Discussion Paper

Financial Reporting Council

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UK Board Succession Planning

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UK Board Succession Planning

This discussion paper focuses on board succession for executives and non-executives of those companies to which the UK Corporate Governance Code ('the Code') applies. Inevitably this involves consideration of succession below board level. Its content may also have relevance for other organisations.

The FRC's interest stems primarily from the fact that the quality of succession planning is one of the most frequent issues highlighted as a consequence of board evaluation. Stakeholders have suggested that we promote good practice to raise quality. The FRC also wishes to address the Parliamentary Commission on Banking Standards' recommendations to the FRC on issues around director nomination, in which it commented that there is a 'widespread perception that some "natural challengers" are sifted out by the nomination process. The nomination process greatly influences the behaviour of non-executive directors and their board careers.'[1]

This paper is the result of discussions with a wide range of interested parties – individually and through group sessions – and analysis of other research. Our stakeholders have been extremely generous with their time and candid with their views, for which we are grateful.

The aim of this paper is to look at the key issues, to identify suggestions for good practice and, more specifically, to examine how the nomination committee can play its role effectively. We are seeking to provoke discussion, and welcome your feedback on our approach and the issues and questions we have posed.

Good succession planning contributes to the long-term success of a company. When done well, it:

- ensures a continuous supply of suitable people (or a process to identify them), who are ready to take over when directors, senior staff and other key employees leave the company in a range of situations;
- achieves continuity to deliver strategic plans by aligning the company's human resources and business planning; and
- demonstrates a commitment to developing careers for employees which will enable the company to recruit, retain and promote high-performing staff.

The absence of a succession plan can undermine a company's effectiveness and its sustainability. It can also be a sign that the company is not sufficiently clear about its purpose, and the culture and behaviours it wishes to promote in order to deliver its strategy.

We understand that there is no simple identikit solution to succession planning. Amongst those companies which report against the Code there are a wide variety of companies of different sizes, in a variety of business sectors, and at various stages of development. As a result they all have different needs in terms of board membership and succession planning over the long and short term. Our guiding principle of 'comply or explain' remains just as relevant here as it does for all other areas of corporate governance covered by the Code.

Nevertheless, unless boards plan in advance for both executive and non-executive positions, they will struggle to ensure that the right mix of diverse skills and experience is in place. Plans

[1] Final Report – Changing Banking for Good Vol. I; Parliamentary Commission on Banking Standards; June 2013

are also required for departures in unforeseen circumstances. Failing to plan and act appropriately can pose a significant risk.

The paper is divided into six sections which we identify as important in relation to succession planning:

- business strategy and culture
- the nomination committee
- board evaluation
- the 'pipeline' (for executives and non-executives)
- diversity, and
- the role of institutional investors.

Inevitably these areas overlap and all need to be considered in the round. Nevertheless, structuring the paper in this way has been helpful in gathering views and shaping our thinking.

We encourage you to contribute to the discussion by considering the issues and questions at the end of each section. We will analyse the responses to this document, publish our findings and consider whether any further action is needed.

How to Respond

Comments on the questions set out in this discussion paper are requested by 29 January 2016. Responses should be sent by email to successionplanning@frc.org.uk.

or in writing to:

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It is the FRC's policy to publish on its website all responses unless the respondent explicitly requests otherwise. A standard confidentiality statement in an e-mail message will not be regarded as a request for non-disclosure. The FRC does not edit personal information (such as telephone numbers or email addresses) from submissions; therefore only information that you wish to be published should be submitted.

Business Strategy and Culture

Effective boards and long-term success

Central to the Code is Main Principle A.1 which states that '*Every company should be headed by an effective board which is collectively responsible for the long term success of the company.'*

The supporting principle which follows says that 'the board's role is to provide entrepreneurial leadership of the company within a framework of prudent and effective controls which enables risk to be assessed and managed. The board should set the company's strategic aims, ensure that the necessary financial and human resources are in place for the company to meet its objectives and review management performance.'

