IT WASN'T ANY GOOD WITH THE OLD BOYS' CLUB, AND IT ISN'T ANY BETTER WITH THE NEW WOMEN'S CLUB

In a recent discussion with a number of ASX Chief Executives, their concern with the composition and mechanics of the Boardroom was apparent. Whilst we recognise Boards do not run organisations, Executives do, the Chief Executive Officer has to present regularly, in fact, more regularly to the Board than in the United Kingdom or the United States. In the United States, it is not unusual for Boards to meet four times a year, the United Kingdom six to eight and Australia ten to twelve.

For many of the Chief Executives, the need to present up to twelve times a year is simply too much. They expressed their concerns that they are taking too much time away from good staff to prepare the reports for Directors and are being taken away from the business. All express the need for governance, but most were apprehensive that the Board meetings are becoming governance driven, not business driven.

The CEOs were concerned by the competency in the Boardroom and therefore, the ability to act quickly and make decisions. A number of them questioned the value of Non-Executive Directors who have not had successful or established careers being appointed to tick certain boxes. This led to a more open and broader discussion.

The CEOs felt that many Directors had not run a business or at least a sizeable P&L, had not rolled out significant change or led a merger or acquisition and had little or no track record of leading growth businesses or business divisions. They expressed a genuine concern that shareholders are being penalised by Boards that do not have the business exposure and experience to grasp and contribute to the CEO's needs. Many said that business is losing opportunities and being constrained by the pedigree of individuals in the Boardroom which is in some cases, being driven by a narrow definition of diversity.

Most expressed the view that Australian Boards have become overweighted on compliance and risk-taking has been downgraded, as a result, opportunities have been missed. A number communicated the level of detail they are drawn into in the Boardroom when their role is supposed to be strategic. Their argument is some of the Board Director's lack significant experience.

Another concern was that in striving for diversity in the Boardroom which they all agreed is needed, it does not have to be confined to purely gender. They stated they are not seeing enough Executives with P&L experience, international experience, deep industry exposure and Executives with successful business track records. One noted Chairman's view is "diversity in the Boardroom is 50% male and 50% female". That does not take into consideration anything but gender. Another CEO said, "every appointment to the Board has to be gender focused, not enough willingness is given to what is actually needed to help the company." One CEO stated "we all appreciate the need for gender in the Executive ranks and the Boardroom. No one disagrees, but aren't we supposed to have diversity. I don't need more accountants or lawyers in the Boardroom just because they are female, that is not diversity of thought and background. Surely we are a little more sophisticated than that."

Another CEO said, "We all understand what is happening, every appointment that I make I look for diversity, but I am looking for genuine diversity, not just gender. How else do we get different thinking? The Chair is also fully aware of the market situation but is adopting the view that diversity in Australia means gender. The truth is that there is simply not enough women who have the business experience, and I would argue some of those that have are being chased by every company. I think everyone is on board with diversity; no one wants the old boys club, we want meritocracy. It's got to the point that there are Board members who in my opinion add very little, and others who are now on too many Boards to be as truly effective as they can be. We have got to stop over promoting people because it is unfair on them. At the end of the day, I have to represent my shareholders, and that has to remain at the forefront of my mind. Decisions are being slowed, and opportunities are being missed because we are following the 'policy of pleasing', that everyone has to hire a diversity executive."

"Let's not lose sight of the capable men who are being completely overlooked, and whose careers have been curtailed. If we are going to be serious, why isn't anyone asking about diversity in Human Resources or General Counsel, which is now heavily populated with women? We have almost gone too far" said another CEO.

“I would like and am focusing on diversity in the executive ranks, but I mean true diversity. We are appointing executives with international backgrounds, we are appointing females, we are rotating our staff, so they don’t remain silo educated, and they can bring more to the table,” said a CEO.

