

SPEAKERS:

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2006 CEO Succession

The Era of the Inclusive CEO



strategy+business

Booz | Allen | Hamilton

Today's speakers



Steven B. Wheeler
Senior Vice President
Cleveland



Chuck Lucier
Senior Vice President Emeritus
New York

BAH Annual CEO Succession Study – Looking back at the careers of departing CEOs

- ▶ Identify the world’s largest 2500 companies by market capitalization



- ▶ Track CEO departures over the year for each of the companies in the data set



- ▶ Investigate departure details:
 - Planned
 - M&A
 - Forced



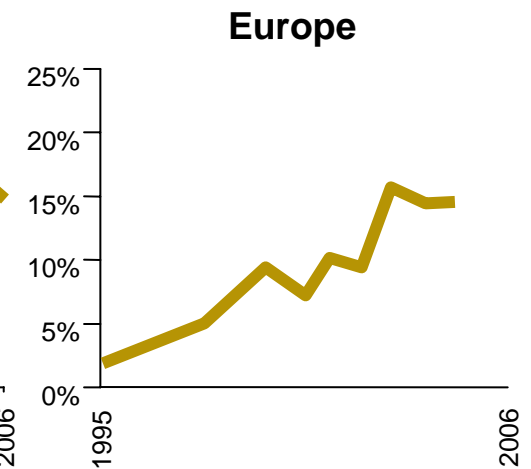
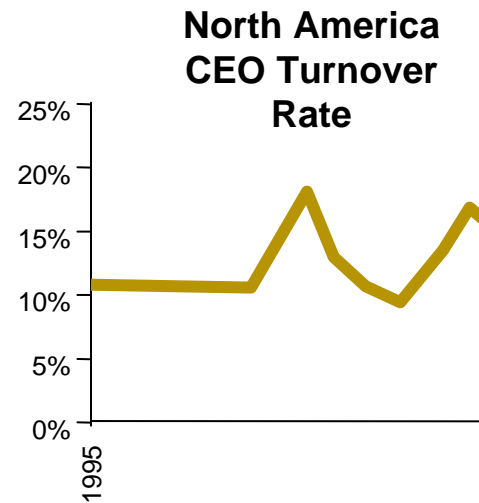
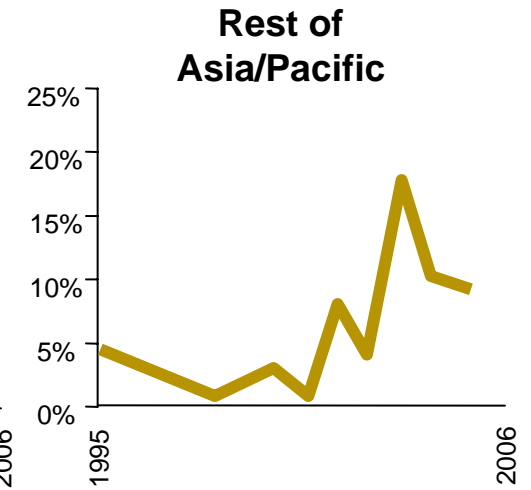
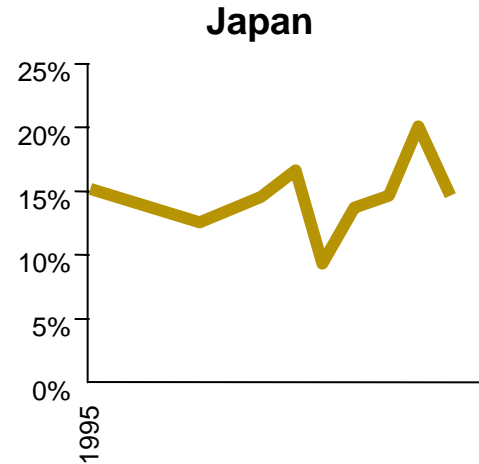
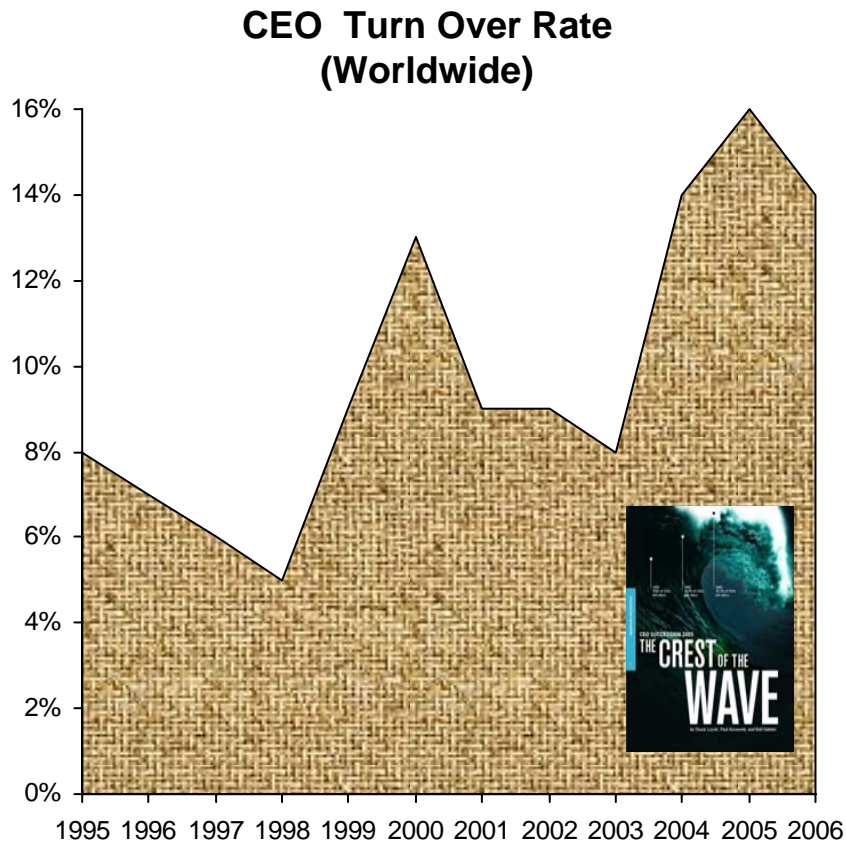
- ▶ Qualify departing CEO ‘demographic’ information
 - Tenure
 - Education
 - Age
 - Company Insider v Outsider