The Code makes clear that long-term business success and good governance go hand-in-hand. Therefore, an effective board must take the lead in shaping and embedding a sustainable corporate culture and this is central to its purpose. It is clear from our research that the absence of strategic, thoughtful and practical succession planning can be a substantial risk to long-term success.

There continue to be well-publicised examples where the lack – or inadequate implementation – of planning has led to a range of negative consequences for companies, including share price movement, profitability, customer retention and market share, all of which contribute to their ability to sustain and deliver the business model. It goes without saying that in terms of delivering the business strategy and maintaining or enhancing investor confidence, the board carries most responsibility, and without effective succession planning the risks to the company are increased. The absence of a succession plan is also rightly seen as an indicator of poor governance.

Key executives

This is particularly true when a Chief Executive Officer or Chief Finance Officer is unexpectedly unable to continue working or leaves suddenly. These problems are heightened if the company is at a crucial stage in implementing changes to its business strategy, culture or operations, or is facing difficult market conditions.

Agreement on the strategic direction and culture of the company is an obvious but necessary first step. Inevitably, most boards assume their company has a well-constructed and understood strategy, and a sound, sustainable culture, but there can be disagreement between directors about the future direction of the company and its strategy.

Well-functioning boards are able to reach full agreement on these strategic issues through an open and honest debate. Decisions made in this way will influence the future executive leadership which the company needs. This essential initial stage will help the succession planning process work effectively, and enable boards to select the directors best suited to the company's strategy and culture.

Issues and questions

By what practical methods can the development of business strategy and company culture be linked to succession planning? (see also page 10)

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

Nomination Committee

Code supporting principles

The Code recommends (as set out in the Annex) that *'the search for board candidates should be conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity on the board, including gender.'* It also says that boards should satisfy themselves *'that plans are in place for orderly succession for appointments to the board and to senior management, so as to maintain an appropriate balance of skills and experience within the company and on the board and to ensure progressive refreshing of the board.'* To ensure this happens a nomination committee should be appointed to lead the process for board appointments and make recommendations to the board.

It has been clear from the FRC's discussions with stakeholders that clarifying the role and responsibilities of the nomination committee, and raising its profile, are key factors in promoting the importance of succession planning. A properly functioning nomination committee with clearly defined roles for the Chairman, Senior Independent Director and the Chief Executive Officer should be evident from disclosure and reality.

While the Code's supporting principle *'that plans are in place for an orderly succession of appointments'* chiefly refers to 'business as usual', the nomination committee must also plan for a range of situations (ie not only agreed or foreseen departures). These include sudden emergencies where a director cannot continue working – death, illness, poor performance which has not been effectively dealt with, or investigation by a regulator or other public authority.

Practice

A large proportion of listed companies have a nomination committee to help discharge these principles. In some cases, particularly for smaller listed companies, the board will carry out this role. We have also been told that, given the increasing importance of board succession planning, matters are increasingly being discussed, even in larger companies, at full board level rather than being dealt with first at the nomination committee. This might have the advantage that recruitment is seen as a more inclusive and strategically aligned process.

A number of people told us that, in reviewing board effectiveness, the regularity, purpose and effectiveness of the meetings of the nomination committee were not always reviewed, particularly with regard to succession planning. Further we were told that nomination committee reporting is often not adequate.

Grant Thornton's Corporate Governance Review 2014[2] found that the nomination committee met fewer times annually (3.3 on average) compared to other committees; fewer committee Chairmen introduced the nomination committee report (35%); and the quality of disclosure did not match that of other committees. In 12 companies, the committee did not meet during the year. Some see the nomination committee as the 'poor cousin'.[3]

These are not encouraging statistics. Given boards already have a very full agenda, it has been suggested that greater use should be made of the nomination committee to make recommendations to the full board as to succession planning.

[2] Plotting a new course to improved governance; Grant Thornton; December 2014
[3] Board effectiveness – continuing the journey'; EY and the Investment Association; April 2015

We were also told that more information about individual directors in AGM papers, with a clear explanation of their contribution, would aid shareholders when voting on re-election resolutions.

Executive pipeline

Further, some suggest that alongside board appointments, a properly functioning nomination committee should also consider the senior management team as well as having a broader oversight of talent management.

