitive to board independence and wish to avoid the risk of undermining the new leadership. While more common in the past, policies that explicitly permit keeping the former CEO involved as a board member are adopted by a small minority of firms today. Across industries, a large majority of companies indicated that they do not have a formal policy of this type, with the largest percentage found in nonfinancial services (Chart 29). In fact, in the manufacturing sector, 32.4 percent of firms have a requirement for the departing CEO to also resign from the board, whereas only 5.4 percent explicitly permit continued board tenure. There is also some degree of correlation between the requirement for the departing CEO to step down from the board of directors and the size of the company, when measured by annual revenue. Fifty percent of companies with annual revenue of US$20 billion or greater formally require that the CEO leave the board as part of his or her succession plan. This finding compares with the mere 9.1 percent of companies with annual revenue between US$1 billion and $4.9 billion, while none of the smaller companies (under US$1 billion in revenue) reported having it.

In a significant shift from the past, the majority of public companies now delegate CEO performance oversight to the compensation committee of the board of directors. In manufacturing and nonfinancial services companies, the once prevalent practice of involving the full board of directors in the process for evaluating CEO performance continues to lose ground in favor of delegation to the compensation committee. The scrutiny of the link between pay and performance and the increasing specialization of the compensation committee in defining the appropriate performance targets for the C-suite provide the most likely explanation for this trend. In the financial services industry, however, 69.2 percent of respondents to The Conference Board survey reported assigning CEO performance assessment responsibilities to the full board of directors, compared to the 23.1 percent in that industry that delegate those responsibilities to the compensation committee (Chart 25).

CEO succession planning remains a responsibility of all directors, as most boards do not see the value of instituting a standing committee solely responsible for a range of activities that intersect with governance and compensation oversight. Only a small fraction of companies in the services industries and size groups assign CEO succession planning oversight responsibilities to a dedicated, standalone board committee, with no manufacturing companies disclosing this practice (Chart 27). Instead, succession planning functions are performed either by the full board (61.4 percent of nonfinancial services companies, 47.2 percent of manufacturing companies, and 38.5 percent of financial firms) or through delegation to the compensation committee (16.7 percent of manufacturing companies) or the nominating/corporate governance committee (20.5 percent of nonfinancial companies). Twenty-five percent of the smallest companies in manufacturing and nonfinancial services, with annual revenue under US$1 billion, entrust CEO succession planning to the nominating/governance committee—the highest share found in the analysis by company size and annual revenue.
Smaller companies continue to devote fewer resources to and lag behind in CEO succession planning, and at least one-third places it on the board agenda only when an emergency arises. Across industries and all but one size group, the majority of companies that participated in The Conference Board survey reported that their boards review the CEO succession plan annually. The only exception in the analysis by company size is in companies with annual revenue under US$1 billion, where only 37.5 percent of companies are methodical in their review of the succession plan and do it at least annually (Chart 28). In fact, the smallest companies reported the highest percentage of cases where the CEO succession plan is reviewed only when a change in circumstances warrants it—for example, in the event of retirement, sudden death or illness, or other emergencies.

A large majority of companies have an in-house leadership development program, with mentoring from a professional executive coach and the assignment of special stretch projects being the program’s most common features. Literature on CEO succession planning praises the benefits of CEO “auditioning” practices, during which an outside candidate is not placed directly into the CEO slot but is first trained and tested by the board through temporary tasks and assignments of the type that a top business leader would be expected to execute. Among companies that rely on a leadership development program for members of the C-suite and that participated in The Conference Board survey, slightly less than half of manufacturing and financial services companies include auditioning periods in the program (Chart 35). Instead, a higher percentage opts for individual special projects or stretch assignments without the restraints of a predefined auditioning time period. Unlike CEO auditioning or stretch assignments, CEO apprenticeship is the period of time preceding the official succession announcement in which a CEO candidate accompanies the CEO on a number of strategic and highly visible tasks. It is used for the purpose of vetting the candidate’s leadership skills and offering new opportunities for exposure within and outside of the organization. Apprenticeship programs are marginally used, with the highest rate of adoption (23.1 percent) found in the financial services industry.

The largest financial companies show the highest rate of disclosure of CEO succession planning, a finding that may stem from their effort to strengthen a culture of risk oversight. Across most industries and size groups, less than half include information on succession planning in their annual disclosure to shareholders (Chart 32). Larger companies are far more likely to include this type of information in their proxy statement: in particular, disclosure has become a predominant practice among the largest financial companies, and 83.3 percent of those with assets valued at US$10 billion and greater regularly have adopted the practice of updating their investors on this topic. (The average percentage across the financial industry, to which the asset value breakdown refers, is also quite high, at 53.8. Numbers are much lower in manufacturing and nonfinancial services (22.2 percent and 28.6 percent, respectively).) The Dodd-Frank Act introduced the requirement of establishing a separate risk committee composed of independent directors for publicly traded bank holding companies with US$10 billion or more in assets and publicly traded nonbank financial companies supervised by the Federal Reserve. These regulatory developments and the efforts by many financial institutions to strengthen their risk management process after the 2008 credit crunch help explain such disparities in disclosure practices.
CEO successions now extend well beyond an individual and, in most cases, they are accompanied by changes in board composition and the C-suite. Of the succession announcements made by S&P 500 companies in 2016, 63.5 percent indicated that the CEO change would be accompanied by additional changes at the director or senior executive level (Chart 48). Such changes were either effective immediately or announced relatively soon after the appointment of the incoming CEO. This evidence confirms that, in a number of cases, an important element of succession planning is to fine-tune the composition of the entire leadership of the organization and remove members that may not fully support the new CEO. In other circumstances, instead, succession events may be good opportunities for a board to reconsider the strategic direction of the firm, assess the governance structure that will support it, and secure the new senior talent needed in its implementation.

Practices on the communication with market participants on CEO succession continue to strengthen, with boards emphasizing their role in succession planning, providing earlier notice of the event, and offering more details on the reasons for the transition. In public disclosures and media interactions, companies increasingly emphasize the role of corporate directors in the CEO succession planning process. In particular, compared with only a few years ago, boards in 2016 are nearly four times more likely to state in their press release that the CEO transition represents the culmination of their internal CEO succession planning process (Chart 47). More often than in the past, communications plans are crafted early so as to avoid surprising shareholders and other market participants. Of the succession announcements made by S&P 500 companies in 2016, 78 percent of announcements indicated that the succession would be effective at a future date, not immediately (Chart 45). Compared with 2015, boards in 2016 were 30 percent less likely to announce that the transition was effective immediately, indicating increasing attention to the importance of providing advance notice of a CEO succession. Finally, organizations seem to be more forthcoming on the reasons for CEO successions. Compared with 2015, boards were 24 percent less likely to state that the reason for the CEO departure was his or her retirement and 58 percent more likely to state that the departure was due either to a resignation or “stepping down” (Chart 46).
PART I
CEO SUCCESSION TRENDS
(2001–2016)
CEO Succession Rate

This section illustrates year-by-year succession rates and examines the evolution of certain aspects of the succession phenomenon—including the influence of firm performance on succession and the characteristics of the departing and incoming CEOs. When appropriate, the report compares emerging trends in chief executive successions with data available from the 1970s, 1980s, and 1990s to provide a broader historical perspective. Cases of CEO succession were identified using extensive searches of corporate press releases on the investor relations and media sections of S&P 500 company websites. The emphasis is on announcements of succession events. Hence, the analysis will include successions that might not be final until 2017 and instances in which the incoming CEO has yet to be named. This focus on announcements will, from time to time, create apparent discrepancies relative to other sources of succession analysis tracking succession events that were completed in 2016 (and, thus, were announced in 2015 or 2016). For each identified case, the analysis used financial data retrieved from ExecuComp and The Center for Research in Security Prices (CRSP) US Stock Database, which were accessed through Wharton Research Data Services (WRDS). Additional information was gathered from corporate press releases.

Chart 1 shows the annual succession rate of S&P 500 CEOs for the 2001–2016 period. The rate of CEO successions in calendar year 2016 was 12.6 percent—the highest rate recorded since 2005, in the wake of the dotcom bust, and higher than the average for the entire 2001–2016 period of 10.9 percent. The lowest rate recorded since the financial crisis is 8.4 percent, in 2013, while the highest is seen in 2005, when it reached nearly 15 percent.

In terms of actual numbers of turnover events, 63 CEOs in the S&P 500 announced their departure in 2016. The highest number in this period was 68 in 2005, and the lowest 40 in 2001 (Table 1).

By company performance

Chart 2 reports annual succession rates categorized according to whether company performance over the prior two years was in or above the bottom quartile of performance for S&P 500 companies. For the purposes of this analysis, succession rates are defined as the percentage of individuals in the last year of their service at the company in the CEO position, and performance is defined as the two-year total shareholder return (TSR) minus the two-year TSR of all S&P 500 companies in the same industry.

Note: Performance is defined as the two-year shareholder return (TSR) minus the two-year TSR of all S&P 500 companies in the same industry.

The analysis finds that the average succession rate of CEOs of poorly performing companies (industry-adjusted TSR in the bottom quartile) during the 2001–2016 period was 13.9 percent. The succession rate ranged from a low of 10.0 percent in 2006 to a high of 21.2 percent in 2002. In 2016, the rate was higher than in recent years at 17.1 percent, up from 12.2 percent in 2015. This average of 13.9 percent from 2001–2016 is lower than the 15 percent average seen in poorly performing S&P 500 companies between 1970 and 1994.1 Hence, the rate of CEO departure when stock returns are poor has not substantially changed since the 1970–1994 period, despite enhancements in corporate governance.

In addition, the analysis shows that the average succession rate of CEOs of better-performing companies (industry-adjusted TSR in the top three quartiles) was 9.6 percent for the 2001–2016 period. The succession rate was lowest in 2002 (6.5 percent) and highest in 2009 (11.6 percent). In 2016, the succession rate of CEOs of better-performing companies was 10.6 percent, which reflects an increase when compared with the 9.2 percent for 2015 and is higher than the average rate for the 2001–2016 period. Even though the difference may not be statistically meaningful, these rates are somewhat lower than those from an analysis of S&P 500 CEO succession events in the 1970–1994 period, during which the annual CEO succession rate at better-performing companies was 10.8 percent.2

Overall, the annual succession rate of CEOs of poorly performing companies exceeded that of better-performing companies in nearly each year of the sample period. As most analysts would expect, the probability of CEO succession is higher following poorer financial performance than following better financial performance.

**By departing CEO age**

Chart 3 shows annual succession rates categorized by whether the CEO was at least 64 years old at the time of the succession announcement, which, for the purpose of the analysis on voluntary versus disciplinary departures conducted for this report, was chosen as the typical age of retirement. Following the 2008 financial crisis, The Conference Board study reported an acceleration of the rate of succession of CEOs aged 64 years or older: in the 2009–2014 period, this older group’s average turnover rate was 25.5 percent, compared to the 8.1 percent seen for younger CEOs. In the last couple of years, however, this phenomenon came to a halt: older CEOs departed in 2015 and 2016 at rates of 15.1 percent and 16.1 percent, respectively, which are much more aligned with the historical succession rate that The Conference Board reported for their age groups in the 2001–2008 period. Overall, this finding suggests that a generational shift in executive leadership might have run its course amid an improvement in firm performance and general economic context. By contrast, among younger CEOs, the average succession rate increased to 11.5 percent in 2016, up from 7.7 percent in 2015 and 6.0 percent in 2014.

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2 Murphy, “Executive Compensation,” Handbook of Labor Economics.
In the 16-year period examined, the average percentage of turnover events involving older CEOs was 19.3, ranging from 29 in 2011 to 9.4 in 2008. In 2001, at the beginning of the period, older CEOs had a similar probability of being replaced in their role as they did in 2016, after six consecutive years of significantly higher probabilities from 2009–2014. In contrast, the rate of CEO succession for younger CEOs was fairly consistent across the sample, varying from 5.5 percent in 2013 to 13.4 percent in 2005—on average, 9.5 percent over the period.

For comparison, a similar analysis of CEO succession rates of S&P 500 companies between 1970 and 1994 found that 33 percent of CEOs left the firm at age 64 or 65, while 62 percent of the CEOs departed between the ages of 60 and 66. In 2016, only 19.0 percent of CEOs left the firm at age 64 or 65, while 49.2 percent departed between the ages of 60 and 66. Therefore, it seems the prevalence of successions involving CEOs at normal retirement age has declined significantly over time and is also lower in 2016 for those CEOs between the ages of 60 and 66.


3 Ibid.
By industry

An important strategic decision, such as a change in executive leadership, will often depend on the market conditions the company is experiencing and, more generally, the industry in which the company operates.

Chart 4 shows annual CEO succession rates classified according to the industry in which the company has primary operations. Analysts contend that the consumer products industry is among the most vulnerable to today’s changes and disruptions.4 Multiple factors are driving the transformation of the business sector, including: favorable consumer spending patterns, the advent of the “Internet of Things,” a changing mindset across market segments (with older age groups joining the ranks of digital users and younger generations embracing a new breed of sustainable products), as well as a shift in the global marketplace resulting from the expanding middle class of the Asia-Pacific region. That these changes require fresh leadership and a renewed strategic vision is confirmed by data on CEO turnover, which, at 20 percent (up from 10.2 percent in 2015), was by far the highest of all industries in 2016 and among the highest ever recorded by The Conference Board for a single peer group of companies. Wholesale and retail services, transportation and communications, extraction, and finance and insurance also had a succession rate greater than 10 percent in 2016. In contrast, companies in the manufacturing and services industries reported the lowest overall succession rates by industry, or less than 8 percent for each sector. These rates are lower than their 2001–2016 averages, as shown in Table 2.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Rate</th>
<th>Cases of succession in each industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services</td>
<td>8.5%</td>
<td>79</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>11.6</td>
<td>188</td>
</tr>
<tr>
<td>Wholesale, Retail</td>
<td>9.8</td>
<td>77</td>
</tr>
<tr>
<td>Finance, Insurance</td>
<td>7.8</td>
<td>123</td>
</tr>
<tr>
<td>Consumer Products</td>
<td>9.7</td>
<td>140</td>
</tr>
<tr>
<td>Transportation, Communication</td>
<td>9.8</td>
<td>108</td>
</tr>
<tr>
<td>Extraction</td>
<td>6.6</td>
<td>36</td>
</tr>
</tbody>
</table>

Note: Manufacturing includes companies categorized as Conglomerates.


Chart 5 illustrates the concentration of succession events per industry, as well as the prevalence of succession events due to the dismissal of the departing CEO. For the purposes of this analysis, a CEO dismissal (or disciplinary succession) is defined as a departure occurring prior to the age of 64 and when the company’s industry-adjusted TSR (as defined on page 19) is in the bottom quartile of all S&P 500 companies. The remaining CEO successions are categorized as nondisciplinary successions. When this definition is applied, 75 percent of CEO succession cases in the extraction industry and 50 percent of those in the wholesale and retail industry were the result of CEO dismissal. This again suggests that poorer stock price performance in these sectors put pressure on boards to make changes, even when the CEO is younger. In contrast, only 12.5 percent of successions were disciplinary successions in the manufacturing industry overall.

### Determinants of CEO Succession: The State of Empirical Research

Research on the determinants and costs of CEO succession events supports the following broad conclusions:

1. **The age and tenure of the departing CEO** The age of the departing CEO is more important in explaining CEO succession than measures of company performance. CEOs with fewer than five years in their current position are more likely to be dismissed for a company’s poor performance than CEOs with longer tenure.

2. **Company stock performance** CEO succession events are more likely when stock returns are bad than when returns are good, and they are more likely to occur when performance is poor and the CEO is in his or her first five years of service. However, company stock performance remains a less important driver of succession decisions than CEO age.

*Continued on next page…*
3 Company operating performance. CEO succession events are more likely when operating performance is bad than when operating performance is good. However, company operating performance remains a less important driver of succession decisions than company stock returns and CEO age.

4 Company size. The sensitivity of CEO succession events to company financial performance is generally higher among smaller companies (measured by annual revenue and asset value), while the importance of CEO age in explaining variation in CEO departure is generally highest among larger companies.

5 The board of directors. The sensitivity of succession to performance varies with characteristics of the board of directors. In particular, sensitivity increases with a higher percentage of independent directors and decreases with the percentage of CEO stock holdings and when the CEO is the firm’s founder or is from the founding family.

6 Institutional ownership. The sensitivity of succession to performance varies with characteristics of the firm’s investor base. In particular, sensitivity increases with a higher percentage of outside stock holdings (e.g., large outside shareholders). Institutional ownership can have a direct influence on the probability of CEO succession; evidence suggests that the increase in index fund ownership associated with the reconstitution of equity indices (e.g., Russell 1000) increases the probability of CEO turnover.

7 Initial public offerings. The rate of succession in recently listed companies ranges from 6 percent in the first year public to approximately 10 percent per year afterward. Roughly 30 percent of all companies experience a succession between the first year public and the fourth year.

8 The cost of succession to the company. The cost of succession to the company is estimated to be 5 percent of a company’s annual profit, of which 75 percent relates to the reduction in firm value tolerated by the board to avoid the direct cost of replacing the CEO. Such costs include the candidate search, a period of reduced productivity during the transition to a new CEO, severance pay, and possible loss of firm-specific knowledge that must be acquired by the new CEO.

9 The cost of succession to the departing CEO. Only 5.5 percent of CEOs under the age of 60 who leave the CEO position are hired as a top executive at another public firm. These executives go on to receive compensation that is approximately 24 percent lower than when they served as a CEO.

Characteristics of Departing CEOs

Age

From 2001 to 2016, the average departing CEO was 60.2 years old, as shown in Chart 6. This average has remained relatively constant across time, with 61.2 calculated for 2015. The range in departure ages by industry (Chart 7) shows some variation, with the lowest departure age in the services industry (57.1 years old) and the highest departure age in the extraction and transportation and communication industries (61.9 and 62.1 years old, respectively).

Note: Manufacturing includes companies categorized as Conglomerates.

Gender

Two of the departing CEOs in 2016 (3.2 percent) are women—the lowest number recorded since 1.8 percent in 2009 (Chart 8). Four female departures per year were observed in 2010, 2011, and 2015.

Chart 9 displays the distribution by business sector of departing women CEOs in the three-year period that includes 2014, 2015, and 2016. There were eight female CEO departures in total, four of which were in the manufacturing sector. As a result, manufacturing had an 11.4 percent succession rate for women CEOs across these years, the highest seen across industries.

Chart 8
Departing female CEOs (2001–2016)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Cases</th>
<th>Female CEO Departures</th>
<th>Percentage of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>40</td>
<td>1</td>
<td>(2.5%)</td>
</tr>
<tr>
<td>2002</td>
<td>45</td>
<td>0</td>
<td>(0.0%)</td>
</tr>
<tr>
<td>2003</td>
<td>48</td>
<td>0</td>
<td>(0.0%)</td>
</tr>
<tr>
<td>2004</td>
<td>55</td>
<td>1</td>
<td>(1.8%)</td>
</tr>
<tr>
<td>2005</td>
<td>68</td>
<td>2</td>
<td>(2.9%)</td>
</tr>
<tr>
<td>2006</td>
<td>50</td>
<td>2</td>
<td>(4.0%)</td>
</tr>
<tr>
<td>2007</td>
<td>58</td>
<td>2</td>
<td>(3.4%)</td>
</tr>
<tr>
<td>2008</td>
<td>50</td>
<td>1</td>
<td>(2.0%)</td>
</tr>
<tr>
<td>2009</td>
<td>56</td>
<td>1</td>
<td>(1.8%)</td>
</tr>
<tr>
<td>2010</td>
<td>51</td>
<td>4</td>
<td>(7.8%)</td>
</tr>
<tr>
<td>2011</td>
<td>55</td>
<td>4</td>
<td>(7.3%)</td>
</tr>
<tr>
<td>2012</td>
<td>53</td>
<td>2</td>
<td>(3.8%)</td>
</tr>
<tr>
<td>2013</td>
<td>42</td>
<td>2</td>
<td>(4.8%)</td>
</tr>
<tr>
<td>2014</td>
<td>51</td>
<td>4</td>
<td>(7.1%)</td>
</tr>
<tr>
<td>2015</td>
<td>56</td>
<td>4</td>
<td>(7.1%)</td>
</tr>
<tr>
<td>2016</td>
<td>63</td>
<td>2</td>
<td>(3.2%)</td>
</tr>
</tbody>
</table>

Note: Data prior to 2013 is based on companies in the Fortune 500, which ranks the largest 500 companies by revenue.

Chart 9
Departing female CEOs by industry (2014–2016)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Total Cases</th>
<th>Female CEO Departures</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Products</td>
<td>38</td>
<td>1</td>
<td>(2.6%)</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>35</td>
<td>4</td>
<td>(11.4%)</td>
</tr>
<tr>
<td>Wholesale, Retail</td>
<td>25</td>
<td>1</td>
<td>(4.0%)</td>
</tr>
<tr>
<td>Transportation, Communication</td>
<td>23</td>
<td>1</td>
<td>(4.3%)</td>
</tr>
<tr>
<td>Finance, Insurance</td>
<td>20</td>
<td>1</td>
<td>(5.0%)</td>
</tr>
<tr>
<td>Services</td>
<td>17</td>
<td>0</td>
<td>(0%)</td>
</tr>
<tr>
<td>Extraction</td>
<td>13</td>
<td>0</td>
<td>(0%)</td>
</tr>
</tbody>
</table>

Tenure

More stable economic conditions and the improved corporate performance of the last couple of years have halted the declining trend in average CEO tenure observed by The Conference Board in the first decade of the century. In 2009, at the peak of the financial crisis, the average CEO of an S&P 500 held his or her position for 7.2 years—the shortest average tenure registered by The Conference Board and down from the 11.3 years found in 2002. However, CEO tenure in large companies started to rebound soon after, rising to 8.4 years in 2011, 9.7 in 2013, 9.9 in 2014, and 10.8 in 2015. In 2016, CEO tenure was in line with that seen since 2013 at nine years (Chart 10). In contrast, employee tenure across the broader labor market has remained relatively constant over the past 25 years: 5.1 years in 2008 compared with five years in 1983.5

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Table 3 lists the 26 longest-tenured CEOs currently serving at S&P 500 companies.

