

Ms Catherine Woods  
Financial Reporting Council  
8<sup>th</sup> Floor  
125 London Wall  
London EC2Y 5AS

7 January 2016

Dear Catherine

### **UK Board Succession Planning**

Thank you for giving the Institute of Directors (IoD) the opportunity to comment on your discussion paper, *UK Board Succession Planning*, published in October 2015. Issues of this nature are of considerable interest to the IoD and its membership and we are therefore pleased to present our views in respect of your proposals.

#### **About the IoD**

The IoD was founded in 1903 and obtained a Royal Charter in 1906. It is an independent, non-party political organisation of approximately 35,000 individual members. Its aim is to serve, support, represent and set standards for directors to enable them to fulfil their leadership responsibilities in creating wealth for the benefit of business and society as a whole. The membership is drawn from right across the business spectrum. 71% of FTSE 100 companies and 51% of FTSE 350 companies have IoD members on their boards, but the majority of members, some 70%, comprise directors of small and medium-sized enterprises (SMEs), ranging from long-established businesses to start-up companies. IoD members' organisations are entrepreneurial and growth-orientated, and more than half (57%) export goods and services internationally.

#### **Overall response**

In the last 15 – 20 years, our thinking around the appointments process of board directors has changed significantly. The days where CEOs and chairman simply appointed friends, family and colleagues as board directors are long gone. There has been, to reference a recent research document jointly published by ecoDa and Korn Ferry in 2015, “a change over the last decade in how the board nominations process works, primarily as a response to new waves of corporate governance guidelines.”<sup>1</sup>

Since 2008, it is not just the financial services industry that is in a state of dynamic change. All businesses, of all sizes, now face some form of transformation, whether in the form of regulatory changes, market disruption, changing technology or competitive pressures.

---

<sup>1</sup> Korn Ferry/ecoDa, *Beyond the old boys' network* (2015), p. 1

Much of this change in the UK is certainly the result of the UK Corporate Governance Code and its various iterations since 2010.

A notable change, which is having a positive impact on boardrooms, is that of gender diversity. In the UK, the FTSE 100 was set a target in 2011 to reach a milestone of 25 per cent of board positions being filled by women, a goal which was achieved in 2015. Focus during the appointments process and in succession planning means, therefore, that the search for candidates must not only be made on merit, but with due regard for the benefits on the board, including gender. It has never been more important to build a board with the right skills, diversity and culture.<sup>2</sup>

That said more could certainly be done by boards. There are many reasons why this might boards aren't thinking more holistically about boardroom personalities, such as the desire by a board to maintain status quo, believing stability to be more important than innovating and changing its composition. By not refreshing the composition of boardrooms, stagnation and a lack of proper oversight can come to define boards.

As such, a premium has now been placed on assembling "the right executive and leadership talent capable of navigating these changing conditions."<sup>3</sup> Indeed, according to a recent report by PriceWaterhouseCoopers, CEO and director succession planning are quintessential board composition issues. Having smooth transitions in these leadership roles is crucial to a company's long-term success.

We, therefore, agree with you that good succession planning can and does contribute to the long-term success of a company, although to see it as a panacea to success would be folly. It is nonetheless, important. In practice succession planning can ensure a continuous supply of suitable people who are ready to take over when directors leave.

Specifically, following are a number of salient points that we would like to make with respect to succession planning, which we believe you will find helpful.<sup>4</sup>

- 1. Composition and strategy:** Boards should regularly review their makeup in light of the company's strategic direction, identify the capabilities that would be valuable to the business and regularly infuse the board with fresh perspectives relevant to the organisation's future. This is a crucial point and cannot be emphasised strongly enough: when a company's strategy alters, for whatever reason, then one must look at the suitability of the present board.

---

<sup>2</sup> Department for Business, Innovation and Skills, <https://www.gov.uk/government/news/lord-davies-ftse-350-boards-should-be-33-female-by-2020>, October 2015

<sup>3</sup> Spencer Stuart, *Succession planning for the board*, (2015)

<sup>4</sup> Korn Ferry/ecoDa, *Beyond the old boys' network (2015)*, p. 20 – 27

2. **It is important to ensure rigour and independence in the board nomination process from the outset.** Any board nomination process will be only as good as the context and framework in which it is carried out. In the past, many appointment practices tended toward closed networks and heavy involvement by “chairmen” and/or chief executives.
3. **During the appointment process, it is always important to keep main stakeholders informed.** Involving other stakeholders (i.e. executive management, employee groups, and significant investors) in the appointment of board directors isn’t always easy in practice, but is important to at least provide certain parties with a regular update, especially if the process is taking some time to complete.
4. **The CEO should not have veto power on nomination committee decisions;** however, they should be involved in the process and be consulted during the decision making. According to Korn Ferry, there are contrasting opinions on whether the CEO should be a member of the nomination committee (and, in some countries, CEO participation may not be allowed by regulation or board structures). However, it is beneficial to take into account some degree of informal CEO input, both in terms of skills and behaviours needed on the board.
5. **Often overlooked, and yet incredibly important, companies should strive to build a coalition:** A succession plan is a set of guidelines the board/nomination committee should follow when appointing a new independent director. It will describe the competences, experiences, traits, and drivers the board needs to discharge its duties effectively and work as a functional group. The plan should also identify profiles of individuals who match those skill sets and behaviours. The level of detail a plan will have is a function of the company’s size, requirements, and the regulatory environment in which it operates.
6. **Conducting a gap analysis is key to any succession plan.** Having reviewed the strategy and direction of the company identifying (and agreeing) the range of skills and experiences needed around the boardroom to ensure that the strategy is adequately executed and supported.
7. **Evaluation and appraisal of non-executive directors is an essential ongoing process that helps to refresh the capabilities of any boardroom.** In reality of course, small and medium sized companies, which represents the bulk of our membership, may only have a handful of non-executive directors, who will therefore be on every committee.<sup>5</sup>

---

<sup>5</sup> EY, Time for Change: *Recruiting for Europe’s boardrooms* (2013), p. 6

Although the key audience for this project is the FTSE 350, there is clearly a need to distinguish between well-resourced companies and smaller businesses that do not have the resources to keep changing their non-executive directors, especially for those new entrants onto the FTSE or AIM market.

- 8. The nomination committee:** That the nomination committee plays a crucial role in examining the board's needs over time is now a generally accepted view. However, as the nomination committee's role grows in stature, so does the importance of having an individual that is forward-thinking.

As Spencer Stuart have explained, boards have traditionally tended to address director succession only on an "as-needed basis," when facing a vacancy.<sup>6</sup> It is important that wherever possible boards plan further ahead to widen the net and increase the range of potential suitable candidates.

## Conclusion

In summary, succession planning, like board orientation and training, is a good governance practice that pays long-run dividends.<sup>7</sup> The IoD thanks the FRC for the opportunity to contribute to this paper and look forward to working with you over the coming months on this project.

Yours sincerely



Oliver Parry  
Senior Corporate Governance Adviser  
Institute of Directors  
Tel: 020 7451 3282  
Mob: 07707 929337  
Email: [oliver.parry@iod.com](mailto:oliver.parry@iod.com)

---

<sup>6</sup> Spencer Stuart, Succession planning for the board, (2015)

<sup>7</sup> Great Boards Newsletter, November 2010, p. 7