CEO TURNOVER: THE CHINA EFFECT

HOTEL COMPANY CEO TURNOVER HAS PICKED UP IN THE PAST TWO YEARS WITH 12% OF THE WORLD'S 50 LARGEST HOTEL COMPANIES NOW BEING LED BY A NEW CHIEF EXECUTIVE. GIVEN THE WORLD'S ECONOMIC INSTABILITY COMPANIES HAVE BECOME MORE CONSERVATIVE IN THEIR CEO SELECTION WITH A RISE IN THE NUMBER OF INTERNAL APPOINTMENTS. IT IS PERHAPS UNSURPRISING THAT HOTEL BOARDS HAVE INCREASINGLY SOUGHT 'A SAFE PAIR OF HANDS' TO LEAD THEIR COMPANIES WITH FEWER CEOs COMING INTO THE HOTEL WORLD FROM OTHER SECTORS.

AN HVS EXECUTIVE SEARCH STUDY BY **CHRIS MUMFORD** AND **THOMAS MIELKE**.

50

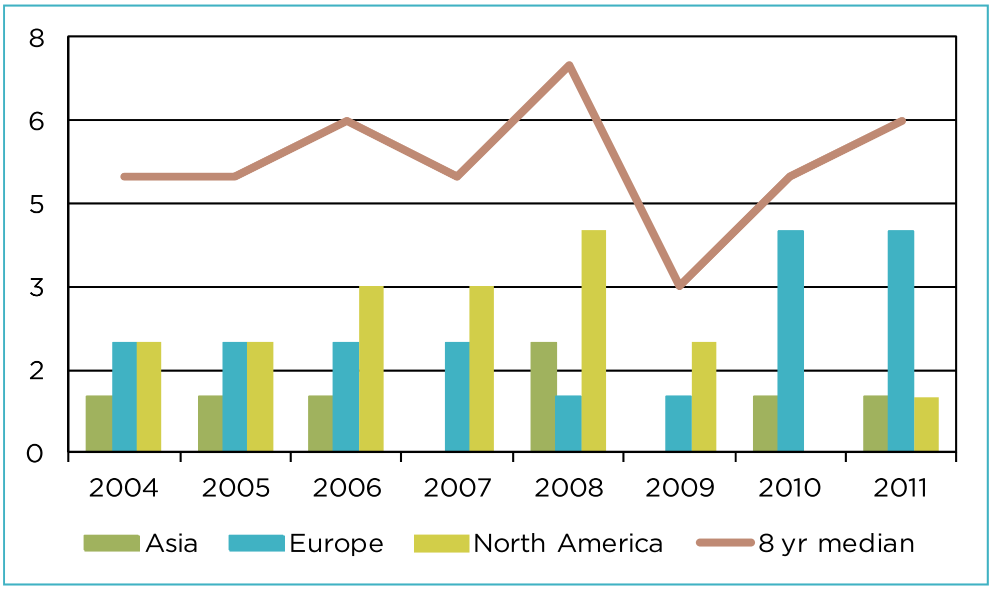
of the largest hotel companies in the world, as published by HOTELS Magazine in September 2011, have been reviewed for this biennial study. 44% of the hotel companies included in this list are headquartered in North America, 34% in Europe and 22% in Asia. 44% are publicly listed and 56% privately held.

By far the largest company in this group is the InterContinental Hotels Group – both in terms of number of rooms (647,161) as well as by number of hotels (4,437). With only 17 properties, MGM Resorts International represents the smallest company by number of hotels; and privately owned Prince Hotels Inc., the smallest by room count.

Tracking CEO succession at these hotel companies for each year since 2004, HVS Executive Search analysed the profiles and demographics (age, gender, education) of the outgoing and incoming CEOs as well as their respective backgrounds in terms of industry sector, geography, function and position.