<table>
<thead>
<tr>
<th>Company name</th>
<th>CEO</th>
<th>Year became CEO</th>
<th>Tenure as CEO (years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>L Brands Inc</td>
<td>Leslie H. Wexner</td>
<td>1963</td>
<td>54</td>
</tr>
<tr>
<td>Berkshire Hathaway</td>
<td>Warren E. Buffett</td>
<td>1970</td>
<td>47</td>
</tr>
<tr>
<td>Universal Health Services</td>
<td>Alan Miller</td>
<td>1978</td>
<td>39</td>
</tr>
<tr>
<td>Robert Half Intl Inc</td>
<td>Harold Max Messmer, Jr.</td>
<td>1987</td>
<td>30</td>
</tr>
<tr>
<td>Cerner Corp</td>
<td>Neal L. Patterson</td>
<td>1987</td>
<td>30</td>
</tr>
<tr>
<td>Regenron Pharmaceuticals</td>
<td>Leonard S. Schleifer, M.D., Ph.D.</td>
<td>1988</td>
<td>29</td>
</tr>
<tr>
<td>Royal Carribean Cruises LTD</td>
<td>Richard Fain</td>
<td>1988</td>
<td>29</td>
</tr>
<tr>
<td>Henry Schein Inc</td>
<td>Stanley M. Bergman</td>
<td>1989</td>
<td>28</td>
</tr>
<tr>
<td>AFLAC Inc</td>
<td>Daniel P. Amos</td>
<td>1990</td>
<td>27</td>
</tr>
<tr>
<td>Zions Bancorp</td>
<td>Harris H. Simmons</td>
<td>1990</td>
<td>27</td>
</tr>
<tr>
<td>Monster Beverage Corp</td>
<td>Rodney C. Sacks</td>
<td>1990</td>
<td>27</td>
</tr>
<tr>
<td>Activision Blizzard</td>
<td>Bobby Kotick</td>
<td>1991</td>
<td>26</td>
</tr>
<tr>
<td>Microchip Technology Inc</td>
<td>Stephen Sanghi</td>
<td>1991</td>
<td>26</td>
</tr>
<tr>
<td>CenturyLink Inc</td>
<td>Glen F. Post, III</td>
<td>1992</td>
<td>25</td>
</tr>
<tr>
<td>Nvidia Corp</td>
<td>Jen-Hsun Huang</td>
<td>1993</td>
<td>24</td>
</tr>
<tr>
<td>Macerich Co</td>
<td>Arthur M. Coppola</td>
<td>1993</td>
<td>24</td>
</tr>
<tr>
<td>Apartment Investment &amp; Management Co</td>
<td>Terry Considine</td>
<td>1994</td>
<td>23</td>
</tr>
<tr>
<td>Capital One Financial Corp</td>
<td>Richard D. Fairbank</td>
<td>1994</td>
<td>23</td>
</tr>
<tr>
<td>Waters Corp</td>
<td>Douglas A. Berthiaume</td>
<td>1994</td>
<td>23</td>
</tr>
<tr>
<td>Arthur J Gallagher &amp; Co</td>
<td>J. Gallagher, Jr.</td>
<td>1995</td>
<td>22</td>
</tr>
<tr>
<td>Hess Corp</td>
<td>John B. Hess</td>
<td>1995</td>
<td>22</td>
</tr>
<tr>
<td>Simon Property Group Inc</td>
<td>David E. Simon</td>
<td>1995</td>
<td>22</td>
</tr>
<tr>
<td>Cablevision Sys Corp</td>
<td>James L. Dolan</td>
<td>1995</td>
<td>22</td>
</tr>
<tr>
<td>Under Armour Inc</td>
<td>Kevin A. Plank</td>
<td>1996</td>
<td>21</td>
</tr>
<tr>
<td>Amazon.com Inc</td>
<td>Jeffrey P. Bezos</td>
<td>1996</td>
<td>21</td>
</tr>
</tbody>
</table>

Disciplinary and nondisciplinary departures

CEO successions can be distinguished as nondisciplinary or disciplinary, with the latter often attributed to poor company financial performance (see page 19).

Chart 11 highlights how the rate of disciplinary departures has evolved over time. For the purposes of this analysis, a CEO disciplinary succession is defined as a departure occurring prior to the age of 64 and when industry-adjusted TSR (as defined on page 19) is in the bottom quartile of all S&P 500 companies. The remaining successions are categorized as nondisciplinary.

The chart shows that disciplinary successions vary rather widely across the sample period: rates range from 13.2 percent in 2005 to 40 percent in 2002 (on average, 23.8 percent for the 16-year period). In 2016, disciplinary successions increased from their level in 2015 to be more consistent with the rates documented during the 2010–2013 period, with an average dismissal rate for the index of 29 percent. It would appear this increase, when compared with 2015, is driven partly by the poor performance of companies in the consumer products and wholesale and retail sectors.

* Revised calculation from 2013 edition, reflecting updates to the underlying dataset.

**Source:** The Conference Board (based on raw data from Center for Research in Security Prices (CRSP)), 2017.
Chart 12 highlights how disciplinary CEO successions varied across industry classifications in 2016 and provides some insight into the average dismissal rate of 29 percent (Chart 11). In particular, 75 percent of CEO succession cases in the extraction industry and 50 percent of CEO succession cases in the wholesale and retail industry were the result of the dismissal of the departing CEO. In contrast, only 12.5 percent of succession events in the manufacturing sector were the result of disciplinary successions in 2016.

Characteristics of Incoming CEOs

Age

Charts 13 and 14 report trends in the average age of incoming CEOs. Table 4 lists youngest and oldest incoming CEOs in the S&P 500 in 2016 and is complemented by Tables 5 and 6, which list all youngest and oldest CEOs currently serving at S&P 500 companies. The charts show that the average age of incoming CEOs was similar from 2001–2016 across industries at 52.9 years old and ranged approximately from 52 to 55 years old. It is uncommon for a company to appoint an incoming CEO who is at least 62 years old—less than eight percent of incoming CEOs fit this description in 2016, with most of these CEOs being appointed from the board. Chart 14 reports the average age of an incoming CEO by industry classification. Even in the industry analysis, there is little difference seen in incoming CEO age.

Today, among S&P 500 companies, only 11 CEOs are aged 72 or older: They include Warren Buffett (86 years old) of Berkshire Hathaway, Fred Smith (72) of FedEx, Stefano Pessina (76) of Walgreens Boots Alliance, and Ralph Lauren (77) of the eponymous apparel company. In all cases but one—Seifi Ghasemi (72) of Air Products & Chemicals, named CEO in 2014—these individuals have led their companies for many years or even decades (Table 6).

### Table 4
Youngest and oldest incoming CEOs (2016)

<table>
<thead>
<tr>
<th>Company name</th>
<th>New CEO</th>
<th>Age</th>
<th>Announcement date</th>
<th>Effective date</th>
<th>Placement</th>
<th>Former CEO</th>
<th>Age</th>
<th>Reason for change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crown Castle International Corp</td>
<td>Jay Brown</td>
<td>43</td>
<td>1/27/2016</td>
<td>6/1/2016</td>
<td>Internal</td>
<td>Ben Moreland</td>
<td>52</td>
<td>Former CEO stepped down</td>
</tr>
<tr>
<td>Avery Dennison Corp</td>
<td>Mitchell R. Butier</td>
<td>44</td>
<td>2/25/2016</td>
<td>5/1/2016</td>
<td>Internal</td>
<td>Dean Scarborough</td>
<td>60</td>
<td>Former CEO retired</td>
</tr>
<tr>
<td>Illumina, Inc</td>
<td>Francis deSouza</td>
<td>45</td>
<td>3/7/2016</td>
<td>7/5/2016</td>
<td>Internal</td>
<td>Jay Flatley</td>
<td>63</td>
<td>Former CEO stepped down</td>
</tr>
<tr>
<td>CarMax, Inc</td>
<td>Bill Nash</td>
<td>46</td>
<td>2/1/2016</td>
<td>12/1/2016</td>
<td>Internal</td>
<td>Tom Folliard</td>
<td>51</td>
<td>Former CEO retired</td>
</tr>
<tr>
<td>Coty, Inc</td>
<td>Camillo Pane</td>
<td>46</td>
<td>7/21/2016</td>
<td>10/3/2016</td>
<td>Internal</td>
<td>Bart Becht</td>
<td>60</td>
<td>Company merged with P&amp;G Specialty Beauty</td>
</tr>
<tr>
<td>Nasdaq, Inc</td>
<td>Adena Friedman</td>
<td>46</td>
<td>11/14/2016</td>
<td>1/1/2017</td>
<td>Internal</td>
<td>Bob Greifeld</td>
<td>58</td>
<td>Former CEO stepped down</td>
</tr>
<tr>
<td>Quanta Services, Inc</td>
<td>Earl &quot;Duke&quot; Austin, Jr.</td>
<td>46</td>
<td>3/14/2016</td>
<td>3/14/2016</td>
<td>Internal</td>
<td>Jim O’Neil</td>
<td>58</td>
<td>Former CEO stepped down</td>
</tr>
<tr>
<td>Reynolds American, Inc</td>
<td>Debra Crew</td>
<td>46</td>
<td>10/19/2016</td>
<td>1/1/2017</td>
<td>Internal</td>
<td>Susan Cameron</td>
<td>57</td>
<td>Former CEO stepped down</td>
</tr>
<tr>
<td>The J.M. Smucker Company</td>
<td>Mark Smucker</td>
<td>46</td>
<td>3/7/2016</td>
<td>5/1/2016</td>
<td>Internal</td>
<td>Richard Smucker</td>
<td>68</td>
<td>Former CEO stepped down</td>
</tr>
<tr>
<td>Alexion Pharmaceuticals, Inc</td>
<td>David Brennan</td>
<td>62</td>
<td>12/12/2016</td>
<td>12/12/2016</td>
<td>External (Director)</td>
<td>David L. Hallal</td>
<td>50</td>
<td>Former CEO resigned</td>
</tr>
<tr>
<td>Whole Foods Market</td>
<td>John Mackey</td>
<td>63</td>
<td>11/2/2016</td>
<td>12/31/2016</td>
<td>Internal</td>
<td>Walter Robb</td>
<td>63</td>
<td>Former co-CEO retired</td>
</tr>
<tr>
<td>Broadcom Ltd</td>
<td>Hock Tan</td>
<td>65</td>
<td>1/29/2016</td>
<td>1/29/2016</td>
<td>Internal</td>
<td>Scott McGregor</td>
<td>60</td>
<td>Company merged with Avago Technologies</td>
</tr>
<tr>
<td>Teradata Corp</td>
<td>Victor Lund</td>
<td>68</td>
<td>5/5/2016</td>
<td>5/5/2016</td>
<td>External (Director)</td>
<td>Mike Koehler</td>
<td>63</td>
<td>Former CEO stepped down</td>
</tr>
<tr>
<td>HCP, Inc</td>
<td>Mike McKee</td>
<td>70</td>
<td>7/11/2016</td>
<td>7/11/2016</td>
<td>External (Director)</td>
<td>Lauralee Martin</td>
<td>65</td>
<td>Former CEO resigned</td>
</tr>
</tbody>
</table>

### Table 5
**Youngest CEOs in the S&P 500 (2016)**

<table>
<thead>
<tr>
<th>Company name</th>
<th>CEO</th>
<th>Age</th>
<th>Year became CEO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facebook Inc.</td>
<td>Mark Zuckerberg</td>
<td>31</td>
<td>2004</td>
</tr>
<tr>
<td>Electronic Arts Inc.</td>
<td>Andrew Wilson</td>
<td>41</td>
<td>2013</td>
</tr>
<tr>
<td>Yahoo Inc.</td>
<td>Marissa Mayer</td>
<td>41</td>
<td>2012</td>
</tr>
<tr>
<td>Transocean LTD</td>
<td>Jeremy Thigpen</td>
<td>42</td>
<td>2015</td>
</tr>
<tr>
<td>Twenty-First Century Fox Inc</td>
<td>James Murdoch</td>
<td>43</td>
<td>2015</td>
</tr>
<tr>
<td>Alphabet Inc.</td>
<td>Larry Page</td>
<td>44</td>
<td>2011*</td>
</tr>
<tr>
<td>Under Armour Inc.</td>
<td>Kevin Plank</td>
<td>44</td>
<td>1996</td>
</tr>
<tr>
<td>Juniper Networks Inc</td>
<td>Rami Rahim</td>
<td>46</td>
<td>2014</td>
</tr>
</tbody>
</table>

* Google’s CEO from 2011-2015 (when he became the CEO of Alphabet)


### Table 6
**Oldest CEOs in the S&P 500 (2016)**

<table>
<thead>
<tr>
<th>Company name</th>
<th>CEO</th>
<th>Age</th>
<th>Year became CEO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Berkshire Hathaway</td>
<td>Warren E. Buffett</td>
<td>86</td>
<td>1970</td>
</tr>
<tr>
<td>L Brands Inc</td>
<td>Leslie H. Wexner</td>
<td>79</td>
<td>1963</td>
</tr>
<tr>
<td>Universal Health Services</td>
<td>Alan Miller</td>
<td>77</td>
<td>1978</td>
</tr>
<tr>
<td>Ralph Lauren Corp</td>
<td>Ralph Lauren</td>
<td>77</td>
<td>1997-2015, 2017-present</td>
</tr>
<tr>
<td>Walgreens Boots Alliance Inc</td>
<td>Stefano Pessina</td>
<td>76</td>
<td>2015</td>
</tr>
<tr>
<td>Centene Corp</td>
<td>Michael Neidorff</td>
<td>73</td>
<td>1996</td>
</tr>
<tr>
<td>Vornado Realty Trust</td>
<td>Steven Roth</td>
<td>73</td>
<td>1981-2009, 2013-present</td>
</tr>
<tr>
<td>Wynn Resorts LTD</td>
<td>Stephen Wynn</td>
<td>75</td>
<td>2002</td>
</tr>
<tr>
<td>Air Products &amp; Chemicals</td>
<td>Seifi Ghasemi</td>
<td>72</td>
<td>2014</td>
</tr>
<tr>
<td>FedEx Corp</td>
<td>Fred Smith</td>
<td>72</td>
<td>1998</td>
</tr>
</tbody>
</table>

Gender

Chart 15 provides information on the gender of incoming CEOs, illustrating by year the number and percentage of new women CEOs in the S&P 500. In 2016, out of 63 top leadership turnover events, six led to the appointment of a woman as the CEO successor (9.5 percent). The chart also shows that the highest share of incoming women CEOs is 18.2 and was seen in 2011, when 10 of the 55 cases of CEO succession resulted in the selection of a woman as the new chief executive. The 2016 percentage is the highest reported by The Conference Board since 2013.

Given the small number of incoming female CEOs announced in the 2014–2016 period, the breakdown by industry included in Chart 16 has anecdotal but not statistical relevance.

![Chart 15: Incoming female CEOs (2001–2016)](image)

Note: Data prior to 2013 is based on companies in the Fortune 500, which ranks the largest 500 companies by revenue.

![Chart 16: Incoming female CEOs by industry (2014–2016)](image)

Charts 17 and 18 compare data on incoming women CEOs with data on departing women CEOs (from Charts 8 and 9, on page 26). The figures are useful to assess the net effect of succession events on female representation among CEOs in large companies; therefore, the percentages in these charts refer to the total number of women CEOs in the index, not the total number of CEO succession events that took place in each of the 16 years examined.

Chart 17 shows that female representation in large companies has grown significantly since 2001: there were only six women CEOs at that time and the number rose to its highest level in 2013 and 2014, when it was 24. The last year has seen a net increase of four women CEOs. The highest impact of female CEO departure was seen in 2010, when four of the then 12 women CEOs of large companies (or 33.3 percent) left their positions; in the same year, as in 2015, only one of them was replaced with another woman. In 2011, however, the number of incoming women CEOs (10) far exceeded the number of female departures (four), therefore reversing the decline in the total number of large company women CEOs registered in 2010.

Given the small number of departing and incoming women CEOs announced in the 2014–2016 period, the breakdown by industry included in Chart 18 has anecdotal but not statistical relevance.
Chart 17
Incoming (vs. departing) female CEOs (2001–2016)

Note: Due to changes in the composition of the S&P 500 index, the total number of female CEOs displayed for each of the years does not always reflect the addition and subtraction of incoming and departing female CEOs in the prior year.
Data prior to 2013 is based on companies in the Fortune 500, which ranks the largest 500 companies by revenue.

Chart 18
Incoming (vs. departing) female CEOs by industry (2016)

Table 7 lists all female CEOs currently serving at S&P 500 companies. The newly named women CEOs include Adena Friedman of NASDAQ, Shira Goodman of Staples, and Michele Buck of The Hershey Company.

<table>
<thead>
<tr>
<th>CEO</th>
<th>Company name</th>
<th>Age</th>
<th>Year became CEO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debra Cafaro</td>
<td>Ventas Inc</td>
<td>59</td>
<td>1999</td>
</tr>
<tr>
<td>Indra Nooyi</td>
<td>PepsiCo</td>
<td>60</td>
<td>2006</td>
</tr>
<tr>
<td>Irene Rosenfeld</td>
<td>Mondelez International Inc</td>
<td>62</td>
<td>2006*</td>
</tr>
<tr>
<td>Meg Whitman</td>
<td>Hewlett-Packard Enterprises</td>
<td>60</td>
<td>2011**</td>
</tr>
<tr>
<td>Denise Morrison</td>
<td>Campbell Soup Company</td>
<td>62</td>
<td>2011</td>
</tr>
<tr>
<td>Beth Mooney</td>
<td>KeyCorp</td>
<td>61</td>
<td>2011</td>
</tr>
<tr>
<td>Debra Reed</td>
<td>Sempra Energy</td>
<td>60</td>
<td>2011</td>
</tr>
<tr>
<td>Gracia Martore</td>
<td>Tegna Inc</td>
<td>64</td>
<td>2011</td>
</tr>
<tr>
<td>Patricia Kampling</td>
<td>Alliant Energy Corp</td>
<td>56</td>
<td>2012</td>
</tr>
<tr>
<td>Ginni Rometty</td>
<td>IBM Corp</td>
<td>59</td>
<td>2012</td>
</tr>
<tr>
<td>Heather Bresch</td>
<td>Mylan NV</td>
<td>47</td>
<td>2012</td>
</tr>
<tr>
<td>Marissa Mayer</td>
<td>Yahoo Inc</td>
<td>41</td>
<td>2012</td>
</tr>
<tr>
<td>Lynn Good</td>
<td>Duke Energy Corp</td>
<td>56</td>
<td>2013</td>
</tr>
<tr>
<td>Phebe Novakovic</td>
<td>General Dynamics Corp</td>
<td>58</td>
<td>2013</td>
</tr>
<tr>
<td>Marillyn Hewson</td>
<td>Lockheed Martin Corp</td>
<td>62</td>
<td>2013</td>
</tr>
<tr>
<td>Mary Dillon</td>
<td>Ulta Beauty Inc</td>
<td>55</td>
<td>2013</td>
</tr>
<tr>
<td>Mary Barra</td>
<td>General Motors Co</td>
<td>55</td>
<td>2014</td>
</tr>
<tr>
<td>Barbara Rentler</td>
<td>Ross Stores Inc</td>
<td>59</td>
<td>2014</td>
</tr>
<tr>
<td>Adena Friedman</td>
<td>Nasdaq Inc</td>
<td>46</td>
<td>2016</td>
</tr>
<tr>
<td>Debra Crew</td>
<td>Reynolds American Inc</td>
<td>46</td>
<td>2016</td>
</tr>
<tr>
<td>Patricia Poppe</td>
<td>CMS Energy</td>
<td>47</td>
<td>2016</td>
</tr>
<tr>
<td>Shira Goodman</td>
<td>Staples, Inc</td>
<td>55</td>
<td>2016</td>
</tr>
<tr>
<td>Michele Buck</td>
<td>The Hershey Company</td>
<td>55</td>
<td>2017***</td>
</tr>
<tr>
<td>Tricia Griffith</td>
<td>The Progressive Corp</td>
<td>52</td>
<td>2017***</td>
</tr>
</tbody>
</table>

* 2006-2012 at Kraft, then separated into two firms in 2012
** 2011-2015 at Hewlett-Packard Company, then separated into two firms in 2015
*** As announced in 2016

Inside promotions and outside hires

Chart 19 illustrates that 85.7 percent of incoming CEOs in the succession events that occurred in 2016 were “insiders” who were promoted to the CEO position after serving at least one year with the company. The remaining 14.3 percent were “outsiders” who had served less than one year with the company. These percentages are identical to those from 2015. Overall, the findings show a continued decrease in the appointment of outsiders, down from 20.4 percent in 2014 and 23.8 percent in 2013. As reported in a previous edition of this study, it was 27.1 percent in 2012.

During the 1970s, only 8.3 percent of incoming CEOs of S&P 500 companies (31 of 373 CEO succession events) were appointed from outside the company. In the 1980s, this number increased to 10.4 percent of incoming CEOs (36 of 347) and, by the early 1990s, nearly 20 percent of incoming CEOs were outside hires (54 of 285 incoming CEOs between 1990 and 1996). From 2013 to 2016, an average 18.2 percent of incoming CEOs were outside hires. While the average rate of hiring outsiders to fill vacated CEO positions appears to have stabilized since the early 1990s at approximately 20 percent, the past two years have been meaningfully lower; this lower rate is worth monitoring in the coming years.

---

6 Murphy, “Executive Compensation,” Handbook of Labor Economics.
Table 8 lists the outsiders appointed to the CEO role at S&P 500 companies in 2016.

<table>
<thead>
<tr>
<th>Company name</th>
<th>New CEO</th>
<th>Age</th>
<th>Announcement date</th>
<th>Effective date</th>
<th>Placement</th>
<th>Former CEO</th>
<th>Age</th>
<th>Reason for change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alexion Pharmaceuticals, Inc</td>
<td>David Brennan</td>
<td>62</td>
<td>12/12/2016</td>
<td>12/12/2016</td>
<td>External (Director)</td>
<td>David L. Hallal</td>
<td>50</td>
<td>Former CEO resigned</td>
</tr>
<tr>
<td>Biogen, Inc</td>
<td>Michel Vounatsos</td>
<td>55</td>
<td>12/19/2016</td>
<td>1/6/2017</td>
<td>External</td>
<td>George A. Scangos</td>
<td>67</td>
<td>Former CEO retired</td>
</tr>
<tr>
<td>CME Group</td>
<td>Terry Duffy</td>
<td>58</td>
<td>11/10/2016</td>
<td>12/31/2016</td>
<td>External (Director)</td>
<td>Phupinder Gill</td>
<td>55</td>
<td>Former CEO retired</td>
</tr>
<tr>
<td>HCP, Inc</td>
<td>Tom Herzog</td>
<td>53</td>
<td>11/14/2016</td>
<td>1/1/2017</td>
<td>External</td>
<td>Mike McKee</td>
<td>70</td>
<td>Former CEO stepped down</td>
</tr>
<tr>
<td>HCP, Inc</td>
<td>Mike McKee</td>
<td>70</td>
<td>7/11/2016</td>
<td>7/11/2016</td>
<td>External (Director)</td>
<td>Lauralee Martin</td>
<td>65</td>
<td>Former CEO resigned</td>
</tr>
<tr>
<td>Symantec Corp</td>
<td>Greg Clark</td>
<td>51</td>
<td>4/28/2016</td>
<td>9/1/2016</td>
<td>External</td>
<td>Michael Brown</td>
<td>57</td>
<td>Former CEO resigned</td>
</tr>
<tr>
<td>Teradata Corp</td>
<td>Victor Lund</td>
<td>68</td>
<td>5/5/2016</td>
<td>5/5/2016</td>
<td>External (Director)</td>
<td>Mike Koehler</td>
<td>63</td>
<td>Former CEO stepped down</td>
</tr>
<tr>
<td>Visa, Inc</td>
<td>Alfred Kelly, Jr.</td>
<td>58</td>
<td>10/17/2016</td>
<td>12/1/2016</td>
<td>External (Director)</td>
<td>Charlie Scharf</td>
<td>51</td>
<td>Former CEO resigned</td>
</tr>
</tbody>
</table>

In an interesting new practice, a number of companies in the 2014–2016 period chose to offer the chief executive position to a current board member (either independent or executive board member), rather than choosing a complete outsider. Table 9 lists the five cases of this type that took place in the S&P 500 in 2016.

### Tenure-in-company of insider appointments

Chart 20 shows that the average tenure-in-company of an insider at the time of promotion to CEO was 15.3 years across the sample period and 14.9 years in 2016.\(^7\)

### Table 9

<table>
<thead>
<tr>
<th>Company name</th>
<th>Incoming CEO</th>
<th>Age</th>
<th>Announcement date</th>
<th>Effective date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alexion Pharmaceuticals, Inc</td>
<td>David Brennan</td>
<td>62</td>
<td>12/12/2016</td>
<td>12/12/2016</td>
</tr>
<tr>
<td>CME Group</td>
<td>Terry Duffy</td>
<td>58</td>
<td>11/10/2016</td>
<td>12/31/2016</td>
</tr>
<tr>
<td>HCP, Inc</td>
<td>Mike McKee</td>
<td>70</td>
<td>7/11/2016</td>
<td>7/11/2016</td>
</tr>
<tr>
<td>Visa, Inc</td>
<td>Alfred Kelly, Jr.</td>
<td>58</td>
<td>10/17/2016</td>
<td>12/1/2016</td>
</tr>
</tbody>
</table>


\(^7\) This analysis is based on a subsample of CEO succession events; the data source does not report details on the date all CEOs joined the company as an employee.
The analysis also examined whether an inside promotion was a “seasoned executive,” defined for the purpose of this report as an executive with tenure in the company that exceeds 20 years. Chart 21 reports that 33.3 percent of inside promotions to CEO in 2016 involved seasoned executives, up from 28.6 percent in 2015 and down from 38.8 percent in 2014. For comparison, the percentage of incoming CEOs who were seasoned executives declined from 58 percent at the end of the 1980s to 46 percent by 1996. Consequently, the percentage of successions involving incoming CEOs with at least 20 years of experience in the company is lower than the historical evidence, but has increased since 2013.

