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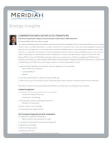

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COMPENSATION IMPLICATIONS OF CEO TRANSITIONS

Executive Compensation Plays an Important Role in Planning for CEO Transitions

Posted by Michael Brittian on March 17, 2014

It's no secret that CEO succession and transition planning has become an increasingly hot topic in the boardroom and a focus of outside investors. Board committees responsible for succession planning are including this topic as a part of the ongoing agenda throughout the year, and there is a greater focus on the compensation implications of CEO transitions. In recent years, we've observed numerous CEO transitions occurring within the industry at companies like Anadarko Petroleum, Devon Energy, and EOG Resources, to name a few.In an earlier Energy Insights post we discussed important considerations for hiring a new CEO. This post focuses on the transition of the existing CEO into other post-CEO roles.

Compensation issues are an important part of the Board's strategy around CEO succession planning, which should be considered *before* a CEO transition. A critical aspect of managing compensation issues with the outgoing CEO is establishing the post-CEO role and the timing and transition to that role. Key questions include:

- What role will the CEO take post-transition? – Chairman (executive or non-executive)?
  - Board member (non-chairman)?
  - Consultant/advisor?
  - Retiree?
- How will the CEO transition to his/her ultimate post-CEO role?
- What is the timing of the transition and how long will the CEO fill interim transition roles before his/her final post-CEO role?

Once CEO role transitions have been planned and established, the following should be evaluated and considered:

Transition Arrangements

- Executive chairman: salary, bonus, and future LTI awards?
  - Components, design and amounts
  - Relationshipto new CEO pay
- Non-executive chairman: board pay with premium?
  - Premium form and amount
- Board member: normal board pay?
- Consultant:fee and payment timing?

Post-Termination Arrangements and Other Considerations:

- Treatment of outstanding equity awards
  - When should the final annual grant be made?
- Implicationsof employment and severance arrangements
- Retirement plan benefits
- Other benefits/perquisites
- Disclosure implications

- How, when, and where will this be reported in the proxy?

Boards should have a clear understanding of incremental costs and disclosure implications associated with CEO transitions, which can often include:

- Post-termination pay and treatment of equity
- New hire CEO compensation (usually riskier and more expensive)
- Promotion or retention compensation for an internal candidate
- Cost of having separate CEO and executive chair roles

CEO transitions, particularly where the CEO is replaced by an external hire, can also create an environment of uncertainty for other senior executives. These individuals, often with concerns about job security, may require severance protection and/or special retention awards.

Boards need to plan ahead on the compensation implications of CEO transitions by understanding the post-termination treatment of the CEO's existing pay arrangements and thinking about potential post-CEO roles and associated compensation.