Director Notes

Preparing for a Succession Emergency

Learning from Unexpected CEO Departures

by Jason Schloetzer and Edward Ferris

Succession planning is one of a board's most important oversight responsibilities. Accordingly, a majority of corporate boards review the CEO succession planning process annually. However, emergency succession events, such as the unexpected departure or sudden death of a CEO, act as a "stress test" of companies' succession process and place considerable pressure on boards to act swiftly and decisively. A quick response can be problematic if the process lacks an emergency component or a succession-ready candidate. This report outlines common issues that arise during emergency successions, provides guidance on how to prepare for and respond to a succession crisis, and encourages boards to integrate succession planning into the company's crisis-preparedness process.

Current research suggests that directors' attention to CEO succession planning might be improving: 76 percent of S&P 500 companies in 2011 reported the existence of a long-term CEO succession plan, compared with 70 percent two years earlier.[1,2] However, many boards are not preparing for an unexpected CEO succession. Of the 76 percent of companies with a long-term succession plan, only 83 percent of these boards reported having an emergency succession component. Hence, nearly one-third of S&P 500 companies in 2011 may not have been prepared for an emergency CEO succession.[3] Emergency succession planning is important, as seven to 15 U.S. publicly traded companies experience the unexpected death of the CEO in any given year and many more grapple with an unexpected departure of their CEO.[4] For example, in February 2012, Micron Technology's CEO Steven Appleton, a stunt-plane pilot and former motocross racer, died from injuries sustained after the experimental aircraft he was flying crashed.[5] After his death, the board announced that D. Mark Durcan would be appointed as interim CEO and that the board would meet to discuss the succession plan. One day later, the board appointed Durcan as CEO.

No. DN-V5N3
FEBRUARY 2013

The Conference Board
Trusted Insights for Business Worldwide

This announcement came when, only days before his appointment, Micron announced that Durcan would soon retire from his position as chief operating officer and depart the company.[6] The recent swift departure of Yahoo's Scott Thompson and Citigroup's Vikram Pandit demonstrate how emergency successions act as a "stress test" of companies' CEO succession process and place considerable pressure on the board to assuage the fears of key stakeholders.

Still, a 2011 survey conducted by Pearl Meyer & Partners reported that 32 percent of director and executive respondents believed that their companies had not identified an emergency CEO who could serve on an interim basis.[7] In terms of public disclosure of emergency plans, at a time when investor groups have been lobbying extensively for more information regarding the succession planning process,[8] only 17 percent of the 100 largest U.S. companies specified in their proxy and governance statements that they had a plan or person at the ready in the event of a sudden CEO departure; 4 percent reported a stated plan for an interim CEO; 6 percent reported having written procedures in place; and 7 percent reported that a list of potential successors existed.[9]

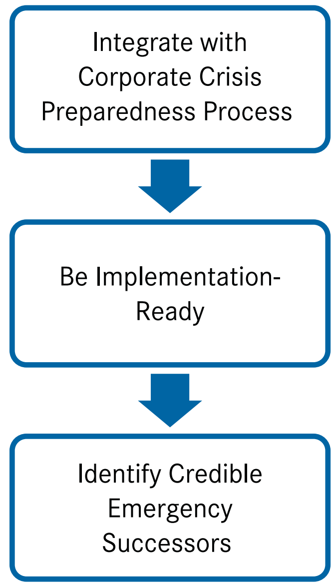
Research suggests that emergency CEO successions have a substantial impact on post-succession company performance. For example, consider the rare but important succession event of the sudden death of a CEO. Studies have found that such events are associated with an 18 percent decline in operating profitability, along with declines in asset growth and sales growth, in the year following the emergency succession.[10] Other studies have found that performance decline is associated with the length of time between the emergency succession event and the appointment of a permanent CEO, suggesting that the lack of preparedness for an emergency succession adversely affects company performance.[11] Data from 2012 shows large fluctuations in company stock prices in the days following a sudden CEO death, indicating that market participants view emergency successions as important events for the company (see Appendix).[12] All of this evidence suggests that a board's response to an emergency CEO succession can substantially affect company performance.

How can directors successfully respond to an emergency succession? As with many situations, careful preparedness is the key. Three steps can assist directors in preparing the board for an emergency CEO succession.

1. Recognize that an emergency CEO succession event is a corporate crisis. As such, contingency planning should be integrated into the corporate crisis-preparedness process.
2. Be implementation-ready.
3. Identify credible emergency successors in advance.

Figure 1

Emergency Succession Considerations



Integrate Emergency CEO Succession Planning with the Corporate Crisis-Preparedness Process

Astute directors recognize that preparing for an emergency CEO succession does not end when the board identifies a candidate. It is the manner in which directors communicate the details of the emergency succession plan to key stakeholders that will substantially shape observers' perceptions of the board's preparedness for the event (see "Emergency Succession Case Studies," pages 6-8). The importance of providing a timely and consistent message to stakeholders is a key reason boards should integrate emergency succession plans into the company's existing crisis preparedness process. Such integration will avoid the need for directors to "make it up" in the midst of an emergency that attracts immediate and intense stakeholder scrutiny.

