



Thorburn McAlister

Executive Search, Transition and Assessment

UNIVERSITY OF
Southampton



FTSE 350 BOARD REVIEW 2012



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About the Contributors

Peter Rejchrt - Researcher

Currently studying and researching diversification in the banking industry for a PhD at the School of Management, University of Southampton.

Peter has previously worked for Extel Financial, Financial Times Information, Thompson Financial Research and Unisys Insurance Services with a focus on financial research and analysis and data sourcing. His last permanent role was with LV= as Strategic Planning Manager.

He holds a BSc from the University of Surrey, an MPhil from St Edmund's College, Cambridge and an MBA from the University of Southampton. Peter is a keen linguist and is fluent in German, French and Spanish with an intermediate knowledge of Russian, Dutch and Japanese (amongst others).

His hobbies are Travel and Marathon running when he is not engaged in researching something.

Thorburn McAlister Limited

Thorburn McAlister Limited is a boutique practice that provides Executive Search, Talent Tracking and Board Effectiveness to FTSE 350 companies and Private Equity Clients. Based in the UK (London) with associate offices in Dubai, Hong Kong and Shanghai.

www.thorburnmcalister.com

Anthony McAlister anthony@thorburnmcalister.com

Lindsay Thorburn lindsay@thorburnmcalister.com



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CONCLUSION

With 85% of FTSE leaders coming from the Baby-Boomer generation, we question where the talent pool for future Chief Executives lies. With CEO churn being an apparent myth and the capital markets valuing longevity, future talent may become frustrated and leave with a resulting succession gap. This not only confounds the talent management model but also requires us to question the motivation of those left behind. Nevertheless only 33% of CEOs are recruited externally – does this really indicate a ‘best of breed’ approach or merely a ‘better the devil you know’ risk averse mentality?

Nomination Committees should take a more proactive approach to reducing the risk in key executive appointments and adopt more effective strategies to enable better-informed decisions and reduced timescales.

Thorburn McAlister provide highly effective solutions that enable organisations to better manage the risk associated with key executives.



FOREWORD – Professor Malcolm Higgs

**Professor of Human Resource Management
and Organisation Behaviour**

The debate around leadership at the top of organisations has been dominated by an argument that we have to reward these people at a high level in order to compete in a volatile and dynamic market. This debate has all too often been lacking in evidence. This research does provide some important data that organisations, the media and those involved in governance research may wish to reflect on.

We do not suggest that remuneration levels are based on incorrect principles. However, we do show that CEOs enjoy longer tenure than previously asserted. Furthermore relatively few leave an organisation to take up a further CEO role in another organisation. Furthermore it is interesting to note that the majority of CEO appointments are made from talent within the organisation.

This latter point could suggest that a decade of focus on Talent Management has paid off. However, when we look at age profiles then we notice the relative dominance even today of Baby-Boomers. Whilst we are all aware of the tendency for later retirement this pattern does raise questions about future talent pipelines.

This research raises a range of interesting questions in relation to the top leadership of organisations. However, it is a snapshot in time. It will be important to track the trends that we have identified and look forward to conducting this study on an annual basis in order to establish clearer patterns.



Executive Summary

Our research was conducted across the entire constituents of the FTSE-350 index. Our aim to investigate the current state of the Boardroom in the UK's top listed companies. It is intended to conduct this research on an ongoing annual basis to further allow us to establish trends in Board governance and structure.

We find that:

- There is significant variance in remuneration between Chief Executives at all levels and also between the posts of Chief Executives and Financial Directors (pp. 33-34).
- There is some evidence that Chief Executives with a financial background generate significantly inferior returns in stock market performance over five years (p. 32).
- Leadership churn at Chief Executive level is a myth as the current generation of Chief Executives nears retirement age. The Baby-Boomer generation is vastly over-represented at Chief Executive level, making up 37% of the UK's working population, but 85% of FTSE leaders. There is limited exposure of younger generations to senior leadership and we question where the talent pool for future Chief Executives lies (p. 14).
- For Chief Executives, the stock market appears to value long service, focus (i.e. no outside directorships) and maturity of the incumbent. Nomination Committees may be risk averse and seek the internal recruitment of leaders, which may not be valued by markets but seeks to maintain strategic continuity (pp. 19).
- The route to Chair is from Non-Executive Directorships and not from CEO and several companies maintain Executive Chairmanships in the face of regulation requiring this to be a Non-Executive role (p. 12).
- Board sizes are small, composed of an average 2.7 Executive members and 5.9 Non-Executive members in the sample, with only the banking sector showing



significant variance with almost 12 Non-Executive Board members, demonstrating greater adherence to the Combined Code (p. 13).

- The route to the role of Chief Executive seems to be from operational management with less emphasis on a recent financial background for assuming a Chief Executive position (pp. 27).
- The age and longevity of Financial Directors is lower than for Chief Executives and shows a 30% penetration by Generation X (pp. 38).
- Financial Directors are more likely than Chief Executives to be recruited externally and only 10% of recruits to a FTSE Financial Directorship join from a non-financial role. Once in role as a Financial Director 10% are promoted internally to Chief Executive (pp. 39).
- Surprisingly, not all Financial Directors appear to have an accounting qualification (pp. 44).