The year 2011 saw six changes in the CEO position among the 50 largest hotel companies in the world; twice the number seen in 2009. Four of these six events took place in Europe and the majority (five) happened at publicly listed companies. Over the past eight years there have been, on average, five companies per year that went through a change in CEO. This spiked to seven in 2008 and then, in an apparent sign that boards were opting for stability in the C-Suite, dropped the following year to three in 2009. We certainly witnessed shareholders and boards electing, during the early days of the global economic meltdown, to either stick by their management teams and support them out of recession, or to make a quick change and recruit a CEO right for the tough times ahead.

CEO TURNOVER: In light of the ongoing economic and financial uncertainty across Europe, it is not surprising that the "Old Continent" is the most volatile in terms of CEO turnover. Europe hereby appears to have gone through the same changes as North America did 2-3 years ago.



This increase in turnover during the past two years could be attributed to one of two things: (1) at those companies which saw a stabilisation and then the beginnings of an economic improvement, confidence grew at board level in making major business changes such as turning the CEO; (2) at those companies where the impact of the financial crisis is still being felt and recovery is taking longer than forecast, boards are starting to lose patience with the executive leadership and driving change in the CEO seat.

Another notable feature of this 2010/2011 study is the influx of Chinese companies into the list of the top 50 hotel companies. This has altered the profile of a hotel company CEO. Compared to the global CEO population, leaders of these Asian companies are typically younger than their Western counterparts, are first-time CEOs on their appointment, and have more often been groomed into the role by the Chairman or previous CEO.

AGE OF CEO

The average age of an incumbent hotel company CEO has not changed significantly over the past seven years with the median age being a sprightly 52 in 2011. The majority of CEOs in Europe and North America are in their early 50s. Where we have seen a change is in Asia where the average age in 2007 of 56 has steadily dropped to a current age of 46; mainly influenced by the increase of Chinese companies in the study. The average age of an incoming CEO in Asia stands nowadays at 44; European and North American CEOs are on average six years older on their date of appointment. Chinese companies have begun to become more prominent global players giving rise to the need for internationally conversant and experienced CEOs. This has resulted in the hiring of a new generation of younger, often western educated executives. As the Chinese market matures and the talent pool grows bigger we expect the average CEO age to rise accordingly.

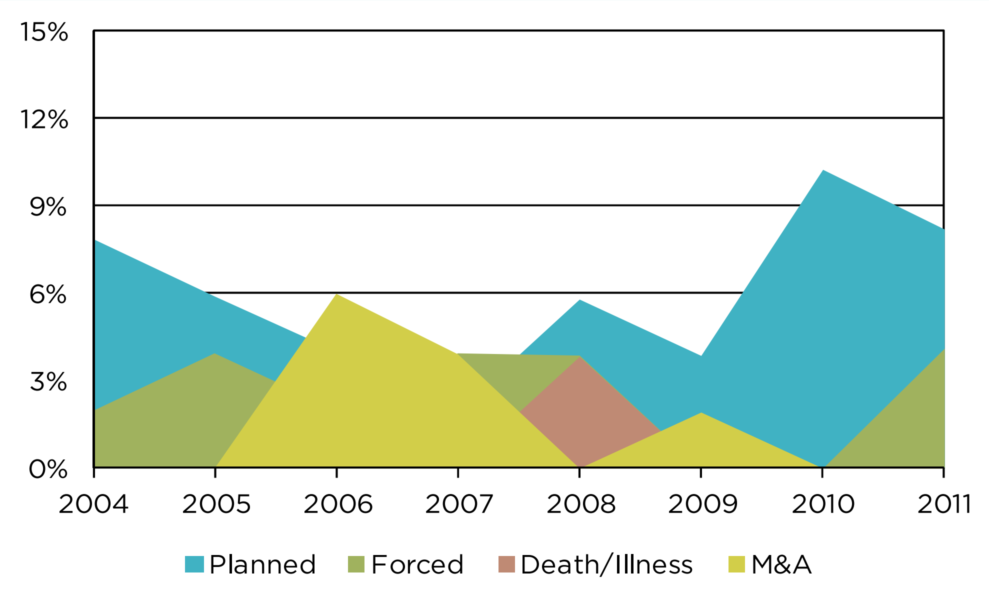
It is also interesting to point out that there is a notable difference in the profile of the CEOs of privately held companies compared to those of public hotel firms. Incoming CEOs at privately held companies are, at 46 years of age, considerably younger than their counterparts at publicly listed companies (aged 51).