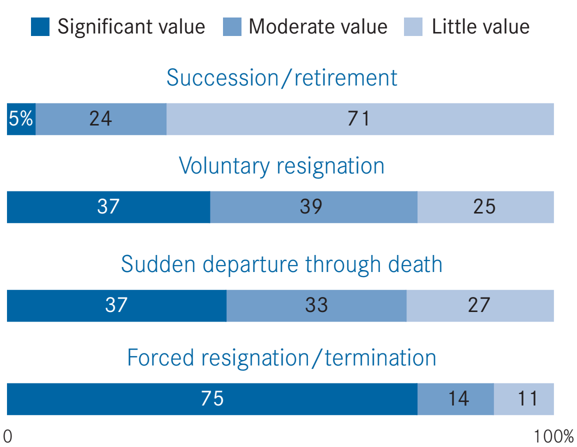
Crisis-preparedness processes are designed, in part, to protect corporate reputation. Reputational harm has a negative effect on enterprise value. For example, BP's market capitalization declined $100 billion following the 2010 Deepwater Horizon accident.[13] The high-profile, negative reputational impact sustained by companies such as News Corp (hacking scandal), Toyota (automobile recall mismanagement), AIG (Finance Product Unit's collapse), Domino's (YouTube video crisis), and the BBC (sexual abuse scandal) has emphasized the importance of corporate reputation management.[14]

In particular, companies are taking crisis preparedness far more seriously because, in the words of one reputation management expert, "It's not enough to have firefighters on call any more. Now you need to have a plan in place for a scenario that may or may not happen so that, when the scenario hits, your response can be instant[aneous]."[15]

Studies suggest that the period immediately following a CEO succession is associated with an increase in enterprise-value risk, particularly when the succession is unexpected (Figure 2).[16] This is not surprising since an emergency CEO succession shares some basic similarities with other major public-relations crises. For example, when Mark Hurd unexpectedly resigned from Hewlett-Packard, the board struggled to maintain a confident stance in the media (see "Meet the Press," p. 6). HP's market value fell by $10 billion, close to a 10 percent decline following Hurd's resignation. Nearly two months after Ken Lewis's sudden departure from Bank of America, an article in *USA TODAY* stated, "no one was surprised [by Lewis's departure]. Except, it seems, B of A's board of directors.…[T]he company still hasn't named a replacement. Shareholder groups are saying that it's a sign of weakness and unpreparedness on the part of the board, that it didn't have a succession plan in place despite clear signs that Lewis's job was under pressure for months."[17] Between September 30, 2009, and December 15, 2009, the period during which the company searched for Lewis's successor, its stock fell 10 percent while the Dow Jones Industrial Average rose nearly 8 percent.[18]

Figure 2

Company Value at Risk Based on Departing CEO Circumstances



Adapted from: "Communicating Critical Events: CEO Transitions and the Risk to Enterprise Value," FTI Consulting Strategic Communications Practice, October 2011.

Most companies have crisis-preparedness processes to manage disaster recovery, business continuity, and emergency response efforts. Such processes often include detailed plans for handling a wide range of corporate emergencies, including the loss of important computer systems and software failures, product defects that require immediate consumer recall, fires and explosions at key facilities, sabotage, cyber-attacks, health pandemics (e.g., "bird flu"), and terrorist attacks.[19] However, emergency CEO succession management is not an integral component of such plans. This is particularly surprising given that a recent study found that issues of CEO succession/resignation comprised the majority of the 22 areas in which companies reported having faced a corporate crisis.[20] Boards can become implementation-ready for an emergency succession by drawing upon the expertise and resources of company crisis management experts and external advisors. Step-by-step contingency planning should be supplemented by director training and crisis simulation exercises.

Be Implementation-Ready

The CEO succession plan should contain an emergency succession component, including the identification of a viable contingency successor. When an emergency succession event occurs, the board should be in a position to respond rapidly, stay in control of the situation, and smoothly manage the announcement and appointment of a successor.

To be implementation-ready, the succession plan should include a defined process and set of protocols that provide a step-by-step guide of what the board needs to do in the event of an emergency CEO succession event. The process should:

- Outline the formalities for emergency conference calls and board meetings to ensure compliance with appropriate state law, corporate governance policies, committee charters, and Regulation Fair Disclosure.
- Specify who has authority to take action (e.g., speak with the media or key stakeholders) prior to the board being able to assemble itself and discuss the situation. Sufficient training should be provided to prepare that person for those responsibilities. Generally, that individual would continue to act as company spokesperson throughout the emergency.
- Identify and have on call external advisors, such as PR, legal, and investor relations firms, to guide the board through the emergency. Likewise, early access to key internal executives, particularly those who interface with important stakeholder groups, will be crucial to navigate the company through a period of uncertainty.

- Maintain and regularly update a list of key stakeholders to be contacted in the event of a CEO succession emergency. That list will potentially include employees, labor unions, major shareholders, large customers, key suppliers, analysts, and media outlets. A plan for monitoring and managing various communication/media channels should also be documented, recognizing particularly the virulence of social media in such situations.
- Detail the press release or media interview approval process. Have preapproved templates for emergency-type press releases and different types of company statements. Appoint a director or senior manager with the responsibility to finalize the communiqués.

Consider the response of Sigma-Aldrich's board to the sudden death of its sitting CEO, Jai Nagarkatti, as described by his expeditiously appointed successor, Rakesh Sachdev:

> It was Saturday morning and I got a call from our general counsel to inform me of what had happened.…It was a very brief conversation because I had to shut my phone off. There were a lot of things racing through my mind as I flew back to St. Louis. By the time I landed, I wanted to call the board and discuss it with the board, which I did. To the board's credit, they had already met and they had made some decisions. I spoke with the board late into the night, and we had a plan. That's what happened.[21]

The succession plan was in place. The next morning (Sunday), the company issued a news release naming Sachdev as CEO of the $2.3 billion company and scheduled a conference call for Monday to address the situation publicly.[22]

Identify Credible Emergency Successors

Boards should always identify an emergency CEO successor as part of a contingency plan. Ideally, if called upon, this successor candidate would meet with the approval of key stakeholder groups and engender confidence in the quality of leadership continuity. When Hewlett-Packard's board replaced underperforming CEO Léo Apotheker after 10 months, its chosen successor, Meg Whitman, drew intense scrutiny by analysts.[23] Conversely, the Yahoo! board's appointment of Marissa Mayer appears to have galvanized stakeholder support, despite her lack of classic CEO credentials.[24]

