Barclay Simpson

corporate governance recruitment

2010

Market Report

CORPORATE GOVERNANCE

Barclay Simpson Market Report 2010

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01. INTRODUCTION

Welcome to Barclay Simpson's 2010 Corporate Governance Market Report. This is the 20th year we have produced market reports summarising and analysing recruitment trends in corporate governance.

Whilst it has been a tumultuous year for the economy and corporate governance, we are pleased to report that the corporate governance recruitment market has started 2010 with seemingly better prospects than in 2009.

As a break with tradition we are producing this Corporate Governance Market Report. It is designed to provide readers with an overview of the entire corporate governance recruitment environment. It includes brief summaries of the constituent recruitment markets.

For more in-depth coverage, comprehensive market reports exist for Internal Audit, Compliance, Risk, Security and Legal recruitment markets. They can be accessed online at:

http://www.barclaysimpson.com/internal-computer-audit-2010-market-report/

http://www.barclaysimpson.com/risk-management-2010-market-report/

http://www.barclaysimpson.com/compliance-2010-market-report/

http://www.barclaysimpson.com/information-security-2010-market-report/

http://www.barclaysimpson.com/legal-2010-market-report/

We place great value on the professional reaction to our Reports and would appreciate your comments or any requests for further clarification or information.

Please feel free to contact us on 0207 936 2601 or bs@barclaysimpson.com.

02. THE ECONOMIC ENVIRONMENT

Employment is a function of economic activity and whatever value or regard we may have for our own self worth we are dependent on prevailing economic conditions to provide suitable opportunities for employment. This is why our reports have historically provided a digest of the economy. We have more often than not taken a sceptical view of the British economy simply because if something appears too good to be true then it usually is. For example, unless you are an economist, you do not necessarily have to think too deeply to conclude that individually or nationally we will not become rich by consuming more than we produce. You might even feel slightly incredulous that our current travails, which were caused by cheap money and too much debt, can be solved by even cheaper money and more debt.

One of the benefits of producing market reports over a number of years is that it does provide a perspective and, for both the reader and author, a sense of déjà vu. **It is clear that what worries cassandras like us is that on every occasion that a downturn has threatened, rather than let capitalism do what it is meant to do and clear the failures away, the policy has been to mitigate the economic pain by all available means.** Going back over a decade, with the benefit of hindsight, the failure of Long Term Asset Management in 1997 would have been a good thing. The policy response should perhaps have been to do nothing. Whilst the pain would have no doubt extended beyond simply those who had recklessly lent, borrowed and otherwise invested, the benefit would have been that capitalism would have been seen to have consequences and risk would have become more properly appreciated and priced. **Unfortunately, by flooding the financial system with cheap money the cracks in the system have been papered over and the risk taking community's appetite consistently encouraged.**

At the time our last report was produced, in June last year, the financial system had just experienced its 'near death experience'. As you will go on to read, the corporate governance recruitment market together with the risk taking community's appetite recovered surprisingly quickly.

However, as we have previously reported, in the UK it is no longer simply a question of borrowing and spending money we do not have. By using Quantitative Easing it has become far easier just to create it. The Bank of England and other Central Banks now have a new dual role of targeting both monetary and financial stability. Unfortunately the longer the printing presses have been kept running to maintain financial stability, and in the UK they have run far hotter than anywhere else, the greater the chance of monetary instabilty. It is clear that the authorities are content to see all asset classes, no matter how dubious their quality, rise in value. For now, it appears to be the least worst alternative. No doubt it did at the time of Long Term Asset Management. When the real cost of money asserts itself the value of the assets it measures will adjust downwards. Perhaps by then all will be well. Unfortunately it would be a triumph of hope over expectation. **It is simply unrealistic to assume that the road crash that is the public finances, the dodgy assets in bank balance sheets or the years of excessive public and private consumption can be spirited away by some painless strategy.**

The last decade has been about cheap money compounded by flawed regulatory and risk management practices. Banks were able to provide cheap credit that allowed increases in asset prices to be transformed into income and then into consumption. It allowed excessive consumption in the case of the UK and encouraged excessive production in others. These imbalances remain. Whilst no credible exit strategy currently exists, the British economy will ultimately be recast to produce more than it consumes. **Not withstanding the discomfort of those people who have lost their jobs and are yet to find new ones, as corporate governance recruitment consultants, like many others, we are benefiting from the economic rays of light. Perhaps we should just enjoy the moment.**

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ECONOMIC HIGHLIGHTS

The **UK economy**, although lagging behind the rest of the developed world, is emerging from recession. Whilst forecasts vary, the median estimate for UK growth in 2010 is a sub trend 1.5%. World growth is currently forecast at 3% with Asian economies leading the way.

