

Succession Planning



Guidance for co-operatives on good practice in relation to succession planning for key positions in co-operatives.

This guidance note is produced by Claire Dalton FCG for the Co-operative Governance Expert Reference Panel, a Member Group of Co-operatives UK. It is intended as general guidance only, and co-operatives intending to rely on it should consider taking specific advice before taking any action.

General Disclaimer: this document contains general guidance. It does not constitute legal or tax advice and should not be treated as such.

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Introduction

About this guidance

This guidance is written on the understanding that no two co-operatives are the same, even if they exist in the same sector. Acknowledging the breadth of the co-operative sector and the unique characteristics that make co-ops what they are, the guidance is written with this in mind so that it can be used broadly across most sectors.

The extent to which it can be used will depend on the specific nature, characteristics and governance structure of the co-operative and bearing in mind that permissions under the governing document of the co-operative must take precedence when considering any course of action. When using the term 'board' in this guidance, this refers to the governing body or management committee of the co-operative.

What is succession planning?

Succession planning is the process to identify key roles within an organisation and put in place plans to fill those roles when they become vacant. This often involves identifying individuals and preparing them ahead of time. In some organisations this could resemble a pipeline of individuals that are being prepared to be equipped to step into key positions. In others this could mean external recruitment to replace a leaver, particularly when staff teams are small.

In co-operatives, these positions are likely to be board directors, in particular chair and committee chair level or senior leadership and officer roles. Done well, succession planning can also help organisations mitigate against the risks that arise in circumstances where individuals leave their boards or senior roles at short notice.

Why is succession planning important?

Succession planning and good governance

Succession planning features as a key element of this Panel's Governance Wheel in terms of both developing and maintaining effective boards. It can reduce the risk of losing key skills, knowledge and experience on boards in the form of individuals that hold specific knowledge or organisational 'memory', as well as professional or key industry related skills and experience.

Succession planning can help:

- To foster member, employee and other stakeholder confidence in the organisation as it helps demonstrate that it is being properly led.
- The organisation withstand emergency scenarios where a director or senior leader is lost or absent at short notice without the fear of continuity being impacted.

In the context of board positions, succession planning can help future-proof boards and protect them from disruption caused by large numbers of directors or key individuals leaving the board, with no or little handover planning having taken place.

It involves sustaining the correct skills and experience required on boards as well as ensuring that large amounts of change in board membership over a short period of time are avoided so to safeguard against disruption and loss of/gaps in knowledge and to help facilitate diversity on boards.

In the context of senior leaders who are employees, succession planning can be a useful mechanism by which to develop and progress existing individuals already working within a co-operative so that when vacancies arise, there is the potential for existing colleagues to be able to fulfil those roles.

Why is succession planning important for co-operatives ?

Co-operatives exist for their members who own them. It is therefore important that appropriate succession planning is considered in order to help ensure the co-op's long-term success.

For many co-operatives, the entire board is elected by or from the membership. This presents specific and unique challenges in being able to succession plan. This Panel's guidance on [Board Democracy in Co-operatives'](#) references that in general, all members are able to stand for election and the membership is entrusted to assure board succession by electing appropriate people to the board.

This guidance also notes that democratic control and board expertise are essential to good practice in all co-operatives. This guidance recommended a '*strategic and structured approach to board succession*' by prioritising the development of a director recruitment and election strategy.

In addition, for co-operatives, the democratic processes leading to election are dependent upon an active and engaged membership.

In light of this, succession planning should be a priority for co-operatives. This is both due to the frequently high turnover of directors on boards (for the reasons previously referenced) and also as individuals may be uncontested in their seat or re-elected time and again; so that loss of longevity can pose a challenge due to a lot of knowledge and 'organisational memory' belonging to that person.

Similarly, succession planning should be considered for officer roles where specialist sector knowledge is held and/or the role has been filled by the same individual for some time. Also worth consideration are roles requiring specific skills such as chairing or committee membership requirements if applicable – for example, recent relevant financial experience to serve on an audit committee.

