BOARD MOVEMENT IN THE FTSE 100
AND THE IMPLICATIONS FOR SUCCESSION PLANNING

Talent Intelligence
Leadership Risk Management

This whitepaper examines the current landscape of FTSE 100 C-Suite hiring in order to reflect and analyse the reality of board movement in terms of current succession planning practises.

BOARD MOVEMENT IN THE FTSE 100

Planned or unplanned, the loss of C-Suite talent can have a profound effect on business continuity and on an organisations top and bottom lines. In an ideal world, organisations would be able to look at their critical roles, knowing they had clearly identified perfect 'ready now' successors for each role and prepare seamless development plans for the 'ready laters'. Succession planning would be a straight forward A to B process, in order to prepare for planned departures from the board room or amongst the senior executive team. The role of strategic HR would simply consist of identifying all roles critical to the success of the organisation, and then have a clear understanding of the talent coming through and the development necessary to transform 'ready laters' into 'ready nows'. Senior departures would be planned, and their departures filled seamlessly with little or no delay, minimal effect on the top and bottom line and the associated effect on the shareholders.

Never has it been so simple! However in the past, when the business environment was less volatile and senior leadership had longer tenures, organisations were not so significantly impacted by neglecting succession. This is now far from the case. Economically, we are facing more turbulent times with economic volatility both more frequent and more sustained (Deloitte 'Managing Talent in a turbulent economy'). Yet despite this there is ample research indicating that succession planning, particularly at board level, is not as effective, nor as complete as it should be within the majority of organisations. All too often, C-Suite departures prompt ill-advised promotions or remit expansions, while months pass with the search for a suitable candidate.

Creating an internal succession pool against mission critical roles is no longer best in class succession management.

In 2010 Korn Ferry conducted research which identified that the majority of global companies did not have board level succession planning in place. 98% of organisations surveyed identified succession planning as an important part of corporate governance, however only 35% of organisations felt they were prepared for either planned or unplanned departures.

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As we look towards 2014, many global organisations have begun to look more seriously at succession, but in order to add to the understanding of the need for board level succession planning and what shape that planning should take, this white paper examines the route taken by the current incumbents of executive board roles in the FTSE 100, and the ramifications for the shape that board level succession planning should take. Should a truly comprehensive succession planning model maintain its focus on its own internal development of talent? Furthermore, when widening the talent pool of successors, are FTSE100 organisations looking further afield than their own industries? And how long are board roles held before seats are vacated, and what does this mean for truly strategic and pro-active succession planning?

ANALYSIS AND IMPLICATIONS

Internal versus External hires to the board

In researching the route to the board of the current executive members across the FTSE 100 and the implications for strategic succession planning, the first place to start is clearly an analysis of incumbents hired internally and those hired externally. (In doing so, only executive board members were analysed, since clearly non-executives are independent of the organisation and would therefore skew the analysis.) Given the human and organisational need for stability, and the corporate impetus for internal development plans, the results are surprising.

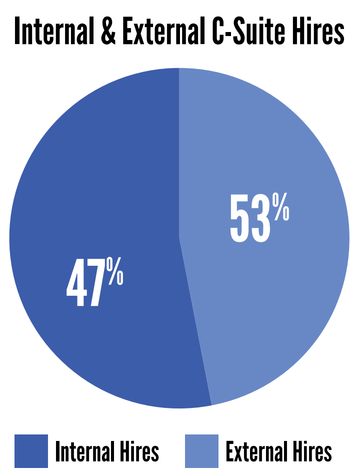
Surprisingly, of the 271 executive board members in the FTSE 100 only 143 were promoted to the board room from within. Despite the sophistication of internal development and the identification of high potential talent to be groomed for future leadership roles in Plc's, it appears that there is a very significant shortfall in bench strength, and the shortage of senior talent is on going. Indeed almost half of the current executive board members of the FTSE 100 were appointed to the board from outside of the organisation. Furthermore, the number of FTSE 100 organisations that currently have a board recruited entirely from within is just 17.

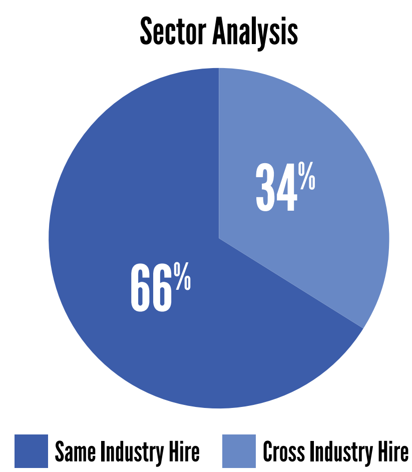
Given the increasing number of board executives that join directly from other organisations, it is hard to imagine a career path such as Philip Clark, Group Chief Executive of Tesco Plc, who began his career with Tesco in store during 1974 and continued to work part time through school and university, before joining the Tesco Management Training Programme, negotiating roles in commercial and marketing, then Stores Director, Regional Managing Director, and then joining the board as Supply Chain Director and one year later adding IT to his responsibilities. Building on this vast experience Philip Clark then took responsibility for the international business, before his current role as Group CEO. However as organisations negotiate board level vacancies, it is clear that traditional internal succession planning is not enough, leaving many strategic HR functions with reactive replacement planning when the bench strength is found wanting.