At 7.8% and 2.5 million people, **unemployment** is currently at a 15 year high. The rate of growth in unemployment is slowing and the more pessimistic predictions that it would reach 3 million are now less likely. Total employment in the UK economy marginally increased at the end of 2009.

Deflation, rather than **inflation** was the perceived threat at the start of 2009. At the start of 2010 whist still relatively benign, inflation is now a more threatening development. The Governor of the Bank of England is likely at sometime during 2010 to explain its rise.

The **UK budget deficit** is currently forecast to exceed an eye watering £175 billion and over 12% of GDP, worse than in any other large developed economy. Unfortunately, there is currently no credible plan to materially reduce the deficit which could have potentially serious consequences should the credit markets take fright.

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03. THE CORPORATE GOVERNANCE ENVIRONMENT

THE BIG BAD BANKS

The debate about the future of corporate governance has been focused on the banking system. It is perhaps a measure of how extensively the banks have hijacked the economy. **A banking system whose social utility was at least partly to manage, distribute and control risk has become a source of risk and instability and has forced the government to distort its economic priorities.** It is perhaps worth reflecting that at its peak RBS had a balance sheet of £2.2 trillion, equivalent to one and a half times the entire UK GDP. Whilst such institutions were notionally profitable, the tax revenues they generated provided a misplaced belief that they provided a long term source of wealth creation. If the UK economy excelled at nothing else, it had the City. Unfortunately, the IMF estimates that the write downs on UK bank assets could total $604 billion, proportionately far bigger than the $1025 billion for the US and $814 billion for the Euro zone economies. Without doubt further losses potentially remain in the banking system and should the banks be forced to recognise them, it would again bring into question their solvency. In fact, the over arching policy of government, financial authorities and regulators is to ensure that this does not happen. There is obviously something of a conflict of interest. There is a political imperative to be seen to ensure that the banks will no longer be able to take unacceptable risks, whilst at the same time ensuring their ability to be profitable and ultimately build up capital is not undermined.

Before the crisis the proportion of corporate profits made by the banks had been rising steadily which should perhaps have been of concern. Lord Turner, the Chairman of the FSA, has perhaps rightly pointed out that much of finance has been practiced without social utility. An even more stinging rebuke has been made by Paul Volker, the former Chairman of the Federal Reserve, who has mused that the only useful thing to come out of the finance industry in the last 25 years is the ATM. Whilst in a free economy social utility is perhaps a rather abstract concept it is clear that during an extended period of deregulation and cheap money, bank lending was directed away from the real economy and towards lending unprecedented amounts against increases in asset prices which were then traded in complex and often opaque ways. Asset trading may have been profitable for the banks, however for the economy as a whole it is at best a zero sum game. It is clear that whilst increases in asset prices are currently being welcomed the long term objective should be to have a more functional financial sector that supports the real economy. **As the Governor of the Bank of England has stated, banks that are too big to fail are simply too big. They can hardly be expected to manage risk wisely.**

It is clear however that a coordinated consensus on how best to regulate the banks is yet to emerge. However, a number of reports are likely to help shape the future.

The Financial Reporting Council (FRC), having brought forward its regular review of the Combined Code on Corporate Governance, has reported its most recent proposals. It found no evidence of failings outside of the banking sector which certainly confirms our view that the standards of corporate governance in the UK are high. Whatever the shortcoming of governance in the banking sector, which is in the process of being addressed by the Walker Review and the FSA, they are specific to banking, rather than replicated across other sectors.

