

## **EXECUTIVE SEARCH MARKET - AN UPDATE**

A year ago 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 client organisations on what the impact of the downturn and ongoing uncertainty had been on recruitment, both at Board and Senior Executive level.

This note provides a further update on the Search market, reviewing the latest trends and giving a view on what may happen in the year to come.

### **Chairmen**

2011 saw the continuation of the trend of non-UK nationals becoming the Chairman of major FTSE companies. With the appointment of Gerard Kleisterlee from Philips as Chairman of Vodafone, seven of the FTSE top 10 Chairmen are now non-UK nationals.

Why should that be? Undoubtedly the UK has the most open and robust Chairman appointment process in the world: credentials really do take precedence over nationality. However, the suggestion that the UK is short of candidates with Chairman credentials is unsupported. There is as good a stock of suitable people in the UK as anywhere else.

It may be that the process is so robust that too many are eliminated in the quest for perfection; one major advantage that overseas candidates have is that they are less well known, and thus not exposed to prejudicial sentiment from "stakeholders". Another trend is a greater openness on the age of new Chairmen, with the recent appointments of John Bond (70) to Xstrata and Simon Murray (71) to Glencore bringing to 10 the number of FTSE 100 Chairmen aged 70 or over. The average age of FTSE 100 Chairmen is now 63 (at 39 James Murdoch remains the youngest by 10 years).

### **Outlook**

The role of the Chairman is becoming ever more high-profile amongst investors and wider stakeholders further reinforcing the finding from our own recent Board Behaviour research ([Board Behaviour Research](#)) that Board effectiveness begins and ends with the Chairman. In practice this means that weight, experience and the ability to hold the ring at the highest level will continue increasingly to outweigh factors such as nationality, specific sector knowledge and even previous CEO experience. In particular, we see an increasing number of former CFOs becoming Chairmen of major companies in addition to a continuation of the trends outlined above.

## **Non-Executive Directors**

The previous year the focus was on the new Combined Code and the Walker Review. In 2011 attention turned to the Davies Report on Women on Boards ([Davies Report](#)). The Report, combined with pressure from the media (a lot) and investors (a little), has led to an increase in the number of women being appointed to both FTSE 100 and FTSE 250 Boards over the past 12 months to 33% and 23% respectively. Whilst a notable improvement, unless this trend accelerates, the goal of 25% of FTSE 100 Boards comprising women will struggle to be achieved by the target date of 2015.

That capability is a meritocratic idea is, necessarily, gender and race neutral. However, with the number of vested interests that have rapidly assembled around the Women on Boards banner, it is essential that this should never be seen as mere window dressing. The twin goals of diversity and adding value can be easily combined with no conflict between them.

MWM played a leading role in drafting the Headhunters Code which can be found at ([Headhunters Code](#)). The Code commits executive search firms to present long-lists for Board appointments comprising at least 30% women, or outlining why this criterion cannot be met. In addition, MWM's own *Women for Boards* initiative was started in 2009 and over the past year more than half of the candidates MWM has helped appoint to Boards have been women. 17% of the women currently on FTSE 100 Boards were appointed by MWM.

Diversity aside, there has been a welcome increase in focus on Board Behaviour rather than solely composition as a key driver of effectiveness. MWM's study (see link above) helped highlight the importance that should be attached to this element, both in appointing Board Directors and in conducting impactful Board Reviews.

Finally, there has been an understandable, but on balance worrying, trend for financial services companies (under pressure from the FSA) to seek only NEDs with deep sector experience. Whilst the experience of HBOS, amongst others, has shown that Boards with too few banking experts can be inadequate, the pendulum has swung too far in the other direction. More broadly, Boards need to ensure that the heightened governance agenda does not result in too many 'safe', risk averse appointments. Boards that draw their members from too narrow a gene pool risk failing to challenge received wisdom and descending into group-think.

## **Outlook**

The role of the Non-Executive Director remains an attractive one, despite the increased legislative pressure and time commitment. The UK model of a unitary Board is seen by many as the most effective governance model and UK Boards continue to seek and to be able to attract high quality NEDs from around the world. This is in contrast to many of their international peers whose Boards remain dominated by home country nationals however global the business. Unsurprisingly, Directors who have recent, first-hand experience of developing markets will be in strong demand.

Whatever the objective merits of greater gender diversity, the drive to appoint more women to Boards will continue to accelerate. The combination of many other European countries going through a similar process and a limited pool of suitably qualified candidates will inevitably lead to a first mover advantage for Boards who seize the initiative. This is particularly true in the FTSE 250 where the proportion of women on Boards is lower and the number of female appointees required greater.

### **CEOs and Senior Level Executives**

Our last note predicted an upturn in demand in the second half of 2010. This did happen but was followed by a slow-down in the first quarter of 2011.

The last couple of years has seen a volatile market for senior executive talent with wide swings quarter by quarter. For companies exposed to the UK consumer and/or government spending, demand is clearly lower. However, for those companies operating in the broad B2B sector or, more starkly, in developing markets, the demand for senior executives remains strong.

Despite higher rates of taxation, London remains an attractive destination for senior executives. The ongoing uncertainty over the Euro and the UK's future role in Europe clearly add another element of uncertainty, although in the (very) short term, there does not appear to have been any adverse impact on the City as a destination for future investment. However, notwithstanding a number of high profile corporate returns, the more general pressure on global companies to relocate to or target new investment towards lower tax environments, mostly outside Europe, remains. With management teams becoming ever more international (only six FTSE 20 CEOs are British), historic and emotional ties to the UK will become ever weaker.

One of the less heralded conclusions of the Davies Report was the need for more women to be appointed to senior executive positions if a wider pipeline of women NEDs and Chairmen is to be built. Whilst there is much to be done at Board level, the challenge of increasing gender diversity at an executive level is even greater. This is particularly true in general management or finance roles: there are, for example, only 17 female CFOs in the top 350 companies in the FTSE and of the 323 executive committee roles within the FTSE 100, only 18 posts (5.5%) are held by women.

### **Outlook**

Despite the current broader macro-economics uncertainties, we predict, on aggregate, (surprisingly) strong demand in the UK for top executives during the next twelve months, particularly from spring 2012 onwards. However, this will hide an increasing divide between companies who predominantly serve the home or international markets and between the winners and losers in each sector.

We predict that world class UK companies, particularly those based in London, will continue to seek, and be able to attract, international senior executives and will be able to set a high bar when doing so.

Recent years have understandably seen a concentration on recruiting candidates with cost-cutting experience and functionally those with regulatory, legal and governance backgrounds. However, we are beginning to see greater interest in commercially minded individuals who have the ability to drive the top line through gaining share rather than taking advantage of market growth. This may herald the beginnings of a shift towards a more expansionary mindset amongst some companies as the gap between the winners and losers in each sector becomes ever more apparent.

We also predict an increased focus from the media, regulators and other stakeholders on the proportion of women at senior executive levels, with CEOs already being asked to review the percentage of women they aim to have on their Executive Committee in 2013 and 2015 and to disclose the numbers. CEOs will come under pressure from their Boards and, in turn HR Directors from their CEOs, to show measurable improvement in this area. This in turn will set a premium on impactful in-house mentoring and assessment programmes for women, as well as a need for creative search activity to identify suitable external hires within the limited pool of female senior executive talent.

### **MWM Consulting**

*MWM Consulting is a leading international Executive Search and Board Advisory Consulting firm that acts for a broad range of clients, principally Fortune Global 500 companies. More information on the firm can be found [MWM Consulting](#)*

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