

corporate secretary

Research Report

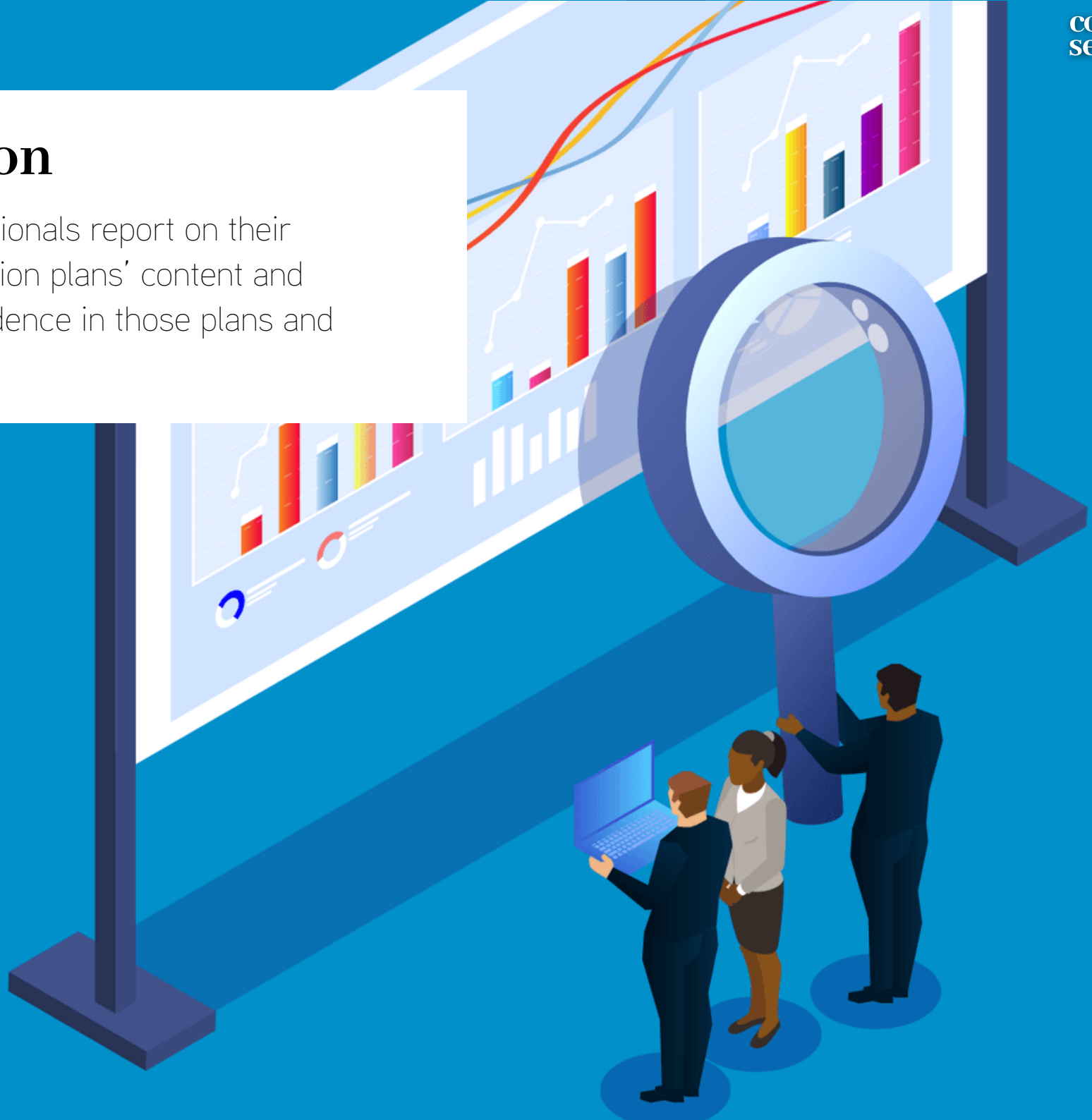
Succession planning: Preparations for the inevitable

Sponsored by



Introduction

Governance professionals report on their companies' succession plans' content and updates, their confidence in those plans and investor interest



Introduction

Governance professionals report on their companies' succession plans' content and updates, their confidence in those plans and investor interest

One of the most important responsibilities for boards is picking the right leadership for the company and ensuring there are effective processes in place for this to happen, either in a prearranged manner or in the event of some unexpected change.

Boards need to consider a wide variety of factors when designing succession plans, such as who handles the process, whose successions are planned for and how detailed those plans should be. It is also essential that boards don't create succession plans then leave them to gather dust. The Covid-19 pandemic has been a stark reminder not only of the need for these plans to be in place but also for them to be understood and kept relevant amid ever-evolving situations. Ultimately, succession planning is about both people and the inevitability of change.

In this special report we present findings from a survey conducted among governance professionals such as general counsel and corporate secretaries. Their responses give insight into areas such as who typically is in charge of planning, who is covered by plans, what boards' succession plans include and how often boards review them. Respondents also report on investors' interest in succession plans and how confident governance professionals are in those plans.

