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SOCIETY *for* Corporate Governance

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Board Practices Quarterly

CEO succession planning processes

The CEO is, in many cases, the alter ego of the company to many of its constituencies and is inevitably intertwined with its strategic direction, operations, and reputation. It is therefore not surprising that many posit that CEO succession planning is among the board's primary responsibilities. And in light of the potentially significant costs associated with a failed succession event and trends indicating a sharp uptick in CEO turnover, the importance of maintaining robust and formalized processes and practices to prepare for a planned or unplanned leadership change cannot be understated.

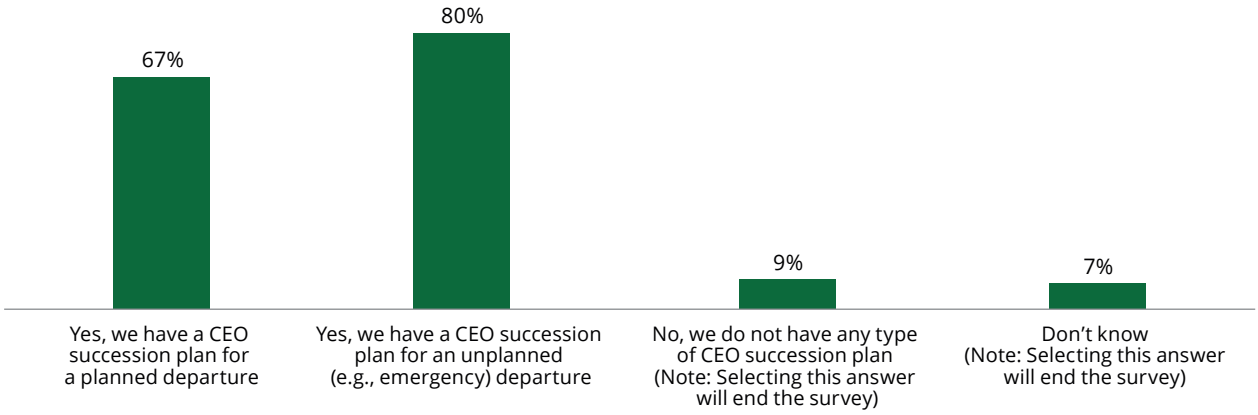
This *Board Practices Quarterly* presents findings from a survey of members of the Society for Corporate Governance and focuses on the CEO succession planning process, including the content of the plan, who has primary responsibility, frequency of review, and related public disclosure.

Findings

Respondents, primarily corporate secretaries, in-house counsel, and other in-house governance professionals, represent 102 public companies of varying sizes and industries,[1] and the findings pertain to these companies. The actual number of responses for each question is provided. Some survey results may not total 100%, as questions may have allowed respondents to select multiple answers. Where applicable, commentary has been included to highlight differences among respondent demographics and to highlight comparisons to any similar questions asked in prior *Board Practices Reports*.

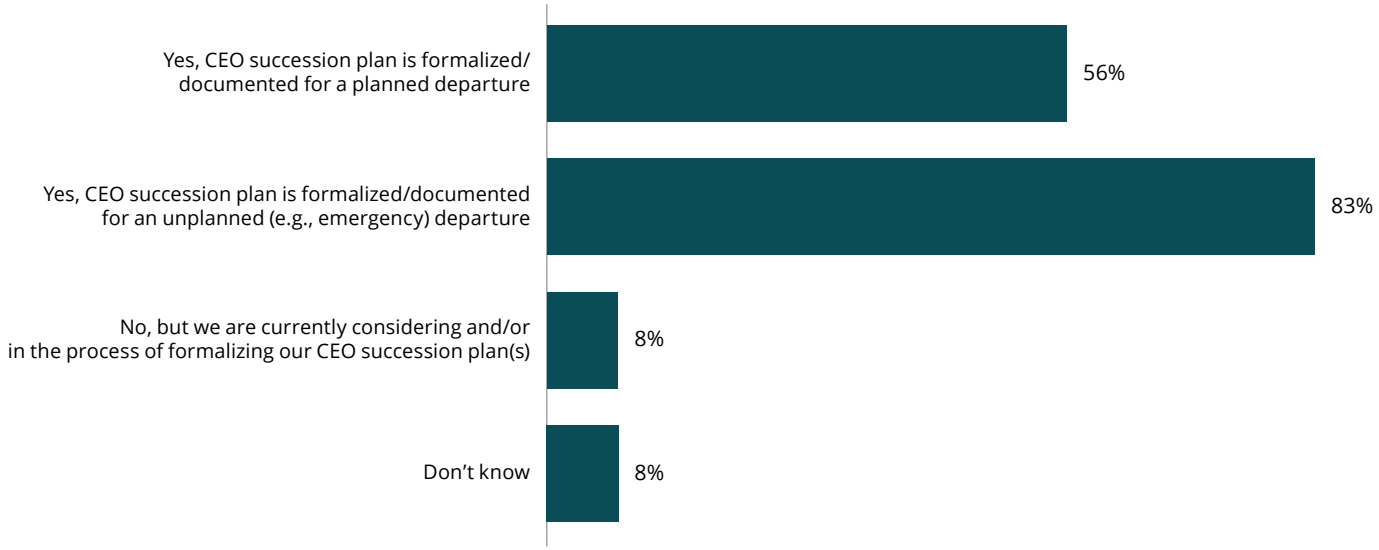
Access results by company size and type.