Chart 21

Incoming CEOs who are “seasoned executives” (2013–2016)

<table>
<thead>
<tr>
<th>Year</th>
<th>Seasoned executive</th>
<th>Non-seasoned executive</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>38.8%</td>
<td>61.2%</td>
</tr>
<tr>
<td>2014</td>
<td>26.2%</td>
<td>73.8%</td>
</tr>
<tr>
<td>2015</td>
<td>28.6%</td>
<td>71.4%</td>
</tr>
<tr>
<td>2016</td>
<td>33.3%</td>
<td>66.7%</td>
</tr>
</tbody>
</table>

Note: A “seasoned executive” has been with the company for 20 years or longer.


---

8 Murphy, “Executive Compensation,” Handbook of Labor Economics.
Table 10 lists the 13 most-seasoned executives who were promoted to the CEO role in the S&P 500 in 2016.

<table>
<thead>
<tr>
<th>Company name</th>
<th>Incoming CEO</th>
<th>Age</th>
<th>Announcement date</th>
<th>Effective date</th>
<th>Tenure in company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Whole Foods Market</td>
<td>John Mackey*</td>
<td>63</td>
<td>11/2/2016</td>
<td>12/31/2016</td>
<td>38</td>
</tr>
<tr>
<td>Caterpillar, Inc.</td>
<td>Jim Umpleby</td>
<td>59</td>
<td>10/17/2016</td>
<td>1/1/2017</td>
<td>35</td>
</tr>
<tr>
<td>HanesBrands, Inc</td>
<td>Gerald Evans, Jr.</td>
<td>57</td>
<td>6/13/2016</td>
<td>10/1/2016</td>
<td>33</td>
</tr>
<tr>
<td>Rockwell Automation</td>
<td>Blake Moret</td>
<td>53</td>
<td>4/19/2016</td>
<td>7/1/2016</td>
<td>30</td>
</tr>
<tr>
<td>Wells Fargo &amp; Company</td>
<td>Tim Sloan</td>
<td>56</td>
<td>10/12/2016</td>
<td>10/12/2016</td>
<td>29</td>
</tr>
<tr>
<td>The Progressive Corp</td>
<td>Tricia Griffith</td>
<td>52</td>
<td>5/12/2016</td>
<td>7/1/2016</td>
<td>28</td>
</tr>
<tr>
<td>Hormel Foods Corp</td>
<td>James Snee</td>
<td>49</td>
<td>9/6/2016</td>
<td>10/31/2016</td>
<td>27</td>
</tr>
<tr>
<td>Exxon Mobil Corp</td>
<td>Darren Woods</td>
<td>51</td>
<td>12/14/2016</td>
<td>1/1/2017</td>
<td>25</td>
</tr>
<tr>
<td>Staples, Inc</td>
<td>Shira Goodman</td>
<td>55</td>
<td>5/31/2016</td>
<td>6/14/2016</td>
<td>24</td>
</tr>
</tbody>
</table>

Note: A “seasoned executive” has been with the company for 20 years or longer.
* The succession of John Mackey as CEO of Whole Foods Market reflects his assumption of the CEO title after the departure of the co-CEO.

Professional qualifications and skills

Company press releases that announce a CEO succession event provide a glimpse into the characteristics of the incoming CEO that are most emphasized to external stakeholders.

Chart 22 highlights the professional characteristics and skills of incoming CEOs that are most commonly emphasized in succession announcements. In 91.9 percent of announcements in 2016, the professional qualifications of the incoming CEO were emphasized, including a description of his or her professional career and educational background. In addition, leadership abilities (51.6 percent of succession announcements), an understanding of corporate strategy (30.7 percent), and a focus on creating firm value (32.3 percent) were frequently mentioned.

It appears that succession announcements emphasize incoming CEO characteristics that relate to broad CEO characteristics. For example, background analysis of press releases (not detailed in the charts) shows that in 2016, the promotion of an insider to the CEO position is more likely to state that the appointment is due to the CEO succession plan executed by the company (46 percent of insider appointments) than for the promotion of an outside to the CEO position (22 percent of outsider appointments). The announcements of an outsider to the CEO position are more likely to discuss the CEO’s focus on creating firm value (44 percent of outsider appointments) than for the promotion of an insider (30 percent of insider announcements).

![Chart 22](image-url)

**Incoming CEO professional qualifications and skills (2013–2016)**

<table>
<thead>
<tr>
<th>Professional qualifications</th>
<th>2016 (N=63)</th>
<th>2015 (N=56)</th>
<th>2014 (N=49*)</th>
<th>2013 (N=42)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leadership abilities</td>
<td>91.9%</td>
<td>89.6%</td>
<td>51.6%</td>
<td>92.9%</td>
</tr>
<tr>
<td>Create firm value</td>
<td>95.6%</td>
<td>83.3%</td>
<td>45.8%</td>
<td>91.9%</td>
</tr>
<tr>
<td>Board experience</td>
<td>37.5%</td>
<td>31.0%</td>
<td>32.3%</td>
<td>37.8%</td>
</tr>
<tr>
<td>Strategic planning skills</td>
<td>30.7%</td>
<td>30.9%</td>
<td>33.3%</td>
<td>31.0%</td>
</tr>
<tr>
<td>Global acumen</td>
<td>16.1%</td>
<td>17.8%</td>
<td>15.6%</td>
<td>12.5%</td>
</tr>
</tbody>
</table>

* N=49 because 2 departures had yet to name successor.

Joint election as board chairman

Chart 23 reports that successions involving the immediate joint appointment of the incoming CEO as board chairman continues to remain low. Only 6.4 percent of the successions in 2016 involved immediate joint appointment as board chairman, down from the 10.7 percent rate recorded in 2015. This finding should be reviewed in conjunction with data on board practices evidencing the growing propensity of US companies, including the larger ones, to strengthen the independence of the board of directors and ensure a separate and impartial leadership of the oversight body. On the other hand, background analysis of press releases (not detailed in the tables or charts) indicates that a large number of companies intend to reunite the chairman and CEO positions after a transition period.

Table 11 lists the 2016 S&P 500 cases of joint election of incoming CEOs as board chairmen.

Table 11

<table>
<thead>
<tr>
<th>Company name</th>
<th>Incoming CEO/board chairman</th>
<th>Age</th>
<th>Announcement date</th>
<th>Effective date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chipotle Mexican Grill</td>
<td>Steve Ells</td>
<td>50</td>
<td>12/12/2016</td>
<td>12/12/2016</td>
</tr>
<tr>
<td>CME Group</td>
<td>Terry Duffy</td>
<td>58</td>
<td>11/10/2016</td>
<td>12/31/2016</td>
</tr>
<tr>
<td>HCP, Inc</td>
<td>Mike McKee</td>
<td>70</td>
<td>7/11/2016</td>
<td>7/11/2016</td>
</tr>
</tbody>
</table>


* N=49 because 2 departures had yet to name successor.

When the Departing CEO Stays on Board

The most recent cases of turnover provide examples of departing CEOs who appear to remain actively involved in the company after relinquishing the chief executive role. When the board of Starbucks announced the appointment of Kevin Johnson as CEO, departing founder and CEO Howard Schultz agreed to serve as executive chairman of the board for an indefinite period, “and will shift his focus to innovation, design and development of Starbucks Reserve® Roasteries around the world, expansion of the Starbucks Reserve® retail store format and the company’s social impact initiatives.”

In 2015, Kinder Morgan’s departing CEO Richard Kinder also stayed on as a board chairman and used these words to explain his new role: “As for me, I’m not going anywhere and will remain involved in all major company decisions, including acquisitions and capital projects. As the largest shareholder of KMI, I remain very enthusiastic about the future of the company. I have never sold a share of stock and don’t intend to now. The Office of the Chairman will remain the same, consisting of Steve [Kean], Chief Financial Officer Kim Dang, and me.”

Similarly, in 2016, when the departure of Celgene’s long-time CEO Bob Hugin was announced, the press release stated Hugin “will remain actively involved in key business matters, continuing to direct the long-term future of the Company.”

The issue is further discussed in Part II, where the rate of the adoption of corporate policies on continued board retention of departing CEOs is reviewed (page 57).

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Interim CEOs

Gradual transitions have become more common, and so has the option for the appointment of interim CEOs. Chart 24 illustrates, for each of the last four years, the percentage of CEO succession cases that resulted in an interim CEO appointment. In 2016 and 2015, approximately 10 percent of CEO succession events involved an interim appointment. In 2016, in particular, interim appointments were made at the media company Viacom, the office supplier Staples, and the discount travel Priceline Group.

Table 12 lists all interim CEOs appointed in the 2015–2016 period.

![Chart 24](chart.png)

<table>
<thead>
<tr>
<th>Company name</th>
<th>Interim CEO</th>
<th>Age</th>
<th>Become permanent CEO</th>
<th>Length of time as interim (months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alexion Pharmaceuticals, Inc</td>
<td>David Brennan</td>
<td>62</td>
<td>No</td>
<td>3</td>
</tr>
<tr>
<td>Coty, Inc</td>
<td>Bart Becht</td>
<td>60</td>
<td>No</td>
<td>22</td>
</tr>
<tr>
<td>HCP, Inc</td>
<td>Mike McKee</td>
<td>70</td>
<td>No</td>
<td>4</td>
</tr>
<tr>
<td>Staples, Inc</td>
<td>Shira Goodman</td>
<td>55</td>
<td>Yes</td>
<td>3</td>
</tr>
<tr>
<td>The Priceline Group, Inc</td>
<td>Jeffery Boyd</td>
<td>59</td>
<td>No</td>
<td>8</td>
</tr>
<tr>
<td>Viacom, Inc</td>
<td>Bob Bakish</td>
<td>53</td>
<td>Yes</td>
<td>1</td>
</tr>
</tbody>
</table>

In these and other cases, the length of service for interim CEOs ranged from one month to nearly two years with two boards (Viacom and Staples) ultimately offering the permanent position to the executive who had served in the interim (Bob Bakish and Shira Goodman, respectively). Often characterized as used only in situations of emergency, the practice is increasingly being viewed as fulfilling a variety of purposes: the “Seat Warmer” role, where the interim manages the company until the board is able to identify a replacement; the “Contender” role, in which the board tests the interim as a viable permanent CEO candidate; and the “Groomer” role, in which the interim is helping to groom the eventual permanent CEO. The evolving role of the interim CEO position is worth monitoring in the coming years.

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PART II
CEO SUCCESSION PRACTICES (2015)
Board Practices in CEO Succession Planning

This section uses data about board practices in CEO succession planning from a survey of human resources executives, corporate secretaries, general counsel, and investor relations officers of SEC-registered corporations conducted by The Conference Board in 2016. Data is aggregated and analyzed by business sectors (manufacturing, financial services, and nonfinancial services) and size groups (measured by annual revenue and asset value). See “Using This Report,” on page 3, for more information about the survey methodology.

While the description of succession planning seems relatively straightforward, the successful execution of this process is often complicated by several factors:

• Succession planning often is not assigned to a standing board committee.

• Directors understandably prioritize compliance and deadline-driven duties due to a constraint on available time.

• Internal candidates may not develop as planned or may depart the company.

• The chief executive may resign without notice, experience health issues, or deliver unanticipated poor performance.

These issues, whether individually or in combination, can limit the development of a succession plan or derail a well-developed plan entirely. The ultimate feasibility of any succession plan will therefore depend on the effectiveness of the board in managing the core process and responding to unforeseen events.

The board of directors conducts a periodic CEO performance review process for the purpose of assessing the progress made in the pursuit of the company’s business strategy and providing the basis for future expectations. Succession planning and leadership development are an integral part of the process; they are designed to ensure a smooth transition to new leadership and to mitigate the uncertainties resulting from any sudden loss of talent. Moreover, NYSE listing standards require boards to explicitly address in their organization’s corporate governance guidelines the policies on the selection and performance review of the CEO, including the procedure that the company intends to follow in a turnover situation. For this reason, this section includes an analysis of survey data on the board-level responsibility for CEO performance reviews and their frequency.
Responsibility for CEO performance review

Chart 25 illustrates the delegation of primary responsibility to assess the performance of the chief executive. With the exception of the financial services industry, the percentage of companies that opt for a model in which the compensation committee is responsible for reviewing CEO performance is significantly higher than the share of companies that assign such responsibility to the full board. After being the prevalent model for many years, for the first time the involvement of the full board of directors in the CEO performance evaluation process appears to have lost ground in favor of a model of oversight by the compensation committee. The scrutiny on pay for performance and the increasing specialization of the compensation committee in defining appropriate performance targets for the C-suite are the most likely explanations for this finding. The most striking figures are in the nonfinancial services industry, with 46.5 percent of respondents choosing to assign CEO performance evaluation responsibilities to the compensation committee, compared to the 18.6 percent that maintain those responsibilities at the full-board level. The manufacturing group had the highest percentage of respondents who indicated that the process is overseen by their nominating/governance committee. Across industries, the percentage of companies delegating the responsibility to the board chairman or lead director ranges from zero (in financial services) to 23.3 percent (in nonfinancial services).

There is no clear correlation between the delegation of responsibility for the CEO performance review process and company size.
Chart 25
Responsibility for CEO performance review (2016)

- Full board of directors
- Nominating/governance committee
- Compensation committee
- Board chairman/lead director
- Other

**BY INDUSTRY**

**Manufacturing (N=37)**

- Full board of directors: 24.3%
- Nominating/governance committee: 13.5%
- Compensation committee: 32.4%
- Board chairman/lead director: 18.9%
- Other: 10.8%

**Financial services (N=13)**

- Full board of directors: 69.2%
- Nominating/governance committee: 23.1%
- Compensation committee: 7.7%

**Nonfinancial services (N=43)**

- Full board of directors: 18.6%
- Nominating/governance committee: 7.0%
- Compensation committee: 46.5%
- Board chairman/lead director: 23.3%
- Other: 4.7%

**BY ANNUAL REVENUE** (Manufacturing and Nonfinancial Services)

**$20 billion and over (N=9)**

- Full board of directors: 33.3%
- Nominating/governance committee: 11.1%
- Compensation committee: 55.6%

**$5 billion to 19.9 billion (N=22)**

- Full board of directors: 18.2%
- Nominating/governance committee: 4.5%
- Compensation committee: 36.4%
- Board chairman/lead director: 27.3%
- Other: 13.6%

**$1 billion to 4.9 billion (N=33)**

- Full board of directors: 27.3%
- Nominating/governance committee: 3.0%
- Compensation committee: 42.4%
- Board chairman/lead director: 21.2%
- Other: 6.1%

**Under $1 billion (N=16)**

- Full board of directors: 6.3%
- Nominating/governance committee: 31.3%
- Compensation committee: 31.3%
- Board chairman/lead director: 25.0%
- Other: 6.3%

**BY ASSET VALUE** (Financial Services)

**$10 billion and over (N=6)**

- Full board of directors: 66.7%
- Nominating/governance committee: 16.7%
- Compensation committee: 16.7%

**Under $10 billion (N=7)**

- Full board of directors: 71.4%
- Nominating/governance committee: 28.6%

**Note:** Totals may not equal 100 percent due to rounding.

**Source:** The Conference Board, 2016.
Frequency of CEO performance review

According to Chart 26, the CEO performance review process takes place annually for almost all companies, irrespective of their industry or size groups. Across industries, financial services companies report the highest percentage of performance reviews of the CEO occurring more than once a year (7.7 percent). The years of the imperial CEO are long gone, and previous editions of this report showed a declining percentage of companies that did not have a systematic periodic review of CEO performance and would conduct it only when circumstances were warranted. Confirming this finding, none of the participating companies in the 2016 edition of The Conference Board survey reported never having a periodic performance review system.

Chart 26

Frequency of CEO performance review (2016)

BY INDUSTRY

<table>
<thead>
<tr>
<th>Industry</th>
<th>Once a year</th>
<th>More than once a year</th>
<th>Less than once a year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing (N=37)</td>
<td>94.6%</td>
<td>5.4%</td>
<td>0%</td>
</tr>
<tr>
<td>Financial services (N=13)</td>
<td>92.3%</td>
<td>7.7%</td>
<td>0%</td>
</tr>
<tr>
<td>Nonfinancial services (N=43)</td>
<td>90.7%</td>
<td>7.0%</td>
<td>2.3%</td>
</tr>
</tbody>
</table>

BY ANNUAL REVENUE (Manufacturing and Nonfinancial Services)

<table>
<thead>
<tr>
<th>Revenue Range</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>$20 billion and over (N=9)</td>
<td>100%</td>
</tr>
<tr>
<td>$5 billion to 19.9 billion (N=22)</td>
<td>95.5%</td>
</tr>
<tr>
<td>$1 billion to 4.9 billion (N=33)</td>
<td>93.9%</td>
</tr>
<tr>
<td>Under $1 billion (N=16)</td>
<td>81.3%</td>
</tr>
</tbody>
</table>

BY ASSET VALUE (Financial Services)

<table>
<thead>
<tr>
<th>Asset Value Range</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10 billion and over (N=6)</td>
<td>83.3%</td>
</tr>
<tr>
<td>Under $10 billion (N=7)</td>
<td>100%</td>
</tr>
</tbody>
</table>

Note: Totals may not equal 100 percent due to rounding.

Responsibility for CEO succession planning

Chart 27 shows that only a very small fraction of companies across industries and size groups assign CEO succession planning oversight responsibilities to a dedicated, standalone committee of the board. Instead, these functions are performed either by the full board (47.2 percent of manufacturing companies, 38.5 percent of financial services companies, and 61.4 percent of nonfinancial services companies) or through delegation to a board committee. If the planning is delegated to a committee, a compensation committee is most common in manufacturing (16.7 percent), while a nominating or governance committee is most common in nonfinancial services (20.5 percent).

There is an inverse correlation between the assignment of CEO succession planning oversight responsibilities to the nominating/governance committee and company size, with as much as 28.6 percent of companies valued under US$10 billion and 25 percent of companies with revenue under US$1 billion choosing this structure. In the analysis by revenue, the highest percentage of companies that delegate succession planning to the compensation committee is found in the group with US$20 billion and more in annual revenue (22.2 percent).
Chart 27
Responsibility for CEO succession planning (2016)

- Full board of directors
- CEO succession planning committee
- Compensation committee
- Nominating/corporate governance committee
- Other

**BY INDUSTRY**

**Manufacturing** (N=36)
- Full board of directors: 47.2%
- CEO succession planning committee: 16.7%
- Compensation committee: 19.4%
- Nominating/corporate governance committee: 16.7%

**Financial services** (N=13)
- Full board of directors: 38.5%
- CEO succession planning committee: 15.4%
- Compensation committee: 15.4%
- Nominating/corporate governance committee: 15.4%

**Nonfinancial services** (N=44)
- Full board of directors: 61.4%
- CEO succession planning committee: 13.6%
- Compensation committee: 20.5%

**BY ANNUAL REVENUE** (Manufacturing and Nonfinancial Services)

- **$20 billion and over** (N=9)
  - Full board of directors: 66.7%
  - CEO succession planning committee: 22.2%
  - Compensation committee: 11.1%

- **$5 billion to 19.9 billion** (N=22)
  - Full board of directors: 59.1%
  - CEO succession planning committee: 13.6%
  - Compensation committee: 13.6%
  - Nominating/corporate governance committee: 13.6%

- **$1 billion to 4.9 billion** (N=33)
  - Full board of directors: 48.5%
  - CEO succession planning committee: 3.0%
  - Compensation committee: 12.1%
  - Nominating/corporate governance committee: 24.2%

- **Under $1 billion** (N=16)
  - Full board of directors: 56.3%
  - CEO succession planning committee: 18.8%
  - Compensation committee: 25.0%

**BY ASSET VALUE** (Financial Services)

- **$10 billion and over** (N=6)
  - Full board of directors: 66.7%
  - CEO succession planning committee: 16.7%
  - Compensation committee: 16.7%

- **Under $10 billion** (N=7)
  - Full board of directors: 14.3%
  - CEO succession planning committee: 28.6%
  - Compensation committee: 14.3%

Note: Totals may not equal 100 percent due to rounding.
Frequency of CEO succession plan review

Chart 28 illustrates data on the frequency of CEO succession plan review. Smaller companies continue to lag behind in CEO succession planning, too often placing it on board agendas only when an emergency arises. Across industries and in all but one size group, at least half of the surveyed companies reported that their boards review the CEO succession plan on an annual basis. Of corporate boards in the nonfinancial services sector, 2.3 percent review the plan less frequently than once a year. The manufacturing sector shows the lowest percentage of cases in which the review is conducted more frequently than annually (21.6 percent, compared to 30.8 percent in financial services and 27.3 in nonfinancial services) and the highest percentage of cases in which the plan is reviewed only when circumstances warrant (24.3 percent, compared to only 7.7 percent in financial services and 9.1 percent in nonfinancial services).

Only 37.5 percent of companies with revenues under US$1 billion are methodical in their review of the succession plan and do it at least annually. In fact, this low revenue group also has the highest share of respondents (also at 37.5 percent) who reported that the CEO succession plan is reviewed only when a change in circumstances warrants it (e.g., in event of retirement, sudden death or illness, or other emergencies).
Chart 28

Frequency of CEO succession plan review (2016)

- Annually
- More frequently than annually
- Less frequently than annually
- Only when a change in circumstances requires it (e.g., in event of retirement, sudden death or illness, or other emergencies)

**BY INDUSTRY**

- **Manufacturing** (N=37)
  - Annually: 54.1%
  - More frequently than annually: 21.6%
  - Less frequently than annually: 24.3%

- **Financial services** (N=13)
  - Annually: 61.5%
  - More frequently than annually: 30.8%
  - Less frequently than annually: 7.7%

- **Nonfinancial services** (N=44)
  - Annually: 61.4%
  - More frequently than annually: 27.3%
  - Less frequently than annually: 9.1%

**BY ANNUAL REVENUE** (Manufacturing and Nonfinancial Services)

- **$20 billion and over** (N=10)
  - Annually: 50.0%
  - More frequently than annually: 40.0%
  - Less frequently than annually: 10.0%

- **$5 billion to 19.9 billion** (N=22)
  - Annually: 72.7%
  - More frequently than annually: 22.7%
  - Less frequently than annually: 4.5%

- **$1 billion to 4.9 billion** (N=33)
  - Annually: 60.6%
  - More frequently than annually: 21.2%
  - Less frequently than annually: 18.2%

- **Under $1 billion** (N=16)
  - Annually: 37.5%
  - More frequently than annually: 18.8%
  - Less frequently than annually: 37.5%

**BY ASSET VALUE** (Financial Services)

- **$10 billion and over** (N=6)
  - Annually: 50.0%
  - More frequently than annually: 50.0%

- **Under $10 billion** (N=7)
  - Annually: 71.4%
  - More frequently than annually: 14.3%
  - Less frequently than annually: 14.3%

Note: Totals may not equal 100 percent due to rounding.
Board retention of departing CEO

As part of their succession planning process, companies may also have a policy stating whether the retiring CEO should continue to serve as a member of the board and remain involved in the business leadership for a limited time following the appointment of the new CEO. While common in the past, this practice has become less prevalent, as companies moved toward a board composition model based on principles of independence and expertise diversification. Continued involvement by the retired CEO also poses the risk of undermining the new leadership since the new CEO could be constrained by an overzealous predecessor.

