

# The Miles Partnership

Response to the FRC Discussion Paper

## UK Board Succession Planning

January 2015



The Miles Partnership LLP  
Rotherwick House  
19 – 21 Old Bond Street  
London  
W1S 4PX

Vat No. GB 678 1180 16  
Company Registration No. 3135513

T 020 7495 7772  
F 020 7495 7773  
[www.miles-partnership.com](http://www.miles-partnership.com)

## Contents

Contents	2
Introduction	3
Business Strategy and Culture	4
Nomination Committee	6
Board Evaluation	8
Pipeline	9
Diversity	11
Role of Institutional Investors	13
Summary	14
Bio – Annabel Parsons	15
Contact	16

## Introduction

Our business, The Miles Partnership, has an extensive track record in providing Executive and Board recruitment services including leadership consulting and Board evaluation and development.

Our partner team have had long exposure to the big 5 global Executive level recruitment businesses and practices.

Our perspective is therefore informed by decades of combined partner years and approaching 5,000 assignments which span all sectors including experience which spans the breadth of financial services.

In addressing the questions set out in the consultation document, we have consulted many clients including CEO's and Chairmen, Board evaluation results and research data. Respecting confidentiality has meant that candid views have been offered and are recorded here.

We will address each section individually although in our view all are connected and several overlap.

Whilst giving both observations and suggestions on solutions to each, there are fundamental themes which we also summarise.

## Business Strategy and Culture

### Observations:

- Although corporate strategy should be holistic and therefore Talent and human capital should form an integral part of it, in our experience it is often compartmentalised with Talent positioned as less integral.
- It is a complex area with poorly defined best practice and bench marking which contributes to the difficulty many organisations experience in effective planning.
- Many organisations place Talent below the Executive Team and few Boards have strong HR or Talent expertise. It's possible that heads of Talent are not in a strong enough position to influence strategy effectively.
- The thrust of the Code is that the Board promotes the success of the company over the long term – in fact in many areas the Board is now required to assess its going concern over a longer period, many now seek to do so to a 3-5 year time frame - and yet in our experience many companies remain reactive (i.e. short term) around Talent.
- Some Nominations Committees only meet formally when there is a key selection decision to make. Often they only have visibility of a snap shot in time, a specific element of the succession plan.
- Organisational and cultural change represent significant initiatives and often long term impact which Executives and Boards may be or feel less well informed or qualified to implement and assess.
- Successful organisations may feel disinclined to tamper with Talent strategy and culture, introducing uncertainty and some risk in an otherwise well measured and understood proposition.
- Executive teams and Boards often lack strong HR and Talent experience and may be limited in terms of cross sector experience and exposure to best practice in Talent management.
- Key man strategy in terms of emergency cover and validated succession capability is very often untested and in practice very often not linked to targeted development of Executive succession potential.
- Risk in terms of Talent and succession is often only understood and addressed at individual level and can lead to fire fighting and a lack of cohesiveness in terms of remuneration and retention strategies.

### Potential Solutions:

- Should Talent strategy be addressed in the same, longer term time frame as other aspects of Strategy i.e. in a 3-5 year time frame?
- Strategy and culture should be informed by best practice benchmarking as are many other aspects of strategy and performance. This may mean that heads of Talent need a wider background and cross sector experience to contribute effectively.
- The strategy process should involve Talent explicitly, it may mean that heads of Talent need stronger strategic ability as a core skills requirement.
- Collecting data on culture - often addressed through engagement surveys, retention data etc - informs perspectives and should be regularly overseen and understood by the Board.

# The Miles Partnership

---

- Succession planning in general but specifically relative to key Executives and roles should be mandated. Organisations could be required to regularly identify and validate internal successors, put in place development strategies and resource, manage and provide oversight through development governance process and milestone review.
- Ideally this would be informed both by best practice and external benchmarks.
- This key person and succession plan should then be reported with a specific risk rating and schedule of actions and accountabilities applied.
- People risk should be identified, managed and reported in the same way as other kinds of risk.

