Hotel CEO Turnover in 2009

Hotel Company CEO Turnover at the 50 Largest Hotel Companies in the World

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BETTER THE DEVIL YOU KNOW

This has been the mantra of company boards over the past year when considering who runs the business. In a world of financial turmoil, the hotel industry has taken a severe battering and terms such as ‘battening down the hatches’, ‘cost containment’, ‘4-day week’, ‘voluntary redundancy’, have entered the common vernacular. At a time when job security has acquired the sepia tone of a relic from the last century and many workers continue to face the very real prospect of losing their jobs, one floor of the organisation appears to have been immune – the C-Suite. With profits plunging and companies adopting a remorseless focus on creating efficiency, one would have been forgiven for expecting senior leadership to come under the microscope; and for there to be some resultant upheaval.

A study by HVS Executive Search of CEO turnover at the 50 largest hotel companies in the world reveals however that a change in the company’s Chief Executive declined by over 50% in 2009 from 2008. Furthermore, succession rate in 2009 is the lowest it has been for the past five years.

One reason for a drop in CEO movement is the fact that there have not been as many places for CEOs to move to. New career opportunities at every level have been in short supply and executives have put their head down and gotten on with the job rather than risk seeing what else is on offer. The lure of private equity, a blinding attraction for CEOs in the recent past, has faded as the financial markets withered. Another reason for reduced turnover is that boards of directors have opted to stick with their man (not woman, as will be shown later) rather than take a punt on a new face.

The few succession events that have taken place in 2009 were either planned (e.g. retirement, deliberate strategic change) or as a result of M&A activity such as at Golden Tulip following its acquisition by Starwood Capital.

Forced succession events (for reasons such as poor performance, disagreement, ethical failure) were more commonplace in 2007 and 2008. A reflection of the economic situation at the time, M&A activity was the biggest inducement for CEO change in the years 2006 and 2007.

Despite the credit crunch hitting in the second half of 2007 it was not until late in 2008 that the full impact of the economic crisis reverberated around the world with the collapse of Lehman Brothers. Perhaps a sign that companies had not foreseen the impending financial meltdown is the spike in succession rate to 14% in 2008, up 4% on the previous year. It should be noted however that retirement was also a more prevalent

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1 50 largest hotel groups as classified by number of rooms by HOTELS magazine 2009.
factor in 2008 than in prior years. However, once boards had fully registered the recession it became clear that changing the senior management did not feature as a priority on their ‘to-do’ list. This inaction by shareholders and boards in the past year however should not be interpreted as a lack of scrutiny or assessment of the CEO’s performance.

Reasons for CEO Succession: 2005-2009

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<thead>
<tr>
<th>Reason</th>
<th>Percent</th>
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<tbody>
<tr>
<td>Planned</td>
<td>25%</td>
</tr>
<tr>
<td>Forced</td>
<td>6%</td>
</tr>
<tr>
<td>Death/Illness</td>
<td>25%</td>
</tr>
<tr>
<td>M&amp;A</td>
<td>44%</td>
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These are testing times for everyone and a company’s strength of leadership will be measured by how well it weathered the economic storm. Chief Executives have had the benefit this year of a stable internal environment in which to operate without unnecessary distractions but, in our view, boards will begin to lose patience in 2010 if the company is consistently lagging behind its competitive set and underperforming. As trading conditions improve, as the financial markets improve and more M&A opportunities start to pop up, senior management heads will begin to roll if they fail to keep up with the game.

The HVS Executive Search Study - The study included data from the 50 largest hotel companies in the world for the years 2005 to 2009.

HVS Executive Search analysed the profiles and demographics (age, gender, education) of the incumbent Chief Executives in each year as well as those of the incoming and outgoing CEOs in order to identify specific trends which may affect the hotel industry going forward. We also took a look at where CEOs have come from in terms of industry sector, geography, function and position, and also compared results by region of the world and public/private ownership.

CEOs Today: Younger & Less Educated - CEOs are steadily getting younger and there has been no discernible change to this trend in the past year. Over the last five years, the median age of incoming CEOs has been 48 while the age of the outgoing CEOs when they were first appointed was 51. Geographically, the youngest CEOs are found in Europe and the oldest are in Asia.