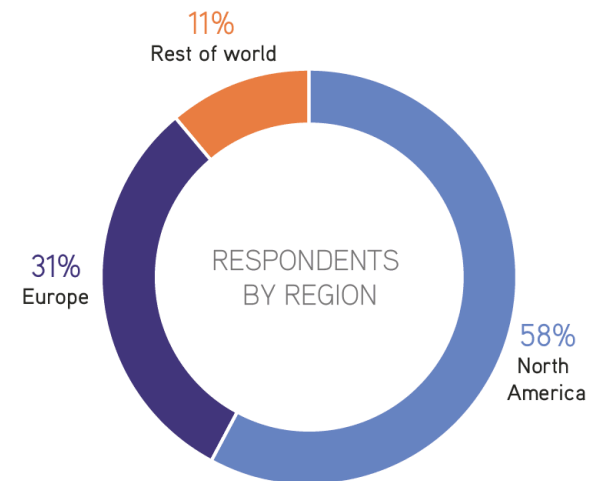
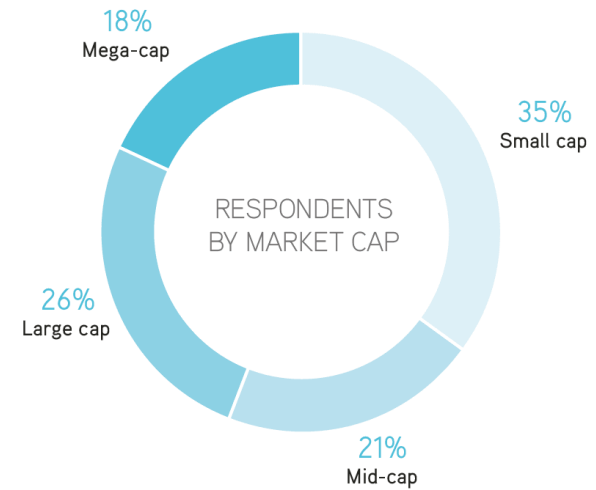
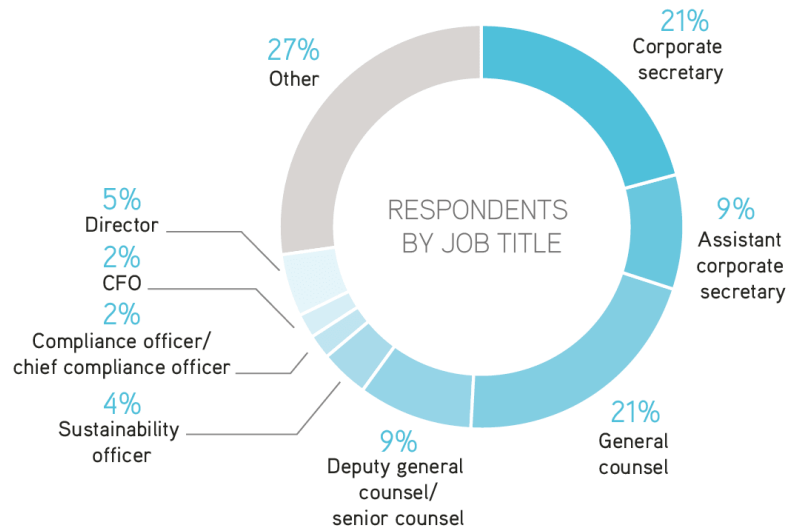
Key findings

- A majority (59 percent) of respondents say that either their nominating and governance committee or the main board has primary responsibility for succession planning at the company.
- Eighty percent of respondents say the CEO is covered by their succession plan, followed by other named executive officers (NEOs) (67 percent), senior management (60 percent) and board members (53 percent).
- Almost all (96 percent) of respondents at mega-cap companies say their board's succession plans include diversity, equity and inclusion (DE&I) considerations.
- Two thirds of respondents say their board reviews its succession plans once a year, with just 6 percent saying they do so every two years or less frequently.
- Overall, around a third (32 percent) of respondents say they are seeing an increase in the frequency with which investors are asking about their company's succession plans, compared with three years ago.
- Half of all respondents say they are very or extremely confident that their board's succession plans are effective.

Survey demographics

This report is based on the findings from an online survey conducted between December 2021 and February 2022.

Total number of respondents: 245





Putting the plan together

Who has a role?

Putting the plan together

Who has a role?

Overall, a majority (59 percent) of respondents say that either their nominating and governance committee or the main board has primary responsibility for succession planning at the company. The nominating and governance committee is the most common choice, cited by almost a third (32 percent) of respondents, followed by the main board (27 percent).

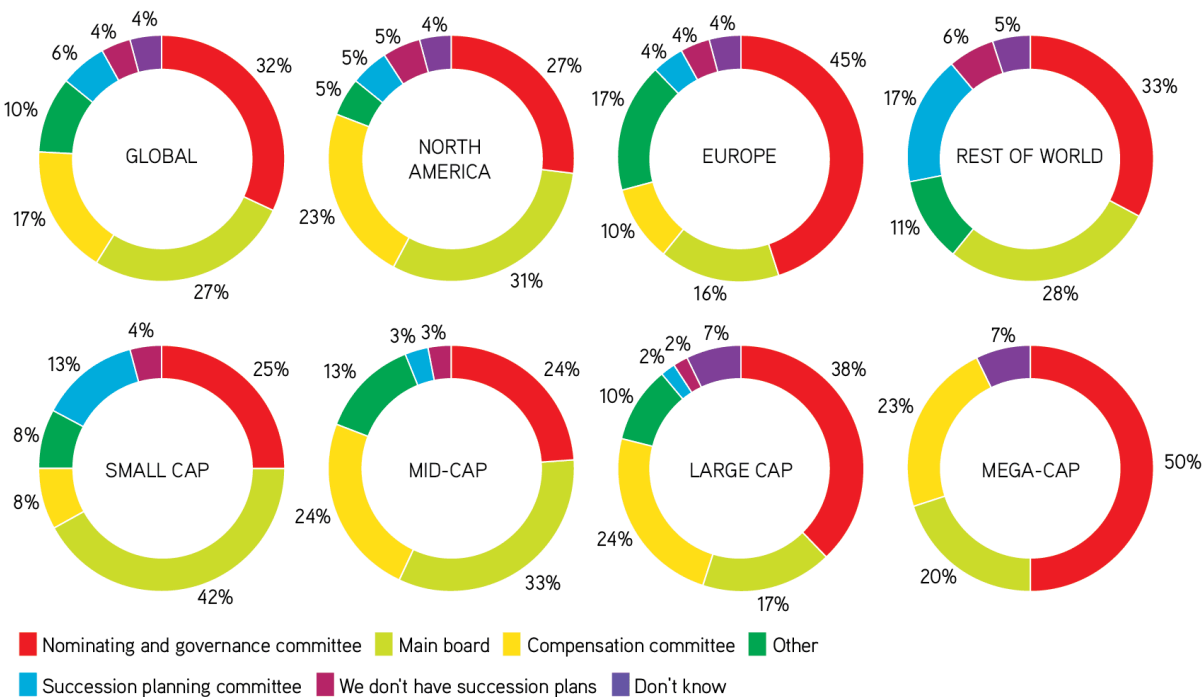
Almost a fifth (17 percent) say their board's compensation committee is in charge of the issue, while 6 percent say they have a specific succession planning committee. Just 4 percent say they don't have succession plans – a situation governance professionals would recommend addressing.