Does your company have the below types of succession plans for the CEO? Check all that apply. (94 responses)



Is the CEO succession plan formalized/documented? Check all that apply. (78 responses)

A majority of companies have formalized/documented plans. The greatest variation across market caps pertains to having a formalized/documented plan for an *unplanned* departure—reported by 72% of large-caps and 90% of mid-caps. In contrast, companies having formalized/documented planned departures was 53% and 55%, respectively.



Which of the following is included in your planned (not emergency) CEO succession plan? Check all that apply. (69 responses)

A majority of respondents reported the following being included in their plans: named individual(s) internal to the company as potential CEO successors and procedures for the board and/or responsible board committee.

Nearly half of respondents reported that their plans include professional development and readiness plans for internal candidates and candidate criteria (e.g., qualitative and quantitative skills and other attributes); however, candidate criteria varies significantly across market caps (34% of large-caps and 56% of mid-caps). Further, 24% of large-caps reported their plans include onboarding and orientation procedures for an incoming CEO compared to 6% of mid-caps.

Procedures for the board and/or responsible board committee (e.g., plan review and approval, candidate interviews)	54%
Candidate criteria (e.g., qualitative and quantitative skills and other attributes)	48%
Named individual(s) internal to the company as potential CEO successors	80%
Named individual(s) external to the company as potential CEO successors	13%
A third party to help facilitate a search and related processes	26%
Role of the board or a board committee in engaging a third party to help facilitate a search and related processes	39%
Professional development and readiness plan for internal candidates	49%
Onboarding and orientation procedures for incoming CEO	14%
Procedures and expectations for internal and/or external communications	32%
Don't know	10%
Other (please specify)	3%

How often and/or in what circumstances is the CEO succession plan (in any form) reviewed and, if necessary, updated by the full board and/or the responsible board committee? Check all that apply. (71 responses)

72% reported CEO succession planning is on the full board agenda on an annual basis. Comparatively, 62% of respondents reported CEO succession planning is on the full board agenda on an annual basis in response to a similar question in our *2016 Board Practices Report*.

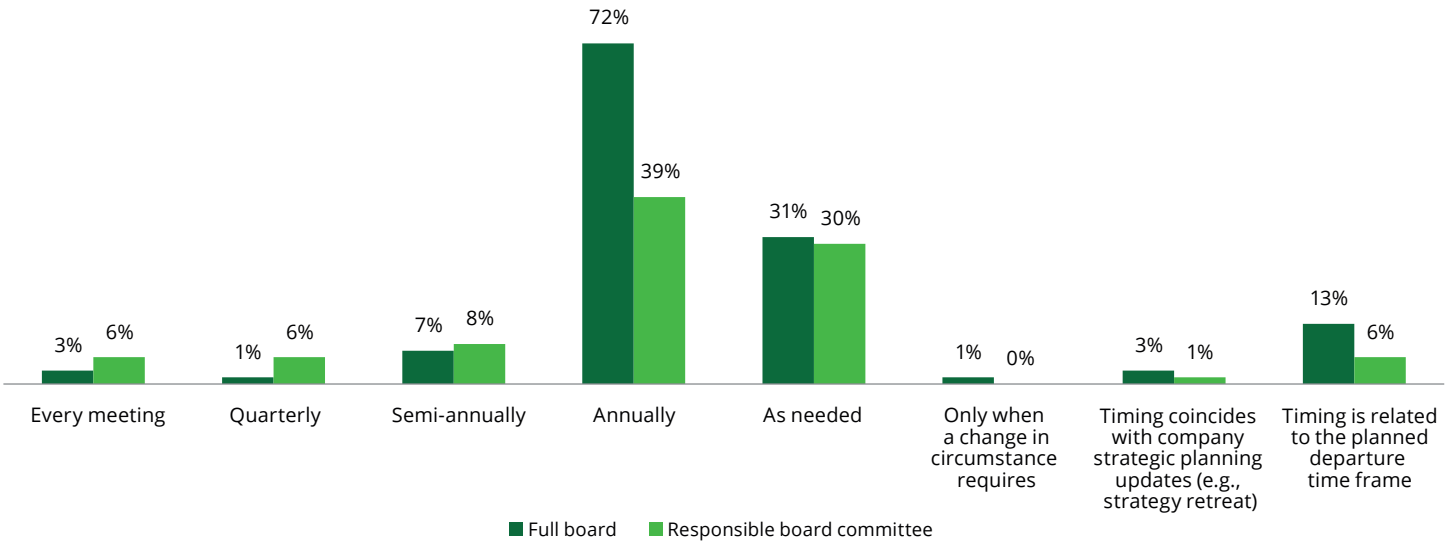
Some notable differences in the frequency of CEO succession plan review across market caps include:

