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# Management Succession Planning Disclosure in 2023 Proxy Statements

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# Executive Summary

Effective management succession planning is vital for long-term shareholder value. A review of the 2023 proxy statements of S&P 100 companies indicates significant variation in the information provided regarding nine key management succession planning elements. 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, capabilities in the next CEO that would align with the company's long-term strategy and measures taken to identify external candidates.

# Introduction

Among the most important functions of a company's board of directors is oversight of the chief executive officer (CEO), including ensuring continuity of the position through both short- and long-term succession planning. Empirical evidence suggests that effective CEO succession planning is an important driver of shareholder value:[1] CEO turnover is associated with higher stock price volatility,[2] while succession planning disclosure appears to reduce investor uncertainty and mitigate that volatility.[3] However, research suggests that boards do not spend adequate time on succession planning.[4]

Formalized management succession planning may also help correct for optimism bias, a behavioral economics term for the tendency to "overestimate the likelihood of future positive events and underestimate the likelihood of negative events."[5] Boards may, for example, not give as much attention to succession planning when they have recently selected a new CEO.[6]

A formal planning process is also important for considering internal candidates versus external candidates. Evidence suggests that, on average, CEOs hired from outside the company receive higher compensation than those promoted from within. CEOs hired from outside also are associated with lower long-term financial performance than internally hires.[7] However, external candidates may be more desirable when the board and investors seek a significant change in strategy or business operations.[8,9]

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[1] See, for example, Huson, Malatesta, & Parrino. (2003). Managerial succession and firm performance. *Journal of Financial Economics.* https://doi.org/10.1016/j.jfineco.2003.08.002

[2] Clayton, Hartzell, & Rosenberg. (2005). The Impact of CEO Turnover on Equity Volatility. *The Journal of Business.* https://doi.org/10.1086/431442

[3] Bae, Joo, & Yu. (2023). CEO succession planning and market reactions to CEO turnover announcements. *Finance Research Letters.* https://doi.org/10.1016/j.frl.2023.103946

[4] Larcker and Tayan. (2010). CEO Succession Planning: Who's Behind Door Number One? Rock Center for Corporate Governance at Stanford University Closer Look Series: Topics, Issues and Controversies in Corporate Governance No. CGRP-05, Available at SSRN: https://ssrn.com/abstract=1678062

[5] Kress and Aue. (2017). The link between optimism bias and attention bias: A neurocognitive perspective. *Neuroscience & Biobehavioral Reviews.* https://doi.org/10.1016/j.neubiorev.2017.07.016

[6] Mooney, Semadeni, & Kesner. (2017). The Selection of an Interim CEO: Boundary Conditions and the Pursuit of Temporary Leadership. *Journal of Management.* https://doi.org/10.1177/0149206314535433

[7] Schepker, Kim, Patel, Thatcher, & Campion. (2017). CEO succession, strategic change, and post-succession performance: A meta-analysis. *The Leadership Quarterly.* https://doi.org/10.1016/j.leaqua.2017.03.001

[8] Tao & Zhao. (2017). "Passing the Baton": The effects of CEO succession planning on firm performance and volatility. *Corporate Governance: An International Review.* https://doi.org/10.1111/corg.12251

[9] Blank, Hadley, Minnick, & Rivolta. (2021). A game of thrones—dynamics of internal CEO succession and outcome. *European financial management.* https://doi.org/10.1111/eufm.12311

The Securities and Exchange Commission (SEC) announced in 2009 that companies may no longer exclude shareholder proposals on CEO succession planning on the basis that they relate to the company's "ordinary business operations."[10] This change followed Whole Foods' exclusion of a proxy proposal filed by the Laborers' International Union of North America asking the company to adopt and disclose a succession planning policy.[11] The SEC's 2009 staff bulletin was specific to proxy proposals that requested disclosure of detailed CEO succession planning policies, including those that specify that the board develop criteria for the CEO position, identify and develop internal candidates, and use a formal assessment process to evaluate candidates.[12,13]

A survey from around this time of CEOs and directors of U.S. and Canadian companies painted a grim picture of succession planning among large- and mid-cap companies: Only 54% reported that they were grooming an executive for the CEO position, 39% of respondents reported having no viable internal CEO candidates and just 50% had a written document detailing desired skills for the next CEO. Respondents also reported spending only two hours a year on succession planning.[14]

Research from global, primarily non-U.S., companies suggests three potential major barriers to effective CEO succession planning: 1) hiring criteria that are not aligned with strategic needs, 2) board reluctance to antagonize the incumbent CEO, and 3) board failure to develop talent below the CEO and the top management team.[15]

Evidence also indicates that better CEO succession planning disclosure in proxy statements is associated with better-than-expected returns.[16] This evidence is strongest for larger and more

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[10] SEC Rule 14a-8(i)7.