Research carried out by Cranfield[4] for their Women on Boards report on behalf of the FRC and the Government Equalities Office also looked at what companies said about succession planning, to see if this supported the evidence from board effectiveness reviews that it was an area for improvement. Cranfield found that there was little consistency in what was reported, with many companies only talking about succession planning in terms of replacing individual board directors. Cranfield commented that: 'This is really a retrospective response and does not address the more strategic issue of longer term succession planning, including the development of executive strength within the organisation. Transparency around the appointment process forms part of good corporate governance reporting… However, this should not replace reporting on forward thinking succession planning.'

Nomination process

As part of our discussions undertaken for this paper, we raised the observation made by the Parliamentary Commission on Banking Standards, that there was a 'widespread perception that some "natural challengers" are sifted out by the nomination process. The nomination process greatly influences the behaviour of non-executive directors and their board careers.'[5] We found virtually no assent to this. We were told that challenge was integral to the role of non-executive directors and that it was those who did not challenge that were 'sifted out'. If this is the case, it is possible that it is an outcome of a change in behaviour following the financial crisis. It is also possible that this might be the result of a similar form of groupthink by those involved in the recruitment process which has been blamed for corporate failings – i.e. the continuing desire to reach a consensus decision without critical evaluation of alternative candidates. We would like to hear further commentary on this issue.

We would also like to hear about the experience of publicly advertising for non-executive positions. Doing so could offer access to a wider range of candidates who might otherwise have been overlooked, with new perspectives and more readiness to challenge. However, public advertising can bring with it associated time and resource costs which may outweigh the risk of self-selection from a narrow pool.

The nomination committee must also be mindful of the risk of disclosure of what might be deemed price-sensitive information, particularly when an outside agency has been appointed to search the market for successors to an executive director. It is essential that disclosures to the market are handled carefully.

[4] Women on Boards: Progress following the 2012 Corporate Governance Code; Cranfield University School of Management; October 2014

[5] Final Report – Changing Banking for Good Vol. I; Parliamentary Commission on Banking Standards; June 2013

Issues and Questions

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?

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

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?

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

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?

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

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

Board Evaluation

The Code

The Code recommends that the board should undertake *'a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors'* (Main Principle B.6). FTSE 350 companies are subject to an additional provision to carry out an externally facilitated evaluation at least every three years. For the majority of companies, however, the annual internal review – often interviews by the Chairman and/or the completion of questionnaires overseen by the Company Secretary – remains the usual method by which the effectiveness of the board is considered.

Evaluation practice and its link to succession planning

As a follow up to the introduction in the 2010 Code of externally facilitated board reviews, the FRC held a series of meetings during the summer of 2013 to learn more about how boards undertake evaluation and how the market for independently facilitated board reviews had developed. The key findings from this review demonstrated the value of board evaluation and that the close integration of a comprehensive regular board assessment including succession planning is essential, as outlined below:

- It is critical that the Chairman sets a tone of transparency and openness. The Chairman has great influence over the direction of the evaluation and, as such, needs to engage fully with this process, not only for understanding the current skill set of the board, but also as a means to consider the future development of the board to match the company's business strategy, culture and future development.
- The Senior Independent Director and chairmanship of the board committees should also be considered when reviewing overall board refreshment, as planning ahead ensures that there is suitable continuity for these roles.
- Setting individual objectives for executive directors ensures effective measurement when carrying out evaluation. For non-executives, feedback and coaching from the chairman, focussing on the individual contribution from each, may be equally appropriate. This would in turn ensure the board's collective skills were continually kept under review with directors either being developed or retired as required.
- It has been suggested that evaluations should also include feedback from individuals other than board members. There is a clear link here to a director's ongoing professional development as recommended by the Code.
- Board members should take some responsibility for succession to their own role. Succession should be discussed by the Chairman with each director in order to understand the director's own view of their future in the company.
- Executive directors have a key responsibility to develop future leaders. They should be aware of, and provide views on, internal talent that might replace them in due course.
- The presentation of the findings of the evaluation to the board can require tact, particularly when they relate to succession planning. Embedding an effective process should mitigate the impact of any strong personalities.
- Greater transparency in the reporting on the outcome of board evaluations is still required. While there is no need to reveal sensitive findings, the main outcomes should be disclosed, with further information on how these will be followed up in order that the board remains effective in the future. Consideration should be given to retrospective disclosure.

