



Highs and Lows in the FTSE 350: Why We Need Purposeful General Counsel Succession Planning



Purposeful succession planning pays off in an uncertain world

Our analysis of General Counsel moves and appointments in the FTSE 350 during 2023 reveals that:

- Turnover rates have decreased since last year—in part because 2022 saw unusually high turnover, but also because of our current gloomy geopolitical and economic outlook.
- The market has shifted from preferring external hires to favouring internal candidates.

- Turnover is highest in consumer, technology, and industrial & natural resources, and lower in financial services, with sectors behaving differently in terms of the GC profiles they appoint.

Read on to explore the leadership and talent implications of these trends when hiring, developing, and retaining top legal talent in organisations.

Rates of new GC appointments are normalising after release of pent-up demand post-pandemic and increasing uncertainty

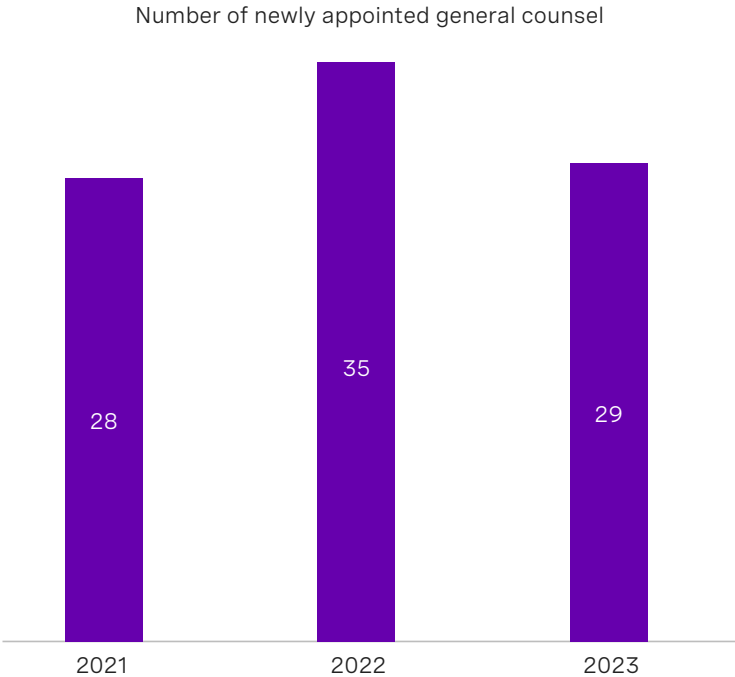
After shooting up during 2021 and 2022, new General Counsel appointments in the FTSE 350 appeared to normalise in 2023. Overall, there were 29 newly appointed GCs, down from 35 in 2022 (Figure 1). In large part, last year's spike can be attributed to pent-up market energy finally being released. What we see now is akin to a return to "business-as-usual."

The traits of General Counsel themselves are one reason we saw such dramatic shifts in the market over the last few years. It has long been a caricature that lawyers are extremely risk averse, but therein lies a kernel of truth: many GCs decided to either stay put or delay retirement during the volatile pandemic years, contributing to very low turnover. Some felt morally obliged to steer their organisations through the unprecedented situation, and many enjoyed

the somewhat elevated status of being at the heart of crisis management. Added to that, many organisations were simply not hiring, so it made sense to stay in role.

The flurry of post-pandemic hires peaked in 2022, perhaps somewhat tempered by the wider UK context. As well as domestic political upheaval (three prime ministers in two years), the wider geopolitical landscape is more uncertain than it has been in decades. On top of that, we now know that the UK entered a technical recession in 2023, although this will hardly surprise businesses that have seen the cost of living crisis bite into their revenues on the one hand, with the costs of doing business rising on the other. It is likely the rather bleak outlook has negatively impacted movement in the market.

Figure 1: FTSE 350 GC turnover is down compared to previous years



Source: Russell Reynolds analysis of newly appointed FTSE 350 GCs from 2018 - 2023, n = as detailed above.