1. Chairmanship

For each company we ascertained if the UK Corporate Governance Code 2010 (“Combined Code”) on the role of Executive Chairmanships was being observed. The recommendations of the Combined Code, incorporated into the Listing Rules of the London Stock Exchange since 1994, are for Boards to have at least three Non-Executive Directors; two of who should have no financial or personal ties to executives; and each Board should have an Audit Committee composed of Non-Executive Directors. The primary recommendation is for the separation of the roles of Chairman and Chief Executive, which we find to be applied inconsistently.

We found that 41 out of 350 (12%) Chairmanships are executive positions, including 10% of FTSE-100 companies (Table 1.1). Within the FTSE-100 these are non-doms (seven), of which five are within the Exploration meta-sector. Others are HSBC Holdings Plc and Carnival Plc, and a further occurrence at the former not-for-profit organisation Inmarsat Plc. One Executive Chairmanship is a legacy position, where founder Sir Ian Wood has resigned the leadership of John Wood Group Plc, but continues as Executive Chairman. Anomalies are AMEC Plc and BT Group Plc, which retain Executive Chairs despite the Combined Code recommendations.

12 of the 41 executive positions in the FTSE-350 sample are in non-UK domiciled entities. 24 out of 41 might be described as legacy positions, where the current Executive Chairman has previously served with the company in an executive capacity as founder, Financial Director or Chief Executive. Two of these are long-serving positions, with the Chairmanship having been an executive role since the mid-1990s. Ten of these companies have unusual Board structures with more executive than Non-Executive Directors, with the Bermuda-registered insurance company Lancashire Holdings Ltd being an extreme case with twelve Executive Directors and no Non-Executives. Real estate, household goods and software & computer services are the only other sectors with a significant number of Executive Chairmanships.

Table 1.1 Executive Chairmanships

Executive Chairmanships by FTSE split	N/A	Exec	Non-exec	Total
FTSE 100	1	10	89	100
FTSE NEXT 150	1	17	132	150
FTSE FINAL 100	-	14	86	100
Total	2	41	307	350

Table 1.2 shows that 160 out of 350 (46%) of FTSE-350 Chairmen have no recent UK-listed company executive experience, defined as an Executive Board position since approximately 2000. 77 out of 350 (22%) previously held a Chief Executive position or Chief Executive and Chairman combined position. Table 1.2 details the extent of the lack of recent executive experience amongst the FTSE Chairmanship population.

Table 1.2 Previous positions of Chairmen prior to current employment

Previous position of Chairmen	FTSE 100	FTSE NEXT 150	FTSE FINAL 100	Total
CEO	19	24	10	53
CEO (internal)	5	7	6	18
Financial Director	4	2	3	9
Chairman or Deputy Chairman	11	21	9	41
Chairman and CEO	6	3	1	10
Executive Director	2	7	4	13
NED	39	66	57	162
Other	10	6	7	23
No data	4	14	3	21
Total	100	150	100	350



The US operating model for Boards appears to be increasingly adopted in the FTSE-350 companies with an average of 2.7 Executive and 5.9 Non-Executive members (Table 1.3), indicating compliance with the Combined Code on Non-Executive Board numbers. Excluding the 46 equity investment trusts from the sample increases the number of Executive Board members to an average of 3.1.

Table 1.3 Board size

Board size by meta-sector	Average number of Exec	Average number of Non-Exec
Banks	3.3	11.5
Construction	3.4	5.4
Equity investment instruments	0.3	5.4
Exploration	3.0	6.3
Financial (non-banking)	3.6	6.7
Industrial	2.8	5.8
Power	3.6	6.4
Retail	3.2	5.7
Services	2.6	5.5
Technology	3.7	6.6
Telecommunications	3.1	5.7
Total	2.7	5.9

2. Chief Executives

2.1 Tenure

Contrary to the perceived wisdom, the churn of Chief Executives in the UK's largest companies is not significant and tenure is almost six years in the FTSE-100. Markets appear to value long service (Table 2.7) and the presumed gravitas of age, with the Baby-Boomer generation significantly over-represented amongst the FTSE Chief Executive population.

Table 2.1 shows the average length of service of Chief Executives in the FTSE-350 is 6.35 years. This varies from 5.91 years in the FTSE-100 to 7.31 years in the FTSE-350. This contrasts markedly with the conventional view on Chief Executive tenure, which in Marketing Magazine (June 2008) was reported as 3.25 years for the FTSE, 1.9 years for the top 100 US companies and 4.5 years for the UK/US average.

Table 2.1 Tenure of Chief Executives

Average length of service by FTSE split	Total
FTSE 100	5.91
FTSE NEXT 150	6.15
FTSE FINAL 100	7.31
Total	6.35



Industrial, exploration and non-banking financials are the meta-sectors where tenure is the longest. In services there are ten companies with a Chief Executive in role for less than one year, of which seven are within the travel and leisure FTSE sector. This implies a rapid pace of change and a need for strategic redirection in the gambling, hotels, bars and restaurants and travel and tourism subsectors. Software and computer services is the sector with the longest average length of service at 10 years. Meta-sector data are illustrated in Table 2.2.