Integrating board succession planning with a comprehensive annual board assessment improves board and committee performance and also provides a basis for altering the composition of the board and making sure that the right people are chairing the principal committees. An effective evaluation should not simply determine how well individual board members are performing; it should also address the important issues of teamwork and board dynamics, which directly affect how well the board performs its functions.

Succession planning matrices

Some companies and service providers in the field of board evaluation and executive search use matrices to provide analysis of boards in terms of a number of factors linked to meeting strategic objectives. Areas considered include: the evaluation of the performance of individuals; areas of expertise and experience (where strengths exist or where further development is necessary); and, the requirements of the board at various stages in the future based on the implementation of business strategy. For example, if a company is considering expanding into a new market or region, or considering expansion through merger or acquisition, it should be considering the recruitment of those with experience and expertise in these areas to ensure that the management team is sufficiently supported and challenged.

Such matrices are often further developed to take into account non-executive directors' terms of appointment, governance issues and any company policy on board refreshment. In terms of executive board positions, these plans can also be applied to and linked with personnel just below board level in respect of performance and leadership potential, and annotated in terms of the key considerations for their future development.

The results of such an analysis can then be used to inform the search or identification of potential candidates well before an appointment is needed.

Virtually all of those we spoke to found these matrices helpful, but there was debate about the extent to which they were:

- a starting point for further discussion and action (as opposed to providing clear solutions to appointment issues);
- perhaps too process-driven and restricting;
- able to take into account assessments of overall board effectiveness when informing recommendations for future appointments; and
- able to take into account the subtleties of board culture and dynamics in order to deliver effective board discussion and decision-making.

Issues and Questions

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

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?

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

We would like to know more about the practical use of succession planning matrices by companies, for example:

- Are there particular situations where they are more useful?
- Were they developed internally or bought in?
- Were they used in conjunction with consultants or other service providers?

Pipeline

Many studies on succession planning focus on the management and development of talent with a view to advancement within the company. This is often referred to as the 'pipeline' and is an important element of the work of the Human Resources (HR) function. There has been recent emphasis on the importance of the diversity of the pipeline, particularly in terms of the progression of women to board and senior management positions. We deal with diversity more fully in the next section.

A key part of long-term succession planning involves the ongoing assessment and professional development of internal candidates in order to consider their suitability for senior roles. Boards therefore need to become more familiar with individuals in the pipeline, but it appears that many struggle over how best to do this. The extent to which external candidates should be tracked and assessed for executive and non-executive board appointments when they arise (and the need for external recruitment overall) are also important aspects of long-term succession planning.

Ensuring a pipeline of diverse candidates ready for consideration for board or other senior appointments requires continuous identification, evaluation, development and preparation. Candidates should have a development plan which might include further workplace development (taking an international assignment, becoming more familiar with a particular business discipline, shadowing internal or external board members, gaining more strategic management skills etc), mentoring, feedback, coaching and perhaps more formal training. This plan should be in place from the time a director takes on a new role.

Assisting high-performing executives to find non-executive positions on external boards (whether corporate or in other sectors) may offer a valuable development opportunity and can offer a stimulating challenge sufficient to dissuade them from leaving. There are some good examples of such programmes, but insufficient evidence from our research that this is taking place on any scale. It has also been suggested, however, that such schemes have limitations in terms of the time available to executives and that selecting directors for such appointments needs to be done carefully.

The benchmarking of internal candidates versus external ones is a sensitive issue. We found that most benchmarking happens in tandem with internal assessment, so that the results of the internal assessments and external benchmarking can be compared. This process is important in giving the board a good sense of the relative strength of the internal candidates measured against the outside talent pool that would be considered for the role.