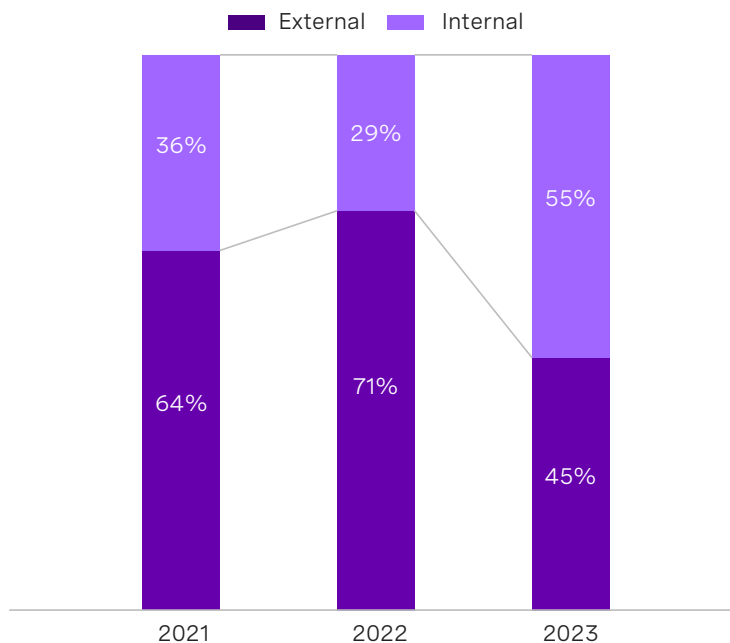


Internally appointed GCs are on the rise

As well as fewer appointments, there is also a sharp increase in internal candidates rising to the top legal roles in their organisations, bucking the trend of 2021 and 2022 (Figure 2). Having seen a strong preference for external hires, the market has swung back to see 55% of new GC appointments coming from within the organisation across sectors (Figure 3).

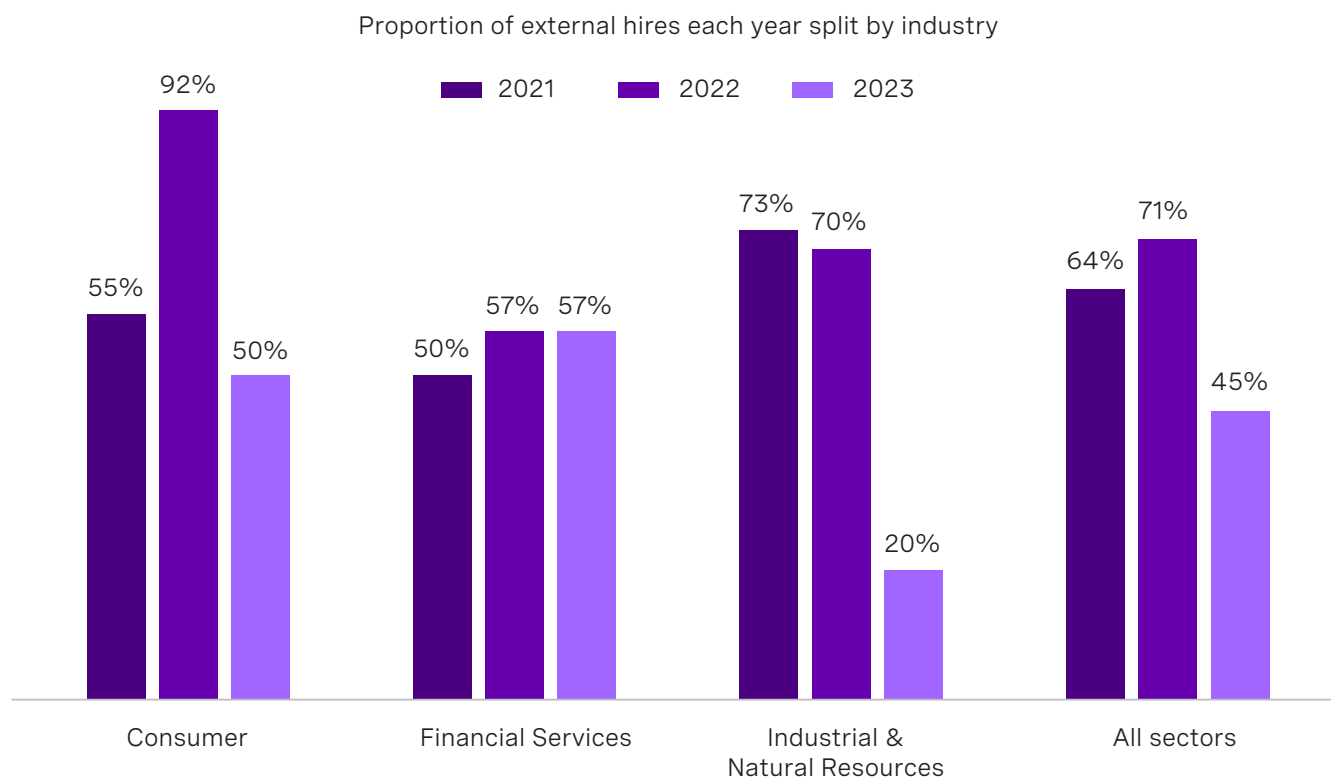
Figure 2: The proportion of new internal FTSE 350 GC appointments has increased substantially this year