[11] Larcker & Tayan. (2010). CEO Succession Planning: Who's Behind Door Number One? Rock Center for Corporate Governance at Stanford University Closer Look Series: Topics, Issues and Controversies in Corporate Governance No. CGRP-05, Available at SSRN: https://ssrn.com/abstract=1678062

[12] SEC.gov | Shareholder Proposals: Staff Legal Bulletin No. 14E (CF)

[13] The SEC bulletin still left the door open for companies to exclude CEO succession proposals if they seek "to micro-manage the company by probing too deeply into matters of a complex nature upon which shareholders, as a group, would not be in a position to make an informed judgment."

[14] Heidrick & Struggles and Stanford Rock Center for Corporate Governance. (2010). 2010 Survey on CEO Succession Planning. https://www.gsb.stanford.edu/sites/default/files/publication-pdf/cgri-survey-2010-ceo-succession.pdf

[15] Hooijberg & Lane. (2016). How boards botch CEO succession. *MIT Sloan Management Review.* https://sloanreview.mit.edu/article/how-boards-botch-ceo-succession/

[16] McConnell & Qi. (2022). Does CEO Succession Planning (Disclosure) Create Shareholder Value? *Journal of Financial and Quantitative Analysis.* https://doi.org/10.1017/S0022109022000345

complex firms and weaker for smaller firms.[17] However, researchers measured whether CEO succession was listed under its own heading or was mentioned only "in passing," and did not focus on the substance of the information disclosed.

This paper examines 2023 proxy statements from S&P 100 companies to determine the kinds of management succession planning information companies are sharing.[18] Such disclosures are important for two main reasons. First, they help investors make investment decisions regarding the expected future relative performance of firms. Second, disclosure requirements or expectations often change company behavior.

## Methodology

We reviewed S&P 100 companies' 2023 annual proxy statements for disclosure on CEO and management succession. We did not find research that had explored in-depth, specific features of CEO and management succession disclosure within company proxy statements. As a result, we organized the description of management succession content in proxy statements around nine elements:[19]

1. Role of the board as a whole
2. Involvement of board committee(s)
3. Role of the incumbent CEO
4. Board consideration of the capabilities in the next CEO that would align with the company's long-term strategy
5. Measures taken to identify internal candidates
6. Board's assertion that it has taken steps to identify external candidates
7. Board's assertion that it has processes to identify and include "diverse" candidates
8. Plans that address short-term succession scenarios
9. Plans that address long-term succession scenarios

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[17] *Ibid.* & Zhou. (2023.) Succession planning and firm innovation. *Finance Research Letters.* https://doi.org/10.1016/j.frl.2023.104314

[18] Companies were selected based on the iShares S&P 100 ETF portfolio as of 11/28/2023.

[19] In identifying these elements, we did not find any relevant frameworks in the academic literature. Thus, we utilized Council of Institutional Investors (CII) policy 2.9 https://www.cii.org/corp_gov_policies and the methodology in Barrett. (2016). Does CEO Succession Planning Disclosure Matter? Investor Responsibility Research Center Institute/Board Governance Research LLC as an initial framework. After data collection, we refined the elements to ensure that they provide a useful framework to explain the content in proxy statements. For example, CII policy identifies as a best practice that companies disclose processes to identify and include diverse candidates. However, because so few companies disclosed this information in their proxy statements, we instead reported how many companies asserted that they had such processes in place, even if they did not describe them specifically in the proxy statement.

Company disclosures were included in this analysis if they appeared in company proxy statements or if a company provided a specific reference that CEO and/or management succession planning information was available on a company corporate governance site. We did not independently review all company corporate governance websites to find management succession information, but only reviewed those sites where the company had specifically indicated management succession planning information was available on a specific website.

In collecting the data, we noted inconsistent terminology. One company, for example, did not use the term "succession" at all in its proxy statement; instead, it referred only to "management development." In other cases, information provided by the company did not clearly distinguish among succession planning approaches for board members, the CEO and other senior executives. In one case, the company provided management succession information in an infographic with text that was not searchable. While that information is included in this analysis, it may escape efforts by others who search proxy statements for keywords on succession planning.

Finally, a few companies that had recent CEO transitions focused more in their 2023 proxy statements on those specific transitions and often provided relatively little information about management succession planning more generally. Those companies may provide additional information in proxy statements that do not follow a CEO transition.