As shown in Chart 29, across industries and in half of the company-size groups, a large majority of companies indicated that they do not have a formal policy for continued board tenure of the departing CEO, with the largest percentage found in nonfinancial services (85.7 percent) and among organizations with annual revenue not exceeding US$1 billion (100 percent). In manufacturing, 32.4 percent have a requirement for the departing CEO to also resign from the board (the highest percentage found in the industry comparison, and much higher than the 7.7 percent reported by financial services firms or the 9.5 percent of nonfinancial services companies), whereas only 5.4 percent explicitly permit continued board tenure.

Chart 29 also illustrates a correlation between a policy explicitly preventing the retention of the departing CEO on the board and size of the company, when measured in terms of annual revenue. Fifty percent of companies with annual revenue of US$20 billion or greater formally require that the CEO leave the board as part of his or her succession plan. This finding compares with the mere 9.1 percent of companies with annual revenue between US$1 and US$4.9 billion and zero percent for companies generating revenue of less than US$1 billion per year. In financial services companies, when present, the policy explicitly permits board retention: this is the case for 28.6 percent of companies with assets valued at less than US$10 billion, compared to 16.7 percent of the respondents in the largest asset value group (US$10 billion and over).
### Chart 29

**Policy on board retention of departing CEO (2016)**

- **No policy**
- **The policy requires the departing CEO to resign from the board**
- **The policy permits continued board tenure**

#### BY INDUSTRY

<table>
<thead>
<tr>
<th>Industry</th>
<th>Manufacturing (N=37)</th>
<th>Financial services (N=13)</th>
<th>Nonfinancial services (N=42)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No policy</td>
<td>62.2%</td>
<td>69.2%</td>
<td>85.7%</td>
</tr>
<tr>
<td>The policy requires the departing CEO to resign from the board</td>
<td>32.4%</td>
<td>7.7%</td>
<td>9.5%</td>
</tr>
<tr>
<td>The policy permits continued board tenure</td>
<td>5.4%</td>
<td>23.1%</td>
<td>4.8%</td>
</tr>
</tbody>
</table>

#### BY ANNUAL REVENUE (Manufacturing and Nonfinancial Services)

- **$20 billion and over (N=8)**
  - No policy: 50.0%
  - The policy permits continued board tenure: 50.0%

- **$5 billion to 19.9 billion (N=22)**
  - No policy: 59.1%
  - The policy permits continued board tenure: 40.9%

- **$1 billion to 4.9 billion (N=33)**
  - No policy: 78.8%
  - The policy permits continued board tenure: 9.1%
  - The policy requires the departing CEO to resign from the board: 12.1%

- **Under $1 billion (N=16)**
  - The policy permits continued board tenure: 100%

#### BY ASSET VALUE (Financial Services)

- **$10 billion and over (N=6)**
  - No policy: 83.3%
  - The policy permits continued board tenure: 16.7%

- **Under $10 billion (N=7)**
  - No policy: 57.1%
  - The policy permits continued board tenure: 14.3%
  - The policy requires the departing CEO to resign from the board: 28.6%

**Note:** Totals may not equal 100 percent due to rounding.

**Source:** The Conference Board, 2016.
Mandatory CEO retirement policy and age limits

As shown in Chart 30, mandatory retirement policies based on age remain a marginally used element of CEO succession plans. Only 18.9 percent of manufacturing companies and 7 percent of nonfinancial services companies adopt an age-based mandatory retirement policy for CEOs, while the share is somewhat larger in the financial services sector (23.1 percent). The analysis by size shows that such a policy is more frequent among the largest manufacturing and nonfinancial companies: those with annual revenue of US$20 billion or greater report the highest rate of adoption (22.2 percent), while those with annual revenue under US$1 billion report the lowest (6.3 percent).

Chart 30

<table>
<thead>
<tr>
<th>Mandatory CEO retirement policy (2016)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BY INDUSTRY</strong></td>
</tr>
<tr>
<td>Manufacturing (N=37)</td>
</tr>
<tr>
<td>Financial services (N=13)</td>
</tr>
<tr>
<td>Nonfinancial services (N=43)</td>
</tr>
<tr>
<td><strong>BY ANNUAL REVENUE</strong> (Manufacturing and Nonfinancial Services)</td>
</tr>
<tr>
<td>$20 billion and over (N=9)</td>
</tr>
<tr>
<td>$5 billion to 19.9 billion (N=22)</td>
</tr>
<tr>
<td>$1 billion to 4.9 billion (N=33)</td>
</tr>
<tr>
<td>Under $1 billion (N=16)</td>
</tr>
<tr>
<td><strong>BY ASSET VALUE</strong> (Financial Services)</td>
</tr>
<tr>
<td>$10 billion and over (N=6)</td>
</tr>
<tr>
<td>Under $10 billion (N=7)</td>
</tr>
</tbody>
</table>

CEO age limit: Of the companies adopting a mandatory CEO retirement policy based on age, the limit after which the CEO is expected to retire is almost always 65 years of age (Chart 31).

Chart 31
CEO age limit (2016)

<table>
<thead>
<tr>
<th>BY INDUSTRY</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing (N=7)</td>
<td>85.7%</td>
<td>14.3%</td>
</tr>
<tr>
<td>Financial services (N=3)</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Nonfinancial services (N=3)</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>BY ANNUAL REVENUE (Manufacturing and Nonfinancial Services)</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>$20 billion and over (N=2)</td>
<td>50.0%</td>
<td>50.0%</td>
</tr>
<tr>
<td>$5 billion to 19.9 billion (N=2)</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>$1 billion to 4.9 billion (N=5)</td>
<td>60.0%</td>
<td>20.0%</td>
</tr>
<tr>
<td>Under $1 billion (N=1)</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>BY ASSET VALUE (Financial Services)</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>$10 billion and over (N=1)</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Under $10 billion (N=2)</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>

Succession planning disclosure

Succession planning works best when it is conducted transparently within the organization and communicated openly to outside stakeholders. Transparency can be achieved by establishing proper communication channels throughout the organization and by including critical information on the role of the board, as well as the main program features, in disclosure documents filed annually with the US Securities and Exchange Commission (SEC). Transparency does not extend to the disclosure of sensitive data or other proprietary information that could undermine the company’s competitive position (for example, the names of prospective CEO candidates typically would not be disclosed).

Based on the industry analysis illustrated in Chart 32, 53.8 percent of companies in the financial services sector include in their annual disclosure to shareholders information on succession planning. In particular, disclosure has become a predominant practice among the largest financial companies, and 83.3 percent of those with assets valued at US$10 billion and over regularly include this type of information in reports to shareholders. Numbers are much lower in manufacturing and nonfinancial services (22.2 percent and 28.6 percent, respectively). The Dodd-Frank Act requires a separate risk committee composed of independent directors for publicly traded bank holding companies with US$10 billion or more in assets and for publicly traded nonbank financial companies supervised by the Federal Reserve. These legislative developments and the voluntary efforts by many of these institutions to strengthen their risk management process after the 2008 credit crunch help explain these disparities in disclosure practices.

The analysis also shows that there is some degree of correlation between disclosure practices and company size by annual revenue, with larger companies being far more prone to include this type of information in their annual report: 36.4 percent of companies with revenue between US$5 billion and US$19.9 billion, compared to 6.3 percent in the smallest revenue group (under US$1 billion).
C-Suite Leadership Development Practices

This section focuses on the features of internal programs designed to identify and groom C-suite leaders with the attributes to aspire to the CEO role. Top leadership development is an integral component of CEO succession planning, and the findings discussed in these pages shed some light on key practices adopted by SEC-registered corporations to ensure that the organization can rely on one or more CEO-ready senior executives. Like the section on board oversight practices, this section of the report also draws on the results from the 2016 survey conducted by The Conference Board.

Data is aggregated and analyzed by business sectors (manufacturing, financial services, and nonfinancial services) and size groups (measured by annual revenue and asset value). See “Using This Report,” on page 7, for more information about the survey methodology.

Maintenance of lists of CEO-ready executives

It has become quite common for corporate boards to maintain and regularly update lists of senior executives that are considered ready for a possible succession to the CEO role. Chart 33 shows that more than three-quarters of survey participants across industries have adopted this practice, with a direct correlation between the practice and the annual revenue of the organization. While all larger manufacturing and nonfinancial companies with US$20 billion and over in annual revenue reported maintaining CEO-ready lists, the percentage dropped to 56.3 for companies with annual revenue under US$1 billion. All financial companies that participated in the study have a CEO-ready list.

Adoption of leadership development program

Public companies appreciate the importance of a cohesive program meant to identify and develop leadership at all levels, and such a program is in place in a large majority of surveyed organizations (Chart 34). All survey participants in the financial services industry reported having a leadership development program. In most of the cases where a program has been adopted, it extends to members of the C-suite and is designed to prepare them or some of them to perform as chief executives. The highest percentage of firms without a leadership development program (43.8 percent) is found in the smallest group of manufacturing and nonfinancial companies (under US$1 billion in annual revenue).

Chart 34
Adoption of leadership development program (2016)

- The program includes members of the C-suite
- The program does not include members of the C-suite
- No program

BY INDUSTRY

Manufacturing (N=37)

<table>
<thead>
<tr>
<th>The program includes members of the C-suite</th>
<th>The program does not include members of the C-suite</th>
<th>No program</th>
</tr>
</thead>
<tbody>
<tr>
<td>64.9%</td>
<td>10.8%</td>
<td>24.3%</td>
</tr>
</tbody>
</table>

Financial services (N=13)

<table>
<thead>
<tr>
<th>The program includes members of the C-suite</th>
<th>The program does not include members of the C-suite</th>
<th>No program</th>
</tr>
</thead>
<tbody>
<tr>
<td>69.2%</td>
<td>30.8%</td>
<td>10.8%</td>
</tr>
</tbody>
</table>

Nonfinancial services (N=44)

<table>
<thead>
<tr>
<th>The program includes members of the C-suite</th>
<th>The program does not include members of the C-suite</th>
<th>No program</th>
</tr>
</thead>
<tbody>
<tr>
<td>50.0%</td>
<td>13.6%</td>
<td>36.4%</td>
</tr>
</tbody>
</table>

BY ANNUAL REVENUE (Manufacturing and Nonfinancial Services)

- $20 billion and over (N=10)
  - 80.0%
  - 20.0%

- $5 billion to 19.9 billion (N=22)
  - 50.0%
  - 27.3%
  - 22.7%

- $1 billion to 4.9 billion (N=33)
  - 57.6%
  - 9.1%
  - 33.3%

- Under $1 billion (N=16)
  - 50.0%
  - 6.3%
  - 43.8%

BY ASSET VALUE (Financial Services)

- $10 billion and over (N=6)
  - 66.7%
  - 33.3%

- Under $10 billion (N=7)
  - 71.4%
  - 28.6%

Note: Totals may not equal 100 percent due to rounding.
Features of leadership development program

Chart 35 illustrates the main features of leadership development programs.

Literature on CEO succession planning praises the benefits of CEO “auditioning” practices, where an outside candidate is not placed directly into the CEO slot but is first trained and tested by the board through temporary tasks and assignments of the type that a top business leader would be expected to execute. Among companies that rely on a leadership development program and participated in The Conference Board survey, slightly less than half of manufacturing and financial services companies include auditioning periods in the program. Instead, a higher percentage opts for individual special projects or stretch assignments without the restraints of a predefined auditioning time period. When the findings for manufacturing and financial services companies are reviewed by annual revenue, larger companies are much more likely to use a CEO auditioning approach than smaller ones: 60 percent of companies with annual revenue over US$20 billion audition CEO candidates, compared to only 18.8 percent of those with revenue under US$1 billion per year.

Unlike CEO auditioning, CEO apprenticeship is the period of time preceding the official succession announcement in which a CEO candidate works closely with the CEO on a number of strategic and highly visible tasks. It is used for the purpose of vetting the candidate leadership skills and offering new opportunities for exposure within and outside of the organization. The case study section (Part III) of this report discusses two recent examples of CEO apprenticeship, including the one of Dennis Muilenburg at Boeing, who closely shared oversight of daily global operations with the departing CEO for a period of 18 months. As shown in Chart 35, apprenticeship programs are marginally used, with the highest rate of adoption (23.1 percent) found in the financial services industry.

Chart 35 also illustrates other prevalent features of C-suite leadership development programs, including the use of leadership coaches from outside providers, the mentoring of senior executives by board members, and the attendance of executive education courses.
Chart 35

Features of a leadership development program (2016)

BY INDUSTRY
- Manufacturing (N=18)
- Financial services (N=6)
- Nonfinancial services (N=12)

Auditioning (trained and tested in another executive function or functions for a certain period of time)

- BY ANNUAL REVENUE (Manufacturing and Nonfinancial Services)
  - $20 billion and over (N=4)
  - $5 billion to 19.9 billion (N=11)
  - $1 billion to 4.9 billion (N=10)
  - Under $1 billion (N=3)

- BY ASSET VALUE (Financial Services)
  - $10 billion and over (N=3)
  - Under $10 billion (N=3)

Apprenticeship with the CEO

Mentoring from a member of the board of directors

Executive coaching support from an outside provider

Job rotation

Special projects/stretch assignments

International assignments

Expansion of job scope and responsibilities

External board service

External executive education program attendance

Other

Executive preparedness assessment

Chart 36 reviews activities conducted by board members and CEOs to gauge the preparedness of senior members of the management team for the chief executive role. As expected, the examination and discussion of information resulting from recent performance reviews was the most cited of such activities: nearly three-quarters of companies across industries and 90 percent of companies with annual revenue exceeding US$20 billion rely on performance review data. The chart also illustrates a direct correlation between other assessment activities, such as the engagement of third parties to conduct behavioral interviews and the size of the company: larger organizations are more likely to use assessment activities (60 percent) and smaller ones are less likely (12.5 percent).
Chart 36

Executive preparedness assessment (2016)

BY INDUSTRY
- Manufacturing (N=37)
- Financial services (N=13)
- Nonfinancial services (N=44)

BY ANNUAL REVENUE
(Manufacturing and Nonfinancial Services)
- $20 billion and over (N=10)
- $5 billion to 19.9 billion (N=22)
- $1 billion to 4.9 billion (N=33)
- Under $1 billion (N=16)

BY ASSET VALUE
(Financial Services)
- $10 billion and over (N=4)
- Under $10 billion (N=7)

Behavioral interviews by third parties
- 51.4% (N=37)
- 30.8% (N=13)
- 34.1% (N=44)

Psychological assessments
- 40.5% (N=37)
- 30.8% (N=13)
- 25.0% (N=44)

360-degree surveys
- 54.1% (N=37)
- 45.5% (N=13)
- 69.2% (N=44)

Employee engagement scores
- 27.0% (N=37)
- 30.8% (N=13)
- 34.1% (N=44)

Performance review data
- 73.0% (N=37)
- 84.6% (N=13)
- 86.4% (N=44)

Non-employee directors formally participate in the performance evaluation of the senior executive
- 51.4% (N=37)
- 29.5% (N=13)
- 46.2% (N=44)

Mentorship/coaching feedback
- 54.1% (N=37)
- 53.8% (N=13)
- 61.4% (N=44)

Development of leaders on their own teams
- 56.8% (N=37)
- 53.8% (N=13)
- 47.7% (N=44)

External board service
- 24.3% (N=37)
- 15.4% (N=13)
- 20.5% (N=44)

Life experiences
- 37.8% (N=37)
- 31.8% (N=13)
- 46.2% (N=44)

Other
- 8.1% (N=37)
- 0% (N=13)
- 18.2% (N=44)

Reporting to board of C-suite executive performance reviews

As shown in Chart 37, the majority of companies across industries have a protocol for reporting C-suite executive performance assessment results to members of the board of directors.

Chart 37
Reporting to board of C-suite executive performance reviews (2016)

BY INDUSTRY
- Manufacturing (N=36): 55.6%
- Financial services (N=13): 69.2%
- Nonfinancial services (N=39): 64.1%

BY ANNUAL REVENUE (Manufacturing and Nonfinancial Services)
- $20 billion and over (N=9): 44.4%
- $5 billion to 19.9 billion (N=19): 57.9%
- $1 billion to 4.9 billion (N=31): 64.5%
- Under $1 billion (N=16): 62.5%

BY ASSET VALUE (Financial Services)
- $10 billion and over (N=6): 100%
- Under $10 billion (N=7): 42.9%

Directors’ professional knowledge of C-suite executives

Chart 38 confirms that in most cases, across industries and company-size groups (by revenue and by asset value), members of the board of directors have had professional opportunities to become acquainted with executives in the C-suite of the corporation.

Chart 38
Directors’ professional knowledge of C-suite executives (2016)

BY INDUSTRY

Manufacturing (N=37)

<table>
<thead>
<tr>
<th>All of them</th>
<th>More than half of them</th>
<th>Less than half of them</th>
</tr>
</thead>
<tbody>
<tr>
<td>78.4%</td>
<td>21.6%</td>
<td></td>
</tr>
</tbody>
</table>

Financial services (N=13)

<table>
<thead>
<tr>
<th>All of them</th>
<th>More than half of them</th>
<th>Less than half of them</th>
</tr>
</thead>
<tbody>
<tr>
<td>76.9</td>
<td>15.4%</td>
<td>7.7%</td>
</tr>
</tbody>
</table>

Nonfinancial services (N=43)

<table>
<thead>
<tr>
<th>All of them</th>
<th>More than half of them</th>
<th>Less than half of them</th>
</tr>
</thead>
<tbody>
<tr>
<td>86.0</td>
<td>7.0%</td>
<td>7.0%</td>
</tr>
</tbody>
</table>

BY ANNUAL REVENUE (Manufacturing and Nonfinancial Services)

$20 billion and over (N=9)

<table>
<thead>
<tr>
<th>All of them</th>
<th>More than half of them</th>
<th>Less than half of them</th>
</tr>
</thead>
<tbody>
<tr>
<td>77.8%</td>
<td>11.1%</td>
<td>11.1%</td>
</tr>
</tbody>
</table>

$5 billion to 19.9 billion (N=22)

<table>
<thead>
<tr>
<th>All of them</th>
<th>More than half of them</th>
<th>Less than half of them</th>
</tr>
</thead>
<tbody>
<tr>
<td>90.9</td>
<td>4.5%</td>
<td>4.5%</td>
</tr>
</tbody>
</table>

$1 billion to 4.9 billion (N=33)

<table>
<thead>
<tr>
<th>All of them</th>
<th>More than half of them</th>
<th>Less than half of them</th>
</tr>
</thead>
<tbody>
<tr>
<td>81.8</td>
<td>15.2%</td>
<td>3.0%</td>
</tr>
</tbody>
</table>

Under $1 billion (N=16)

<table>
<thead>
<tr>
<th>All of them</th>
<th>More than half of them</th>
<th>Less than half of them</th>
</tr>
</thead>
<tbody>
<tr>
<td>75.0</td>
<td>25.0%</td>
<td></td>
</tr>
</tbody>
</table>

BY ASSET VALUE (Financial Services)

$10 billion and over (N=6)

<table>
<thead>
<tr>
<th>All of them</th>
<th>More than half of them</th>
<th>Less than half of them</th>
</tr>
</thead>
<tbody>
<tr>
<td>100%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Under $10 billion (N=7)

<table>
<thead>
<tr>
<th>All of them</th>
<th>More than half of them</th>
<th>Less than half of them</th>
</tr>
</thead>
<tbody>
<tr>
<td>57.1%</td>
<td>28.6%</td>
<td>14.3%</td>
</tr>
</tbody>
</table>

Note: Totals may not equal 100 percent due to rounding.
Request for C-suite executives’ attendance at board meetings

More than 90 percent of manufacturing and nonfinancial services companies and all of the surveyed companies in the financial services industries reported their board requested the attendance of C-suite executives at their meetings more than three times in the past year (Chart 39). Only 2.7 percent of boards of manufacturing companies never made such request in the past year, while about one in 10 of the companies with revenue exceeding US$20 billion requested it once in the same time period.

Chart 39

Request for C-suite executive attendance at full board meeting (2016)

BY INDUSTRY

Manufacturing (N=37)

- More than three times: 91.9%
- Three times: 5.4%
- Two times: 2.7%
- Once: 0.0%
- Never: 0.0%

Financial services (N=13)

- More than three times: 100%
- Three times: 0.0%
- Two times: 0.0%
- Once: 0.0%
- Never: 0.0%

Nonfinancial services (N=43)

- More than three times: 90.7%
- Three times: 2.3%
- Two times: 2.3%
- Once: 4.7%
- Never: 0.0%

BY ANNUAL REVENUE (Manufacturing and Nonfinancial Services)

-$20 billion and over (N=9)

- More than three times: 88.9%
- Three times: 11.1%
- Two times: 0.0%
- Once: 0.0%
- Never: 0.0%

-$5 billion to 19.9 billion (N=22)

- More than three times: 100%
- Three times: 0.0%
- Two times: 0.0%
- Once: 0.0%
- Never: 0.0%

-$1 billion to 4.9 billion (N=33)

- More than three times: 87.9%
- Three times: 3.0%
- Two times: 3.0%
- Once: 0.0%
- Never: 0.0%

Under $1 billion (N=16)

- More than three times: 87.5%
- Three times: 12.5%
- Two times: 0.0%
- Once: 0.0%
- Never: 0.0%

BY ASSET VALUE (Financial Services)

-$10 billion and over (N=6)

- More than three times: 100%
- Three times: 0.0%
- Two times: 0.0%
- Once: 0.0%
- Never: 0.0%

Under $10 billion (N=7)

- More than three times: 100%
- Three times: 0.0%
- Two times: 0.0%
- Once: 0.0%
- Never: 0.0%

Note: Totals may not equal 100 percent due to rounding.
Similarly, Chart 40 illustrates the percentage of companies requesting attendance of C-suite executives at board committee meetings in the past year.

<table>
<thead>
<tr>
<th>Chart 40</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Request for C-suite executive attendance at board committee meeting (2016)</strong></td>
</tr>
<tr>
<td><strong>BY INDUSTRY</strong></td>
</tr>
<tr>
<td><strong>Manufacturing (N=37)</strong></td>
</tr>
<tr>
<td>More than three times</td>
</tr>
<tr>
<td>89.2%</td>
</tr>
<tr>
<td><strong>Financial services (N=13)</strong></td>
</tr>
<tr>
<td>84.6%</td>
</tr>
<tr>
<td><strong>Nonfinancial services (N=43)</strong></td>
</tr>
<tr>
<td>79.1%</td>
</tr>
<tr>
<td><strong>BY ANNUAL REVENUE</strong> (Manufacturing and Nonfinancial Services)</td>
</tr>
<tr>
<td><strong>$20 billion and over (N=9)</strong></td>
</tr>
<tr>
<td>More than three times</td>
</tr>
<tr>
<td>77.8%</td>
</tr>
<tr>
<td><strong>$5 billion to 19.9 billion (N=22)</strong></td>
</tr>
<tr>
<td>95.5%</td>
</tr>
<tr>
<td><strong>$1 billion to 4.9 billion (N=33)</strong></td>
</tr>
<tr>
<td>87.9%</td>
</tr>
<tr>
<td><strong>Under $1 billion (N=16)</strong></td>
</tr>
<tr>
<td>62.5%</td>
</tr>
<tr>
<td><strong>BY ASSET VALUE</strong> (Financial Services)</td>
</tr>
<tr>
<td><strong>$10 billion and over (N=6)</strong></td>
</tr>
<tr>
<td>100%</td>
</tr>
<tr>
<td><strong>Under $10 billion (N=7)</strong></td>
</tr>
<tr>
<td>71.4%</td>
</tr>
</tbody>
</table>

Note: Totals may not equal 100 percent due to rounding.

Interaction between non-employee directors and C-suite executives

Charts 41 and 42 review the frequency and types of interactions between nonemployee directors and C-suite executives in the absence of the CEO. In the majority of all industries and in all but one of the company-size groups, such interactions are not periodically scheduled but prompted by warranting circumstances. In about a quarter of cases across industries, in 40 percent of the largest manufacturing and nonfinancial services companies, and in 30.8 percent of financial services companies, nonexecutive directors and senior executives interact at least quarterly with one another without the presence of the CEO (Chart 41).