The Walker Review on how the banks should be governed does not dwell on the day to day operation of internal or risk management systems which are no doubt being redesigned to measure the risks they failed to recognise. The Walker Review's recommendations concern four main points. Non executive directors having a better understanding and being more able to challenge executive management, shareholders acting more like owners, the disclosure of salary information and about the necessity of having risk functions that executive management actually listen to.

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In October the FSA published its analysis of the feedback on the Turner Report which laid out a number of recommendations required to "create a stable and effective banking system". The majority of the feedback supported the main recommendations for banks to be better capitalised and more closely supervised. At an international level regulatory reforms are being discussed by the Financial Stability Board (FSB). It brings together national authorities responsible for financial stability in significant international financial centres, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The FSB recently published four reports that were submitted to the G20 Finance Ministers and Central Bank Governors. It remains uncertain how much of this advice will ultimately become enforceable but it indicates a collective response to bank regulation and sends a clear message to the industry that regulatory reform is high on the agenda.

However to believe that governments, financial authorities and regulators know the answers is perhaps naive. Whilst public anger demands action, in reality if the banks did not know the risks they were taking, then the regulators are hardly likely to know either. The banks' risk models failed to recognise the level of risk that complex financial instruments carry in an interconnected world. Their expensively created value at risk models simply failed to work.

It is perhaps depressing that for all the resources spent on risk management and the wider corporate governance frameworks, management clearly drove their businesses off a cliff. From that you can conclude that both external regulation and whatever restraints management imposed by their own corporate governance functions were ineffective. Whilst the banks are redesigning their risk management policies and will devise new models to replace the discredited ones, there is no reason to believe that the regulators will be any more likely to understand them. If they are sufficiently aware of their own limitations then more broadly based blunter regulation will come to pass. Banks will not be allowed to become too big to fail and may be broken up. As is seemingly happening, the incentive structure that encourages excessive risk taking will be curbed, there will be stronger insolvency regimes and capital adequacy and leverage controls. However, international co-ordination is required for regulation to be truly effective which is notoriously difficult to achieve. **For better or worse the financial services industry does represent a larger proportion of the UK economy than in any other country and whatever its recent failings, employs more people in corporate governance.** What may make sense in other countries would not necessarily be right for the UK.

For all of this, capitalism needs consequences. Without doubt the government, financial authorities and regulators through a combination of cheap credit and lax regulation provided both the petrol and the matches. It was, however, the executive management of the banks who either understood the risks and behaved recklessly, or did not understand the risks and behaved stupidly. If executive management were liable to lose more than their jobs and the penalties for acting recklessly extended to their accumulated wealth and even liberty, possibly vast sums could be saved on both regulation and governance. In previous decades when banks felt a greater responsibility to their shareholders and perhaps had a greater sense of social utility, conservative banking practices did not curtail economic growth. **In fact, an extended period during which capital is allocated on a prudent basis to the real economy, rather than against rising asset prices, may help the much needed rebalancing of the UK economy away from consumption to production.**

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04. THE RECRUITMENT MARKET

In last year's annual and interim market reports we surmised that whatever the overall rise in unemployment, it would be proportionately lower in corporate governance. To date and notwithstanding further increases in unemployment or the risk of renewed economic turmoil, that has been the case. However, what has perhaps confounded both us and certainly commentators on the wider economy, is the relatively modest overall increase in unemployment. If we had known two years ago that the economy peak to trough would contract by an unprecedented 6%, we would have written in apocalyptic terms. Presently the fall in the total number of people employed in the economy is only 2%. Notwithstanding that a decade long expansion in public sector employment is about to go into reverse, the rise to over 3 million unemployed that was until recently an economic given, is no longer the case. It is clear that unlike the United States, the employment market in the UK has been more sustainable. **It might be worth recalling the last occasion when the UK economy contracted substantially in 1990/1991 and how it affected corporate governance recruitment then. On that occasion, redundancies both economy wide and in corporate governance, were substantial.**

If we assume the recession is now at least technically over, we should attempt to provide an explanation of how the events affected corporate governance recruitment. Up until the middle of 2008 we were reporting business as usual. Whilst demand for corporate governance staff had seemingly started to slow in 2007, in spite of the emergence of what was then known as the 'credit crunch', employment in corporate governance was still tracking higher than in the wider economy. **In June 2008, given the likely contraction in the economy, we anticipated that employment in corporate governance would decline replicating developments in the wider economy. We noted, however, there was unlikely to be a collapse in demand. In fact within four months, and within a matter of weeks if not days of the failure of Lehmans there was a precipitous fall in demand that gathered pace and concluded by the end of the first quarter of 2009 in a comprehensive collapse in demand.** The fall encompassed not only all areas of corporate governance in the UK but extended internationally across all the geographic areas that Barclay Simpson covers – Europe, Middle East and Asia Pacific.