## Nomination Committee

### Observations:

- There is sometimes a lack of clarity as to the terms of reference of the Nominations Committee. Equally, there are potential tensions relative to the remit of HR which needs careful navigation.
- In particular, the HR and Nominations remit as it relates to wider pipeline issues, Talent process and visibility on succession is often interpreted and owned in widely differing ways from business to business.
- The composition of the Nominations Committee is very often weaker than other committees. That is, it is often seen as a softer landing for new NEDs, requiring less direct expertise and experience than risk, audit or remuneration.
- NEDs with strong HR backgrounds and professional skills are a relative rarity on Boards - this further weakens both Board and Nominations Committee approaches on Talent and succession.
- Nomination Committees often meet less often than other committees - reinforcing the sense that there is less weighty and significant work to be done or introducing a risk that the full brief and remit is not being addressed. Additionally they often have no regular agenda that would better support a strategic and cohesive approach.
- Reporting into and management interaction with Nomination Committees is variable in terms of quality, impact and seniority. This stems in part from the lack of clarity and standardisation of the committees remit but also from the lack of clarity and standardisation in the Talent function itself. It is rare for a head of Talent to sit on the Executive Team or to report to the Board on Talent.
- Given the above, reporting from nominations committees is also variable across businesses.
- Additionally, there is less sense of accountability for ensuring that the human resources are in place to meet the organisation's objectives at anything other than the most basic level of measurement. This needs careful navigation so as to increase cooperation and cohesion with HR rather than duplicate or frustrate it.
- The business strategy planning processes with which Boards interact often do not encompass the people element and as such are often not subject to the same degree of scrutiny or contribution from Board members as other aspects would be. This weakens the sense of direction and imperative in Talent strategy and practice.
- Nominations Committees often only meet once a significant selection decision needs to be made, reinforcing the tactical and reactive tendency outlined previously. The Nominations Committee is often engaged in a firefighting exercise in terms of succession - with very little forethought or planning in terms of succession, internal candidate validation or visibility beyond the very most senior Executives.
- The Nominations process is strongly influenced by the interpreted guidelines and constraints of the Code/ regulator, restricting more lateral options and diverse skill sets from emerging but also potentially reducing the appeal of NED roles to certain candidate groups.

### Potential Solutions:

- Boards should not be considered complete or fully qualified without strong HR capability and insight as a core requirement.

# The Miles Partnership

---

- Nominations Committees would benefit from greater standardisation in terms of their mandated duties as they relate to visibility of pipeline and oversight of succession.
- Nomination Committees should meet at least as frequently as other committees.
- Information required and reporting formats could usefully be standardised.
- Talent strategy should be treated as an equal in the business strategy planning process.
- All Nominations Committees should exercise oversight in terms of the appointment process to critical roles and alignment of the Talent pipeline as it relates to sustainable business performance.
- Members of Nominations Committees should receive training and development on good Talent, succession and selection practice.
- Nominations Committees should include at least one NED with strong HR credentials.
- In terms of Executive succession, Nominations Committees should adopt a more strategic and proactive stance - engaging in scenario planning, oversight of capability profiling and alignment and Talent development as they impact on pipeline. Again, this would necessitate a stronger strategic approach to Talent at an enterprise level.
- Nominations processes could be better informed by best practice, with greater objectivity and visibility at its core.

## Board Evaluation

### Observations:

- Board reviews are often relatively light in terms of evaluation of director's performance and relatively heavy on reviewing process. There are logical reasons for this - it is easier to audit process than to benchmark and appraise individuals.
- Additionally, the majority of businesses involved in Board reviews are process not people specialists and would struggle to benchmark or set out director development strategies, outside of relatively standard governance training.
- Arguably, it is easier to deliver messages on process improvement requirements than individual weaknesses and development needs. Board review reports tend to weight process outcomes more heavily and give less detail on how to address shortfalls on the people side.
- Director induction is a consistently weak area - poorly executed with a lack of ownership and two way accountability.
- Director development is often absent entirely. Time pressures, a lack of understanding of the need and sometimes a reluctance to admit to a need for on-going learning contribute to a lack of momentum and focus in director development in the majority of Boards we have reviewed.
- Boards often seek to remove the 360 degree element of review process. Director feedback is often given infrequently and informally without structured data to support it.
- Very often Boards only collect information on their own ratings of their performance through self-assessment questionnaires and 360 degree feedback which excludes non Board members.
- Boards often do not have access to objective data on people risk or validated succession plans and therefore these are often not reported on as part of the evaluation process.