Broadly speaking, respondents at larger companies are more likely to say the nominating and governance committee has primary

responsibility for succession planning. A quarter of those at small-cap companies and 24 percent of those at mid-cap companies say that this committee is in charge, compared with 38 percent of those at large caps and half of those at mega-cap companies.

Conversely, 42 percent of respondents at small-cap companies say their main board is responsible, compared with 20 percent of those at mega-caps. Just 8 percent of those at small-cap companies say their compensation committee takes charge when it comes to succession planning, while just under a

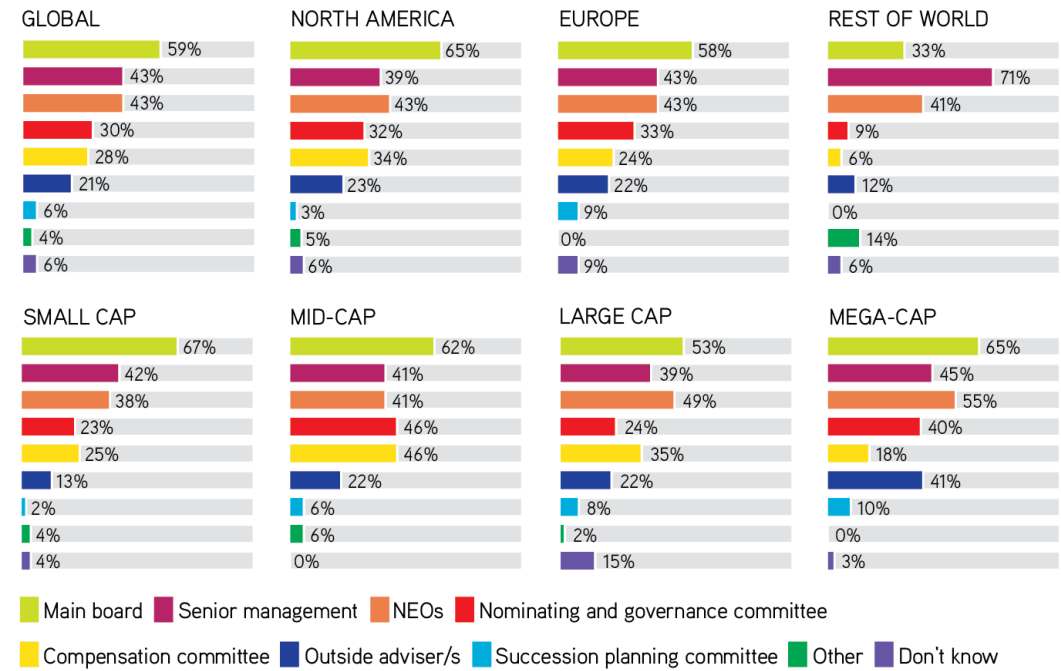
Which of the following is primarily responsible for succession planning at your company?



quarter of those at bigger companies (24 percent of large caps and 23 percent of mega-cap) say the same.

More than four in 10 respondents in Europe (45 percent) say the nominating and governance committee has primary responsibility for succession planning, compared with just over a quarter (27 percent) of respondents in North America. Those in North America more frequently (23 percent) say their compensation committee handles the issue than do those in Europe (10 percent).

Of the following, who else provides input on succession planning at your company?



Among all respondents, more than four in 10 (43 percent) say senior management also provides input on succession planning at the company and 43 percent say NEOs are involved. Twenty-one percent say outside advisers provide input, with those figures broadly consistent between respondents in North America and Europe.

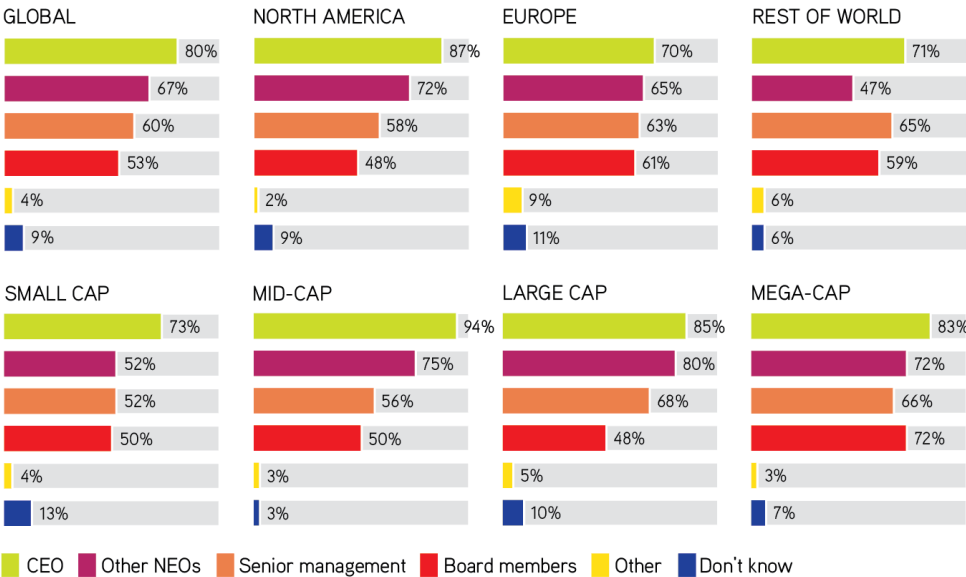
More than half (55 percent) of respondents at mega-cap companies say NEOs give input on succession planning, compared with 49 percent of those at large caps, 41 percent of those at mid-cap companies and 38 percent of those at small caps.



What's in the plan?

What's in the plan?

Which of the following positions are covered by succession plans at your company?



