

Non-Executive Directors' Association
Bracknell Enterprise & Innovation Hub
Ocean House,
12th Floor, The Ring,
Bracknell,
Berkshire,
RG12 1AX

Catherine Woods
Financial Reporting Council
8th Floor
125 London Wall
London
EC2Y 5AS

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Dear Ms Woods,

UK Board Succession Planning

Introduction

We are the Non-Executive Directors' Association ('NEDA') an independent membership organisation that supports and promotes the interests of non-executive directors ('NEDs') at each stage of their career, from aspirant to experienced, as well as those that are considering or need to retire.

We welcome the opportunity to respond to this Discussion Paper and believe that this is an important area highlighted by the recent work of the Financial Reporting Council ('FRC').

Response

In order to respond to the Discussion Paper we have consulted with a range of our members who are NEDs in companies that are required to follow the UK Corporate Governance Code ('The Code'). The summary below is reflective of the interests of these NEDs, as well as those of NEDs in the general corporate sector. We have followed the headings used in the Paper.

1. *Business Strategy and Culture*

We agree with the focus on the Main Principle A.1 of the Code regarding 'effective boards and the long term success of the company'. The development and implementation of a strategic plan that seeks to deliver the business objectives and supports a sustainable corporate culture is an essential responsibility of the board. The board itself should work together as a team providing clear direction, based on an agreed mandate.

In order to facilitate this the role of the Chairman, supported by the Senior Independent Director, is critical as strong leadership helps to shape a strong board. The link between board succession planning and the development of business strategy and company culture must therefore start at the top and form part of the Chairman's corporate governance agenda. In determining the future direction and any potential changes in the business model itself, particularly in the context of a rapidly changing business environment, it may be clear that the composition of the board needs to change, particularly if new markets, new services and new economies are being targeted for future growth and expansion, and these require the introduction of a new skill set or basis of experience.

2. Nomination Committee

(a) The Committee

We agree that Nomination Committees have typically been given less profile as most governance focus falls on the Audit and the Remuneration Committees and as noted some companies consider their size not meriting a separate committee in this area, especially where board positions have been relatively stable and the Chairman believes that they can cover this aspect as part of the main board responsibilities.

However, if the importance of good board succession planning is recognised it should lead to boards of listed companies re-considering the benefit of establishing a separate committee to carry out nomination-related activities. Given other demands on the time and commitment of the board this area is often not given the attention that it deserves and this may also be linked to not having an actual succession plan document in place – often the concept is embraced but the formalities are lacking. Consequently, in order to do this properly benefit may be gained from the formation of a committee that meets at times relevant to the Human Resources calendar, and may even be used to support to the activities of the Remuneration Committee at key times during the financial year.

(b) The process

The nominations process itself, particularly for NED roles, continues to concern us. The appointment of new NEDs can prove difficult – companies want NEDs with experience – aspirant NEDs want to take on roles – often we still see evidence of companies and Chairmen of boards taking the easy option and appointing a ‘seasoned’ candidate (either known in their networks or unknown via recruiters or search agencies) rather than the best candidate. New NEDs in particular get very frustrated trying to start their NED career, although they are often not helped by their lack of understanding of how to sell both themselves and the value that they can bring to the NED role.

The observations above may also link to the perception noted in the Discussion Paper regarding “*those who challenge are sifted out during the recruitment process*”. Bringing in new directors with new ways of thinking can open the boardroom to those who are more challenging, but this should be part of the role and so there is a balance that needs to be struck with the demands of satisfying greater board diversity.

3. Board Evaluation

Board Performance Evaluation has gained more momentum and the Code requirements regarding the additional provision of using an externally facilitated evaluation every three years has steadily evolved from the typical starting point of completing a questionnaire and having an interview with Chairman. We believe that this activity is very important and needs to be further enhanced and strengthened. We also agree with the comments regarding the setting of objectives at board, committee and individual director levels as there needs to be a set of targets used as a benchmark to measure performance.

Our concern is that there is little linkage to the on-going training and education of board members, as setting personal objectives should include establishing a plan for any training needs and as part of the performance review process the completion of this training plan should be assessed. In effect this is the board or NED’s evidence of an individual director’s Continuing Professional Development (‘CPD’). The Board Performance procedures should also align with and support the review of succession planning, again the formal document should be considered, which includes the underlying assumptions and the key external aspects (the market, key advisors and source of potential candidates).

These plans may take the form of 'succession planning matrices' and if this is the case these documents should be owned by the Nominations Committee or the board, and the content should be subject to on-going review and challenge.

4. Pipeline

The development of a 'pipeline' within a company can enhance the succession planning process, particularly by providing greater transparency of personal development options and in turn positive motivation to stay in the organisation.

As a Non-Executive Director association we have promoted in-house programmes that assist high-performing executives to find non-executive positions on external boards. The company acts as sponsor and supports the individual in undertaking such roles – this must be on the understanding that there is degree of flexibility with some give and take on time allowed off-site. We believe that these types of programmes can be successful if combined with initial NED education and training and on-going mentoring – there also needs to be a demonstration of the value and benefit for both the individual and their sponsoring company. These types of programmes can also help to promote a 'younger' NED cohort and help dispel the old tradition of only taking on a NED role in retirement.

The establishment of an 'external pipeline' of NEDs can demonstrate a real commitment to a succession planning process – the board keep abreast of how the market is developing and can also help identified individuals transition into a future role – this may even be part of an 'apprenticeship' type of relationship where a candidate works along-side the NED that they may eventually replace. NEDs only have a shelf-life of typically between 3-9 years, if they are to be considered independent, and so they should also be instrumental in getting involved in succession planning, especially if they want to leave their own legacy. They may also be able to introduce good NED and professional advisory contacts built up from other board roles.

5. Diversity

We are a firm believer in the need for greater board diversity and whilst progress has been made, particularly in respect of gender, there is still more to do. We agree with the Code's emphasis on a broader view of diversity – it is more than just gender and should cover other areas such as experience, skills, age, race, geography.

The link with succession planning is clear – if you have a good plan you can make sure that you consider all angles to effect change which will include length of tenure and may in turn be influenced and directed by a robust evaluation of board performance. As previously noted the Chairman's role in leading the board is critical and they need to positively encourage the right form of diversity – it is not just a case of "we need a woman on the board" – there should be a consideration of who is the best candidate and how will they help us with our long-term strategy and further enhance our corporate culture.

6. Institutional Investors

We agree that major investors can play an important role in succession planning, however there is a balance of what constitutes the appropriate level of support and engagement, without being seen to exercise control or undue influence. The essential ingredient is to have open and timely dialogue and Institutional Investors should encourage the formality of developing, recording and communicating a board succession plan.

Conclusion

There are a number of key issues raised in this consultation and we would be happy to follow up our response in more detail as required.

Yours sincerely



Louis Cooper
Chief Executive

T: 07899 062125
E: louis.cooper@nedaglobal.com