- ▶ Determine CEO success level
 - Success over tenure based on regionally adjusted TSR

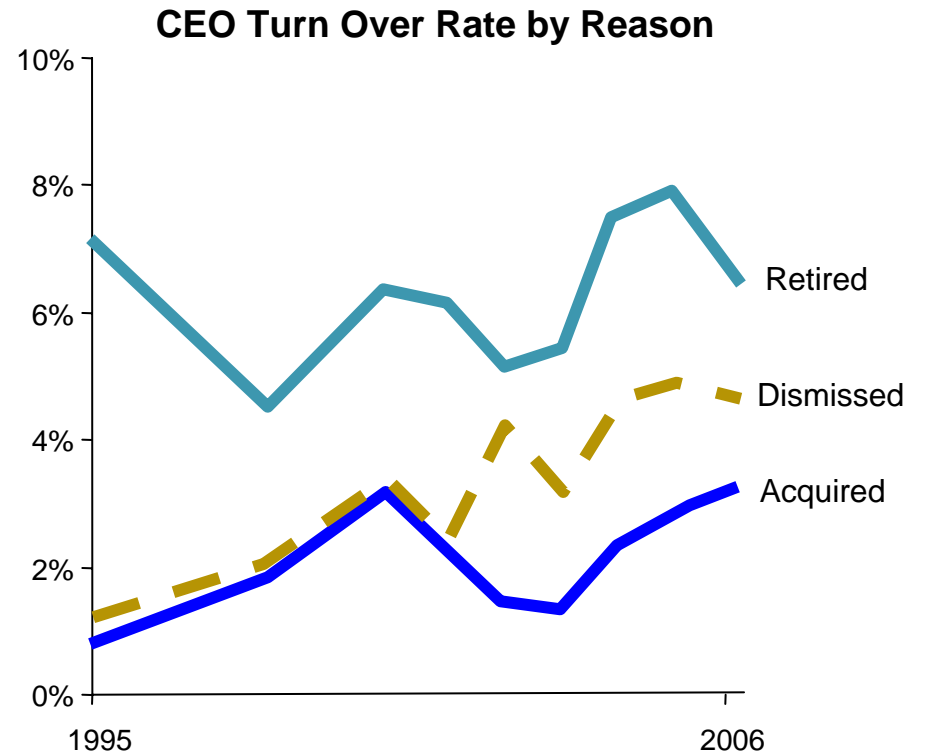
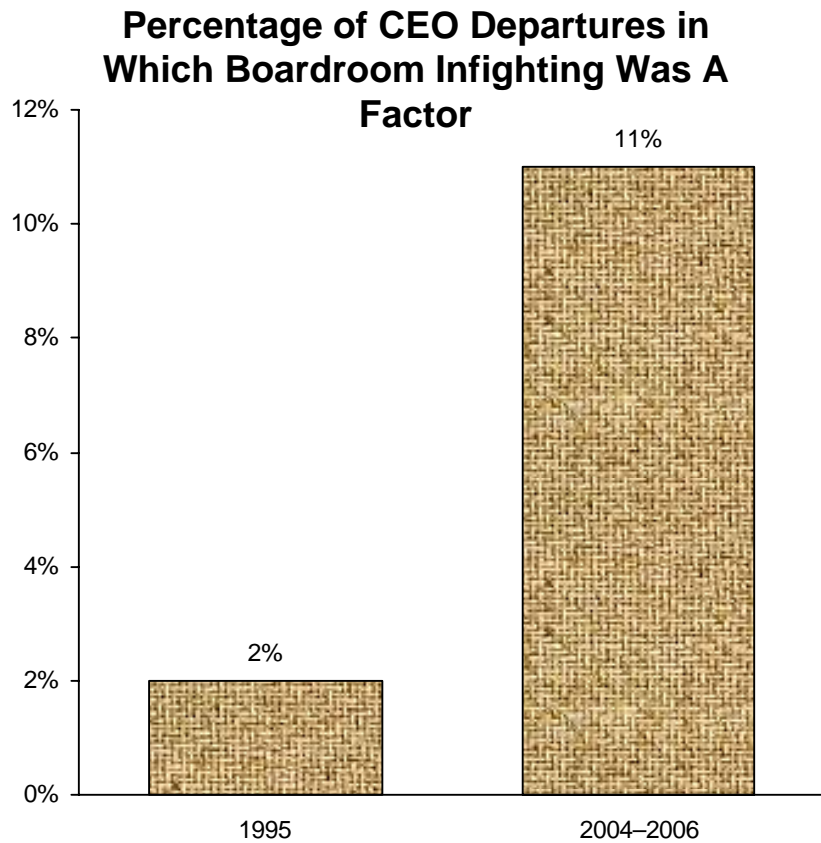


