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**Australian CEO
Succession Study
2008**



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AUSTRALIAN CEO SUCCESSION STUDY 2008

The year 2008 was characterised by the dramatic slump in stock prices following the collapse of Lehman Brothers in September of that year, widely considered the flashpoint of the Global Financial Crisis. With so many balance sheets hit so severely over the course of the year, it is perhaps no surprise that CEO turnover in Australia in 2008 was the highest recorded in the nine-year history of Booz & Company's CEO Succession Study.

Indeed, at 22.3%, Australia recorded one of the highest CEO turnover rates in the world during the year, significantly higher than the global average of 14.4%. Booz & Company's annual survey revealed that the number of CEO turnover events in Australia increased by 22% to reach 50 in 2008.

Driving the higher turnover in Australia was a spike in forced CEO departures. Of the 50 turnover events at 224 companies appearing in the ASX 200 at some point in 2008, 40% were forced (that is, the Board dismissed the CEO for reasons of poor financial performance or irreconcilable differences), up from 12% in 2007.

By comparison, 44% of CEO departures were planned (because of retirement, illness, or long-expected changes), down from 59% in the previous year, while 16% were merger-related, well down on the 29% recorded for merger-related departures the previous year (refer Exhibit 2, page 3).

A period notable for uncertainty and turbulence in markets, 2008 also saw a corresponding sharp decline in the annual shareholder returns attributed to departing CEOs. In 2008,

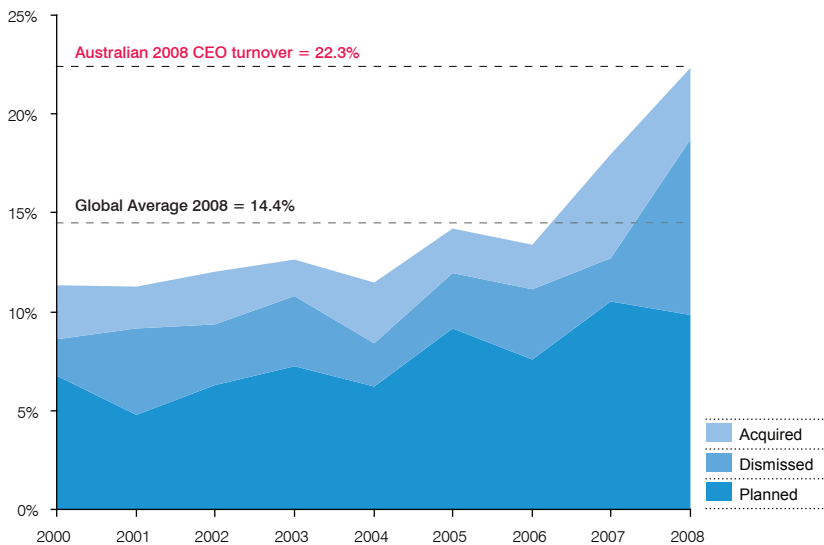
shareholder returns generated by departing CEOs were -2%, compared to a high of almost 22% in 2007, and the 11% average recorded for the history of this study (refer Exhibit 3, page 3).

Average annual shareholder returns for companies where CEOs had left for performance reasons in 2008 were -1%, well below the longer term average of 3.7% (refer Exhibit 4, page 4). This presents a surprising contrast to average annual return for planned departures of -11% in the same period, a sharp departure from the longer term average of 12%.

Internal vs. External Sourced CEOs

Between 2000 and 2007, the period spanning the history of the Booz & Company study, outsider CEOs in Australia strongly outperformed their internally-sourced counterparts. On average, outsiders

Exhibit 1
Australian CEO Turnover Rate 2000-2008



delivered a 15.3% return compared to 10.3% for insider CEOs (numbers reflect the average of all years before 2007). In 2008, however, outsider CEOs failed to deliver, logging on average a decline in shareholder returns of 14.9%, whereas insider CEOs managed to generate returns of 1.7% (refer Exhibit 5, page 4).

Curiously, while externally appointed CEOs generally have delivered superior returns over the course of their tenure than their internally appointed counterparts, Australian boards are increasingly leaning to insider CEO appointments. In 2008, some 74% of CEO successors came from within the organisation, a record high for the history of the study (refer Exhibit 6, page 5).

We conclude that boards are more risk averse in challenging times, preferring to promote trusted candidates from within, rather than select external candidates who may be more likely to rock the boat, take risks or accelerate change across the organisation. Or, given the need to cut costs during the downturn, boards might prefer internal candidates with a greater understanding of the organisation and culture, who can hit the ground running.

