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## CEO SUCCESSION PLANNING

One of the primary functions of a board of directors is to oversee a company's strategic planning process. A critical part of the strategic planning process is CEO and other senior executive succession planning.

### **Why is CEO succession planning important?**

The CEO plays a major role in the implementation and development of a company's strategic policy. Accordingly, even where the CEO is relatively young and retirement is not expected to occur until the distant future, the company needs to prepare itself for the possibility of a change in its top executive position. Such a change could arise due to the voluntary resignation, sudden death or disability of the CEO, or at the direction of the board of directors if performance is unsatisfactory. Investors often react negatively to news of a CEO's departure (though the initial reaction may sometimes be positive), and the longer it takes for the board to find a suitable replacement the greater the level of uncertainty that will likely exist in the minds of stockholders and employees. Depending on the circumstances, a CEO's departure can be an extremely distracting event for senior management and rank and file employees. It also is important to plan for possible changes in the company's other senior executive positions.

### **What should a succession plan entail?**

There is no one-size-fits all approach, as each company has its own particular situation to consider. That said, there are several basic

points that generally apply regardless of the circumstances:

- Determine which board committee is responsible for leading the process.
- The plan should cover the CEO and other senior executive positions.
- The board should have a thorough understanding of the company's business and the likely determinants of its future success. This obviously includes a mix of strategic, operational and financial objectives which will vary from time to time.
- Identify, and periodically update, the qualities and characteristics for an effective CEO, in light of the company's current situation and strategic objectives. These qualities and characteristics should encompass business competencies, including the required skill and experience levels given the challenges facing the company, as well as the personality traits best suited to the task at hand. As for the latter, consideration should be given to the type of person that will fit the needs of the company, whether it is critical that the person fit the company's current culture or whether the current culture can or should be changed to fit a new style of leadership, and whether the company is hierarchical in nature or an organization that relies more heavily on collaboration.
- The plan should cover unexpected developments, such as death, disability or

other early departure, as well as planned successions. For example, if the CEO were to suddenly die, who would act as interim CEO? Would there be any internal candidates to fill the position on a long-term basis, or would the company want or need to look to the outside? The same scenarios should be addressed for the other senior executive positions.

- Succession planning should be a continual process, updated for changes in the company's operational challenges and strategic objectives. The development and progression of potential internal candidates to succeed to the CEO and other senior executive positions should be regularly monitored.

### **Who should be responsible for succession planning?**

Ultimately, it is the board of directors' responsibility to ensure adequate succession planning. Most boards delegate this responsibility to one of the independent committees of the board, such as the compensation committee or the nominating committee. The CEO himself also is normally involved with respect to the development of other management personnel who have the potential to someday be CEO or serve in another high ranking management position. The CEO should report to the committee responsible for succession on a regular basis (usually once per year) on the progress made by other personnel. The committee in turn should annually report to the full board on any succession plan developments.

Not all aspects of the succession planning process need be formalized. Internal succession candidates can often be identified through direct interaction with the board in both business and social settings, which may help in determining whether these individuals

possess the necessary leadership skills and whether there would be good chemistry between these individuals and the board.

### **Conclusion**

Regardless of the size of the organization or the ages of the CEO and other senior executives, every company needs to plan for possible changes in its leadership. Good succession planning is not a one-time event - it is a continual process that should be revisited regularly by the board to address changes in the company's situation and strategic objectives, as well as to monitor the progress of possible internal candidates to succeed to the top positions.

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