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By email to: successionplanning@frc.org.uk

29 January 2016

Dear Ms Woods

Discussion Paper: UK Board Succession Planning

PricewaterhouseCoopers LLP welcomes the opportunity to respond to the FRC's discussion paper on succession planning for UK boards. In this letter we have set out our principal observations, focusing on how we think the FRC can best take the debate forward. In the attached Appendix we comment on a number of the detailed questions asked in the paper.

Distinguishing between succession planning and the appointment process

We are pleased that the FRC has embarked on the current project because we believe that there is scope for much more rigour to be applied to the debate about succession planning than has often been the case in the past. A prime example of this is the Parliamentary Commission on Banking Standards' charge (reported at the start of the discussion paper) that "natural challengers" are being sifted out by the nomination process. In our view this is not entirely relevant to the question of succession planning: if a natural challenger is sifted out the issue is more likely to be with the appointment process rather than the succession plan. Succession planning could well have identified *exactly* the right type of candidate, who could have been rejected for other reasons. The analysis needs to start much earlier in the process if real progress is to be made on succession planning itself.

Different issues for different roles

We also need to distinguish more rigorously between the challenges that relate to succession planning for the chairman, non-executive directors, executive directors and other senior posts within companies. Going back to the Parliamentary Commission, their concern was about non-executives who are perceived as "natural challengers". Succession planning for non-executives is to a large extent governed by specific provisions of the UK Corporate Governance Code around independence and checks on their ongoing commitment to the role. It is a different issue from the challenges around "star executives" – particularly high-profile CEOs, but also other senior staff (not all of them at board level, particularly in the financial services sector). No specific rules govern their tenure, rather planning for their succession must take account of operational and cultural challenges, especially when these plans can become a price sensitive issue. Any solutions or guidance that emerge from the FRC's consultation process should reflect these differences.

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Dealing with the time horizons involved

Again, there are important distinctions to be made. A board considering a long-term succession plan, perhaps developing a skills matrix as part of the exercise, faces a different set of challenges from one that has just had a high-profile CEO hand in his or her notice, or go off on long-term sick leave. Self-evidently, the long-term plan will need to be flexible – focusing on the company’s long-term strategy and taking into account how (and when) a number of senior roles may develop. In contrast, an emergency situation will be as much about how the risk to the reputation of a company (and board) can best be managed through to a positive outcome. Once again, the outputs of the current consultation process must encourage and deal with these different challenges.

The benefits of a more rigorous analysis

We think that a more rigorous analysis could create some important benefits for succession planning in practice, including:

Clearer roles and responsibilities at board and nomination committee level: We often do not see enough clarity within organisations on where responsibility sits for the various aspects of succession planning (and the separate issue of the appointment process). In fact we think this is one of the principal factors that can undermine the status of the nomination committee and make it less effective. If the important decisions are always instigated or managed by the board as a whole (or a different subset of board members) the committee can become a rubber-stamping exercise for “done-deal” appointments. The nomination committee’s terms of reference should clearly outline their responsibility for succession planning and appointments.

Proper distinction between talent management and succession planning: These are related but different matters: having the necessary human resources in place to deliver strategy will usually be a management activity, monitored at board level. Board succession planning and talent management for board roles (whether that talent is inside or outside the organisation) is a board-level activity, supported by management and (often) external advisers.

Better disclosure: Another benefit of a more rigorous approach would be an ability to provide more considered and meaningful information to the outside world, to shareholders, employees and other stakeholders. It is not possible for a company to disclose price sensitive information outside the appropriate channels, but it is possible to provide insight into how the various aspects of the succession (and appointment) processes are handled. In particular, the links between “pipelines”, “talent management” and strategic objectives could be explained much more clearly.

A change in the culture

For us, however, the most difficult challenge remains how to deal with succession planning for high-profile executives: companies can have all the right processes in place and still find that an announcement that the CEO is leaving has a significant impact on share price. It may be impossible to avoid this completely but we think that one measure of success for the FRC's work in this area would be a genuine shift in focus across the market as a whole from a few high-profile individuals to a wider culture of people development.

If you have any questions or would like to discuss any of the points raised in this letter in more detail, please contact Gilly Lord or Laura Hinton.

Yours sincerely,



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Laura Hinton
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For and on behalf of PricewaterhouseCoopers LLP

Appendix: Answers to UK Board Succession Planning Discussion Paper Issues and Questions
(Reference to 'paragraphs' should be taken to mean paragraphs of the consultation document, unless otherwise stated.)

Section	Issues and Questions	PwC Response
Business Strategy and Culture	By what practical methods can the development of business strategy and company culture be linked to succession planning?	As explained in our letter, we think that the practical first step is to distinguish between the different challenges relating to succession planning in different parts of the organisation. Having done this, a plan can be developed that maps the needs to the particular strategy over the appropriate period. Good practice reporting will be clear on how this has been done, and on how the plan can be flexed as the strategy and circumstances develop.
Business Strategy and Culture	How best can the link between strategic planning and effective succession planning be reported?	Too many nomination committee reports amount to a listing out of the committee's terms of reference; the better reports show how the committee has dealt with the specific matters around succession planning and the appointment process during the year. Greater clarity around the committee's roles and responsibilities, as we have advocated in the letter, could also help to generate more meaningful reporting.
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?	We are not aware of any evidence, anecdotal or otherwise, to support this assertion. As explained in our letter, we also do not see this as a succession planning issue.
Nomination Committee	To what extent do you agree with the assertion that those who challenge are sifted out during the recruitment process?	We doubt that this would often generate much prospective insight into succession planning in practice due to timing issues. Most searches will either be complete before the annual report is published (in which case the information is entirely retrospective and provision B.2.4 of the UK Corporate Governance Code ("the Code") already requires disclosure around the process used) or the board will be reluctant to provide much detail of the criteria in case the person appointed differs from them significantly.
Nomination Committee	Should the details of the objective criteria used in the search for board candidates be set out in the nomination committee report and if not, why?	Publicly advertising for non-executive roles can be an onerous administrative activity, and we are not aware of any indication that a better quality of candidate would apply through a public advertisement than those already being identified through recruitment consultants.
Nomination Committee	What is your experience of public advertising for non-executive roles?	