As part of its planning, the board should assess likely stakeholder reaction to the appointment of an emergency succession candidate. Successors who are known and well-regarded by stakeholders will be better received than unknowns. For example, without formally revealing his successor-in-waiting status, Apple's board carefully groomed Tim Cook to succeed Steve Jobs, both in terms of business responsibilities and his exposure to stakeholders over a period of years. His eventual appointment as Jobs's successor appears to have been well-received by its stakeholders.[25] In contrast, Bank of American's choice of Brian Moynihan as CEO appears to have been less celebrated by analysts and industry insiders, many of whom reportedly viewed him as a distant fourth choice to replace Ken Lewis.[26]

Boards should not favor positive stakeholder reaction over the appointment of a successor candidate that meets the company's criteria.[27] Rather, directors should consider ways to promote the visibility of potential successors or interim candidates to facilitate a smooth appointment.

Emergency Hits

A board with a well-developed succession plan will have a defined profile of its next CEO that describes the future needs of the company and details the credentials, competencies, and operating style of a qualified CEO candidate, all projected out to a time when the next succession is anticipated. Potential candidates should be identified and engaged in a developmental process designed to provide the qualifications necessary to be ready to assume the CEO role at a point of planned transition.[28] If no internal candidates are likely to be ready in time, the plan should anticipate the future hiring and/or the potential apprenticeship hiring of an external candidate.[29]

Emergency CEO succession events disrupt the planned process. Unless the emergency occurs relatively close in time to a planned transition, candidates are likely to be *in process* ("CEO potential") rather than *in queue* ("ready now"). In this situation, the board will have to conduct a risk assessment for appointing an emergency CEO successor who is not "ready now." The key question will be, "Is our candidate ready enough to justify a permanent appointment?" The well-prepared board can conduct the risk assessment by comparing the previously mentioned CEO profile with the competencies and readiness of known and available candidates. If the risk is acceptable, then the board should build a support system around its new CEO that mitigates the risk of failure.

A support system might include:

- intensive development in specific areas of weakness;
- formalized executive/board member coaching;
- a temporary reallocation of some job responsibilities, while skills or experience deficiencies are addressed; and
- an onboarding process that intensifies the board's involvement and oversight through an extended assimilation period.

Should no permanent successor be ready or available, the board should appoint an interim CEO, such as an incumbent executive (chief financial officer, chief operating officer) or an available, qualified board member.[30,31] Ideally, the board has previously agreed on the criteria required for an interim appointment, identified interim candidates, completed the necessary background checks, and been reasonably assured that the interim candidate is available to serve for the duration of the development of a preferred internal CEO candidate or until the conclusion of a formal external CEO search. Just as in the case of a "nearly ready" appointment, the board will need to put in place a support system to underpin the interim appointee for the duration of the temporary appointment. In parallel, it should start the search for a permanent CEO candidate.

"Plan B"

Over-reliance on one candidate might be problematic if circumstances prevent his or her appointment. A senior executive may not want the CEO position when presented with the opportunity. According to a study by Burson-Marsteller, 64 percent of senior executives of Fortune 1000 companies said they have no desire to hold the CEO position.[32] A current director may find that other commitments (e.g., directorships, outside interests) prevent the acceptance of an interim appointment. Emergency successor candidates may also be removed from consideration due to resignation, scandal, disagreement, or ill health: Chris Kubasik of Lockheed,[33] David Sokol of Berkshire Hathaway,[34] Steven Sinofsky of Microsoft,[35] Charles Giancarlo of Cisco Systems,[36] Carsten Kengeter of UBS,[37] and David Pickersgill of the UK's Leeds Building Society[38] are recent examples. An emergency succession event is challenging enough without having to scramble to implement a "Plan B."

The Benefits of Integrating Emergency Succession Plan into Crisis Management Processes

The board can be prepared for an emergency CEO succession event by integrating sudden CEO departure situations into corporate crisis management planning and process. The benefits of integration are three-fold. First, to perform a "stress test" on the company's emergency succession preparedness, the board must define a succession management process and set of protocols that provide a step-by-step guide of what the board must do in the event of an emergency succession.

The second benefit of integration is that the board must identify a credible emergency successor in advance and periodically reassess the successor's ability to serve in an emergency situation. Finally, a board will be implementation-ready, able to respond rapidly, stay in control of the situation, and smoothly manage the announcement and appointment of a successor, helping to mitigate any negative effects on stakeholder reaction, market value, or company performance.

By viewing succession preparedness as part of the company's overall crisis-preparedness process, directors can avoid public missteps during a time of intense stakeholder scrutiny.

Meet the Press

On August 6, 2010, Hewlett-Packard (HP) announced that Chairman, CEO, and President Mark Hurd had resigned. Its release reported that Hurd's decision was made following an investigation by outside legal counsel and the general counsel's office, overseen by the board, of the facts and circumstances surrounding a claim of sexual harassment against Hurd and HP by a former contractor to HP. The release announced that CFO Cathie Lesjak had been appointed as CEO on an interim basis and that a search committee of the board of directors had been created. Lesjak was not a candidate for permanent CEO appointment.

At 6:00 PM ET that evening, HP director and search committee member Marc Andreessen was interviewed by Maria Bartiromo during a CNBC Special Report broadcast. During the interview, Andressen said:

> We will run a search as fast as we can, but ensuring we get the best possible candidate. We will look at both internal and external candidates in that process. We have just formed a committee, so work will begin on this immediately. But we're going to dive right into it. And, fundamentally, we're looking for someone who is outstanding, who we can pair up with a truly great company. The company is in great shape; it's extremely well positioned for the future. We're executing on the strategy. The performance is strong, so we're looking at someone who can both maintain that level of performance and then build on it.