As we had predicted in our 2005 study, the CEO study shows turnover globally has reached a high plateau



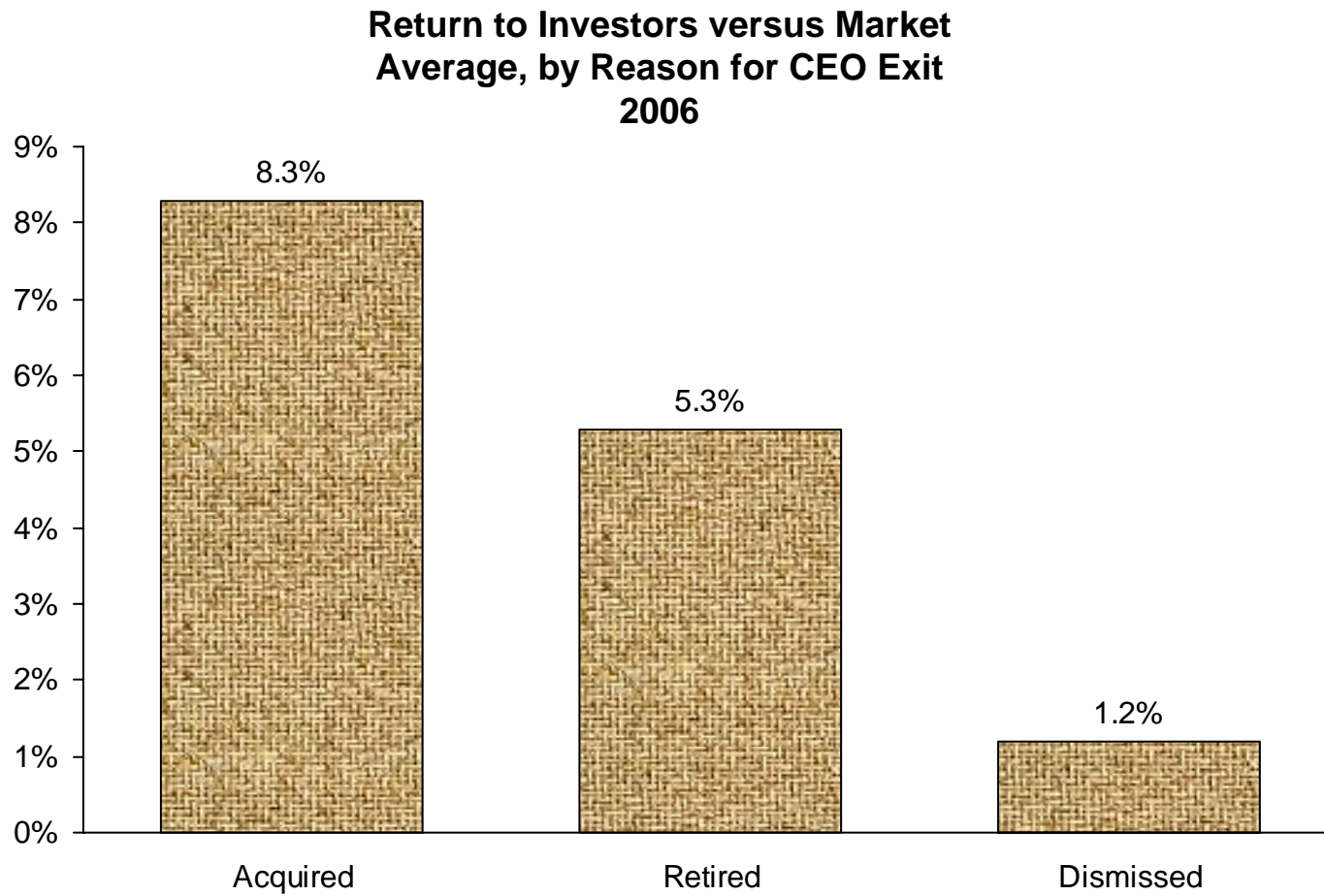
Source: Booz Allen Hamilton

Boardroom infighting is taking a heavy toll; increased successions due to mergers are balancing the drops due to retirement or dismissal