Given the backdrop of the wider global economy such a seizure was perhaps not surprising. What was, is the modest level of redundancies. Where companies failed corporate governance staff lost their jobs. They also lost their jobs where companies rationalised and closed operating divisions. Any number of financial services companies pulled out of business areas that were no longer profitable. Not surprisingly, and it has always been the case, companies used the recession to review departments and selectively make redundancies based on, for example, underperformance and not infrequently to replace more expensive with cheaper people. All these things combined to create significant numbers of redundancies and you only have to refer to our 2009 annual and interim reports to read the story. However, and we reported at the time, wholesale redundancies where managers were required to lose 10% or 20% or their staff have been rare and the number of redundancies that we might have anticipated did not materialise.

There are possibly three reasons why redundancies have been lower in corporate governance than might have been expected.

First, the employment of corporate governance functions in many parts of the financial services industry is mandatory. The regulatory environment requires compliance, risk and internal audit departments. The employment of relevant corporate governance staff is therefore a non negotiable function of continuing in business.

Secondly, and we have a twenty year perspective on this, corporate governance departments have been getting proportionately smaller. The best example of this is internal auditing where a combination of automation, improved techniques and more capable practitioners have resulted in smaller numbers of more specialist staff. The capacity to cut staff and retain a departments productive potential is limited.

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Finally, staff across all areas of governance are specialists and are in chronically in short supply. A common theme across our market reports for many years has been how companies have struggled to secure appropriate resources. The recession has not been long enough for companies to forget how difficult it is to secure appropriate resources. They have therefore avoided making redundancies wherever possible.

A subsidiary point probably more common in the wider economy has been flexible working. Employers have asked or required employees to work shorter hours, to take pay cuts or reduced benefits. For many, the absence of a bonus has been more than compensated by still having a job. Within governance the requirement to work flexibly has been more apparent in the consultancy sector where work has often been more difficult to acquire. **The common refrain, as reported in our 2009 interim market report, is that many governance departments remain short staffed and over worked.**

If that explains the smaller number of redundancies, why the collapse in demand? When a company recruits it is essentially investing and any investment is confidence driven. For a period that was concentrated between the third quarter of 2008 and the second quarter of 2009, many companies lost all visibility of their future revenues. When the viability of the financial system is called into question, confidence and therefore the propensity to make investment decisions evaporates. In less extreme circumstances this has happened on a number of occasions during the course of the last dozen years. Decision making has seized up and the printing presses and cheap money have then quickly got things moving again. Whilst the scale of the stimulus package is unprecedented the policy response and economic reaction leaves a strong sense of déjà vu.

A RECOVERY AND BUSINESS AS USUAL?

If the fall in demand was comprehensive, then the recovery that began at the end of the third quarter 2009 was common across all areas of corporate governance. The recovery was not only in the UK but internationally. It had been preceded by a steep decline in the rate of redundancies which began during the course of the second quarter.

If the recovery in demand has been common it has not been comprehensive. What became apparent during the middle of 2009 was that the global economy was stabilising. Confidence was at least partially restored and many companies felt able to undertake what they considered to be essential recruitment. A point that we have previously made and it is based partially on both the specialist nature of corporate governance work and the requirement that companies have to employ its practitioners, is that almost regardless of circumstance, sooner or later companies need to recruit. **The natural wastage of staff may slow but does not stop even during a recession. The uncertainly caused by a severe recession may defer but does not negate the requirement to recruit. What was clear by the final quarter of 2009 was that companies were prepared to commit to recruitment although the pattern of demand was instructive.**