HP's market value fell by $10 billion, close to a 10 percent decline following Hurd's resignation.

Sources: "HP CEO Mark Hurd Resigns; CFO Cathie Lesjak Appointed Interim CEO; HP Announces Preliminary Results and Raises Full-year Outlook," HP press release, August 6, 2010 (www.hp.com/hpinfo/newsroom/press/2010/100806a.html), accessed November 6, 2012; "CNBC's Maria Bartiromo Speaks with Hewlett-Packard Director Marc Andreessen Today on a CNBC Special Report," CNBC Transcript, published August 9, 2010 (www.cnbc.com/id/38344547/CNBC_EXCLUSIVE_CNBC_TRANSCRIPT_CNBC_S_MARIA_BARTIROMO_SPEAKS_WITH_HEWLETT_PACKARD_DIRECTOR_MARC_ANDREESSEN_TODAY_ON_A_CNBC_SPECIAL_REPORT), accessed November 6, 2012; Theo Vermaelen, "What's Your CEO Really Worth?" ChiefExecutive.net, March 4, 2011 (http://chiefexecutive.net/whats-your-ceo-really-worth), accessed November 6, 2012.

No Name in the Envelope

On July 12, 2010, the board of directors of Paychex Inc. announced the unexpected resignation of Jonathan Judge—the company's president and CEO of nearly six years—to pursue other interests. The announcement indicated that Judge, who had joined Paychex in October 2004 as the company's second president and CEO in nearly 40 years, would leave on July 31, 2010, but complete his term as a member of the board of directors. The news was revealed while Judge was reportedly away on what the company said was a previously scheduled vacation. Paychex founder and Chairman Thomas Golisano was quoted as saying he had no indication that the resignation was coming.

The sudden departure came just weeks after the company said its fiscal 2011 earnings would likely fall short of expectations and followed what Judge described in an earnings release as a "challenging year" that saw the company's total revenue decrease by 4 percent.

Judge had joined Paychex as Golisano's successor after a stint as president and CEO at software maker Crystal Decisions Inc. and a 25-year career at IBM. Golisano credited Judge with guiding the company's revenue growth from $1.4 billion to $2 billion during his tenure, strengthening management practices, overseeing key technology advances in its payroll and HR offerings, and entering successfully into the health and benefits business. In a statement, Judge said he had decided it was "a good time for me to move on to my next challenge."

The board immediately began the search for a successor and, in the interim, created a three-member executive committee to lead the company, overseen by the board and Golisano, comprising Delbert Humenik, senior vice president of sales and marketing; John M. Morphy, senior vice president, chief financial officer, and secretary; and Martin Mucci, senior vice president of operations.

On September 30, the board named Mucci to succeed Judge as president and CEO. The company reported that Mucci was unanimously selected from a broad base of internal and external candidates. Paychex's stock price, which had recovered to a share price ranging between $29 and $33 after the financial crisis, dropped to below $25 and stayed comparatively low during the three-month period.

Note: This case study first appeared in Schloetzer, Tonello, and Aguilar, *CEO Succession Practices: 2011 Edition*.

Sources: "Paychex President and Chief Executive Officer Resigns," Paychex press release, July 12, 2010; "CEO Steps Down at Golisano's Paychex Inc.," *Associated Press*, July 12, 2010; "Paychex Names Martin Mucci President and Chief Executive Officer," Paychex press release, September 30, 2010; "Corporate Governance Guidelines," Paychex Inc. undated (investor.paychex.com/governance/guidelines.aspx); Paychex proxy statement, filed September 3, 2010 (investor.paychex.com/sec.aspx); and Paychex's annual report (Form 10-K), filed on July 16, 2010.

What's the Real Story?

On October 25, 2011, First Solar Inc. suddenly announced that Robert Gillette would step down as CEO after just two years on the job and named founder and chairman Michael Ahearn to serve as interim CEO, effective immediately.

A press release stated that Gillette "is no longer serving as chief executive officer, and the board of directors thanks him for his service to the company," but offered no other explanation for his departure. The board said it had formed a search committee to initiate a search for a permanent chief executive.

The lack of an explanation for Gillette's departure sent the company's stock price tumbling to a new low and left analysts wondering if his abrupt exit was the sign of larger problems at the company, which had already seen two high-level executives depart in the prior six months: Bruce Sohn, president of operations, left the company in April and was not replaced. Jens Meyerhoff, president of First Solar's utility systems business group and former CFO, left in September.

Gillette had joined First Solar in September 2009, after more than 10 years at Honeywell, where he had most recently served as CEO and president of Honeywell Aerospace. He was named to succeed Ahearn as CEO after a nearly five-month search. First Solar had announced its search for a new CEO in April 2009 so that Ahearn, who would remain as executive chairman of the board, could focus his efforts full-time on the development of public policies needed for the global transition to low-carbon energy infrastructures. Ahearn transitioned from executive chairman to board chairman in January 2011.

Ahearn, chairman and managing partner of True North Venture Partners, L.P., a venture capital firm he launched in 2011, had served as First Solar CEO from August 2000 through September 2009, and as executive chairman from October 2009 through December 2010. In an October 26 press release announcing the company's third-quarter results, Ahearn commented on Gillette's departure: "We thank Rob for his service, but the board of directors believes First Solar needed a leadership change to navigate through the industry turmoil and achieve our long-term goals."