Full board

- Annually—79% large-cap; 66% mid-cap

Responsible board committee

- As needed—21% large-cap; 37% mid-cap



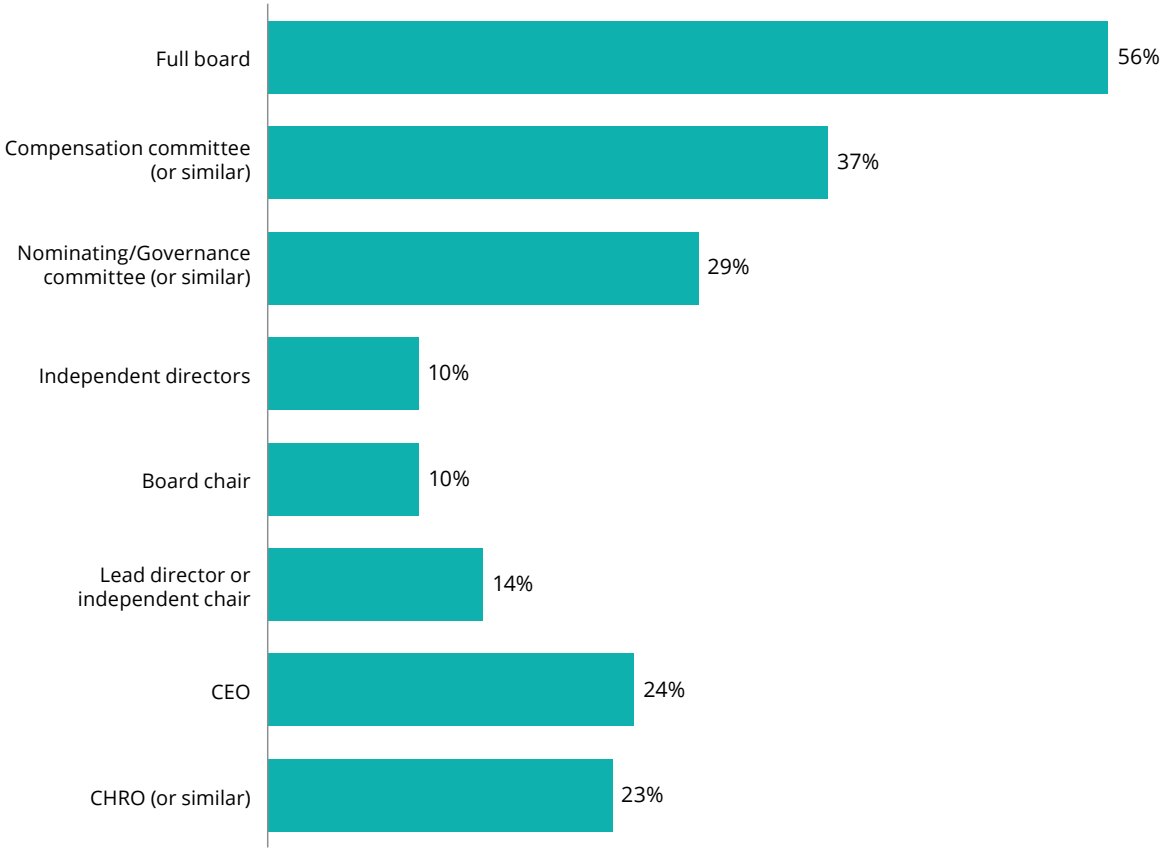
Note: No respondent answered "Never" and "Don't know."

Who has primary responsibility for CEO succession planning in your company? Check all that apply. (70 responses)

56% of respondents identify the full board as primarily responsible for CEO succession planning. This is directionally consistent with responses to a similar question asked in our *2016 Board Practices Report*.

Across market caps, there is some variation in CEO succession planning responsibility—in particular:

- Full board—71% large-cap; 50% mid-cap
- Nominating/Governance committee (or similar)—8% large-cap; 29% mid-cap
- CHRO (or similar)—36% large-cap; 16% mid-cap



Note: No respondent answered "Audit committee (or similar)" and "Don't know."

