

Chief Communications Officer Turnover Study – 2012



PATINO
ASSOCIATES

Introduction

Patino Associates is privileged to present its first CCO Turnover Study, revealing emerging trends in CEO decisions relative to the hiring of the Chief Communications Officer for world's leading global organizations. The genesis of this study was the frequently asked questions we receive from CEOs, Human Resource executives and other C-Suite executives who are committed to evolving the strategic role communication plays in meeting and exceeding the needs of their diverse audiences. While we readily share our insights — culled from over twenty years of combined experience in executive search and numerous conversations with leaders in the executive suite — we opted to also evaluate how recent data aligns with our insights, and to share these results with you, the many executives who have asked us these very questions.

The largest trend in communications affecting the hiring of CCOs is the dramatic increase in companies seeking communications executives that can develop strategies to successfully reach and affect political and regulatory audiences.

For the previous calendar year, the CCO position turned over at 13% among Fortune 500 companies. We found this to be comparable to turnover in other C-suite positions (see Figure 1). CEO turnover within similarly sized organizations in 2011 was 12.3% and CFO turnover was 11.5%*. That said, some of the best and worst practices and shifts in trends for the hiring of CCOs are highlighted in the industry-specific data; matching our experiences over the last year as well.

The largest trend in communications affecting the hiring of CCOs is the dramatic increase in companies seeking communications executives that can develop strategies to successfully reach and affect political and regulatory audiences. With a more contentious and partisan political environment, the stakes for companies (and industries) have never been higher from a regulatory and political perspective. In a number of companies, traditional corporate communications and government/regulatory affairs are being melded into the same structure, with one executive overseeing all functions. This is quite similar to the trend we witnessed almost a decade ago between investor relations and corporate communications. The partisan environment also creates sharp contrasts between “winners” and “losers” in these battles, affecting the career prospects of communications executives on each side.

When we viewed turnover by industry, we discovered some trends and outliers in the energy, financial services and technology sectors. Here, we found sharp deviations in the percentage of turnover within industries that are prioritizing and evolving the communications function

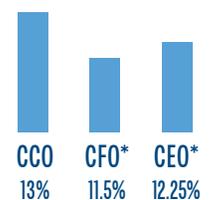
(especially due to the increased focus on government/regulatory affairs experience) and those that (surprisingly in the case of technology) are still clinging to old world thinking.

Our Methodology

Patino Associates conducted a study of all Fortune 500 companies to assess the rate of turnover of the CCO position. Leveraging Patino Associates’ proprietary database, as well as publicly available information, we sought to quantitatively ascertain the following:

- Whether a Fortune 500 company had changed its CCO during the calendar year of 2011
- Whether the incoming CCO was an internal promotion or an external hire
- If the current role was either newly created or substantially different structurally (with either greater or lesser responsibility) than that of the predecessor
- If the incoming CCO had previously served in a comparable CCO role as the head of corporate communications for either a publicly traded or private company
- Whether the incoming CCO previously worked in the industry of his/her current employer
- Rates of change amongst the above criteria by industry

This data was then discussed among Patino Associates principals, clients, and various industry executives. These conversations informed our qualitative commentary and insight included throughout the study.



2011 CCO TURNOVER RATE

FIGURE 1: Turnover rate among CCOs are in-line compared to turnover of other C-suite executives.

*Source: CristKolder 2011 Volatility Report



FIGURE 2: CCO roles are filled nearly half the time by internal candidates.

BIG PICTURE

The year 2011 witnessed a relatively expected level of CCO turnover, with an overall turnover rate of 13%. By comparison, CFO turnover within similarly sized organizations in 2011 was 11.5% and CEO turnover was 12.3%**.

However, we chose to focus our study approach on how turnover affects CCO positions, including how vacant roles are filled, who is selected to fill them, and what factors companies are considering for these selections.

In a slightly surprising trend, companies chose to hire an external candidate to fill the CCO role 52% of the time, and they either promoted or internally moved an executive into the role 48% of the time (see Figure 2).

This is surprising because, historically speaking, even large communications teams (20+ FTEs) have been structured flatly, leaving few opportunities for development and advancement. In many cases, companies were forced to look outside for a new CCO because the delta between the outgoing CCO and their deputy is far too great for senior management to bridge. Today, senior management fully understands the value of communications in driving the company to operational and financial success. The CCO has become a valued member of the senior management team and expectations for the position and the function have been elevated. With a greater emphasis and focus on the success of the communications function, larger corporate communications teams are structuring more opportunities to develop talent internally that can make the jump into “the big chair.”