CEO is the position that most commonly features in corporate succession plans, according to our research: 80 percent of respondents say

the chief executive is covered, followed by other NEOs (67 percent), senior management (60 percent) and board members (53 percent).

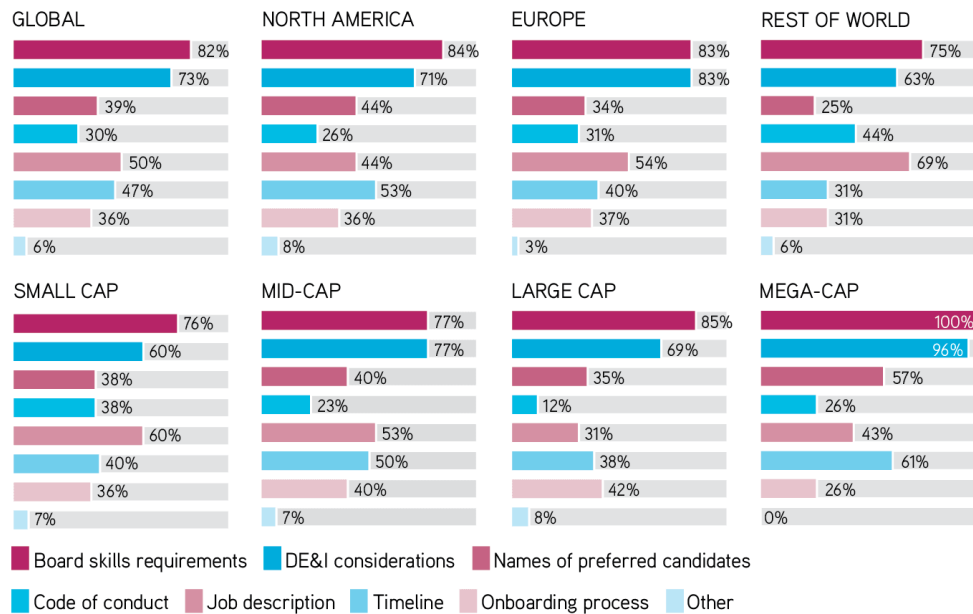
Almost three quarters (72 percent) of respondents at mega-cap companies say board members are included in succession plans, compared with half of those at small and mid-cap companies and 48 percent of those at large caps.

Fifty-two percent and 56 percent of those at small and mid-cap companies, respectively, say senior management is covered by succession planning. By contrast, 68 percent and 66 percent of respondents at large and mega-cap companies, respectively, say the same.

Just over half (52 percent) of respondents at small-cap companies report that other NEOs are covered by succession plans, compared with 72 percent, 75 percent and 80 percent of those at mega-caps, large caps and mid-caps, respectively.

A higher percentage of respondents in North America (87 percent) say their CEO is included in succession planning than do those in Europe (70 percent). A majority (61 percent) of respondents in Europe say their succession planning includes board members, while less than half (48 percent) of those in North America say the same.

Which of the following are included in your board's succession plans?



The most frequently cited element of succession plans for board members is skills requirements, which is mentioned by 82 percent of respondents.

Almost three quarters (73 percent) of respondents say the plans include

DE&I considerations, followed by job description (50 percent), timeline (47 percent), names of preferred candidates (39 percent), onboarding process (36 percent) and code of conduct (30 percent).

Eighty-three percent of respondents in Europe say DE&I considerations are included in their succession plans, compared with 71 percent of those in North America. Almost half (44 percent) of those in North America include preferred candidates' names, compared with around a third (34 percent) of those in Europe.

More than half (53 percent) of respondents in North America include a timeline, while just four in 10 (40 percent) of those in Europe do so.

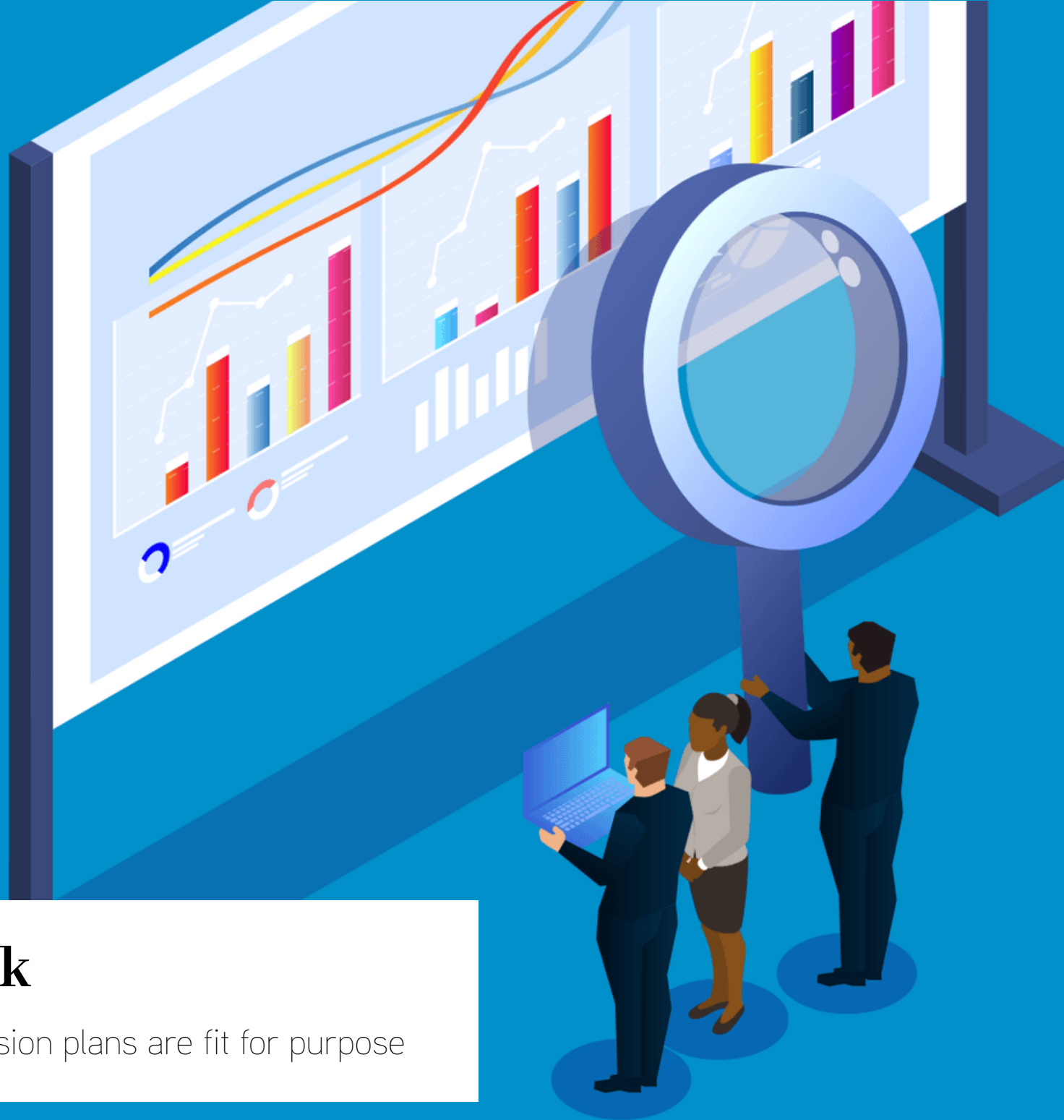
Perhaps due to greater public and investor scrutiny, almost all respondents at mega-cap companies (96 percent) say they include DE&I considerations, compared with just 60 percent of those at small caps.