At a broader level, this finding suggests that carefully structured succession planning is not only now the norm in Australia, but may be beginning to bear fruit, given that internal candidates significantly outperformed external appointments in 2008, in terms of returns delivered over the course of their tenure.

Exhibit 2
CEO Turnover by Reason for Termination 2000-2008

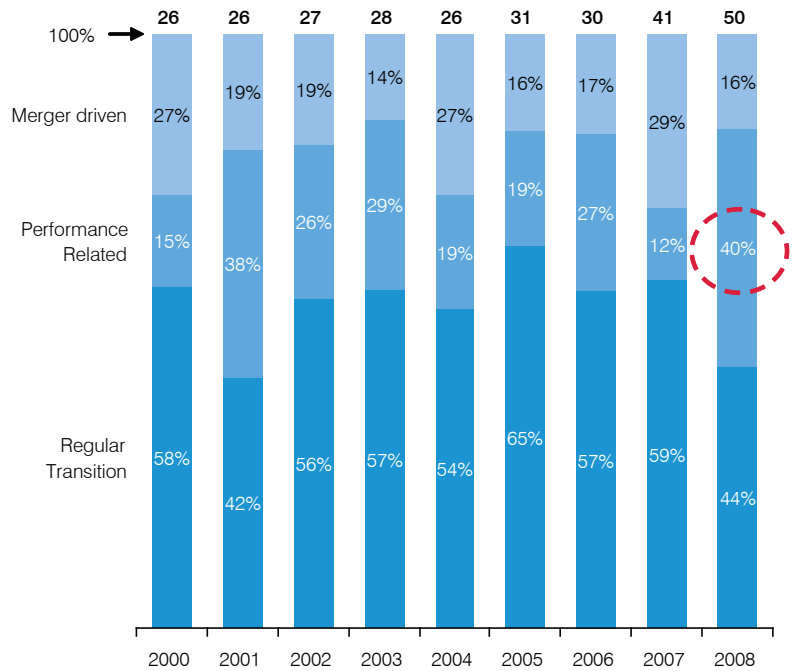
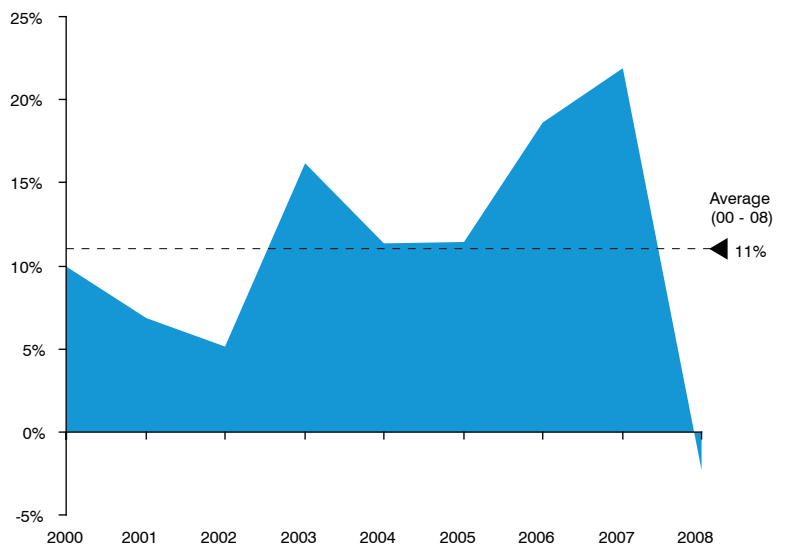


Exhibit 3
Annual Shareholder Returns of Departed CEOs 2000-2008



Industry Differences

As with the Global CEO Succession Study, the Australian study found that certain recession-resilient industries present a safe harbour for CEOs in a time of general volatility. For example, CEO turnover in the telecommunications and utilities industries dropped by 50% and 33% respectively in 2008. On the other hand, turnover in industries closer to the epicentre of the crisis were sharply higher, with forced departures in property trusts, energy and financial services increasing by 20, 18 and 12 percentage points respectively in 2008 (refer Exhibit 7, page 5).

