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Executive Search & Board Advisory

THE FALLOUT FROM THE REPORTING SEASON



With the Australian markets reporting season over, there were some interesting themes that were notable and worth examination.

1. Punishment by analysis

If companies were short on matching the analysts expectations, regardless of results they were savagely dealt with. It was surprising that a number of companies who achieved year on year growth felt the wrath of the analysts and their market capital disappeared over night.

2. Selling the message

The question then arises – how well are companies selling their message if they were receiving disapproval, or is it that analysts do not want to hear? It is a bit of both. Some stories were not sold well up to reporting, others were, and yet both suffered a similar fate at the hands of the analysts and the market.

3. Rebound

The share market is strong, and most of those who were punished have rebounded back to their price and market capitalisation prior the results and a number have since surpassed. The hit for many this year was fairly short term.

4. Turnover of Executives and Directors

There were the standard changes in the Boardroom following and leading up to the results season as numerous Non-Executive Directors had completed their tenure. There were a number of Chief Executives who retired or announced their departure. Some include:

- APN Outdoor Group Ltd: Wayne Castle appointed as Interim Chief Executive Officer. Richard Herring retired as Chief Executive Officer and Director, effective 30th September 2017.
- BlueScope Steel Ltd: Mark Vassella appointed as Managing Director and Chief Executive Officer, effective 1 January 2018. Paul O'Malley retired as Chief Executive Officer, effective 31st December 2017.
- CIMIC Group Ltd: Michael Wright appointed as Deputy Chief Executive Officer.
- Commonwealth Bank of Australia Ltd: Managing Director and Chief Executive Officer, Ian Narev to retire from his position by the end of the 2018 financial year.
- Incitec Pivot Ltd: Jeanne Johns appointed as Managing Director and Chief Executive Officer, commencing 15 November 2017, to succeed James Fazzino.
- QBE Insurance Group Ltd: John Neal, Group Chief Executive Officer will be stepping down from his role and will be succeeded by Patrick Regan on 1 January 2018.
- Sims Metal Management Ltd: Chief Executive Officer and Managing Director, Galdino Claro, has left the organisation and will be replaced by Alistair Field.
- Spotless Group Holdings Ltd: Dana Nelson has been appointed Chief Executive Officer and replaces Martin Sheppard who has resigned as Chief Executive Officer.
- Vicinity Centres Ltd: Grant Kelley appointed as Chief Executive Officer and Managing Director, commencing 1 January 2018.

Grant King stood down from the BHP Billiton Board shortly after his appointment.

5. A push back on competency

There were a number of questions being asked by the market as to why Executives and Directors were being appointed to their positions without in-depth experience. A number of Board structures were questioned, with Directors having little or no market or industry experience, P&L experience or international experience to significantly contribute and add value to the Board.

There were similar questions around key executive appointments and limited leadership experience at the top level. The push for industry and business experience was raised.

6. Succession planning – not being done

Succession Planning by its very definition means that if key executives are ‘run over by the proverbial bus’, then the company can quickly appoint an executive. This ensures that investors do not lose faith and that market cap is retained. It is a very effective risk management strategy and with the increasing emphasis on risk and compliance and the criticality of these roles, it was surprising that we saw a failure to do this at a number of companies. If a Chairman, Chief Executive or senior executive announces that they are leaving in the foreseeable future and if they are not being encouraged to move on, then it is clearly right that an executive search takes place to take into consideration the current external and internal executives appropriate for the role. However, we did not witness this on a number of occasions. We heard from companies that they were going to commence their succession planning and conduct the search. In our view, this is not succession planning. The companies were not prepared and only had in mind internal candidates. It was unfortunately very reactionary.

At this level, all executives recognise that companies must have succession plans in place so that companies are able to act decisively. On a number of occasions in this reporting season, the market was informed that the succession planning process was to begin on executives who have been encouraged to depart. This brings to question, what have the Boards, and senior executives been doing proactively whilst senior executives have been in place? Why don't they have a pool of ready now executives or other Board Directors? Why are they putting the company branding, reputation and market cap at risk, which all suffered in the most recent reporting season?

At Blenheim Partners, we work with Boards and senior executives to help them with succession planning which is both internal and external, so clients have full knowledge of the leading candidates in the market and their current status. This ensures our clients are able to facilitate a smooth transition of executives without unnecessary scrutiny and loss of company momentum and corporate value. If you would like more information please contact Blenheim Partners at + 61 2 9253 0950 or visit blenheimpartners.com.

Blenheim Partners specialise in:

- Executive Search;
- Non-Executive Director Search;
- Board Strategy and Structure Consulting;
- External Succession Planning; and
- Executive Re-Engagement / Transition.

Founded in 2012, our team have acted as specialist adviser to many of the world's leading corporations on Board and Executive performance, capability and succession planning.

Our consultants have worked with clients from all sectors and a broad range of geographies. They include over 80 of the ASX 100, 10% of the FTSE 100, Private Equity, Multinational, Private Family and Mutually Owned Companies.

Our work includes assignments that are both local and international in scope.

Our team consists of senior Search Consultants, Human Resource Directors,

Psychologists, Coaches and exceptionally experienced Researchers.

Blenheim Partners is continually investing in knowledge and understanding as exemplified by our Thought Leadership "The Challenges of Attaining Growth", Industry Papers and monthly Market Intelligence reports.

Our philosophy is to develop deep and committed relationships with a select number of clients and help them deliver a superior performance by optimising the composition of their Board and Executive team.

Our culture is built on pride, professionalism, esprit de corps and client service.

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