A greater proportion of respondents at larger firms say their plans include board skills requirements. The figure increases from 76 percent and 77

percent among those at small and mid-cap companies, respectively, to 85 percent and 100 percent among those at large and mega-cap firms, respectively. Sixty percent of respondents at small caps say they include a job description, almost twice as many as do so at large caps (31 percent).

A fresh look

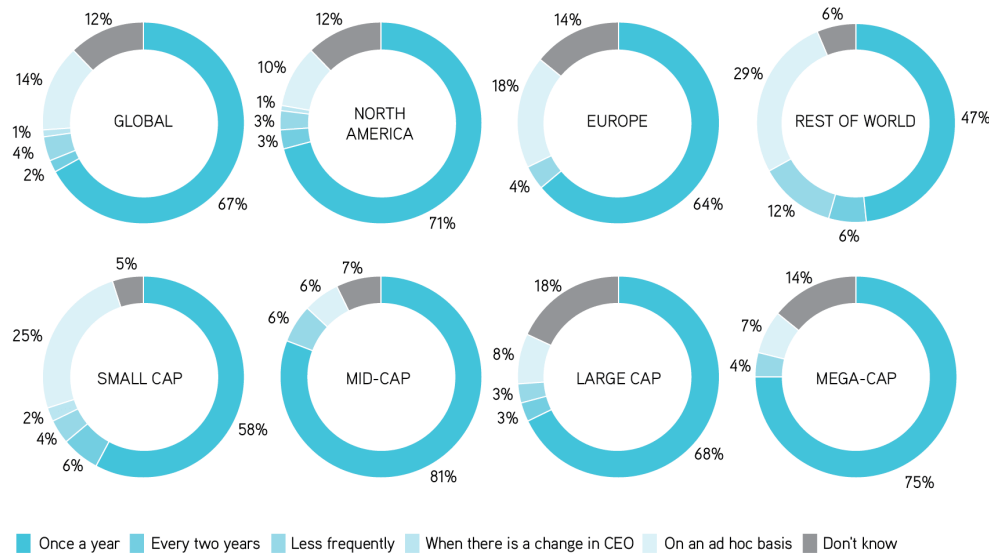
Making sure succession plans are fit for purpose



A fresh look

Making sure succession plans are fit for purpose

How often does your board review its succession plans?



It's not enough to simply formulate succession plans and leave them on a shelf. Boards need to make sure any necessary updates are made to take

into account changing circumstances and best practices. Our research finds that most do: two thirds of respondents say their board reviews its succession

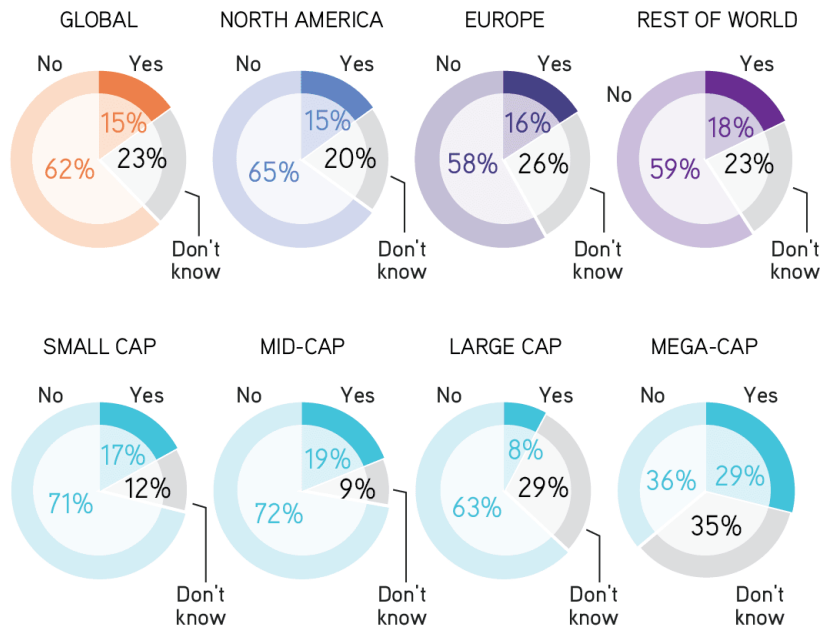
plans once a year, with just 6 percent saying they do so every two years or less frequently. Fourteen percent say they do so on an ad hoc basis.

North America say their board reviews succession plans each year, compared with only 64 percent of those in Europe who say the same.