Source: Booz Allen Hamilton

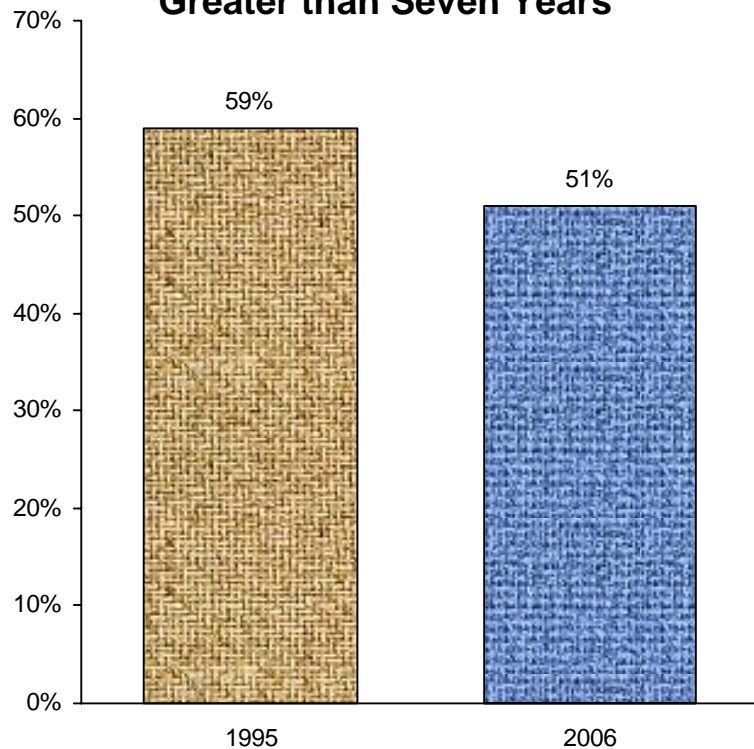
CEOs who exit via a merger or buyout deliver the best performance



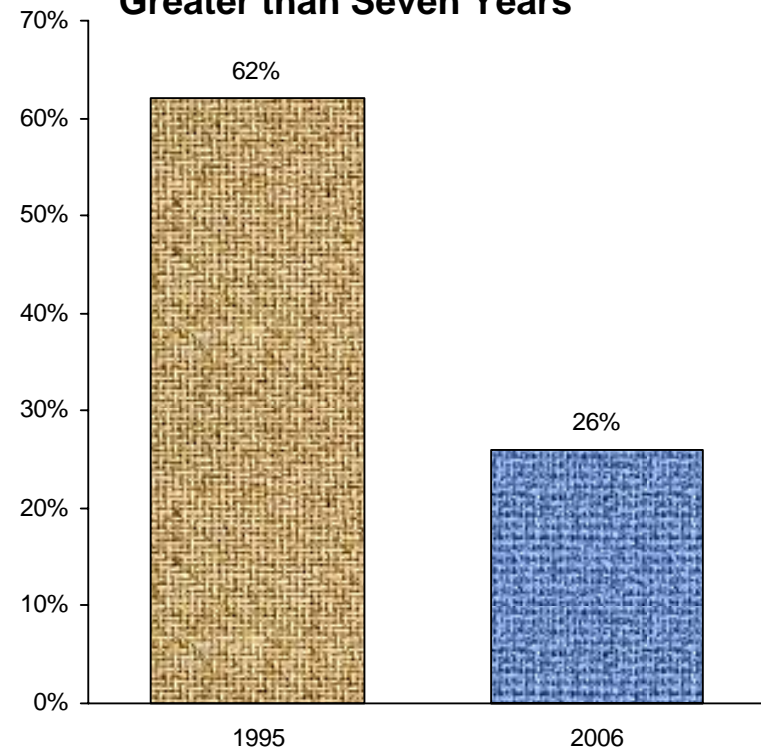
Source: Booz Allen Hamilton

North American CEOs in *class of '06* whose stock performed well were almost twice as likely to last more than seven years – much different than the *class of '95*

Percentage of CEOs with Above-Average Returns Who Had Tenure Greater than Seven Years



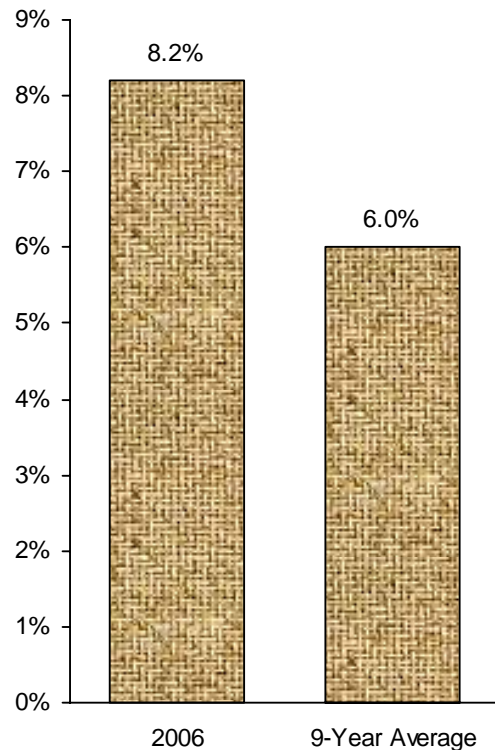
Percentage of CEOs with Below-Average Returns Who Had Tenure Greater than Seven Years