Table 2.2 Tenure of Chief Executives by meta-sector

Tenure by meta-sector	< 1 year	1 to 3 years	3 to 5 years	5 to 10 years	10 to 15 years	15 to 20 years	> 20 years	n/a	Total
Banks	2		2						4
Construction	1	6	2	9	2		2	1	23
Equity investment instruments	1	2	2	1	1			39	46
Exploration	2	11	12	5	6	1	1	1	39
Financial (non-banking)	2	9	8	9	6	2	1	4	41
Industrial	9	12	15	20	12	3	2		73
Power	1	1	2	5					9
Retail	3	7	7	8	2				27
Services	10	7	15	18	3	4	4	3	64
Technology	1	4	3	3	3	1	1		16
Telecoms	1	3	2	1				1	8
Total	33	62	70	79	35	11	11	49	350



121 out of 350 (35%) Chief Executives have over 5 years' service, which rises to 43% in the FTSE-100. Within the FTSE-100 2% have served for more than 20 years and 19% for more than 10 years with five to ten years the most populated category (Table 2.3).

Table 2.3 Length of service by FTSE split

Length of service by FTSE split	< 1 year	1 to 3 years	3 to 5 years	5 to 10 years	10 to 15 years	15 to 20 years	> 20 years	n / a	Total
FTSE 100	11	21	22	24	15	2	2	3	100
FTSE NEXT 150	16	30	30	33	7	4	5	17	150
FTSE FINAL 100	6	11	18	21	13	5	4	29	100
Total	33	62	70	79	35	11	11	49	350

Baby-Boomers, defined as birth year 1945-1965, make up a significant majority of FTSE-350 CEOs, representing 239 of the 283 (84%) companies with Chief Executive positions. In spite of age legislation, there are five Chief Executives of the War Generation (pre-1945), with oldest being 71 years as at 1st August 2011. Only 39 of 283 (14%) Chief Executives in the FTSE-350 are Generation X (1966-1980), of which 41% have less than three years' service. 122 out of 283 (43%) FTSE-350 Chief Executives have less than 3 years' service and are of the Baby-Boomer generation, indicating a strong preference amongst Boards to continue to seek the employment of the Baby-Boomer age category. This is illustrated in Tables 2.4 and 2.5.



Table 2.4 Length of service by Generation

Length of service by generation	War Generation	Baby-Boomer	Gen X	N/A	Total
1 to 3 years	-	41	16	5	62
10 to 20 years	2	40	3	1	46
3 to 5 years	1	59	9	2	71
5 to 10 years	1	66	7	3	77
Less than 1 year	-	22	4	7	33
More than 20 years	1	9	-	1	11
N/A	-	2	-	48	50
Total	5	239	39	67	350

Table 2.5 Chief Executive age categorisation

FTSE split by generation	War Generation	Baby-Boomer	Gen X	N/A	Total
FTSE 100	1	87	9	3	100
FTSE NEXT 150	2	95	21	32	150
FTSE FINAL 100	2	57	9	32	100
Total	5	239	39	67	350

Baby-Boomers are significantly more prevalent in Chief Executive positions than in the general populace (Table 2.6). In 2005 the Baby-Boomer generation was 26.7% or 16.0m individuals of the total UK resident population. Whereas Generation X made up 14.4m (23.9% of the population). Females are under-represented in all categories, indicating considerable future fertility rate-induced implications on the future UK female workforce. Baby-Boomers make up 84.5% of the total FTSE Chief Executive population versus 26.7% of the resident population and 35.6% of the total working population.

Table 2.6 Chief Executive age categorisation versus working and resident populations

Generation – FTSE CEO versus Resident Population and Workforce	CEO number	CEO %	UK resident population	UK working population
War Generation	5	1.8%	21.1%	0%
Baby-Boomer	239	84.5%	26.7%	36.7%
Generation X	39	13.8%	20.8%	35.8%
Generation Y	0	0.0%	12.0%	27.5%
Total	283	100.0%	80.6%	100.0%

NOTES:

The CEO population data is taken as at 1st August 2011.

Resident population data is as at 2005, based on ONS Key Population and Vital Statistics: Local and Health Authority Areas report, published in 2007 as Series VS no 32, PPI no. 28

The working population is the 2010 prediction from the 2002 ONS Labour Force Survey. ONS has a total UK workforce of 30.8m individuals, of which, 11.3m are babyboomer generation, 11.0m are gen X and 8.5m gen Y as at 2010. It is assumed that all war generation workers would have retired by 2010 in line with working age directives.

The resident population includes war and pre-war generations. Children under 16 are excluded from the resident population. War Generation is defined as birth year pre-1945, Baby-Boomer generation birth years 1945 to 1965, Generation X 1966-1980, Generation Y post-1981.



Companies with Chief Executives in service for more than 10 years demonstrated the highest growth in the average share price, with markets seeming to value the continuity of long service (Table 2.7).

Table 2.7 Average share price growth by length of service

Average share price change over 5 years pa growth by CEO length of service	Total
Less than 1 year	1.71%
1 to 3 years	5.52%
3 to 5 years	9.62%
5 to 10 years	8.03%
10 to 15 years	17.76%
15 to 20 years	25.97%
More than 20 years	59.43%
N/A	8.16%
Total	11.40%

NOTE: Share price data prior to five years being difficult to source, a snapshot on share price movements was used for all FTSE-350 companies over a five-year period from August 2007 to July 2011 irrespective of CEO appointment date. This five-year analysis also ties in with the average tenure of CEOs. Average share price growth across the FTSE-350 in the period was 11.4% pa with only banks, real estate and household goods showing significant declines in average share price.