External and internal hires - sitting GCs by year of appointment (2021 onwards)



Source: Russell Reynolds analysis of newly appointed FTSE 350 GCs in 2021, n = 28; 2022, n = 35; 2023, n = 29.

Figure 3: Decrease in external FTSE 350 GC hires in most industries



Source: Russell Reynolds analysis of newly appointed FTSE 350 GCs in 2021, n = 28; 2022, n = 35; 2023, n = 29. Excluded healthcare and technology due to small n-value.

From our conversations with CEOs and boards, we identified three factors driving this. First, while downturns often prompt bold changes of leadership among CEOs and CFOs, we generally do not see this happen in the GC ranks. While the company may need a fresh direction, leaders generally prefer general counsel continuity reinforced by the fact general counsel often have valuable corporate knowledge and they have been responsible for overseeing both internal and external reputational risk. When forced to make a change, perhaps due to a retirement, organisations seem to favour internal candidates. This is likely because they provide continuity, already understanding the business's complexities, and there is a minimised risk of tissue rejection.

A secondary factor may be cost pressure: it is often cheaper for a business to promote internally rather than go to the market. However, even when this is the case, we still see organisations running external searches to ensure that the internal successor is benchmarked to the market, providing reassurance to the wider C-suite and board that the appointment is the right one, all things considered.

Finally, internal hires may be more prevalent because so many general counsel stayed in role during the pandemic, giving them more time to groom potential internal successors. In fact, the pandemic provided almost ideal conditions for doing so: with the GC's role largely taken up with board-level crisis management, they had to rely on direct reports to step up into other aspects of their responsibilities. This helped to develop internal candidates by giving them exposure to a wider range of the different facets of group level leadership.

