CEO/Succession Planning

Establishing A Future for High Performance

2012 NAREIT HR Forum

October 15
11:30am - 5:00pm

October 16
8:30am - 3:00pm

PICARD LLC
Speaker Background

• Established my firm in 2011
• Ph.D. in Psychology, background in business & consulting
• 10+ Years with a C-Suite & High Performance Firm, Former Head of Practice Innovation
• Directly lead with numerous CEOs, CFOs, COOs, CMOs, SVPs of HR (360s, Team, Strategy, Systems, Research, High Potentials, Data)
• Global perspective, I have lived it since my teens.
• Data geek (we do prevail, or at least find we are needed).
• Challenge myself, my family, and my clients...
Without Credibility...
Speaker Background

- Of Note...
  - Understand REIT Succession Planning for CEO, COO and CFO roles and Financial Services (hedge/PE funds, banks, etc.)
  - Consulted in the largest merger in Consumer products history (to date) between P & G (under AG Lafley) and Gillette (Jim Kilts)
  - Developed a Global High Potential Talent Management System for 500+ Employees in a 30,000 person public company & researched outcomes (correlated with turnover, salary, bonuses, and promotions)
  - Created a Succession Planning Educational System & Pilot for Nation’s Largest Food Bank Network (200+ Agencies)
  - Assessed CLO, CMO roles for $40B Retailer in CEO Succession Plan for Board and Chief People Officer
  - Consulted with Boards on CEO performance (REIT, Retail, Non-Profit, PE)
MY DOG STORY

• 14 little kids are playing “golf,” driving tennis balls every which way...

• The Coach hits a long shot and yells, “GO GET MY BALL. THE BALL IS BY THAT DOG OVER THERE. THE WINNER TODAY IS THE ONE WHO FINDS THE BALL.”

• All 13 kids run top speed to the dog – except one.

• One kid hangs back, because she sees that the dog has, in fact, moved away...

• That one kid finds the ball much closer than the other kids were looking.
You need to observe everything that is going on around you in order to keep your eye ...on the ball.
NAREIT Data

– **LISTED**: As of Jan. 1, 2012, there were **166 REITs** registered with the Securities and Exchange Commission in the United States that trade on one of the major stock exchanges — the majority on the **New York Stock Exchange**. Listed U.S. REITs today constitute a more than $300 billion equity market with an average daily trading volume of about $4 billion. These REITs have a combined equity market capitalization of $579 billion.

– **NON-NATIONAL EXCHANGE OR PRIVATE**: Additionally, there are REITs that are registered with the SEC but are not publicly traded, and REITs that are not registered with the SEC or traded on a national stock exchange. **Internal Revenue Service shows that there are about 1,100 U.S. REITs that have filed tax returns.** Unlisted REITs in the U.S. now manage assets of more than $70 billion and are adding another $7 billion annually.

– **OUTSIDE THE US**: REITs and listed property companies constitute another $700 billion plus, comprising a listed REIT and real estate investment universe of more than $1 trillion.

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<tr>
<th></th>
<th>PUBLIC</th>
<th>NON-EXCHANGE TRADED REITS</th>
<th>PRIVATE</th>
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</thead>
<tbody>
<tr>
<td>Corporate Governance</td>
<td>Specific stock exchange rules on Corporate Governance.</td>
<td>Follow state and North American Securities Administration Assoc. Guidelines (NASAA)</td>
<td>None</td>
</tr>
<tr>
<td>CEO Succession Requirement</td>
<td><strong>Specific guidelines.</strong></td>
<td>Variable.</td>
<td>Unknown.</td>
</tr>
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So...Do We Have A CEO Succession Need?
Self-Report Data Can Be Difficult to Interpret and Trust