Table 2.9 demonstrates, however, the level of remuneration does not track the share performance and length of service with the highest remuneration packages for Chief Executives in service from 10 to 15 years.

Table 2.9 Remuneration correlated to share price growth and tenure

Length of service by average remuneration and average share price change	Remuneration	Share price growth
Less than 1 year	£223,037	1.71%
1 to 3 years	£845,886	5.52%
3 to 5 years	£1,287,055	9.62%
5 to 10 years	£1,217,350	8.03%
10 to 15 years	£1,501,393	17.76%
15 to 20 years	£1,229,879	25.97%
More than 20 years	£1,216,659	59.43%
Total	£930,087	11.40%

NOTE: Remuneration for the purpose of this study is taken to be base salary plus bonus and, if applicable, pension, but excludes any long-term and stock-based incentive schemes.



2.2 Outside directorships

99 out of 350 (28%) current Chief Executives hold a current, declared UK-based Non-Executive role, with a further nine at Chairman or Deputy Chairman level (Table 2.10).

It is perceived that markets value focused Chief Executives and there are clear indications that Boards seek focus from their appointed leaders. Gavin Darby, Chief Executive at Cable & Wireless Worldwide Plc, was a Non-Executive Director at Intertek Group Plc but resigned this post on appointment to the Chief Executive role in 2011. Leo Quinn at QinetiQ Group Plc similarly resigned an outside Non-Executive role on appointment in 2009. Mike Humphrey at Croda International Plc only took up a Non-Executive role at IP Group Plc after announcing his retirement from his Executive role.

The exception to this rule is in the equity investment trusts sector where holding multiple Non-Executive roles in other investment trust vehicles and other entities remains commonplace.

The number of Chief Executives with multiple NEDs is nine, of which many are South African-registered dual-listed companies, where the frequency of Non-Executive positions in subsidiary undertakings remains high.

Only six current FTSE-350 Chief Executives also hold a simultaneous Non-Executive Chairman or Deputy Chairman role, of which 50% are the CEOs of non-UK domiciled companies.

Some of the CEOs may hold Non-Executive Directorships in foreign companies, privately-held businesses or in not-for-profit or other public institutions, which would be declared to shareholders via company reporting mechanisms but are excluded from the Company Guru database and therefore also from this analysis.

Table 2.10 Outside directorships

Other directorships	Total
Chairman	9
NED	98
No CEO or Executive Directors	44
None	199
Total	350

NOTE: Company Guru only carries data on UK listed equities. Current Chief Executives may have outside directorships in foreign businesses, charities, government agencies and privately-held companies, which are assigned to the "None" data item in this table.



2.3 Recruitment

The prevailing academic and business view is that Chief Executive appointments are internal. Internal appointments are linked to higher profitability and in our analysis to share performance.

Nomination Committees may be risk-averse and Boards are likely to feel shareholder pressure in securing the appointment of a successor within a short timeframe.

Boards may suffer from cognitive bias in their approach to successor selection, while some research suggests that internal recruitment is more likely in companies with larger Boards that include a Chief Operating Officer amongst their ranks.

Undertaking external recruitment indicates dissatisfaction with the financial performance of the outgoing Chief Executive and signals to the market that the company's strategy has failed. Boards may be more comfortable with the strategic continuity indicated by taking the home-grown appointment route.

Table 2.11 shows that 91 out of 272 (33%) recruited Chief Executives in the FTSE-350 are external appointments with general retailers and support services the sectors most likely to look outside for a new Chief Executive.

Table 2.11 Internal versus external recruitment

Recruitment – Internal versus external		Total
External	FTSE 100	23
	FTSE NEXT 150	48
	FTSE FINAL 100	20
Total		91
Internal	FTSE 100	68
	FTSE NEXT 150	68
	FTSE FINAL 100	45
Total		181
N/A	FTSE 100	9
	FTSE NEXT 150	34
	FTSE FINAL 100	35
Total		78
Total		350

NOTE:

The N/A data item reflects companies with no CEO position (39 equity investment trusts), companies with no Executive Directors (certain non-domiciled exploration entities) and companies with an executive Chairmanship and no Chief Executive role. N/A will be recorded if there is no evidence of internal or external recruitment, i.e. in the event of a corporate restructuring resulting in a listing of a demerged entity and a new flotation, where Company Guru does not carry data for the previously unlisted company. Simply, there may be no previous CEO if the incumbent is a member of the founding team. Additionally, there are five recruitment events where it was not possible to collect data due to the length of service of the current CEOs.



The academic literature suggests a link between internal recruitment and the total number of Executive Board positions, which is confirmed in the analysis of the FTSE-350. Table 2.12 illustrates that if there are more than two Exec Board positions only 45 (12.9%) are external recruits, whereas the equivalent for internal succession is 120 (34.3%) recruited via this method.