Boards need insightful information, and meaningful interactions with each potential external successor in order to fully understand a successors competencies, motivations, and emotional intelligence.

However there is also a strategic concern which belies the increase in external hires to the board. In these volatile economic times and with the pace of change increasing, internal hires to the board are not always an option. A recent survey conducted by Heidrick & Struggles found that 39% of organisations (public and private) have 'zero' viable internal CEO successors. As well as a lack of 'ready now' internal candidates, organisations are also looking at new strategies and embracing new technologies. In a fast changing business environment, best in class succession management means organisations need to ensure they are constantly building pools of successors – both internal and external, not simply to prepare for leadership departures but also to achieve their vision of the future.

Clearly organisations need to be open to bringing in external hires to board level roles. The question is how to do so seamlessly and efficiently.





External C-Suite hires – Cross Sector Analysis

A closer look at the external hires to the board shines an interesting light on the perception that when hiring externally, organisations tend to look to the competitors talent for C-Suite hires. Of the 128 external hires to the board, only 43 were hired from the same sector i.e. the competition. Staggeringly 85 external board level hires were recruited directly from a different sector.

Outsider C-Suite hires are becoming more prevalent, and as we can see hires to the board from different industries are also becoming the norm. It is clear that different times and different circumstances call for different leadership skills, and it is interesting that the MIT Sloan Management Review (June 2012) highlighted 'On average, CEO's recruited from outside the company perform about the same as those who came up through the ranks'.

Why the increase in hires from different industries? A major influence on this is the increased pace of change affecting the business landscape in general, with many organisations seeking transformational change. This was seen in 2010 with the hire of Adam Crozier as CEO from Royal Mail to ITV. In fact Crozier has made a career of Leadership roles across different industries and is widely seen as an 'agent of change'. This is reflected in the statement by ITV Chairman Archie Norman at the time of hire 'ITV is a strong brand with talented people, facing an imperative for change as the media landscape evolves. Adam is a very strong leader with a great track record in delivering transformational change. He has worked successfully in talent driven organisations, with government and regulators, and has a thorough understanding of the media, advertising and branding industries.'

Many organisations are searching for leaders with new skill sets, and leaders with the acumen to keep up with the pace of change and the ability to tie it all together on a global scale and across multiple operating companies and group functions. At the board level this has become more important than industry experience. Let's have a broad look at the role of the CIO.

In the mid 1990's, most IT executives had grown up in the function, following a standard route from analyst to director. IT leaders were detail oriented logical thinkers, understanding the technology used in their industry but were not required to be particularly well versed in business strategy. As the internet opened up new opportunities, organisations began looking for more strategic ways to apply technology, the most obvious example being to use the internet to explore new markets and attract new customers.

In the mid 90's in response to a lack of business acumen amongst IT professionals, a new position evolved – the CIO. This was a senior executive able to understand the new technologies and apply them to business strategy and 'see the bigger picture'. This new breed of IT executive was able to straddle the gap between the business and IT function and were less exclusively concerned with the technology and more able to see how it could be applied to generate competitive advantage.

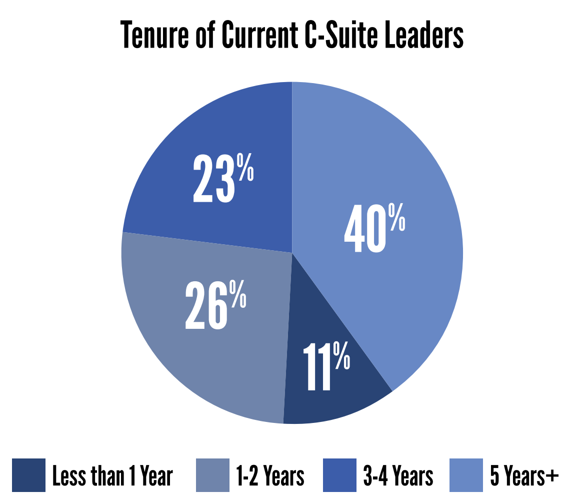
66% of current C-Suite leaders were hired from outside their current industries.

The next major shift in business needs for the senior IT leadership came in the late 'noughties', as the economy spiralled downward. Although better integrated with business strategy, CIO's now had to make complex decisions based on rigorous analysis of ROI. Major expenditure had to be justified, and CIO's were required to understand the complex relationship between IT strategy, business strategy, risk management and finance. As we look to the future, it can be expected that the demand for CIO's with a complex and sophisticated mix of skills and experience will increase over and above particular industry experience. CIO's will need to be competent in knitting together systems that support global growth, and in many cases backgrounds in commercial and sales & marketing will be sought after as well as stints in supply chain management and logistics.

Length of service of current C-Suite leaders

As we have seen, 2013 has seen organisations increasingly look further afield for C-Suite hires, in terms of both their own organisations and perhaps more surprisingly their own industries. Another important area to look at, with an impact on HR strategy, is the length of service of current C Suite incumbents.

