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Should Boards Integrate Succession Planning With Comp?

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Average CEO tenure keeps creeping downward — to 8.4 years in 2011 from 10 years in 2000, according to the **Conference Board**. The reasons behind the trend aren't 100% clear, but the faster turnover suggests that boards are being more proactive when it comes to succession planning. And the next step, some experts say, is integrating succession planning with executive compensation, either by building it into performance metrics or simply aligning executive pay with succession strategies.

This integration is already under way at some companies. **Robin Ferracone**, CEO of **Farient Advisors**, says that of the dozen comp committees where she is head consultant, three are doing this.

And although the practice of linking succession planning to comp isn't widespread, it may spread. **Marty Coyne**, lead director of **Akamai Technologies** and a board member at **BioClinica**, says he thinks it's an "excellent idea" and will consider implementing it in the future. Coyne heads discussions on the performance of individual NEOs and manages succession planning at Akamai.

One of the most popular ways to integrate succession planning with executive pay is to make talent development and executive succession a performance goal in the CEO's annual bonus plan.

Penn Virginia CEO **H. Baird Whitehead** has a portion of his long-term equity pay tied to developing a plan for his own succession, according to the 2012 proxy, which reports that Whitehead has delivered on this goal by reviewing his succession plan and internal candidates with the board. A Penn Virginia spokesman did not respond to a request for comment.

Similarly, home design company **Blyth** made working with the board on a CEO succession plan one of the performance goals in CEO **Robert Goergen**'s compensation package in fiscal 2012, according to the company's recent proxy. **Jim McTaggart**, who chairs Blyth's comp committee, declined to elaborate on the pay plan, citing a quiet period at the company due to a securities class action filed recently against officers and directors.

But since effective succession planning is a soft metric and can be hard to measure, it usually doesn't get more than a 15% weighting among performance goals, consultants say.

Retention Concerns

Another way comp committees can make succession planning more effective is by creating a flexible pay program for top executives, so that rotating them among different roles to groom them as internal talent isn't unnecessarily difficult. "You don't want to give an executive a new role that pays less and is seen as a demotion when you're intending for it to look like a promotion," says Ferracone.

And when there is an internal horse race for the corner office, comp committees can benefit from planning ahead. Directors should discuss in advance how they will use compensation to try to retain the executives who don't get the job, says **Melissa Means**, managing director of **Pearl Meyer & Partners**.

Pearl Meyer conducted its first CEO succession study last year, canvassing 153 directors and executives at organizations ranging from Fortune 100 companies to nonprofits. About 60% of respondents said they have no plan for retaining executives after a new CEO is appointed.

Means says that in some cases, boards may be willing to let senior managers go, especially if the company is charting a new course. In others, however, keeping the executive team together may be vital to the transition and can help maintain morale among all employees. But no matter what the circumstances, comp committees should be conducting scenario planning ahead of time. "You have to keep that conversation in front of the comp committee at all times," she says.

But some directors caution against focusing too closely on pay when managing talent. "If you look at succession with a compensation lens, you may overestimate how important pay is to retention," remarked one comp committee member of a Fortune 500 company at a Compensation Committee Leadership Networking meeting this summer hosted by **Tapestry Networks**. "You need to force yourselves to think about things other than compensation. That's a good reason the full board should have ownership for succession issues."

And Ferracone cites the board at a public company with a founder CEO that hasn't done a lot of work on succession planning. The comp committee chairman is hesitant to integrate succession with comp, because he's concerned that the board may be less critical than it should be when evaluating executives' performance and readiness for promotion. In such a case, linking compensation to succession could cause the board to apply more positive discretion than is warranted. The comp chair "wants the talent management process to be pure," Ferracone says. "That argument [against tying succession to comp] works at companies that are learning to give critical feedback with meaning and avoid the Lake Wobegon effect."

Nevertheless, CEO succession planning at a significant number of companies already falls to the comp committee. Around half of the 334 public company respondents to the Conference Board's 2011 U.S. board practices survey reported that a committee, rather than the full board, oversees CEO succession at their firms. And of that number, about half said the comp committee led the process (the other half named the nominating and governance committee). Financial services firms and large companies were the most likely to put succession planning under the comp committee's umbrella, according to the survey.