While one analyst said Ahearn "allayed market fears that there was some sort of scandal," another noted that, "Although the rationale may make sense, investors are likely to still question the timing of the announcement and the way this news was handled. Besides, there is no CEO succession plan and finding a new CEO in this environment could prove to be challenging." Yet another analyst suggested that Gillette's strategy of boosting production at a time when demand and prices for solar panels were falling "may have been the wrong strategy."

A Form 8-K filed on November 21, 2011, noted that Gillette resigned from the board, effective October 25, 2011, in accordance with the terms of his employment agreement. James Hughes, who originally joined First Solar in March 2012 as chief commercial officer, was appointed chief executive officer in May 2012. First Solar's stock was trading at $137 when Gillette departed; at the time of this writing, the stock was trading in the $20 range.

Note: This case study first appeared in Schloetzer, Tonello, and Aguilar, *CEO Succession Practices: 2012 Edition*.

Sources: "First Solar Announces Chairman Michael Ahearn to Serve as Interim CEO," First Solar press release, October 25, 2011; "First Solar Announces Third Quarter 2011 Financial Results," First Solar press release, October 26, 2011; First Solar Form 8-K, filed October 31, 2011; "First Solar Climbs as Ahearn Steps in as CEO, Cuts Spending," *Bloomberg*, October 26, 2011; Eric Rosenbaum, "First Solar CEO Gillette Leaving, Shares Collapse," *TheStreet.com*, October 25, 2011(www.thestreet.com/story/11288164/1/first-solar-ceo-gillette-leaving-chairman-takes-reins.html), accessed November 8, 2012; First Solar proxy statement, April 13, 2011; First Solar Annual Report (Form 10-K), February 28, 2011; First Solar Form 8-K/A November 21, 2011; "First Solar Announces Departure of Bruce Sohn," First Solar press release April 13, 2011; "First Solar Announces Departure of Jens Meyerhoff," First Solar press release, August 16, 2011; "First Solar Announces Robert J. Gillette as CEO," First solar press release September 3, 2009; "Corporate Governance Guidelines," First Solar (www.firstsolar.com/Corporate/Corporate-Governance).

Keep Calm and Carry On

Early Thursday morning on July 17, 1994, Bailey Thomas, the chairman and chief executive of McCormick & Co. Inc., the world's largest spice company, died of a heart attack. Thomas, 63, who had aggressively moved the company into the international arena since becoming its head on January 1, 1993, died at his home. He had served as CEO for about 18 months. H. Eugene Blattman, 58, the president and chief operating officer of the company, stepped in as acting CEO, a moved described as "keeping with a tradition dating back to the 1930s."

"No one in the world knew more about the spice business than Bailey Thomas," noted a financial analyst following Thomas's death. Referred to as the "Spicemeister," Thomas knew the spice business inside and out and had a global vision for McCormick that fueled rapid growth. The company's profits tripled and its stock price quadrupled while he served as chief operating officer and chief executive officer. He played a major role in leading the company to its most profitable years ever and a commitment to major global expansion. His sense of humor lead one corporate manager to view Thomas as "the embodiment of McCormick culture." The company's annual report filed with the U.S. Securities and Exchange Commission included a dedication to his numerous business accomplishments during his 33-year career at the company.

As a result of its untimely loss, Charles P. McCormick, Jr., who had been serving as chairman emeritus, returned as chairman of the board. Five days after Thomas's death, Blattman was promoted to president and CEO and retained the title of president and COO. This set in motion what appears to be a rather orderly, methodical five-year management transition.

In 1995, the company appointed Robert Lawless as executive vice president and chief operating officer. In 1996, Blattman retired from the CEO position and Lawless was named president and COO. In 1997, Lawless became president, chief executive officer and COO, and, in 1999, was elected chairman, president and chief executive officer. McCormick did not lose any momentum during this transition period, as its stock price increased nearly 50 percent, meeting or exceeding the total shareholder return of its major competitors.

Sources: "Bailey Thomas, 63, McCormick CEO," ***The Baltimore Sun***, July 17, 1994 (http://articles.sun-sentinel.com/1994-07-17/news/9407160288_1_world-s-largest-spice-mccormick-bailey-thomas), accessed November 28, 2012; Ross Hetrick, "Thomas, CEO of McCormick, Fatally Stricken," ***The Baltimore Sun***, July 14, 1994 (http://articles.baltimoresun.com/1994-07-14/news/1994195183_1_mccormick-felton-thomas), accessed November 28, 2012; "Spicemeister," ***The Baltimore Sun***, July 16, 1994 (http://articles.baltimoresun.com/1994-07-16/news/1994197026_1_bailey-thomas-baltimore-and-maryland-mccormick), accessed November 28, 2012; Form 10-K, McCormick & Company, filed February 21, 1995 (http://www.sec.gov/Archives/edgar/data/63754/0000063754-95-000006.txt), accessed November 28, 2012.

Tragedy Strikes

In December 1980, a fire broke out in the Stouffer's Inn in Westchester County, NY, killing 13 senior executives of Arrow Electronics Inc., then the nation's second-largest electronics distributor. Arrow had recently listed on the New York Stock Exchange and completed its first major industry acquisition when the fire occurred. Among the dead were Arrow's board chairman, CEO, and 11 senior executives and directors.

John Waddell, a member of the private investor group that bought control of Arrow in 1968, assumed leadership and, in 1982, recruited Stephen Kaufman to join Arrow as president of the company's Electronics Distribution division. Kaufman eventually succeeded Waddell as CEO in 1986 and as chairman in 1994.