TENURE

The average tenure among CEOs who left office between 2004 and 2011 was six years. The shortest time in office was one year (Millennium & Copthorne Hotels being one of the few troubled companies that faced above average turnover in CEOs in most recent years), and the longest 22 years. Asia posts the longest tenure (eight years) and Europe the shortest (five years). The past two years have also seen a slight decline in length of tenure but it is too early to ascertain whether this is due to a change in shareholder philosophy or not.

In light of the relative solid tenure amongst incumbent CEOs, turnover remained reasonably low. In 2011, 12% of all surveyed companies had a change in leadership. However, disagreements in strategy between directors and management gave rise to an increase in forced succession, such as at NH Hoteles and Accor.

REASONS FOR A CHANGE IN CEO: On average, about one out of ten companies have had a change in CEO since 2004; with turnover at a lower level company boards had time to concern themselves with succession planning.



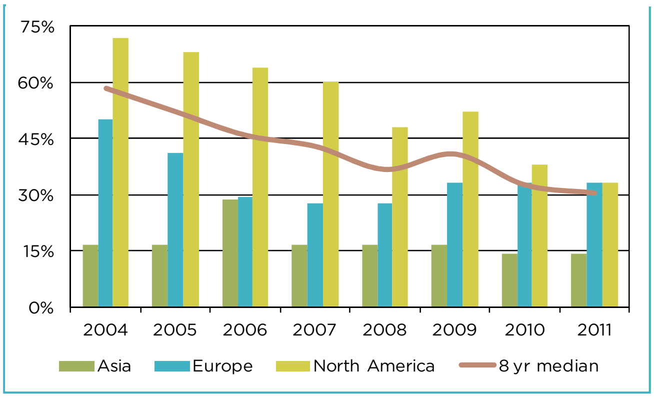
Yet, the majority of CEO changes were planned events – in 2011, there were twice as many planned succession as there were forced changes in leadership (8% versus 4%).

Over the past eight years, 57% of CEO changes have been planned, 24% forced, 5% a result of death or illness, and 14% a result of M&A activity. Surprisingly, there are no marked differences between the different regions – in particular between Europe and North America. Asia quoted slightly higher levels of planned successions, though, and fewer forced events.

THE NEW FACES OF 2011

- **RICHARD SOLOMONS**
  InterContinental Hotels Group
- **DENIS HENNEQUIN**
  Accor
- **BERNOLD OLAF SCHROEDER**
  Shanghai Jin Jiang International
- **MARIANO PEREZ CLAVER**
  NH Hoteles SA
- **JAMES ABRAHAMSON**
  Interstate Hotels & Resorts
- **WONG HONG REN**
  Millennium & Copthorne Hotels PLC

JOINT TITLE CEO & CHAIRMAN: The impact over the past decade of tighter corporate governance rules in North America has clearly been felt with the separation of CEO and Chairman roles now being widely adopted.



There has been a continual decline in CEOs also occupying the Chairman's seat. Sound corporate governance practice advocates a separation of the two roles and the individuals playing them, and it seems that the majority of companies have taken this to heart. Back in 2004, 58% of surveyed companies had a joint CEO/Chairman. By 2011 that number had fallen to 30%.

It is somewhat surprising, though, that there is no marked difference between publicly listed and privately held companies – one might be forgiven for assuming that public companies would be much stricter in adhering to and complying with advocated corporate governance principles. Yet, whilst both types of companies have made some significant efforts in the recent past to break up the power positions at the helm of its leadership team, the private sector is only marginally behind the much more regulated publicly listed firms (32% versus 29%).