In addition to being younger than their predecessors when assuming office, incoming CEOs over the last five years have shown themselves to be less educated but more experienced as CEOs and better travelled.

The number of new CEOs with a Masters or MBA degree is 30% less over the last five years when compared to their predecessors. 33% of the 2005-2009 CEO intakes were educated to Masters level as opposed to 47% of those that went before them. Either hands-on experience in the field across a range of disciplines is the preferred route to the top job these days or MBA graduates are forging their careers in other industry sectors.

Incoming CEO Education: 2005-2009

Companies have shown a growing preference however for bringing in individuals with prior experience as a CEO rather than taking on novices. Of the new Chief Executives appointed between 2005 and 2009, 42% had previously held a CEO position, such as Hilton’s Christopher Nassetta and Accor’s Gilles Pelisson (up from 35% of the previous class); and 27% had been in the grooming role of a COO.

The Outsiders - Companies have shown a growing inclination to hire from outside their ranks over the last five years. Even though internal promotions still account for 62% of
new CEO appointments, external candidates are being considered more and more, especially at Asian and European companies as well as at publicly listed companies. This has in part been due to the industry’s shift from owner/operator model to that of brand/operator and a need to hire talent from other sectors.

Keeping it in the Family - The fashion back in 2004/2005 was for companies to hire strong branding CEOs from the FMCG sector to lead them through the transition of their business model from bricks to brand: Heyer at Starwood, Carter at Hilton International and Cosslett at IHG. This appears however to have been a passing fad as since 2005 the statistics have remained fairly constant with two-thirds of hotel companies hiring CEOs from within the sector.

Globe Trotters - The hotel industry is a global one and the majority of companies on our list have exposure in more than one country. The increase in globalisation has meant that work experience in foreign markets is increasingly seen as a desired trait, even a must-have, among CEO candidates. Overall, 46% of incoming CEOs in the last five years have at some time worked overseas. This compares to 33% of their predecessors and we would expect that statistic to keep increasing. It is little surprise that the numbers are higher in Asia and Europe (in each market 75% of incoming CEOs have worked in more than one country), where there is great opportunity for movement between countries, but North America has shown a marked increase over the past few years going up from 14% to 21%.

The Two Hat CEO - The joint role of Chairman/CEO is on the wane. Traditionally more of an issue in North America, the tightening of corporate governance controls and the Sarbanes-Oxley would appear to be having an impact. Back in 2005, 72% of hotel company CEOs in North America also held the title of Chairman. This is down to 52% in 2009 and is likely to keep falling. Contrary to trends being identified in other industries, our evidence does not indicate any increase in the number of CEOs inheriting a seat whose previous occupier has gone on to assume the role of Chairman. It would seem that most hotel company CEOs depart the company for good or maintain an advisory capacity but seldom step up into the Chairman role.

Tenure - Median tenure is down slightly from a couple of years ago. 2007 saw a high of eight years median tenure and this has fallen to five years in 2009. Median tenure of outgoing CEOs in the last five years was six years.

Our data reveals that tenure is shortest in Asia but one needs to bear in mind that a number of the companies, especially those in China, have not been in existence for very long, plus in Japan the economic woes of the past decade and occasional corporate scandal have had their toll. Median tenure in Europe averages six years and in North America it is eight years.
The Battle of the Sexes - Carmen Riu at Riu Hotels and Resorts has been the sole woman on the list waving the flag for women everywhere since Anne-Claire Taittinger’s departure in 2006 from Groupe du Louvre.

Conclusion - In an uncertain world it is perhaps not all that surprising that boards have opted for stability and a ‘hunker down’ approach. CEOs have found themselves navigating largely unprecedented waters and have been working much more closely with their boards benefitting from the counsel and the wisdom of experienced Directors, many of whom have typically been CEOs themselves. It has been all hands on deck in 2009 to prevent capsizing but, as the waters begin to calm, the captain and his crew will increasingly be expected to chart a smoother voyage for the future. As they do so, every move they make will be held up to scrutiny and mediocrity will stand out more clearly. In turn, as boards begin to get their sea legs back, so their confidence and appetite for risk will return and the prospect of making a change in leadership will be less daunting. After a difficult year, for some CEOs the bigger challenge of keeping their job is still ahead.
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