While it can be difficult to succession plan on co-operative boards, it is still possible to plan in order to respond ahead of time rather than react.

Succession planning helps provide stability and continuity at board and executive or leadership level. It helps avoid 'gaps' emerging in the breadth of skills and experience on boards. If handled properly, succession planning can help avoid disruptive situations from emerging on boards where a number of directors exit the board at the same time, potentially leading to destabilisation, loss of skills, experience and continuity.

The same can be said for senior officers of organisations who have served with that organisation for a number of years. This can present as key person dependency. As such, succession planning should also apply to key senior executives.

Careful succession planning can also help co-op boards fulfil their role in discharging their responsibilities in accordance with recommended best practice as per the Co-operative Corporate Governance Code.

Principle 4C of the Co-operative Corporate Governance Code states: *"The board should engage in active discussions around composition and succession planning, including ensuring that the board is of an appropriate size, to ensure successful leadership and so it can represent the co-*

operative's membership." Section 4 Provision 8 states that: "The board should regularly review its composition, succession plans and size to ensure it reflects the nature, diversity and scale of the co-operative..."

Which positions in co-operatives should we succession plan for?

All roles within co-operatives are important and play a key part to the running of the organisation. Some positions, however, entail a level of responsibility, skill and capability that are key to the running and continuity of the co-operative. Without them, significant disruption could ensue.

- Board Chair
- Committee chairs and committee members who hold requisite skills
- Chief Executive Officer
- Society Secretary
- Other senior leadership or officer positions such as Chief Financial Officer (CFO)

In smaller co-operatives, there may be other roles outside of those listed above, or other key roles that do not have the same title but should also be considered in succession planning.

Succession planning challenges: Director loss of office

Whilst board refreshment is an important feature of good governance, instances where directors lose their seats – particularly if they have only served for a relatively short amount of time – can give rise to high levels of turnover, causing disruption and making it difficult to maintain an effective board.

In some co-operatives, where elected seats are lost due to the incumbent losing their qualifying office, this can also present a challenge as the individual can lose their seat at short notice or before a full term of office is served.

How can this be addressed?

- Consider appointing/co-opting some seats rather than electing all seats so that certain skills or competencies can be targeted and maintained.
- Alternatively, rather than move to appointed seats, when holding elections, the skills needed should be made clear in the call for nominations in line with Section 4, Provision 4 of the Co-operative Corporate Governance Code, and that only applications from individuals reaching a certain threshold can be considered for the vacancy.

These can then be short-listed and voted upon so as to retain the democratic element. The appointed approach could also help safeguard some seats against the level of turnover that is often experienced in elected positions, thereby enabling continuity and allowing for a succession planning process.

- Make clear the expectation that board members should serve the full term of office. Upon the call for nominations, it should be made clear to members and electing organisations that the nominees should ideally be in a position to serve at least one full term of office.

The call for nominations should also make the term of office clear. This may, therefore, discourage the organisation from nominating an individual who is in their last year of serving with an organisation and is either up for re-election or due to complete the term of office, helping avoid potential disruption and turnover on the new board.

Succession planning challenges: Succession planning may be a low priority

Succession planning may not be seen as a priority and therefore not discussed by the board, committees or senior leaders. As a result, the organisation may have no succession plan in place, leaving it vulnerable when departures occur.

How can this be addressed?

- Discuss and prioritise succession planning. Boards should not wait until a situation presents itself in order to address succession planning. Board or committee agendas should include succession planning as a standing item well in advance of the next AGM whereupon changes are most likely to occur.
- Recognise and be willing to adapt to the evolving needs of the co-operative as it moves from a start-up through to the various stages of growth which may require different skills on the board.
- Establish or allocate responsibility for succession planning. Whether it is a committee of the board or the board itself, ownership should be taken for succession planning in the organisation. Terms of reference should set out the role and remit of the body responsible in relation to succession planning.