Exhibit 4
Comparison of Annual Shareholder Returns¹ 2000-2008

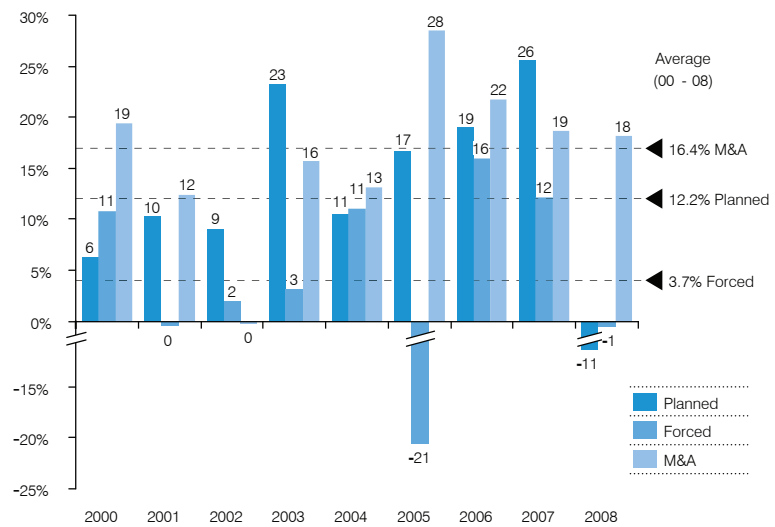
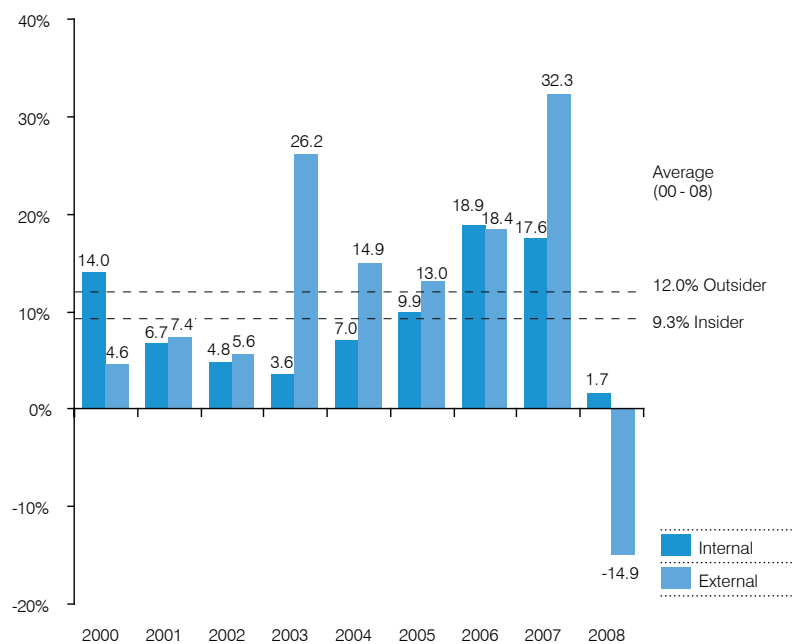


Exhibit 5
Annual Shareholder Returns Insider vs Outsider in Australia 2000-2008



Among the specific findings for the 2008 Australian CEO Succession Study:

- CEO succession events increased by 22.3%, from 41 in 2007 to 50 in 2008;
- While the age of CEOs upon their appointment and termination has remained fairly consistent, average CEO tenure rose to 6.7 years in 2008, up substantially from the nine-year average of 6.0 years (2000-2008);
- 2008 saw the highest number of internally-sourced CEO successors in the history of this survey - 74% compared to 59% in 2007, and an average of 43% over the period 2000–2007;
- Externally-sourced CEOs were more likely to be eased out than internal appointments to the top job, with outsiders making up 55% of forced departures in 2008;
- 37% of financial companies (excluding property trusts) experienced CEO turnover events, and 64% of these departures were performance-related.