There are also clear links between a company's remuneration policy and its succession planning. For example, perceived weaknesses in succession planning can put executives in a stronger position when negotiating their remuneration. Similarly, when an executive leaves a company, there need to be clear and transparent criteria for a 'good leaver', which are applied consistently.

There is some debate about the precise role of individual players and groups within organisations when it comes to the management of the pipeline for senior roles. Clearly HR is responsible for the management of key elements of the pipeline, and it is sensible for the board to maintain an agreed list of attributes required of future candidates, but when using this information in the plan to consider eligibility for board positions, the Chief Executive Officer, Chairman and nomination committee should assume prime responsibility. Some have suggested that the company secretary can play a role here in terms of bringing the parties together. This will necessarily vary between companies, but the secretary's central position links a number of functions within a company.

The feedback from our interviews and roundtable discussions revealed distinct differences in practice between companies in the balance of responsibilities. It was clear that good practice occurred in those companies where information was openly shared, debated and acted upon – this meant effective collaboration between all parties.

Visibly good internal succession planning in a company demonstrates a commitment to developing talent which brings wider benefits such as better morale and improved competition for internal roles. In addition, remuneration packages tend to be lower when internal candidates are promoted and may help counter the ratcheting up of pay that has gained media attention.

The giving of retention payments to unsuccessful internal candidates should be considered carefully – these are not always viewed favourably by investors.

Issues and Questions

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.

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

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

Diversity

The 2010 Code update introduced the need to consider gender when evaluating a board's effectiveness (supporting principle to Main Principle B.2), while the 2012 version required greater reporting about a board's policy on diversity generally (Provision B.2.4). The preface to the 2014 version of the Code expands this further:

> *'Essential to an effective functioning of any board is dialogue which is both constructive and challenging… One of the ways in which constructive debate can be encouraged is through having sufficient diversity on the board. This includes, but is not limited to, gender and race. Diverse board composition in these respects is not on its own a guarantee. Diversity is as much about differences of approach and experience…'*

In terms of succession planning, the major benefit of diversity is avoiding 'groupthink' – when conformity in the group can result in poor decision-making outcomes. Other benefits of a more diverse board include:

- diversity of thought and approach which ensure appropriate challenge in boardroom discussions;
- better reflection of the likely global customer base of companies;
- supporting engagement with a wider range of stakeholders; and
- keeping boards in touch with public views on issues such as remuneration.

Lord Davies' target of 25% of women on FTSE 100 boards was achieved in July this year. The final Women on Boards report, concluding Lord Davies' work, is due to be published on 29 October 2015.

The need or perceived need to be 'board ready' has come under the spotlight as more women are appointed to boards. Some have claimed that less experienced individuals are being appointed as non-executive directors as a result. Previous board experience is only one aspect of an individual's qualities and experience, however, and boards need to have regard to the risks of unconscious bias, and the natural tendency to prefer the familiar and the status quo. That said, further development opportunities for serving executives of either gender will be helpful, by enabling them to hold non-executive appointments elsewhere. For the board on which the individual serves as a non-executive, having serving executives among its members brings a current business perspective to the discussions. Conversely, the individual can take lessons from their non-executive role back to their company.

There has been some debate about the Code's reference to a nine years' tenure period for independent non-executives. This is the point at which length of service becomes a determining factor for boards and shareholders when considering independence. It is said that this has hindered the increase of women on boards, either because the period is too long, or because companies are not observing the Code and too many directors are serving greater than nine years. It is of course important that the refreshment of the board is considered in the full context of the requirements of the company's business strategy, its current board's set of competencies and how best changes in membership would serve the company in the future. Where non-executive directors remain longer than nine years, a company must ensure it explains clearly the reasons why that director remains independent.

Issues and Questions

How should a succession plan incorporate and deliver diversity objectives?

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

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?

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?

Institutional Investors

Major investors clearly have an important role to play in succession planning. It is in their interests to ensure that there is continuity in the governance of the companies in which they invest and that the development of the business can be sustained effectively through the appropriate development and refreshment of the board.