Succession planning challenges: The nature of the co-op itself can make it difficult to succession plan

An example of a co-operative whose nature makes it difficult to succession plan is a housing co-op, where membership is dependent on occupancy and when individuals move out, their membership and any related role ceases. This could occur at short notice, which presents a specific challenge to the sector.

In other co-operatives this could present as elections from sectors or membership categories that do not allow for skill-centred recruitment. Worker co-ops also face similar challenges in the event of worker members leaving employment.

How can this be addressed?

- For housing co-ops, the Confederation of Co-operative Housing's Code of Governance notes the importance of encouraging an active membership (*2.1(b) Encouraging Community Membership*). Doing so in this context could help safeguard against key person dependence on a small number of individuals by enabling the sharing of key responsibilities and roles.
- The Worker Co-operative Code encourages *worker co-operatives* to '*assess the technical, management and co-operative skills needed to achieve your long-term plans and replace key members who leave*' and emphasises education and training for members and employees so that they can fully participate in the management and development of the co-operative as a means of achieving this.

What else can co-operatives do to help with succession planning?

- Work to develop a succession policy and plan for the succession of key individuals/roles . We have a template policy example available to you as a [Word document](#) or [PDF](#).
- Horizon scan. For Board appointments, consider which directors are due for re-election and whose terms of office are ending. The responsible committee (or the board) should horizon-scan well in advance. Each year following the AGM, a view should be taken on all of the board positions that are coming up for retirement and re-election the following year in order to gain a full view of the potential gaps and vacancies that could arise.
- Identify potential skill, experience and capability gaps that could arise: When horizon scanning, the relevant committees (and/or board) should assess what skills, experience and roles the individuals play that are likely to be lost. The board should consider including these in the recruitment process and election materials for replacement. The Governance Wheel emphasises *the development of the capability of the governing body in order to be effective*. This should be the focal point when assessing skills and capability on boards.
- Ensure all directors complete a skills audit upon joining the board and ensure that these are updated periodically to capture any changes. As well as maintaining a list of skills and experience, when gathering this information, individuals could take the opportunity to state if they are interested in taking on additional responsibilities such as joining a committee and/or becoming a committee chair.
- Reviews of the board performance through periodic evaluations and appraisals are also effective ways of drawing out any skills gaps or training needs. Principle 4F of the Co-operative Corporate Governance Code states that *"the board should undertake a formal and rigorous evaluation of its performance...individual evaluation should demonstrate whether each director continues to contribute effectively and their commitment to the role."*
- Co-options: if a loss of skill/expertise is identified, consider co-options in order to fill this gap if the rules of the co-operative allow for this.
- Review terms of office: consider if terms of service are an appropriate length of time that allows for refreshment but also gives the director sufficient time to become familiar with the co-operative they are serving on.
- Consider is there anything prohibiting succession planning such as a requirement to serve on the board for a set amount of time before joining a committee, despite the person possibly having experience from other appointments? Could this be altered?

What other factors should be considered when succession planning for board members?

- Quoracy: Consider if the departure will impact the quoracy of the board and any committees they serve on, particularly if this were to happen at short notice? If necessary, consider recruiting additional committee members from the board to ensure a full complement of directors serving on the committee to mitigate departures. The skills audit would be an essential tool for this exercise.
- Composition: Consider if the departure will this impact the composition. For example, if the individual serves on the Audit and Risk Committee which may require at least one member to have recent and relevant financial experience, and the departing director is the sole individual meeting these criteria.
- A mentoring/buddying system for newer directors to link with longer-serving directors to assist in knowledge sharing and development.
- If appropriate, for longer-standing directors who have served in key board positions for some time, such as a board or committee chair, the director could consider standing down early from that role whilst remaining on the board, in order to allow for handover and mentoring potential successors into the role so that they can be supported while gaining experience from the incumbent.