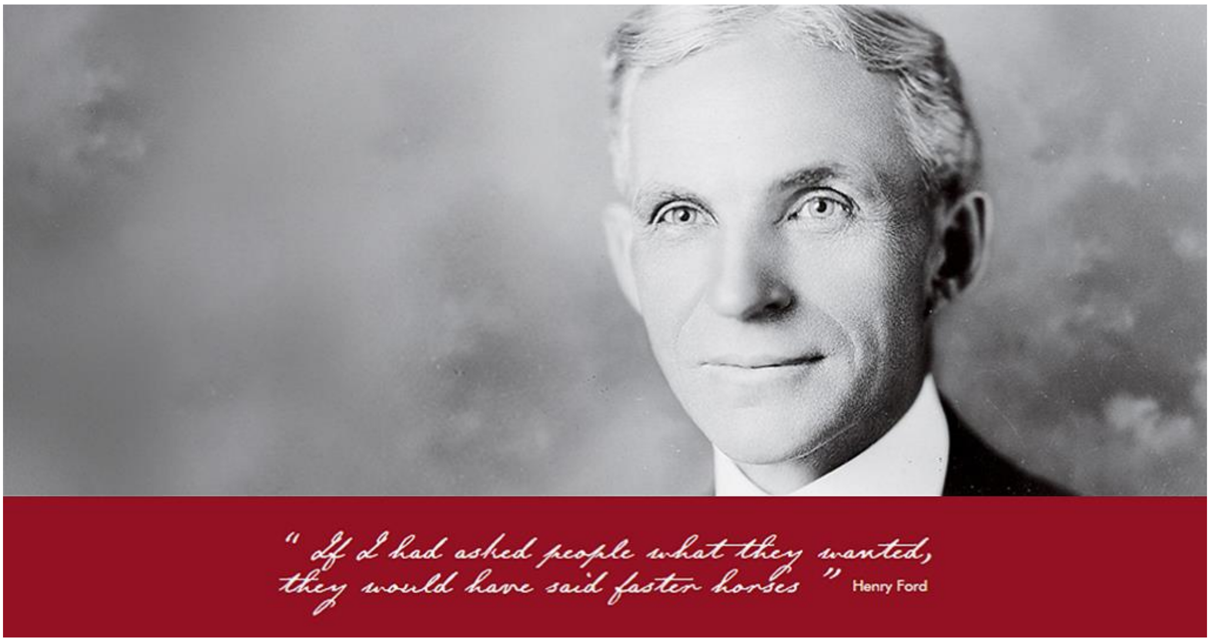
“I appreciate that my Chair, like many others, is being questioned more and more about appointments to the Board. The press are fairly aggressive in that regard, however, the Chair has a role of appointing appropriate Directors and with the Board hiring or sacking me.”

“We meet too regularly, we are knee deep in bureaucracy, and we have inexperience in the Boardroom. I would like the hard questions to be asked about the skills Directors are bringing to this company. It wasn’t good enough with the old boys club, but it isn’t any better with the new women’s club. Some of the education required in the Boardroom is significant. My preference is to have more Directors who are an ex CEO. They don’t have to be the Chair, but as a CEO it would be helpful to have a few people at the table who have been there.”

“We are becoming a nanny state. We cannot say anything without being hung, drawn and quartered. The analysts and investors want results, and so do I. But I do not need another solicitor on the Board, I would like someone who understands my markets are rapidly changing and who has seen it elsewhere, some overseas experience would be helpful. I have been perplexed by some of the appointments to the Boardroom of late,” said a CEO.

“I cannot speak about other Boards, but I have seen the appointments and know some of them, who never made it as an Executive and are now on multiple Boards. I know there is a need for balance, but the role of a Director is a privilege, and it is not a right. I have a similar situation, but like my contemporaries, we get on with it. At the end of the day, Directors are all part-timers and do not know and cannot know our business in depth. Only one or two ask the necessary questions, the others are side-tracked by process, so I make sure full process is achieved.”

EXECUTIVE REMUNERATION – CEOS ARE PAID 150 TIMES MORE THAN THE AVERAGE WORKER



Executive remuneration will always generate debate. There is no right answer. Some believe remuneration is a true reflection of the market economy, while others believe it needs to be compared and aligned relatively to the average wage.

In the UK, like Australia there has been pressure on executive pay. FTSE100 pay is approximately 150 times the average worker income, a ratio that has doubled in the last ten years. It is being argued that Chair and Chief Executives need to show leadership. It has been debated in the UK if pays continue to increase, measures such as removing responsibility from Remuneration Committees entirely and giving them to a Committee of investors with the right to nominate Board Directors may be considered.

Over two thirds of the FTSE100 CEO appointments are internal and it is argued remuneration committees have a real opportunity to exercise restraint when making new appointments. The alternative is that public trust in business is further eroded and governance regimes become open to further questioning with far more wide ranging ramifications than effective self-regulation on pay.

In Australia, we are also seeing intensive discussion around CEO pay, and in particular, departing CEO pay after the executive has been encouraged to move on.

Now in the UK, as a result of the remuneration questions and encouragement of long-term thinking, many executive share options now have a five year vest. The fallout of this can be an overly conservative approach where executives do not challenge the status quo or take risks, as well as creating blockages in the organisation, leading to difficulties in developing and promoting the next generation of talent.

One of the more fundamental questions to ask is whether there is the need to compensate a Chief Executive Officer, 150 times annual workers' pay. In Australia, we appear to be prepared to pay global remuneration standards for roles which are arguably not comparable in scale or complexity. Another point is that one cannot underestimate the value of the title CEO, and why that attracts many executives. Bearing in mind Australia is a smaller business market and that CEO roles are rare, why do we pay as some would argue, beyond what is required?