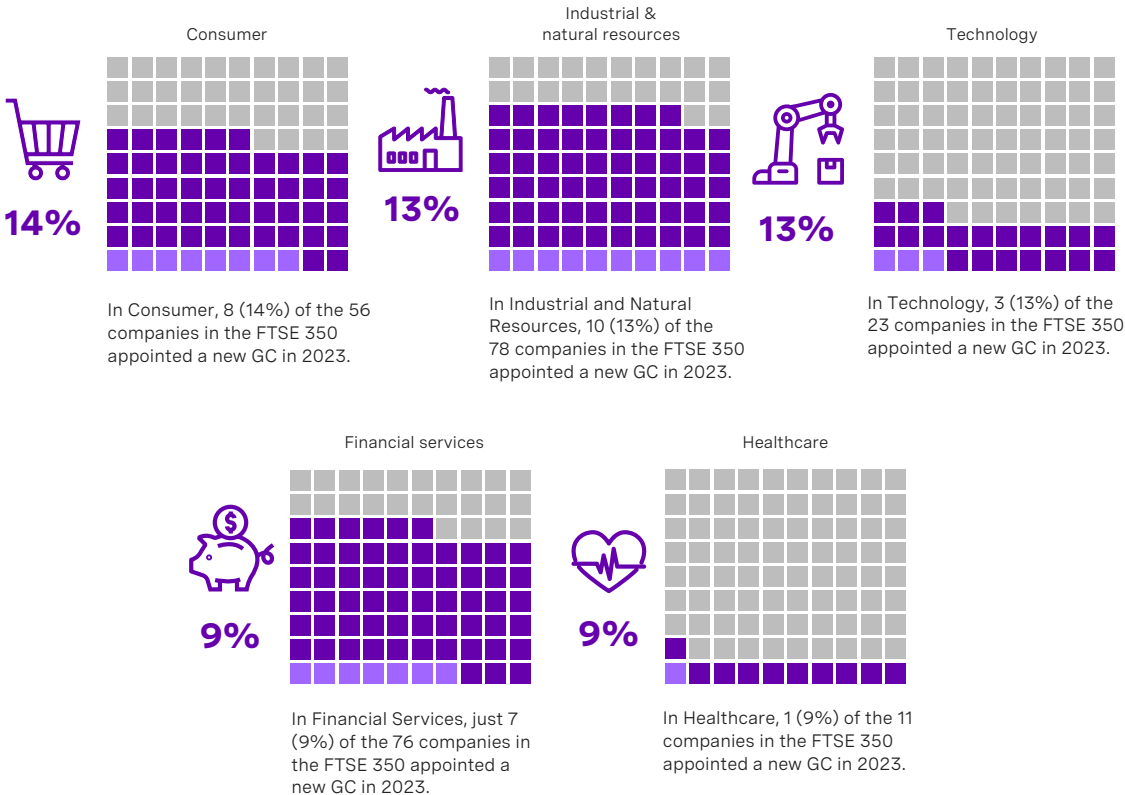
As a result, we see group leaders under more pressure to ensure appropriate succession planning, often bringing in search firms at an earlier stage than historically was the case to help with assessment of the internal bench strength and creating internal development plans for potential successors. This mindful approach is clearly paying dividends in the proportion of FTSE350 companies appointing internal candidates, lending more credibility to these individuals than they have historically enjoyed.

Sectors have handled GC appointments differently

Consumer companies in the FTSE350 saw the highest turnover proportionally, with 14% appointing a new GC in 2023 (Figure 4). Around half of these appointments were GCs coming from a different industry into consumer, which is a sharply contrasting picture with the industrial & natural resources sector (Figure 5). While this sector also saw high levels of movement (13%), 80% of those new appointments were internal candidates, while the remaining 20% already worked in the sector, indicating that deep sector knowledge is perceived to be far more important in this space than transferrable skills from elsewhere.