Describe the involvement of your CEO, board, and/or board committee in the CEO succession planning process. Check all that apply. (67 responses)

Level of involvement across the CEO, full board, and/or responsible committee, or other management varies across market caps:

CEO

- Review of the plan—54% large-cap; 71% mid-cap
- Approval of the plan—11% large-cap; 29% mid-cap
- Development of the candidate profile—39% large-cap; 60% mid-cap

Full board and/or responsible board committee

- Development of the candidate profile—54% large-cap; 69% mid-cap
- Interviewing candidates—57% large-cap; 77% mid-cap
- Selection of search firm—54% large-cap; 71% mid-cap

Other member of management

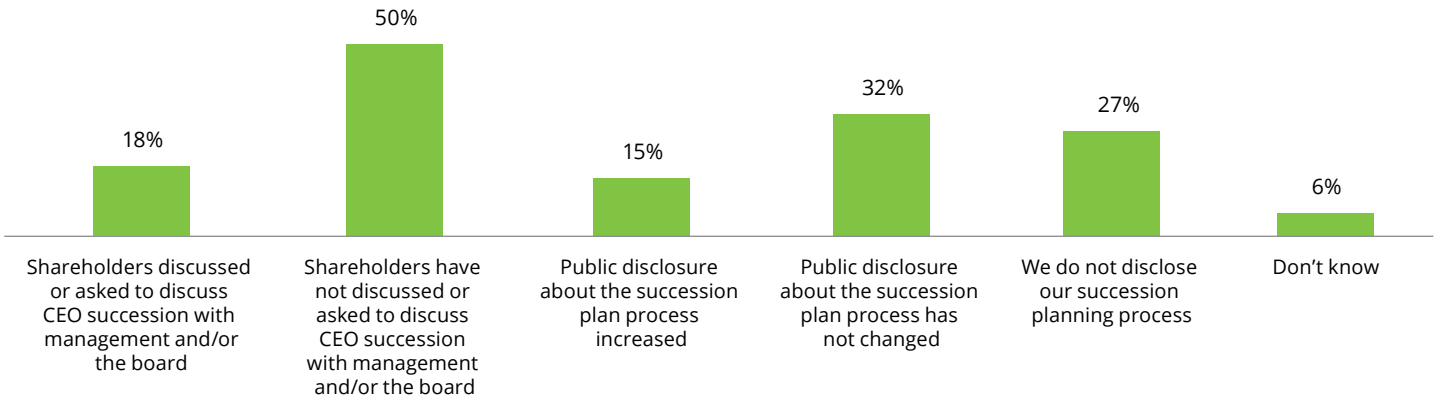
- Development of the candidate profile—50% large-cap; 31% mid-cap
- Identification of candidates—57% large-cap; 29% mid-cap

All public companies	CEO	Full board and/or responsible board committee	Other member of management
Development of the plan	69%	58%	57%
Review of the plan	64%	91%	34%
Approval of the plan	21%	87%	9%
Development of the candidate profile	51%	61%	39%
Identification of candidates	67%	55%	40%
Interviewing candidates	18%	67%	24%
Selection of successor	13%	84%	4%
Selection of search firm	10%	63%	25%
Don't know	4%	1%	1%

In the past 1–2 years, which of the following describes disclosure and shareholder engagement as it pertains to CEO succession at your company? Check all that apply. (66 responses)

18% of all respondents reported "Shareholders discussed or asked to discuss CEO succession with management and/or the board," compared to 21% responding to a similar question in our *2018 Board Practices Report*. Further, the greatest variation across market caps also pertains to this answer choice, reported by 26% large-caps and 14% mid-caps.

In our *2016 Board Practices Report*, 62% responded that there was no change in the level of disclosure of their company's succession plan process, compared to 32% in this year's survey. There is otherwise minimal change since 2016 as to any disclosure increases or decreases or the percentage of companies not disclosing their succession plan process.



Note: No respondent answered "Public disclosure about the succession plan process decreased."

Endnote:

1. Public company respondent market capitalization as of December 2022: 39% large-cap (which includes mega- and large-cap) (> $10 billion); 55% mid-cap ($2 billion to $10 billion); and 6% small-cap (which includes small-, micro-, and nano-cap) (< $2 billion). Respondent industry breakdown: 28% financial services; 27% consumer; 25% energy, resources, and industrials; 11% technology, media, and telecommunications; and 8% life sciences and health care.

   Small-cap and private company findings have been omitted from this report and the accompanying demographics report due to limited respondent population

   Throughout this report, percentages may not total 100% due to rounding and/or a question that allowed respondents to select multiple choices.

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