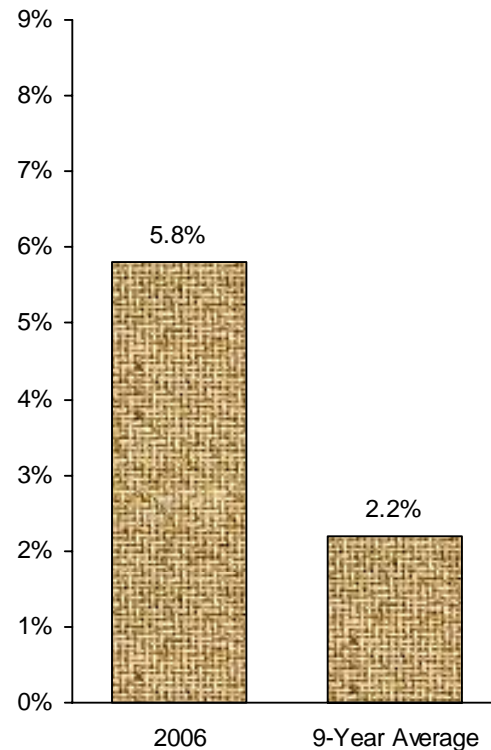
Source: Booz Allen Hamilton

Virtues of Separation : Globally, investors enjoy higher returns when the chairman is independent of the CEO

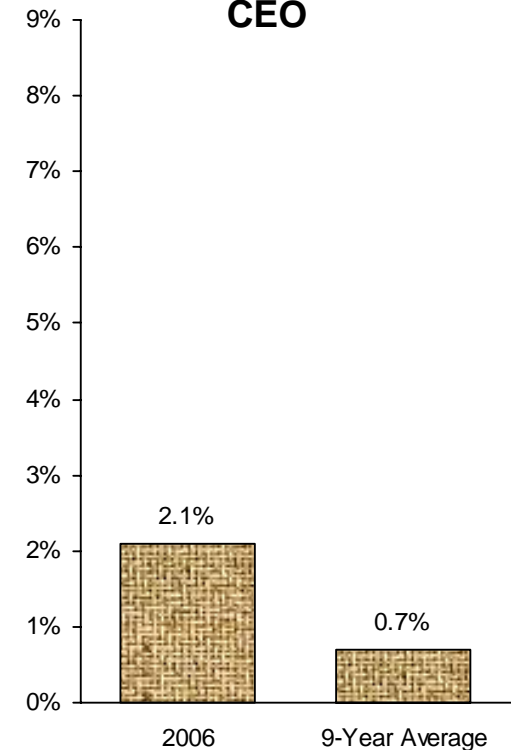
Chairman Was Never CEO



Chairman Is CEO



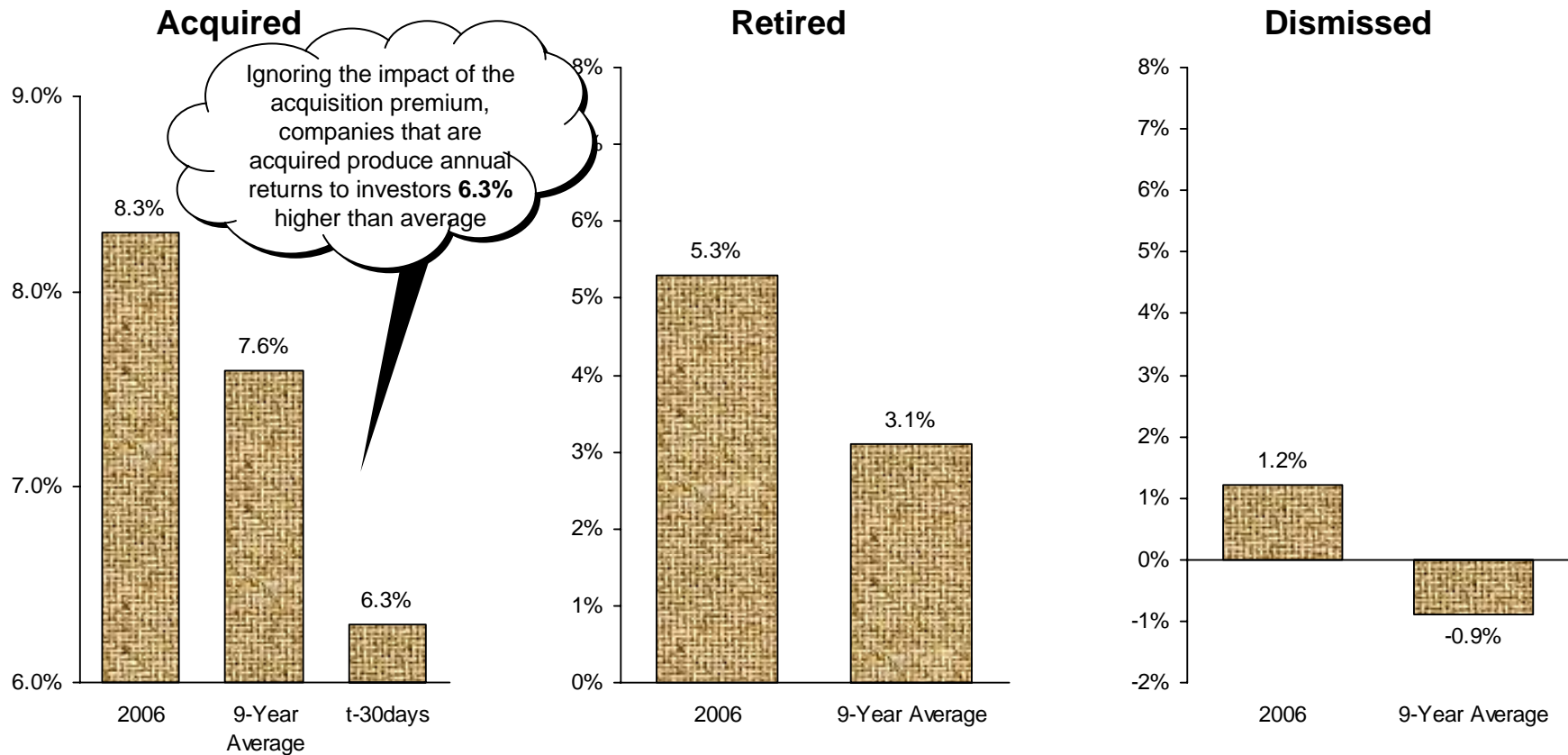
Chairman Was Prior CEO



Source: Booz Allen Hamilton

Generating returns: CEOs whose companies undergo a merger deliver better stock performance over their full tenure than those who are forced from office or who reach planned retirement