### Potential Solutions:

- Induction approaches could usefully be standardised and on-going development linked more explicitly to this.
- Board reviews should be executed by specialists who are equipped to address issues relating to both people and processes.
- Board reviews should encompass composition and benchmarking as well as communication, culture and dynamics. The assessment of these areas demands a more rounded approach where tick box/audit style reporting may need to evolve to an approach which is better suited to these more complex, subjective and ambiguous aspects.
- Board performance data should be collected from more diverse sources. These could/ should include the Executive.
- Boards should be required to have oversight of human capital risk and then the effectiveness of this oversight could be reviewed as part of the Board evaluation process.
- Director feedback processes would benefit from standardisation. These could usefully be opened up somewhat - for example delivered by the Chair plus SID or HRD rather than the Chair alone.
- Outcomes and conclusions should also be recorded - these should be tied to milestones and tangible accountability for improvement and developments.



## Pipeline

### Observations:

- Organisations report difficulty in projecting pipeline demands beyond a relatively near-to horizon. In a recent survey of the FTSE 100 we found that the majority did not have a clear picture beyond a three-year time frame.
- Additionally, it is not uncommon for entry requirements and programs to be a poor match to identified future requirements. In hard skill areas such as engineering and information technology this has led to long term shortages in available Talent.
- In terms of diversity, proactive Talent management strategies such as transparent selection processes, early identification and development of potential, career path management, targeted initiatives to retain and promote diverse Talent, leadership development programs are patchy, often lack clear linkage to and sponsorship from strategic leadership and are subject to short term thinking in terms of funding.
- Talent data that is presented to the Board often addresses key roles and specific initiatives/ events such as restructure. It tends not to address more complex, long term issues such as the tracking of impact of development programs, progress of specific demographics through the organisation etc.
- The Board and Nominations Committee are therefore often ill-informed on overall pipeline profile and on those individuals in it that represent significant future Talent in all but the most senior roles.
- Longer term investment in pipeline development is rare, organisations involved in STEM for example, will get involved in early educational programs and external initiatives, but this is not typical nor well understood/ funded in many businesses.
- There is some reluctance, lack of understanding or flexibility in terms of creating learning environments which support development and work structures and practices which better support diversity throughout the pipeline.
- Research suggests that heads of Talent have widely varying remits, rarely sit on Executive teams, tend not to progress into NED roles and may not have the profile and access required to influence strategy.
- Pipeline issues vary somewhat by sector. However there are clear trends around aspects, such as diversity, that run across sectors and where the data suggests progress has been relatively static for some time.
- The impact of these trends can be seen most clearly in the lack of diversity at Executive level. This further impacts the availability of diverse Talent for NED roles.

### Potential Solutions:

- Talent and pipeline in particular should be more explicitly articulated through the strategic planning process.
- Talent planning and process should be reviewed by the Board and explicitly benchmarked against industry standards and best practice.
- The Executive should be tasked with managing the pipeline and demonstrating the impact of initiatives put in place to do so. For example, putting in place initiatives to retain and develop diverse Talent and providing tracking data and benchmarks on progress and impact.

# The Miles Partnership

---

- The remit for heads of Talent should be more explicit and performance metrics clarified. It may be necessary to mandate their access to the Nominations committee.
- Where pipeline is significantly weaker than required or desired, does not reflect diversity targets or improvement does not meet milestones set it may be necessary and helpful to have a 'special measures' approach to Talent where an organisation must demonstrate their commitment to making progress through Talent strategies and funding.
- Talent should have a regular slot on the Board agenda in line with other business critical functions.

