

## **EXECUTIVE SEARCH MARKET – AN UPDATE JULY 2010**

Last autumn MWM sent out a note entitled, ‘*Update On Board and Senior Level Recruitment*’. It was put together in response to questions from a number of clients on what the impact of the financial services crisis had been on recruitment, both within and outside the financial services sector. We also took the opportunity to offer our perspective on the outlook for recruitment in the Boardroom, for Chairmen, Non-Executive Directors and Executive Directors.

This note provides a further update on the Search market, reviewing the latest trends and giving a view on what may happen over the next twelve months.

### **Chairmen**

We previously highlighted the fact that a number of high profile Chairmanship positions needed to be filled. We also said that there was a shortage of appropriately qualified Chairmen candidates, partly because - with a third of FTSE 100 CEOs positions being held by foreign nationals - the natural ‘feedstock’ for Chairmen was reduced.

Interestingly, five of the most significant FTSE 100 Chairmen appointments last year were of individuals who had never been FTSE 100 CEOs, although one, Carl-Henric Svanberg, was CEO of Ericsson. The second, Sir Win Bischoff (Chairman of Lloyds Banking Group) had stepped down as Chairman of Citigroup earlier in the year. The remaining three are, or were at the time, Chairmen of other major FTSE 100 companies:

- Jan du Plessis, appointed Chairman of Rio Tinto, was Chairman of BAT; from which he subsequently resigned
- Sir Philip Hampton took over as Chairman of The Royal Bank of Scotland and gave up the Chairmanship of Sainsbury
- Sir John Parker, who took over the Chairmanship of Anglo American, is also Chairman of National Grid.

### **Outlook**

Recruiting suitable Chairmen with the weight, experience and capacity to take on the Chairmanship of significant boards will continue to require good planning and flexibility in approach. The continuing focus on the Chairman’s role may mean more Boards looking for experienced Chairmen to fill future positions.

### **Non-Executive Directors**

In our last note we commented that the finalisation of the Walker Review and the revised Combined Code might lead to an increased demand for Non-Executive Directors in order to round out the capabilities and experience of Board members.

There is clear evidence that the Walker Review and the greater scrutiny of financial services boards by the FSA has led to more significant changes in the boardrooms of financial services organisations. An interesting development, which could have significant implications for Boards in the future, is a bifurcation amongst Non-Executive Directors of large financial services institutions in terms of their formal time commitment to the Board. Historically one or two Non-Executive Directors have committed more time to the Board and received additional compensation in recognition of this, as in the case of the Audit Committee Chair and the Senior Independent Director. In recognition of the increasing demands on the Audit Committee, the now separate Risk Committee and perhaps the Remuneration Committee, we are seeing certain banking clients wanting a greater number of their Non-Executive Directors to commit additional time to the Board – in some cases, this is up to 100 days a year.

Outside the financial services sector, however, we have seen no noticeable impact of the revised Combined Code on the rate of Board renewal. We have nevertheless seen a continuing focus on getting well qualified women onto Boards, an area where MWM plays a prominent role (including advising on the recent appointments of a top Chinese CFO onto the Philip Morris Board, and Non-Executive Directors onto the Boards of Morrisons, the Royal Mail and the London Stock Exchange).

Last autumn we also highlighted the continuing interest of Boards to recruit foreign nationals as Independent Directors, with Asian experience being particularly at a premium. Since that time we have helped two of our US clients, Schlumberger and Philip Morris (as mentioned above), recruit Independent Directors from India and China respectively.

## **Outlook**

We believe there will be a steady demand for suitably qualified Non-Executive Directors with no forecast ‘spike’ in demand following finalisation of the Walker Review and revised Combined Code. The more significant changes to boards of financial services companies have now taken place. There should therefore now be a cycle of renewal on a normal basis, but some of their incoming Non-Executive Directors may be required to commit considerably more time to the Board than the Directors they replace. We do see, however, a more careful identification of the skills and experience required to ensure an optimum Board team and recruitment taking place against that criteria.

## **Board & Senior Level Executives**

Our last note described the significant slowdown of board and senior level executive recruitment which occurred in 2009, following the financial services crisis. We predicted that there would be an upturn in demand from the autumn, and indeed that occurred. Senior executive recruitment in the last quarter of the year took place at an extremely high level. Perhaps as a response to the increasing demands and pressures of governance and regulatory issues we saw and continue to see, a particular spike in demand for General Counsels and Company Secretaries. Heads of Corporate

Communications/Public Affairs have also been much in demand, partly as a response to companies wanting to ensure they manage their reputational agenda.

The first quarter of this year saw that demand moderating a little, but remaining healthy and even picking up again in the second quarter. We also commented last time on the potential negative impact on recruiting into the UK given the higher rates of taxation coming into force. The less favourable pension regime has emerged as just as significant an issue. The growth prospects and tax advantages in Asia, particularly in Hong Kong and Singapore, mean that it is significantly more difficult to recruit from there, than from Continental Europe or North America.

## **Outlook**

We predict increasing demand in the UK for top executives during the next twelve months. Succession and executive renewal plans are, we believe, going to be aggressively pursued by many companies. The tax and pension concerns outlined above have been at the margin to date and of more concern to individuals looking at potential moves to the UK than those already here.

## **Remuneration Issues**

Chairmanship of the Board Remuneration Committee is the current ‘hot seat’ with a number of companies experiencing significant ‘protest’ votes against their remuneration reports at the recent round of AGMs. Boards are conscious of the need to be sensitive to the concerns of external stakeholders about excessive remuneration, particularly executive remuneration. However, they also have a key role to play in determining appropriate incentive plans in the current economic environment, which both ensure they can retain and motivate existing staff and attract key new hires. A difficult balance to manage.

Interestingly, we have seen considerable evidence in the last six months of boards willing to increase significantly the remuneration levels of senior staff who have announced their intention to make a career move, effectively buying those people back.

Increasingly, Chairmen of Remuneration Committees have personally to visit both the major shareholders and the shareholder representative institutions to explain their remuneration structures. The careful selection of the Chairman of the Remuneration Committee has never been more important.

## **MWM Consulting**

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