Many of the larger banks having been recapitalised and undergone significant reorganisation found themselves with shortages of essential governance staff. Also demand has come from smaller and medium sized enterprises rather than larger multinational groups. To us the reason is clear. There is without doubt, and we feel with good reason, much caution. The large multinational groups that across all industry sectors dominate employment in corporate governance have to date undertaken only limited

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recruitment. Internally they have the spread and depth to redeploy and even retrain their human resources. They also have governance departments of sufficient size that they can be run below optimal numbers for extended periods of time. In terms of productive capacity, one staff short in a department of ten is rather different from one staff short in a department of three. **Much of the recruitment in the final quarter was essential recruitment from smaller companies that simply do not have the resources or flexibility to avoid recruiting externally. The sudden increase in demand was certainly welcome and whilst aggregate demand was significantly below anything that may be regarded as usual, given the unprecedented low levels of demand in the previous two quarters, the relief was palpable.**

The same forces will ultimately affect multinational groups. With the potential for multiple vacancies they have the capacity to substantially change the pattern of demand and on current trends and their own forecast we can realistically expect them to enter the recruitment market during 2010.

WHO WOULD BE A RECRUITMENT CONSULTANT?

As recruitment consultants, and there are really few businesses that are more cyclical, you expect recessions to hurt. The established pattern is that demand falls away and the supply of candidates increases. At least given the lower number of vacancies, the opportunity to have more appropriately experienced candidates should be a realistic expectation. It did not come to pass. This is in part due to the nature of the recession and the specialist nature of corporate governance.

Redundancies were generally concentrated in specific sectors of the economy and therefore outside of more junior positions, a candidate with corporate governance experience gained in a mortgage provider will most often not be considered by a general insurance company. **This makes for a great deal of frustration particularly for those people who have simply found themselves working in the wrong sector and are then having to face a disproportionate amount of competition for whatever vacancies become available.**

During a recession, when there is a corporate expectation that they should be able to recruit exactly against a person profile, there has been widespread disappointment. The problem has been compounded by the natural flow of candidates into the recruitment market being severely curtailed by the economic backdrop. For much of 2009, if people did not feel coerced to enter the recruitment market, they simply elected for the perceived safety of their existing employer. Recruitment consultancies often faced the unenviable proposition of having few vacancies and in corporate governance few appropriate candidates. **The only silver lining for those consultancies like Barclay Simpson who came through the recession with their capacity intact is that the huge contraction in the recruitment industry has lead to less competition.**

"For much of 2009, if people did not feel coerced to enter the recruitment market, they simply elected for the perceived safety of their existing employer.

05. MARKET REVIEWS

In this section we provide a brief summary of the individual corporate governance markets. For a comprehensive review of any particular market please refer to the relevant market report.

As recruitment consultants we spend much of our time talking to and dealing with corporate governance and human resources departments. We speak directly with a number of heads of department to discuss their current and future recruitment requirements as well as the broader picture to gain a qualitative perspective which is invaluable for our market reviews. We also attempt to portray the market in terms of quantitative data based on the following sample structure;

- 50 internal audit departments
- 30 risk management departments
- 30 compliance departments
- 35 information security departments
- 30 legal departments

The core statistics provide the following key information for:

VACANCIES

- Number of vacancies at the start of the period
- Number of vacancies generated during the period

This, over time, provides guidance on the rate at which vacancies are being generated and an indication of the ease with which companies are filling these vacancies.

REGISTRATIONS

- Number of candidates registering in each market segment

This monitors the flow of candidates into the recruitment market and, combined with the number of vacancies generated, gives an insight into the balance of supply and demand.

DEFENSIVE REGISTRATIONS

- The proportion of candidates registering for defensive reasons

The percentage of candidates registering with Barclay Simpson because they have been made redundant or perceive the threat of redundancy (i.e. who register for defensive reasons), can provide a useful insight into the behaviour of the recruitment market.

SALARIES

- Salary survey
- Salary increases

In addition to an updated salary survey, we report on the average percentage salary increase achieved by people moving between employers, which is often a good indication of the relative bargaining power that exists between employers and potential recruits.

