The Effective Board
INDEPENDENT AUDIT LIMITED
October 2013

Succession planning: breadth, depth and transparency

Everyone recognises that the make-up of the Board is crucial to its effectiveness. Putting it in place sounds straightforward enough, but throw into the mix diversity, rotation, independence, shareholder demands, personal circumstances…it isn't, of course. The complications in part explain why, when we review boards, often we find dissatisfaction around succession planning. It's not just about the NEDs: the Board also needs to satisfy itself on succession for executive positions and overall management bench-strength – that's often a problem too. Here are some of the good and not-so-good ways we see boards tackling succession planning.

Good practices to consider…	Things to avoid…
The Chairman and Nomination Committee have analysed the Board's skill and experience needs against their current business and future strategy.	Focusing too much on today's needs and not taking into account sufficiently what the board mix needs to be in, say, a few years' time once the strategy has been implemented.
All the factors to take into account are plotted out: fit of experience with current or future operations, specific skills, international exposure, personality mix, diversity, independence, refreshing, committee needs, future chairmen, individuals' goals…	Planning is short-term and focused on the next move. Profile specifications for the next recruit fail to take into account the overall mix and the long-term plan.
The full Board is kept informed, at least in outline, of the plans. Each individual is periodically able to discuss what's intended for them, especially once they've been around for a few years.	The rest of the Board, even while they recognise that sensitivities may prevent full sharing, feel excluded from the inner cabal which is plotting everyone's destinies...including their own.
The senior executive succession planning and leadership development approach are visible to all the NEDs, so they can be confident that strong internal candidates are being nurtured and retention risks mitigated. If external recruitment is the plan, this is explained rather than assumed.	The executive succession plan is unclear, incomplete, out of date, or poorly communicated. So the Board cannot be confident that handovers will be smooth. And the markets might get wind of a disorderly succession.

Good practices to consider…

The Board has the ability to judge bench strength through periodic reports assessing the depth and quality of the management team and how future leaders are being developed. And NEDs seek opportunities to meet – possibly even to mentor – up and coming executives.

Disciplined thought is given to the contingency plan for key roles, to ensure minimum disruption in the event of long-term illness, sudden resignation or worse.

The succession planning and executive development approaches are explained to shareholders. And the Board's approach to oversight and checking on bench strength is described.

Things to avoid…

The Board doesn't look beyond the senior executives – perhaps because it doesn't see that as its role. It knows that having a strong executive team and good people across the business is crucial but somehow this key success factor (or risk) doesn't make the board agenda.

Contingency planning consists of assuming that we can muddle along until we find someone. Or even where more has been done, it's not shared with the Board.

The report from the Nomination Committee is boilerplate and doesn't give any sense of whether the Board has a handle on succession, contingency and management development.

Read a bit more…

Our Little Blue Book on Governance Pitfalls suggests even more things that a Nomination Committee should try to avoid.

Coming soon…

Our regular newsletter, The Effective Board, is issued monthly. The next editions will cover:

- Better Governance Reporting (November)
- Boards Behaving Badly (December)