Chart 41
Frequency of interaction between non-employee directors and C-suite executives (in the absence of CEO) (2016)

As shown in Chart 42, more manufacturing and nonfinancial services companies have nonexecutive directors make visits to regional offices or plants of the organization than other interactions. Nonfinancial services companies display the highest percentage of cases where one or more nonexecutive directors assume a mentoring role in support of individual senior executives; such mentoring programs are more frequent in smaller organizations (43.8 percent of manufacturing and nonfinancial services companies with annual revenue under US$1 billion and 28.6 percent of financial companies with assets valued at US$10 billion or less).

### Chart 42

**Types of interactions between non-executive directors and C-suite executives (2016)**

<table>
<thead>
<tr>
<th>Interaction</th>
<th>BY INDUSTRY</th>
<th>BY ANNUAL REVENUE</th>
<th>BY ASSET VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Make visits to regional plants/offices/sites</td>
<td>75.0%</td>
<td>66.7%</td>
<td>20.0%</td>
</tr>
<tr>
<td>Attend departmental/divisional meetings</td>
<td>11.9%</td>
<td>11.1%</td>
<td>28.6%</td>
</tr>
<tr>
<td>Interact with teams of senior executives</td>
<td>41.7%</td>
<td>33.3%</td>
<td>28.6%</td>
</tr>
<tr>
<td>Shadow senior executives on the job</td>
<td>2.8%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Serve as mentors to senior executives</td>
<td>19.4%</td>
<td>18.2%</td>
<td>0%</td>
</tr>
<tr>
<td>Other</td>
<td>30.6%</td>
<td>33.3%</td>
<td>40.0%</td>
</tr>
</tbody>
</table>

Communication Practices in CEO Succession

This section draws on a detailed analysis of CEO succession announcements that companies in the S&P 500 made to the press in 2016 (Table 13). This analysis is offered as guidance in the development of an external communication plan—a fundamental aspect of the CEO succession planning process, especially given the increased shareholder scrutiny of the company’s preparedness for leadership transition events.

Based on the review, the typical succession announcement of a CEO presents the following elements:

- Details on when the succession will become effective, a general statement of why the departing CEO is leaving office, what his or her role will be with the company after departure, and whether the incoming CEO will be named board chairman;
- The lead independent director states that the incoming CEO is the right choice for the firm, given the firm’s current position, and thanks the departing CEO for his or her service;
- A statement from the departing CEO on his or her belief that the board has selected a qualified incoming CEO as a replacement;
- The incoming CEO expresses his or her appreciation that the board has selected him or her as chief executive, states that the company’s existing management team is strong, and indicates that the company is well-positioned for the future;
- A description of the incoming CEO’s professional qualifications;
- Details on other changes in directors or senior management that will take place as a result of the CEO succession, if necessary; and
- Approximately 20 percent of companies include details regarding any conference call or webcast dedicated to discussing the transition with market participants.

While the typical CEO succession announcement contains these components, there is some variation in the length of such announcements. For example, succession announcements are approximately 16 percent longer when the CEO appointment is effective immediately and are 11 percent longer when they discuss other management changes that occur concurrently with the succession event and/or describe the CEO search process. For instance, when announcing the departure of Richard Anderson as CEO, the board of Delta Air Lines also announced three other changes to the senior management team and changes to the board.10 Symantec Corp described the search process when announcing the creation of an Office of the President:

The Symantec Board has formed a Search Committee to oversee the CEO selection process with the assistance of a leading executive search firm to assist with identifying and evaluating candidates. The Search Committee is composed of three independent directors, Ken Hao, David L. Mahoney and Suzanne M. Vautrinot, with Mr. Mahoney serving as chair.11

---

Table 13 (continued)

<table>
<thead>
<tr>
<th>Company name</th>
<th>Sector</th>
<th>New CEO</th>
<th>Age</th>
<th>Announcement date</th>
<th>Effective date</th>
<th>Placement</th>
<th>Former CEO</th>
<th>Age</th>
<th>Reason for change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advance Auto Parts, Inc</td>
<td>Wholesale, Retail</td>
<td>Thomas (Tom) Greco</td>
<td>57</td>
<td>4/4/2016</td>
<td>4/11/2016</td>
<td>External</td>
<td>George Sherman</td>
<td>73</td>
<td>Former CEO stepped down</td>
</tr>
<tr>
<td>Alexion Pharmaceuticals, Inc</td>
<td>Consumer Products</td>
<td>David Brennan</td>
<td>62</td>
<td>12/12/2016</td>
<td>12/12/2016</td>
<td>External (Director)</td>
<td>David L. Hallal</td>
<td>50</td>
<td>Former CEO resigned</td>
</tr>
<tr>
<td>Avery Dennison Corp</td>
<td>Consumer Products</td>
<td>Mitchell R. Butler</td>
<td>44</td>
<td>2/25/2016</td>
<td>5/1/2016</td>
<td>Internal</td>
<td>Dean Scarborough</td>
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<tr>
<td>Biogen, Inc</td>
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<td>Michel Vounatsos</td>
<td>55</td>
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<td>1/6/2017</td>
<td>External</td>
<td>George A. Scangos</td>
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<td>Former CEO retired</td>
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<td>Broadcom Ltd</td>
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<td>Hock Tan</td>
<td>65</td>
<td>1/29/2016</td>
<td>1/29/2016</td>
<td>Internal</td>
<td>Scott McGregor</td>
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<td>Company merged with Avago Technologies</td>
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<td>CarMax, Inc</td>
<td>Wholesale, Retail</td>
<td>Bill Nash</td>
<td>46</td>
<td>2/1/2016</td>
<td>12/1/2016</td>
<td>Internal</td>
<td>Tom Folliard</td>
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<td>Former CEO retired</td>
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<td>Jim Umpleby</td>
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<td>1/1/2017</td>
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<td>Doug Oberhelman</td>
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<td>Mark Alles</td>
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<td>3/1/2016</td>
<td>Internal</td>
<td>Bob Hugin</td>
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<td>Former CEO stepped down</td>
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<td>Terry Duffy</td>
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<td>External (Director)</td>
<td>Phupinder Gill</td>
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<tr>
<td>CMS Energy</td>
<td>Transportation, Communication</td>
<td>Patricia Poppe</td>
<td>47</td>
<td>1/26/2016</td>
<td>7/1/2016</td>
<td>Internal</td>
<td>John Russell</td>
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<td>Former CEO retired</td>
</tr>
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<td>The Coca-Cola Company</td>
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<td>James Quincey</td>
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<td>12/9/2016</td>
<td>5/1/2017</td>
<td>Internal</td>
<td>Muhtar Kent</td>
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<td>Former CEO stepped down</td>
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<td>Camillo Pane</td>
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<td>10/3/2016</td>
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<td>Internal</td>
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<td>Paul Idzik</td>
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<td>Internal</td>
<td>Rajiv De Silva</td>
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<td>Former CEO retired</td>
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<td>1/1/2017</td>
<td>Internal</td>
<td>Spencer Kirk</td>
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<td>Darren Woods</td>
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<td>12/14/2016</td>
<td>1/1/2017</td>
<td>Internal</td>
<td>Rex Tillerson</td>
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</table>

Continued on next page...
Table 13 (continued)

CEO succession cases used for press release analysis (2016)

<table>
<thead>
<tr>
<th>Company name</th>
<th>Sector</th>
<th>New CEO</th>
<th>Age</th>
<th>Announcement date</th>
<th>Effective date</th>
<th>Placement</th>
<th>Former CEO</th>
<th>Age</th>
<th>Reason for change</th>
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<tbody>
<tr>
<td>First Solar, Inc</td>
<td>Manufacturing</td>
<td>Mark Widmar</td>
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<td>4/27/2016</td>
<td>7/1/2016</td>
<td>Internal</td>
<td>James Hughes</td>
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<td>Former CEO stepped down</td>
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<td>4/25/2016</td>
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<td>Internal</td>
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<td>John Milligan</td>
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<td>John Martin</td>
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<td>Former CEO stepped down</td>
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<td>D.G. Macpherson</td>
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<td>10/1/2016</td>
<td>Internal</td>
<td>Jim Ryan</td>
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<td>Former CEO stepped down</td>
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<td>Gerald Evans, Jr.</td>
<td>57</td>
<td>6/13/2016</td>
<td>10/1/2016</td>
<td>Internal</td>
<td>Richard Noll</td>
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<td>Former CEO stepped down</td>
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<td>Finance, Insurance</td>
<td>Tom Herzog</td>
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<td>11/14/2016</td>
<td>1/1/2017</td>
<td>External</td>
<td>Mike McKee</td>
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<td>Former CEO stepped down</td>
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<td>Mike McKee</td>
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<td>7/11/2016</td>
<td>External</td>
<td>Lauralee Martin</td>
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<td>The Hershey Company</td>
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<td>Michele Buck</td>
<td>55</td>
<td>12/21/2016</td>
<td>3/1/2017</td>
<td>Internal</td>
<td>John Bilbrey</td>
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<td>Former CEO retired</td>
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<td>Darius Adamczyk</td>
<td>50</td>
<td>6/24/2016</td>
<td>3/31/2017</td>
<td>Internal</td>
<td>Dave Cote</td>
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<td>Former CEO retired</td>
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<td>James Snee</td>
<td>49</td>
<td>9/6/2016</td>
<td>10/31/2016</td>
<td>Internal</td>
<td>Jeffrey Ettinger</td>
<td>58</td>
<td>Former CEO retired</td>
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<tr>
<td>Host Hotels &amp; Resorts, Inc</td>
<td>Finance, Insurance</td>
<td>James Risoleo</td>
<td>61</td>
<td>12/15/2016</td>
<td>1/31/2017</td>
<td>Internal</td>
<td>W. Edward Walter</td>
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<td>Former CEO retired</td>
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<td>Francis deSouza</td>
<td>45</td>
<td>3/7/2016</td>
<td>7/5/2016</td>
<td>Internal</td>
<td>Jay Flatley</td>
<td>63</td>
<td>Former CEO stepped down</td>
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<tr>
<td>Kansas City Southern</td>
<td>Transportation, Communication</td>
<td>Patrick Ottenmeyer</td>
<td>59</td>
<td>5/10/2016</td>
<td>7/1/2016</td>
<td>Internal</td>
<td>David Starling</td>
<td>67</td>
<td>Former CEO stepped down</td>
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<td>Eli Lilly and Company</td>
<td>Consumer Products</td>
<td>David Ricks</td>
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<td>7/27/2016</td>
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<td>Internal</td>
<td>John Lechleiter</td>
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<td>11/14/2016</td>
<td>1/1/2017</td>
<td>Internal</td>
<td>Bob Greifeld</td>
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<td>Former CEO stepped down</td>
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<td>Pioneer Natural Resources Company</td>
<td>Extraction</td>
<td>Timothy Dove</td>
<td>59</td>
<td>5/19/2016</td>
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<td>Internal</td>
<td>Scott Sheffield</td>
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<td>Former CEO retired</td>
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<td>Services</td>
<td>Glenn Fogel</td>
<td>54</td>
<td>12/15/2016</td>
<td>1/1/2017</td>
<td>Internal</td>
<td>Jeffery Boyd</td>
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<td>Former CEO stepped down</td>
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<td>The Progressive Corp</td>
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<td>Tricia Griffith</td>
<td>52</td>
<td>5/12/2016</td>
<td>7/1/2016</td>
<td>Internal</td>
<td>Glenn Renwick</td>
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<td>Former CEO stepped down</td>
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<td>Quanta Services, Inc</td>
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<td>Earl “Duke” Austin, Jr.</td>
<td>46</td>
<td>3/14/2016</td>
<td>3/14/2016</td>
<td>Internal</td>
<td>Jim O’Neil</td>
<td>58</td>
<td>Former CEO stepped down</td>
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</table>

Continued on next page...
Table 13 (continued)

CEO succession cases used for press release analysis (2016)

<table>
<thead>
<tr>
<th>Company name</th>
<th>Sector</th>
<th>New CEO</th>
<th>Age</th>
<th>Announcement date</th>
<th>Effective date</th>
<th>Placement</th>
<th>Former CEO</th>
<th>Age</th>
<th>Reason for change</th>
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<td>Reynolds American, Inc</td>
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<td>Debra Crew</td>
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<td>10/19/2016</td>
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<td>Internal</td>
<td>Susan Cameron</td>
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<td>Former CEO stepped down</td>
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<td>Rockwell Automation</td>
<td>Manufacturing</td>
<td>Blake Moret</td>
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<td>4/19/2016</td>
<td>7/1/2016</td>
<td>Internal</td>
<td>Keith Nosbusch</td>
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<td>1/6/2016</td>
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<td>James Loree</td>
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<td>7/22/2016</td>
<td>8/1/2016</td>
<td>Internal</td>
<td>John Lundgren</td>
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<td>Shira Goodman</td>
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<td>5/31/2016</td>
<td>6/14/2016</td>
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<td>Ron Sargent</td>
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<td>Former CEO resigned</td>
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<td>Kevin Johnson</td>
<td>56</td>
<td>12/1/2016</td>
<td>4/3/2017</td>
<td>Internal</td>
<td>Howard Schultz</td>
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<td>Former CEO stepped down</td>
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<tr>
<td>Symantec Corp</td>
<td>Services</td>
<td>Greg Clark</td>
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<td>4/28/2016</td>
<td>9/1/2016</td>
<td>External</td>
<td>Michael Brown</td>
<td>57</td>
<td>Former CEO resigned</td>
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<td>TechnipFMC plc</td>
<td>Extraction</td>
<td>Douglas Pferdehirt</td>
<td>52</td>
<td>5/9/2016</td>
<td>9/1/2016</td>
<td>Internal</td>
<td>John Gremp</td>
<td>64</td>
<td>Former CEO stepped down</td>
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<tr>
<td>Teradata Corp</td>
<td>Services</td>
<td>Victor Lund</td>
<td>68</td>
<td>5/5/2016</td>
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<td>External (Director) Mike Koehler</td>
<td>63</td>
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<tr>
<td>Tyson Foods, Inc</td>
<td>Consumer Products</td>
<td>Tom Hayes</td>
<td>51</td>
<td>11/21/2016</td>
<td>12/31/2016</td>
<td>Internal</td>
<td>Donnie Smith</td>
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<td>Former CEO stepped down</td>
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<td>Steven Rendle</td>
<td>57</td>
<td>10/5/2016</td>
<td>1/1/2017</td>
<td>Internal</td>
<td>Eric Wiseman</td>
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<td>Former CEO stepped down</td>
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<td>Bob Bakish</td>
<td>53</td>
<td>12/12/2016</td>
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<td>Philippe Dauman</td>
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<td>10/17/2016</td>
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<td>External (Director) Charlie Scharf</td>
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<td>Jim Fish, Jr.</td>
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<td>Internal</td>
<td>David Steiner</td>
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<td>Former CEO stepped down</td>
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<td>5/1/2016</td>
<td>Internal</td>
<td>Gale Klappa</td>
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<td>Finance, Insurance</td>
<td>Tim Sloan</td>
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<td>10/12/2016</td>
<td>10/12/2016</td>
<td>Internal</td>
<td>John Stumpf</td>
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<td>Former CEO retired</td>
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<td>John Mackey</td>
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<td>11/2/2016</td>
<td>12/31/2016</td>
<td>Internal</td>
<td>Walter Robb</td>
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<td>Former co-CEO retired</td>
</tr>
</tbody>
</table>

Responsibility for succession announcement

Chart 43 shows that the executive chairman of the board was the director who most frequently introduced the incoming CEO to the company’s stakeholders (47.6 percent of the succession cases in 2016). In 2016, the independent chairman or lead independent director was the director who announced 36.5 percent of CEO successions, down from 42.9 percent in 2015. The remaining 15.9 percent of cases in 2016 simply stated that the board had appointed the new CEO, without specific introduction from the board or departing CEO, up somewhat from 2015 (12.5 percent).

Chart 43

Responsibility for succession announcement (2013–2016)

- Executive chairman of the board
- Independent chairman/lead director
- None

**2016**
(N=63)

- 47.6%
- 36.5%
- 15.9%

**2015**
(N=56)

- 44.6%
- 42.9%
- 12.5%

**2014**
(N=49*)

- 42.9%
- 51.0%
- 6.1%

**2013**
(N=42)

- 28.6%
- 31.0%
- 40.5%

* N=49 because 2 departures had yet to name successor.
Totals may not equal 100 percent due to rounding.
Timing of CEO succession announcement

Chart 44 illustrates the concentration of CEO succession announcements by month in 2016. The largest percentages are seen either in April (10 announcements, or 15.2 percent of the total) or at the end of the year (10 announcements, or 15.2 percent). The former finding differs from 2015, in which April saw few succession announcements and July had the highest announcement rate (nine announcements, 16.1 percent of the total in 2015). In 2016, succession announcements appear clustered around the beginning and ending of the calendar year (January and December) and around the typical timing of annual shareholder meetings (April and May).

Succession effective date

Chart 45 reports that 77.8 percent of companies provide stakeholders with advance notice of a CEO succession, which is the highest rate since The Conference Board began tracking this category in 2012. Among these companies, the average lead time before the succession event becomes effective is 79 days, consistent with the lead time recorded for 2015 and 2014 (not detailed in the figures). The remaining 22.2 percent of companies did not provide stakeholders with advance notice, continuing the trend since 2013 of fewer companies announcing successions that are effective immediately. The increasing focus by shareholders and regulators on the succession planning duties of company boards could motivate more boards to announce planned successions earlier.

CarMax, Inc., is an example of a company that provided stakeholders with nearly 11 months’ notice about a pending CEO succession. On February 1, 2016, CarMax’s board announced that, “as the culmination of a multi-year management succession plan,” Bill Nash would succeed Tom Folliard as president and CEO-designate upon Folliard’s retirement on December 31, 2016.12

Should a board wait to announce a CEO succession? Such a delay could be justified if the board is undertaking an external search for a replacement CEO, which could make it more difficult to identify the CEO-in-waiting several months in advance. Another potential reason for a delayed announcement could be that the board is addressing an unexpected CEO departure or the dismissal of a poorly performing CEO. A background analysis of press releases (not detailed in the figures) shows that 85.7 percent of CEO successions that were effective immediately involved a CEO who resigned or stepped down from the position. In contrast, only 55.1 percent of CEO successions that provided advance notice involved a CEO who resigned or stepped down.

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Stated reason for departure

Chart 46 illustrates the stated reasons for the CEO’s departure. Thirty-eight percent of the succession announcements among S&P 500 companies in 2016 linked the departure of the CEO to “retirement.” This stated reason for departure continues to decline, down significantly from the 66.7 percent rate in 2013.

In 2016, 60.3 percent of the S&P 500 succession announcements linked the departure of the CEO to resignation or “stepping down.” This is consistent with the higher rate of disciplinary successions documented in Chart 11.

Press releases often do not explicitly state that a CEO was forced from his position. However, the board of The Priceline Group made it clear to investors that its departing CEO was ousted. When the board appointed current Chairman Jeffery Boyd as interim CEO, the company stated:

Mr. Huston [departing CEO] resigned following an investigation overseen by independent members of the Board of Directors of the facts and circumstances surrounding a personal relationship that Mr. Huston had with an employee of the Company who was not under his direct supervision. The investigation determined that Mr. Huston had acted contrary to the Company’s Code of Conduct and had engaged in activities inconsistent with the Board’s expectations for executive conduct, which Mr. Huston acknowledged and for which he expressed regret.13

Stated role of the board in CEO succession planning

Formalized documentation of a succession planning process has become a central topic of boardroom discussion. This formalization is a result of increased shareholder pressure and the decision by the SEC to change its guidance on the excludability of investor resolutions requesting more information on CEO succession plans. Boards have been defining the delegation of oversight responsibilities in succession planning more clearly (in some cases, assigning the process to either the compensation or nominating/governance committee), setting the time frame for a periodic plan review, and, in some cases, endorsing related policies, such as CEO auditioning, board retention of the retiring CEO, or the direct access by board members to senior management without CEO approval.

Given the increasing degree of formalization, the 2016 succession announcements were reviewed for specific references to succession planning. Chart 47 shows that 41.3 percent of succession announcements stated that the incoming CEO was identified through the succession planning process adopted by the board of directors. This is higher than the rate of 32 percent of announcements in 2015 and notably higher than the rate of 11.9 percent in 2013.

There appears to be a link between inside promotion to the CEO position and the succession planning process: 96.2 percent of announcements that mention the board’s role in the succession planning process involved an insider appointment, whereas only one succession that involved an outside hire referenced succession planning.

When a successor has not yet been named, some companies’ announcements refer to a board-led process as their method of identifying the next CEO in the outside market. For example, when the board of PulteGroup announced the departure of Richard Dugas, the company issued a press release that described the board’s next steps: “The Board has formed a special committee of independent directors to conduct a search for his successor, with the assistance of a leading executive recruitment firm.”

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Examples of References to Succession Planning in 2016 Press Releases

**Biogen** Alex J. Denner, PhD, chairman of the CEO search committee and the corporate governance committee of Biogen’s board of directors stated, “The Board conducted a comprehensive search process that attracted many high-caliber candidates. We focused on choosing a CEO who would best serve shareholders by emphasizing the key drivers of value creation at Biogen: operational execution and capital allocation.”

**CarMax, Inc.** “CarMax, Inc. today announced that, as the culmination of a multi-year management succession plan, Bill Nash has been promoted to president and Cliff Wood has been promoted to chief operating officer, effective February 1, 2016.”

**The Coca-Cola Company** “‘Managing The Coca-Cola Company to ensure our long-term growth requires a thoughtful and orderly succession planning process,’ said Muhtar Kent [departing CEO]. ‘I have been engaged with our Management Development Committee and the full Board on talent development and succession discussions throughout my tenure as CEO. We are certain that James Quincey is prepared for these new responsibilities and is the absolute right choice to lead our company and system into the future. One of our Board’s key priorities is developing the next generation of leaders and James is a perfect example of our talent pipeline in action.’”

**Crown Castle** “‘The Board of Directors is extremely pleased to put in place a succession plan that we believe ensures continuity of the Company’s strategy and vision,’ stated J. Landis Martin, Crown Castle’s Chairman of the Board of Directors.”

**Eversource Energy** “As part of the company’s leadership succession plan, Jim Judge, the company’s Chief Financial Officer, will succeed [Tom] May as president and chief executive officer.” Chad Gifford, chair of the succession planning committee said, “Jim is an extremely capable executive who will continue to provide strong leadership to Eversource and deliver results for our customers and shareholders.”

**ExxonMobil** “Effective and disciplined succession planning is critical to the corporation’s ongoing success and a key component of its competitive advantage. This change in leadership is consistent with the board of directors’ succession plan developed years in advance and demonstrates the strength of the management development system.”

**Grainger (W.W.)** “This is the penultimate step in the multiyear succession process and will conclude with [DG] Macpherson taking on the Chairman role upon [Jim] Ryan’s retirement.”

Continued on next page…
Examples of References to Succession Planning in 2016 Press Releases

(continued)

The Hershey Company “‘As the board contemplated the right strategic leader for the next great chapter in Hershey’s history, it quickly became apparent that Michele [Buck] offered the right mix of outstanding vision and proven execution to continue taking our company forward,’ said Pamela Arway, Chair of the Governance Committee of Hershey’s Board of Directors and chair of the board’s special committee overseeing the CEO succession process.”

Kansas City Southern “The Board is also confident that the succession plan it developed, along with the close working relationship between Dave Starling and Pat Ottensmeyer, will result in a seamless transition without disruption to the superior performance of the Company.”

Rockwell Automation “Donald R. Parfet, Lead Director, said: ‘Blake [Moret, incoming CEO] has proven himself to be an exceptional leader, with demonstrated readiness to lead the company. We welcome him to his new role at the conclusion of a deliberate and planned succession process.’