The majority of investors we spoke to said that the subject of succession planning should be on the agenda when they meet board members – particularly Chairmen. In their view the conversation should include a wide range of succession issues – the board evaluation and current functioning; the need to refresh both executive and non-executive positions in pursuit of board effectiveness; board diversity; consideration of potential candidates just below board level; and the plans for 'emergency' succession. For the most senior roles, investors would prefer to be in a position to suggest the particular attributes they believe candidates should have.

Some large investors survey the market themselves for likely candidates, making recommendations to the Chairman, and keep abreast of the development of internal candidates for succession. However, for other investors there is a reluctance to become too involved – particularly in the sense of becoming 'insiders' – and no-one we spoke to thought that it was a good idea for investors to be party to the management of the appointment process.

As with board evaluations there are inevitably sensitive issues of confidentiality and there are necessarily limits to what a company can disclose publicly. Investors said they did not wish to know the names too early in the process and instead (for executive director recruitment) would rather understand the factors being considered when deciding whether an internal or external candidate is preferred for a particular role. Smaller investors, whose resources may be limited, will rely more heavily on these disclosures, and for other investors, conversations about succession planning may be based initially on disclosure by the company. Many investors told us that the underlying principle was that they should at least have confidence that the company had an effective overall plan – with plans for different scenarios – which are reviewed, updated and acted upon. This was seen by many as a good indicator of how the board is working.

Investors are also interested in the structure and responsibilities within the board for succession planning. As stated in the nomination committee section, a properly functioning nomination committee with clearly defined roles for those involved should be clear. Investors told us that they could normally tell from the tone of a conversation with directors where control lies in the process and how the succession plan was being delivered in practice.

Issues and Questions

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

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

Conclusion

From this short review of succession planning it is clear that a more considered approach is required. While board evaluations have highlighted that improvements in succession planning are important, there may be a need for more clarity on what best practice is and how boards can be better prepared.

The suggestion by the Parliamentary Committee on Banking Standards that individuals that might provide constructive challenge are deliberately sifted out by the chairman or nomination committee has not been demonstrated by the research undertaken. It may be that in some cases this is the unintended consequence of shortcomings in the appointment process.

Our research demonstrates that succession planning requires a rigorous and coordinated approach, which links a variety of players inside and outside the company. Successful companies are used to carrying out these types of complex operations – for example in terms of marketing and production – consistently and effectively, and are able to measure the results. The sensitive and personal nature of some of the issues (such as performance management and career progression) raised by succession planning, however, may mean that it is not executed as effectively as it might be.

We are seeking your views in order to enhance our research results. We will publish a feedback statement based on the responses we receive and consider whether any further action is needed.

ANNEX

B.2: Appointments to the Board

Main Principle

There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.

Supporting Principles

The search for board candidates should be conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity on the board, including gender.

The board should satisfy itself that plans are in place for orderly succession for appointments to the board and to senior management, so as to maintain an appropriate balance of skills and experience within the company and on the board and to ensure progressive refreshing of the board.

Code Provisions

B.2.1. There should be a nomination committee which should lead the process for board appointments and make recommendations to the board. A majority of members of the nomination committee should be independent non-executive directors. The chairman or an independent non-executive director should chair the committee, but the chairman should not chair the nomination committee when it is dealing with the appointment of a successor to the chairmanship. The nomination committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.

B.2.2. The nomination committee should evaluate the balance of skills, experience, independence and knowledge on the board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment.

B.2.3. Non-executive directors should be appointed for specified terms subject to re-election and to statutory provisions relating to the removal of a director. Any term beyond six years for a non-executive director should be subject to particularly rigorous review, and should take into account the need for progressive refreshing of the board.

B.2.4. A separate section of the annual report should describe the work of the nomination committee, including the process it has used in relation to board appointments. This section should include a description of the board's policy on diversity, including gender, any measurable objectives that it has set for implementing the policy, and progress on achieving the objectives. An explanation should be given if neither an external search consultancy nor open advertising has been used in the appointment of a chairman or a non-executive director. Where an external search consultancy has been used, it should be identified in the annual report and a statement made as to whether it has any other connection with the company.

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