Fifty-eight percent of respondents at small-cap companies say their board conducts an annual review, fewer than do so at mid-cap firms (81 percent), large caps (68 percent) and mega-cap companies (75 percent). Notably, a quarter of those at small-cap companies say their board conducts reviews of succession planning on an ad hoc basis.

The results are broadly similar between North America and Europe, although 71 percent of respondents in

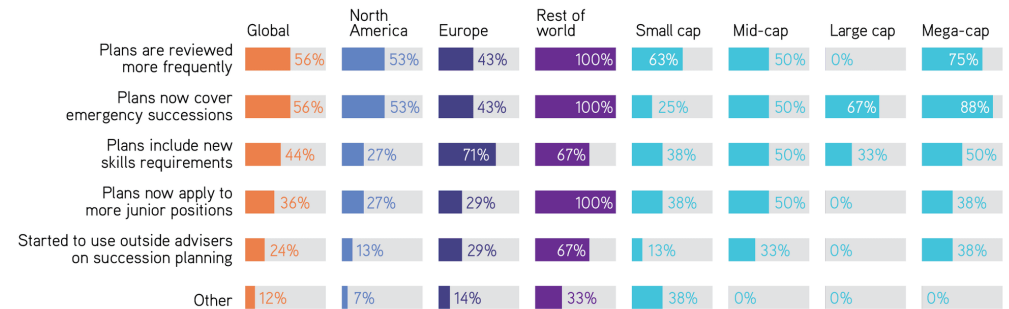
Has your board revised its approach to succession planning as a result of the Covid-19 pandemic?



The Covid-19 pandemic, particularly in the months before vaccines became widely available, raised the prospect of senior executives and board members suddenly being unavailable in unprecedented numbers on a temporary or permanent basis.

According to our research, almost a third (29 percent) of respondents at mega-cap companies say their board revised its approach to succession planning as a result of the pandemic. This compares with 17 percent, 19 percent and 8 percent among those at

What changes have been made?



small caps, mid-caps and large-cap companies, respectively. It should be noted that, globally, more than a fifth (23 percent) don't know whether this has been the case.

now applying to more junior positions (36 percent) and companies starting to use outside advisers on succession planning (24 percent).

The most frequently cited changes made due to the pandemic are that plans are now reviewed more frequently and now cover emergency successions, each of which is mentioned by 56 percent of respondents whose board has revised its plans. These are followed by plans now including new skills requirements (44 percent), plans

Investor interest

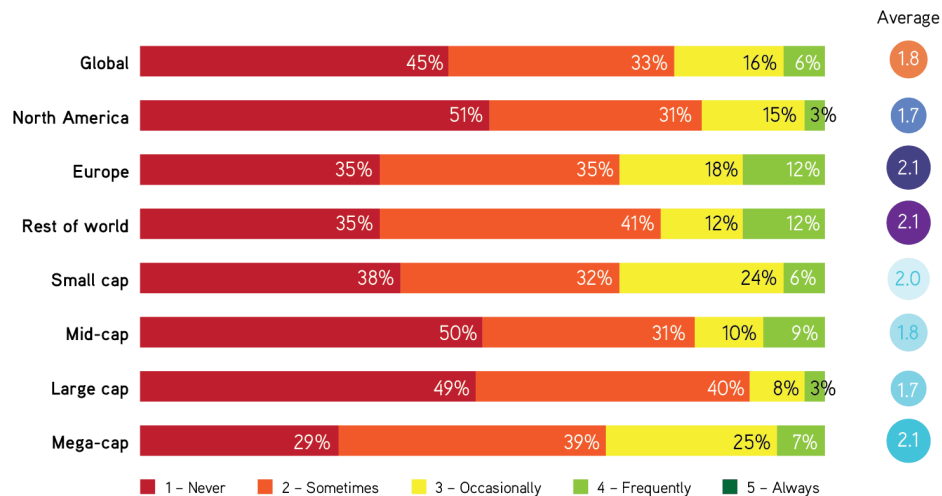
Inquiries about succession plans

Inquiries about succession plans

Investor interest

Inquiries about succession plans

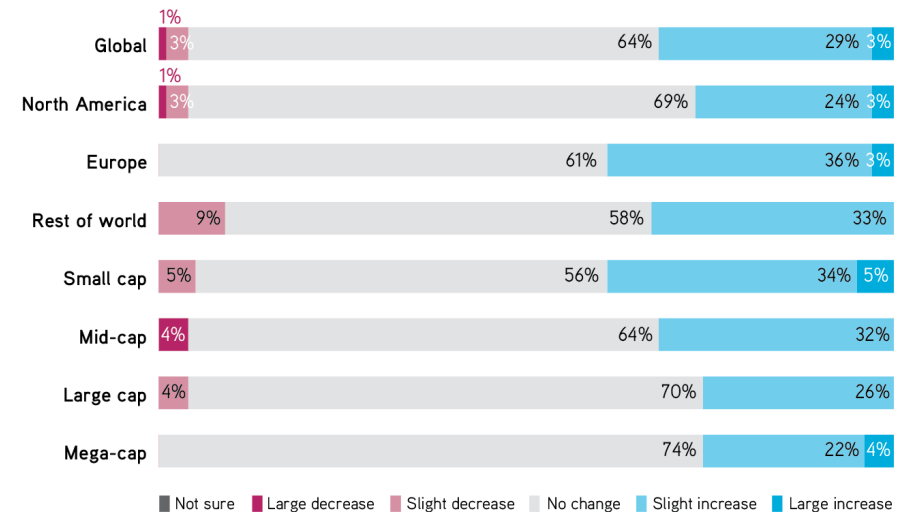
In the past 12 months, how often have investors asked questions about your company's succession plans?



Respondents were asked to describe the frequency with which investors have asked questions about their company's succession plans over the previous 12 months, using a scale of one to five where one is 'never' and five is 'always'.

Overall, the average score is 1.8. Respondents in Europe (2.1) on average report more frequent questioning about their succession plans than do those in North America (1.7).

How has the frequency with which investors ask about your company's succession plans changed compared with three years ago?