## Diversity

### Observations:

- Definitions of diversity differ; here we interpret this as Talent which differs from the norm in terms of the majority gender, ethnicity, age and socioeconomic background. Latterly, the concept of diversity of mind-set has also become prevalent. It is, therefore, a broad and complex issue and organisations may be more or less impacted by differing aspects of it.
- Specific programs to address the lack of diversity - particularly at Executive level - are very variable in terms of impact on outcomes.
- The evidence suggests that diverse Talent is available and well identified at entry level in many sectors. However, as each increasing level of seniority is observed, diversity becomes a greater issue indicating the opportunity to better understand and address issues around culture, career development and bias at each organisational 'touch- point'.
- There is good research data available relating to the impact of career structures, remuneration strategy and culture on diversity but less evidence of organisations adopting fresh thinking and well-funded programs which build on this understanding.
- There are conflicting pressures on Boards to ensure a diverse profile and approach. In particular, the qualified persons criterion and process narrows the potential candidate pool and profiles of prospective NEDs - ensuring uniform qualification in an already relatively non diverse demographic is likely to discourage some diversity of perspective.
- Recent progress on NED diversity in the FTSE 100 is not reflected in the FTSE 250 plus, and the data suggests it is not reflected in SME's in general.
- Our understanding of social psychology leads us to the conclusion that placing one ' diverse' director on a Board may not result in a change in approach, mind set or culture at that Board as they remain a clear minority.
- Professional recruiters are often tasked with finding diverse candidates for short lists. These often fare less well in terms of success rates in getting through the client interview processes.
- Roles are often defined and articulated in terms which deter diverse applicants and reinforce prevailing stereotypes about performance and leadership.
- Additionally, given the shortage of diverse candidates in the top end of the pipeline, many diverse candidates for NED roles are being approached earlier in their careers and are less enthusiastic about taking on increasingly onerous NED responsibilities alongside full time Executive roles.

### Potential Solutions:

- Arguably Board composition should reflect society more closely. This will be difficult to achieve in the short term without looking again at the criteria applied and the impact of Talent initiatives in place. This has been more successfully addressed over the past decade in the USA. This approach could be instructive in terms of best practice.
- Recruiters should demonstrate stronger professional skills in terms of their ability to identify the fullest possible candidate pool, influence and give advice to clients on the definition of roles and proposition

# The Miles Partnership

---

as it impacts on all candidates, their own interviewing and screening processes and their professional advice and support for the client in interviewing and selecting diverse candidates.

- This in turn requires recruitment firms to formalise their professional skills with some form of objectively standardised accreditation.
- It also requires recruiters to challenge clients thinking and practices - a less straight forward requirement - but more likely to occur if professional skills are better measured and developed.
- Clients should be better informed on the consequences - intended and otherwise - of the language, remit, package and selection process on potential diverse candidates.
- Research suggests that, having got onto a short list, the interview is the most sensitive aspect of the selection process where unconscious bias can have an adverse effect. Recruiters and clients could usefully focus on this aspect of their selection process in improving their ability to successfully place diverse candidates.
- 'Different' candidates also need specific and tailored support in terms of on-Boarding and career development. Again, this is a targeted approach and whilst bigger issues around culture are complex and strategic, some success could be achieved through focusing on ensuring the best possible Talent support is in place.
- This is especially important in sectors and organisations where diversity is rare and also at Board level where Board review evidence suggests induction and development is variable.
- It may be possible to measure and articulate the professional diaspora each NED candidate belongs to in order to begin to identify overlaps in the social networks often assumed to influence Board appointments, which in turn may play a part in decreasing actual access and mobility and reducing diversity across many dimensions. This may begin to address the influence of pre-existing relationships on the NED selection outcomes.
- Organisations should collect and make public data on diversity including on the impact of the selection processes on diverse candidate pools. This should also include data on remuneration as it relates to measures of diversity, particularly in relation to discretionary elements.