Table 2.12 Internal versus external recruitment by number of Board members

Internal/External recruitment split by number of Exec Board members	External	Internal	n/a	Total
0	-	-	42	42
1	3	5	6	14
2	42	55	7	104
3	27	63	7	97
4	9	34	7	50
5	7	14	4	25
6	1	4	-	5
7	-	5	-	5
8	-	-	1	1
9	-	-	1	1
12	1	-	-	1
Min 3, max 12	-	-	1	1
n/a	1	1	2	4
Total	91	181	78	350



Within the sample there is some, albeit limited, evidence in Table 2.13 that markets may value internal hires over external recruits, as share price growth is one percentage point more favourable over five years for homegrown talent.

Table 2.13 Share price growth by internal versus external recruitment

Average of share price change over 5 years pa growth by I/E split	Average	Total
External	7.73%	91
Internal	8.83%	181
n/a	32.57%	78
Total	11.40%	350

Table 2.14 shows that 51 of 350 recruited Chief Executives have come from another Chief Executive position with only 47 being promoted from a Financial Directorship. 47 current Chief Executives have been recruited from Non-Executive management roles, signifying an opportunity for generation X managers to seek promotion to FTSE company stewardship. The most likely route to Chief Executive, however, is from operationally leading or managing a business unit (96 recruited CEOs have been promoted from an operational Chief Executive or senior management role), indicating a preference for operational over financial management in current leaders.



Table 2.14 Previous role of current FTSE Chief Executives

Previous role of current CEO	Total
CEO	48
CEO FTSE-100 to CEO FTSE-100	1
CEO FTSE-250 to CEO FTSE-100	1
CEO FTSE-250 to CEO FTSE-250	1
Chairman	7
COO	29
COO FTSE-100 to CEO FTSE-100	1
Deputy CEO or CEO designate	12
Divisional CEO	29
Divisional CEO FTSE-100 to CEO FTSE-250	2
Divisional CEO FTSE-250 to CEO FTSE-100	1
Divisional Exec Director	59
Divisional Exec Director FTSE-100 to CEO FTSE-100	2
Divisional Exec Director FTSE-100 to CEO FTSE-250	2
Divisional Exec Director FTSE-100 to CEO FTSE-350	1
Financial Director	44
Financial Director FTSE-100 to CEO FTSE-100	1
Financial Director FTSE-100 to CEO FTSE-250	1
Financial Director FTSE-100 to CEO FTSE-350	1
Non-Board Financial Director	2
Joint CEO	3
NED	3
Other – CIO, Investor Relations, Government minister, Sabbatical	4
Unspecified management role	10
No CEO position	49
No data	12
No data – new listing	6
No data – restructure	4
No data – founder	14
Total	350



Departing Chief Executives, reflecting their age, are most likely to retire. 82 of 167 (49%) went into retirement. The notion that Chief Executives move frequently to take advantage of lucrative opportunities, within other FTSE companies or to different sectors, is a fiction – only three individuals in the sample moved to another FTSE Chief Executive role:

- Leo Quinn from De La Rue Plc to QinetiQ Group Plc in 2009.
- Stephen Hester from British Land Plc to The Royal Bank of Scotland Group Plc in 2008, representing the only Chief Executive candidate within the FTSE sample to successfully change business sector.
- The only promotion was in 2010 when Andy Harrison moved from FTSE-250 company easyJet Plc to FTSE-100 constituent Whitbread Plc. All three events involve mid-Baby-Boomer era incumbents, which – based on the average FTSE Chief Executive tenure of six years – suggests these are the likely to be the final pre-retirement moves for these individuals. All three external appointments conform to the pattern of seeking strategic redirection after poor performance or being implicated in equipment malfunction (QinetiQ).

The movement of Executive Directors within the FTSE itself is strictly limited with only a further eight Executive Directors being promoted from an executive Board role (COO, Financial Director or Divisional Executive Director) to the position of Chief Executive.

67 of 167 outgoing Chief Executives moved on to a Non-Executive role, which is a likely reflection of the demographics of the incumbent age group, while only three of the sample went on to a non-Board Executive roles. This suggests that poor performance may not necessarily be harmful to future job prospects (although the “None” category may include recent incidents of poor performance followed by an inability to secure future employment).



Table 2.15 Destination of departing Chief Executives

Destination of previous CEO	Total
CEO	10
Chairman or Deputy Chairman	50
NED	17
Demotion – Board role not CEO	3
Split Chairman and CEO role	5
Ill health	3
Deceased	2
Family reasons	1
Formed own company	1
N/a – restructuring	18
N/a – founder	22
N/a – no CEO or executive position	49
N/a – new listing	30
No data	18
None	39
Retired	82
Total	350

NOTE: For the majority of “No data” events these are one of a departing long-serving Chief Executive, where pre-electronic era data is hard to source.

Recent departures are noted in the data item “None”, where the outgoing Chief Executive remains on garden leave, evaluating alternatives, in a foreign business, undertaking Non-Executive activity in unlisted undertakings prior to a retirement decision or seeking new employment in current difficult economic condition. The previous Chief Executive may or may not assume another Executive role in a UK listed entity in the future.

The data item “Restructuring” includes any type of business reorganisation, including primarily in this sample demergers, mergers or a major corporate restructuring.

