



The Case for Succession

Boards must take a more proactive, long-term approach to succession planning. Mala Shah-Coulon, Executive Director for Corporate Governance at EY, speaks to Dawn Murden about how organisations can develop a pipeline of talent

Succession shouldn't be a dirty word and yet, in many boardrooms, there is an ongoing reluctance to give due attention to the question of where the next CEO, CFO and non-executive directors will come from.

It's up to the chairman and CEO to take the lead and ensure that a framework for board-level succession is in place. Mala Shah-Coulon, Executive Director for Corporate Governance at EY, points out that it's increasingly common practice for a company's largest shareholders to see the shortlist of candidates prior to a decision.

"They want to understand that there is a plan in place and that it's actively

managed... They can read about it in the annual report but they get more comfort from one-on-one engagement as it can iron out any particular issues they may have," she explains.

"However, not all investors will be able to have those discussions, so there should be more flavour in the nomination committee's report about succession, as suggested in our recent [report](#) on board effectiveness."

The subject of CEO succession can be a tricky one to broach, but it's not something a good Chairman will shy away from. "Discussing CEO tenure at the start and setting expectations early

can be useful. It reduces the emotion from what is often a sensitive subject," comments Mala. "If the CEO – when he or she comes in – is charged with either grooming their potential successor, if it's internal, or keeping an eye out for candidates, then there's a plan in place with the CEO's knowledge."

More broadly, there needs to be a framework for assessing whether the non-executive directors are suitable for the company's present and future direction, compared with when they originally joined the board.

"You need to match your strategy and the journey your company is on, with the ►

skills that you need on the board,” says Mala. “Some progressive companies are creating a skills matrix, which entails mapping each director, looking at the skills they have and how long they have served, and thinking about where there may be gaps.”

This greater understanding around talent means companies are starting to broaden their search for people with the right skills, whether that’s to assist with international expansion or technical expertise. “Some boards are getting it right and adopting this sort of approach,” she explains. “They’re looking three years out, they have a clear picture of what ideal looks like and... their plan tries to bridge that gap.

“For instance, you could say: ‘In two years’ time most of our growth is going to come from emerging markets, yet

BOARD SUCCESSION AND THE NOMINATION COMMITTEE

Questions to ask:

- Have you discussed tenure with your CEO? Would you consider doing this from the outset with a future CEO?
- Have you got a clear idea of the mix of skills, experience and ‘social style’ your board needs? How regularly is this reviewed?
- Have you identified a talent pipeline several levels below the board?
- How actively and extensively do you engage with investors around your succession planning? What information do you share?

Source: EY

See the full report [here](#)

“There should be more flavour in the nomination committee’s report about succession”

our current board doesn’t have any representation from emerging markets.’ It’s trying to match up your strategy... with the skills you need on the board.”

Boards need to adopt a longer-term view when it comes to succession planning. “On the whole I don’t think succession planning is optimal at the moment. There are a few companies that do it well, but it’s an area where currently many companies are quite reactive,” says Mala.

As well as keeping a close eye on potential candidates outside of the company, it’s essential to understand where the talent lies beneath the organisation’s executive team and how to make sure high-potential candidates become ‘board ready’.

“If a company encourages employees to... become non-executive directors outside its organisation, then broadly it’s developing a pool of talent,” comments Mala. “That person will become more skilled, they will learn how to operate on boards... but they can also bring back that learning to the company.”

It’s also important to ensure that a nominations committee doesn’t rule

out candidates due to a lack of board experience. Mala says: “There should be some opportunity for companies to consider a few seats for people who have less board experience – that’s the only way you’re going to really broaden the pool of talent. With the right coaching and direction from the Chairman, new NEDs can quickly become effective.

“Recruitment or headhunters have a role to play, because there are some who told us that they would go in with a list of PLC heavyweights, but would not go in with the names of less experienced candidates... It’s incumbent both on the headhunting community and investors, as well as chairmen and nomination committees, to be open to the idea of people coming into a board with less experience.”

After all, many would argue that you have to experience the boardroom first hand to truly understand the dynamic and how best to tackle discussions. So, preparation must be in place now, for generations to come. ■

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Mala is an experienced director and runs EY’s Corporate Governance team. In this role, she brings insights to clients on governance and reporting matters and has written several publications on these subjects. She is also a fellow of the Institute of the Chartered Accountants in England and Wales.

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