Note:

There is ambiguity in some of the questions in terms of whether they refer to non-executive or executive succession planning. These are two very different activities that call for distinct methodologies. Our answers below refer to non-executive succession planning unless we state otherwise.

Business strategy and culture

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

   To turn the question around, it is essential that succession planning – for both senior executives and non-executives – is linked to business strategy and that the question of an individual's fit with the corporate culture is taken into account.

   Spencer Stuart research has found that in the majority of cases, poor cultural fit is the principal reason why executives appointed from outside do not succeed in their new roles. At board level, it is perhaps misleading to talk about 'cultural fit' for directors. Organisations have distinctive cultures (and subcultures) formed by large numbers of employees over time, whereas boards are small entities made up primarily of outsiders. We think it is more appropriate to talk about the 'dynamic' of a board rather than its 'culture'. That said, the board cannot be disconnected from the culture of the company and CEO and other senior executive succession planning must take it into account.

   When the board is considering its own succession, it needs to think about where it wants the business to be in 3, 5 or 10 years' time and to develop a plan for how to get there. This will involve producing a matrix which shows the relevance of each director's skills and experience to the company's medium- and long-term goals. The balance of skills will change upon each new appointment so the skills matrix is something that needs to be revisited continually. Board succession planning is a gradual yet purposeful process.

   We would like to draw the FRC's attention to the following article published recently by Spencer Stuart: *What do boards need to know about corporate culture?*

2. *How best can the link between strategic planning and effective succession planning be reported?*

   This could be competitively sensitive information. It might not always be appropriate for a board to report in detail on the steps it is taking if that meant divulging its medium- or long-term targets. However, it might be helpful for the nomination committee report to provide some graphical demonstration of its succession planning process, along the lines of the Barratt Developments annual report (page 63).

Nomination committee

3. *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?*

   Some form of standardised reporting would be helpful. If nomination committees were required to answer the same questions in their report, investors and other stakeholders could compare like with like. Create a template containing key issues, similar to Remuneration and Audit, would help the 'read-across'.

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

   We do not agree with this assertion. We have never known someone sifted out of the appointment process on those grounds – in fact, quite the opposite. We often hear comments such as "We selected X because she asked the most challenging questions."

5. *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?*

   Absolutely not – this is sensitive, competitive information. It should be enough to describe the nature and objectivity of the appointment process.

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

   In our experience, advertising non-executive directorships is often unproductive. It is rare for advertising to bring credible candidates to the surface. What's more, some candidates simply won't engage in a process where advertising is involved. Under OCPA rules, advertising is required for public appointments, but in our experience public sector boards have tended – though not always – to appoint from the list of candidates who have come from search rather than advertising. Service providers have to bear the cost of this extra effort which generally produces little or no return.

7. *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?*

   Section B2 of the Code, "Appointments to the Board", does not mention the term "succession planning", nor does it mention "strategy". "Succession planning" is only used once in the Code in relation to executive directors. We believe that whole board succession planning is a vital aspect of the nomination committee's responsibility and that any individual appointments should always be viewed in the broadest possible context, taking account of the company's strategic goals, term limits, and the relevance of each director's skills and experience today and 3-5 years hence.

   Increasingly, we see nomination committees leading the search up to shortlist stage, with the full board getting involved at the final interview stage in making appointments.

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

   In our experience the nomination committee's agenda has grown significantly over the past five years. Typically, its remit covers:

   - **Succession Planning,** for the chairman, CEO and non-executives (including skill profiling, handling appointments, implementing diversity policies, etc.)
   - **Board Performance,** including the evaluation of board and individual director performance, their training and induction and administration matters.
   - **Corporate Governance,** including taking responsibility for the Governance Report and its implementation and observance, control frameworks and conflict resolution.

   Enhanced reporting of such a remit would rapidly change perceptions – additionally, the title 'nomination committee' hardly does the agenda justice and should be changed to reflect the wider remit described above.

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

   Generally speaking, it's not currently a subject for discussion. Investors trust the board to undergo a proper process and appoint competent and qualified directors. Chairmen often talk to key investors once an appointment has been made. It is not commonplace for boards to refer to investors or seek their approval before an appointment is made – it would be a misreading of the relationship to expect boards to do so. In practice, informal soundings will be taken of investors prior to a chairman appointment, but rarely for non-executive appointment. That said, investors can raise the role of the nomination committee and questions about board composition at any point if they want to.