Some thoughts include that talent is a global market and that if organisations wish to attract the very best they have to incentivise according to global standards. Other perspectives put forward include Australian executives are part of the global talent pool and therefore, need to be incentivised to remain on our shores.

There is also a lack of guarantee on many of the LTI structures in place for executive remuneration, that most executives treat LTI as more luck than a reward.

It does seem that overall, market sentiment is that incomes to CEO's are disproportionate to the scale of the companies, and the Board have an opportunity to introduce more appropriate structures.

As one analyst stated, "it is also reasonable to argue that Australian workers and executives are paid at inflated prices to the world market, and that a correction at all levels is required for the good of our country's economic competitiveness."

"Ultimately, there will be a differing of opinion, but with a limited supply of CEO roles available and strong supply of local and global candidates, the 100 times plus that CEO's are being paid to the average worker needs to be discussed. Many of the CEO's appointed walk into a company whose existence is a result of many others hard work over many years. The CEO did not create the business, did not put their own capital at risk, but instead, is the benefactor of in many cases, a solid platform. Why then do we need to pay such large incomes to CEO's, who in many cases contribute to incremental but not step change growth?, stated one investor."

As highlighted, remuneration is always an intensely debated topic. It will be interesting if we follow the same discussions as the UK.

REMUNERATION UP IN CYBER SECURITY AND COMPLIANCE ROLES

In this new digital age, an organisation’s success or failure will depend on its ability to take smart risks with new technologies. Thus, having the right talent not only protects organisations’ most valuable assets but also helps build customer trust, implementation of business strategies and, ultimately, enables growth. Through our work we observe several leadership positions coming into prominence, including:

- **Product Security Specialists –** Designing security for the organisation’s products and services by supporting product teams in the Research & Development phase and stewarding security capabilities from initiation;
- **Compliance and Security Officer –** Establishing and maintaining enterprise security policies and procedures, risk management and governance, crisis management, training and awareness, regulatory compliance and oversight of investigations and audits;
- **Cyber Security –** Enable risk-based decision-making, monitor operations, implement new technologies to reduce risk, map out security incident response; ensure return to operational status and cybersecurity awareness programs;
- **Chief Data Officer –** Accountable for enterprise governance and utilisation of information as an asset, via data processing, data mining and information trading;
- **Vendor Management Officer –** Evaluating and monitoring third-party providers, setting vendor risk management policies and managing long-term relationships.
- **Chief Information Security Officer –** Responsible for enterprise vision, strategy and program to ensure information assets and technologies are adequately protected.

Recent corporate missteps, the tightening regulatory environment, the growing business digitisation agenda and CEO’s mounting concern on trust, have elevated demand for talent in these leadership positions. Given the limited pool of people with the right skills and experience, this is making for a perennial talent challenge. As such, we are witnessing a step increase in compensation, with these roles commanding nearly twice the common pay rise of other technology positions to retain the talent.

What is the driving force behind these in demand roles? Trust?

Twenty years ago, COMPLIANCE AND CYBER SECURITY wasn't as high on executive leaders' radar as it is today.

It wasn't until 2000, when the world was teetering from accounting deceptions, the dot-com bubble burst and the collapse of the equity markets that it came to rising attention. But still, only a relatively small number of CEOs, approximately 30%, thought the fallout from corporate misdeeds was a serious threat to their organisation's growth.

Since then, the global financial crisis has catapulted trust into the public eye, as have the effects of customer information leaks and compliance mismanagement, fueling a climate of doubt. The CEOs viewpoint on these matters has since changed significantly, today over 60% worry that the lack of trust in organisations would harm their growth.

If forfeiting people's trust is a path to failure, it stands to reason that earning their trust is a significant enabler of success. With this in mind, how does technology factor in this context?

Most CEOs think that in an increasingly digital world it's harder for businesses to gain and retain people's trust. When CEOs were asked to highlight key risk areas they felt may impair public confidence in their industry, predictably they listed:

- Social media;
- Breaches in data security & ethics; and,
- IT outages.

Further, progressive CEOs are now considering how automation and artificial intelligence pose a threat, too. The code and algorithms that underpin automation and carries out human orders effectively raise various ethical concerns. This includes to what extent it is acceptable to influence human choices and whether the companies that write the code/algorithms can be trusted.

Contrary to misconception, technology neither builds nor forfeits customer trust. It is in fact people, risk and governance structures. Technology does however intensify the opportunity to either create or rescind customer trust with inordinate speed

Does your organisation have the talent and governance structures for the digital world?

