

Succession, Recruitment and Retention of Global Leadership

Peter Felix, President of the Association of Executive Search Consultants (AESC), sits down with Clarke Murphy, Chief Executive Officer of Russell Reynolds Associates to discuss global leadership and succession in times of uncertainty.

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Peter Felix: Clarke, first of all congratulations from all of us at the AESC on being appointed President and CEO of Russell Reynolds. We are delighted to have you as one of the CEOs of our major firms. Having joined Russell Reynolds Associates in 1988, and having held posts in Europe and the US, and now as a chief executive, what is your vision for your company?

Clarke Murphy: Well, I think you have to frame the vision within the industry. It's the first time our industry faces external forces of change. We need to adapt to a rapidly changing world. For many years we were paid and valued for data and information and those days are gone, at least in the western world, and we're going to now be valued and paid for insight and judgment. We are as much in the retention business with our clients as we are in the recruitment business—in helping them judge people and judge how people have asked for roles, whether they go inside or go outside. So, I think the vision for the company is in providing the right judgment, of picking the right candidate for their roles. Some of our most successful assignments, no one ever hears about because it's all internal assessment in helping them do succession planning. So, I think the vision is providing the assessment in the search services they need, particularly in the senior ranks of the company, or for their boards.

Prove your ability to communicate articulately to all the stakeholders in your company about what's going on and why, whether it is good news or bad news.

Peter Felix: Clarke, do you think the evolution has come about specifically because of technology, which helps the identification of candidates to be an easier task? Or, is it because of the client having changed their view of how they want to use executive search?

Clarke Murphy: I think it's both. I think technology has sped the role, and liquidity—if you will—of information. And secondly, as clients—particularly coming off of a brutal recession—the clients are more sophisticated in how they are managing their own people, and that may be having in-house recruiting, it may be having more sophisticated succession planning so they are better prepared for the future than they used to be—and I don't mean just CEO succession—I mean top-30-roles-in-a-company succession. So, they're learning earlier what's going on in the marketplace. So, the partnership between a search firm and corporation, or a client, or private equity firm, has changed in its level of sophistication and level of communication.

Peter Felix: Have you seen any major changes in the structure of the retained executive search business?

Clarke Murphy: I think that it's less about the transaction than it is about long-term planning. That has been our relationship with many of our clients—multi-year, in terms of our involvement with them—rather than focused on single searches at a time.

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Peter Felix: Do you feel that's taking the industry back to its roots? Considering that it came from management consulting, do you feel it's returning to its roots in that respect?

Clarke Murphy: I think there is a fine line. I think it does go back to its roots about relationships and knowledge in terms of—they don't want to have to get up to speed with someone every time there is a project, to understanding their company, their culture, and their need. So, we have to also remember that we're in the recruiting and assessment businesses, and human capital. But, I think sometimes people in the recruiting industry can get carried away thinking they are strategy consultants—offering strategy solutions to their clients—which is not the case. So, I think it is that clients see more value from longer-term understanding of their industry and of their own company, and in fact their own people, that can help them make changes and make decisions—which is why, again, they're less focused on whether we're helping them pick someone internally or externally. Whereas, I think the industry, even at its roots, was always focused on an external selection.

Peter Felix: Which industries are you seeing as being the most healthy, if you like, from an executive need point of view?

Clarke Murphy: Well, if we're talking globally, clearly healthcare and technology are at the forefront of every country, everywhere, and even in the developing economies—just look at Brazil over the last decade—have utilized technology investment in their own borders to bridge into something internationally. They have a combination of natural resources and a technology industry there, enormously powerful. So, I would say healthcare, technology, certainly. Not surprisingly, financial services was the global industry for a couple of decades. That is not as strong, and will not be as strong, for quite some time to come. And, lastly it's energy. Energy, energy, energy. Energy makes the world go round. The alternative uses of energy are not going to develop as quickly as we thought, but if you just look at the role of natural gas in America, it's where the lowest level of unemployment is in the country, through these new natural gas fields. So, energy is going to grease the wheels of industry and nationality, for a long time to come. We are enormously busy—the whole industry is, in and around the energy world.

Peter Felix: There has been a lot of talk over the years about the global talent shortage. McKinsey coined the phrase “the war for talent” going back some 15 years. Do you still think that we are in a global talent shortage, and as we come out of this turbulence of the economy—the worldwide economy—do you think we are going to be back into a frenetic war for talent?