2.4 Gender

The gender gap is widely reported and this research confirmed the position. The gender gap is not only present but is in line with international comparisons. As may be seen in Table 2.16, 4% of FTSE-100 Chief Executives are female and 14 out of 350 (4%) FTSE-350 companies with numbers split evenly between FTSE-100, FTSE-250 and FTSE-350. Only the equity investment instruments and support services sectors have more than one female Chief Executive.

Table 2.16 Gender of Chief Executives

Gender by FTSE split	Female	Male	n/a	Total
FTSE 100	4	94	2	100
FTSE NEXT 150	6	129	15	150
FTSE FINAL 100	4	67	29	100
Total	14	290	46	350

NOTE: No gender assumptions have been made.

2.5 Qualifications

Whilst a significant number of current Chief Executives have an accounting qualification, they are unlikely to have been in an accounting role prior to being promoted or recruited into the Chief Executive position.

171 out of the 283 (60%) CEOs in the FTSE-350 have an accounting qualification (Table 2.17), even though they are unlikely to have been in a financial role prior to taking over as Chief Executive – only 32 recruits of the 272 (12%) recruited Chief Executives were previously in a Financial Director role prior to taking on the CEO-ship. Chief Executives with an accounting background are unlikely, however, to have a significantly positive impact on share performance and generate inferior returns over five years (Table 2.18).

Table 2.17 Qualifications

Qualifications	Total
Bachelor degree	106
Masters degree	97
Master of Business Administration (MBA)	55
PhD	14
Chartered status	88
Accounting	83
Law degree	7
Science or Engineering degree	18
Total	468

NOTE: Qualifications are cumulative and incumbents may have more than one degree or qualification. Accounting may be under-represented as financial qualifications may have been gained in the form of bachelors, masters or MBA. Not all companies and/or directors will report their qualifications, particularly if these are no longer in the recent past, so the position described in the table is the best estimate.



Table 2.18 Qualifications versus share performance

Qualifications versus share performance	Share price movement over 5 years
Bachelor degree	13.4%
Masters degree	17.1%
Master of Business Administration (MBA)	22.2%
PhD	26.9%
Chartered status	7.0%
Accounting	3.0%
Law degree	-1.7%
Science or Engineering degree	25.1%
Total	468



2.6 Remuneration

Executive remuneration, being under regular academic and media scrutiny, was not considered a focal core of this research. The lack of clear oversight in terms of long-term incentives and share options mean we report remuneration only in terms of base salary, bonus and pension.

Average Chief Executive remuneration, excluding share options and long-term incentives, but including bonus and pension, is GBP0.9m for the FTSE-350 companies. High-paying sectors are banks, mobile telecommunications and personal goods, in which the average is over GBP2.0m.

Table 2.19 shows the average remuneration and standard deviations of remuneration by meta-sector. The standard deviations of remuneration are particularly high in the FTSE-100 and in certain sectors, e.g. banks, mining, media and general finance (where bonus payments vary from £95k at Capital Shopping Centres to £4m at Intermediate Capital Group). The standard deviations across all sectors are surprisingly large, reflecting differing CEO tenures, but probably also the number of relatively recent additions to the constituent body of the FTSE indices. Only the industrial transportation sector (with only two constituents in the homogenous trucking and transport business) shows some degree of convergence on intra-sectoral CEO remuneration.



Table 2.19 Standard deviations of remuneration by meta-sector

CEO remuneration in GBP	Average of Total remuneration	Standard Deviation of Total remuneration
Banks	2,106,556	1,719,269
Construction	771,272	490,098
Equity investment instruments	63,144	210,305
Exploration	1,081,395	1,184,340
Financial (non-banking)	1,282,859	1,212,340
Industrial	1,078,553	882,778
Power	1,050,060	766,577
Retail	1,041,831	697,961
Services	861,234	693,896
Technology	1,486,704	1,205,382
Telecommunications	808,500	1,166,257
Total	930,087	953,803

NOTE: Remuneration is considered in this research as base salary, bonus and, where applicable, pension. Pension, although included in the remuneration data, is a minor component of total average remuneration.



Of significance is the pay differential between Financial Directors and Chief Executives, the variance being 53% across the FTSE-350, with the varying pay differentials by meta-sector demonstrated in Table 2.20.

Table 2.20 Comparison of Chief Executive and financial director remuneration

Average Chief Executive versus average financial director remuneration in GBP	CEO	FD
Banks	2,106,556	1,060,794
Construction	771,272	240,598
Equity investment instruments	63,144	10,413
Exploration	1,081,395	488,368
Financial (non-banking)	1,282,859	623,824
Industrial	1,078,553	513,090
Power	1,050,060	606,911
Retail	1,041,831	555,637
Services	861,234	395,252
Technology	1,486,704	779,021
Telecommunications	808,500	476,125
Total	930,087	441,053

3. Financial Directors

NOTE: We have standardised on the use of the term “Financial Director” to cover all executive directors responsible for finance irrespective of job titles assigned by individual companies. A Financial Director may, therefore, be a Chief Financial Officer, Finance Director, Group Finance Director or any other variation on this executive job title.

3.1 Tenure

The average length of service of Financial Directors is shown in Table 3.1 and at 5.32 years amongst the FTSE-350 Financial Director population shows little variance between FTSE-100, FTSE-250 and FTSE-350.