A sign of encouragement is however the fact that of the incoming CEOs, only 14% hold a joined title – this compares to nearly 50% of the outgoing, 'old generation' CEOs.

PREVIOUS POSITION HELD

Of the CEOs in situ in the year 2011 a third were sitting behind their second or more CEO desk. This number has remained fairly constant over the years of our study, bar a slight increase in 2010; most likely explained by a desire of hotel companies to hire experienced managers during troubled times.
There are, however, marked differences from one region to the other. In line with the younger age of CEOs at Asian companies, the incumbents in this part of the world are also (perhaps consequently) much less likely to have previously held a CEO position as for example their counterparts in North America.
In Asia-Pacific, CEOs have primarily been appointed to their current role having previously held either regional leadership roles or the position of Chief Operating Officer. In contrast, approximately one-third of North American CEOs have had the benefit of gaining prior experience in a CEO role and only a small minority of approximately 15% have been directly promoted from a regional function into the top position of a company.

Yet, it is in Europe where the most experienced CEOs are being hired. Almost 50% of the incumbents hold such responsibilities for the second or third time.

Private companies, just like the Asian hotel firms in our peer group, appear to be more willing to let the 'young guns' have a go at the top job. On average, less than one-third of its CEOs have prior experience in a similar role – publicly listed companies on the other hand prefer a 'tried and tested' leader.

INSIDER VERSUS OUTSIDER

Private companies have always had a much higher tendency to promote an executive from within the company up into the CEO seat than their publicly traded brethren. Over the past several years, on average, 88% of CEOs at private firms were company insiders. Among the public CEOs this ratio of 'insider' CEOs had been falling year on year from 68% in 2005 to 52% in 2007 and this remained constant for the next couple of succeeding years. In 2011 however there was a sharp reversal of this trend with 67% of publicly listed CEOs regarded as insiders. We take this as an indication that when hiring a new CEO many public companies have considered an internal appointment as a lower risk, and more stock market friendly option during these times of economic instability. Such internal appointments not only took the form of executive promotions but also the form of board directors moving from non-executive roles into the CEO function, as for example Dennis Hennequin did at Accor and Mariano Perez Claver at NH Hoteles.

THE UNDERSTUDY

Understudy CEOs, executives that were hired into the company within the prior three years in order to be groomed into the CEO role, are more prevalent in Asia than elsewhere. This is in line with the overall profile of an Asian CEO – they tend to be younger and have less experience in a CEO seat. It is therefore understandable that companies are keen to first familiarise and 'educate' them internally before handing over the reins. It might, however, also be a sign of Asian companies placing more importance on 'proving one's worth' and gaining the respect of colleagues and the board before assuming the CEO seat.

In fact in Europe, for example, none of our companies adopted this practice – this is not surprising and once again in line with the previous results of this study. We have seen that most European CEOs already have prior experience in this role; one therefore assumes that there is no specific need to 'try and test' a leader before letting him or her get on with the job. European firms tend to promote an internal successor who had been long-term with the business or they hire an experienced top manager fresh from outside.

SECTOR JOINED FROM

This 'safe pair of hands' attitude towards hiring a CEO was also evident in the sector knowledge of those being hired – throughout the last couple of years, companies tended to prefer appointing a CEO with previous experience in the hospitality industry. Whilst there were minor fluctuations throughout the last eight years, on average, 45% of all incumbents have had some sort of operational, hands-on experience in the hotel industry.

It is hereby in particular in Asia and Europe where hotel firms have opted for the safe route. The one region which did not conform to this trend was North America which also showed a strong preference for CEOs from a hospitality real estate background as opposed to an operator track record - a trend which has steadily gained momentum since 2004.

A similar trend can be depicted when comparing the profiles of CEOs at publicly listed and privately held companies. Whilst both types of companies have shown a strong preference for an experienced 'Hotel CEO', privately held firms were also keen to increasingly hire top managers with a solid real estate background.

