



Governance *in brief* FRC paper calls for considered approach to succession planning

Headlines

- The FRC firmly believes that good succession planning contributes to the long-term success of a company.
- The Discussion Paper is looking for evidence of good practice which can be shared more widely.
- The emphasis of the paper is to demonstrate that there is a robust proactive approach to succession.
- Interested parties should consider responding, particularly on matters of good practice and disclosure.

Background

The FRC's discussion paper on succession planning examines the key issues, seeks to identify suggestions for good practice and considers how the nomination committee can play its role more effectively. The paper is the result of discussions the FRC has held with a number of interested parties and analysis of other relevant research.

The paper is divided into six sections which have been identified as important to succession planning:

- business strategy and culture;
- the nomination committee;
- Board evaluation;
- the 'pipeline' (both for executives and non-executives);
- diversity; and
- the role of institutional investors.

There are a series of questions at the end of each section and the FRC is keen to gather views to shape their future thinking. A feedback statement will be published based on responses and any further action needed will be considered. Responses are requested by **29 January 2016**.

Business strategy and culture

The sudden departure of a key member of the board can impact a company's ability to sustain and deliver its business model particularly where the company is at a crucial stage in implementing changes to its business strategy, culture or operations, or is facing difficult market conditions. Effective succession planning plays a key part in ensuring consistent strategic direction and company culture.

The FRC is asking:

- By what practical methods can the development of business strategy and company culture be linked to succession planning?
- How best can the link between strategic planning and effective succession planning be reported?

The nomination committee

It has been clear from the FRC's discussions that clarifying the role and responsibilities of the nomination committee, and raising its profile, are key factors in promoting the importance of succession planning. The regularity, purpose and effectiveness of nomination committee meetings varies enormously and annual reports often provide limited insight into nomination committee activities.

The FRC is asking*:

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

* additional questions are included in this section of the paper

Board evaluation

The FRC undertook a review of board evaluation in 2013. The key findings from that review included:

- It is critical that the chairman sets a tone of transparency and openness.
- Setting individual objectives for executive directors ensures effective measurement when carrying out evaluation.
- Executive directors have a key responsibility to develop future leaders.
- Greater transparency in reporting the outcome of board evaluations is still required.
- An effective evaluation should not simply determine how well individual board members are performing; it should also address the important issues of teamwork and board dynamics, which directly affect how well the board performs its functions.

The FRC is asking*:

- What practical changes could help ensure boards fully consider succession planning within the annual evaluation exercise?
- Would retrospective disclosure of previous board evaluations be useful and how might companies go about this?

* additional questions are included in this section of the paper

The 'pipeline'

A key part of long-term succession planning involves the ongoing assessment and professional development of internal candidates in order to consider their suitability for senior roles. Boards therefore need to become familiar with individuals in the senior talent pipeline, but it appears that many struggle over how to do this. The extent to which external candidates should be tracked and assessed for executive and non-executive board appointments when they arise are also important aspects of long-term succession planning.

The FRC is asking*:

- How could companies do more to establish an external 'pipeline', tracking and nurturing external candidates – particularly NEDs?
- What are the best ways to ensure that board members become more familiar with the work of internal candidates and their skills and attributes?

* additional questions are included in this section of the paper

Diversity

In terms of succession planning, one major benefit of diversity is avoiding 'groupthink' – when conformity in the group can result in poor decision-making outcomes.

The FRC is asking*:

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

* additional questions are included in this section of the paper

The role of the institutional investor

The majority of investors spoken to by the FRC said that the subject of succession planning should be on the agenda when they meet board members. Conversations should include a wide range of succession issues – the board evaluation and current functioning; the need to refresh both executive and non-executive positions in pursuit of board effectiveness; board diversity; consideration of potential candidates just below board level; and the plans for 'emergency' succession. The underlying principle is that investors should at least have confidence that the company has an effective overall plan – with plans for different scenarios – which are reviewed, updated and acted upon.

The FRC is asking:

- What experience have companies or investors had in terms of engagement about the introduction of new talent to a board?
- What information can be shared constructively between companies and investors on succession planning and talent development and how?

For further information

UK Board Succession Planning www.frc.org.uk/News-and-Events/FRC-Press/Press/2015/October/FRC-seeks-feedback-on-board-succession-planning.aspx

Deloitte View

- We agree that failing to establish an effective succession plan can undermine a company's effectiveness and its sustainability and support the FRC's activities in this area.
- We believe it is appropriate to raise the profile of the nomination committee given the vital role this part of the board plays in securing the effective leadership of the company.
- We hope that this initiative will not result in a large volume of additional disclosures in annual reports.

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