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By email: successionplanning@frc.org.uk

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Dear Catherine

ICSA response to FRC discussion paper: UK board succession planning

We welcome the opportunity to comment on the FRC's discussion paper on UK board succession planning.

As you know, ICSA: The Governance Institute is the professional body for governance. We have members in all sectors and are required by our Royal Charter to lead 'effective governance and efficient administration of commerce, industry and public affairs'. With 125 years' experience, we work with regulators and policy makers to champion high standards of governance and provide qualifications, training and guidance. ICSA is the professional body that qualifies Chartered Secretaries, which includes company secretaries. Company secretaries have a key role in advising companies on their governance arrangements and for governance reporting. Our members are therefore well placed to understand the issues around UK board succession planning. In our response we have made some general comments, followed by our responses to the specific questions set out in the discussion paper.

General Comments

We have read the discussion document with interest but we remain unconvinced there is any significant evidence of shortcomings in succession planning. We are aware of the comments made in relation to the banking sector but do not think these comments can be automatically applied to other sectors. We think it would be inappropriate to set standards for all companies as practice will vary according to the size of the company, as well as the sector.



It is possible for very large companies to have a number of people ready and available to take up directorships at any time, but for smaller companies it is not feasible or affordable to have people ready and waiting for board roles.

However, we do think it would be helpful if published examples of good practice were available to assist companies in their succession planning when they think there is scope for improvement.

We set out below our responses to the questions in your discussion paper.

Section 1: Business Strategy and Culture

1.1 By what practical methods can the development of business strategy and company culture be linked to succession planning?

We think the use of a matrix to identify the critical skills, experience and leadership attributes needed to deliver the business strategy and desired culture is a useful and practical tool to link succession planning with strategy.

However, we think the linking of succession planning with the development of culture is more problematic. A number of companies have undertaken personality profiling of board members, as well as assessment of the dynamics of the board as a team; which also feeds into the question of 'fit' when considering new directors. It is important that all the members of the board support the appointment of a new director, but the desire for new board members to be a good 'fit' with the existing team frequently results in a lack of board diversity and can be an impediment to changing the board culture - even if the need for change is recognised. What can be helpful is for a matrix to include personality type and expected behaviours as well as the skills and experience needed in potential new board members, although personality and behaviours are more difficult to evaluate in prospective candidates.

We think the Chairman has a key role in driving succession planning – including succession to their role as Chairman, which is sometimes overlooked.

1.2 How best can the link between strategic planning and effective succession planning be reported?

We think it is possible to describe the succession planning exercise carried out within a company, particularly where a requirements matrix has been used. Succession planning should seek to develop internally, and seek externally, the skills and expertise which have been identified in the matrix as necessary to execute the company's strategy. The effectiveness of succession planning will be evidenced by successful appointments.



Section 2: Nomination Committee

2.1 How can nomination committee reporting be enhanced to provide sufficient information about the committee's work, including its focus on succession planning and talent management?

We consider it important that the nomination committee reports on what it has actually done during the year and what it thinks went well, with links to specific decisions where possible, rather than just reporting on its terms of reference.

The reporting of talent management is more difficult as this assumes talent management within the company is the responsibility of the nomination committee. There are various talent management reporting practices within companies with many companies reporting on this to the full board, although some nomination committees review the company's processes for talent management and ensure the board is kept informed. Talent management is an outcome of succession planning in that, once the company has identified the future skills and expertise needed to execute its strategy, the company needs to develop the necessary skills and expertise within its senior management team. That said, we do believe that talent management should be reported.

2.2 To what extent do you agree with the assertion that those who challenge are sifted out during the recruitment process?

We have no evidence that those who challenge are sifted out during the recruitment process. An effective board needs constructive challenge from individual directors and we are advised that the majority of them seek this. However, we think it is likely that those who would not challenge in a constructive way and are likely to be disruptive in board meetings would be sifted out during the recruitment process.

2.3 Should the details of the objective criteria used in the search for board candidates be set out in the nomination committee report and, if no, why?

We are not convinced this would be useful. It may be possible to provide objective criteria in broad terms such as experience of a specific sector and why that is necessary, but we think this is likely to lead to 'boilerplate' reporting.

2.4 What is your experience of public advertising for non-executive roles?

We have no experience of public advertising for non-executive director roles in the corporate sector, although we are aware of advertising in the not-for-profit sectors, particularly for unpaid roles. We have no objection to this in principle.



2.5 Are the responsibilities of the nomination committee made clear in the principles and provisions of the UK Corporate Governance Code? Should there be more clarity about the role of the board?

We think the roles of the nomination committee and board are clear in the UK Corporate Governance Code. We do not think that adding further detail would be helpful.

2.6 What, if anything, can be done to improve the standing of the nomination committee?

We do not think that the nomination committee lacks standing. The nomination committee has a less technical function and is not driven by the compliance requirements of the audit and remuneration committees but we do not think it is held in less regard than those committees. The work of the nomination committee does not lend itself to a compliance approach.

2.7 To what extent is the role and operation of the nomination committee a subject for discussion between investors and the board?

It is our experience that investor interest in the operation of the nomination committee varies, depending on the circumstances of individual companies. In normal circumstances investors appear satisfied that the nomination committee is functioning well however, in exceptional circumstances, an activist investor may be closely involved – possibly up to the point of recommending candidates for consideration as new appointments to the board.