For example, an incumbent Audit and Risk Committee Chair is in the last year of their final term of office and they will be leaving the board at the end of the year. The incumbent could stand down but remain as a committee member, or at least on the board for their final year, to be available to support and guide a successor Chair while they become familiar with the role.

- Handover opportunities where departures are planned – shadowing, mentoring up-skilling, giving other colleagues exposure to certain tasks or activities. This can also help avoid key person dependency.
- Stagger terms of office to avoid 'cliff edges' where disruptive levels of director departures can impact the effectiveness and continuity of the board.
- Director training and development: this could take the form of a formal programme of training but should also be combined with deep-dives/workshops specific to the activities of the co-operative, to help ensure all directors have sufficient knowledge of the organisation, helping to reduce over-reliance on longer-serving directors.
- Officer roles: for staff teams, particularly those that are small in number, should consider ways of avoiding key person dependency which can include knowledge sharing, up-skilling, access to relevant files as appropriate and ensuring a broad understanding of team member roles. For some organisations, having a named colleague as a designated replacement to assist with short term leave or absence works well.
- Shadowing opportunities: hold sessions for potential candidates to shadow board meetings in order to learn more about the board and its role in practice.

What else should be considered?

Regulatory Requirements if the co-operative undertakes certain activities.

For example, co-operatives such as credit unions are subject to the Senior Managers Certification Regime ('SM&CR'). The SM&CR regime enables the regulator to hold individuals to accounts through allocating responsibilities more clearly.

There are additional parameters to consider in terms of succession planning as the SM&CR regime allocates senior management functions (SMFs) to individuals who hold specific responsibilities such as the CEO and Chair. For these positions, an incoming Chair or CEO will need to receive pre-approval from the FCA.

What could succession planning look like in practice?

The approach to succession planning will vary across co-operatives depending on their specific nature. Below are example scenarios of what could happen in practice in two different co-operatives.

In a Consumer Co-operative, the following approach could be taken in the instance of a long-standing Society Secretary retiring:

1. Decide and plan in advance which roles require a succession plan.
2. Consider any governance processes for the appointment in question i.e. is it in the gift of the members, board or management.
3. Assess if there are any suitable internal candidates. Ideally, personal development plans should be in place for staff members which indicate their ambitions.
4. Ideally, an internal candidate will have already been identified as successor. Begin a handover period including shadowing and up-skilling, bearing in mind the departure date of the incumbent and any further training needs that have to be addressed by then.
5. If no internal candidates are identified, external recruitment from within the movement could be explored through connections with other societies where individuals in similar roles may have no onward progression opportunities within their own society. If appropriate, this could be considered ahead of widening the search.
6. It may be helpful to establish a working group to input into the recruitment process, made up of board or committee members as well as leadership acknowledging the need to work as a cohesive team.

A Credit Union might take the following approach in the event of the Chair's impending retirement:

1. A year ahead of the retirement, the board should be notified/reminded of the impending retirement of the Chair so that there is awareness.
2. Expressions of interest from existing board members to take on the role of Chair should be invited (in the case that there is a Vice Chair, it is not necessarily assumed that this individual would stand for Chair).
3. If interest is received, a system of mentoring and shadowing should begin between the outgoing Chair and the interested individual/s (taking into account that in co-operatives, there may be more than one nomination for the Chair's position).
4. Shadowing and mentoring could involve allowing the interested individual/s to participate in tasks generally undertaken by the Chair such as, if appropriate, joining meetings between the current Chair and the CEO, accompanying the Chair to external meetings and having the opportunity to Chair a meeting.
5. Credit Union Chairs are likely to hold a Senior Management Function ('SMF') under the Senior Managers Certification Regime ('SM&CR'). The outgoing Chair should ensure that there is an appropriate handover to the incoming individual, as outlined in the section above.

NB: the above scenarios are examples only and the guidance should be taken in the context of the co-operative's rules or governing document which will take precedence over any guidance.