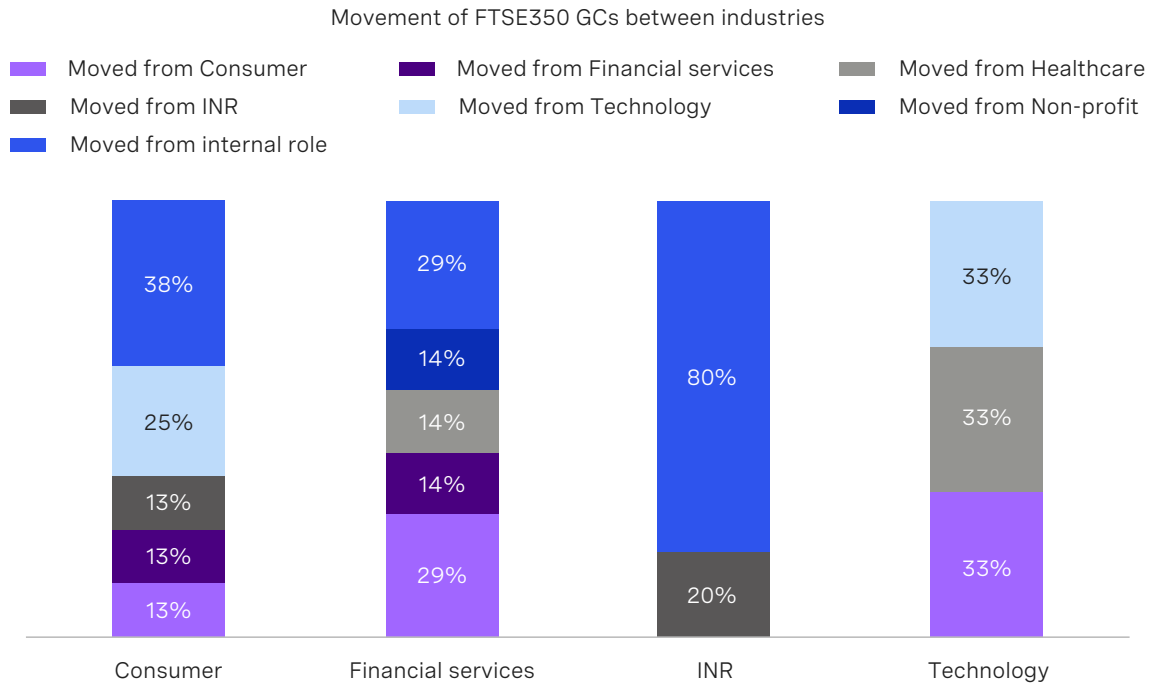
Financial services, meanwhile, had a lower turnover proportionally: just 9% appointed new GCs, but the majority came from outside the sector. In part, turnover is lower because many of the major institutions have made new appointments since 2020, and because M&A activity softened during 2023, which often triggers leadership changes. Financial services organisations continue to grapple with the forces of convergence, which likely explains why we see external appointments hailing from a wider range of industries than in others sectors.

Figure 4: Consumer, industrial & natural resources and technology sectors made proportionally more new GC appointments in 2023 than financial services



Key: Dark colour shading = total number of companies in FTSE 350 in that sector | Light colour shading = number of companies that appointed a new GC in 2023. | N = 244

Figure 5: Different industries sought different experience in their new GCs



Source: Russell Reynolds analysis of newly appointed FTSE 350 GCs in 2023, n = 29. Excluded healthcare due to small n-value.

What are the talent implications for FTSE350 organisations and general counsel?

- **At the moment, it is a buyers' market:** With lower turnover and more internal appointments, external candidates will have to do more to impress, and organisations can choose to be even more picky when selecting external candidates over internal ones.
- **Be clear about the type of experience your organisation needs to meet your strategic goals and to steer through uncertainty:** While there may be an overall preference for internal candidates at present, we still see certain sectors—such as consumer and financial services—appointing from a wide range of other industries. What experience is most important to your business? Do you need adjacent experience where you face convergence, or is depth of industry experience paramount? Both will bring their benefits and drawbacks, and will inform your search strategy.
- **Purposeful succession planning pays off:** Whether today's GC is ultimately succeeded by an internal or external candidate, the recent volatility has shown that it pays to be purposeful when making succession plans. Ensure internal high performers are getting the breadth of opportunities to allow them to step up to the top role: development plans, stretch opportunities, and pairing them with complementary mentors all play a part in building a strong pipeline. Combining this internal investment with external search capabilities will then ensure your organisation has a candidate that is market-leading, whoever you end up appointing.