Annual Return to Investors Relative to A Broad Market Average

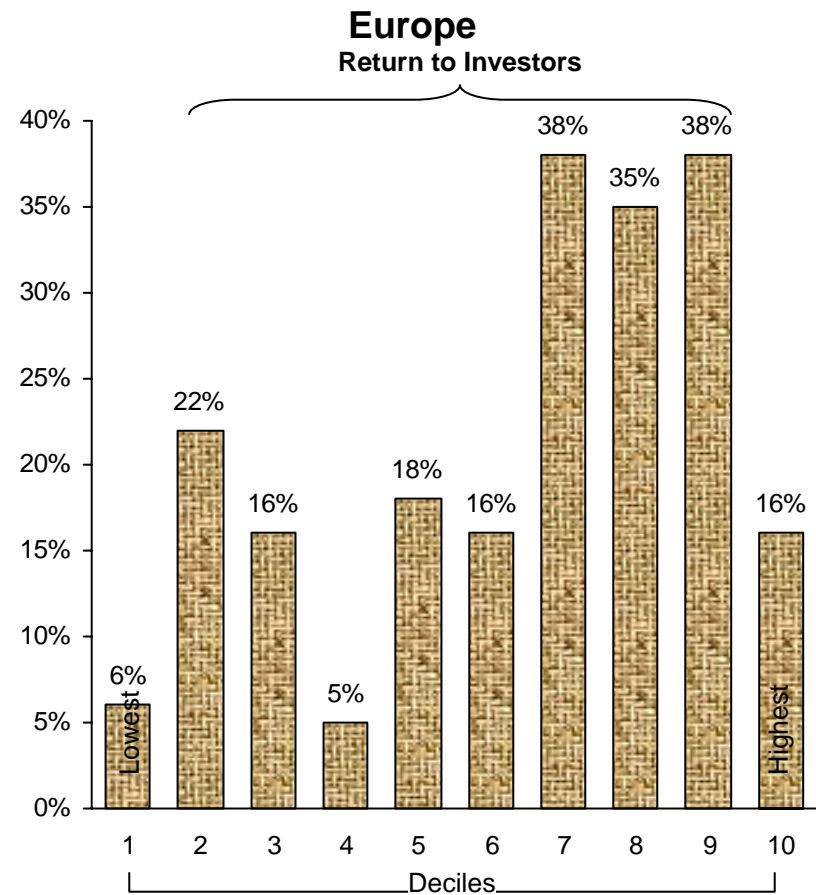
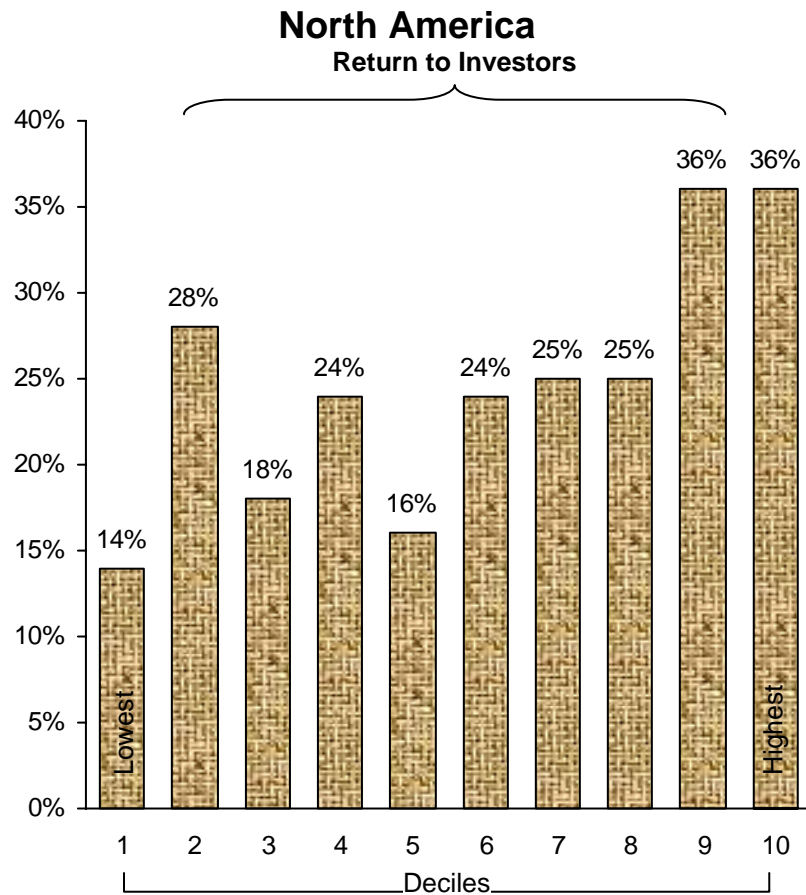


