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Financial Reporting Council
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Response to Consultation on the UK Board Succession Planning

Dear Ms Woods

Business in the Community is pleased to respond to the Financial Reporting Council's consultation on UK Board Succession Planning. We limit our comments to the issues and questions raised in pp12-13 covering Diversity.

We were pleased to see in the preface to the 2014 version of the Code that the elucidation of the term "diversity" was expanded to include race as well as gender. We were also pleased to see this wider interpretation being used in the consultation document. We hope, therefore, that any guidance on Board Succession Planning or revisions to the Code is uniform in referring to diversity as meaning at least "gender *and* race."

A succession plan should incorporate and deliver diversity objectives by: stating the company specific business case for board diversity; stating the company's general diversity targets & methods; proposing how the general targets & methods will be applied to the board itself; considering the succession planning relationship between board diversity and executive committee diversity.

There is more to be done to encourage greater diversity in the boardroom, and all stakeholders have a role to play. In a short response it is not possible to provide a comprehensive answer to this question, so we have selected a single recommendation. Gender diversity is now better reported, however the ethnic diversity of a board is difficult to assess. Guidance on ethnicity definition, disclosure, & reporting would improve transparency & focus, and in some ways is a precursor to effective succession planning for this aspect of diversity.

Business in the Community does not offer a view on provisions relating to non-executive directors' independence and length of tenure.

Executive search firms play an important role in board recruitment. Used well they can reach a more diverse pool of candidates than relying on people within a board's existing "orbit". However, care needs to be taken to avoid moving the search from the company chairman's address book to the address book of the chairman of the executive search firm. Business in the Community research in November 2012 showed evidence that BAME candidates were less successful than white candidates when applying for jobs via recruitment firms. We recommend that Nominations





Committees show due diligence in establishing the diversity credentials of executive search firms, and that their brief to such firms covers diversity. For example, the brief could require diverse short-lists and diversity within the firm's staff responsible for initial selections.

In continuing to make our recommendations in support of the importance of board diversity we refer to:

1. "Groupthink" remaining a risk to board effectiveness. The 2014 version of the Code relates this to the problems of the recent financial crisis and recommends that sufficient board diversity may lessen groupthink and promote more constructive challenge and debate.
2. Directors' general duties include a duty to promote the success of the company with regard to other stakeholders in addition to the members (Section 172.1 Companies Act 2006); if they are not themselves broadly representative of those stakeholders this duty is harder to perform and they may unconsciously favour one group to the detriment of others.

There has been wide recognition of the positive effect of changes to the Code promoting in particular gender diversity. Understanding the general demographics of the succession pipeline for the UK workforce as a whole is material to the plans for the diversity of individual boards and executive committees.

Yours sincerely

David Pemberton
Executive Director