The fashion for strong brand CEOs – which we witnessed in the mid to late '00s as a result of companies, especially public ones, moving to an asset light, brand heavy, strategy – has dissipated. Between 2005 and 2009, nearly one fifth of publicly traded hotel company CEOs were from an FMCG background. In 2011 that had almost halved to 10%. Overall, however, over half of the 50 largest hotel companies are led by CEOs who joined their company from another hotel operator or hotel real estate firm. The rest mainly come from media, general real estate, and the Airline/Travel segment, such as Andy Harrison from EasyJet to Whitbread.

THE TYPICAL HOTEL CEO TODAY...

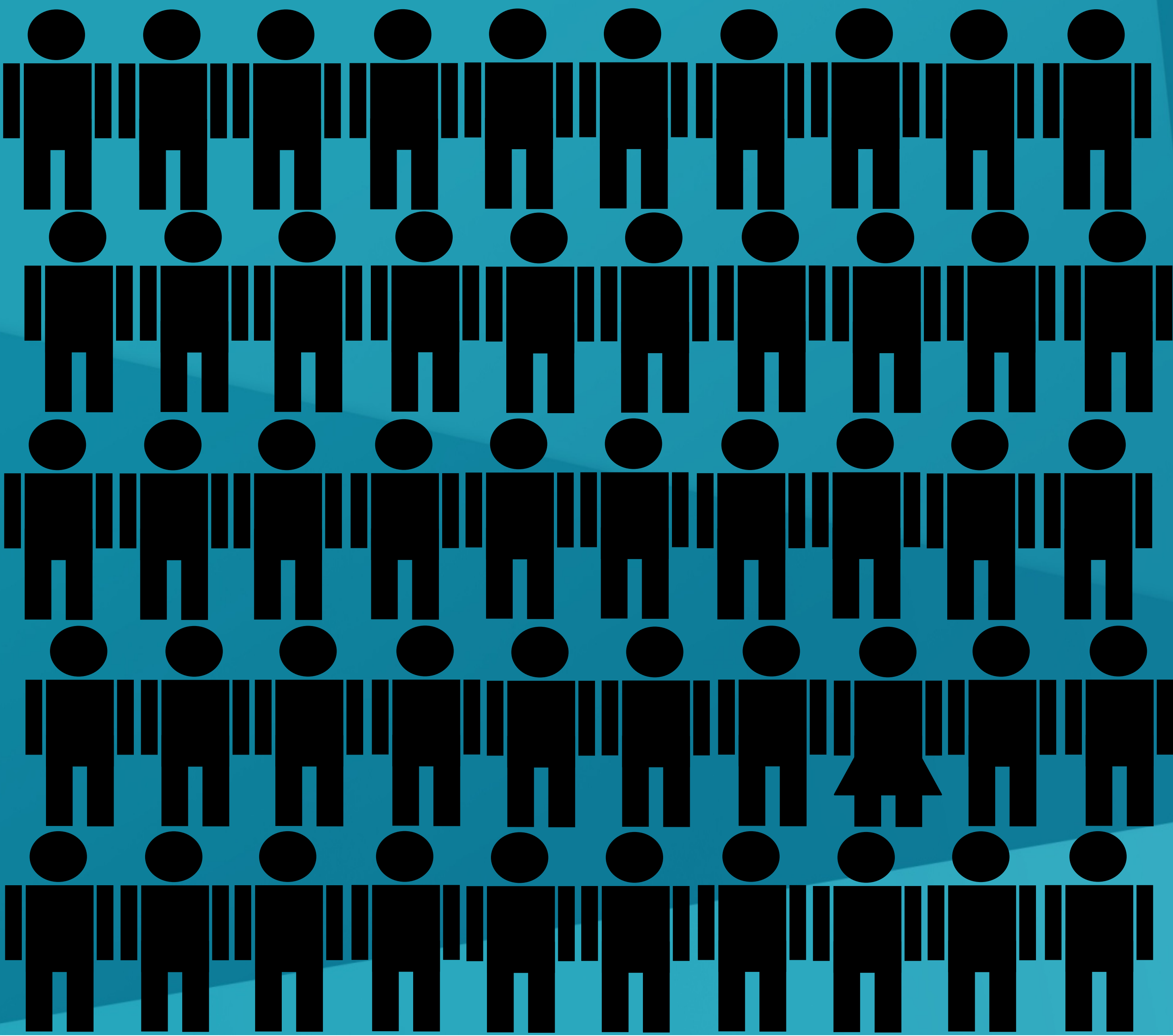
1. Is 52 years old
2. Is male
3. Is unlikely to hold dual roles
4. Is in his first CEO role
5. Is from within the company if it is a privately owned company
6. Is more likely to be from outside if it is a publicly owned company
7. Is from within the hotel sector
8. Is well qualified
9. Has no experience of foreign markets
10. Has been in the job for an average 6yrs.