Template Succession Planning Policy

You can also download this template policy as a [Word document](#) or [PDF](#).

[Name of Co-operative]

[Date]

1. Introduction

1.1 The purpose of this Succession Plan Policy is to define and communicate [the co-operative's] approach to succession planning.

1.2 Adopting and maintaining a succession plan reflects co-operative governance best practice as outlined by the Co-operative Corporate Governance Code which states that '*The board should engage in active discussions around composition and succession planning*' (Principle 4C) and that '*the board should regularly review its composition, succession plans* (section 4 provision 8).

2. Purpose

2.1 The purpose of a succession planning policy is to practically and effectively plan for when key positions in [the co-operative] become vacant so that they can be filled by candidates equipped with the necessary skills and capabilities and with a smooth transition.

2.2 Effective succession planning can support business continuity and avoid disruption, ensuring the continued success of [the co-operative].

3. Approach

3.1 The following positions have been identified as requiring a succession plan:

Board positions:

- Board Chair
- Audit and Risk Committee Chair
- Remuneration Committee Chair

Staff and Officer positions:

- Chief Executive Officer
- Society Secretary
- Chief Financial Officer

3.2 Positions requiring a succession plan should be kept under periodic review in consultation with leadership team, board members and HR as appropriate.

3.3 For staff positions, wherever feasible and appropriate, bearing in mind the size and activities of [the co-operative], we will prioritise internal development and recruitment of existing colleagues to roles as far as possible.

3.4 This will be done by way of the following methods:

- Personal development plans for all staff members between grade/role band xx in [the

co-operative] to be reviewed and discussed twice yearly.

- Ongoing learning and development needs to be identified and assessed. Learning and development requests will be considered and progressed in line with any relevant policies and procedures.
- Performance reviews and appraisals will also comprise discussions on development and progression as well as reflecting on performance.
- Ongoing opportunities for on-the-job learning so as to maintain a culture of skills and knowledge-sharing, business continuity and working to avoid key person dependency.

3.5 For Board positions, the approach to succession planning will comprise the following elements:

- Skills audit: upon joining the board, directors should complete a skills audit which articulates their experience knowledge, qualifications and capabilities. This should be reviewed and updated periodically.
- Performance evaluation and appraisal should be undertaken periodically, both for the board as a whole and individually to draw out any ambitions as well as development needs.
- Succession planning to feature as an annual standing agenda item for discussion and will include HR and other colleagues as necessary.
- When vacancies are imminent, board to consider any potential successors so that necessary development and shadowing opportunities can be facilitated.
- If assessed that training and development is needed, these requests will be considered and progressed in line with any relevant policies and procedures.

4. External Support

4.1 External and independent consultants may be engaged to support on succession planning activity.

5. Policy Review

5.1 The Policy will be reviewed annually.

The Policy was agreed by [the co-operatives board/Nominations Committee on [date].

Templates to download

These templates can also be accessed in same document as the Template Succession Policy, which can be downloaded as [Word file](#) or [PDF](#).

Template Succession Plan

Role	Level of experience and Key Skills required	Potential successor (long-term)	Development Plan needs	Timeline	Emergency/short term successor
CEO	Executive/senior leadership with a proven track record of strategic planning and execution	Current Head of Finance	Leadership skills, strategic planning training	2 years	Head of Finance
Board Chair	Previous leadership/chairing experience, sound business judgment, ability to support director and management relationships	Current Vice Chair	Chairing skills	1 year	Vice Chair/ Chair of a subcommittee

Template Personal Development Plan for potential internal successor

Name of Candidate	Current position in organisation	Length of time with organisation	Key skills/qualifications held	Outstanding qualifications/skills	Years in qualified practice (if applicable)	Timeline for readiness to succession
John Smith	Finance Officer	2 years	Part qualified ACA	ACA full qualification	2 years	1 year

<https://www.uk.coop/resources/succession-planning>

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