

Contact:

Kristine Anderson
Booz Allen Hamilton
anderson_kristine@bah.com
02 9321 1931

Nick Owens/Evan Petrelis
Sefiani Communications Group
nowens@sefiani.com.au
02 8920 0700

MEDIA RELEASE

(Strictly embargoed for 11.00am, Wed. 7 November 2007)

Booz Allen Hamilton study: Australian CEO turnover remains close to record high, with insider replacements outnumbering external appointments

- *15% of ASX 200 CEOs departed in 2006, above global average and close to high of two years ago*
- *Performance-related departures on the rise*
- *Insider CEO replacements outnumber external appointments and shown to generate superior returns*

Sydney, Wednesday, 7 November, 2007 – Australian CEOs were replaced with close to record frequency in 2006 yet the average time they spent in the job increased, according to a major study by global management consultancy Booz Allen Hamilton.

Fifteen per cent of Australian ASX 200 CEOs departed their post in 2006, down slightly from the record high of 15.5% recorded in 2005 and close to the average global CEO turnover rate of 14.3%. The percentage of departures linked to poor CEO performance - rather than a merger or regular transition - increased to 4.0% in 2006, up from 2.5% in 2004.

However, while the revolving door for CEOs in Australia continues to move at a rapid rate, CEOs appear to be staying in their jobs longer. The average tenure of departing Australian CEOs in 2006 increased to 7.4 years, compared to average CEO tenure globally of 7.8 years.

On a long-term average, however, Australian CEOs still enjoy far less time in the job than their counterparts overseas, with average CEO tenure in Australia since 2000 at 5.9 years compared to 7.2 years globally.

The 2006 study reveals the balance in CEO recruitment is swinging back to internal candidates, with new CEO appointments from within, at 57%, outnumbering external appointments for the first time in seven years. It also showed departing CEOs in 2006 who had been internally sourced generated greater shareholder returns than those recruited externally.

Booz Allen's periodic Australian CEO Turnover Study analyses CEO departures at ASX 200 companies and compares findings with the firm's annual Global CEO Turnover Study, examining CEO departures among the world's largest 2,500 listed companies. CEO departures are classified as being for performance reasons, merger-related or regular transitions.

With trends relating to succession planning among the most illuminating of findings from the 2006 Australian analysis, Booz Allen supplemented the research with interviews of listed company CEOs and Board Chairmen to draw a qualitative picture of current thinking around succession planning.

Study leader and Booz Allen Hamilton Australia Director, Marion Skulley, said the 2006 study highlighted some important underlying trends with implications for corporate performance and governance in future years.

"The rate of CEO turnover in Australia appears to have stabilised, as it has globally, at a high level around 15%. We believe this level of turnover to be the new norm, reflecting both the increasingly pressured environment CEOs face and changing attitudes to governance," Ms Skulley said.

"While the average tenure of CEOs increased in 2006 this may have been influenced by the departures of four long-serving CEOs¹ in that year. Long-term average tenure of Australian CEOs still lags the global average, suggesting local CEOs have a smaller window to implement successful strategy than their peers overseas," she said.

"Forced departures in Australia are on the rise but those linked to M&A activity remain low at 2.5%. This is in stark contrast to the global story, where merger-related departures have increased strongly, in line with the re-emergence of M&A markets in North America and Europe.

"Some of the most interesting findings relate to succession scenarios, particularly the rise of internal candidates in the CEO race.

"From our perspective this is partly due to buoyant economic conditions supporting consistent corporate performance, which makes internal hires a relatively lower-risk option. As well, fewer companies have recently been in turnaround mode and therefore do not require a radical shift in setting the strategic direction. There are also signs Australian business is focusing more effort on leadership development.

"Our discussions with CEOs and Board members as part of the study revealed that while approaches to succession planning still vary widely, the process has become more rigorous."

Ms Skulley said that over the past seven years Australian Boards had sourced only 46% of CEO successors internally on average, compared to 83% in other OECD countries over the same period.

Booz Allen's 2006 study showed a steady and consistent improvement over the previous four years in shareholder returns generated by internally sourced CEOs. In 2006, internal hires had generated an average return of 21%, compared to 17% for CEOs appointed from outside.

¹ Barry Fitzpatrick (Adelaide Bank, 22 years, regular transition), Chris Morris (Computershare, 17 years, regular), Brettney Fogarty (GRD, 19 years, regular), Chris Corrigan (Patrick Corp., 16 years, merger)

“This may partly reflect the favourable economic conditions in which these CEOs have been operating. However, with so much at stake for shareholders, Boards have to commit to ensuring a pipeline of quality internal candidates for future CEO vacancies,” Ms Skulley said.

“Internal candidates often have the skills and industry experience needed in a company’s current phase of development.”