Methodology

The analysis in this piece is based on the FTSE 350 GCs in role as of December 31, 2023, and includes 244 General Counsel. We have also drawn on previous years' data for comparative purposes, as well as our experience of running hundreds of searches in the UK (and beyond) for general counsel.

The latest cohort includes all sectors, including Consumer (23%), Financial Services (31%), Healthcare (4%), Industrial and Natural Resources (32%) and Technology (9%).

How Russell Reynolds Associates can help

Russell Reynolds Associates has completed over 500 searches globally for legal roles in the last three years, and our clients range from public to mid-sized private to private equity-backed companies, across all industry sectors and the nonprofit sector. Our consultants have both specialized knowledge of a range of industries

and functional expertise in recruiting Legal Officers - a unique combination that allows us to deliver differentiated added value to our clients.

Russell Reynolds also delivers assessment, development, culture, and DE&I consulting services to help top teams perform at their best.

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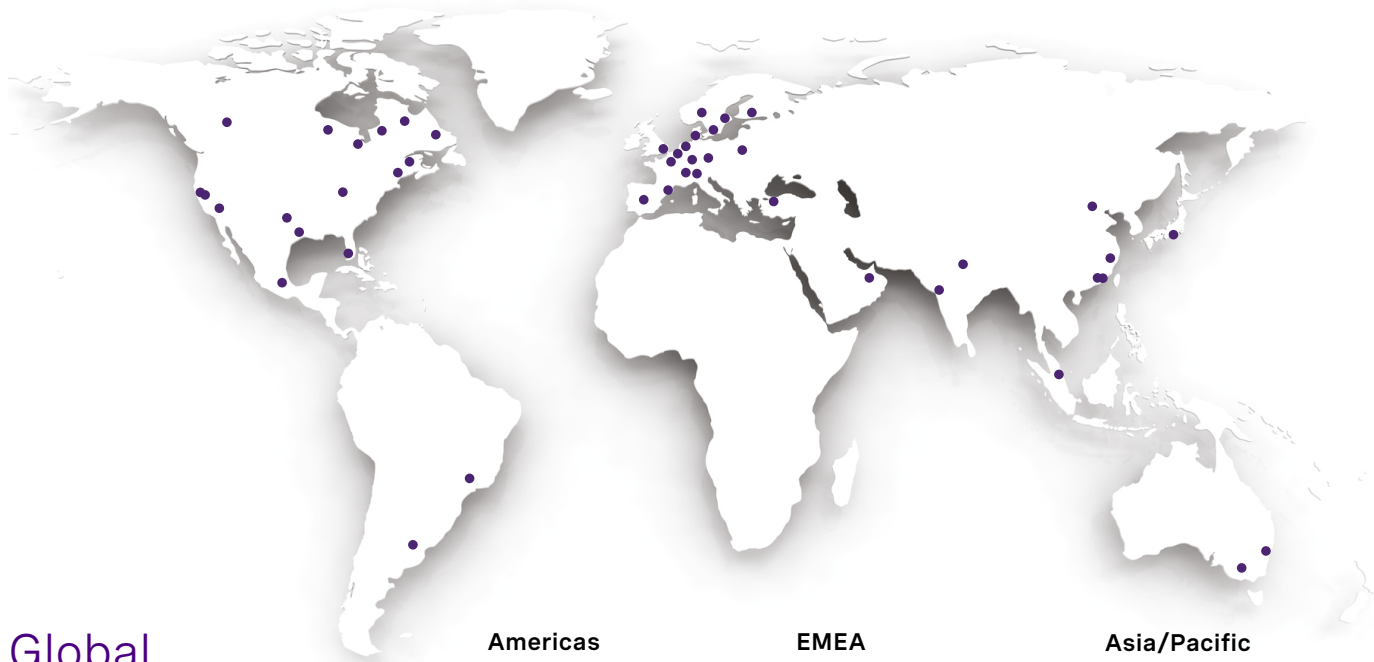
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