

Podcast Summary: How Should Compensation Decisions Be Managed During CEO Transitions?

The podcast episode delves into the topic of CEO succession, specifically focusing on considerations for an incumbent CEO. While most boards invest significant effort in identifying and developing a successor for the CEO, they often overlook the transition of the existing CEO out of the role. The interview explores compensation considerations, timelines and potential transitional roles for the outgoing CEO to ensure a successful CEO succession.

The discussion starts with the relationship between executive compensation and CEO succession. Our guests emphasize that strong compensation programs are crucial in supporting and facilitating successful CEO transitions. Compensation plays a role both before and after the CEO leaves, incentivizing the right behaviors and promoting a positive relationship between the outgoing CEO and the company.

The podcast then delves into various transitional roles that an incumbent CEO might consider after stepping down. These roles include:

- *Retirement*: A planned exit without any ongoing service or relationship with the company.
- *Executive Chair*: The CEO becomes an employee in an executive chair role, with changed responsibility, often more involved in governance and board oversight.
- *Advisory Relationship*: The CEO maintains an advisory relationship with the company, providing access to their experience and expertise, typically for periodic meetings.
- *Non-Employee Director*: The outgoing CEO becomes a non-employee director on the company's board, fostering good governance and industry knowledge.

The guests highlight that these transitional roles have evolved over time. In the past, they were sometimes used as opportunities to provide additional pay to the CEO, but now they are seen as genuine roles that the board determines based on the company's needs.

When discussing executive chair roles, the compensation structure is often unique and varies case by case. Generally, there is a reduction in salary and target bonus; and long-term incentives (LTI) awards depend on the individual's responsibilities and needs. LTI is less prevalent in transitional roles due to the shorter engagement periods.

The interview also addressed potential pitfalls and considerations for boards during CEO transitions. The guests emphasize the importance of clearly defining retirement and involuntary termination to avoid conflicts or confusion about the treatment of equity awards. They caution against modifying in-flight awards when a CEO departs for retirement or voluntary resignation, as it can draw scrutiny from proxy advisors and institutional investors.

The podcast concludes with the importance of planning ahead for CEO succession. Timing is a crucial factor, and the more notice provided to all stakeholders, the smoother the transition will likely be. The guests also stress that the transitional role's duration should align with the new CEO's need for coaching and introductions, ensuring a gradual transition of responsibilities.

Overall, the podcast provides valuable insights into the crucial topic of CEO succession and highlights the significance of compensation considerations and effective planning in ensuring a successful transition for both the outgoing CEO and the company.