## Results

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. A summary of the frequency of elements in proxy statements appears below in Table 1.

**Table 1. Summary of 2023 Proxy Statement Content**

| Succession Planning Element | Companies That Included this Element |
|---|---|
| Role of the board as a whole | 79% |
| Involvement of board committee(s) | 77% |
| Plans that address long-term succession scenarios | 62% |
| Measures taken to identify internal candidates | 51% |
| Plans that address short-term succession scenarios | 45% |

| | |
|---|---|
| Role of the incumbent CEO | 36% |
| Board has processes to identify and include "diverse" candidates | 17% |
| Board consideration of the capabilities in the next CEO that would align with the company's long-term strategy | 10% |
| Board has taken steps to identify external candidates | 9% |

## Role of the board as a whole

This is the succession planning element that was most frequently included in 2023 proxy statements. Disclosures often started with a statement such as, "One of our Board's principal duties is to review management succession planning" (Alphabet) and included information about how often the board reviewed succession planning (e.g., annually, bi-annually, regularly). Broadcom is an example of a company that describes the role of its board as a whole in its 2023 proxy statement:

> Our Board is actively involved in the CEO and senior management succession planning. Our Board discusses CEO succession planning at least bi-annually. Our Board has developed an interim and a longer-term CEO succession plan. The interim plan would utilize internal candidates and become effective in the event our CEO unexpectedly becomes unable to perform his duties, in order to minimize potential disruption or loss of continuity to the business and operations. The longer-term CEO succession plan is currently focused on the development of internal candidates, as well as on maintaining business and operational continuity. In addition, our Board, with our CEO and Vice President of Human Resources, regularly discuss senior management succession planning and review the composition of senior management. Our Board reviews the qualifications and experience of the potential successors and the development priorities and achievements of the potential successors, and our Board engages with the potential internal successors at least annually at Board meetings and in less formal settings.

Proxy statements that did not include this element often discussed the role of a board committee but not the role of the board as a whole, or they listed management succession as a responsibility of the board without providing further detail about the board's role in succession planning. For example, "Our Board oversees major risks, including strategic, operational (including cybersecurity), legal and regulatory, financial and CEO succession planning risks."

## Involvement of board committee(s)

A description of the involvement of one or more board committees in succession planning was the next most frequently included management succession element. While companies relied on different committees to oversee management succession planning, they frequently cited committees responsible for compensation or governance as being involved in succession planning. A total of 44% of companies assigned responsibility specifically to their compensation committees,[20] while many other companies cited committees with some mix of responsibility among compensation, governance, human capital management and sustainability. Only one company mentioned more than one committee by name, and three companies stated that board committees were involved without specifying which by name. Companies that did not mention a specific board committee usually described management succession planning as a responsibility of the full board. Some companies, such as ExxonMobil, specifically emphasized the role of the Lead Independent Director:

> In addition, the Lead Director, working together with the Compensation Committee, oversees the annual evaluation of the CEO, the communication of resulting feedback to the CEO, and the review of CEO succession plans. In addition, the Lead Director, working together with the Compensation Committee, oversees the annual evaluation of the CEO, the communication of resulting feedback to the CEO, and the review of CEO succession plans. The Compensation Committee is comprised exclusively of non-employee, independent directors, and oversees compensation for ExxonMobil's senior executives (including salary, bonus, and performance share awards), as well as succession planning for key executive positions. The Committee's charter is available on the Corporate Governance section of our website.

Some companies, like U.S. Bancorp, indicated that the committee that is responsible for CEO succession planning is different than the committee responsible for succession planning for other senior executives.

## Plans that address long-term succession scenarios

We assumed that management succession planning statements dealt with long-term scenarios unless they indicated otherwise, or if it was clear from their content that they referred to short-term efforts. For example, Merck states: "Succession planning and talent development are important at all levels within the Company. The Board regularly reviews short- and long-term succession plans for the CEO and other executive officers."

The information provided in long-term succession planning varied in detail from general steps for ordinary course succession to specific statements, such as Berkshire Hathaway's statement that "the Buffet family will assist the Board of Directors in picking and overseeing the CEO selected to succeed Mr. Buffet [after Mr. Buffet's death or inability to manage Berkshire]."

[20] For the purposes of this paper, this term means a committee with the term "compensation" in its name.

