



Boardroom Fundamentals 101

Module 3: The Board's Duty to Select the CEO

Prepared by
Linda Iannone

RELATIONSHIP OF THE BOARD AND THE CEO

- CEO reports to the Board
- Key role of the Board is the selection, evaluation, compensation and removal of the CEO
- Since the CEO is often a member of the board, evaluations and discussions of the CEO should be handled in executive session or by the independent Compensation Committee
- Board members should have access to the CEO at any time to discuss the company's business



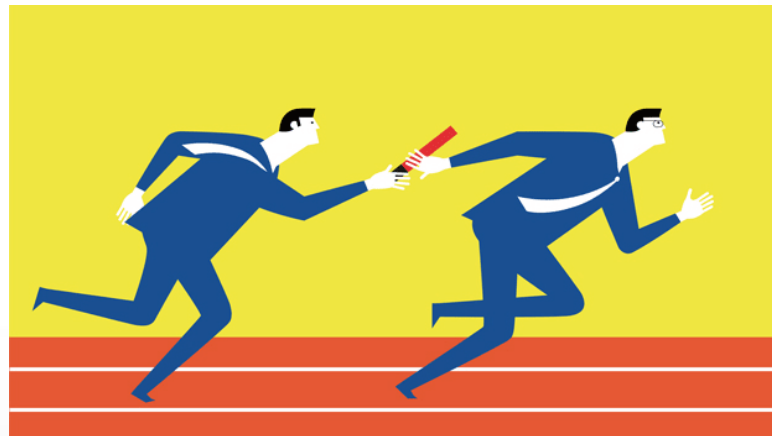
CEO SELECTION, EVALUATION AND REMOVAL

- Board's selection of the CEO can involve promoting an internal candidate or seeking outside candidates with the skill, expertise and knowledge to lead the organization
- At a minimum, the Board should annually review the performance of the CEO through a written evaluation process that is verbally conveyed to the CEO
- If a CEO's performance is not satisfactory, the Board is responsible for removing the CEO
- Depending on the terms of any employment contract, severance payments may be owed to the CEO upon termination



SUCCESSION PLANNING

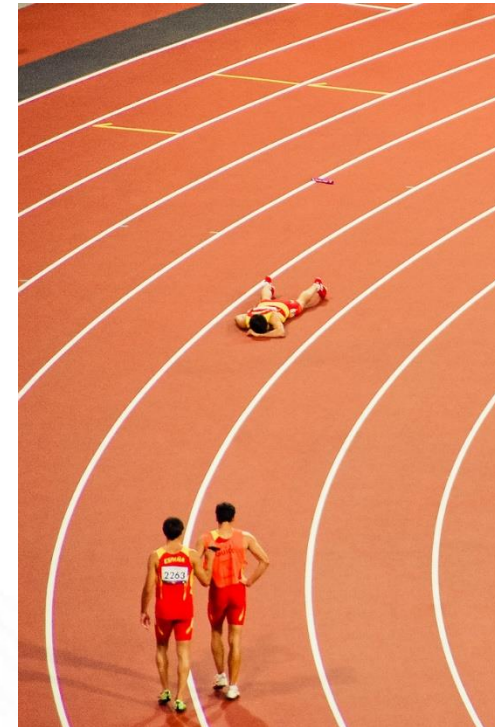
- Board is responsible for establishing a CEO succession plan and overseeing the management succession plan
- These plans should be designed to ensure the stability and continued successful operation of the business in the ordinary course and in the event of an emergency
- This function can be delegated to the Compensation Committee, with input and concurrence of the full Board



SUCCESSION PLANNING (CON'T)

Failure to ensure smooth transitions during executive changes may result in

- embarrassing media attention
- fall in share price
- shareholder unrest
- derailed strategic plans
- unexpected and outsized recruitment expenditures
- negative impact on morale
- defection of executives



EXECUTIVE COMPENSATION

- Boards, usually through the Compensation Committee, set annual performance goals for the CEO and annually evaluate the CEO's success in achieving these goals
- Based on the evaluation, the Compensation Committee determines the CEO's salary and any incentive compensation awards
- Compensation Committees may engage expert compensation consultants to assist in establishing compensation plans for the CEO and executive team
- Extensive and detailed disclosures about executive compensation are required in the company's proxy statement
- Executive compensation has become an area of intense scrutiny by shareholders and regulators with emphasis on ensuring that compensation reflects the performance of the company, aligns with shareholder interests and avoids excessive risk-taking



COMPENSATION
PACKAGE

ELEMENTS OF EXECUTIVE COMPENSATION



- Base salary
- Bonuses
- Stock options
- Restricted stock or other types of equity-based awards
- Long-term payouts based on attainment of goals over time
- Executive retirement plans (such as SERPs)
- Payments due to a change in control or termination of employment
- Perquisites (for example, automobile and cell phone allowances, access to company-owned aircraft, contributions to 401(k)s or deferred compensation plans, life and health insurance or professional tax and financial advisors)

QUESTIONS?

Contact Linda via email → lindaiannone35@gmail.com

END OF MODULE 3



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