Board evaluation

10. *What practical changes could help ensure boards fully consider succession planning within the annual evaluation exercise?*

    In our experience, boards already consider succession planning as a matter of course as part of the annual evaluation process.

11. 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?

    There is still a wide variation in the amount of detail that boards provide on their evaluation process – many companies provide only the minimum. More standardised reporting using a template would be helpful. The best annual reports state who did the evaluation and describe the key issues, recommendations and action points arising from the process. Some companies will report on the progress against the action points from previous years.

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

    We do not believe this would be useful. It would be more useful to look ahead. There is currently significant variation in how external board evaluations are conducted – more uniformity and professionalism is needed if more companies are to benefit from the most effective approaches to board evaluations.

Pipeline

13. *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.*

    This question is for companies to answer.

14. How could companies do more to establish an external 'pipeline', tracking and nurturing external candidates – particularly NEDs?

    This is a necessary part of a long-term board succession planning process and must be handled very discreetly and ideally by way of a professional partnership with a trusted executive search firm. This kind of planning is becoming more common practice, but it is not ubiquitous.

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

    Senior executives who are candidates for senior executive roles, such as CEO or CFO, should be given the opportunity to interact with the board, for example in presentations, strategy off-sites and in less formal settings such as board dinners. Some boards ask board members to mentor high-potential executives. Equally, members of the board should spend more time visiting the business which will give them the chance to meet senior and high-potential executives in situ. All this adds to the commitment and scale of the non-executive director's role.

Diversity

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

    The board's objectives for its own diversity may well be clarified by the board evaluation process. In practice, these objectives may be limited to government diversity targets or they may go further. In any case, they must be discussed at the nomination committee as part of the whole board succession plan.

    Diversity objectives for employees throughout the organisation need to be clearly articulated and understood by the board. Two features are critical to any successful diversity and inclusion initiative: robust metrics and management accountability. Diversity and inclusion initiatives also have a significantly higher chance of success if the organisation's CEO is leading the way through genuine engagement. The board has to take an interest in the company's diversity objectives and hold the management team to account, but timescales must be realistic and lasting results can only come from the bottom up, not from the top down.

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

    Diversity should be defined as broadly as possible and consideration given to a range of factors such as gender, nationality, age, race, experience, etc. It is too simplistic to say that these factors alone guarantee diversity of thought around the boardroom table. This is not an appropriate area for regulation, since context plays a crucial role – every company's needs are different. Board chairmen need to be liberal and open-minded on the subject of board diversity and nomination committee chairmen should be encouraged to take more risks.

    Chairmen face a difficult challenge in assessing the ability and potential of inexperienced candidates to contribute effectively in the boardroom. Spencer Stuart has developed a proprietary assessment approach, *Board Intrinsics*, that looks beyond track record to assess the intrinsic capabilities of less experienced and non-corporate candidates and evaluate their potential as effective board members. Our approach enables us to evaluate these qualities in an individual, predict whether they have what it takes to perform effectively as non-executives, and identify what needs to be done to assist their development.

18. *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?*

    Yes they do. However, the recommendation of a nine-year limit on director tenure should be more rigorously observed. Companies should be required to provide a thorough explanation if they choose not to comply with the nine-year limit.

There is a loophole to tenure limits which needs to be reviewed. In mergers and IPOs for example, the clock is re-set on non-executive tenure, thus allowing a director to continue on the board of the merged entity and theoretically serve as an independent director for a total of up to 18 years.

Now that all directors must be re-elected by the AGM, the notion of three-year terms is somewhat outdated. There should be no stigma attached to serving less than nine years, particularly given the need to change the composition of the board in line with strategy and disruptive and competitive forces.

19. *It has also been suggested that HR and nomination committees should work more closely with executive search firms to identify more diverse candidates. Can you provide examples of how this has taken place?*

In our experience, HR is rarely involved in board search. It is more likely that GCs/company secretaries are involved. When it comes to board candidates, an executive search firm has significantly more knowledge, access and experience than HR. That said, search professionals could and should challenge the role specifications that boards provide more strongly.