Unlike CMOs, who have an expected turnover rate of 23 months, CCOs enjoy longevity in their role, with more than 25% of Fortune 500 CCOs having been in their current role for 5 years or more. However, this too leaves little room for career advancement for high potential executives within the corporate communications team. Consequently, high-potential communications talent often leaves for other growth opportunities before ascending within the home company. This flight of qualified communications deputies is aided by the fact that senior management teams have moved away from the school of thinking that required the CCO role be filled by someone who had previously served as CCO with another company. Indeed, only 47% of the CCOs hired in 2011 had previously held a CCO position (see Figure 3).

The CCO role continues to evolve, with a further melding of the traditional communications disciplines with public affairs and government/regulatory affairs. When companies look outside for a new CCO, they are seeking external hires to build greater capabilities into the Corporate Communications function. Some of this is evidenced by the great number of newly created or restructured positions cropping up (see Figure 4), such as within the healthcare and energy sectors. For the most part, however, companies are still trending towards hiring within their industry (see Figure 5), at 61% of the filled roles. That said, a 39% rate of hires from outside the industry is strong, and reflective of the changing role of corporate communications.

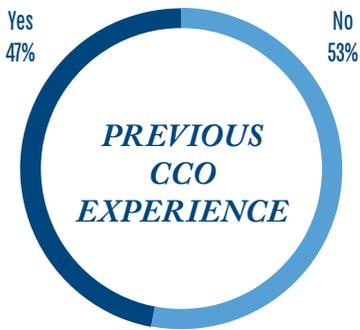


FIGURE 3: Fortune 500 management teams have been willing to hire candidates who have not previously held a CCO role.

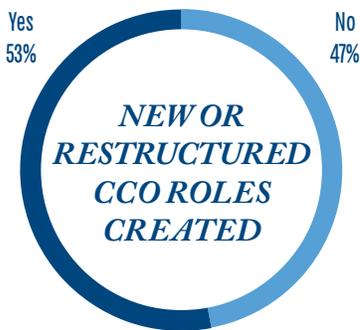


FIGURE 4: Over 50% of companies either created or restructured the responsibilities of the CCO position.



FIGURE 5: The majority of incoming CCOs overwhelmingly have previously worked in the same industry as their new employer.

TURNOVER BY INDUSTRY

A Tale of Two Extremes

As we look at the data on an industry basis, we discover three interesting (and disturbing) trends emerging. The median rate of COO turnover by industry was 13% with a maximum 5-point differential among all industries — except the energy sector, which witnessed a high rate of turnover at 22%, roughly double that of other industries. Financial services was the lowest, with an 8% turnover rate (see Figure 6).

Several factors are impacting the low turnover rate for CCOs within financial services. Notably, the industry has already experienced heavy turnover in previous years with the recession and lending market collapse. Additionally, those within the industry who have a CCO position are less likely to seek change until the outlook in their sector improves. As we have heard from many folks within financial services, they are “choosing to stay put.”

It is no surprise that the energy industry cohort has had the highest turnover within the study. Energy has always been a highly regulated industry with very separate corporate communications functions and government/regulatory affairs functions. For decades, corporate communications for energy companies was relegated to “the kids table” — not viewed by management as strategic or impactful. Over the past decade, the rise of the CCO has been most evident in energy companies. A number of energy companies have sought to end the internal warring between communications

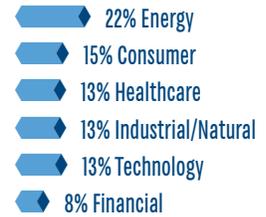
and government/regulatory affairs by combining the two functions under one executive; in many cases eschewing the previous functional heads for a fresh executive perspective, typically from outside the company. Factor in the merger and acquisition activity in the past year and we see what we believe is a one-year “blip” for the energy industry. We expect a return towards the mean in the coming year.

Continued Evolution of CCO Role

What is the composition of turnover? Were the positions newly created or replacement hires? Did companies recruit from within their industry or outside their industry?

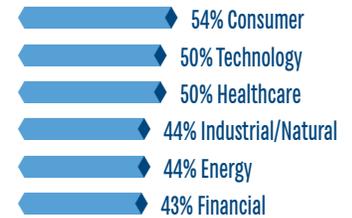
The study reveals that the results of internal versus external hires by industry mirror the overall split (see Figure 7). The median for an external hire by industry was 48%, with no greater than a six point variance in any industry. Companies are developing succession plans for their CCOs, and an equal number of companies do not have a successor in place.

The study shows a greater variation in newly created or restructured roles. Healthcare and natural resources had the highest percentage of “newly created” CCO roles, with 80% and 67% respectively (see Figure 8). The next closest industry sector was energy at 53%. In each of the three industries, the newly created positions were almost evenly divided between internal promotions and external hires. Almost all hires were made at the Vice President or Senior Vice President levels. These industries are recognizing the value of corporate communications and are continuing to elevate the position to a level of senior management within the corporation.