WOMEN MISSING FROM THE CORNER OFFICE

The gender race seems to be a non-starter. For the past six successive years only 1 company in the survey group of 50 is led by a female CEO; namely, Carmen Riu Guell who is joint CEO with her brother at family-run Riu Hotels.

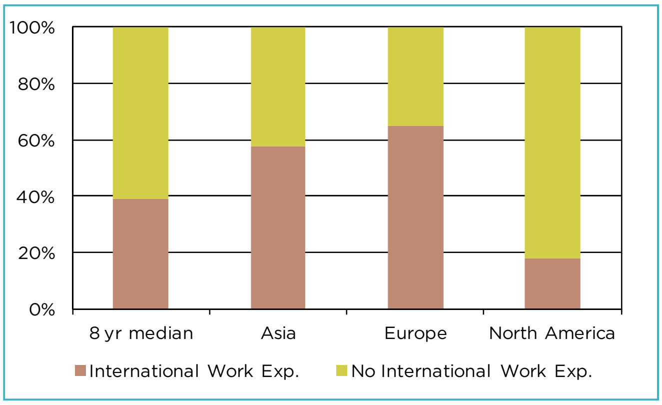
One would assume that in days in which 'diversity' and 'empowerment' have become buzz words those figures would look very different from the actual results. Many countries in Europe are pressing ahead with plans for quotas to increase the proportion of women in the boardroom – whilst there is a lot of dispute on whether or not such guidelines are necessary or desirable, one might argue that hoteliers are proof in point that (apparently) only by introducing mandatory measures will the sector be able to make significant progress in this regard. In particular, if one looks at the bigger picture and reviews other sectors and industry segments. Across the globe, women have proven over and over again that they are successful leaders, conquering top positions in business leadership. The most recent 'Forbes 100 Most Powerful Women' lists such experienced CEOs as Ellen Kullman (Dupont) as well as Angela Ahrendts (Burberry) and Dominique Senequier (AXA Private Equity).

What will it take for the hotel industry to push for a greater representation of women in its leadership ranks?



INTERNATIONAL WORK EXPERIENCE

The 50 CEOs running the companies in this study are a less travelled bunch than their peers three to five years ago. The world is a shrinking market and globalisation is a key strategy whatever business you are in these days. The hotel sector has long been global in nature and continues to expand into new territories. No multinational hotel company press statement is complete these days without mentioning China, India, and/or South America. The natural assumption would be that a key qualification of a CEO would be an in-depth understanding and experience of how to grow and run a business or division in a foreign market. Interestingly however, only one-third of the 2011 CEOs had at some point in their careers worked abroad. This was down 10%-points from the year 2008.



This figure, however, is somewhat skewed by the relatively large representation of North American companies (representing 44% of the sample group) – these are the firms that most lack international exposure in their leadership, although things are improving. 23% of American company CEOs in 2011 had an international assignment under their belt, up from 15% back in 2004. In contrast, in 2011 most European (41%) and Asian (57%) companies employed CEOs with prior experience in foreign markets. Compared to 2008, though, these figures have dropped by 20%- and 10%-points, respectively.

