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"The Secret of My Success: Best Practices for Management Succession Planning"

Thursday, January 15, 2026

Course Materials

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2 to 3 p.m. Eastern [archive and transcript to follow]

Management succession planning is critical to safeguarding an organization's long-term stability and success. In recent years, we have seen several notable companies scrutinized for their succession planning efforts, and this has and may continue to contribute to shareholder consternation and, in some cases, activism. In this webcast, we will hear from a panel of experts on succession planning best practices:

- **Derek Chien**, Vice President, Assistant General Counsel, Synopsys
- **Richard Fields**, Head of Board Effectiveness Practice, Russell Reynolds Associates
- **Tracey Heaton**, Chief Legal Officer and Corporate Secretary, Heidrick & Struggles
- **J.T. Ho**, Partner, Cleary Gottlieb
- **Jennifer Kraft**, Former Executive Vice President & General Counsel, Foot Locker

Topics:

1. Long-term succession planning
2. Emergency succession planning
3. The role of the board and management in succession planning
4. When an executive chair role may be appropriate
5. Shareholder perspectives and communications
6. Executive compensation considerations
7. Disclosure considerations and requirements

“The Secret of My Success: Best Practices for Management Succession Planning”

Course Outline

1. Long-Term Succession Planning

   - Formal succession planning is becoming more common, according to a May 2025 report from Russell Reynolds:

     – “Last year told a hugely positive story around succession planning, with 22% of all CEO departures occurring because of a planned succession process — a 13% increase year-on-year, and the highest level ever recorded. This growing emphasis on succession planning contributed to fewer CEO removals, with the figure dropping to 14%, a significant decrease from 27% in 2023 and the lowest level since records began in 2018.”

     – The focus on succession planning also led to a record number of internal promotions in 2024 — with 73% of incoming CEOs being promoted from within the organization. This reflects well on the Board because it shows that directors are mindful of developing an internal talent pipeline.

2. Emergency Succession Planning

   - Meridian Compensation Partners published an August 2024 article outlining its views on the three keys to successful CEO transition planning. On the topic of emergency succession planning, the article provides:

     – “Resignation (or Medical Emergency): This scenario often comes with little warning. This is the area where the company’s emergency succession plan should come into effect immediately. This plan should address:

       - **Communication:** Appropriate internal and external messaging.

- **Interim CEO:** Appointment of interim leadership (sometimes a qualified board member, an executive who can be a steady hand during a CEO search, but who does not aspire to the CEO role and in those rare ideal cases, an internal, ready now candidate).

- **Open Incentive Cycles:** Treatment of open cycles can be impacted by the circumstances that gave rise to the resignation balancing formal provisions with judgments around whether conservatism or magnanimity are best suited.

- **Search Process:** This should be based on both pre-existing internal candidates' development plans and an "evergreen" list of external candidates.

- **Termination (Firing):** This is generally planned at least somewhat in advance by the board/company (but may be highly unexpected for the CEO and their team). The most difficult questions tend to relate to timing. The external replacement candidate pool is typically small and well-connected, which makes it difficult to identify an external successor well in advance. The internal candidate pool is even smaller. All of this means that the general advance planning needs to be thorough."

3. The Role of the Board and Management in Succession Planning

- The Center for Executive Succession's *CEO Succession Planning Playbook* describes the following roles and responsibilities:

  – "Board of Directors

    - Holds responsibility for selecting the new CEO

    - Establishes the processes by which CEO succession planning will occur

    - Delegates authority to executive leadership as necessary to conduct succession planning efforts, including evaluation and development of potential successors

    - Creates the CEO role profile and specification and evaluates successors in accordance with the organization's strategic needs

- Lead Independent Director/Non-Executive Chair

    - Holds authority among the board for establishing and maintaining the succession planning process

    - Regularly communicates with the organization's CEO regarding the expected transition timeframe and the effectiveness of management's succession planning efforts

    - Ensures that all directors are actively engaged in the CEO succession planning process

- Chief Executive Officer

    - Provides information to the board regarding expected timeframe for transition

    - Assists in the identification of potential successors and creation of development plans to enhance strengths and weaknesses

    - Helps provide an orderly transition to the next CEO

- Chief Human Resources Officer

    - Operationally responsible for managing the evaluation of potential successors and development plans

    - Serves as a sounding board for the CEO regarding potential candidates and concerns with the board's succession planning efforts