During Kaufman's nearly two decades of service, he led Arrow's consolidation of the U.S. electronics distribution industry and the company's expansion in Europe and the Asia-Pacific region, completing more than 50 acquisitions during his tenure. Kaufman stepped down as CEO in 2000 and retired as chairman in 2002. Appointing Waddell as interim CEO while transitioning to Kaufman as permanent CEO after the loss of Arrow's top management team provides an incredible example of management's ability to navigate the company through a major leadership emergency.

Source: Corporate history of Arrow Electronics, www.arrow.com/about_arrow/innovations.html, last accessed on December 14, 2012.

APPENDIX

CEO Deaths: Succession Timeline and Stock Market Reaction

Company	CEO	Date of Death	Age	Tenure as CEO	Cause	Stock Price Change on Death	Days until Successor	Successor	Stock Price Change on Successor
Micron Technologies	Steven Appleton	Feb. 3 2012	51	12	Plane crash	-2.8%	2 days	Internal	-2.8%*
Sigma-Aldrich	Jai Nagarkatti	Nov. 13 2010	63	4	Heart attack	-1.0%	1 day	Internal	-1.0%*
McDonald's	Jim Cantalupo	Apr. 19 2004	60	1	Heart attack	-2.6%	0 days	Internal	-2.6%*
Dana Corp.	Joseph Magliochetti	Sep. 22 2003	61	4	Pancreatitis	1.6%	135 days	External	-0.2%
Triangle Pharmaceutical	David Barry	Jan. 28 2002	58	7	Heart attack	1.0%	189 days	External	0.7%
Atlas Air	Michael Chowdry	Jan. 24 2001	45	9	Plane crash	-4.9%	1 day	Internal	-4.9%*
Park Place Entertainment	Arthur Goldberg	Oct. 19 2000	58	10	Bone marrow failure	-6.4%	4 days	Internal	0.9%
Herbalife	Mark Hughes	May 21 2000	44	20	Overdose	-12.0%	16 days	Internal	-3.2%
Wendy's	Gordon Teter	Dec. 18 1999	58	5	Heart attack	0.3%	89 days	Internal	-7.8%
Cott Corp.	Gerald Pencer	Feb. 3 1998	52	9	Cancer	8.1%	129 days	External	6.5%
Texas Instruments	Jerry Junkins	May. 29 1996	58	11	Heart attack	-1.8%	26 days	Internal	-0.2%
McCormick & Co.	Bailey Thomas	Jul. 14 1994	63	2	Heart attack	-3.7%	5 days	Internal	1.0%

* Indicates that the announcement of the successor occurred on the first trading day following the death of the CEO. In these cases, the stock market change reflects the *combined* reaction to the announcements of the CEO's death and the appointment of the successor.

Source: Research by the authors. Share price information from Center for Research Security Prices (University of Chicago) and Yahoo! Finance.

Source: David Larcker and Brian Tayan, "Sudden Death of a CEO: Are Companies Prepared when Lightning Strikes?" *Stanford Graduate School of Business*, March 6, 2012.

Endnotes

1 2011 Spencer Stuart Board Index, Spencer Stuart (http://content.spencerstuart.com/sswebsite/pdf/lib/SSBI2011.small022212.pdf), accessed November 8, 2012.

2 2009 Spencer Stuart Board Index, Spencer Stuart (http://content.spencerstuart.com/sswebsite/pdf/lib/ssbi2009.pdf), accessed on November 8, 2012.

3 2011 Spencer Stuart Board Index and 2009 Spencer Stuart Board Index.

4 Kenneth Borokhovich et al., "The Importance of Board Quality in the Event of a CEO Death," *Financial Review* 41, No. 3, August 2006, pp. 307–337.

5 "Steven R. Appleton, head of Micron Technology, dies at 51," *Washington Post,* February 3, 2012 (http://articles.washingtonpost.com/2012-02-03/business/35444951_1_stunt-plane-plane-crash-micron-technology).

6 See Melissa Aguilar, "CEO Succession Planning: Current Developments, Shareholder Activism, and Disclosure Practices," *Director Notes*, The Conference Board, June 2012, for details on current trends in CEO succession planning.

7 Cited in Susan Battley, "How Citigroup Handled the Vikram Pandit Ouster, and What It Says About Succession Planning," *Forbes*, October 19, 2012 (www.forbes.com/sites/forbesleadershipforum/2012/10/19/how-citigroup-handled-the-vikram-pandit-ouster-and-what-it-says-about-succession-planning), accessed November 8, 2012.

8 Edward Ferris and Justus O'Brien, "Examining the Impact of SEC Guidance Changes on CEO Succession Planning," *Director Notes*, The Conference Board, April 2010.

9 *Smooth CEO successions: Lessons in passing the baton,* Korn/Ferry International, October 11, 2012 (www.kornferryinstitute.com/reports-insights/kornferry-market-cap-100-smooth-ceo-successions), accessed December 8, 2012.

10 Morten Bennedsen, Francisco Perez-Gonzalez, and Daniel Wolfenzon, "Do CEOs Matter?," NYU Working Paper No. FIN-06-032, October 2006, available at http://ssrn.com/abstract=1293659.

11 Bruce Behn et al., "Deaths of CEOs: Are Delays in Naming Successors and Insider/Outsider Succession Associated with Subsequent Firm Performance?" *Journal of Managerial Issues,* Vol. 18, No. 1, Spring 2006, pp. 32–46.

12 Timothy Quigley, "The Changing Value of CEOs: Evidence from Market Reaction to Unexpected CEO Death, 1950–2009," Unpublished Working Paper, Lehigh University, 2012.

13 "Corporate Crisis Management on the Rise," *Bloomberg TV*, March 26 2012 (www.bloomberg.com/video/88996975-corporate-crisis-management-on-the-rise.html), accessed on November 27, 2012.