Overall, publicly listed companies do a better job in retaining international top managers – 43% of the incumbents have international work experience compared to approximately only one out of four at privately held companies.

On average, since 2004, 85% of all CEOs are running companies in the country of their birth. The highest proportion is in Europe where language and cultural identification still factor heavily into a CEO hire.

Conversely, the lowest proportion, although still 80%, is found in Asia where there has been a greater need in exploding economies to take a chance on a local unproven talent or to bring in experienced foreign leadership.

EDUCATION LEVEL

Over 90% of the surveyed company CEOs have a degree education. On average, taking the data collected since 2004, approximately 52% of CEOs hold at Bachelor degree, 14% a Master and 23% an MBA – only a very select few have gone the extra mile and earned a PHD.

There are, however, large regional differences. Out of the Asian companies investigated, none of the CEOs holds a Masters or an MBA. Europe posts the highest number of CEOs who have pursued further education and gained an 'M' after their name. Here, 53% of all incumbents either hold a Master or an MBA.

Interestingly, though, in both Europe and North America the number of CEOs with generic MBAs has dropped in the recent past. Back in 2007 a quarter of American hotel company CEOs and 35% of their European counterparts possessed an MBA. In 2011 that was down to 9% and 18%, respectively. It appears that specialised Master degrees, specific to an industry or a functional expertise, are the preferred route.

Where the MBAs does appear to be most valued is among publicly traded companies. This too, though, has seen a fall but nonetheless 19% of public companies have an MBA educated CEO versus 4% of private companies.

THE APPRENTICE

Over the past two years, a greater number of the insider CEOs succeeded CEOs who moved up into the Chairman role. These 'Apprentice CEOs' have the close counsel and support of the previous incumbent in his/her new board chair role. This is particularly noticeable in Asia where family-run businesses have reached such levels of maturity that the founding generation is now moving into a less hands-on role.

One example of where an incoming CEO had the benefit of support and smooth transition from the previous CEO was at Interstate Hotels and Resorts. We spoke with their Chairman Thomas Hewitt who shared:

"Pre-April 2010 Interstate was a public company and I held the Chairman and CEO roles. We had a strong board and the board required a succession plan which the nomination committee updated at least once a year. Once the discussion to take the company private took place a succession plan was therefore already in place. The company went private in April 2010 and after a month or so the new owning joint venture board met and discussed the succession plan and decided to continue with the existing plan. What was nice was that the board also took care to ask me my personal plan and fortunately this meshed well with the board's succession plan – I expressed a desire to begin to slowdown and do some different things but stay part of the company. The board wanted a period of time to ensure a smooth transition from public to private, which went seamlessly as it happens, and in late 2010 we took the decision to retain a search firm to source a new CEO.

That took about 7-8 months and we found Jim Abrahamson. The plan, and also my contractual obligations, called for a transition period of 4 to 6 months to ease Jim in. He therefore joined as President/COO and by December we felt he had settled in and he was made CEO and I became Chairman, remaining involved with the company and able to support Jim."

LOOKING AHEAD

As we look ahead to tracking the CEO changes that will occur over the next two years we will be interested to see how the profile changes or whether it remains static. This will largely be driven by economic conditions; a company with financial stability and an aggressive growth strategy requires a different leadership skill set to one in survival mode.

As companies in emerging markets such as China begin to mature we expect their CEO profiles to begin to more closely mirror those in Europe and North America. At the same time, as North American companies in particular further increase their global reach we expect to see more 'global citizens' occupying the top seat. This in turn may see a reintroduction of CEOs from other sectors who can bring experience of growing a brand into new markets. Corporate governance policies are thankfully now firmly entrenched in most organisations and we forecast there will be continued separation of the CEO and Chairman roles.

Finally, we are encouraged by the careful deliberation and forward planning that more and more hotel company boards are giving to the issue of CEO succession and we applaud them for that.

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