

Insights

IS SUCCESSION PLANNING ON YOUR BOARD'S AGENDA?

Feb 27, 2020

SUMMARY

The UK Corporate Governance Code 2018 focusses on the importance of diversity and succession planning. In this article we look at the current requirements, compliance and examine some of the issues companies should consider when reporting on succession planning.

The UK Corporate Governance Code 2018 (the '**Code**') focusses on the importance of diversity and succession planning. Under the Code the nomination committee is responsible for promoting diversity in terms of new appointments and succession planning. This accords with the recommendations of the Hampton–Alexander Review for 33% female representation on FTSE 350 boards and within their executive committee (and their direct reports) by the end of 2020.

The Code, Provision 19, also prescribes a maximum nine-year length of tenure for the chair but allows some flexibility for companies to extend this for a limited time to facilitate effective succession planning and the development of a diverse board where the chair was an existing non-executive director on appointment. The FRC states that "*Provision 19 was designed to prompt greater refreshment of boards and bring succession planning to the fore.*"

For companies on AIM, the QCA Corporate Governance Code, Principle 7, requires the board to evaluate board performance based on clear and relevant objectives, seeking continuous improvement. It considers succession planning to be a vital task for boards; no board member should become indispensable.

101

Chairs in FTSE 350 companies with tenures of nine years and over (July 2018)¹

74

Chairs in FTSE 350 companies with tenures of nine years and over (October 2019)²

48%

Percentage of AIM companies with a clear description of succession planning³

Comparing the first two figures in the table above, FTSE 350 companies are beginning to comply with Provision 19 but according to the FRC Annual Review, succession planning is still an issue with most companies “*simply noting that the role of the nominations committee was to keep appointments under consideration.....with many companies focussing more on their appointment process (including usage of external recruitment agencies) rather than providing information on how they plan for the various types of succession that exist.*”

Consider the following when reporting on succession planning:

- Explain how the company approaches succession planning and the process for determining board and other senior management appointments, including any links to the board evaluation process.
- Consider having succession planning as a standing agenda item on nomination committee meetings.
- Are there initiatives to nurture talent within the company such as apprenticeships, mentoring and internal development programmes?
- Does the company report on development plans for current board members and progression plans for those looking to move to board level?
- For re-election of board members, do AGM notices/the annual report and accounts report on how a board member contributes to the long-term success of the company as opposed to just listing the biography of each individual? The FRC notes, in its Annual Review, that the best reports/AGM notices clearly outline the reasons for an individual’s re-election, specifically linking their contributions to company strategy, risks, or similar key issues referenced in the annual report.
- Does the company’s succession plans consider the following: (i) contingency planning (sudden and unforeseen departures); (ii) medium-term planning (the orderly replacement of current board members and senior executives); and (iii) long-term planning (the relationship between the delivery of the company strategy and objectives to the skills needed on the board now and in the future?⁴
- When considering to extend the length of service of the chair, has the company engaged with major shareholders?

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1. FRC Annual Review of the UK Corporate Governance Code January 2020 and Minerva Analytics, July 2018
 2. Practical Law What’s Market and BoardEx databases; Data as at 31 October 2019

3. QCA/UHY Hacker Young – AIM Good Governance Review 2019/20

4. FRC Guidance on Board Effectiveness July 2018

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MEET THE TEAM



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