Despite the ongoing noise around Brexit, it remains broadly business as usual for UK corporations, and the executive search market is robust.

Whilst there are specific areas such as UK bricks & mortar retailing, car manufacturing and parts of Euro related financial services that are under pressure, they are currently the exception. Instead, with 75% of FTSE 100 revenues coming from overseas, international concerns such as a potential US/China trade war feature more highly on FTSE 100 CEOs’ agendas.

However, the fact that UK business investment has been falling (2018 saw the lowest growth in business investment and GFCF since 2009) does suggest that many companies are increasingly concerned about the longer-term position of the UK economy, despite their seemingly relaxed attitude to the present.

More specifically, below are some of the issues we have seen becoming more critical over the past year and expect to be on your agenda in the year to come:

**Senior recruitment: diverging choices**

We have noticed an increasingly marked gap between internal appointments (often maintaining the status quo) and external, cross-sector appointments, particularly in CEO and CFO recruitment. The convergence of sectors (often caused by technology) is creating a greater openness to appointments from different industries at the most senior levels, with companies starting to move away from recruiting for the business as it is today and leaning towards the business model of the future. Recent examples include Philip Jansen moving from Worldpay to BT as CEO and Stephen Daintith moving from DMGT to Rolls-Royce as CFO.

Linked to this, the traditional mid-ground of external appointments coming primarily from within the sector is increasingly uncommon with a growing unwillingness to recruit from direct competitors, often with a very different culture. There is also a recognition that the carousel of movement between close competitors within an industry is at best uninspiring and at worse creates a dangerous insularity in today’s fast-moving environment.

Overall, the competing pressures of business-model change (favouring external appointments) and increasing emphasis on cultural fit (favouring internal appointments) seem to have roughly cancelled each other out, with the proportion of internal FTSE 100 CEO and CFO appointments remaining static over the past decade at just over 50%.
**The talent pool remains as international as ever**

Despite the nervousness around Brexit, the UK is the most open and international market in Europe when it comes to senior talent. In marked contrast to other big European markets such as France and Germany, in the UK we continue to see an influx of international talent into the most senior leadership roles. Specifically, across the FTSE 30 CEOs and CFOs, 43% are international appointments. In Germany the proportion falls to 27%, and in France it is 19%.

Whilst the percentage of UK versus overseas nationals in the roles of CEO and CFO has remained constant over the past decade, it is clear that the bigger a company is in scale and the greater the proportion of revenues generated outside the UK, the more international the senior leadership team. For example, at Rio Tinto where only 1% of revenues are generated in the UK, in an Executive team of twelve only two are British, and at Unilever, of the ten-member Executive team, only four are British.

**Taming Narcissus – prevention is better than cure**

A couple of years ago, we wrote a paper on ‘Taming Narcissus: Managing Behavioural Risk in Top Business Leaders’. This highlighted that the behaviour of CEOs and other senior figures can over time become destructive, suggested the red flags that Boards should be alert to and laid out the best ways to address emerging issues. (See our full report: Taming Narcissus). This issue remains, sadly, as pertinent today as it did then, as recent examples such as Carlos Ghosn at Nissan demonstrate.

One of the key conclusions from this research was that preventing such issues becoming real crises was always preferable to dealing with them at a later stage. We have therefore developed an online feedback tool, assessing 23 key behavioural traits, that Boards can use to gather a 360-degree perspective on their CEOs and other key leaders, thereby identifying potential issues early and allowing discussion and course correction before any serious problems emerge. We are seeing a growing number of businesses using this Behavioural Profile tool with newly appointed CEOs as part of the annual appraisal cycle.