• Most CEO Succession Programs **DO NOT track outcome data**. Researchers/consultants try to fill in the gap by studying CEO turnover, proxy filings, public statements, etc., to infer the success of CEO Succession Planning and CEO impact/failure.
  – **Self-Report Data** - about half of the S & P 500 companies surveyed by The Conference Board continue to report that they do not have a CEO Succession plan.*
  – PWC/Corporate Board Member 2009 survey of 1,000+ directors also found about half thought they were effective at completing a succession plan, but 39% say they are dissatisfied with their current plan – because there is inadequate talent in the pipeline, and because there is no time on the agenda to discuss (41%).**
  – According to a December 2010 survey of a sample of global executives’ self-reports (from 60 countries) Korn/Ferry Executive Survey, nearly all companies – 98 percent – regard CEO succession planning as an important piece of the overall corporate governance process. Yet, only 35 percent of respondents are prepared for either the unexpected or planned departure of their CEO.***

• Despite having unclear data, CEO Succession can also appear to be “in crisis” based on a perception that the CEO replacements, when made, have a high failure rate.****

• Examples of public failures in CEO Succession Planning based on outcomes: Apple, Citigroup, Yahoo, Merrill Lynch, BOA, Boeing, Home Depot, Coca Cola, Morgan Stanley, H-P, 3Com, etc.

**Corporate Board Member, 2009, Special Supplement.
***www.kornferryinstitute.com
****Ending the CEO Succession Crisis, Ram Charan, HBR Magazine, February 2005.
Government Regulations Are Not Required

• The Sarbanes-Oxley Act of July 29, 2002, in the wake of Enron, strongly encouraged boards to be more decisive and transparent about CEO Succession Planning.

• **Companies were still able to request no-action relief based on the 1934 Rule 14a-8(i)(7) of the Securities Exchange Act, “relating to [the company’s] ordinary business operations (i.e., the termination, hiring, or promotion of employees).”**

• On Oct. 27, 2009, after the 2008 financial crisis, the SEC’s Division of Corporate Finance Legal Bulletin 14E, became more insistent and as a result, shareholders are able to demand more transparency about CEO succession plans from Board members.

• **Succession planning disclosure can still be excluded under Rule 14a-8(i)(7) if it is “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.”**

• According to the Conference Board research of public company records, in 2011 and early 2012, most shareholder proposals for transparency in CEO Succession failed, were withdrawn, or the company voluntarily offered a succession plan as opposed to getting corporate by-laws changed by a shareholder vote.* (ISS and Apple tangled on this, for example).

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Some Organizations Require Disclosure: NYSE Example

- Since November 4, 2003, listing standards by the New York Stock Exchange (NYSE) require boards to explicitly address CEO succession plans in their organizations’ corporate governance guidelines. The guidelines must be available on or through company website. Proxy statements must indicate that guidelines are available on the website and provide website address.

- Specifically, guidelines should include policies for Management Succession:
  - The selection of the executive;
  - The performance review of the executive;
  - And the description of a general transition roadmap to follow in the event of an emergency (including a sudden departure or need for dismissal and the unexpected death, disability, or other impediment)*

- In 2012, 96% of S&P 500 boards discuss CEO succession planning in their corporate governance guidelines, reporting that they have both long-term and short-term/emergency plans in place. 63% report discussing succession plans annually.**

- Disclosure is not required by NASDAQ, but many NASDAQ companies follow NYSE rules as best practice.

*303A.09 of the NYSE Listed Company Manual.
Third Parties Advise Disclosure:
Moody’s

- Moody's is an essential component of the global capital markets, providing credit ratings, research, tools and analysis that contribute to transparent and integrated financial markets.

- **Succession Planning**
  - The Board plans for succession to the position of CEO as well as certain other senior management positions. The Board, in conjunction with the Governance and Compensation Committee, annually reviews the Company's succession plans regarding the selection of individuals to fill these positions. The Board's review involves succession planning both in the context of a sudden and unplanned absence or inability of the CEO or of other senior executives to fill his position and in the context of planned promotions or retirements.
Third Parties Advise Disclosure:
ISS Proxy Voting Guidelines

• The primary purpose of a public corporation is to create sustainable value for its shareowners. To that end, ISS designs its proxy voting guidelines to enhance shareholders' long-term economic interests. ISS' Benchmark proxy voting guidelines serve as a tool to assist institutional investors in meeting their fiduciary requirements with respect to voting by promoting shareholder value creation and risk mitigation at their portfolio firms.