    - Provides objective, credible information regarding candidate strengths and weaknesses to the board
    - Assists the Lead Independent Director as desired in managing the board's succession planning process
  - External Consultants
    - **Succession Consultants:** Can assist in the development of the organization's future strategy, building the CEO role profile and assessing both internal and external talent against the role profile
    - **Recruiting/Search Firms:** Assist in the identification of external talent that might be effective future CEOs
    - **Compensation Consultant:** Provides information regarding the escalation of internal executive pay in advance of the CEO succession event as a form of signaling future intent if desired; assists in developing compensation packages for the incumbent CEO, incoming CEO and for the retention of key executives who are not selected as the new CEO
  - Chief Legal Officer
    - Provides advice and counsel regarding whether board information or discussions might trigger a disclosure
    - Assists in developing legal strategy and communications plan for announcement of incumbent CEO departing the role and new CEO entering the role"

- A 2025 report on CEO Succession, *10 Pitfalls Boards Must Avoid — and the CHRO Practices that Help*, from the HR Policy Association and Center for Executive Succession, found that the support of the CHRO is essential to long-term succession planning. Specifically:
  - "The CHRO can support the board by bringing structure, objectivity, and clarity to the evaluation of external talent. This

includes engaging trusted search partners, building frameworks for fair comparisons, and challenging assumptions that prematurely disqualify strong external candidates. By helping the board maintain visibility into the broader talent market, CHROs preserve optionality, surface blind spots, and ensure the final decision reflects both internal readiness and external standards."

- They identified these CHRO practices that support success:
  - "Ensure the board has access to real information on external candidates. Facilitate a structured, evidence-based view of the external market by compiling objective data, conducting comparative assessments, and designing consistent evaluation frameworks.
  - Bring in the right external partners — but don't outsource the process. Recommend search firms with a proven track record, but retain ownership of the evaluation process. Ensure these partners enhance — not replace — the board's engagement and decision-making.
  - Create opportunities for early and informal engagement. Encourage directors to build relationships with external talent through industry events, networking opportunities, and informal meetings. These touchpoints help the board understand market dynamics and raise the organization's profile among top leaders.
  - Facilitate fair comparisons between internal and external candidates. Avoid misleading one-to-one comparisons. Instead, evaluate all candidates—internal and external—against a consistent set of leadership criteria and future-facing business needs, using structured, scenario-based assessments."

4. When an Executive Chair Role May Be Appropriate

- One of the many challenges in a CEO transition is determining and defining the continuing role, if any, of an outgoing CEO. An April 2024 Semler Brossy article, *Paths and Implications for Navigating CEO Transitions*, describes the many factors at play here — the new CEO's experience, board dynamics, personal relationships and personalities and the reasons for the transition are all important to consider. Plus, the length of time that the outgoing CEO will serve in any continuing role can be another point of contention, with these transition periods typically lasting less than two years.
    - The article addressed four common scenarios in CEO transitions and the prevalence of each among S&P 500 companies in 2022 and 2023. Here's the data:
        - "<u>Scenario 1: CEO Transitions to Executive Chair</u>
            - Prevalence: 48%
            - Typical Time Frame: 6-24 months (~65% < 12 months)
            - A slight variation on the executive chair role is the much less common vice chair role (used in only 5% of our studied S&P 500 CEO transitions)
        - <u>Scenario 2: CEO Transitions to Senior Advisor</u>
            - Prevalence: 28%
            - Typical Time Frame: 3-12 months (or longer)
        - <u>Scenario 3: CEO Transitions to Board Member</u>
            - Prevalence: 4%
            - Typical Time Frame: 6-18 months (anchored to annual meeting dates)

- <u>Scenario 4: CEO Has No Affiliation with the Company</u>
  - Prevalence: 20%"

- A March 2024 Spencer Stuart blog, *6 Trends for Board Directors Shaping 2024*, says boards in a CEO transition should prepare for the CEO's "sophomore slump" (*i.e.*, second-year downturn) since the firm's CEO Life Cycle research indicates this phenomenon is "a very real thing."
  - The blog gives questions for consideration and stresses that any effective transition plan needs to include working towards strong year two performance as a key element.
  - Since these outgoing CEO transitions typically last less than two years, it would be interesting to see data on whether and how the continued involvement of the outgoing CEO has any impact on this.