Clarke Murphy: I do. Is it frenetic, I don't know. We're in a slow-growth, or in large parts of the world, no-growth economy. So, again, if you're sticking to the global viewpoint of these questions, it's a slow-growth world, or a slow-growth globe. So, in slow-growth, with trillions of dollars in cash still sitting on the sidelines looking to invest, it is about people. And when you ask boards of directors and chief executives what their top three challenges are, people are always in the top three. So, I think the demand for our services at the executive level and the senior executive level only heightens, and I think the demand for the industry in the mid-levels truly goes away.

Peter Felix: One of the specialties of Russell Reynolds has always been board advisory work. What trends are you seeing with boards at the moment and how do these trends differ by region, on say, a worldwide basis?

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Clarke Murphy: It's fascinating to see the evolution of this. So, you've had a split of the chair and chief executive role in England, obviously, for decades, and you now see that increasing in the United States. At the same time, the incredible drive for gender diversity and racial diversity in the U.S. You see gender diversity, particularly in France and Norway as it is legislated, and now increasingly in Germany as well. Now you see diversity in thought more than anything else in America. In terms of getting the broadest picture—whether it is Asian manufacturing experience or Latin American, or increasingly, parts of Africa because of natural resources, which will again go to Europe. So, I would say there is movement back and forth across different regions of the world, but a female board member in continental Europe—huge, huge, demands in the last two years, and that will continue. I would say the split of the chair and CEO role will increasingly be accepted in America. And, then, going into emerging markets for diversity of thought in the boardrooms of America to understand where new revenue can be found.

Peter Felix: The board, certainly in the United States, and obviously Europe as well, has been very much under the spotlight in the last five to ten years ever since Sarbanes–Oxley. A lot of pressure on board directors not to take too many board positions. So, quite a demand for people who are able to become directors. From the executive's point of view, what advice could you give—when does an executive need to start actively seeking a corporate directorship for the first time? How long can it take to become one of the, if you like, the chosen few, so that they are kept in mind as candidates for board positions?

Clarke Murphy: I think it is when they become a direct report to the chief executive and therefore may or may not become a potential successor in the succession race. And I would say that's the point at which the chief executive and the board typically encourages them to seek an outside board seat to understand how other businesses are run, how the governance issues are dealt with, and to be sitting in a governor's chair as opposed to just an executive's chair. So, I think when they become a direct report to the chief executive. And, there's a couple of schools of thought. One is, we only want board members who have board experience. But, I push pretty hard that people should take the rising stars who probably will be chief executives next on their board. Quite frankly, they're very focused on great preparation, very focused on thinking through the issues and asking good questions, as opposed to someone who might be a 15-year veteran and thinks “they've been there, seen that already.”

Peter Felix: I would imagine that is particularly true when looking for more female candidates. If there aren't a number of seasoned, experienced female candidates, then one has to dig deeper in order to find those candidates for the future.

Clarke Murphy: Exactly. And, same for the Hispanic community as well. There are great pools of people in both of those areas right now waiting to be tapped, and who are being tapped. So, I think, that's the moment we're in. The reset button was pushed in 2009 as far as boards go, and looking for a fresh set of perspectives and fresh set of ideas. So, I think it is an amazingly new time for U.S. boards and no one is taking on more than one, as opposed to two or three in the past. So, there is a limited pool of those whom you can choose from.

Peter Felix: Right. Exactly. The whole issue of CEO turnover, there has been a lot of publicity about that over the years—high rates of CEO turnover, the glamour CEO moving out of fashion, the internal candidate being more favored, and the whole circle goes round again...what is your view of CEO turnover? Is it increasing or is it decreasing?

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Clarke Murphy: Well, de facto it is increasing. And whether it's turnover or just the tenure, I think the group mentality of being in a public company just wears on one. And, so, two factors, I think. If one is in a regulated industry and publicly held, it is really a tough job to be in today, which I think is linked to the increasing number of split chair/chairmen of the board roles. Because to deal with the operating issues, regulators, and public compliance, and stock holders, institutional investor issues, alongside the strategy and board relationships, it's really quite tough. So, I think it's not turnover in that they're not necessarily getting pushed out against their will, as it is, how long can someone stay in that spotlight and take the heat and the visibility? It's incredible pulls, again, particularly in regulated industries.

Peter Felix: Do you think that there is a willingness on the part of boards to take that extra step, risk if you like, to appoint the first-time CEO, the person who hasn't been CEO before?

Clarke Murphy: Oh, I think so, for sure. I think you have, not only whether it is an internal candidate, but if you're going externally, there are so many companies where there are divisional presidents of larger businesses, where their division is as complex as the company they might run. The only issue is how much balance sheet management they've had in a divisional role versus being the chief executive. So, I think that's the biggest issue. From an operating standpoint, there are many more sophisticated divisional presidents or chief operating officers that clearly can be chief executive.

