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Sent by Email: successionplanning@frc.org.uk

29 January 2016

Dear Ms Woods,

Comments on Succession Planning

We are writing to provide our feedback on the FRC's paper "UK Board Succession Planning". We welcome the publication of the paper, as we have become increasingly concerned that companies are not adequately prepared for succession. We believe many poor remuneration decisions are also the result of poor planning, as companies that do not have a succession plan often have to enact emergency measures to recruit replacements in a time of crisis, leading to them over-paying for talent.

We have not provided responses to every question, but elected to respond where we felt our input would be most valuable.

1. By what practical methods can the development of business strategy and company culture be linked to succession planning?

One NED we met with stated that the best time to start speaking to a CEO about succession planning is on the first day in his or her new role. If boards approach succession from the beginning of an executive's tenure, they can better ensure that the strategic plan is intimately linked to succession planning. It also ensures the topic does not become 'taboo' and is regularly reviewed with the CEO and executive team. By addressing the issue upfront, the board can set the expectation that succession and the long-term resilience of the business in times of uncertainty is built into the business plan and is part of the culture.

2. 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 would like to have more information on how the pipeline of talent is managed, and how this works to support succession planning at senior levels. We often elicit this information in company meetings, which we view as helpful to understanding the overall strategy for managing talent throughout the business. More information about how the board engages with talent below the top line executive level would be appreciated. However, we are

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cognisant of not creating lots of additional reporting requirements for companies that may result in the use of boilerplate language.

3. To what extent do you agree with the assertion that those who challenge are sifted out during the recruitment process?

We have no specific knowledge of this happening systemically. However, we do think that for some companies with poor governance, the very nature of the company and the board may result in self-selecting weaker NEDs that do not challenge management. For example, companies with a strong founder and/or controlling shareholder may be more likely to select NEDs that are unwilling to challenge the status quo. This type of behaviour is indicative of poor governance generally at a company, which has consequences for succession planning.

4. 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?

We would support better disclosure in this regard. We are encouraging companies to be more open about their 'skills matrix' and where they seek to fill any gaps. Disclosure of this nature should not be onerous.

5. What is your experience of public advertising for non-executive roles?

We are sympathetic to the view that roles should be publically advertised to help source the most diverse and skilled candidates. However we are wary of the problems this may cause if the recruitment announcement is price-sensitive information. Perhaps the best place to start is with public advertising for non-executive roles, which are less likely to have price consequences.

6. 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?

We think the Code is sufficiently clear.

7. What, if anything, can be done to improve the standing of the nomination committee?

We think the nomination committee's role will become more important as investors and the FRC ask more questions about succession planning. This consultation is a good first step.

8. To what extent is the role and operation of the nomination committee a subject for discussion between investors and the board?

We do not focus our discussion on the operation of the nomination committee per se, but rather ask the Chairman (and sometimes the Chairman of the remuneration committee) about the company's plans for succession. We do not think there is much value in creating more rules or guidelines for the operation of the nomination committee.

However, the one area where we would like more information is in the relationship between the nomination committee and the remuneration committee in external recruitment situations. There have been cases where the Chairman or nomination committee Chairman has led an external recruitment process that resulted in a very large pay package. It is not clear to us whether, and at what point, the nomination committee should consult with the

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remuneration committee to agree an acceptable pay package. Prioritising recruitment 'at all costs' can result in companies over-paying for talent. We believe this may be the result of poor communication with, or poor oversight from, the remuneration committee.

9. 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?

Current disclosure regarding board evaluations is inadequate. Most companies report that they undertook a board evaluation and that the board is operating effectively. It would be more helpful to understand what aspects/topics the evaluation looked at, what weaknesses were found (in general terms), and what mitigation the company will take to address any concerns. Marks and Spencer's 2014 annual report provided a good example of more meaningful disclosure on the board evaluation process.

10. Would retrospective disclosure of previous board evaluations be useful and how might companies go about this?

Yes, see above.

11. We would like to know more about the practical use of succession planning matrices by companies.

We think disclosure of matrices to shareholders is useful. They should be developed through a mix of internal deliberation and external expertise. It should consider both the skills needed right now, and the skills required in the future (5, 10 or 20 year horizon). We are interested to understand how boards are thinking about longer term issues that might impact the business, and how that feeds into their skills requirements. For example, do the boards of oil, gas, and utility companies have the right skills to discuss and debate the long-term issue of the transition to a low carbon economy and the impact that might have on their business in the long-term? Similarly, do bank directors have the sufficient skills to consider and assess the risks related to cyber security, data privacy and 'big data'?

12. 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.

We are particularly pleased when companies make a concerted effort to move talent between divisions to broaden their skills and experience. For example, one company we met with ensured that the divisional heads were moved around and gained experience working in other divisions. We are also supportive of companies that encourage senior people in the business to take on non-executive director roles at other companies. Such an initiative can help unlock talent and provide a good source of diverse board candidates.

13. What are the best ways to ensure that board members become more familiar with the work of internal candidates and their skills and attributes?

There is a lot of merit in companies adopting sponsorship and mentoring schemes to help senior talent identify younger more junior talent and ensure they have a development plan and personal encouragement. If done well, we think sponsorship programmes can help

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improve gender, socioeconomic and ethnic diversity at the senior levels of the talent pipeline over time.

14. How should a succession plan incorporate and deliver diversity objectives?

We think the succession plan should be intimately tied to any diversity initiatives, as failure to do so would relegate diversity initiatives as supplementary and not part of the strategic plan of the business. The succession plan provides the board with an opportunity to consider the pipeline of talent within the organisation and identify and address any diversity gaps before it becomes a more critical strategic issue.

15. What more can be done and by whom to encourage greater diversity in the boardroom?

The CEO should lead the process of addressing diversity within the succession plan, but the nomination committee chairman should be responsible for holding the CEO to account. Human resources should provide the board with adequate information on the diversity, or lack of diversity, of the talent pool when the board considers the succession plan so that the CEO and the board can address any areas of weakness. The Chairman should be responsible for leading on addressing diversity at the board level.

16. 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?

We don't have any major concerns regarding the length of tenure of board directors. Most companies in the UK are mindful of the nine year 'rule' and refresh the board as needed. The issue lies with how directors are recruited. For medium and smaller companies, board appointments are often made through word-of-mouth which may not always provide a diverse talent pool.

17. What experience have companies or investors had in terms of engagement about the introduction of new talent to a board?

We would hesitate to get directly involved in suggesting candidates for recruitment to the board, unless we felt it was a significant and acute issue that the board was not addressing. We think non-executive directors and their executive search firms are best placed to lead the process of finding talent. Boards need to set clear guidelines with their external recruitment agencies on what they are looking for in terms of diversity of experience, skills, gender and ethnicity. Boards should be willing to push back and challenge executive search firms if they are not getting the types of candidates they want.

18. What information can be shared constructively between companies and investors on succession planning and talent development and how?

As investors, we would like to know more about how internal talent is nurtured and developed for the purpose of succession, and how the executive team and the board ensure that diversity is a core component in planning and managing the pipeline of talent. We understand that there is a limit to how much boards can share, particularly when they are actively recruiting. We want assurance that these matters are considered routinely so as to avoid a situation where the issue of succession becomes the 'elephant in the room'. While

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we think some improvements can be made to corporate reporting (i.e. less boilerplate language), sometimes we think this information is best elicited through direct company-investor engagement.

We hope you find our responses useful and informative. If you have any further questions, please do not hesitate to contact me.

Yours Sincerely

A handwritten signature in blue ink, appearing to read "A Claxton".

Ashley Hamilton Claxton
Corporate Governance Manager

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