5. Shareholder Perspectives and Communications

- Investors are highly focused on CEO succession planning, for good reason. For example, Council of Institutional Investors ("CII") policies provide:

> "The board should approve and maintain a detailed CEO succession plan and publicly disclose the essential features, including but not limited to: the roles of the board as a whole, various board committees and the incumbent CEO in the succession process; capabilities in the next CEO that would align with the company's long-term strategy; measures undertaken to identify candidates from both internal and external candidate pools; and processes to identify and include diverse candidates.
>
> An integral facet of management succession planning involves collaboration between the board and the current chief executive to develop and/or recruit the next generation of leaders. Boards should: (1) make sure that robust leadership

recruitment and development programs are in place; (2) ensure that those programs source and develop leaders not exclusively from within their own ranks, but also from a broad and diverse candidate pool; and (3) carefully identify multiple candidates for the CEO role specifically, well before the position needs to be filled. To that end, the plan should address both short and long-term succession scenarios."

- Investors also want disclosure of succession practices so they can understand whether the board is overseeing a succession plan appropriately. For example, ISS will generally vote for proposals seeking disclosure on a CEO succession planning policy, considering, at a minimum, the following factors:
  - The reasonableness/scope of the request; and
  - The company's existing disclosure on its current CEO succession planning process.
- Investors also have positions on CEO transitional pay. For example, ISS addresses transition pay in FAQ 42 in its Equity Compensation Policies FAQs applicable for shareholder meetings to be held on or after February 1, 2026:
  - "How does ISS evaluate one-time pay decisions relating to an externally-hired executive?

    When there is an executive transition, investors are generally comfortable with temporarily increased pay for the incoming executive when that executive has been externally hired from another organization. This temporary change to the compensation structure typically includes inducement awards that encourage the executive to accept the role at the new company, and make-whole awards that replace forfeited compensation opportunities from the executive's prior employment. The presence of these awards may mitigate concerns regarding pay magnitude if a review of the award structure and disclosure reveals positive features. If pay levels are elevated for a new hire, those compensation levels will be expected to normalize in years following the transition year. As with other one-time awards, inducement awards should be predominantly performance-based and structured with appropriate shareholder-friendly guardrails (for example, limitations on award vesting upon a termination). The company should disclose how it determined the size and structure of those awards to be in shareholders' best interests. For make-whole awards that are intended to replace forfeited compensation opportunities from a prior employment, the company should disclose whether the new grant is economically equivalent to what was forfeited, the termination terms and any other relevant information. Unlike other one-time awards, ISS generally does not expect performance criteria to be attached to make-whole awards, but companies must clearly disclose the portion of awards that are attributable to inducement awards vs. those that are strictly make-whole awards."

- ISS also identifies "new CEO with overly generous new-hire package: Sign-on awards that are excessively large or insufficiently performance-based; Problematic termination-related equity vesting provisions" as a "problematic pay practice" that it considers "contrary to a performance-based pay philosophy."

6. Executive Compensation Considerations

- Interim CEOs — the folks who step up to lead a company when it loses its CEO without an immediate successor — have a hard job. And you don't often see a lot of data about how they're paid. But a September 2024 WTW article, *Your CEO is gone. Now what? Interim Leaders Bring Critical Pay Decisions*, breaks down the patterns of interim CEO compensation. Not surprisingly, the pay package for the role depends greatly on the background of the folks taking it on. The article separately analyzes pay for interim CEOs that come from the company's executive officers and pay for interim CEOs who were previously non-executive directors.

- “When a company finds itself without a CEO, 55% select a named executive officer (NEO). Prior to being named interim CEO, more than one-third of these NEOs held the position of CFO. …

  - Compared with pay of the former CEO, 77% of named interim CEOs earned at median:

    - 53% of the total direct compensation

    - 82% of salary

    - 37% of long-term incentives (LTIs)

  - The other 23% did not receive additional compensation for their temporary service; however, 80% served in the interim CEO role for 3 months or fewer.

- When executive candidates are unavailable or not ready to take the helm even temporarily, it is common to appoint an interim CEO from the company’s board of directors. … Of directors who were appointed interim CEO, 38% were the non-executive board chair.

  - Moving from the board to an interim executive position includes a new title and new compensation. Pay for a non-employee director serving as interim CEO switches from typical board pay — generally comprising cash and equity retainers — to compensation that more closely mirrors that of the executive team.

  - Among directors serving as interim CEO, 88% received compensation in recognition for their service. At the median, directors serving as interim CEO received $1.3 million cash compensation (cash plus bonus).