Peter Felix: Do you see the business schools looking to create special courses for would-be CEOs? Or maybe that's a product that they have to develop?

Clarke Murphy: I think the business schools would propose that they are preparing chief executives, not just general managers. But I think they are not necessarily preparing them for the communications requirements of the roles. They're more focused on general management operating and balance sheet management. But I think the people skills, the interpersonal skills, and the communication skills, are—particularly the communication skills—is where business schools, who are quite frankly the corporations in developing great general managers, has probably not been as in focus as before.

Peter Felix: In terms of looking at where the opportunities are for the future, Clarke—I mean, globally, we hear a lot of talk about the emerging markets. What is your perception of opportunity in some of the, the BRIC countries in particular, and how are you organizing yourselves in taking advantage of that?

Clarke Murphy: Well, I think, and I know you've heard this before, when Brazilian entities start making large-scale acquisitions in Europe, America, and Asia, you wouldn't call them an emerging market anymore. So, I think, clearly, China and Brazil are in classes of their own in terms of their economies, so I would call them developing or emerging economies. We've been in Brazil for 12 or 14 years, and it is an enormous business for us, and will continue to be, particularly with, back to what I said earlier, their natural resources. Clearly, China, where I am going to spend a tremendous amount time. I'll have my second trip in three months, coming up shortly, and I'll be there two more times this year. That's what it requires to be successful in China. It is an enormous business for us, having grown quite quickly. I think India is trickier to figure out, but you can do a lot of multinational work in India and in Brazil, and if you want to be successful in China, you've got to work for the SOEs, eventually, the state owned enterprises and the local businesses, and that is a time and trust standpoint. We are not in Russia, we are not sure we'll be in Russia. I think understanding

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what success means in Russia could be a very time consuming process, and one that we're probably not going to tackle any time soon. We've got plenty of other growth areas of the world to be focused on.

Peter Felix: Any particular sectors that you're building up your capabilities on a global basis?

Clarke Murphy: I think back to the ones I mentioned earlier. If you're not really successful in energy, technology, and healthcare, then you're probably not in the global economy. And then secondly, as consumers are created every day, in Brazil and in Asia, and in Sub-Saharan Africa, your growth in consumer is going to come from those parts of the world over time.

Peter Felix: Industrial seems to be pretty strong in the last couple of years as well. What do you ascribe that to?

Clarke Murphy: Well, performance efficiency, and I bet if you dissected industrial, it is less about the factories of the world than it is about performance improvement of the factories, which has a great deal to do with the technology, so I actually think you'll find, at least we have been, the cross-over of the implementation of technology within industrial companies, is amazing. So, Siemen's views itself as a healthcare and technology company, not just an industrial manufacturer. DuPont considers itself almost a biotech company through its creation of synthetics rather than chemicals. So, we look at industrial as really several different industries or sectors in one, and I think that is what is going on.

Peter Felix: One of the questions that many executives ask of executive search consultants is how can I best get noticed in today's marketplace? What advice would you give?

Clarke Murphy: Get outside your home country. Take on the most difficult task that you see. You'll make a name for yourself taking risks rather than staying close to headquarters and/or status quo. Be certain you've managed other countries, or other nationalities than your own, and prove your ability to communicate articulately to all the stakeholders in your company about what's going on and why, whether it is good news or bad news.

Peter Felix: Yes, absolutely. And finally, Clarke, whether they want to be, or they already are leaders, what kind of advice would you give to a person who is leading an organization or who wants to lead an organization? From your external viewpoint as a consultant, what would be the core advice that you would give?

Clarke Murphy: I think just what I finished on there. Make sure you are communicating clearly and often with your board, with your customers, and with your employees. Make sure enough resources are put into investing in the people of your company as well as the physical assets of your company. Seek growth markets even in recession. There's always a growth market somewhere. How well are you aware of it versus your competitor. So, I think it's communicate with the stakeholders, investing in people, and find growth markets.

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Clarke Murphy is the Chief Executive Officer of Russell Reynolds Associates and serves on the Board of Directors. Prior to his appointment as CEO, he was the Global Leader of the firm's CEO/Board Services practice.



Peter M. Felix has been President of the worldwide Association of Executive Search Consultants, based in New York, since 1998. Mr. Felix is a former executive search consultant, who has had extensive experience in association management, in management consulting and in industrial management.