Table 3.1 Length of service

Average length of service by FTSE split	Total
FTSE 100	5.23
FTSE NEXT 150	5.46
FTSE FINAL 100	5.18
Total	5.32



On average Financial Directors are younger than their Chief Executive counterparts with no War Generation incumbents and 74 out of 249 (30%) being of Generation X amongst those FTSE-350 Financial Directors with a declared age. Table 3.2 shows the distribution of Financial Directors by age category.

Table 3.2 Age categorisation

Generation by FTSE split	Baby-Boomer	Generation X	n/a	Total
FTSE 100	67	16	17	100
FTSE NEXT 150	72	32	46	150
FTSE FINAL 100	36	26	38	100
Total	175	74	101	350



175 out of 249 (70%) FTSE-350 Financial Directors with a known age are in the Baby-Boomer generation (Table 3.3). This age group is particularly well represented among FTSE-100 Financial Directors, where perhaps the perceived gravitas of an older financial director has encouraged only the appointment of 16 Gen X Financial Directors. The data is slightly skewed outside the FTSE-100 where 84 of 250 (34%) Financial Directors do not have data available. Two of the Generation X Financial Directors have managed to amass over 10 years' service in role with a FTSE company, suggesting it is easier for this generation to get a Financial Directorship than a Chief Executive role.

Table 3.3 Length of service by age category

Length of service by generation	Baby-Boomer	Generation X	n/a	Total
Less than 1 year	17	10	9	36
1 to 3 years	42	30	14	86
3 to 5 years	26	20	4	50
5 to 10 years	57	12	4	73
10 to 20 years	27	2	2	31
More than 20 years	5	-	-	5
n/a	1	-	68	69
Total	175	74	101	350



3.2 Recruitment

175 out of 278 (63%) recruited Financial Directors in the FTSE-350 are external appointments, although this is slightly more likely outside the FTSE-100, where 122 out of 186 (66%) new Financial Directors are external hires. Table 3.4 illustrates the recruitment pattern for Financial Directors.

Table 3.4 Recruitment by FTSE split

Recruitment by FTSE split	FTSE split	Total
External	FTSE 100	53
	FTSE FINAL 100	43
	FTSE NEXT 150	79
External Total		175
Internal	FTSE 100	39
	FTSE FINAL 100	22
	FTSE NEXT 150	42
Internal Total		103
N/A	FTSE 100	8
	FTSE FINAL 100	35
	FTSE NEXT 150	29
N/A Total		72
Total		350

The Financial Directorship role remains dominated by individuals pursuing a career in finance. Recruited Financial Directors are most likely to come from other financial roles (Table 3.5). 132 of 266 (50%) recruitment events with data available show the Financial Director being recruited from an equivalent Executive Financial Directorship role with a further 55 (19%) being promoted from a financial management role. Only 27 of 266 (10%) of the sample join a FTSE Financial Directorship from a non-financial role, which hints at limited exposure to non-financial management of the current crop of senior FTSE financial leaders.

Table 3.5 Previous role of current Financial Directors

Previous Financial Director role	Total
Accountancy practice	11
CEO	3
COO	2
Deputy Financial Director	8
Director non-Board, non-finance	5
Divisional head	19
Divisional Exec Director	11
Financial Director	132
Non-Board Financial Director	55
Treasurer	4
Company Secretary	5
Unspecified financial	9
Other – Investor relations, Audit Committee	2
No FD position or no FD in role	71
N/a – New listing	6
No data	7
Total	350

Departing Financial Directors are most likely to retire. 42 of 176 (24%) Financial Directors went into retirement, while 39 of 176 (22%) were promoted to a Chief Executive role, as illustrated by Table 3.6. Only six of these promotions were from Financial Director to an external Chief Executive role with 77% of these



moves being internal promotions to Chief Executive, indicating that Boards value the cultural understanding of the organisation that an internal candidate brings and the route from Financial Director to Group Chief Executive remains a well-trodden path.

Whilst the majority of recruited Financial Directors join from a similar role (Table 3.5), departing Financial Directors are far less likely to stay within the financial arena, Although many retire or pursue Non-Executive activity, there appears to be scope for Financial Directors to be promoted to Chief Executive despite their poor relative performance (Table 2.18). Additionally, operational Executive Directorship openings are within their scope.



Table 3.6 Destination of departing Financial Directors

Destination of previous FD	Total
CEO	39
Deputy CEO	3
COO	4
Divisional CEO	5
Exec Director	5
Financial Director	40
Chairman	7
Company Sec	3
NED	11
Non-Board finance	2
Treasurer	1
Partner	1
Retired	42
SFO investigation	1
n/a - Founder	1
n/a - Reorganisation	10
n/a - New listing	21
No data	20
No FD position	78
None	44
Other	6
Unspecified external	6
Total	350



3.3 Gender

As with the Chief Executive population, the lack of female penetration into other Executive Board roles is widely reported. 9% of FTSE-100 Financial Directors are female, significantly higher than the number of female Chief Executives within the FTSE-100. As Table 3.8 demonstrates, 14 out of 350 (4%) FTSE-350 companies have a female Financial Director. Only the general financial, non-life insurance and personal goods sectors have more than one female Financial Director.