14 Josh Halliday, "News Corp: Phone-Hacking Scandal Could 'Impair' Business," *The Guardian*, August 18, 2011 (www.guardian.co.uk/media/2011/aug/18/news-corp-phone-hacking-scandal); Michael Connor, "Toyota Recall: Five Critical Lessons," *Business Ethics*, January 31, 2010 (http://business-ethics.com/2010/01/31/2123-toyota-recall-five-critical-lessons); Gretchen Morgenson, "Behind Insurer's Crisis, Blind Eye to a Web of Risk," *New York Times*, September 27, 2008 (www.nytimes.com/2008/09/28/business/28melt.html?pagewanted=all); Stephanie Clifford, "Video Prank at Domino's Taints Brand," *New York Times*, April 15, 2009 (www.nytimes.com/2009/04/16/business/media/16dominos.html?_r=0); "BBC Sex Abuse Scandal May Upend the Iconic Company," *Associated Press*, November 10, 2012 (www.cbsnews.com/8301-202_162-57548182/bbc-sex-abuse-scandal-may-upend-the-iconic-company). All websites accessed November 27, 2012.

15 "Corporate Crisis Management on the Rise," *Bloomberg TV*, 2012.

16 "Communicating Critical Events: CEO Transitions and the Risk to Enterprise Value," FTI Consulting Strategic Communications Practice, October 2011.

17 Pallavi Gogoi, "CEO Succession Plan a Mystery at Bank of America," *USA TODAY*, November 12, 2009 (http://usatoday30.usatoday.com/money/industries/banking/2009-11-12-bankofamerica12_ST_N.htm), accessed November 27, 2012. See also, Benjamin F. Carlson, "The Bungled Departure of Ken Lewis," *The Atlantic Wire*, October 5, 2009 (www.theatlanticwire.com/business/2009/10/the-bungled-departure-of-ken-lewis/26809/), accessed November 27, 2012.

18 Yan Zhang and Nandini Rajagopalan, "CEO Succession Planning: Finally at the Centerstage of the Boardroom, *Business Horizons* Vol. 53, No. 5, pp. 455–462, October 2010 (www.owlnet.rice.edu/~yanzh/BH2010_CEO%20succession%20planning.pdf), accessed November 27, 2012.

19 See "Disaster Preparedness Planning: Maintaining Business Continuity During Crisis, Disruption and Recovery," JP Morgan Chase & Co., 2009; (https://www.chase.com/online/commercial-bank/document/Perspective_DisasterPreparedness.pdf), accessed November 28, 2012.

20 PriceWaterhouseCoopers, "Lead Directors: A Study of Their Growing Influence and Importance," April 2010.

21 Mark Scott, "How Rakesh Sachdev Stepped Up When Sigma-Aldrich Needed His Leadership The Most," *Smart Business*, March 1, 2012 (www.sbnonline.com/2012/03/how-rakesh-sachdev-stepped-up-when-sigma-aldrich-needed-his-leadership-the-most), accessed December 5, 2012.

22 Ibid.

23 Poornima Gupta and Peter Henderson, "HP names Whitman CEO, Apotheker Out," *Reuters*, September 22, 2011 (www.reuters.com/article/2011/09/22/us-hp-idUSTRE78K40I20110922), accessed November 8, 2012.

24 John Furrier, "Marissa Mayer's Upcoming PR Play: Build CEO Brand, Talk Yahoo Turnaround," *Forbes*, November 8, 2012, (www.forbes.com/sites/siliconangle/2012/11/08/analysis-the-yahoo-turnaround-and-the-packaging-of-marissa-mayer-silicon-valley-tech-athlete/), accessed November 8, 2012.

25 Geoffrey A. Fowler, "Apple Must Face Rivals Without Its Guru," *Wall Street Journal*, October 5, 2011 (http://online.wsj.com/article/SB10001424052970203388804576613694053580586.html).

26 David Weidner, "Bank Of America CEO Just Can't Win," *MarketWatch*, September 20, 2012 (http://articles.marketwatch.com/2012-09-20/commentary/33965071_1_bank-of-america-ceo-chief-executive-brian-moynihan-jamie-dimon), accessed December 8, 2012.

27 See James M. Citrin, "When Naming a CEO, Ignore the Market Reaction," *Harvard Business Review*, January–February 2012.

28 See Ferris and O'Brien, "Examining the Impact of SEC Guidance Changes on CEO Succession Planning," *Director Notes,* p. 9.

Endnotes (continued)

29 For examples of apprenticeship strategies, see Jason Schloetzer, Matteo Tonello, and Melissa Aguilar, *CEO Succession Practices: 2012 Edition*, The Conference Board, Research Report 1492, April 2012.

30 For example, AMD's appointment of CFO Thomas Seifert as interim CEO following the resignation of Dirk Meyer in January 2011. The company ultimately selected Rory Reed, an external candidate from Lenovo, as permanent CEO in August 2011.

31 See "Sheehan Named Interim Chairman, President and CEO of Flowserve," Business Wire, April 4, 2005; (www.businesswire.com/news/home/20050404006009/en/Sheehan-Named-Interim-Chairman-President-CEO-Flowserve), last accessed on December 5, 2012.

32 See "Who Me, CEO? Why Senior Executives Don't Want To Pursue The Corner Office" (www.burson-marsteller.com/Newsroom/Lists/PressReleases/DispForm.aspx?ID=359), November 15, 2005, accessed January 31, 2013. See also Eleanor Mills, "City Elite Wheel Away from FTSE Highway," *Sunday Times* [London (UK)] December 4, 2011.