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Director and management changes in conjunction with CEO succession

One potentially overlooked aspect of the CEO succession planning process is that its culmination is frequently associated with other important changes in the board and senior management. Chart 48 reports that 63.5 percent of succession announcements in 2016 were accompanied by such changes. This rate is notably higher than the rates of 56 percent in 2015, 34.7 percent in 2014, and 23.8 percent in 2013. To illustrate such joint changes, the board of Delta Air Lines announced, “Ed Bastian, President of Delta, will be appointed CEO effective May 2, 2016 and Glen Hauenstein, Executive Vice President, will be appointed President of Delta, also effective May 2, 2016. Gil West is promoted immediately to Senior Executive Vice President and Chief Operating Officer. Effective immediately, the Board of Directors also appoints Steve Sear, President International and Executive Vice President Global Sales.”

In general, outside CEO appointments are frequently associated with the election of the new CEO to the board, the potential departure of the departing CEO from the board, and a change in at least one position within the senior management team (most commonly, the chief operating officer or the chief financial officer). Inside CEO appointments may or may not require the election of a new board member, but they are often associated with the departure of a senior executive or a reorganization of duties among senior executives. The observed changes in the composition of senior management might signal that these managers believe that they have lost the succession race, reflect their allegiance to the departing CEO, or indicate a general change in top management beyond the chief executive position.

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Chart 48

Director and management changes in conjunction with CEO succession (2013–2016)

<table>
<thead>
<tr>
<th>Year</th>
<th>Companies that made no other top-level changes</th>
<th>Companies that also changed at least one director or member of senior management</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>36.5% (N=63)</td>
<td>63.5%</td>
</tr>
<tr>
<td>2015</td>
<td>44.0% (N=56)</td>
<td>56.0%</td>
</tr>
<tr>
<td>2014</td>
<td>65.3% (N=49*)</td>
<td>34.7%</td>
</tr>
<tr>
<td>2013</td>
<td>76.2% (N=42)</td>
<td>23.8%</td>
</tr>
</tbody>
</table>

* N=49 because 2 departures had yet to name successor.

PART III
NOTABLE CASES OF CEO SUCCESSION (2016)

This section includes summaries of 12 cases of CEO succession that made headlines in 2016. It highlights the circumstances surrounding the leadership transition and includes key information disclosed by the company and published in reputable sources listed in a box accompanying each case study.
A case of succession due to a medical emergency

**Cabot Corp.**

**Summary of events** On March 14, 2016, the Boston specialty chemicals and performance materials maker Cabot Corp. elevated Sean Keohane to president and CEO. He replaced Patrick Prevost, who stepped down after suffering a minor stroke in December 2015. Prevost had been on temporary leave for three months. As part of his separation agreement, Prevost stayed on as employee until July 15, 2016. However, he remains a director.

As part of the emergency succession plan, Cabot’s board established the Interim Office of the Chief Executive Officer. The interim CEO office is comprised of Eduardo Cordeiro, executive vice president and chief financial officer, and president, Americas and EMEA regions; Brian Berube, senior vice president and general counsel; Sean Keohane, executive vice president and president, Reinforcement Materials segment; and Nicholas Cross, executive vice president and president, Performance Chemicals and Specialty Fluids segments. Prevost kept in touch with the CEO office during his leave.

This is a case of a president and CEO being replaced due to a medical emergency. Prevost, who served eight years as Cabot’s chief executive, had originally thought about returning to his job but ultimately decided against it. He told the *Boston Globe* that he was unable to devote the time required to be as effective as he would like. Keohane, who has been with Cabot since 2002, was in line to replace Prevost due to experience leading the company’s Reinforcement Materials and Performance Chemicals segments, according to Nonexecutive Chair John O’Brien. “Sean [Keohane] has been a true champion of Cabot and the Board has full confidence in his ability to continue to grow and strengthen Cabot into the future,” O’Brien said in a press release.

**Departing CEO (age)** Patrick Prevost (60)

**Stated reason for departure** Resignation due to medical emergency

**Incoming CEO (age)** Sean Keohane (48)

**Incoming CEO qualifications at time of appointment** President of the company’s Reinforcement Materials segment. Since joining the company, he has held several key management positions, including general manager of the Performance Product business group, global marketing director for the Carbon Black businesses, and senior vice president and president of the Performance Materials segment. He worked for Pratt & Whitney, a division of United Technologies Corp., in a variety of general management positions. Keohane earned his MBA from Harvard University and a BS in Finance from Providence College.
Cabot Corp. (continued)

Succession type Insider

Joint election as board chairman No. He was named as a director and member of the executive committee upon elevation to president and CEO.

Corporate governance guidelines The compensation committee leads succession planning oversight, which includes succession planning in the event of an emergency, such as was the case with Prevost. The guidelines state: “The compensation committee evaluate management performance biannually (or more often if required) and shall discuss management succession annually (or more often if required), and following its meetings, shall report on these matters to the non-management directors meeting in executive session.” It goes on to say that the entire board will work with the compensation committee to evaluate potential successors to the CEO, who will be able to make recommendations for such successors.

SEC filings The company’s proxy statement filed January 28, 2016, states that the compensation committee considers human resources risk and evaluates and sets compensation programs that encourage decision-making predicated upon a level of risk consistent with business strategy. As part of those duties, the compensation committee also oversees senior management succession planning and development. The nonexecutive chair, in collaboration with the compensation committee, is responsible for leading the board’s review of the succession plans for CEO and key senior management.

CASE STUDY

A case of HR executive named CEO

CarMax

Summary of events On February 1, 2016, the board of the Richmond, Virginia, used car retailer CarMax announced it had promoted its former head of human resources, William Nash, to president, replacing long-time president and CEO Thomas Folliard. Seven months later, Nash took over as CEO, when Folliard retired on August 31, 2016. As part of the transition, Cliff Wood, former CarMax executive vice president, Stores, was promoted to executive vice president and COO. The decision was the culmination of a multiyear management succession plan overseen by the board.

This is a case of a CHRO replacing a longtime chief executive at a time when the company’s stock was underperforming. According to one media report, the succession plan was put into place after CarMax’s stock had fallen about 25 percent over three months, compared with a 7.8 percent drop for the S&P 500, leading to the executive change.

Folliard, who was among the chain’s first employees in 1993, retired from the top executive position he had held since June 2006. He was named the company’s nonexecutive chair while Nash was added to the board. Bill Tiefel, who had been the chair, was named lead independent director.

The new CEO, Nash, had been groomed to replace Folliard over several years. Nash was promoted to executive vice president, human resources and administrative services, in 2012, where he oversaw human resources, information technology, procurement, loss prevention, employee health and safety, and construction and facilities.

“The execution of our long-term succession plan, with Bill [Nash] as president and Cliff [Wood] as COO, ensures a seamless management transition and the continuity of the company’s culture,” Tiefel said. During his 10 years as CEO, Folliard successfully led CarMax through the company’s establishment as a national brand and a time of significant growth, during which its store base and total revenues more than doubled and its net income quadrupled, according to a company press release.

Departing CEO (age) Thomas Folliard (51)

Stated reason for departure Part of a multiyear management succession plan

Incoming CEO (age) William Nash (47)

Incoming CEO qualifications at time of appointment Executive vice president of Human Resources and Administrative Services since 2012. Joined CarMax in 1997 as auction manager, after holding a variety of accounting roles at consumer electronics retailer Circuit City Stores Inc.
Succession type Insider

Joint election as board chairman No. Departing CEO named nonexecutive chair.

Corporate governance guidelines The guidelines state that the nominating and governance committee reviews the succession planning with respect to the CEO and other senior management positions. As part of this responsibility and with input from the CEO, the committee “will review periodically (a) candidates to assume the position of CEO and other senior management positions, including succession planning for the CEO in the event of an emergency, death, or resignation, and (b) the development and/or recruitment plans for internal and external candidates for such positions.” The results of these reviews shall be reported to the board, which shall have ultimate responsibility for the selection of the CEO and oversight responsibility for senior management succession planning.

SEC filings The company’s proxy statement, filed May 6, 2016, states that the board oversees the recruitment, development, and retention of executive talent. As part of its oversight, the board regularly reviews short- and long-term succession plans for the CEO and other senior management positions. In assessing possible CEO candidates, the independent directors identify the skills, experience, and other attributes they believe are required to be an effective CEO in light of CarMax’s business strategies, opportunities, and challenges.

CASE STUDY

A case of departure following an acquisition

Endo International

**Summary of events** On September 22, 2016, the board of the Dublin-based global pharmaceutical company Endo International named former Par Pharmaceutical CEO Paul Campanelli as president and CEO to replace Rajiv De Silva a year after Endo acquired Par. Campanelli, who had served as president of Endo’s Generic and OTC drugs business, was also named a director of Endo’s board. De Silva also stepped down as director, but he stayed on as a consultant for six months following his resignation.

According to media reports, the executive change was prompted by a 73 percent drop in share price under De Silva as Endo faced more competition and stronger US guidelines limiting the use of opioids, which was the company’s top product.

This was a case of an experienced CEO from an acquired company taking the acquiring company in a new direction as the market changed. Campanelli, who joined Endo in 2015, three years after taking the helm at Par, built a strong leadership team and an industry-leading generics business. Nearly a year after the acquisition, Par made up 60 percent of Endo’s total revenue through the first half of 2016. During his tenure at Par, Campanelli significantly increased total revenue, acquired JHP Pharmaceuticals and established a presence in the European generics market.

While this CEO succession wasn’t exactly by the books, it showed the depth Endo had on its executive bench after it acquired Par Pharmaceuticals. “Given the continued evolution of Endo’s business and Paul’s [Campanelli] impressive track record of delivering strong operating results, the board concluded that Paul is the right leader for Endo at this juncture as we focus on execution and increasing the value of our attractive U.S. Branded, U.S. Generic and International pharmaceutical assets,” Roger Kimmel, Endo chair, said in a statement following the announcement. “Paul has spent a significant portion of his career leading and operating complex generics businesses and overseeing Par’s branded business.”

The board believes his experience positions him to drive a broad range of growth initiatives across Endo’s entire portfolio, Kimmel said.

As for the incoming CEO, prior to becoming CEO of Par in 2012, Campanelli served as COO of Par Pharmaceutical, driving growth in both its branded and generic pharmaceutical businesses. Previously, he held roles of increasing responsibility at Par, including president, Par Generics, and executive vice president, Business Development & Licensing, for branded and generic products. Overall, Campanelli has more than 25 years of experience in the generics and branded pharmaceutical industry.
Endo International (continued)

During De Silva’s tenure, the company reincorporated as an Irish company in 2014 to save millions of dollars in taxes. The company was able to legally reincorporate in Ireland only after completing a deal to buy a foreign-based company using at least 20 percent of its own stock. Endo met that threshold by buying Paladin Labs, a Canadian drug manufacturer, for $1.6 billion in a deal made just before the reincorporation.

Departing CEO (age) Rajiv De Silva (49)

Stated reason for departure No reason given. CEO ceased serving as president, CEO, and a director.

Incoming CEO (age) Paul Campanelli (54)

Incoming CEO qualifications at time of appointment Joined Endo in 2015 following its acquisition of Par Pharmaceutical, where he had served as CEO since 2012. Built a strong leadership team and an industry-leading generics business while CEO of Par, when the company significantly increased total revenue, acquired JHP Pharmaceuticals, and established a presence in the European generics market.

Succession type Insider

Joint election as board chairman No. He was named a director.

Corporate governance guidelines The guidelines state that the compensation committee shall conduct an annual review of the company’s management succession plan. That includes reviewing and consulting with the board chair on a succession plan that is developed by the CEO to provide continuity of senior management. “The plan, on which the compensation committee shall report to the board at least annually, shall address:

1. Emergency CEO succession;
2. CEO succession in the ordinary course of business; and
3. Succession for the following members of senior management: CFO; CLO; Executive Vice President, R&D; and COO, Pharmaceuticals.”

SEC filings According to the company’s proxy statement filed on April 28, 2016, “the compensation committee considers risks related to succession planning and the attraction and retention of talent, as well as risks relating to the design of compensation programs and arrangements. The compensation committee also reviews compensation and benefit plans affecting Endo employees in addition to those applicable to all executive officers. The full board considers strategic risks and opportunities and regularly receives detailed reports from the committees regarding risk oversight in their respective areas of responsibility.
The committee also reviews at least annually the company’s succession plan relating to named executive officer (NEO) positions with a focus on the ongoing evaluation and planning related to succession for the position of president and CEO.”

A case of prolonged transition

Honeywell International Inc.

**Summary of events** On June 28, 2016, the board of Honeywell International Inc. announced a rather unique succession plan for chair and CEO Dave Cote. Under the plan, president and COO Darius Adamczyk would replace the retiring Cote on March 31, 2017. At that time, Cote would remain on the board as a nonexecutive chair until the company’s annual meeting in April 2018. Then, Cote would start a five-year consulting and noncompete agreement with Honeywell.

*Bloomberg* reported on June 28, 2016, that the early announcement of Adamczyk as CEO should quell any speculation over the leadership change at the maker of aerospace components, refining equipment, and commercial building systems as Cote neared retirement. Honeywell intended to pave the way for a smooth transition by announcing it so early and keeping Cote on until his retirement.

This was a case of a well-thought out succession plan that was years in the making. It makes use of the company’s internal managerial depth while also steering it toward the future.

As part of the succession plan, the company named 16-year board member Jaime Chico Pardo, a former CEO of Telefonos de Mexico, as lead director for two years, with expanded responsibilities to help with the transition. According to the company’s SEC filing, this isolated change replaced the one-year rotating term based on seniority. The board determined that a permanent lead director would be better suited to managing the CEO leadership transition. The board intends to review the lead director’s performance on a biennial basis and, as appropriate, re-elect or elect one of its members. To better facilitate a smooth leadership transition, the board also added several new responsibilities to the lead director role, such as providing guidance on key strategic and operational board agenda topics, periodic consultation with management about the scope and content of materials provided to the board, and serving as *ex-officio* member of each committee.

The succession plan announcement continued a rebound trend for Honeywell under Cote’s leadership. He came aboard in 2002, after the company was still smarting from the failed merger with General Electric, which was approved by US regulators but blocked by the European Commission. According to *Bloomberg*, this led to lower profit margins and sagging morale at Honeywell. However, Honeywell’s market value has climbed to $87 billion from $20 billion during Cote’s 14 years at the helm, according to a company statement when the announcement was made. The turnaround led to shareholder gains of 556 percent, which more than doubled the 214 percent return of the S&P 500 Index.

Promoting Adamczyk to lead Honeywell was as much the idea of Cote as it was the board.
Honeywell International Inc. (continued)

“Darius [Adamczyk] is absolutely the right person to lead our company into a new era, where we will need to keep evolving to become even more global, more of a software company, and more nimble. He has the growth mindset, global acumen, and software expertise to be a highly successful CEO for Honeywell,” Cote said. “Darius has succeeded in every business leadership role he has ever held, whether it was doubling the size of our Scanning & Mobility business over four years, driving a dramatic turnaround of our Honeywell Process Solutions business over two years, or expanding margins in Honeywell Performance Materials and Technologies despite a severe downturn in the oil and gas industry. Darius’s deep expertise in software will open new growth paths for all of our businesses, which are blending Honeywell’s advanced software programming capabilities with leading-edge physical products and unparalleled domain expertise in a wide variety of industries.”

Departing CEO (age) Dave Cote (63)

Stated reason for departure A long-term retirement plan

Incoming CEO (age) Darius Adamczyk (50)

Incoming CEO qualifications at time of appointment Named president and COO earlier this year; president and CEO of Honeywell Performance Materials and Technologies, a $9.3 billion global leader in the development of high-performance products and solutions; president of Honeywell Process Solutions, a global leader in automation and control systems; president of Honeywell Scanning & Mobility in 2008, when Metrologic, where he was CEO, was acquired by Honeywell. Held several general management assignments at Ingersoll Rand, served as a senior associate at Booz Allen Hamilton, and started his career as an electrical engineer at GE.

Succession type Insider

Joint election as board chairman No. The outgoing CEO is a nonexecutive chair for one year.

Corporate governance guidelines The company’s guidelines state that the board shall oversee and annually review leadership development and assessment initiatives, as well as short- and long-term succession plans for the CEO and other senior management, including in the event of unanticipated vacancies in those offices. Generally, the Management Development and Compensation Committee considers leadership development, assessment, and succession planning in preparation for a discussion by the full board. The board is responsible for the selection of the CEO. In assessing possible CEO candidates as part of the annual review of succession plans, the independent directors shall identify and periodically update the skills, experience, and attributes that they believe are required to be an effective CEO in light of the company’s business strategy, prospects, and challenges. The independent directors shall also take into account perspectives provided by the incumbent CEO relating to the performance of internal candidates.
Honeywell International Inc. (continued)

SEC filings According to the company’s 2016 proxy statement, the management development and compensation committee recognizes that retention of highly qualified leadership talent is critical to the company’s continued performance and to successful succession planning. The committee annually considers, and reviews with the full board, succession candidates for the CEO and other senior leadership positions under both near-term and long-term planning scenarios, taking into account demonstrated performance, leadership qualities, and the potential to take on more complex responsibilities. As part of this process, the committee considers the potential retention risk regarding incumbent senior executives and the identified succession candidates, the competitive landscape for executive talent, the specific succession planning time horizon for each senior executive position, and the extent of disruption likely to be caused by unplanned attrition. Since January 2004, all of the company’s open executive officer positions have been filled with internal executives.

A case of fifth-generation succession

**J.M. Smucker Co.**

**Summary of events** On May 1, 2016, the foods and beverage company J.M. Smucker elevated Mark Smucker, president, Consumer and Natural Foods, and member of the board, to president and CEO. The fifth generation of the company’s founder succeeded his uncle, Richard Smucker, who had served as CEO since 2011 and co-CEO since 2001. Richard Smucker became executive chair, succeeding Timothy Smucker, who transitioned to the role of chairman emeritus and a nonemployee director. Mark Smucker is the son of Timothy Smucker.

Concurrent with these appointments, the Smucker board promoted CFO Mark Belgya and Steven Oakland, president of Coffee and Foodservice, to the additional management role of vice chair. Oakland is now president of U.S. Food and Beverage. In addition to his role as CFO, Belgya is responsible for strategy, mergers and acquisitions, government and industry affairs, and information services.

Media reports show that Mark Smucker took the reins of the family business after what is widely expected to be its most successful year ever, with an estimated $7.8 billion in sales for fiscal 2016, largely because of its Big Heart Pet Brands business acquired in March 2015. That acquisition vaulted Smucker into America’s eighth-largest shelf-stable food and beverage company.

The promotion of Mark Smucker and his uncle, Richard, is a case of a long-time succession plan based on a model of family control. Mark Smucker and family members before him have all been groomed to lead a company that has been around for nearly 120 years.

In its proxy statement, filed July 1, 2016, the board stated it thought Mark Smucker should serve as a director largely due to his role as president and CEO, his significant knowledge of the company from his 18 years there, and his experience serving as a former director and a member of the compensation committee of the information standards organization GS1 US and as a trustee of the Akron (Ohio) Art Museum. The board also stated that it believes continuing board participation by qualified members of the Smucker family is an important part of its corporate culture and has contributed significantly to its long-term success.

“As an organization highly focused on talent development and operating with a long-term perspective, Mark’s appointment reflects the board’s thoughtful approach to succession planning,” said Gary A. Oatey, the nominating and corporate governance committee chair.
J.M. Smucker Co. (continued)

This transition showed how adept Smucker is at passing the management baton to each generation. “At Smucker, we have a remarkable team that is committed to developing leaders from within,” said Timothy Smucker. “Our unique culture is critical to our long-term performance, and preserving its strength remains a priority for our company.”

**Departing CEO (age)** Richard Smucker (67)

**Stated reason for departure** Family succession

**Incoming CEO (age)** Mark Smucker (46)

**Incoming CEO qualifications at time of appointment** President of Consumer & Natural Foods at the company since April 1, 2015; president of US Retail Coffee from May 2011 to March 31, 2015, president of Special Markets–SBA since August 2008; responsible for Information Services group; vice president of International Market from May 2007 to August 2008; and vice president and general manager of International Markets from November 2001 to May 2004. Joined the company in 1997.

**Succession type** Insider

**Joint election as board chairman** No. Outgoing CEO elevated to chair.

**Corporate governance guidelines** The company’s governance guidelines state that the CEO will conduct an annual evaluation of the performance of the senior management team and will conduct a review of management development and succession planning. The CEO will also report annually to the Nominating and Corporate Governance Committee his recommendations on succession planning. That committee will work with the CEO to plan for CEO succession in the events of a normal retirement and an unexpected occurrence.

**SEC filings** The nominating committee assists the board in fulfilling its oversight responsibilities with respect to the management of risks associated with board organization, membership and structure, succession planning for directors and executive officers, and corporate governance, including the annual monitoring of corporate governance issues, developing director self-evaluations, and reviewing potential conflicts of interest.

CASE STUDY

A case of departure due to code of conduct breach
Priceline Group Inc.

Summary of events On December 15, 2016, the online travel agent Priceline Group Inc. board appointed Glenn Fogel, the company’s head of strategy and executive vice president, CEO effective January 1, 2017, to replace CEO Darren Huston, who resigned after an internal investigation found he had an affair with an employee. Huston had led Priceline for less than three years and Booking.com for nearly five years. As part of the management change, Booking.com COO Gillian Tans took over as permanent CEO of that Priceline subsidiary. (Priceline had purchased Booking.com in 2005.)

Company Chair Jeffery Boyd served as named interim CEO from April 27, 2016, until December 31, 2016. He took over as executive chair when Fogel assumed the CEO position.

This was a case of an emergency succession due to a CEO’s violation of the company’s code of conduct. Huston resigned after Priceline independent directors completed an investigation that concluded the CEO had a personal relationship with an employee who was not under his direct supervision. The investigation determined that Huston had acted contrary to the company’s code of conduct and engaged in activities inconsistent with the board’s expectations for executive conduct. In connection with Huston’s resignation, the company and Huston entered into a separation letter under which he and the company agreed, among other things, to the following:

- Huston would not receive severance.
- He would receive pro rata vesting of his outstanding equity awards based on time served.
- He would be bound by the noncompete, nonsolicitation and proprietary information covenants contained in his employment agreement.
- The company would pay for the cost of reasonable relocation expenses to North America because Huston was based out of Amsterdam, where he oversaw Booking.com.

According to the company’s 8-K filing, on April 27, 2016, the board announced it created a search committee to name a successor. That committee was chaired by lead independent director James Guyette. This change also removed one candidate for the Priceline Group CEO position. The search for the new CEO was narrowed to a short list of internal and external candidates, the travel news site Skift reported in October 2016.
Priceline Group Inc. (continued)

“I am satisfied with the board’s thorough review of this issue,” Guyette said when Huston resigned. “The performance of the business under Darren [Huston] has been strong, and the company is very well-positioned to continue executing on its strategy for growth. Jeff [Boyd] is deeply familiar with the company’s strategy and leadership team, which consists of highly accomplished entrepreneurs and seasoned professional executives with long-tenure in the business. We are confident the company is in strong hands while we conduct a search for a new CEO.”

**Departing CEO (age)** Darren Huston (51)

**Stated reason for departure** Violation of the company’s code of conduct

**Incoming CEO (age)** Glenn Fogel (55)

**Incoming CEO qualifications at time of appointment** A 16-year veteran of The Priceline Group, serving as head of Strategy and Planning, a position he held since 2010, and executive vice president of Corporate Development, which he held since 2009. He had been responsible for global corporate strategy, worldwide mergers and acquisitions, business development initiatives, and strategic alliances.