Respondents at mega-cap companies (2.1) on average report the most frequent inquiries, above those at mid-caps (1.8) and large-cap firms (1.7), though only just above those at small caps (2.0).

Overall, around a third (32 percent) of respondents say they are seeing a slight or large increase in the frequency with which investors are asking about their company's succession plans compared with three years ago. Very

few (4 percent) report a decrease in the frequency of such questions.

Thirty-nine percent of those in Europe say they have been fielding more frequent questions about their succession plans over that period, while 27 percent of those in North America say the same.

The increased frequency of questions is more pronounced for smaller issuers: 39 percent of respondents at small-cap firms say their investors are asking questions more frequently than three years ago, compared with 32 percent of those at mid-caps, and 26 percent of those at large-cap firms and mega-caps.

Comments

Respondents were asked what investors ask about their companies' succession plans. Aside from inquiries as to whether the company *has* a plan, their responses include:

- 'Mainly, whether diversity is a consideration'
- 'The who, the what and the how'
- 'Investors want to confirm that we have a succession plan in place and that staff are aware of its existence/application'
- 'Potential changes in executive directors'
- 'How does the company review its succession planning mechanisms?'
- 'Pivotal role that needs to be continuous'
- 'What is being done with [the] CEO'
- 'CEO succession, given the age of our current CEO'
- 'Executive chairman and founder and his continuing role'
- 'Who succeeds the owner-CEO? Depth of the executive team'
- 'Primarily focused on CEO, CFO and general counsel succession'
- 'Life insurance of the key executives'
- 'Main issue is CEO succession'
- 'Whether we have them and the process for agreeing the plans'
- 'Focus is on board succession planning as we recently had a number of directors approach the board's retirement age'



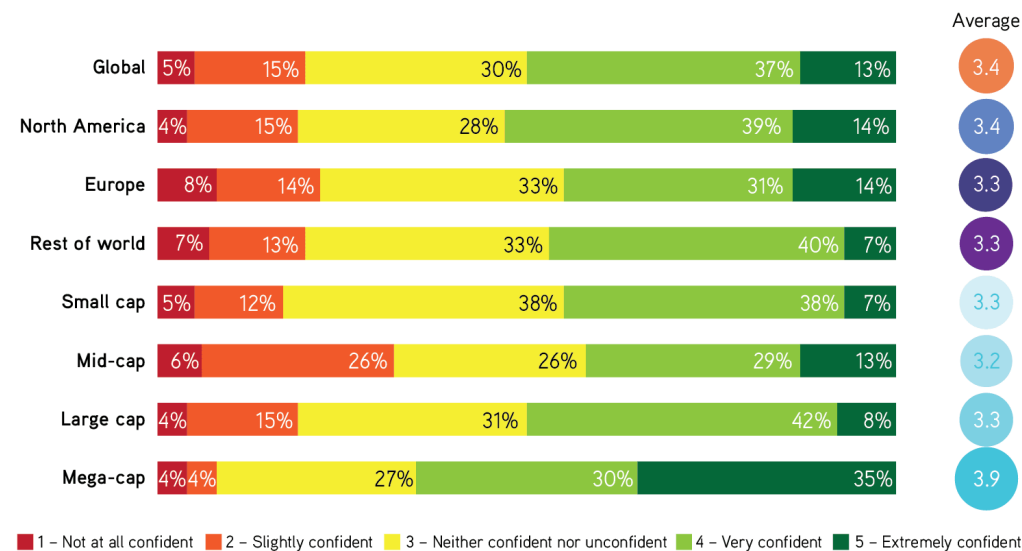
In good shape?

Assessing your succession plans

In good shape?

Assessing your succession plans

How confident are you that your board's succession plans are effective?



Respondents were asked how confident they are that their board's succession plans are effective, using a scale where one is 'not at all confident' and five is

'extremely confident'. Overall, responses tend toward confidence with an average score of 3.4. Respondents at mega-cap companies have, on average,

higher levels of confidence in their board's succession plans (3.9) than those at large caps (3.3), mid-caps (3.2) and small caps (3.3).

Breaking these figures out, half of all respondents say they are very or extremely confident that their board's succession plans are effective. Just 20 percent are slightly or not at all confident. Among those at mega-cap companies, almost two thirds (65 percent) are very or extremely confident in their board's planning, compared with less than half (45 percent) of those at small caps.

More than half (53 percent) of respondents in North America say they are very or extremely confident, while just 45 percent of those in Europe express the same sentiments.

Room for improvement

Respondents were asked how they would like to improve their board's succession plans and processes. Their responses include:

- 'In the light of new trends (sustainability, Covid-19, digitalization) globally, I would like to include in the succession plan adaptability skills as criteria/competence for roles'
- 'Broader candidate consideration'
- 'For it to be less political and bureaucratic'
- 'To have more robust discussion on each director's skills and knowledge'
- 'Incorporation of timelines can be much more helpful in existing plans'
- 'Greater transparency'
- 'Make it a more formalized process'
- 'Better line of sight for replacements'

- ‘Our company board is developing a stronger process to better prepare its succession plans on a more continuous basis’
- ‘We should implement a board succession plan’
- ‘Make it more rigorous’
- ‘More rigorous and planned assessment’
- ‘More focus on non-emergency succession planning’
- ‘More frequent discussion and reviews’
- ‘Greater openness from chair’
- ‘Include ESG skills as part of the planning’
- ‘Adequate training and diversity’
- ‘Be more open about them. At the moment, the [human resources] director only shares with the CEO and chair’
- ‘These are reviewed on an ongoing basis’
- ‘We have recently expanded our plans to include all members of the wider executive group, so as to

ensure that each key role has a plan in place (with identified successors where appropriate)’

- ‘Improved process. Materials and timing of discussions are currently not consistent’
- ‘More regular introduction of director candidates’

Advertisement feature

How the corporate governance landscape is changing

A closer look at human
capital management



How the corporate governance landscape is changing

A closer look at human capital management

The past two years have opened boardroom doors to beneficial change. Boards faced an extraordinary convergence of events – a global pandemic, shrinking labor markets, volatile economic markets, state-sponsored cyber-attacks, unstable geopolitical conditions and civil unrest – that brought in their wake a more inclusive, stakeholder-centric perspective to creating shareholder value.