The current incumbents of exec board roles on the FTSE 100, have been analysed with a view to the typical corporate 5 year strategy, since it is the board that must devise and steer it. As one can see only 39% of incumbents have been in role for 5 years or more, whilst at the other end of the spectrum 38% have taken up the role within only the last 2 years. Further to this, a PWC study found that **42% of CEO's surveyed planned to leave their organisations within 5 years, yet nearly half felt they had not undertaken and real succession planning, while 61% had no likely sucessor in mind.**



The issue of tenure is an interesting debate. Until recently there was rarely a debate; in fact long tenure was a source of pride and admiration particularly for boards with elite membership. It was a sign of corporate stability and with it came the benefits of :

- Continuity of organisational knowledge
- Market credibility
- Greater collegiality and better dynamics

However more recently in the light of corporate scandals and the volatility of the global economy this has been called into question and the risks have been more exposed. With longer tenure the risks are:

- Failing to keep up with changes to the business
- Defending decisions and policies that were supported in the past, but are now questionable
- A lack of new insights and solutions to new challenges

These are perhaps issues to be debated another time. However, it is certain that attitudes to board tenure are changing so what can one learn from 2013 and board movement in the FTSE 100?

The implications for Succession Planning

It is clear from the analysis that succession planning needs to move beyond a reliance on internal planning, and begin to integrate internal plans with external talent pools ahead of need, in order to mitigate the risk of unexpected departure. With organisations clearly now looking beyond their own industries for their leaders, and the increasing scramble for senior talent, this risk is ever more pressing.

Planned or unplanned, the departure of a board member typically involves a lengthy search period that disadvantages an organisation until a successor has been found, appointed and transitioned into the vacant role. Whilst it is difficult to assess the immediate financial and strategic impact of such a change on a business, it is certainly an unnecessary threat to business continuity. Furthermore the consequences of a poor hiring decision at board level are enormous. They can be immediate and certainly long lasting.

Human Resources will increasingly have to shoulder the weight of these changes and be expected to implement effective strategies to manage leadership risk. The traditional 'replacement planning' approach to managing change in leadership will no longer be enough for an organisation looking to gain competitive advantage, as the prevalence of duplicate successors (one internal successor for several roles), will expose organisations to leadership risk. **HR will need to implement proactive and dynamic external succession planning in order to address leadership change with the speed, efficiency and diligence required to remain competitive.** As this report has demonstrated, leadership change is inevitable and more frequent, and strategies for yesterday's landscape need to be remodelled.

Talent Intelligence believes that when assessing Leadership Risk, internal candidates must be benchmarked against the top external talent for each role, to ensure the organisation knows it has the very best in place to be selected when necessary. Where bench strength is weak, external pools of successors should be created, and when external candidates for a leadership role have become part of a dynamic and integrated leadership risk strategy, refreshed over time (and not just at 'the event'), both parties have increased knowledge of the other, their respective

values and a firm relationship has already been established before hire. Boards need insightful information, and meaningful interactions with each potential external successor in order to fully understand a successors knowledge, competencies, skills, and social & emotional intelligence. By eliminating blind spots that encumber many succession planning strategies, organisations can truly understand the talent landscape and sharpen their view of the very best leadership successors.

CASE STUDY

Context
Our client is one of the largest industrial organizations in the world. A strategic decision was taken to improve leadership risk across both their European and Emerging Markets businesses. Together with Talent Intelligence we agreed to ensure three external successors were "ready now" against each of their mission critical roles. Their European region covers all of Western Europe. Their Emerging Markets region covers Eastern Europe, former Soviet countries, Middle East and Africa.

Action
Talent Intelligence built external pools of talent from scratch, which our client now owns. Talent Intelligence assisted our client to maintain long term relationships with external talent, so should a vacancy occur, they were ready to act far quicker than if using a traditional search firm. As an example of our regional expertise we mapped and profiled talent across the following locations: Algeria, Egypt, Kuwait, Libya, Saudi Arabia, South Africa, Kazakhstan, Russia, Ukraine and Uzbekistan, plus many more.

Results
Our client is now able to present at board level a leadership risk management approach that ensures the future of leadership throughout both regions. They are also able to benchmark their internal succession pool against the external talent. This project has been running since 2010, and whilst Talent Intelligence is not a search firm, we do measure success by our clients ability to respond to unexpected vacancies quickly. To date our client has filled 10 senior roles using candidates in the following countries: France, UK, Turkey, Algeria, Nigeria, South Africa, Saudi Arabia.

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About Talent Intelligence
Talent Intelligence is a global leadership risk management company that solves its clients' critical talent challenges by integrating external talent intelligence in four key areas: succession planning, talent pipelining, diversity intelligence and human capital competitive intelligence. All intelligence is securely stored so clients can access it on demand and integrate it into their existing workforce planning process. Our Intelligence Delivery Teams flag high-potential candidates, bringing them directly to our clients' attention — so when the time is right, we can facilitate a networking engagement between you and any candidate of interest.