## Role of Institutional Investors

### Observations:

- Clearly, institutional investors have an interest in ensuring that the businesses they have invested in have the Talent required to deliver sustained performance.
- Business leadership itself often constitutes an element of the real value of an organisation.
- In our experience, such investors may offer an opinion on the focus and process entailed in a significant recruitment, such as to CEO or CFO. They are restricted in their scope to influence specific selection decisions directly.
- Some investors - certain private equity businesses, those involved in hostile situations etc will be involved much more directly in securing their own interests through direct influence of Board and Executive composition.
- Institutional investors and shareholders have often voiced concerns over the performance of business leadership - and some have voiced strong perspectives on business culture, remuneration and other Talent related issues.
- Reputational risk is strongly linked to Talent strategy (recruitment in particular), culture and behaviours. It seems likely that institutional investors will seek to influence these factors more strongly over time.

### Potential Solutions:

- In this area, significant shareholding brings influence but we would not wish to see even greater influence over the selection of candidates and interview process.
- A requirement to have a validated emergency succession plan for key roles could be put in place as a starting point
- There is scope for institutionalised investors to continue to voice interest and concern over wider Talent issues and to demand greater visibility and accountability for some outcomes.
- The lack of data in terms of meaningful metrics and direct linkages to business strategy may mean that currently investors lack the insight to know where they should offer constructive challenge.
- Equally, it is likely that reputational risk as much as any other, will continue to fuel investors interest in securing better outcomes through the people agenda in general and succession in particular.

## Summary

The evidence suggests that Board and Executive succession are significantly impacted by current practice in terms of Talent's position relative to wider business strategy.

Talent is now being recognised as a significant potential risk factor for companies (e.g. AON reported the failure to attract/ retain Talent at number 5 in their 2015 Bi-Annual Global Risk Survey).

In particular, management of Talent pools, business culture, Talent and career development drive outcomes. Boards are light on HR expertise, measurement and accountability are variable and this contributes to a less progressive and engaged approach to addressing issues impacting pipeline.

There is an overriding sense that organisation's believe succession at the highest levels to be more an art than a science. We would suggest that adopting a more structured and measurable approach will drive better outcomes in terms of greater visibility and insight into current status and future demand, better alignment to business strategy and the potential to begin to create a more demonstrably level playing field.

Specific remedies would include the following:

- Enhancing the clarity, positioning and capability in the Talent functions
- Ensuring Board composition includes strong HR capability
- Clarifying the remit and focus of the Nominations Committee and ensuring that composition, process and reporting reflect this remit
- Mandating reporting of people risk
- Improving reporting and performance against specific metrics including remuneration, selection process impact and bench marks on best practice
- Further progress towards professionalizing Executive Search
- Overall reinforcing of existing requirements and best practice in selection process

## Annabel Parsons



Annabel Parsons is a consulting partner at The Miles Partnership.

Her specialism is delivering Talent solutions for global client organisations across all market sectors including industrial, financial services, consumer, pharmaceutical, technology and governmental.

Annabel has led the design and delivery of wide ranging leadership solutions including CEO succession, Leadership assessment, Talent management and Board performance reviews. She has delivered global projects in all regions and developed complex solutions for multi-location and level assignments.

Prior to joining The Miles Partnership Annabel was Head of UK Leadership Consulting at Heidrick & Struggles, the global leadership advisory firm. Previously, she was senior partner responsible for the global management assessment practice at professional services firm. She has a wealth of experience in global consulting and assessment and has lived and worked both in the UK and the US.

Annabel began her earlier career as a psychologist. She was director of patient services for a clinically focused organisation and designed and delivered clinical interventions. She received her Master of Science in Organisational Psychology from City University in London and her Bachelor of Science in Applied Psychology from Aston University, Birmingham. She is Level A and B qualified by the British Psychology Society and has qualified on multiple psychometric instruments. She is a trained Cognitive Behavioural coach. She has published research on occupational stress, mentoring systems and Talent management.

## Contact

### **Annabel Parsons**

Partner, Leadership Consulting

The Miles Partnership

[annabel@miles-partnership.com](mailto:annabel@miles-partnership.com)

+44 (0) 207 569 9538