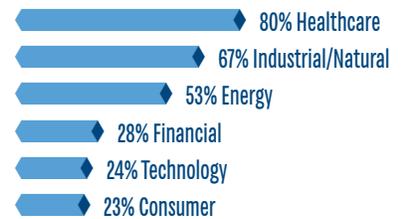
TOTAL RATE OF CCO TURNOVER, BY INDUSTRY

FIGURE 6: The energy industry witnessed a high rate of turnover, roughly double the rate of other industries, as it experienced heavy M&A activity.



EXTERNAL CCO HIRES, BY INDUSTRY

FIGURE 7: The median across industries for refilling positions from outside was 48%, with financial services at the higher end.



“NEWLY CREATED” CCO ROLES, BY INDUSTRY

FIGURE 8: The healthcare and natural resources industries showed the highest rates of “newly created” or restructured CCO roles, with energy industry CCO roles continuing to rise in prominence.

Where are CEOs looking?

Lastly, we looked at whether companies continue to prefer recruiting CCOs with previous industry experience or if they are willing to benefit from the fresh insights and leadership offered by candidates with no previous industry experience (or biases). Financial services was the only industry to recruit more than 50% of their CCO hires from outside the industry (see Figure 9). Upon deeper study, many of these individuals came from technology or services companies that supported financial organizations, which seemingly gives the new CCO a leg up. Energy had a lower percentage of hires from outside the industry, at 40%, but the hires were truly from a wide variety of industries, from airlines to consumer goods. Industrial/natural resources also had a healthy strategy of recruiting equally outside its industry. These industries are recognizing that the skill set of a senior communications executive is transferrable across industries, even for those that are heavily regulated, like energy.

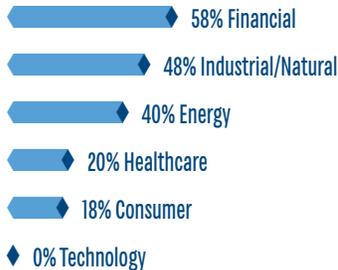
One of the most notable findings was that not a single technology CCO hire came from outside the technology industry in 2011. No other industry in the study recruited exclusively from within its own industry. Even the highly regulated and scientifically complex healthcare sector recruited 20% of its CCOs from outside its industry. We find this trend most troubling because, from a communications perspective, technology could arguably stand to gain most from exceptional executives from other industries at this time. Witness the rise in regulatory scrutiny over data privacy especially in light of continued attacks against large companies. Healthcare companies have grappled with this issue for the last two decades or

so, resulting in HIPAA. Additionally, the issue of rapid product cycle development and launch has been equalled in recent years by leading consumer and industrial companies with a strong customer focus/bond. As more technology companies mature, senior management reports being “bogged down” by the need to bolster and protect the company’s reputation for issues not relating to product performance.

SUMMARY

CEOs are increasingly wearing new lenses in evaluating their chief communications officers’ contributions and, where there is turnover, their potential replacements. This was confirmed in our study by the number of restructured roles as well as the willingness of CEOs to look outside of their industry for top communications talent. Energy provided the greatest example of this trend, typically looking outside their company and industry to lead a consolidated communications and government/regulatory affairs organization. Technology had an average amount of turnover, but remained shockingly insular, hiring only from its own. Financial services had an abnormally low amount of turnover at 8%, reflected by economic conditions, yet offered the broadest recruiting efforts from outside the industry.

With the Supreme Court upholding the Patient Protection and Affordable Care Act, we foresee enormous demand and not enough supply within the healthcare services industry. The more progressive companies in this space are already rethinking the structure and personnel of their communications function. We expect to see a further shift in some of the data we analyzed in the coming years.



CCO HIRES WITHOUT INDUSTRY EXPERIENCE

FIGURE 9: The financial services industry is at the higher end, hiring mostly outside of their own industry, while technology recruited exclusively from inside their own industry.

Recent turnover in the industry and current market dynamics make for few new opportunities within the financial services sector, causing CCOs to hunker down

*Source: CristKolder 2011 Volatility Report

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About us

Patino Associates is a boutique search firm specializing in the recruitment of executives in corporate communications, public affairs and marketing across all industries. Headquartered in McLean, Virginia, Patino Associates focuses primarily on Senior Vice President/Vice President and Director level searches for clients seeking to lead corporate communications, public relations, media relations, international communications, internal/employee communications, marketing communications, financial communications, investor relations, public affairs or government relations.



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