Exhibit 6
Source of Successor CEOs 2000-2008

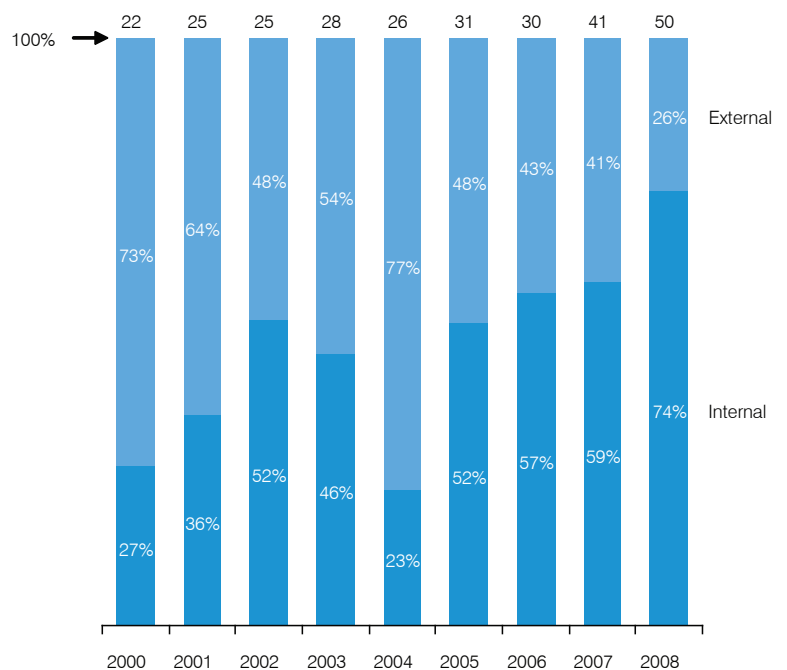
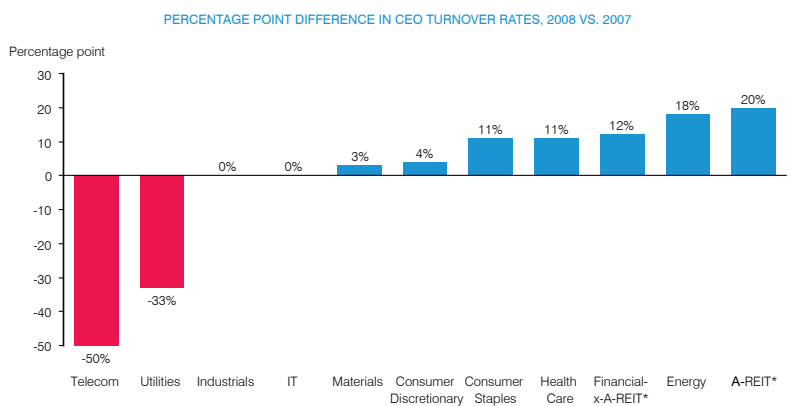


Exhibit 7
Sector Disparity in CEO Turnover



*A-REIT, Real Estate Investment Trust

GLOBAL STUDY: 2008 FINDINGS – STABILITY IN THE STORM

With stock prices plummeting, profits evaporating, and millions of workers worldwide joining the ranks of the unemployed, one might assume that the chief executives of the world's largest companies lost their jobs in dramatic numbers in 2008.

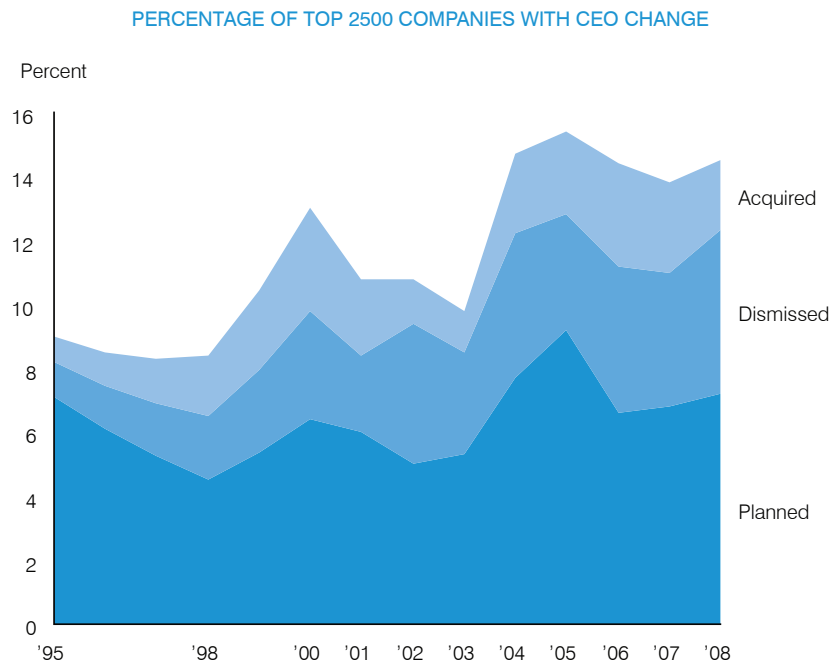
But that was not the case. On a global stage, CEOs demonstrated remarkable resilience to recession last year. Although turnover rose slightly on a global basis, from 13.8 percent in 2007 to 14.4 percent in 2008 (refer Exhibit 8), Booz & Company's annual survey reveals that turnover actually declined in North America

and Europe, the regions hit first and hardest by the economic downturn. Succession rates in these bruised economies decreased by 0.5 and 1.9 percentage points, to 14.9 and 15.1 per cent respectively. This is all the more surprising when one considers that Europe and North America had led other regions in CEO turnover in the two previous years.