We observe companies taking strides to build the trust that the digital age demands. As trust becomes more predominant and complicated, organisations are elevating trust to executive leaders to ensure its strategic direction and oversight. These leaders are bringing different functional areas of the business together including customer engagement, IT, compliance and sustainability, to create customer models and a culture of transparency and trust based on strong ethical standards. If you would like more information please contact Blenheim Partners at + 61 2 9253 0950 or visit *Blenheimpartners.com*

TOP KEY BOARD AND EXECUTIVE MOVEMENTS IN AUSTRALIA 9th – 13th OCTOBER 2017

- Auckland International Ltd: Mark Binns has been appointed as a Non-Executive Director, effective 1 April 2018. Mark replaces Michelle Guthrie who steps down on 31 March 2018.
- Australian Foundation Investment Company Ltd: Ross Barker has retired as Managing Director and Chief Executive Officer effective 31st December 2017. Ross Barker will remain on the Board of Australian Foundation Investment Company Ltd as a Non-Executive Director.
- AWE Ltd: Andrew Rigg has been appointed as an Independent Non-Executive Director, effective 12 October 2017.
- Breville Group Ltd: Mervyn Cohen has resigned as Group Chief Financial Officer. Michelle Waters, Breville's General Manager of Finance, will be appointed as Interim Group Chief Financial Officer, on Mervyn's departure later this year.
- Cardinal Resources Ltd: Jacques McMullen and Michele Muscillo have been appointed as Non-Executive Directors, effective immediately. Mark Connelly and Simon Jackson have resigned from the Board.
- Carnegie Clean Energy Ltd: Terry Stinson and Mark Woodall have both been appointed as Non-Executive Directors, effective from the Annual General Meeting on 15 November 2017. Jeff Harding will retire as Chairman and from the Board of Directors and Terry Stinson will be elected to Chair the Board.
- Centuria Property Funds Ltd: Nick Collishaw and Roger Dobson have both been appointed as Directors to the Board of CPFL. Nick Collishaw's appointment is in preparation for him transitioning from his current executive role into a non-executive role in 2018. As part of the board restructure, Jason Huljich has retired as a director of CPFL to focus on his increased group executive responsibilities. From 1 January 2018 he will assume responsibility for Centuria's listed property funds division whilst maintaining his current role as head of Centuria's unlisted division.

- Dicker Data Ltd: Wendy O'Keeffee has tendered her resignation as a Director as a result of accepting a full-time Executive role with another organisation.
- GBST Holdings Ltd: Gareth Turner has been appointed as Chief Financial Officer and will join the company in December 2017 replacing Patrick Salis who has resigned as Chief Financial Officer.
- Godfreys Group Ltd: Rodney Walker intends to retire as a Director of the Board at the end of this calender year.
- Myer Holdings Ltd: Garry Hounsell will become Chairman, effective end of the Annual General Meeting on 24 November 2017. Paul McClintock has decided to retire at the Annual General Meeting.
- Navitas Ltd: David Buckingham, Navitas Chief Financial Officer, will succeed Rod Jones as the next Group Chief Executive Officer, effective from 1st March 2018 after the Company's 2018 half year results. Rod Jones, the co-founder of the Company and Group Chief Executive Officer will step down from the role. He will continue as Managing Director until 30 June 2018 at which time David Buckingham will assume the role of Managing Director and Group Chief Executive Officer. This transition process is to ensure a smooth and progressive handover of responsibilities.
- PMP Ltd: Wai Tang and Terry Sinclair have both been appointed as Non-Executive Directors and are to commence on 22 November 2017.
- Suncorp Group Ltd: Pip Marlow has been appointed as the Chief Executive Officer of the new function, Customer Marketplace (combined functions of Customer Platforms, Customer Experience and Strategic Innovations). Gary Dransfield has been appointed as Chief Executive Officer of Insurance. Anthony Day has resigned as Chief Executive Officer of Insurance. Kate Olgers has also resigned as Chief Legal Officer. As a result, Steve Johnston, will also assume responsibility for Legal and Company Secretariat.

TOP TECHNOLOGY EXECUTIVE MOVEMENTS 9th – 13th OCTOBER 2017

- Brambles Ltd: Jean Holley has resigned as Group Senior Vice President and Chief Information Officer.
- News Corporation Australia: Adam Thomas has been appointed as Chief Architect.
- Office Brands: David Anson is the new Chief Information Officer. David Anson is replacing Ritesh Patel who is joining Fletcher Building in New Zealand.
- The Victorian Government: Has appointed its first Whole-of-Government Chief Information Security Officer, John O'Driscoll. A number of states are appointing CISO's in response to growing security threats.
- Victoria's Department of Justice and Regulation: Michael Cornelius has resigned as Chief Information Officer, effective 13 October.

Information provided by Blenheim Partners Executive Search and Board Advisory Firm, www.blenheimpartners.com.

BACKGROUND

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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no limitations

Executive Search & Board Advisory

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