Section 3: Board Evaluation

3.1 What practical changes could help ensure boards fully consider succession planning within the annual evaluation exercise?

Whilst we agree that succession planning should be included in discussions on the outcomes of the board evaluation exercise, we do not think succession planning should be considered only once a year as part of the annual evaluation, but rather it should be an on-going process throughout the year. Progress with agreed actions resulting from the outcomes of the board evaluation should be tracked throughout the year and succession planning should be considered as part of this.

3.2 Would more detailed reporting on changes to a company's succession planning process which resulted from the evaluation of the board be beneficial? What are the barriers to this and how might they be overcome?

It is our view that companies should only report on changes to the company's succession planning if the changes are material. Otherwise we think there is a danger



of meaningless reporting. Companies should report on the outcomes of the evaluation process, proposed actions, and progress with actions from the previous year. It should not be targeted at succession planning.

Other than the importance of not disclosing confidential and price sensitive information, we do not think there are any barriers to reporting on evaluation, or on succession planning, if it is a material outcome of the evaluation.

3.3 Would retrospective disclosure of previous board evaluations be useful and how might companies go about this?

We agree that companies should report on progress with the actions identified from the previous year's evaluation exercise, together with the outcome and actions identified during the current year. However, we believe that the majority of companies are already doing this. It is important that the action plan that results from the annual evaluation is a continuous process of change throughout the year. Succession planning and/or the function of the nomination committee may be part of this.

3.4 We would like to know more about the practical use of succession planning matrices:

3.4.1 Are there particular situations where they are more useful?

We think matrices are useful when they are developed internally and are particularly useful at times when the company is considering a significant change in strategy or culture.

3.4.2 Were they developed internally or bought in?

We do not think that matrices bought in from consultants are particularly useful.

3.4.3 Were they used in conjunction with consultants or other service providers?

A matrix developed internally can be usefully converted into a person and skills and experience specification for use by executive search firms. This has the added advantage of assuring internal agreement as to the critical skills and personal attributes needed.



Section 4: Pipeline

4.1 We would be interested to learn more about how companies review their internal talent and what development practices they use in support of succession planning.

We believe there are substantial variations in approach between companies but, typically, companies keep under close review managers that are one and two layers below the executive management team. The executive management will identify both high performing individuals and those that are underperforming. Companies usually report to the board on these layers of management at least annually.

Many companies, particularly smaller companies where it is not feasible to have a number of board-ready individuals amongst their managers, will focus on identifying individuals that could provide emergency cover in certain areas if needed whilst a permanent replacement is sought.

4.2 How could companies do more to establish an external 'pipeline', tracking and nurturing external candidates – particularly NEDs?

We think it is difficult for companies to establish an external 'pipeline' of external candidates. Companies are unlikely to know well in advance when they might be looking for a new NED; who might be available when that time comes; and who might match the personality and skills required in the future. It is also difficult for companies to know which individuals might be interested in joining their board.

4.3 What are the best ways to ensure that board members become more familiar with the work of internal candidates and their skills and attributes?

Most companies report to the board at least annually on the performance of senior managers below executive level. It is common practice to provide senior managers with regular exposure to the board through presentations etc. at board meetings and other informal opportunities around meetings.

Section 5: Diversity

5.1 How should a succession plan incorporate and deliver diversity objectives?

We think diversity is an inherent part of succession planning. However, we do not think succession planning alone can resolve a lack of diversity on the board. A board that lacks diversity needs to change its approach to the identification and selection of people. It needs to set objective criteria for the skills, experience and personal qualities needed to deliver its strategy and any required change in culture, and consider a broader range of people with those skills and personal qualities.



5.2 What more can be done and by whom to encourage greater diversity in the boardroom?

We think that all boards need to recognise that diversity is essential to an effective board. We believe that the overwhelming majority of them do.

5.3 Do the current Code provisions relating to non-executive directors' independence and length of tenure assist with encouraging diversity and progressive refreshment of the board?

We do not think the current Code provisions relating to NED independence and length of tenure are any impediment to diversity and progressive refreshment of the board. Boards review their own performance and that of individual directors annually and make recommendations to shareholders to re-elect directors who continue to make an important contribution, regardless of the length on tenure.

5.4 It has also been suggested that HR and nomination committees should work more closely with executive search firms to identify more diverse candidates. Can you provide examples of how this has taken place?

We do not think this suggestion will solve a lack of diversity on a board and risks inadvertent – and well meaning - infringement of equality legislation. It is our view that where companies do not have diverse boards, the problem lies within the existing board and is likely to be the result of the person specification produced by the board and the instructions given to executive search firms. The person specification should focus on objective criteria and certain attributes rather than, for example, requiring experience of a FTSE 100 board. We think the use of a matrix to identify the skills, experience and personality type needed for the future success of the business strategy and to deliver culture change is a useful tool to help the board focus on the skills actually needed.

We would also highlight the key role of the Chairman in leading this change of approach and thereby delivering the diversity needed on the board.

Section 6: Institutional Investors

6.1 What experience have companies or investors had in terms of engagement about the introduction of new talent to a board?

Please see our response to the question at 2.7 above.



6.2 What information can be shared constructively between companies and investors on succession planning and talent development and how?

We think companies are happy to answer investor questions on these topics if asked, but think that succession planning and talent management tend not to be the focus of investor meetings.

We hope you find our comments helpful and would be happy to expand on any of these points should you wish to discuss them further.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Peter Swabey', written in a cursive style.

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