Financial Services and Energy Sectors hit hardest

CEO turnover in financial services companies hit a historic high of 18.0%, with nearly half of the

Exhibit 8
Global Turnover Rate by Reason



departures forced. At 8.8%, the rate of CEOs shown the door globally was more than double the historic average of 3.4%. With continued volatility in the banking sector and issues such as executive pay given added scrutiny, high turnover in financial services may be sustained in 2009, and boards may face challenges filling positions (refer Exhibit 9).

Amid unprecedented oil price volatility in 2008, the energy sector was also hit hard. Both overall and forced turnovers among energy companies reached historic highs - 18.3% and 5.6% respectively. As in financial services, energy CEOs were forced from office at a rate more than twice the historical average of 2.7% (refer Exhibit 10).

Exhibit 9
Overall CEO Turnover in Financial Services

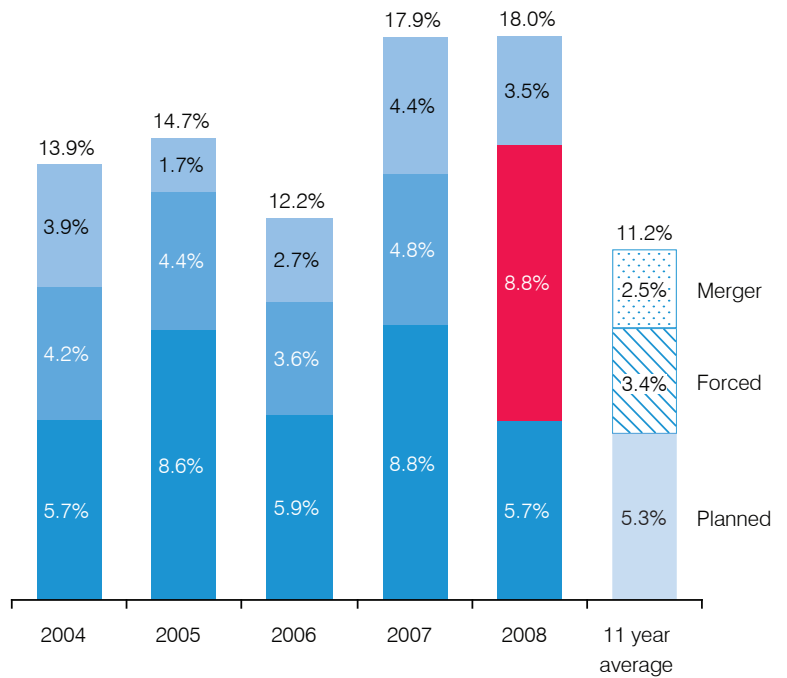
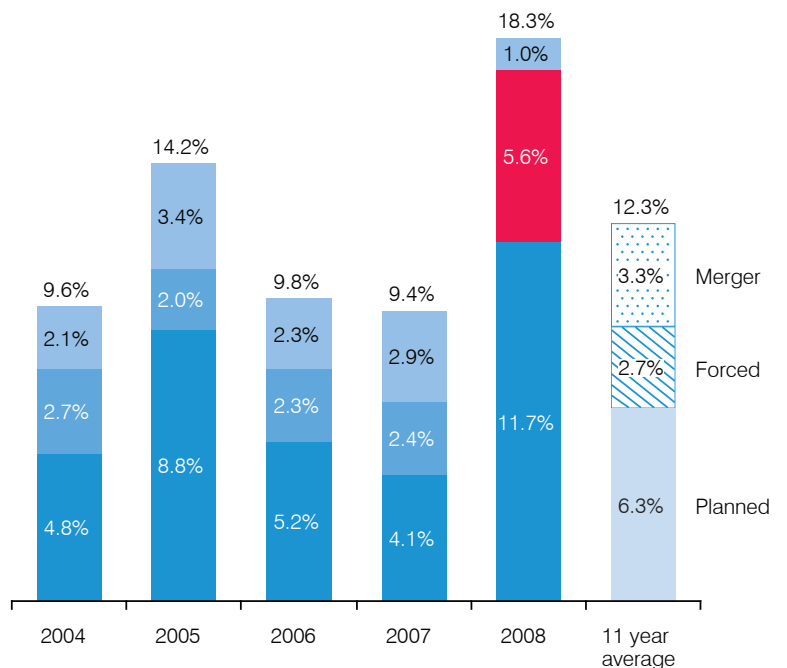