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Nomination Committee	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?	Although the supporting principles in section B.2 of the Code encourage boards to plan for succession and maintain an appropriate balance of skills and experience, it is arguable that provision B.2.4 is focused on reporting the processes used in appointments that have already been made – so that prospective succession planning is not covered by the comply-or-explain reporting mechanism. The FRC could consider adding a specific provision to the Code to address this, along with further Guidance for directors.
Nomination Committee	What, if anything, can be done to improve the standing of the nomination committee?	See the comments in the body of our letter.
Nomination Committee	To what extent is the role and operation of the nomination committee a subject for discussion between investors and the board?	We think this is rare. Where there are discussions on succession, they usually relate to specific high-profile executives – often when one has left unexpectedly. As indicated in our letter, we think it's important that there is change in the culture that gives rise to this situation.
Board Evaluation	What practical changes could help ensure boards fully consider succession planning within the annual evaluation exercise?	The board evaluation should ask questions on board composition and where there are gaps in skills or experience; it should ask about individual directors' views on succession planning (that is, how effective it is) and what oversight the board has of succession planning below board level.
Board Evaluation	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?	This question is actually about changes to succession plans rather than to the succession planning process. We think that, in the context of the more rigorous analysis we are advocating, companies would be quite likely to report changes to the overall process. We see very little barrier to disclosures of a delay in changes to NEDs for some strategic need, for instance. Changes to plans around executives will be far more sensitive, however, unless the overall market culture shifts.
Board Evaluation	Would retrospective disclosure of previous board evaluations be useful and how might companies go about this?	Retrospective disclosure of previous board evaluations is often useful, especially when describing how boards have been successful in responding to action points. There are already many examples in annual reports, over and above what is required by the Code, of boards reporting on the evaluation outputs and their resulting actions.

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Board Evaluation	<p>We would like to know more about the practical use of succession planning matrices by companies, for example:</p> <ul style="list-style-type: none"> · Are there particular situations where they are more useful? · Were they developed internally or bought in? · Were they used in conjunction with consultants or other service providers? 	<p>See the comments in our letter about the distinction between the longer and shorter term horizons for succession planning.</p>
Pipeline	<p>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.</p>	<p>n/a</p>
Pipeline	<p>How could companies do more to establish an external 'pipeline', tracking and nurturing external candidates -- particularly NEDs?</p>	<p>One example of companies establishing an external pipeline is through the use of market mapping exercises which analyse the skills landscape available to them, and which are then analysed against required skills. This allows companies to identify external candidates who can then be tracked in relation to NED positions.</p>
Pipeline	<p>What are the best ways to ensure that board members become more familiar with the work of internal candidates and their skills and attributes?</p>	<p>If responsibility is given to the nomination committee for executive director succession, it is key that the members have the requisite time to devote to this activity. It can be helpful for the committee to have sight of the performance assessments of the tier of management below board and the pipeline for the executive committee and executive director succession. Internal candidates can be introduced to the committee and board and invited to attend meetings at which they have the opportunity to demonstrate their skills and attributes.</p>
Diversity	<p>How should a succession plan incorporate and deliver diversity objectives?</p>	<p>For a succession plan to incorporate diversity objectives, it should first ensure that there is a clear definition of what 'diversity' means to the nomination committee and company as a whole. We would encourage the understanding that diversity objectives should not hinder the promotion or hiring of the right candidate, but should allow for a wider array of candidates to be considered. Once clarity over diversity objectives is achieved, they can then be incorporated into the succession plan, with delivery measured as part of the retrospective review of succession plans previously mentioned.</p>

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Diversity	What more can be done and by whom to encourage greater diversity in the boardroom?	The Code already includes a provision for the nomination committee to report on aspects of diversity, and in line with our previous comments concerning the necessity for corporate governance reporting to discuss actions and activities, we would expect a nomination committee report to include discussion on key diversity topics from the year, including how succession planning is aligned to diversity objectives. An improved understanding of the benefits of greater diversity on the performance of a company is the means by which greater diversity will be achieved.
Diversity	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?	The Code already includes several provisions covering these aspects for non-executive directors, including B.1.1 (independence), B.2.3 (progressive refreshment) and B.2.4 (diversity), with B.1.1 and B.2.4 incorporating disclosure requirements in the annual report. Consistent with other aspects of the Code, there is an element of flexibility in the extent of disclosure. We are not convinced that the non-executives on the board are where the main challenge around diversity now exists, however, and there is little in the Code generally that addresses executives.
Diversity	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?	n/a