33 Agustino Fontevecchia, "Lockheed CEO-Elect Kubasik Fired Over Improper Relationship with Female Subordinate," *Forbes*, November 9, 2012 (www.forbes.com/sites/afontevecchia/2012/11/09/lockheed-ceo-elect-kubasik-fired-over-relationship-with-subordinate/), accessed December 8, 2012.

34 Ben Protess and Susanne Craig, "Abrupt Exit for a Top Deputy to Warren Buffett," *New York Times,* March 30, 2011 (http://dealbook.nytimes.com/2011/03/30/sokol-resigns-from-berkshire-hathaway), accessed December 8, 2012.

35 Bill Rigby, "Microsoft's Windows Head, Once a Possible CEO, Exits," *Reuters*, November 13, 2012 (www.reuters.com/article/2012/11/13/us-microsoft-windows-sinofsky-idUSBRE8AC02Z20121113), accessed December 8, 2012.

36 "Cisco's Heir-Apparent Charles Giancarlo Resigns," *Associated Press*, December 20, 2007(http://usat.ly/VEYpA2), accessed December 8, 2012.

37 Deborah Ball and Dana Cimilluca, "CEO Heir Not Apparent – Head of UBS Investment Banking Division No Longer Seen As Choice for Top Job," *Wall Street Journal*, September 16, 2012 (http://online.wsj.com/article/SB10001424053111904491704576575080514664342.html), accessed December 8, 2012.

38 Paul Thomas, "Leeds Seeks Chief As Favoured Candidate Falls Ill," *Money Marketing*, June 23, 2011 (www.moneymarketing.co.uk/mortgages/leeds-seeks-chief-as-favoured-candidate-falls-ill/1033249.article), accessed December 8, 2012.

About the Authors

Jason D. Schloetzer is an assistant professor of accounting at the McDonough School of Business, Georgetown University. His research focuses on the monitoring and control mechanisms used to manage the modern organization. This includes examining issues related to the design, implementation, and performance consequences of performance measurement/management systems and corporate governance practices. He has published in leading academic accounting journals, including *Journal of Accounting Research* and *The Accounting Review*, and is co-author of The Conference Board's annual *CEO Succession Practices* research report. He was recently named a "Person to Watch" by the National Association of Corporate Directors. Schloetzer received his Ph.D. from the Joseph M. Katz Graduate School of Business, University of Pittsburgh.

Edward Ferris is managing partner at Charlesmore Partners International, where he works closely with CEOs and boards on organizational strategy, executive development and CEO succession planning. Previously, he held executive human resource positions at ABB, General Signal Corporation, and Del Global Technologies Corp. Ferris is a graduate of The Chartered Institute of Personnel and Development in London, England, and teaches organizational change and global leadership at The New School University's Milano School of International Affairs, Management and Urban Policy in New York City and at DeSales University in Center Valley, PA.

About Director Notes

Director Notes is a series of online publications in which The Conference Board engages experts from several disciplines of business leadership, including corporate governance, risk oversight, and sustainability, in an open dialogue about topical issues of concern to member companies. The opinions expressed in this report are those of the author(s) only and do not necessarily reflect the views of The Conference Board. The Conference Board makes no representation as to the accuracy and completeness of the content. This report is not intended to provide legal advice with respect to any particular situation, and no legal or business decision should be based solely on its content.

About the Series Director

Matteo Tonello is managing director of corporate leadership at The Conference Board in New York. In his role, Tonello advises members of The Conference Board on issues of corporate governance, regulatory compliance, and risk management. He regularly participates as a speaker and moderator in educational programs on governance best practices and conducts analyses and research in collaboration with leading corporations, institutional investors, and professional firms. He is the author of several publications, including *Corporate Governance Handbook: Legal Standards and Board Practices*, the annual *U.S. Directors' Compensation and Board Practices* and *Institutional Investment* reports, and *Sustainability in the Boardroom.* Recently, he served as the co-chair of The Conference Board Expert Committee on Shareholder Activism and on the Technical Advisory Board to The Conference Board Task Force on Executive Compensation. He is a member of the Network for Sustainable Financial Markets. Prior to joining The Conference Board, he practiced corporate law at Davis, Polk & Wardwell. Tonello is a graduate of Harvard Law School and the University of Bologna.

About the Executive Editor

Melissa Aguilar is a researcher in the corporate leadership department at The Conference Board in New York focusing on issues of corporate governance, regulatory compliance, and risk management. Prior to joining The Conference Board, she was a contributor for more than five years at *Compliance Week,* where she reported on a variety of corporate governance topics, including proxy voting developments, executive compensation, risk management and shareholder activism. Her work has also appeared in Bloomberg's Bloomberg Brief Financial Regulation newsletter. Previously she held a number of editorial positions at SourceMedia Inc. Aguilar is a graduate of Binghamton University.

About The Conference Board

The Conference Board is a global, independent business membership and research association working in the public interest. Our mission is unique: to provide the world's leading organizations with the practical knowledge they need to improve their performance *and* better serve society. The Conference Board is a nonadvocacy, not-for-profit entity, holding 501(c)(3) tax-exempt status in the United States of America.

For more information on this report, please contact:
Melissa Aguilar, researcher, corporate leadership at 212 339 0303 or melissa.aguilar@conferenceboard.org

THE CONFERENCE BOARD, INC. www.conferenceboard.org

AMERICAS +1 212 759 0900 / customer.service@conferenceboard.org

ASIA-PACIFIC +65 6325 3121 / service.ap@conferenceboard.org

EUROPE/AFRICA/MIDDLE EAST +32 2 675 54 05 / brussels@conferenceboard.org

SOUTH ASIA +91 22 23051402 / admin.southasia@conferenceboard.org

THE CONFERENCE BOARD OF CANADA +1 613 526 3280 / www.conferenceboard.ca