Exhibit 10
Overall CEO Turnover in Energy Sector



Many other industries showed greater-than-normal stability, supporting our contention that while those sectors most exposed to the downturn experienced higher rates of forced departures compared to their historic average, firms operating in recession-resistant industries put a premium on continuity at the helm (refer Exhibit 11).

The Experienced CEO

Our research also suggests that during tough times, companies tend to look for seasoned CEOs with prior experience. Nearly 20% of CEOs involved in turnover events in 2008, both incoming and outgoing, had had previous CEO experience (refer Exhibit 12), almost twice the historical average recorded for the last 11 years.

Exhibit 11
Sector disparity in CEO turnover at all-time high

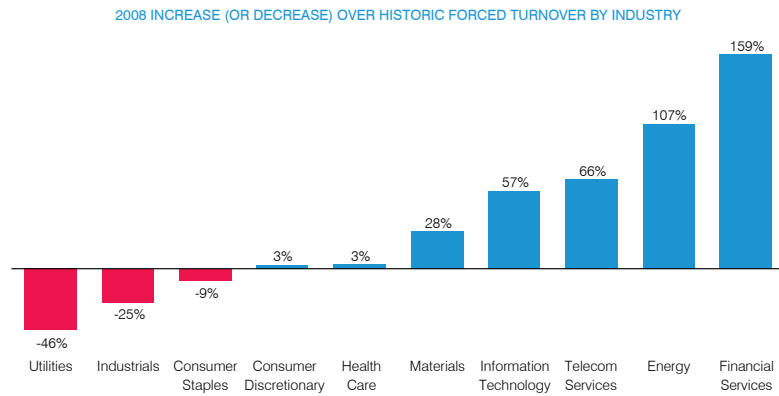
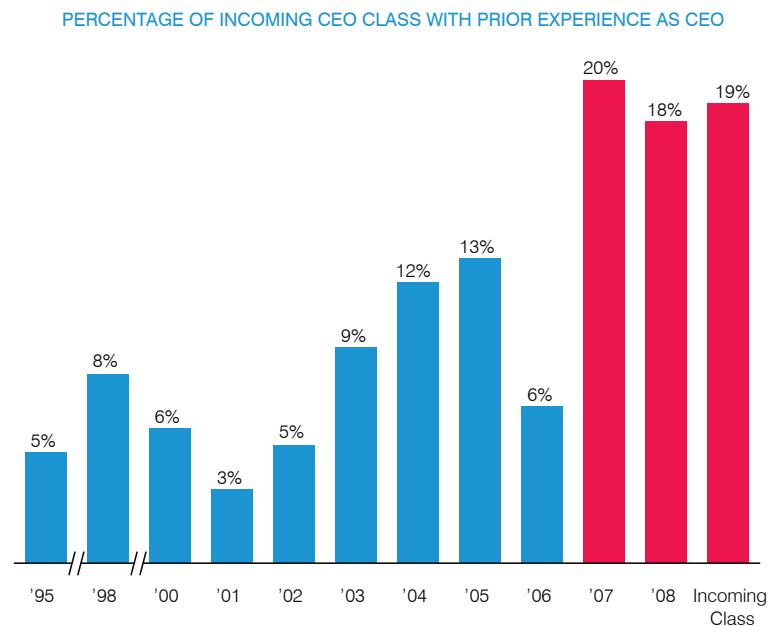


Exhibit 12
CEOs with Prior CEO Experience



Of the incoming class of CEOs in 2008, more than half had led an entire business. All new CEOs had previously enjoyed some functional role in addition to their general management experience, and the majority of new CEOs came to their job with an operations background. (refer Exhibit 13).

North American companies are also seeing a decline in the combined CEO/Chairman role. In 2008, only 25% of departing CEOs started as joint CEO/Chairman, compared to 50.5% of the 2001 class of departing CEOs. For the incoming class of CEOs in 2008, only 18% had joint CEO/Chairman titles. The practice also appears on the wane elsewhere, with 80% of CEOs who left office in Asia and Europe never having held the joint title.