• **CEO Succession Planning**
  – 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.
Shareholder Proposals

• Shareholder proposals follow general themes that outline how the board can initiate a CEO Succession Planning process.

• Shareholder proposals seek to adapt the company’s corporate governance guidelines to create and disclose a Succession Planning process, including:
  – Annual review of the plan;
  – Criteria for the CEO position, including a role definition that matches the business strategy;
  – A formal process to assess the CEO candidates;
  – A development process for the internal candidates;
  – A three-year process before the expected transition AND an emergency succession plan.*

A few words about…

PRIOR PLANNING BEFORE TAKING ON CEO SUCCESSION
Let’s Technically Jump In: Data

- We plan with the data we have on hand, and data we go out and find.
- **We plan to solve a problem or problems.**
- Data allows us to be more certain (never 100%) that we have a problem.
- **Data helps to define the parameters.**
- Data helps create problem-solving steps and to check progress.
- **Data helps us to define success.**
Data: Let’s SCORE Ourselves

1. How many have a CEO Succession Plan already?

2. How Many of You Know Your Own Strategic Plan Well Enough to Give a 5-Minute Summary to Your Own Board?

3. How Many of You Know Your Specific Board Policy on CEO Succession Planning and Know the Process and Timeline?

4. How Many of You Have An Emergency Succession Plan That Has Been Ratified By The Board?

5. How Many of You Can Cite the CEO Succession Experiences/Backgrounds of Your Board Members?

6. How Many of You Are Close Colleagues With Your C-Suite Peers, Including Your Chief Legal Officer AND Chief Financial Officer?
RESULTS

• 1/6 = 17%
• 2/6 = 33%
• 3/6 = 50%
• 4/6 = 67%
• 5/6 = 83%
• 6/6 = 100%

• This is not a normative sample.
• If you scored less than 67%, you may want to enlist the help of someone more experienced to create or refresh your CEO Succession Plan.
HR DATA CHECKLIST

**Formal**
- Current (Five Year) Strategic Plan
- Board Structure & Bylaws (Committees, Calendar, etc.)
- Board Policies on Senior Talent Management (CEO Emergency Succession Plan, CEO 360 Data, CEO Evaluation Criteria) - Typically References CEO-Direct Report Positions
- Annual Review of Policies, Data and Progress
- CLO/Legal As A Resource

**Informal**
- Board Members’ Tenure, Backgrounds, History
- Board Members’ Experiences with CEO Succession Planning
- Board Members’ Technical Skills & Backgrounds (Context)
- Social Activities of the Board Prior-To and After Board Meetings (Expectations)
- Board Members Networks and Contacts (Consultants)
CEO Succession Planning Stirs the Pot

Opinions of the Current CEO’s Performance (historical, current & future)

Analysts’ Opinions and Commentary on Company Performance

Conversations About Systems to Evaluate the CEO

Board Members’ Experience & Private Wishes

Incumbents’ (C-Suite) Desire for Role

Board Members’ Self-Evaluation as CEOs

Type: Family-Held, Private and/or Public Company

Presence/Absence of Avoidance and/or Denial
Before We Assume: **Green** Light

In the absence of **deep and true knowledge** of the company strategy & **strong, interpersonal relationships** with the current CEO, Board Members, and the C-Suite Team, the SVP/Head of Human Resources may be unable to ride out the rough patches that will inevitably accompany the CEO Succession Planning process.

There is always a backstory, and often, more than one...
Green Light:

CEO SUCCESSION
CEOs Succession Process Overview

1. Establish Strategy, Operating Landscape, Analyze Both for CEO Future Requirements (Technical/Leadership)

2. Interview Board Members and Establish CEO Technical & Leadership Criteria (Current, Future) With Board (Some search/consulting firms have industry templates)