Source: Booz Allen Hamilton

Note: "t-30days" represents the annual returns calculated using stock prices measured from the time the final CEO takes over until 30 days before the merger is announced

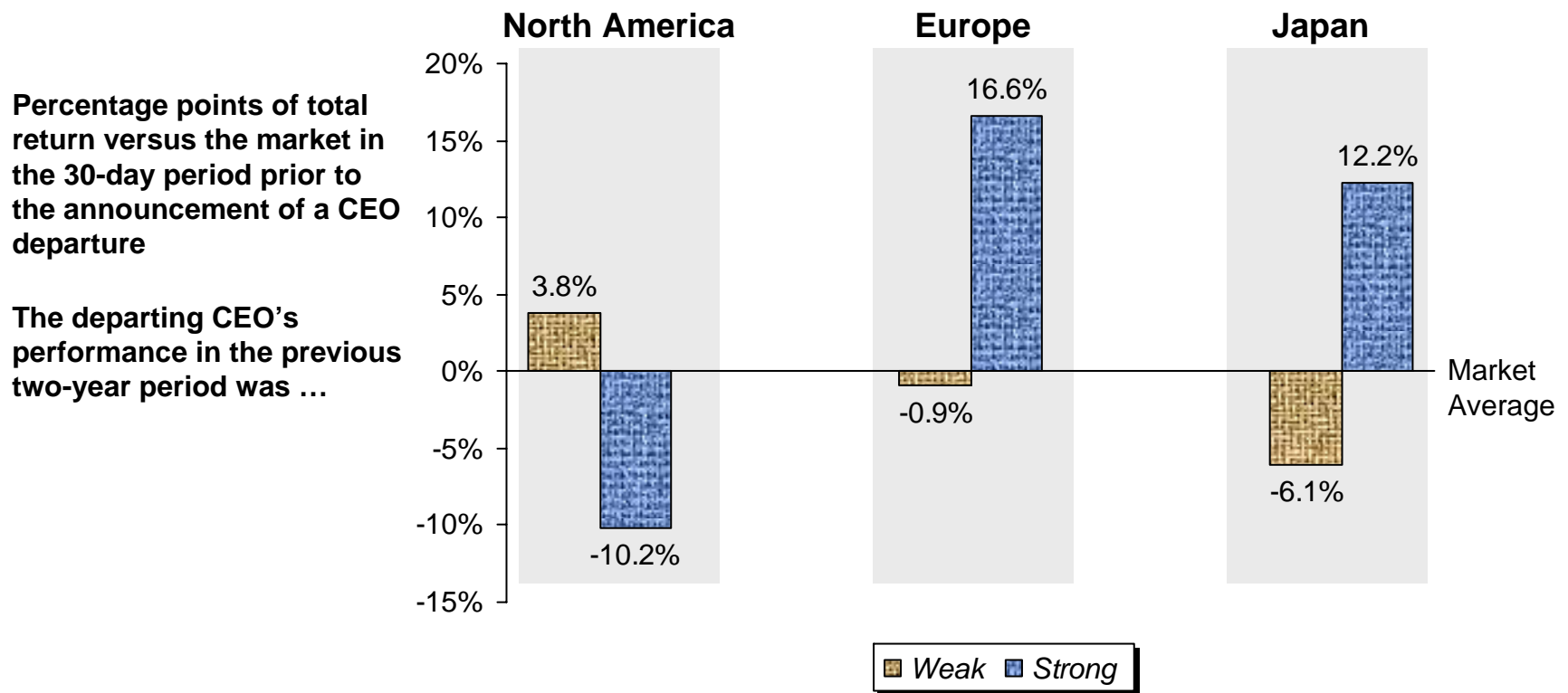
CEOs who deliver high returns are somewhat more likely to have their companies be acquired