We also observe a rise in the “apprentice” model, where the outgoing CEO is appointed Chairman, as mentor to the incoming CEO. Among planned successions that took place in North America in 2008, 57% of incoming CEOs in North America were apprenticed this way (refer Exhibit 14). In Japan, the rate was significantly higher, with 82% of outgoing CEOs over the past 11 years having been apprenticed.

Exhibit 13
The Path to the Top

PERCENTAGE OF INCOMING CEOS WHO HAVE PREVIOUSLY RUN A BUSINESS

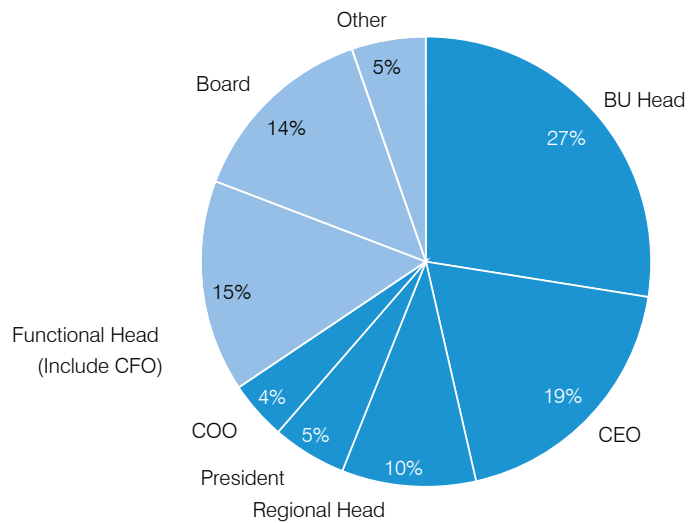
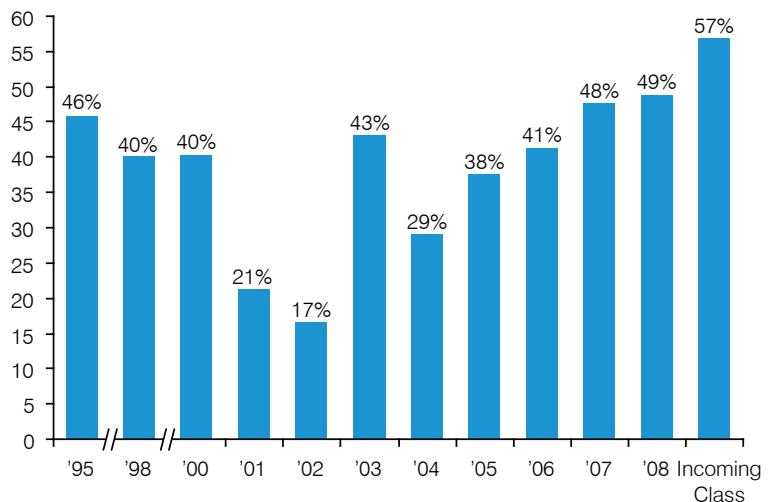


Exhibit 14
Rise of the NA “Apprentice”

PERCENTAGE OF OUTGOING CEOS STAYING ON AS CHAIRMAN



THE IMPORTANCE OF LEADERSHIP

In the present global economy, the challenge of developing leadership talent is urgent, particularly for the next generation of CEOs. The economic downturn has highlighted the differences in the quality of leadership talent, especially in the most volatile industries, and underlined just how important it is to have a strong and deep leadership bench. In separate research conducted by Booz & Company, the effectiveness of leadership development is strongly correlated with profitability and total shareholder returns. And insider CEOs are now generating higher total shareholder returns, which further argues for cultivating future CEO talent in-house.

CEOs today need to guide their enterprises out of the downturn, while seizing the opportunity to position their companies for long-term success. A key element in that transformation will be establishing a talent management strategy that develops future CEOs capable of leading diverse workforces through the next waves of change.

Methodology for the Australian study

The Australian CEO Succession study identified all companies listed in the ASX 200 since 1998, a data set spanning 241 companies. Research then revealed if and when a CEO turnover event had taken place for those companies since 1998.

A total of 224 companies were identified as listed in the ASX 200 during 2008, 49 of which had experienced CEO turnover events, with 50 turnover events in total, one company going through two turnover events.

