

Email from Dearlove, J

Business Strategy and Culture

It is difficult to define practical methods to link the development of business strategy and company culture with succession planning however this should be an outcome of having the correct balance of directors on a board. This is more likely to be achieved with a diversity of views and methods, and the recruitment of directors experienced in a particular field is not necessarily a benefit. Boards should take an open minded approach to recruitment and place emphasis fresh thinking, considering the benefit of the counter-balance this can provide to directors who are already established in the role.

Change within the board is essential to achieve this balance, and it would be helpful to report this via a tabular format which sets out length of tenure and age of director, as a supplement to the biographical information which is already included. See also my comments on progressive refreshment in the first paragraph under “Diversity” below.

Boards should be required to set aside one seat for an observer who is someone with suitable qualifications to be a board director of a company (although not necessarily the company itself) as an educational measure. See Board Apprentice – (www.boardapprentice.com) for an example of how this can work. The observer does not participate in board discussions unless invited to do so and does not form part of the company’s decision-making process. Ideally the observer would be invited to attend meetings (and receive all board literature) for a period of one year but will not have an expectation of joining the board at the end of that year.

It would be preferable to have all relevant information reported under a dedicated corporate governance document accessible from the landing page of company’s website rather than in the Annual Report. This will enable the document to be kept up to date and dynamic. It will also mean that the Annual Report can be reduced to a sensible length.

Nomination Committee

It is not necessary for the Nomination Committee to report in detail on its activities in succession planning and talent management, as the success of these activities should be evident from the outcomes. However, the Nomination Committee should be required to be led by an individual who is not the Chairman of the company, and who should attend the AGM to answer questions on the activities of the committee, as the Audit Committee Chairman does, and be someone who has a demonstrable knowledge of corporate governance, ideally being from a governance background. This would have the added benefit of improving the standing of the Nomination Committee.

Guidance should be issued to recruitment consultants on the process for recruiting board candidates, including the open minded approach and emphasis on fresh thinking detailed in the first paragraph above. Individuals who challenge boards are to be welcomed, but it should be done in a collegiate, constructive, non-aggressive manner, for optimum results.

Board Evaluation

I support the key findings of the FRC's review, in particular the importance of the Chairman setting a tone of transparency and openness and the responsibility for succession of each director's own role. This should start with directors identifying the attributes that they bring to the board and enabling the Chairman of the Nomination Committee to use this to build up a blueprint for the operation of the board and to strengthen key parts of the board by planning succession at an early stage. Factored into the blueprint should be the introduction and development of diversity and education of existing board members.

Board evaluation should include feedback from individuals who are not Board members. For example, company secretaries understand well the contributions that individual directors make and may be in a position to influence/encourage succession planning and other positive practices. Company Chairmen and Nomination Committee Chairmen should consider who else may be able to assist/enhance the process.

I do not believe that more detailed reporting on changes to a company's succession planning process would be helpful as there are many personal issues at play which would complicate an already delicate process and may entail outcomes which are not optimal. For this reason I believe that the blueprint should be a private document which is not disclosable to the public, and may be held privately between the Chairman and the Chairman of the Nomination Committee.

I do not believe that retrospective disclosure of previous board evaluations would be useful for the same reasons. This is a highly sensitive process with many issues of privacy.

I believe that having a separate, suitably qualified, Nomination Committee Chairman, as recommended above, who is available to answer shareholder questions at the AGM, would be an appropriate approach to reporting on evaluations.

Pipeline

The most reliable method of providing a pipeline of candidates is to engage in an observer scheme, such as that promoted by Board Apprentice (see www.boardapprentice.com). All boards should be required to participate in such a scheme by having at least one board apprentice. Details of the appointment and the methods of developing the board apprentice, including their skills and attributes and training/courses and mentoring undertaken should be described in the corporate governance report. It should be the responsibility of all board members that this is adhered to. The improvement of diversity on boards is such a vital issue, both from a cultural and economic standpoint that there should not be a "comply or explain" option.

Diversity

Diversity in the boardroom is best tackled by promoting new diverse talent. The Board Apprentice solution outlined above will address this. Progressive refreshment is currently not taken seriously enough. If a non-executive director remains longer than nine years, a company should not only ensure that it explains clearly why that director remains

independent, it should also explain why that director is essential to the board. It should be a rare occurrence.

Recruitment consultants should be actively seeking more diverse candidates. Currently there is a reluctance to do this. They should be given guidance as outlined in the second paragraph under “Nomination Committee” above, and they should be challenged if they do not adhere to the guidance.

Institutional Investors

In my experience institutional investors do not engage with regard to the introduction of new talent to a board. I do not believe that it is necessarily helpful for them to do so. It should be a matter for the board and form part of their management of the company. The function of the Nomination Committee Chairman answering questions at the AGM (as outlined above in the first paragraph under “Nomination Committee”) should ensure an appropriate level of accountability.