

## UK Board Succession Planning Discussion Paper

### Summary Comment

Armstrong Bonham Carter (ABC) was founded in 2006 with an aim of helping chairman of listed and private companies or indeed any other organisations where a board exists and is responsible for the success of that organisation, with services to ensure that their boards are effective. ABC has subsequently done reviews for a range of FTSE 100, FSTE 250, smaller listed companies, private businesses and charities.

From the experience derived from this work, ABC would like to make the following overall comment as well as more detailed comments as requested in the Financial Reporting Council Discussion Paper of October 2015.

ABC agrees with much that has been set out in the paper but would like to highlight the difficulty in creating effective succession plans which ensure orderly succession for appointments to boards and senior management. In part this is due to the dynamism of the markets that companies operate in which means the companies' strategies, plans including the succession plan can easily be undermined or even invalidated over quite short periods of time and therefore need regular review and revision to be sure that they remain appropriate.

Secondly, it needs to be remembered that these succession plans involve people and their personal career aspirations. These therefore create impressions of career progression for nominated individuals within the succession plans which are then vulnerable when the plan is actually put into action. For example, as ABC has seen, there is generally more than one internal candidate for a CEO role which leads to disappointment for the unsuccessful candidate(s). This can be compounded if the new CEO wishes to establish his or her own team. Often, those individuals who are unsuccessful believe they then need to leave their current employer to fulfil their ambitions elsewhere which then requires a more substantial revision to the succession plans. Also ABC has found on occasions that boards have also established succession plans which shareholders have then disagreed with.

So ABC believes that whilst an effective succession plan remains a laudable goal, it is very difficult to achieve. ABC would suggest boards should not be automatically criticised for a perceived failure to achieve such an opaque and emotive target.

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## Business Strategy and Culture

ABC believes it is an essential feature of an effective board that it should define the purpose of the company, appreciate its situation and then decide the company's strategy and plans. This should make clear what skills, experience and knowledge is needed both a board and at senior management level to implement the strategy successfully whilst managing the risks inherent in that strategy.

Boards should continue to report as they are currently required to do that they annually review the succession plans for the board and the senior management. Due to the dynamic and personal aspects of the succession plan, ABC believes it would be inappropriate to expect too much detail to be published. However ABC notes that some companies do provide organisation charts as well and this is useful as an overview of the senior management structure.

## Nomination Committee

As per the last comment, ABC would suggest that this needs to be handled carefully. However if the company did publish an organisation chart of the company, the Nomination Committee could make clear how far down the organisation succession planning is considered at Board level.

We have seen no evidence that 'natural challengers' are sifted out as suggested by the Parliamentary Commission on Banking Standards. Indeed on all the boards for which ABC has conducted reviews, such challengers have been welcomed provided that their challenges are done in a constructive manner.

ABC would encourage companies to describe in their annual reports the skills, experience and knowledge of the board and suggest Nomination Committees could refer to that description and explain the plans to enhance it.

Public advertising leads often to such volumes of applications which makes the task of assessing them quite considerable requiring substantial and experienced resources which many companies do not have but could be provided by search companies.

ABC believes the responsibilities of the Nomination Committee and the role of the Board are adequately covered with the exception of the comments made in this paper.

Nomination Committees do appear at times to be relatively lower standing with fewer scheduled meetings especially when talent management and succession planning for the senior management is done at board rather than Nomination Committee level. So long as the board conducts its talent management and

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succession planning review at least annually and rigorously, ABC does view this as a major issue unless it is raised as such in an evaluation review.

ABC would encourage investors to meet chairman to discuss board effectiveness including succession planning annually.

## Board Evaluation

In ABC's experience and knowledge of its clients and contacts, succession planning is generally included in externally or internally managed evaluations.

On reporting as per above.

On retrospective disclosure of previous board evaluations, whilst it might be interesting to know and would indeed require commentary on whether boards had resolved any issues raised, ABC would suggest this to be limited to the last two years unless issues had yet to be resolved.

## Pipeline

ABC encourages all its clients to get to know all of those on succession plans both in the formal and informal settings as to their suitability for their potential appointments and to understand what development plans are in place to ensure they are ready and suitable for them.

## Diversity

ABC encourages boards to agree diversity targets, to plan how to achieve them and monitor progress towards them.

ABC believes and has witnessed that specific clear requirements changes board actions and behaviours. But time is needed although ABC understands that for some parties the pace of progress may be frustrating.

ABC believes the current Code provision does assist in encouraging diversity and progressive refreshment of boards.

ABC has noted in all the reviews it has conducted or seen with respect to search that candidate lists are more gender diverse, and more diverse in terms of nationality when relevant.

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## Institutional Investors

As mentioned above ABC, would encourage investors to meet chairman more regularly if not annually to discuss board effectiveness including succession planning. ABC believes that over the last ten years it has been exceptional rather than normal practice for investors to meet chairman and subsequently there has been limited engagement on board effectiveness and talent management.

**Armstrong Bonham Carter provides a board advisory service which assists the boards of listed or private, government or voluntary organizations in the UK or overseas to maximize their effectiveness in creating value for their shareholders, the taxpayer or beneficiaries.**

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