Percentage of CEOs in Each Decile Whose Tenure Ended with A Merger



Source: Booz Allen Hamilton

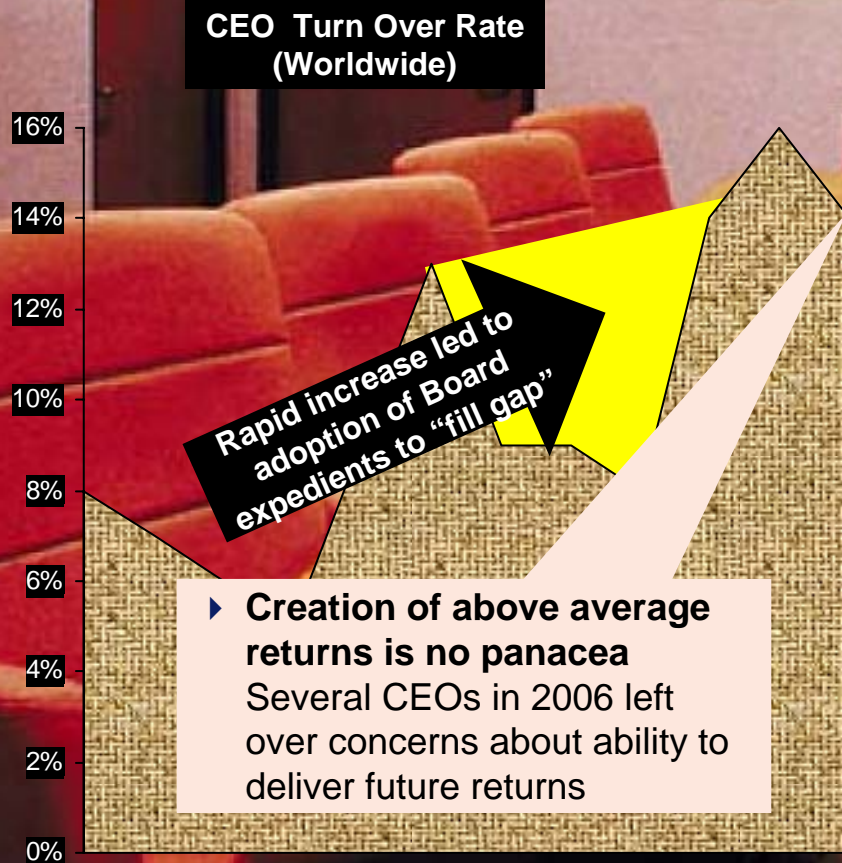
In North America, announcing a new CEO can boost an underperforming stock or weaken a strong performer. The opposite is true in Europe and Japan



Source: Booz Allen Hamilton

For Boards: Adaptation to the new normal

New Activism and forward looking Investors



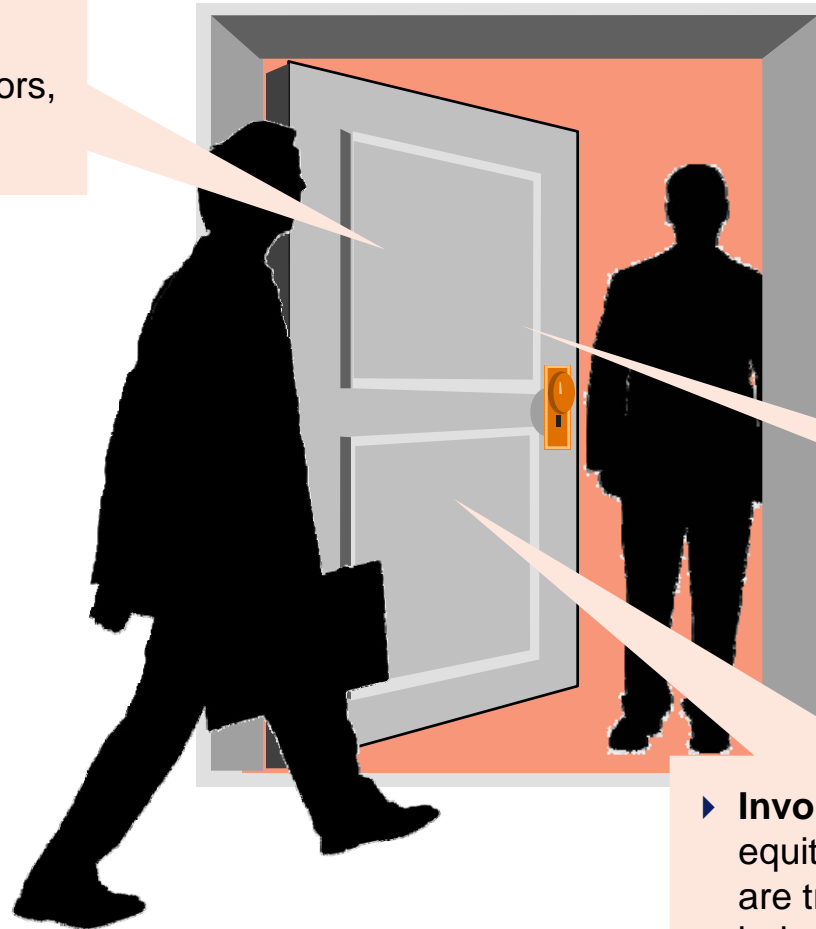
3 Board expedients no longer required

- ▶ **Bringing in a former CEO:**
Hiring a CEO from another publicly traded corporation declined from 4.1 percent in 2005 to 0.6 percent in 2006 of **overall** successions
- ▶ **Appointment of Interim CEOs:**
Declined from peak of 19 percent of all **planned** successions in both N America and Europe in 2005 to 16 and 11 percent in 2006 respectively
- ▶ **Bringing in a CEO from the outside:**
Declined from 30 percent of **overall** successions in 2003 to 18 percent in 2006

For CEOs: Inclusiveness, Engagement, and Involvement

CEO Attributes

▶ **Inclusiveness** – Take into account the concerns and suggestions of investors, employees and government



▶ **Engagement** – Board engagement in dialogues with customers, channels and suppliers

▶ **Involvement** – Private equity and hedge funds are trying to change behavior

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2006 CEO Succession Study

Your Questions...

Booz | Allen | Hamilton



Additional Resources

To read the article, The Era of the Inclusive Leader,
please use the following link:
<http://www.strategy-business.com/press/article/07205>

To read the article, The Empty Boardroom,
please use the following link:
<http://www.strategy-business.com/press/article/07206>

Slides and Recording: A recording of the event and a PDF of the presentation slides will be posted at:
<http://www.strategy-business.com/webinars/archive>