## Measures taken to identify internal candidates

Companies listed various efforts to identify candidates internally. Examples include having the CEO provide the board with an assessment of senior managers and their potential to perform the CEO role and providing opportunities for senior managers other than the CEO to interact with the board and/or its committees in formal and informal settings as part of management succession planning. For example, Capital One's proxy statement includes:

> Each year, as part of Capital One's succession planning process, our CEO provides the Board with recommendations on, and evaluations of, potential CEO successors. The Board considers a number of factors such as experience, skills, competencies, diversity, and potential in its review of the senior executive team to assess which executives possess or can develop the attributes that the Board believes are necessary to lead and achieve the Company's goals. Among other steps taken to promote this process throughout the year, executives one and two levels below the CEO often attend Board meetings and present to the Board, providing the Board with numerous opportunities to interact with our senior management and assess their leadership capabilities. Additionally, each line of business and the Risk, Audit, and Finance functions engage in succession planning for key roles at least once per year. The Chief Human Resources Officer reviews these line of business succession plans.

A few companies, such as McDonald's, included the names of specific executives who were promoted to senior roles as an example of successful identification of internal candidates.

## Plans that address short-term succession scenarios

Information provided by companies regarding short-term succession scenarios also varied: some simply offered general information that an emergency plan existed, while J.P. Morgan Chase named the person who will serve as the CEO in a short-term succession scenario. It was more common for companies to reference that they had a short-term succession plan or that it was part of a regular review, rather than provide details about the plan. For example, UnitedHealth Group stated in its proxy statement: "Our succession plan, which is reviewed annually by our Board, addresses both an unexpected loss of our CEO and longer-term succession."

## Role of the incumbent CEO

Fewer companies were as specific about the role of the current CEO. When the current CEO was specifically mentioned, companies frequently said the CEO offers an assessment to the board of the readiness of current staff to take on more senior roles, including that of CEO. Thermo Fisher Scientific, for example, stated that:

> The CEO, together with the Chief Human Resources Officer, provide [*sic*] a regular review to the Compensation Committee, assessing each of the members of the executive

> leadership team and his or her succession potential. This review includes a discussion about development plans for senior leaders to help prepare them for future succession and contingency plans in the event the CEO is unable to serve for any reason (including death or disability).

### Board has processes to identify and include "diverse" candidates

Companies generally did not define what they meant by "diverse" candidates. Also, because so few described specific processes they use to identify and include diverse candidates, reported results for this element include any references that a company planned to consider diversity in its selection processes. PepsiCo alluded to the kind of diversity it seeks in a general comment about its oversight of internal senior management development:

> The Board has overseen appointments of current direct reports of the CEO, who include seven executives globally who are racially/ethnically diverse and/or female, demonstrating our focus on building a highly skilled and diverse executive team that brings a broad array of opinions and perspectives that are reflective of our global businesses.

Companies were not considered to have included information about identifying and including diverse candidates if, for example, one committee indicated that it has responsibility for both succession management planning and diversity generally for the company.

### Board consideration of the capabilities in the next CEO that would align with the company's long-term strategy

Most of these disclosures were vague. Few companies detailed the specific skills they seek in the next CEO. For example, U.S. Bancorp stated:

> The Governance Committee has established a CEO succession planning process that considers the profile and skills most critical to leadership of the company, includes ongoing evaluation of a number of potential internal and external successor candidates, and addresses emergency, temporary scenarios as well as long-term succession.

### Board has taken steps to identify external candidates

This was the succession planning element that the fewest number of companies provided information about in their proxy statements. Some companies indicated that they were engaged in an ongoing evaluation of both internal and external candidates. For example, Advanced Micro Devices' proxy statement observed that "Succession planning for key executive roles consists of an assessment of internal candidates and their development plans, as well as potential external talent, while factoring in our culture and an emphasis on diversity and inclusion."

Companies noting that the board generally has access to external consultants as needed were not considered to have provided this information in the proxy statement.[21]

## Conclusion

These results suggest that there are commonalities in what information the largest publicly traded firms included in 2023 proxy statements and the information they generally excluded. 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.

In interpreting these results, it is important to recall that this paper focuses only on the information provided in proxy statements. Companies that did not include this information in their proxy statement may be disclosing that information elsewhere, such as on a publicly available investor website.

[21] One additional area of potential future investigation for identifying external candidates is whether the incentives for executive search firms make it more likely for search firms to push for outside hires—and for boards to agree to them—despite the evidence that, on average, internal hires are associated with higher long-term shareholder value and receive less compensation than outside hires. It may be material for boards to investigate and disclose how these agreements impact the recruitment process. See Fernández-Aráoz, Nagel, & Green. (2021). The high cost of poor succession planning: a better way to find your next CEO. *Harvard Business Review*. https://hbr.org/2021/05/the-high-cost-of-poor-succession-planning