**Boards and culture**

The latest revisions to the Combined Code in the UK now charge Boards with responsibility for establishing organisational values and explicitly with the task of assessing and monitoring culture. Some Boards have responded by establishing Conduct or Values Committees; others have broadened the terms of reference for existing committees to cover this area. However, in our experience few Boards are yet comfortable that they have a full grip on this topic – and few devote even a fraction of the time and resources to managing ‘people risk’ that they do to managing ‘financial risk’, even though the consequences can be every bit as profound.
We have found ourselves working with some of the more progressive Boards – across a range of sectors – to address this topic. This work has typically involved defining and agreeing the desired behaviours across the organisation, developing a tailored framework for assessing them and using our online tool to measure individual, team and organisational behaviours. This then provides the Board and the Executive Team with the fact base to assess progress, identify potential concerns and agree an action plan.

**Chairs – a nine-year limit**

Recent corporate governance recommendations regarding independence mean that Chairs will cease to be regarded as independent after nine years on the Board, whether as an NED or Chair. Whilst some Boards will hold out for a year or perhaps two, it appears that almost all will ultimately comply. This has already resulted in many companies having to consider Chair succession sooner than they would otherwise have planned. Over time, it will also lead to a higher proportion of new Chairs being appointed from outside the Board. As a result, Boards won’t have the chance to see a Director in action before they are appointed, and there may be more cultural mismatches than before. It may also harm the chance of women being appointed as Chair as Boards may go for a safer, more established option if they must pick from outside their number.

**Why are there so few female Chairs?**

Whilst there has been steady progress in increasing gender diversity on Boards and over 700 women have been appointed to FTSE 100 and 250 Boards since 2011, there are still disappointingly few women in Chair roles, with the number currently standing at 24. In our discussions with both the candidates themselves and with Nominations Committees, there appear to be two primary historic blockers as well as one new one:

**Risk aversion by Nominations Committees**

For any SID, the appointment of the Chair is likely to be the single biggest responsibility that they will have on the Board. Often, their sense of not wanting to be seen to fail can ultimately lead to Nominations Committees taking conservative decisions. This is true both when defining the brief (e.g. arguing that the new Chair must have been a CEO, which skews the search towards male candidates) and then, having met the shortlist, many Boards may be inclined to go with the well-established option who will be recognised and endorsed immediately by the media and investors.

**Risk aversion in the women themselves**

Something which is less frequently discussed is the role that women have in this debate. Sometimes the decision not to put themselves forward is an active choice, but it is often driven by the view that ultimately, they will not be appointed (‘I don’t want to be the token woman on the shortlist’) and a fear of being rejected or expending a lot of time when the outcome is felt to be inevitable.
This leads to an unwillingness to invest the time and emotional effort in the process, which in turn lessens their chance of success. In both these areas, it is important that Search firms and Boards recognise this challenge, guard against risk aversion, and create an environment which is supportive to women.

Nine-year rule
In our view this change risks having a further dampening effect on the number of female Chairs. Previously, there was a reasonable expectation that many of the 700 appointments of female NEDs in recent years would ‘prove their worth’ on the Board and then be a serious internal candidate for Chair over time. With the introduction of the new nine-year rule, internal appointments will become rarer and Boards will have to be bolder if they are to appoint a less established candidate directly to Chair.

Renaissance Directors
In our most recent research paper, we examined the reasons why the public company model is increasingly being challenged. Investors and other external stakeholders are questioning what the optimal governance structure should be. Boards and executive teams, frustrated by the growing bureaucracy of public company governance and the short-term focus on quarterly earnings, are attracted by the more focused nature of alternative ownership models such as private equity-backed businesses. Meanwhile, the expansion of alternative sources of finance, including cheap debt and the growth of sovereign wealth funds, make businesses less reliant on the equity markets.

We do not believe that the decline of the public company model is inevitable or indeed desirable; well run public companies are a fundamental part of the economy. But they need to rediscover their focus on creating long term value, both for investors and their broader stakeholders; they must recapture the ‘owner’s mind-set’ with which they were originally created. Our report makes several recommendations aimed at helping Boards to reinvigorate the public company model.

A copy can be found here: Renaissance Directors.

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 at www.mwmconsulting.com.

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