Annual reports and press searches for each individual company were used to identify companies that had experienced a CEO turnover event. Annual reports identified the CEOs for each of the financial years and press searches complemented the data, confirming the turnover event and identifying the reason. A variety of print and electronic sources were used. Factiva was used to identify announcements of retirements or new appointments of CEOs, Presidents and Managing Directors for the ASX 200 companies in each year since 1998. TSR data was provided by Datastream and included market capitalisation growth, dividends and reinvestment of dividends.

Each company that experienced a CEO change in 2008 was analysed to confirm the change had occurred, the name of the outgoing executive and the true reason for the turnover event.

Consistent with the global study, three reasons were identified for a CEO transition event: merger-based, in which a CEO's job was eliminated after an acquisition; regular transition, which included planned retirements, the CEO's acceptance of a position elsewhere, health-related departures or death in office; and performance-related, which included any departure initiated by the board, attributed by the media to poor financial or managerial performance, or where there was a demonstrable underperformance but the departure was described as being for "personal reasons".

Methodology for the global study

The global study identified the world's 2,500 largest public companies, defined by their market capitalisation (from Bloomberg) on January 1, 2008. To identify the companies among the top 2,500 that had experienced a chief executive succession event, we cross-checked data across a wide variety of printed and electronic sources, including Factiva and Hoover's. Additionally, we conducted electronic searches for announcements of retirements or new appointments of chief executives, presidents, managing directors, and chairmen. For a listing of companies that had been acquired or merged in 2008, we also used Bloomberg. Finally, Booz & Company worldwide staff included CEO changes from their regions that had not previously been identified.

Each company that appeared to have changed its CEO was investigated for confirmation that a change occurred in 2008 and for identification of the outgoing executive: name, title(s) upon accession and succession, starting and ending dates of tenure as chief executive, age, whether he or she was an insider or outsider immediately prior to the start of tenure (and, if an outsider, whether he or she was an industry outsider), whether he or she had served as a CEO of a public company elsewhere prior to this tenure, whether the CEO had been chairman (and, if so, for how long), the identity of the chairman at the start of the CEO's tenure (if different) and whether that individual had been CEO of the company, and the reason for the succession event. Company-provided information was acceptable for each of these data elements except the reason for the succession; an outside press report was used to confirm the reason for an executive's departure. We also enlisted the support of Booz & Company staff worldwide as part of the effort to learn the reason for specific CEO changes in their regions.

Additionally, we collected data to track the career paths of the new CEO class. For each succession event in which an incoming CEO was identified, we collected the new CEO's name; new title (for example, CEO and president); age; and educational background, including undergraduate and advanced degrees attained and names of academic institutions from which degrees were received, and additional postgraduate studies and certifications. We also collected data on insider or outsider status and prior work experience, including company and role tenure, job titles held, position level in the organization, and functional responsibility. For experience with the current company, we collected data on the new CEO's four most recent roles; for prior company experiences, we collected data for up to two roles within up to two companies. In addition, where available, we collected data on international experiences and other notable accomplishments and positions held. For the CEO's prior employers, we captured company and performance data from Bloomberg.

The career-path data includes CEOs — both interim and in full capacity — who were in position as of January 3, 2009. It also includes multiple CEOs for the same company if multiple succession events occurred in 2008. The career-path data excludes interim CEOs who were replaced by an official CEO before the end of 2008.

Regionally adjusted average growth rates of total shareholder returns (TSRs), including the reinvestment of dividends (if any) for each executive's tenure, were calculated for the entire tenure, the first and second halves of the tenure, the first two years, and the final year. TSR data for company and corresponding region was provided by Thomson Financial.

This is the 11th data-year study of CEO succession. We have data points and data on more than 3,000 successions total and 960 successions resulting from board disagreements or poor financial or managerial performance.

About the Authors

Chris Manning is a Partner based in Sydney and heads up the Strategy practice in Australian, New Zealand and South East Asia. Chris has been a consultant for over 10 years following a successful legal career, and has experience in a range of industries gained through working in Europe, the United States, Asia as well as Australia.

Chris' work focuses on helping clients redefine their purpose and strategic positioning in the face of changing industry structures and dynamics. He also works with clients to maximise shareholder value by developing innovative growth strategies and through the development of market-back campaigns designed to achieve sustainable advantage for clients across the value chain.

Phil Mottram is a Principal based in Sydney and leads the Organisational Change offering within Australia, New Zealand and South East Asia. He specialises in enabling strategic change, and has delivered complex organisational transformation solutions including executive management led cultural change initiatives, implementation and assurance of major IT transformations, as well as development and rollout of custom developed IT systems.

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