  - In several cases, director interim CEOs received higher fixed pay compared with the outgoing CEO’s pay, to offset limited participation in incentive programs (*e.g.*, just 29% of directors participated in the company’s annual incentive plan). However, 22% received a special bonus; these were provided for either signing-on to serve as interim CEO or for the successful completion of the interim service. The median value for this special bonus was $500,000.

    - In addition to cash compensation, directors received $1.5 million in stock-based compensation at the median. Ninety-one percent of stock compensation received was in the form of restricted stock/restricted stock units (RSUs), most commonly cliff-vesting after one year. While restricted stock/RSUs were the most prevalent vehicle, 20% of interim CEOs were granted stock options and another 14% were granted performance-based LTIs."

  - Companies may also recruit from outside to fill the role of interim CEO, but the article doesn't analyze pay for this group since they are typically selected because the company may be experiencing a shock event or turnaround situation.

7. Disclosure Considerations and Requirements

- Annual Proxy Disclosure — Public companies are required to disclose whether and why the board has chosen to combine or separate the CEO and board chair positions, as well as the reasons why the company believes that its board leadership structure is the most appropriate structure for the company given its specific characteristics or circumstances. When there is a combined CEO and chair and a lead independent director, the company must disclose whether and why the board has a lead independent director and the specific role that the lead independent director plays. Disclosure must also address the extent of the board's role in risk oversight and how the board administers its oversight function, plus the effect that this has on the board's leadership structure. *See* Item 407(h) of Regulation S-K and Schedule 14A.

- Companies often go beyond these disclosure requirements and disclose the board's role in management succession planning in the governance sections of the proxy statements for their annual shareholder meetings.

  - A 2024 research paper from CII examined 2023 proxy statements of S&P 100 companies to analyze CEO and management succession planning disclosures. The paper summarized the disclosures as follows:

    > "More than 75% of these companies made disclosures about the role of the board and board committees in management succession planning, while less than 20% discussed their processes to identify and include diverse candidates, the capabilities in the next CEO that they believe would align with the company's long-term strategy and the measures they have taken to identify external candidates. …
    >
    > All but four companies in the S&P 100 disclosed at least one of the nine elements of management succession planning in their 2023 proxy statements, and only one company did not mention management succession planning at all in its proxy statement. The 2023 proxy statements for S&P 100 companies included an average of 3.7 (median = 4.0) of the nine succession planning elements identified for this paper."

  - The "elements" CII looked for in the proxy statement disclosure are:

    - Role of the board as a whole
    - Involvement of board committee(s)
    - Role of the incumbent CEO
    - Board consideration of the capabilities in the next CEO that would align with the company's long-term strategy

    - Measures taken to identify internal candidates
    - Board’s assertion that it has taken steps to identify external candidates
    - Board’s assertion that it has processes to identify and include “diverse” candidates
    - Plans that address short-term succession scenarios
    - Plans that address long-term succession scenarios

- Form 8-K Disclosure — Item 5.02 of Form 8-K is triggered by the following, among other things:
    - (b) — If the registrant’s principal executive officer, president, principal financial officer, principal accounting officer, principal operating officer, or any person performing similar functions, or any named executive officer, retires, resigns or is terminated from that position, or if a director retires, resigns, is removed, or refuses to stand for re-election
    - (c) — If the registrant appoints a new principal executive officer, president, principal financial officer, principal accounting officer, principal operating officer, or person performing similar functions
    - (d) — If the registrant elects a new director, except by a vote of security holders at an annual meeting or special meeting convened for such purpose
    - (e) — If the registrant enters into, adopts, or otherwise commences a material compensatory plan, contract or arrangement (whether or not written), as to which the registrant’s principal executive officer, principal financial officer, or a named executive officer participates or is a party, or such compensatory plan, contract or arrangement is materially amended or modified, or a material grant or award under any such plan, contract or arrangement to any such person is made or materially modified

- Proxy Disclosure Following a Transition — The proxy statement covering the year of a CEO or CFO transition will address the transition throughout. The compensation of both the incoming and outgoing CEO will be presented in the compensation tables since under Item 402(a)(3)(i) and (ii) of Regulation S-K, anyone who served as the principal executive officer or principal financial officer at any time during the last completed fiscal year must be treated as a "named executive officer" whose compensation is presented in the tabular disclosures provided pursuant to Item 402 of Regulation S-K. (Under Item 402(l) and Item 402(m)(2), this only includes the principal executive officer for smaller reporting companies and emerging growth companies.)