In other findings from Booz Allen’s 2006 CEO Turnover Study:

- Australian Boards have become less tolerant of under-performing CEOs, with the average tenure of CEOs undergoing forced departures in 2006 only three years, compared to average tenure of 4.4 years for under-performing CEOs since 2000. At the same time, Australian CEOs appear to be benefiting from a less turbulent corporate environment than in the US or Europe; in 2006, 57% of departing Australian CEOs underwent regular transitions, whereas globally this was the case for only 46% of departing CEOs. This reflects relatively lower levels of M&A activity in Australia.
- Globally the annual rate of CEO Turnover increased by 59% between 1995 and 2006, with the proportion of performance-related (or forced) turnovers increasing by 418% in this period. The CEO turnover rate of 15.0% in Australia in 2006 was slightly below that of 15.4% in North America and Europe, and above the 14.5% recorded in Japan and 9.9% in the rest of Asia.
- M&A activity has become an increasingly important driver of CEO departures globally (but not in Australia). While frequency of both regular (e.g. retirement) and forced successions declined in 2006, the proportion of CEOs who left because of a merger rose. Merger-related departures as a percentage of all departures globally in 2006 rose to 22% compared to 11% in 2003.
- Globally, boardroom infighting is taking a higher toll on CEOs, with 11.0% of CEO departures linked to boardroom conflicts in 2006 compared to only 2.0% in 1995.
- Succession planning has become a top priority for boards. Best practice approaches include marrying leadership development with succession planning and embedding this across all organisational layers.

“There are a multitude of distinct characteristics to the Australian market that play on local CEO turnover dynamics, ranging from the small size of the market to geographic isolation, industry structures and the prevailing Governance model of separate CEOs and Chairmen,” Ms Skulley said.

“Clearly Australian companies are riding a wave of favourable economic conditions. However, the pool of replacement CEO talent available to them remains small. Looking ahead, we see the single biggest challenge for Boards as being to develop the pool of home-grown talent to mitigate the risk associated with future CEO transitions.”

ENDS

Methodology for the global study

The study required identifying the world's 2,500 largest public companies, defined by their market capitalisation on 1 January 2006. Market capitalisation rather than revenue was used because of the different ways financial companies recognise and account for revenue.

The Compustat/Global Vantage database of public companies provided a list of all publicly-traded companies on 31 December 2006. To identify the companies among the top 2,500 that had experienced a Chief Executive turnover event, Booz Allen utilised a global business-to-business contact database of executive decision makers (idEXEC). This was augmented by an extensive review of the leading financial press and research engines, as well as the global Booz Allen research capability.

Each company that appeared to have experienced a CEO change was then investigated to confirm that a change had occurred in 2006 and to confirm the key details surrounding the executive departing. Information collected about the outgoing executive included: title upon succession, start and end dates of tenure as Chief Executive, age, education, whether he or she was an insider or outsider immediately prior to the start of tenure, whether he or she had served as a CEO elsewhere prior to this tenure, and the real reasons for succession.

Average growth rates (AGRs for total tenure, first half and second half) were calculated for two types of financial and shareholder information during the executive's tenure: net income and total shareholder return. Net income was provided by S&P (Custom Projects), quarterly data provided by North American-traded securities was also collected and annual data was provided for other firms. To enable meaningful cross-industry comparisons, income data information for the relevant industry and region, and total shareholder returns (TSR) data was provided by Thomson Financial Datastream. Regionally adjusted TSR AGRs were calculated by subtracting the Morgan Stanley regional shareholder return indices from the company's performance during the period in question.

Methodology for the Australian study

For the Australian study Booz Allen identified ASX 200 companies since 1998, a data set spanning 244 unique companies. In 2006, we researched 201 companies in the ASX 200 to determine if and when a CEO turnover event had taken place. This approach was replicated for all the ASX 200 companies since 1998.

To identify the companies among the ASX 200 that had experienced a CEO turnover event, annual reports and press searches for each individual company were used. Annual reports provided information on the CEOs for each of the financial years and press searches were used to complement the data from annual reports, to confirm the turnover event and reason for the turnover. A variety of printed and electronic sources including *Lexis Nexis*, *AFR*, *SMH*, *BRW*, etc was used. Additionally *Factiva* was used to identify announcements of retirements or new appointments of CEOs, presidents and MDs 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 appeared to have experienced a CEO change in 2006 was then investigated to confirm that a change had occurred, gather key details of the outgoing executive and determine the true reason for the turnover event.

Consistent with the global study, three reasons were identified for a CEO transition event: i.e. *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 better 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”.

The survey identified 29 Australian companies within the ASX 200 that had experienced CEO turnover events in 2006.

About Booz Allen Hamilton

Booz Allen Hamilton has been at the forefront of management consulting for businesses and governments for more than 90 years. Providing consulting services in strategy, operations, organisations and change, as well as information technology, Booz Allen is the one firm that helps clients solve their toughest problems, working by their side to help them achieve their missions. With 19,000 employees on six continents, the firm generates annual sales of US\$4 billion. In 2007, for the third consecutive year, Fortune magazine named Booz Allen one of the “100 Best Companies to Work For”.

To learn more about the firm, visit the Booz Allen website at www.boozallen.com.au. To learn more about the best ideas in business, visit www.strategy-business.com, the website for **strategy+business**, a quarterly journal sponsored by Booz Allen Hamilton.