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# Executive Succession Planning, Retention, and the Role of Compensation

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Most companies today design and administer executive compensation programs which align with and reward executives for the achievement of the company's annual and longer-term business goals. The process of aligning executive pay with company performance includes identifying key financial, operational, and strategic performance measures which support the company's annual business plan and longer-term strategic plans and using those key measures—which also drive value creation—as key components of the annual and long-term executive incentive plans. Goals for the performance measures also are linked to the performance objectives within the company's business plans.

It is also essential to the design and administration of effective executive compensation programs to consider the company's human capital strategies and requirements—and more specifically executive retention and succession planning initiatives.

According to a recent study by Challenger, Gray & Christmas, Inc., CEO turnover is at its highest level since 2008. Much of this turnover is voluntary and includes retirements, voluntary resignations, and movement into another role within the company (e.g., executive chair of the board). Given this increase in CEO turnover, and the potential for turnover among other key executives in a tightening labor market, it is very appropriate—and indeed crucial—for companies to consider how their pay programs can reinforce executive retention to enable the company to achieve its annual and long-term business goals through a stable management team.

Examples of executive compensation plan components which can help a company achieve its retention objectives include:

- Multi-year performance periods for long-term incentives
- Multi-year payout periods following the end of annual or multi-year performance periods (e.g., three-year performance period, followed by a three-year payout period)
- Regular equity awards which vest over time (e.g., restricted stock) and reward executives for multi-year share price appreciation
- Judicious use of above-market compensation elements, such as base salaries, long-term incentive grants, and/or supplemental executive retirement benefits

- Supplemental equity grants which vest over multiple years
- Cash retention programs which pay out after a defined multi-year retention period

For each of the above compensation components, the amounts and vesting/payout periods can be tailored, based on the company's retention requirements for each executive identified as a retention risk. For executives planning to retire in the intermediate term, the vesting and payout periods for supplemental awards can be tailored to each executive's personal retirement timeframe.

Beyond retention of key executive talent, compensation program design can also reinforce the company's succession planning efforts by ensuring that individuals who are potential candidates to attain leadership roles within the company are rewarded appropriately given their performance and future potential with the organization. The retention elements outlined above are often used for executive succession candidates—ensuring they are paid at or above market overall not only makes them less likely to leave the organization for better compensation and promotional opportunities elsewhere but also sends a strong signal to these individuals that they are valued by the company, have significant advancement opportunities based on sustained high performance, and can be very successful within their current employer. Retention of these key succession candidates ensures continuity within the organization and avoids the disruption which may occur through unplanned executive turnover.

## About the Author

Ed is a consulting team leader with 25+ years advising boards and senior management on executive compensation for public and private companies to help design pay programs aligned with performance, governance, and stakeholder expectations.

## About Pearl Meyer

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