**Succession type** Insider

**Joint election as board chairman** No. Former interim CEO and nonexecutive chair took over as executive chair.

**Corporate governance guidelines** The company’s Corporate Governance Principles state that, at least annually, the Nominating and Corporate Governance Committee shall review and concur on a succession plan, developed by management, addressing the policies and principles for selecting a successor to the CEO, both in an emergency situation and in the ordinary course of business. The succession plan should include an assessment of the experience, performance, skills, and planned career paths for possible successors to the CEO.

**SEC filings** The company’s 2016 proxy statement states that the nominating and corporate governance committee will annually concur on a CEO succession plan.

A case of appointment of the first female CEO

The Progressive Corp.

**Summary of events** On May 12, 2016, The Progressive Corp. announced that President and CEO Glenn Renwick was retiring after leading the insurance company for more than 15 years and spending almost 30 years with the company. Renwick is still executive chairman of the board. Susan Patricia Griffith, former Progressive Personal Lines COO, succeeded Renwick as CEO and president on July 1, 2016, and became a director. She is the first female chief executive in the 79-year history of the company.

At the same time, Progressive announced that, under the company’s retirement policy, its longtime lead independent director, Stephen Hardis, 79, retired from the board after 28 years. The independent directors appointed Lawton Fitt to replace Hardis as lead independent director, according to the company’s Form 8-K.

This is a case of a long-time succession plan that was implemented as part of an overall management transition in which a female was chosen to lead a Fortune 500 company. She is one of only 21 such CEOs.

“This leadership transition is the culmination of years of planning by the Board, initiated by Glenn [Renwick] several years ago, based on a timeframe that would ensure continuity of leadership and with an approach grounded in Progressive’s values and evolving business model,” Hardis said. “It also comes at a time of great strength at the company, as Progressive is well-positioned for the long-term thanks to Glenn and his team. As we look to the future, the board is confident that [Susan Patricia] Tricia’s [Griffith] extensive experience with numerous aspects of the company, operational acumen and exceptional track record make her the ideal candidate to lead Progressive forward.”

According to *The Insurance Journal*, since Renwick became CEO in 2000, the company’s market capitalization has increased by approximately 155 percent to more than $19 billion and written premiums have more than tripled. The former Bell Labs engineer made Progressive a leader in e-commerce and telephone direct sales, online price comparisons, and consumer technologies. In 2015, Renwick expanded the insurer’s business and its ability to bundle personal lines products with the acquisition of home insurer ARX Holding. It was the first carrier to offer its auto customers pet injury coverage.

**Departing CEO (age)** Glenn Renwick (60)

**Stated reason for departure** Retirement

**Incoming CEO (age)** Susan Patricia Griffith (52)
**The Progressive Corp.** (continued)

Incoming CEO qualifications at time of appointment Personal Lines COO, responsible for the company’s Personal Lines, Claims, and Customer Relationship Management groups from April 2015 to June 2016; in 2008, group president of Claims; president of Customer Operations, overseeing Claims and the Customer Management group, which comprises the company’s Contact Center group (sales and delivery), as well as the Customer Experience, Systems Experience and Workforce Management groups; held several managerial positions in the Claims division before being named CHRO in 2002.

Succession type Insider

Joint election as board chairman No. Departing CEO remains executive chair.

Corporate governance guidelines The company’s guidelines state that the nominating and governance committee will ensure that the board discusses succession planning on at least an annual basis. The entire board will work with the nominating and governance committee to nominate and evaluate potential successors to the CEO. The board has no policy with respect to the separation of the offices of chair and the CEO. The board believes that this issue is part of the succession planning process and that it is in the best interests of the company and its shareholders for the board to make a determination on that issue, on a case-by-case basis, whenever a new chair is to be elected or when the board elects a new CEO.

SEC filings While the company’s 2016 proxy statement didn’t address succession planning, the Form 8-K filed on July 1, 2016 did. It stated: “Consistent with expectations described in the Form 8-K of The Progressive Corporation filed on May 16, 2016, on July 1, 2016, Susan Patricia (Tricia) Griffith became a director and president and Chief Executive Officer of the company. At the same time, Glenn M. Renwick became executive chairman of the board of directors of the company. At the same time, Glenn M. Renwick became executive chairman of the board of directors of the company after having served as president and Chief Executive Officer for more than 15 years. Mrs. Griffith was also appointed to the executive committee of the board.”

CASE STUDY

A case of departure after a failed merger

Staples Inc.

Summary of events On September 25, 2016, the board of Staples Inc. appointed Shira Goodman as president, CEO, and a member of the board, replacing 14-year company head Ron Sargent, who resigned after a failed $6.3 billion merger with Office Depot. Goodman, who has been with the company more than 23 years, is the first female CEO in company history. She had served as interim CEO from June 2016 until September. Before being elevated to president and CEO, she served as president, North America Operations.

(It should be noted that Office Depot Inc. also announced a shake-up at CEO when, on August 22, 2016, CEO Roland Smith said he planned to retire. He continues to serve as CEO until a successor is named, which was expected by the end of first quarter 2017. It is expected Smith will remain chair. The company’s board will evaluate, with the assistance of an executive search firm, both internal and external candidates for CEO.)

The succession at Staples is a case of how a company needed to change strategy and management following the federal government’s rejection of a mega-merger thought to make both companies more competitive. A BB&T analyst told CNBC that “without cost savings and other merger benefits, the two stores will see an increasing threat from Amazon.”

On May 10, 2016, Staples stated in a press release that the US District Court for the District of Columbia granted the FTC’s request for a preliminary injunction against the company’s proposed acquisition of Office Depot. Six days later, both companies decided to terminate the merger agreement.

“After a comprehensive search process that included the evaluation of several qualified candidates for the position of Chief Executive Officer, the board has approved Shira’s [Goodman’s] appointment,” said Robert Sulentic, lead independent director. “This decision was not only based on her long tenure and deep understanding of our industry, but also on the leadership qualities she has demonstrated while serving as interim Chief Executive Officer. Having joined Staples in 1992, Shira has a thorough understanding of our customers and operations which she combines with the outside-in thinking critical to competing in today’s marketplace.”

Departing CEO (age) Ron Sargent (60)

Stated reason for departure Resignation. A mutual agreement that Sargent step down following a failed merger with Office Depot due to antitrust concerns.

Incoming CEO (age) Shira Goodman (55)
Staples Inc. (continued)

Incoming CEO qualifications at time of appointment Interim CEO since June 2016; president, North American Operations since January 2016; president, North American Commercial since February 2014; executive vice president of Global Growth since February 2012; executive vice president of Human Resources since March 2009; and executive vice president of Marketing since May 2001. Prior to that, she served in various capacities since joining Staples in 1992, including senior vice president of Staples Direct, senior vice president of Brand Marketing, and vice president of Contract & Commercial.

Succession type Insider

Joint election as board chairman No. Departing CEO served as non-executive chair until January 28, 2017, but was replaced by the former lead independent director.

Corporate governance guidelines According to the company’s guidelines, in accordance with its fiduciary duties, the board will periodically make a determination as to the appropriateness of its policies in connection with the recruitment and succession of the chair and CEO. The Nominating and Governance Committee is responsible for continuously reviewing succession planning as it relates to the CEO. If it is determined that a new CEO should be hired, the committee shall manage the process of identifying and selecting the new CEO, with the full participation of each of the non-management directors and the current CEO, if appropriate. The committee will also set policies regarding succession in the event of an emergency. To assist the committee, the CEO shall develop and maintain a process for advising the board on his or her succession planning and other key senior leadership positions. The CEO shall prepare an annual report on such matters for the board. There shall also be available, on a continuing basis, recommendations from the CEO regarding his or her successor should he or she unexpectedly become disabled.

SEC filings According to a letter to Sargent from the board’s lead director, issued as an exhibit in Form 8-K filed by the company on May 30, 2016, Sargent agreed to help out during the transition period. The letter read, “During the period from the 2016 Annual Meeting of Stockholders until January 28, 2017, you [Ron Sargent] will be an employee of the company and provide such services as are from time to time reasonably requested by the board of directors or interim Chief Executive Officer to assist in the transition to the successor.”

CASE STUDY

A case of a second try at CEO succession

Starbucks Corp.

Summary of events On December 1, 2016, Starbucks Corp. announced it had promoted Kevin Johnson, president and COO of Starbucks, to CEO, replacing long-time CEO and Chair Howard Schultz, who stays on as executive chair. Johnson was also named to the board. The appointments were effective April 3, 2017. Schultz is focusing on developing high-end coffee shops under the Starbucks Reserve Roasteries label.

This is a case of a popular chief executive getting a second chance to implement a succession plan. The announcement of the succession was a long time coming, as Schultz had already given day-to-day operations to Johnson in the summer of 2016, according to the New York Times. Coupled with the Seattle-based coffee company’s two record years of earnings, Schultz thought it was an ideal time to have Johnson play a major part in the company’s five-year strategic plan.

Johnson joined Starbucks as COO in 2015, after six years on the board. Schultz said he chose Johnson to succeed him because of his technology background and his success during his first two years with the company. “This move ideally positions Starbucks to continue to profitably grow our core business around the world,” Schultz said. Its five-year strategic plan calls for growing revenue by 10 percent, earnings per share by 15 to 20 percent, and drive mid-single digit compensation growth each year, as it plans to open approximately 12,000 new stores globally by 2021.

As for who will be leading this strategy, Johnson is responsible for the company’s overall growth while Schultz is responsible for growing the Starbucks Reserve stores. The plan calls for opening several large, 4,000-square-foot emporium stores, starting with locations in Manhattan and Shanghai. The company also plans on opening more than 1,000 smaller premium stores and, additionally, premium bars in thousands of current Starbucks stores, according to the Times. “We are today [December 7] executing against an ambitious, carefully curated, multi-year strategy to further elevate the entire Starbucks brand and customer experience around the world, and further extending Starbucks leadership around all things coffee, retail and mobile,” Johnson said.

Schultz is familiar with succession plans. Back in 2000, he stepped aside as CEO after 13 years to become chair, but returned as chief executive in 2008 after firing the new chief executive, James Donald, after sales fell.

Departing CEO (age) Howard Schultz (63)

Stated reason for departure Planned succession. The departing CEO will focus on building high-end coffee shops.
Starbucks Corp.  (continued)

 Incoming CEO (age) Kevin Johnson (56)

 Incoming CEO qualifications at time of appointment President, COO of Starbucks since March 2015; CEO and director of Juniper Networks Inc., September 2008 to December 2013 and September 2008 to February 2014, respectively; president, Platforms and Services Division, for Microsoft Corp. and a member of Microsoft’s senior leadership team, and a number of senior executive positions over the course of his 16 years.

 Succession type Insider

 Joint election as board chairman No. Departing CEO became executive chair.

 Corporate governance guidelines The company’s corporate governance principles state that the chair of the Compensation and Management Development Committee, together with the chairman of the board/CEO, will annually review succession planning with the board and provide the board with a recommendation as to succession in the event of each senior officer’s termination of employment with the company for any reason (including death or disability).

 SEC filings According to the company’s 2016 proxy statement, the company has an annual succession planning process for managers up to and including the CEO. According to its charter, the compensation committee annually reviews and discusses with the panel of independent directors of the board the performance of the executive officers and senior officers of the company and the succession plans for each such officer’s position, including recommendations and evaluations of potential successors to fill these positions. The CEO provides an annual review to the board assessing the members of the senior leadership team and their potential to succeed him. This review, which is developed in consultation with the executive vice president, chief partner resources officer, and the compensation committee chair, includes a discussion about development plans for the company’s executive officers and senior officers to help prepare them for future succession and contingency plans in the event of the CEO’s termination for any reason (including death or disability).

A case of CEO succession by way of a merger

**Symantec Corp.**

**Summary of events** Less than two months after replacing CEO Mike Brown, on June 12, 2016, Symantec announced that, in connection with a merger with Blue Coat Systems, the board had appointed that company’s CEO, Gregory Clark, to lead Symantec. That marks the fourth chief executive for the web security company in four years. Brown, who was chief executive for two years, resigned in April 2016 as part of a CEO transition plan after the company fell short of a fourth quarter 2016 revenue forecast. Shortly after that announcement, the computer security company completed a $4.65 billion acquisition of Blue Coat.

This was a case of a CEO being forced out as the company decided to take the acquisition route to improving shareholder value. Board Chair Daniel Schulman explained Brown’s departure in the following manner: “We thank Mike [Brown] for guiding Symantec through a critical period of transition as president and CEO. Under his leadership, Symantec has successfully executed against the five priorities of its transformation, including divesting Veritas, developing a new product roadmap in enterprise security, improving our cost structure, strengthening our executive team, and continuing to return significant cash to shareholders. Given our solid financial foundation and clear path forward as the leader in cybersecurity, this is the right time to transition leadership for Symantec’s next chapter of growth.”

In April, Brown stepped down as president and Dr. Ajei S. Gopal, an operating partner of technology investing firm Silver Lake that made a $500 million investment in Symantec earlier in the year, took over as interim president and COO. Gopal also helped Symantec with its acquisition of Blue Coat and in its search for a permanent chief executive. Before working for Silver Lake, he served as an executive at Hewlett-Packard and at CA Technologies.

Clark had served as CEO of Blue Coat and was a company board member since 2011. While at Blue Coat, he transformed it into the number-one market share leader in web security. Clark is a security industry veteran with a proven track record in building large, global companies to scale, according to a Symantec statement when Clark was named to the CRN Top 100 Executives. During his five-year tenure at Blue Coat, Clark navigated the company through the rapidly changing world of cybersecurity and made several strategic acquisitions, including Perspecsys and Elastica, to strengthen the company’s technology offering.

**Departing CEO (age)** Mike Brown (56)
Symantec Corp. (continued)

**Stated reason for departure** Resignation. Company needed to transition to its next chapter of growth.

**Incoming CEO (age)** Gregory Clark (51)

**Incoming CEO qualifications at time of appointment** Blue Coat CEO and member of the board since September 2011; president and CEO of Mincom, a global software and service provider to asset-intensive industries, from 2008 to August 2011; founder and president and CEO of E2open, a provider of cloud-based supply chain software, from 2001 until 2008; founded security software firm Dascom, which was acquired by IBM in 1999.

**Succession type** External

**Joint election as board chairman** No. Named director.

**Corporate governance guidelines** The company guidelines state that the Compensation and Leadership Development Committee reviews executive and leadership development practices that support the company’s ability to retain and develop the executive and leadership talent required to deliver against short-term and long-term business strategies, including succession planning for the executive officers. The succession plan for the CEO is the responsibility of the Nominating and Governance Committee.

**SEC filings** The company’s 2016 proxy statement said that the board recognizes the importance of effective executive leadership to Symantec’s success and meets to discuss executive succession planning at least annually.

CASE STUDY

A case of CEO succession amid a family control battle
Viacom Inc.

Summary of events Due to a legal fight between Viacom’s board and board member Sumner Redstone’s privately held National Amusements Inc. over the firing of former President, CEO and Chair Phillip Dauman that was settled in August 2016, the media company has gone through three CEOs in a matter of three months (Dauman, Thomas Dooley (acting), and Robert Bakish). There was uncertainty over who should run the company in the long term because Redstone, who also owns a controlling interest in CBS Corp., was contemplating a merger between the two media giants. But that deal fell through in December 2016. Shortly thereafter, Redstone announced he was leaving the Viacom board in February but staying on at National Amusements.

On December 12, 2016, acting President and CEO Robert Bakish became president and CEO after Viacom and CBS Corp. pulled out of merger talks. Bakish, whose performance at the helm was given as one of the reasons for halting the merger, had been serving in the interim role since October 31, 2016. He was also named to the new role of president and CEO of Viacom Global Entertainment Group. This new business unit combines Viacom’s International Media Networks division with the company’s Music and Entertainment Group, which houses such company brands as MTV, Comedy Central, VH1, Spike and Logo. In addition, TV Land and CMT will join the Global Entertainment Group portfolio under Bakish. The former Viacom International Media Networks (VIMN) president and CEO assumed the interim role on November 15, 2016, replacing acting CEO Thomas Dooley.

In a case of CEO merry-go-round, Dooley, Dauman’s right-hand man and long-time Viacom COO, was tapped as acting CEO after Dauman was forced out. Under a settlement with Viacom, Dauman received about $72 million in severance and was able to stay on as nonexecutive chair so he could present to the board his plan to sell a minority stake in Paramount Pictures. The settlement came about after Dauman and a director who was targeted with removal sued Redstone over the firing, questioning Redstone’s mental competence.

The relationship between Dauman and Redstone deteriorated earlier in 2016 shortly after Redstone handed off the executive chair post to Dauman. However, Redstone sought Dauman’s replacement when the company posted lower earnings, mostly due to the underperformance of Paramount Pictures. At the time, Dauman was attempting to sell the company’s minority stake, but Redstone fought him. That eventually led Redstone to fire Dauman and remake the board; first, he expanded the board to 16 members after a failed attempt to remove four directors, then he helped elect new director Tom May, chair of Eversource Energy, as board chair.
Viacom Inc. (continued)

“Bob’s [Bakish] record of innovation and achievement at Viacom, combined with his strategic vision and leadership ability, make him highly qualified for this position,” May said. “We are determined to move forward aggressively to strengthen Viacom for the future, whether as a stand-alone company or in a potential combination with CBS. There is a great deal of opportunity ahead, and Bob is a superb leader to drive this effort, fully empowered to take the actions necessary to position Viacom for success.”

**Departing CEOs (age)** Phillipe Dauman (62), Thomas Dooley (59) (acting)

**Stated reason for departure** Termination without cause and with good reason.

**Incoming CEO (age)** Bob Bakish (52)

**Incoming CEO qualifications at time of appointment** President and CEO of VIMN and its predecessor company, MTV Networks International, since 2007; President of MTV Networks International; EVP, Operations and Viacom Enterprises and as EVP and Chief Operating Officer, MTV Networks Advertising Sales; SVP, Planning, Development and Technology, Viacom. Before joining Viacom in February 1997, a partner with Booz Allen & Hamilton in its Media and Entertainment practice.

**Succession type** Insider

**Joint election as board chairman** No.

**Corporate governance guidelines** According to the company’s guidelines, the lead independent director leads the independent directors’ evaluation of the CEO’s effectiveness as executive chair, president and CEO, including an annual evaluation of his or her interactions with the directors and ability to provide leadership and direction to the full board and leads annual succession planning process. The non-management directors of the board will review at least annually succession planning. The executive chair, president and CEO shall meet with the non-management directors at least once per year to discuss recommendations and evaluations of potential successors to his position, including in the event of an unexpected emergency, along with a review of any development plans recommended for such individuals. In addition, at least once a year the executive chair, president and CEO shall discuss with the board the succession plan for the COO, CFO, general counsel, and the operating managers.

**SEC filings** The compensation committee evaluates the performance of the executive chair and founder and president and CEO, and review the evaluations of other executives by the executive chair and founder and/or the president and CEO, as appropriate, including in the context of succession planning.

CASE STUDY

A case of resignation prompted by a corporate fraud scandal

Wells Fargo & Co.

Summary of events On October 12, 2016, Wells Fargo Chair and CEO John Stumpf advised the board he was retiring amid charges that thousands of retail bank employees had fraudulently opened about 2 million fake bank accounts on behalf of customers without their permission in order to meet aggressive sales targets. He made the decision shortly after being grilled in September by the US Senate Banking Committee and apologizing for his company’s actions. President and COO Timothy Sloan was named CEO, and lead director Stephen Sanger was tapped as non-executive chair. Also, director Elizabeth Duke was named vice chair.

On September 27, the independent Wells Fargo board members announced steps to promote accountability for unethical sales practices in the company’s retail bank, including conducting an independent investigation. In conjunction with these actions, Stumpf agreed to forfeit about $41 million in outstanding unvested equity awards and did not receive a bonus for 2016. He also agreed to forgo his salary while the internal investigation continued, but that became a moot point when he retired on October 12. Also, former head of the community bank, Carrie Tolstedt, left the company with no severance, bonus, or $19 million in outstanding unvested equity awards. And, on September 9, the bank agreed to pay a total of $185 million in fines to the Los Angeles City Attorney and two federal agencies (the Consumer Financial Protection Bureau and the Office of Comptroller of the Currency). Also, the bank announced it had fired 5,300 employees involved in the alleged fraud.

This is a case of a CEO departing in the midst of a consumer banking fraud less than a year after the bank promoted its CFO to president and COO, setting him up to be the CEO’s heir apparent. While the succession plan seemed to work, the bank had hoped it wasn’t going to be under those circumstances. But the bank and new chief executive Sloan face bigger problems, as the SEC and several federal, state, and local agencies look into the matter.

In a November 3, 2016, SEC filing, Wells Fargo confirmed the SEC launched an investigation into its fraudulent customer account practices, joining the US Justice Department, several state attorneys general offices, and federal congressional committees.

In a statement made when Stumpf announced his retirement, Sanger made no mention of the alleged fraud, except the following: “John Stumpf has dedicated his professional life to banking, successfully leading Wells Fargo through the [2009] financial crisis and the largest merger in banking history [with Wachovia], and helping to create one of the strongest and most well-known financial services companies in the world. However, he believes new leadership at this time is appropriate to guide Wells Fargo through its current challenges and take the company forward.”
Soon after taking over, Sloan addressed his sales team about the alleged fraud:

“Here are some reasonable conclusions I think we can agree on:

- We had product sales goals that sometimes resulted in behaviors and practices that did not serve our customers’ or our team members’ interests. And we were slow to see the harm they caused.
- Second, despite our ongoing efforts to combat these unacceptable bad practices and bad behaviors, they persisted, because we either minimized the problem or we failed to see the problem for what it really was—something bigger than we originally imagined.
- Third, we failed to acknowledge the role leadership played, and, as a result, many felt we blamed our team members. That one still hurts, and I am committed to rectifying it.
- Fourth, there were warnings signs in hindsight that we should have heeded sooner.
- And finally, our leaders should have invited inspection more often and welcomed credible challenges to how we operate.”

Departing CEOs (age) John Stumpf (63)

Stated reason for departure Resignation for cause. According to bank nonexecutive Chair and former lead director Stephen Sanger, “new leadership at this time is appropriate to guide Wells Fargo through its current challenges and take the company forward.”

Incoming CEO (age) Timothy Sloan (55)

Incoming CEO qualifications at time of appointment COO from November 2015 to October 2016; led the bank’s Wholesale Banking business, beginning in 2014; CFO from 2011 to 2015; CAO from September 2010 to February 2011; various leadership roles in Wholesale Banking, including head of Commercial Banking, Real Estate, and Specialized Financial Services, from 1991 to 2010. Prior to joining Wells Fargo in the Loan Adjustment Group in 1987, Sloan worked for Continental Illinois Bank in Chicago.

Succession type Insider

Joint election as board chairman No. Named director.

Corporate governance guidelines The company’s corporate governance guidelines state that the board is responsible for overseeing succession planning for the position of CEO and other members of senior management. The chair of the Human Resources Committee coordinates an evaluation by each of the non-management directors on the performance of the CEO and reports to the board on the results of the evaluation in executive session without the chief executive being present.
The evaluation is based both on objective criteria, including various measures of financial and business performance, and subjective factors, and is used by the Human Resources Committee in the course of its deliberations when considering the compensation of the CEO. The board also meets with the CEO annually in executive session to discuss the chief executive’s performance appraisal. The CEO and management also provide the Human Resources Committee and the board with an assessment of persons considered potential successors to certain senior management positions at least once each year.

**SEC filings** According to the company’s 2016 proxy statement, a primary responsibility of the board is identifying and developing executive talent at the company, especially the senior leaders and the CEO. Continuity of excellent leadership at all levels of the company is part of the board’s mandate for delivering superior performance to stockholders. Toward that goal, the executive talent development and succession planning process is integrated in the board’s annual activities.