3. Board Ratifies Criteria (Exec Committee, Then Full Board)

4. Evaluate/Assess Internal Candidates

5. Keep "Heir Apparents" Interested and Motivated

6. Develop Candidates Over Time (Action/Learning)

7. Track & Mark Progress Over Time (Annual Review)

8. Evaluate External Candidates If Necessary (Best suited to "turnarounds")

9. Choose New CEO (with agreement from exiting CEO to assist)

10. Manage Those Not Chosen Internally

11. Integrate New CEO (whether internal or external)
Data: Board Agreement

• Ratification of the Strategic Plan
• Analysis of Operating Landscape by Analysts, Investors, Shareholders, Banks (published, or informal) – (talk to your CFO)
• Current CEO Evaluation System (with or without 360 Feedback) & Compensation/Severance Package (e.g. financial, operational targets)
HR Must Have Knowledge of The Board Committee And Its Levels of Agreement or Conflict

- **What MUST** the REIT do to be successful in the next (X) years?
- **What is the current Operating Landscape? What will be the future Operating Landscape?**
- What technical and leadership skills are currently required? (This may be the current evaluation system)
- **What CEO experience will be required?**
- Where are we confident in our knowledge? Where are we uncertain? (Range)

Independent parties (e.g. consultants) are often used to gather this data in a formal process, share with HR, and then share with The Board Committee overseeing Succession Planning.
## Competency Data: CEO Technical Skills

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<td>SPAN OF ROLE</td>
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<td>SCOPE OF DECISION MAKING</td>
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<td>PREVIOUS LEADERSHIP ROLES</td>
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<td>BUILDS A TEAM</td>
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CEO Candidate Data: Technical & Leadership

- HIGH
- MEDIUM
- LOW

HIGH TECHNICAL & HIGH LEADERSHIP
## Sounds Straightforward...Right?

- There could be disagreements on strategy.
- There could be disagreements on CEO criteria.
  - The Board may not get to ratification because of full agendas or “denial.”
  - A Board Member may have a “favorite” on the inside or outside.
  - There may be no internal candidates, or, internal competition.
  - Candidates may be too busy to develop themselves.
  - External candidates may “balk.”
  - Board Members may “balk.”
  - Top talent may quit.
  - Shares may drop.

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<td>Board Ratifies (First Exec Committee, Then Full Board)</td>
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Sample CEO Succession Process 12-Qtr. Rolling Calendar

• **First Quarter/Year ONE of Strategic Plan:**
  – Establish Strategy and Agreement on Operating Landscape
  – Analyze Both for CEO Future Requirements
  – Interview Board Members and Establish/Translate into CEO Technical & Leadership Criteria (Current, Future) With Board Committee (Some search/consulting firms have industry templates)
  – Ensure Emergency Succession Plan

• **Second Quarter:**
  – Full Board Ratifies Criteria

• **Third Quarter:**
  – Evaluate/Assess Internal Candidates Against Criteria

• **Fourth Quarter/End of YEAR ONE:**
  – Keep “Heir Apparent(s)” Interested and Motivated
  – Develop Candidates Over Time in a Planned Manner – Report Progress (Action/Learning)
  – Evaluate Incumbent CEO

• **Fifth – Ninth Quarters/End of YEAR TWO:**
  – Track & Mark Progress of Internal Candidates Over Time (Annual Review); Report Progress
  – Updated Criteria for CEO Succession As Necessary
  – Evaluate Incumbent CEO

• **Tenth – Twelfth Quarter:**
  – Evaluate External Candidates If Necessary
  – Track & Mark Progress of Internal Candidates Over Time (Annual Review); Report Progress
  – Evaluate Incumbent CEO

• **Twelfth Quarter/End of YEAR THREE:**
  – Evaluate Internal/External Candidates
  – Choose New CEO (with agreement from exiting CEO to assist)
  – Manage Those Not Chosen Internally
  – Integrate New CEO (whether internal or external)

This is a living process, with constant checks, and thoughtful decision making and planning.
A few words about...

SUCCESSION PLANNING SYSTEMS BELOW THE CEO LEVEL
If you have a good process...

- Succession Planning can go as deeply as the supervisor/manager level and the next CEO can be found there...

- It typically takes a year to socialize and build an internal succession planning system that won’t be rejected.

- It takes some time to train people to understand and to pilot the system before final use.