Shareholder primacy is yielding to more robust stakeholder-oriented capitalism. The Business Roundtable's 2019 Statement on the Purpose of a Corporation marked the beginning of the era of stakeholder governance in the US. The European Commission made stakeholder governance the foundation of the 2021 Sustainable Corporate Governance Initiative.

The UK led in legislating the concept of 'enlightened shareholder value', or consideration of stakeholder impact in decision-making, as early as

2006 through Section 172 of the Companies Act. Reporting on how these considerations have been evaluated is now firm practice in the UK and influencing governance trends around the world.

As 2021 was ending and 2022 beginning, a new variant of Covid-19 precipitated yet another global wave of infection that continues to strain the capacity of businesses and healthcare systems and fatigue an already battered and weary workforce. While the challenges remain daunting, the global economy is maintaining resilience.

We have learned that stakeholder-centric corporations may wield greater influence and have a more trusted role to play in crisis response and societal stability than was previously thought.

The past two years demonstrated that directors are more than prepared to answer the call to stakeholder-oriented governance. As a cohort,

boards around the globe appear to be exhibiting more agility, tech-savviness, risk awareness, forward-looking perspective and resilience.

As they continue to steer their companies through current and emerging challenges and find opportunities in evolving markets, these battle-tested boards will sharpen their focus on four key corporate governance areas, including human capital management (HCM).

Increasing focus on DE&I and talent acquisition

Employees have emerged as key stakeholders requiring the board's attention. One of the biggest concerns we heard from CEOs and directors during the initial wave of the pandemic was for the overall well-being of the workforce. Directors have become deeply concerned with diversity, equity & inclusion (DE&I) and talent acquisition, as the ability to attract and retain the best talent at all levels of the company has become a competitive differentiator.

Boards are being pressured by investors and regulators alike to enhance oversight of and, by extension, disclosures around HCM issues. Where once boards may have received a cursory annual report on human resources matters, directors now want to acquire literacy on the full range of issues that comprise HCM. Many firms are elevating the profile of the human resources function by creating C-suite human resources roles that more frequently and substantively report to the board, which helps improve the oversight of HCM and related discussions in the boardroom. This enables the board to proactively work with management on HCM.

Key HCM areas expected to be in focus during the year include:

- **Corporate culture** – As younger generations gravitate to purpose-driven companies, boards are becoming more sophisticated at promoting

the desired company culture and assessing it

- **Succession planning** – Boards are going deeper with their succession planning, assessing the diversity and depth of talent two or three layers down from the C-suite
- **Employee engagement** – Boards are gaining more direct insights into employee engagement and understanding of workforce sentiment and conditions
- **Long-term strategy** – Boards are examining how DE&I and talent-acquisition programs can further a company's strategic goals, and ensuring the right HCM policies and practices are in place to support those goals
- **Performance management metrics** – Boards are driving performance for people-based initiatives by setting goals and defining metrics for management, whether or not DE&I is tied to executive compensation
- **Inclusion** – Inclusion is the differentiator for

companies looking to advance diversity strategies and goals, so boards will be evaluating whether the company culture and DE&I programs attract and amplify diverse employees' success.

Enhancing HCM disclosures

HCM programs impact every stakeholder and are increasingly important to the board in terms of facilitating healthy corporate culture, mapping strategy and achieving business goals.

Accordingly, regulators and investors are demanding information that brings visibility to employee demographics, working conditions and talent-acquisition strategies to better assess the 'people risk' companies face.

This year will be only the second proxy season since the SEC requested that companies enhance HCM disclosures in Form 10K. We expect HCM

The past two years demonstrated that directors are more than prepared to answer the call to stakeholder-oriented governance

disclosures to evolve rapidly during the next several years as boards and management teams work together to define which HCM matters are material to their companies and industries, to establish frameworks and metrics for assessing material HCM initiatives and to benchmark HCM disclosures.

HCM disclosures should be the tip of a very large iceberg of dialogue at the board level

HCM disclosures should be the tip of a very large iceberg of dialogue at the board level on a host of topics that can include talent acquisition and retention, DE&I, employee health and safety, employee satisfaction, culture, training and pay equity. Companies can bring structure and consistency to these discussions by developing

frameworks – or aligning with existing frameworks – to aid in the assessment of HCM strategies, practices and policies. This includes the identification of relevant metrics.

The boardroom of the future

Disruption is impacting every aspect of business, from technology and delivery of goods and services to human capital. Boardroom governance is also facing disruption. The boardroom of the future is populated with directors from a variety of disciplines, who have an insatiable appetite for learning, and who have the stamina to remain relevant in a rapidly changing world. Successful boards dive deeply into emerging relevant areas, update their governance frameworks to meet the needs of stakeholders and drive long-term profitability that creates shareholder value.

As you reflect on your responsibilities as a governance professional, consider human capital management and three other corporate governance areas through a lens of both enterprise risk and opportunity management. To find out what the three other key areas are, [download the Nasdaq Center for Board Excellence white paper](#).

Sponsor's statement

About Nasdaq Governance Solutions



Sponsor's statement

Nasdaq Governance Solutions

Nasdaq Governance Solutions supports public, private and nonprofit organizations worldwide on their journeys to achieve board effectiveness and drive governance excellence. Our user-friendly Nasdaq Boardvantage® board meeting management software helps prepare boards and leadership teams in their collaboration and decision-making processes. Our compliance solutions transform paper-based directors' and officers' (D&O) and conflict of interest questionnaires into data-driven processes. Plus, our Board Advisory team works directly with organizations to facilitate board evaluations that promote alignment and continuous improvement.

We also provide a platform for board members, executive leaders, educators and knowledge-seekers to share experiences and gain insights. The Nasdaq Center for Board Excellence helps deepen board engagement through community, content and collaboration.

For more information, please visit:

nasdaq.com/solutions/governance



Thank you for reading

Research Report Succession planning: Preparations for the inevitable