### Table 14
Notable cases of CEO successions featured through the years (2011–2016)

The following is a list of case studies of CEO succession featured by The Conference Board in earlier editions of CEO Succession Practices:

<table>
<thead>
<tr>
<th>Company</th>
<th>Incoming CEO</th>
<th>Departing CEO</th>
<th>Type of succession event</th>
<th>Edition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advanced Micro Devices Inc.</td>
<td>Rory Read</td>
<td>Dirk Meyer</td>
<td>A case of resignation</td>
<td>2012</td>
</tr>
<tr>
<td>The AES Corp.</td>
<td>Andres Gluski</td>
<td>Paul Hanrahan</td>
<td>A case of insider promotion</td>
<td>2012</td>
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<tr>
<td>Apple Inc.</td>
<td>Timothy Cook</td>
<td>Steve Jobs</td>
<td>A case of CEO auditioning policy</td>
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<tr>
<td>Avon Products Inc.</td>
<td>Sherilyn McCoy</td>
<td>Andrea Jung</td>
<td>A case of leadership reorganization</td>
<td>2013</td>
</tr>
<tr>
<td>Best Buy Co. Inc.</td>
<td>Hubert Joly</td>
<td>Brian Dunn</td>
<td>A case of resignation, interim CEO</td>
<td>2013</td>
</tr>
<tr>
<td>The Boeing Company</td>
<td>Dennis Mulinenberg</td>
<td>Jim McNerney</td>
<td>A case of insider promotion</td>
<td>2016</td>
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<tr>
<td>Caterpillar Inc.</td>
<td>Douglas B. Oberhelman</td>
<td>James W. Owens</td>
<td>A case of CEO auditioning policy</td>
<td>2011</td>
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<tr>
<td>Cigna</td>
<td>David M. Cordani</td>
<td>H. Edward Hanway</td>
<td>A case of planned retirement</td>
<td>2011</td>
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<td>Citigroup Inc.</td>
<td>Michael Corbat</td>
<td>Vikram Pandit</td>
<td>A case of insider promotion</td>
<td>2013</td>
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<tr>
<td>Citrix Systems Inc.</td>
<td>Krill Tatarinov</td>
<td>Mark Templeton</td>
<td>A case of interim appointment</td>
<td>2016</td>
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<td>CME Group Inc.</td>
<td>Phupinder Gill</td>
<td>Craig Donahue</td>
<td>A case of CEO apprenticeship</td>
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<tr>
<td>DIRECTV</td>
<td>Michael D. White</td>
<td>Chase Carey</td>
<td>A case of competition for executive talent</td>
<td>2011</td>
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<tr>
<td>Dun &amp; Bradstreet, Inc.</td>
<td>Sara Mathew</td>
<td>Steven W. Alesio</td>
<td>A case of early announcement</td>
<td>2011</td>
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<td>Electronic Arts Inc.</td>
<td>Andrew Wilson</td>
<td>John Riccitiello</td>
<td>A case of insider promotion</td>
<td>2014</td>
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<tr>
<td>EOG Resources Inc.</td>
<td>William R. Thomas</td>
<td>Mark G. Papa</td>
<td>A case of early announcement and CEO apprenticeship</td>
<td>2014</td>
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<td>E*TRADE Financial</td>
<td>Steven J. Freiberg</td>
<td>Donald H. Layton</td>
<td>A case of CEO apprenticeship</td>
<td>2011</td>
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<tr>
<td>E*TRADE Financial</td>
<td>Paul T. Idzik</td>
<td>Stephen Freiberg</td>
<td>A case of leadership reorganization, interim appointment</td>
<td>2014</td>
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<td>Gannett Co. Inc.</td>
<td>Gracia C. Martore</td>
<td>Craig A. Dubow</td>
<td>A case of disability</td>
<td>2012</td>
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<td>General Motors Company</td>
<td>Mary Barra</td>
<td>Dan Akerson</td>
<td>A case of insider promotion</td>
<td>2014</td>
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<tr>
<td>HCP Inc.</td>
<td>Lauralee Martin</td>
<td>James Flaherty</td>
<td>A case of dismissal and outside appointment</td>
<td>2014</td>
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<tr>
<td>Hewlett-Packard Company</td>
<td>Meg Whitman</td>
<td>Leo Apotheker</td>
<td>A case of underperformance</td>
<td>2012</td>
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<tr>
<td>H&amp;R Block Inc.</td>
<td>Alan M. Bennett</td>
<td>Russ Smyth</td>
<td>A case of underperformance</td>
<td>2011</td>
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<tr>
<td>H&amp;R Block Inc.</td>
<td>William C. Cobb</td>
<td>Alan Bennett</td>
<td>A case of planned retirement</td>
<td>2012</td>
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<td>Hudson City Bancorp Inc.</td>
<td>Denis J. Salamone</td>
<td>Ronald E. Herrman, Jr.</td>
<td>A case of sudden death</td>
<td>2015</td>
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<td>Kraft Foods Group Inc.</td>
<td>John Cahill</td>
<td>Tony Vernon</td>
<td>A case of appointment of board chairman as CEO</td>
<td>2015</td>
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<tr>
<td>Kraft Heinz Company</td>
<td>Bernardo Hees</td>
<td>John Cahill</td>
<td>A case of departure following a merger</td>
<td>2016</td>
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<table>
<thead>
<tr>
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<td>Mattel Inc.</td>
<td>Christopher Sinclair</td>
<td>Bryan Stockton</td>
<td>A case of underperformance</td>
<td>2016</td>
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<td>Micron Technology Inc.</td>
<td>D. Mark Durcan</td>
<td>Steven R. Appleton</td>
<td>A case of sudden death</td>
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<td>Microsoft Corp.</td>
<td>Satya Nadella</td>
<td>Steve Ballmer</td>
<td>A case of planned retirement and inside appointment with significant media attention</td>
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<td>McDonald's Corp.</td>
<td>Don Thompson</td>
<td>James A. Skinner</td>
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<td>2013</td>
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<td>McDonald's Corp.</td>
<td>Steve Easterbrook</td>
<td>Don Thompson</td>
<td>A case of departing CEO retention as advisor</td>
<td>2016</td>
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<td>Newell Rubbermaid</td>
<td>Michael Polk</td>
<td>Mark D. Ketchum</td>
<td>A case of early announcement</td>
<td>2012</td>
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<td>Occidental Petroleum Corp.</td>
<td>Vicki Hollub</td>
<td>Stephen Chazen</td>
<td>A case of CEO apprenticeship</td>
<td>2016</td>
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<td>Oracle Corp.</td>
<td>Safra Catz and</td>
<td>Larry Ellison</td>
<td>A case of two CEOs</td>
<td>2015</td>
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<td></td>
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<td>Paychex, Inc.</td>
<td>Martin Mucci</td>
<td>Jonathan J. Judge</td>
<td>A case of resignation</td>
<td>2011</td>
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<td>PetSmart Inc.</td>
<td>David K. Lenhardt</td>
<td>Robert F. Moran</td>
<td>A case of planned retirement and early announcement</td>
<td>2014</td>
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<td>The Procter &amp; Gamble Company</td>
<td>Robert (Bob) McDonald</td>
<td>A.G. Lafley</td>
<td>A case of insider promotion</td>
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<td>The Procter &amp; Gamble Company</td>
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<td>PG&amp;E Corp.</td>
<td>Anthony Earley</td>
<td>Peter A. Darbee</td>
<td>A case of resignation</td>
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<td>Ralph Lauren Corp.</td>
<td>Stefan Larsson</td>
<td>Ralph Lauren</td>
<td>A case of transition from founder to outside management</td>
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<td>Reynolds American Inc.</td>
<td>Susan M. Cameron</td>
<td>Daniel M. Delen</td>
<td>A case of a former CEO’s rehire</td>
<td>2015</td>
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<td>Ross Stores Inc.</td>
<td>Barbara Rentler</td>
<td>Michael Balmuth</td>
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<td>Sara Lee Corporation</td>
<td>Marcel H. M. Smits</td>
<td>Brenda C. Barnes</td>
<td>A case of departure due to illness</td>
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<td>SAIC Inc.</td>
<td>John P. Jumper</td>
<td>Walter P. Havenstein</td>
<td>A case of outside director appointment</td>
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<td>Symantec Corp.</td>
<td>Michael A. Brown</td>
<td>Steve Bennett</td>
<td>A case of termination and appointment of a director as CEO</td>
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<td>Time Warner Cable Inc.</td>
<td>Robert D. Marcus</td>
<td>Glenn A. Britt</td>
<td>A case of CEO apprenticeship</td>
<td>2014</td>
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<td>Torchmark Corp.</td>
<td>Gary L. Coleman and</td>
<td>Mark S. McAndrew</td>
<td>A case of leadership reorganization (co-CEOs)</td>
<td>2013</td>
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<td>Alan Schnitzer</td>
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<td>Union Pacific Corp.</td>
<td>John J. Koraleski</td>
<td>James. P. Young</td>
<td>A case of departure due to illness</td>
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<td>United Continental Holdings Inc.</td>
<td>Oscar Munoz</td>
<td>Jeff Smisek</td>
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<td>Walgreen Co.</td>
<td>Stefano Pessina</td>
<td>Gregory D. Wasson</td>
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<td>WellPoint Inc.</td>
<td>Joseph R. Swedish</td>
<td>Angela F. Braly</td>
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<td>Scott Thompson</td>
<td>Carol Bartz</td>
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<td>Yahoo! Inc.</td>
<td>Marissa Mayer</td>
<td>Scott Thompson</td>
<td>A case of resignation</td>
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Source: The Conference Board
APPENDIX:
THE CONFERENCE BOARD
ROAD MAP TO
CEO SUCCESSION PLANNING

The Conference Board recommends that corporate directors dedicate full attention to their succession planning duties and improve their companies’ leadership development programs.

Responsibility for succession planning belongs in the boardroom and nowhere else. The board of directors is legally authorized, temperamentally suited, and in possession of the authority, experience, and wisdom needed for effective succession planning. The problems that can lead to neglect of succession planning by boards are often organizational—and, to a lesser degree, political, psychological, and cultural. However, boards should be able to overcome these problems if directors are willing to objectify the process and make it integral to and continuous with their duties of governance, business oversight, risk management, and strategic decision making.

It takes time to develop corporate leaders and select the right chief executive. No decision that is so crucial to the long-lasting success of a business should be rushed. The steps that follow offer a road map to help directors organize succession planning, integrate it with existing board responsibilities, make it transparent both within and outside the company, and ultimately define it as an ongoing element of business strategy. The approach is intended to be straightforward, practical, and efficient, transforming succession planning from a responsibility avoided to one embraced. Because succession planning is not a process in which “one size fits all,” flexibility is built into the guide, consistent with the complexity, sensitivity, and customized leadership demands individual companies face.

Step 1
Assign responsibility to a standing board committee of independent directors

As the principal driver of succession planning, the board must ensure that business transition matters are frequently included in meeting agendas and that a governance structure is in place to oversee an enterprise-wide leadership development program. In smaller companies, it may be sufficient to assign this role to the lead independent director, who will rely on support from the organization and coordinate communications on this issue to and from senior management. Other corporations may find it practical to include succession planning in the charter of the nominating/governance committee or the compensation committee. However, due to the increase in today’s board activities, when the size or the complexity of the organization warrants it, the board should consider instituting a dedicated standing committee on succession planning and possibly appoint the lead director as chair.

By delegating succession planning to a standing committee, the board elevates planning to the level of its other primary duties. A standing committee brings focus, diligence, and expertise to the task of designing a CEO succession and leadership development program suitable to the organization’s strategy and culture. However, the board, as a whole, must retain full responsibility—overseeing the program structure, setting selection criteria, evaluating candidates, and making the final choice of a CEO—while delegating the practical work to the committee and, under committee coordination, to functional and line managers. Periodic reports to the full board should be mandated to acquire comprehensive and detailed information essential to informed decision-making.
It is imperative that boards ensure full independence of the oversight process in this area. In particular, independence should be an eligibility requirement to sit on any board committee involved in the leadership development program, as these members need to retain the degree of objectivity and autonomy that is needed to avoid conflicts of interest with senior management and, when needed, suggest dismissals at the top executive level.

Should the former CEO continue to serve on the board of directors for a period of time after departing from the management team, the board needs to remain vigilant and prevent any situation in which the authority of the new chief executive could be undermined. In particular, should the board opt for an apprenticeship model, in which the outgoing CEO is asked to serve as board chairman or consultant to the company and mentor the successor through the transition, the board should establish specific safeguards by clearly defining the role of the chairman or consultant and limiting the apprenticeship to no more than eight to 12 months. In case of conflict, the succession planning committee chair or the lead independent director should be responsible for mediating and reaffirming the authority of the new CEO. Under no circumstance should the CEO or former CEO be appointed to a dedicated committee responsible for succession planning.

The board may be concerned that, if retained as a board member or chair, the former CEO would be too confining and undermine the successor’s ability to bring necessary changes. In those cases, the board should consider ensuring an orderly transition through alternative development techniques, including:

- first promoting the CEO successor to a series of progressively challenging leadership positions (such as CFO or COO) that would provide the opportunity to gain sufficient exposure to strategic issues and enterprise-wide managerial challenges; and

- having the lead director or head of the succession planning committee provide individual coaching sessions to the newly appointed CEO. This mentoring role may prove particularly effective when the successor has the knowledge and expertise required to manage the organization but needs additional guidance to improve his or her communication skills or adjust certain aspects of his or her personality to the business culture.

To put teeth into its commitment to drive the succession planning effort, the board should include in its annual self-assessment (both individual and collective) a set of quantitative and qualitative measures of progress in this area.

**Step 2**

**Make succession planning continuous and integral to business strategy and corporate culture, while monitoring the role of the CEO**

The board of directors should view succession planning as an integral part of long-term strategy. The process should be continuous, not reactive or ad hoc. It should be a key element in achievement of the larger goal of “sustainability”—in the sense of enabling the business enterprise to adapt, thrive, and grow in response to changing market conditions and other challenges.
To align leadership criteria with business strategy, directors must be fully informed about the company’s competitive position, as well as the strengths and weaknesses of the management team. For this purpose, the board should avail itself of adequate resources to benchmark internal candidates against industry peers and assess executive talent available outside the company.

Defining CEO skills in terms of objective business criteria helps depersonalize succession planning, steering it away from a political campaign, popularity contest, or secretive back-room deal. It also avoids a “brass ring” competition among internal candidates by focusing attention on the company’s business goals rather than the personal qualities of individual candidates. As a result, if the board does not yet have a clear front-runner and is developing multiple candidates, it should seriously consider abstaining from any public announcement of who is being vetted. When the focus is on what—rather than who—the board wants in the company’s leadership, candidates are not made any promise, but given tangible milestones and metrics with which to work. Similarly, directors are encouraged to think about future long-term performance rather than trying to “replace” the current CEO to recreate the past.

It is equally important to note that a board cannot determine the qualities it wants in a CEO without detailed knowledge and understanding of the organization’s culture and values. This can be achieved by ensuring that each director, irrespective of his or her role in overseeing succession planning, is in a position to interact extensively with senior managers, both formally and informally, and assess such dimensions as current leadership skills, strategic thinking, and operational knowledge.

Nonexecutive directors, in particular, should often visit the company’s facilities and obtain a perspective on how senior managers are perceived by other employees. Off-site events and casual gatherings should also be organized and used by board members to observe how candidates interact in a more informal social environment. It is this human dimension of succession planning that breathes life into an otherwise conceptual process by making it creative, customized, and stimulating to the business at all levels.

An Etymological Concern

Over time, as companies develop their succession planning programs, they should consider changing the current terminology from “succession” to “leadership.” This report refers to “succession planning” because it remains the most widely used denomination of the process of planning for leadership continuity. However, the term connotes replacement and may put too much emphasis on the incumbent rather than the new leadership. It also carries a hint of its historical linkage to inheritance, royalty, and birthright. A board planning for a “successor” may therefore be overly deferential to the sitting CEO. Similarly, the incumbent may feel a sense of entitlement in the selection and appointment of new leaders.
Similarly, the board should engage with the company’s human resources department to make certain that internal candidates are given enough opportunities to develop their skills, test their business judgment, and receive exposure within and outside the organization. Progress against development plans should be discussed in internal reports to the board, which should become an integral part of a senior executive’s annual performance evaluation conducted at the board level.

Finally, especially when directors have divergent opinions about certain candidates, the board may consider prudent and discreet ways to assess their reputation among external constituents of the company, including large institutional investors, major lenders, and financial analysts.

The CEO and other top executives should actively participate in the succession planning and leadership development program and be expected to cooperate fully with its implementation. In designing the program, the board or a designated committee should delicately balance their oversight role and the need to avoid usurping the CEO’s authority within the organization. However, the board should not hesitate to move the incumbent CEO or other members of the management team to a nondevelopmental role in those cases in which it appears that they are impairing the company’s initiatives to groom new leaders. In particular, directors should remain aware that current management could be induced to acts of ego or self-preservation that are not in the best long-term interest of the corporation and its shareholders. It may occur, for example, in those situations in which the board concludes that there is a need to revisit the strategic direction or reevaluate the company’s ability to achieve its business objectives. For this reason, directors should acquire their own personal knowledge of the talent pool available at various levels within the organization and feel confident about the effectiveness of the leadership development program. Considering that the final decision on issues of succession resides with the board as a whole, each director should be able to contribute to the debate his or her informed opinion about the preparedness of internal candidates.

For the same reason, succession planning can also be used as a method to reshape or strengthen business values and behavioral standards in those situations in which directors share concerns about the current corporate culture. In particular, a succession plan can influence the behavior of senior executives and other key employees by explicitly tying career paths, leadership development metrics, and succession criteria to adherence to the highest ethical principles. Aside from the CEO succession plan, the board should be comfortable with the integrity of any process—usually implemented by the CEO—for the selection of other key executive officers, such as the chief financial officer (CFO), the chief operating officer (COO), and heads of major business units. This is accomplished with the understanding that the newly appointed CEO and other senior executives should be granted sufficient discretion in retaining other members of the management teams.

The board may seek external expertise to advise on the various phases of the succession planning process and assist in thoroughly evaluating candidates. If the company engages an executive search firm for this purpose, it is imperative that the advisor be required to report directly to the board of directors to avoid any undue influence by current management.
If no specific reason precludes either the internal promotion or the external recruitment approach, companies should consider adopting a transparent method for benchmarking internal candidates against outside ones. In general, considering the need to base the succession on concrete business strategy objectives, the board should be very cautious in hiring for the chief executive position an outsider with no relevant industry experience.

Step 3  
Integrate succession planning into the top executive compensation policy  
The board of directors should review the company’s executive compensation policy to ensure that it fully promotes talent development and enables relatively seamless leadership transitions.

Given the important correlation between leadership management and remuneration policy, the board should give careful consideration to the role of the compensation committee in succession planning. The compensation committee has overall responsibility for determining the financial incentives that drive value creation at the corporate officer level. Additionally, the compensation committee regularly evaluates objectives and achievements of corporate officers for the purpose of awarding certain performance-related elements of a compensation package. Since those corporate officers are likely to be among the internal candidates under consideration for CEO succession, the compensation committee has the knowledge base and technical tools for assessing their strengths and preparedness for the top job. In particular, in the assessment context, the committee is familiar with benchmarking studies of competitors and peers—a skill that proves highly relevant to the CEO succession process.

Succession planning entails a variety of organizational tasks that aim at optimizing leadership development throughout the various ranks of the corporation. Although its oversight would not extend to the execution of such tasks, it does require focus and time commitment to design a program that is coherent with the company’s strategy, risk level, and culture. Due to the complexity of many larger organizations and the expansion of compensation committee duties (resulting from recent public scrutiny of top executive pay), delegating succession planning in its entirety to the compensation committee may be impractical. However, the compensation committee charter should reinforce the notion that compensation is central to talent development and should explicitly call for collaboration on issues of succession planning with the full board or a dedicated committee. Some companies have formally done so and reinforced this broader strategic role of their compensation committee by renaming it. General Electric, for example, has instituted a management development and compensation committee, whose purpose, as stated in the committee charter, is to assist the board in “developing and evaluating potential candidates for executive positions” (see www.ge.com/pdf/company/governance/principles/ge_governance_principles.pdf, p. 7, to retrieve the committee organizational documents).
Especially when the company has witnessed a trend of declining senior executive tenures, the board’s concern should be to properly counterbalance short-term inclinations with a set of long-term behavioral incentives. Long-term performance goals should include intangible assets, such as workforce expertise and professional development, and be accompanied by effective measures of performance. Achievement of such goals should constitute the basis of the board-level assessment of CEO performance and should be conducted at least annually.

Step 4
Integrate succession planning into risk management

Management literature finds that failing in leadership transition can adversely affect even the most successful companies. Since it can be a source of business uncertainty, CEO succession and leadership development should be fully integrated into an enterprise-wide risk management (ERM) program. As part of ERM, succession risk should be included in a company’s risk inventory, where it is scientifically measured and prioritized based on factors such as its likelihood of occurrence and its impact on the execution of the company’s strategy. Depending on the level of tolerance that the company determines for this type of risk, adequate resources should be allocated to risk mitigation strategies.

The benefits of integrating CEO succession into an ERM program are threefold. First, to “stress test” the company’s emergency succession preparedness, the board must define a succession management process and set of protocols that provide a step-by-step guide of what the board must do in the event of an emergency succession. Second, the board must identify a credible emergency successor in advance and periodically reassess the successor’s ability to serve in an emergency situation. Third, a board will be implementation ready and able to respond rapidly, stay in control of the situation, and smoothly manage the announcement and appointment of a successor, helping to mitigate any negative effects on stakeholder reaction, market value, or company performance. By viewing succession preparedness as part of the company’s overall ERM process, directors can avoid public missteps during a time of intense stakeholder scrutiny and in an era of increased shareholder activism.

When the board believes that the circumstances command the execution of the emergency plan, directors should fully analyze and discuss the possible effects of the succession on the company’s main stakeholders. Based on this discussion, the board should require management to cooperate in handling critical aspects of the communication strategy chosen to ensure that the transition does not compromise relations that are key to the company’s long-term business objectives (e.g., with customers, suppliers, investors, or local communities and interest groups). The communication initiative should be used as an opportunity to reassure stakeholders of the corporate strategy and the degree of control retained by the board.
Step 5  
Make succession planning transparent, internally and externally, and describe it in the company’s annual disclosure

Succession planning works best when it is conducted openly and transparently, both within the organization and to its outside stakeholders. Transparency can be achieved by establishing proper communication channels through the ranks of the organization and by including selected information in disclosure documents filed annually with the SEC. It should encompass:

- the description of the role of the board, board committees, committee chairs, the CEO, and key senior executives in the succession planning and transition process, including governance structure and corporate policies on board chairmanship and CEO apprenticeship;

- an overview of the main features of the company’s career development program, as well as (human and financial) resources deployed to this effort;

- an objective assessment of the current leadership skill set;

- an analysis of selection criteria and assessment metrics (including market benchmarks) the board relies on, as well as their respective rationale in light of the company’s business strategy;

- the reasoning behind an outside succession, if the company is opting for one, explaining how it best serves the interests of shareholders; and

- the fee paid to any outside advisors assisting in the process and whether it was reported to the board or senior management.

Transparency does not require disclosure of sensitive data or other proprietary information that could undermine the company’s competitive position. In particular, the names of prospective CEO candidates would not typically be disclosed.

By including succession planning and leadership development information in annual disclosure documents, the board accomplishes two important goals. First, such information corroborates compensation policy disclosure and opens a window into the boardroom for stakeholders to better evaluate the soundness of the strategic decision-making process. Understandably, owners and other gatekeepers expect to fully appreciate what motivates crucial business decisions made at the board level. If the disclosure is truly insightful, it will be clear how the board resolves conflict, balances competing interests, and oversees the implementation of strategy.

Second, the mechanics of the annual disclosure procedure set a compelling time frame for the company to advance its succession planning exercise. Even though it is not mandated by regulation, such voluntary disclosure becomes an essential part of the company’s relations with stakeholders, helps manage their expectations, and reassures that the company’s board and senior managers are accountable for the long-term performance of the enterprise.
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