- If done properly, you can collect a tremendous amount of technical data for future talent management planning.
Why Succession Planning

• We experience *rapid change* that can be sporadic

• We face *increasingly complex challenges*

• There is greater leadership *responsibility at lower levels*

• We need to recruit and retain the *best talent*

*Succession Planning* is the process to identify and secure necessary talent to ensure continuity in key positions and the development and retention of that talent for the future.
A Continuous Cycle of Development

- Determine Risks & Needs
- Evaluate the Pipeline
- Ensure Readiness
- Define Success

Senior Leaders
What is the Value?

• A tailored approach to organizational situations and needs.

• Involvement of a broad group of LINE leaders and HR support (critical).

• Development of a workforce that is adaptable and prepared for future challenges.

• Development of staff who will lead the company as it will be, not necessarily as it is today.
Succession Management Model

**PAST** = Performance
Annual Review

**FUTURE** = YOUR PREDICTIVE CRITERIA HERE
(IQ, 360, High Potential, Leadership, etc.)

Leadership Pipeline

+ Development
Succession Management Steps

1. Define Functional Performance Evaluation Standards (Past Performance using Ratings on Performance Evaluations)

2. Define Leadership Criteria for Future Leadership

3. Assess Talent & Create A Grid of Employees (Past Performance vs. ?) –

   Some companies use Annual Reviews, some use tools that test for attributes (such as leadership qualities, high potential qualities, IQ/EQ, etc.), and some use 360s (not recommended)

4. Conduct Functional Roundtables to Discuss Organizational Needs With Line Managers

5. Provide Feedback and Developmental Planning to All Managers
Specifics of Succession Management

- Round Table meetings with departmental and senior leaders
- Follow-up conversations between supervisors and staff
- Strategic leadership development for identified staff throughout the year

Development Plans
Example: Succession Candidate Grid

<table>
<thead>
<tr>
<th>Performance Rating</th>
<th>Other Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distinguished</td>
<td>Low Medium High</td>
</tr>
<tr>
<td>Commendable</td>
<td>Low Medium High</td>
</tr>
<tr>
<td>Competent</td>
<td>Low Medium High</td>
</tr>
<tr>
<td>N/A (no performance rating due to hire date)</td>
<td>Low Medium High</td>
</tr>
</tbody>
</table>

OTHER RATING (IQ/EQ, Attributes, 360, etc.)
Sample Succession Management Organizational Chart

Samantha Champion
CEO

Bob Hope, COO
(ready now)
Beyonce, CFO
(ready in 9 months)

Beyonce
CFO

Charlie Chaplin
(ready now)
Marlena Dietrich
(ready in 1 yr.)

Bob Hope
COO

Lucy Liu
(ready in 6 months)
Hattie McDaniel
(ready in 2+ years)

Sonia Sotomayor
Legal Counsel

External Recruitment
Post Meetings – HR Deliverables

- Succession Management Report
- Completed Talent Grid (Annual Performance + Something Else)
- Action plan – identified leadership development
- Follow-up/tracking of progress and leader commitment
- Measure and track annually
- Integrate as part of pay-for-performance bonus plans (optional)
Examples of Leadership Development

- Action Learning (special assignments) (BEST)
- Cross-functional job rotations/task forces (SECOND BEST)
- 360° Feedback
- Exposure (To Sr. Execs)
- External coaching
- Accelerated promotions
- Professional conferences
- “Pure” developmental (destination) roles

Leaders are critical to an individual’s development in helping them reflect on their learning
1. How many believe they can handle the CEO Succession Planning process after this talk?

2. How Many of You Are Going to Re-Read Your Strategic Plan as a result of this talk?

3. How Many of You Feel Better Informed About Board Governance Requirements for CEO Succession Planning?


5. How Many of You Are Now Incentivized To Get to Know Your Board Members Better?

6. How Many of You Are Incentivized To Get To Know Your C-Suite Peers, Including Your Chief Legal Officer AND Chief Financial Officer, Better?
RESULTS

- 1/6 = 17%
- 2/6 = 33%
- 3/6 = 50%
- **4/6 = 67%**
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- This is not a normative sample.
- If you scored more than 67%, you just might be ready to take this on...and establish a future for high performance.
Go For It, Call Me...

...Especially if you cannot find the tennis ball.