Table 3.7 Gender of Financial Directors

Gender by FTSE split	Female	Male	n/a	Total
FTSE 100	9	83	8	100
FTSE NEXT 150	3	121	26	150
FTSE FINAL 100	2	65	33	100
Total	14	269	67	350

3.4 Qualifications

Surprisingly not all FTSE-350 Financial Directors have an accounting qualification. 202 out of 280 companies in our sample with an Executive Financial Directorship position (72%) have a chartered accounting qualification, falling to 67% of FTSE-100 companies, although this may reflect the fact that not all companies/databases carry full qualifications details. Table 3.7 depicts these data.

Table 3.8 Qualifications of Financial Directors

Qualification	Total
Bachelor degree	71
Masters degree	40
Master of Business Administration (MBA)	17
PhD	4
Chartered status	202
Accounting qualification	203
Law degree	5
Science or Engineering degree	22

NOTE: Not all companies and/or directors will report their qualifications, particularly if these are no longer in the recent past, so the position described in the table is the best estimate. All of the chartered status for the Financial Director population are accounting qualified. Financial Directors may be deemed qualified by experience or have a Bachelors or Masters degree in Finance.



Methods and approach

We used the HemScott Company Guru database (subsequent to our research this was rebranded as Morningstar Company Intelligence) on UK-domiciled and publicly traded stocks to gather data on the directorships. Where necessary this data was supplemented on a case-by-case basis with analysis from individual company websites and archived data, such as press releases and annual reports, and other electronic databases to verify the reliability of the Company Guru data. Companies were not contacted directly for any data that was not available online, particularly Chief Executives in service pre-1995, before which public domain data online records are scant. Company Guru carries data only on UK listed entities. Company Guru was used as the primary source for data collection and the ultimate arbiter in the case of data inconsistencies. As most consolidation databases, including HemScott Company Guru, carry the date of joining the Board, we add to the body of knowledge by showing date of accession to the Chief Executive role to give a true picture on tenure that is related not to Board accession but to assumption of role. This data was verified using a variety of available sources and the results of this research supersede the validity of data within HemScott.

The data was taken as a snapshot view on 1st August 2011. This research does not attempt to reflect dynamic changes in the FTSE indices before or after 1st August 2011. The constituents of these indices are reviewed quarterly by the FTSE Index Committee. Our research incorporates the FTSE index changes implemented on Friday 17th June 2011, but does not update for changes made in the October review, which saw aerospace and defence company Meggitt Plc replace software provider Autonomy Corporation Plc. The continued attractiveness of the London Stock Exchange as a listing exchange is illustrated by the increased weighting of mining companies from emerging markets, representing 14% of the FTSE-100 in 2011 from 10% in 2007. Within the sample, 41 companies in the FTSE-350 sample are non-UK domiciled and with an additional three dual-listed South African non-mining companies that are now UK-domiciled for registration purposes.



Interim appointments are excluded from the analysis, as these were generally identifiable. We have recorded, 'no CEO in position' when no Chief Executive was in role on 1st August 2011 and for interim Deputy Chief Executives acting as Chief Executive pending the announcement of a successor – only if the interim appointee lasted in role for over 12 months was this then considered a permanent appointment, even if the company reported continuing its executive search for a permanent replacement.

Several companies within the FTSE-350 do not have Chief Executive positions. Of the 350 companies in the sample, 39 are in the equity investment instruments sector, where certain investment vehicles are listed entities but executive management resides with an unquoted parent. A further eight companies had no Chief Executive data available (non-domiciled entities not publishing the Board data, one real estate trust and one other demerged asset manager with no executive management and executive Chairman roles), which means 13.4% of the sample had no Chief Executive data item (47 observations).

Due to certain FTSE sectors with small number of constituents, we have consolidated these sectors into ten meta-sectors. We retained banks and equity investment instruments in their original sectors, as these are highly homogenous sectors with respectively unique remuneration and Board structure characteristics. The remaining FTSE sectors were consolidated as shown in Table 0.1 to facilitate analytical comparisons, where previously the two constituents within Tobacco become part of a sample of 73 industrials in our meta-analysis.



Table 0.1 – FTSE meta-sectors

Meta-sector	Total	FTSE sector inclusions within meta-sectors
Industrial	73	Aerospace & Defence; Automobiles & Parts; Beverages; Chemicals; Electronic & Electrical Equipment; Food Producers; Forestry & Paper; General Industrials; Health Care Equipment & Services; Household Goods; Industrial Engineering; Industrial Metals; Industrial Transportation; Personal Goods; Pharmaceuticals; Tobacco
Services	64	Software & Computer Services; Support Services; Travel & Leisure
Equity investment instruments	46	Equity investment instruments
Financial (non-banking)	41	General Financial; Life Insurance; Nonlife Insurance
Exploration	39	Mining; Oil & Gas Producers; Oil Equipment, Services & Distribution
Retail	27	Food & Drug Retailers; General Retailers
Construction	23	Construction & Materials; Real Estate
Technology	16	Media; Technology Hardware & Equipment
Power	9	Electricity; Gas, Water & Multiutilities
Telecommunications	8	Fixed Line Telecommunications; Mobile Telecommunications
Banks	4	Banks
Total	350	