Market Review – Internal Audit

Internal Audit	Dec 2007	Jun 2008	Dec 2008	Jun 2009	Dec 2009
New vacancies	84	79	58	29	46
Closing vacancies	39	37	23	17	24
Candidates registering	312	356	242	226	274
Defensive registrations	17%	19%	28%	23%	19%
Overall salary increase	12%	12%	11%	11%	10%

The internal audit recruitment market started to recover in September 2009. This increase was against the most significant fall in demand for internal auditors during the last 20 years. Demand when it came was concentrated amongst smaller to medium size internal audit departments across the economy and from many of the major banking group that had undergone reorganisations and found they had internal audit vacancies that could not be filled internally. Substantially absent from the recruitment market were multinational groups with generally larger internal audit departments and the Big 4. The reason for the split was that smaller internal audit departments are less able to carry vacancies for extended periods of time without having to compromise the completion of the audit plan. Having a vacancy in a department of three reduces the capability of a department far more than having a vacancy in a department of ten.

VACANCIES

Whilst vacancies rose from 29 in the first half of the year to 46 in the second half, the number of vacancies was still almost 50% down on the equivalent period two years ago. The rise in demand was loaded in the period between September and October. However, the increase in vacancy generation was not sustained and fell back in the final two months of the year. This trend shows up in the closing number of vacancies which at 24 is better than the 17 at June 2009 but not far removed from the 23 at the close of 2008. On a more positive note, and something that is not always clear from the statistics, is the quality of the vacancies. Whilst the number of vacancies did not change significantly during the course of the year, how determined a company is to fill the vacancy is an important qualitative factor. Companies are currently far more active and determined to fill their internal audit vacancies now than they were a year ago. As 2010 develops we believe that the rate at which vacancies are generated will increase, particularly as multi-national groups return to the recruitment market.

CANDIDATE REGISTRATIONS

The number of defensive candidate registrations has fallen throughout the year and in the second half of 2009 was down to 19%. This is a positive sign. However, in reality redundancies have been low in internal audit during the course of the last 18 months and many people who believed their job was under threat have found their fear to have been misplaced. Employment in internal auditing has been far more sustainable than in any previous downturns.

SALARIES

The average salary increase achieved by internal auditors changing job was 10% during the second half of 2009, a multi-year low. Those companies that recruited during 2009 have not felt compelled to offer significant increases. Further it has been many of the smaller companies rather than the large multinational groups that have recruited. They generally offer lower salaries to their recruits. Otherwise redundant internal auditors are not surprisingly in a weaker bargaining position and have more often been pleased to accept a lower salary.

Whilst the number of vacancies did not change significantly during the course of the year, how determined a company is to fill the vacancy is an important qualitative factor.

Market Review – Information Security

Information Security	Jun 2007	Dec 2007	Jun 2008	Dec 2008	Jun 2009	Dec 2009
New vacancies	63	65	58	50	25	35
Closing vacancies	31	29	33	20	12	15
Candidates registering	179	195	240	230	280	289
Defensive registrations	15%	15%	17%	20%	53%	36%
Overall salary increase	16%	14%	13%	4%	4%	6%

The information security recruitment market was the area of corporate governance worst hit by the recession. IT spending is always a victim of economic downturns and in an environment where business investment had been cut by 25%, information security was always likely to fare badly. The recruitment market recovered during the course of the second half of 2009 and unemployment in IT security is now falling. The recovery is being driven by the financial sector where restructuring has left skill gaps that need to be addressed. Within the consultancy sector those relying on public sector work benefited from the continuing largesse of the government. In the last quarter of 2009 niche consultancies, having been absent from the recruitment market for many months, recruited information security specialists with specific skills. These skills included penetration testers, CLAS consultants and SAP security specialists. Although some vacancies were the result of increased demand for their services, many were sufficiently specialist that the consultancies concerned had little prospect of filling them internally. We anticipate that this is a harbinger for the demand for more generalist security staff in 2010.

VACANCIES

The number of vacancies that were registered in the second half of 2009 increased from 25 in the first half to 35 in the second half. Whilst this is obviously a positive development, vacancy generation was only half that in the comparable period two years ago. Closing vacancies were 15, only marginally up on the 12 in June 2009.

However this low number can at least be partially attributed to the speed with which vacancies are being filled. Managers with vacancies have often been subject to extended authorisation processes. They are therefore highly motivated to fill vacancies both through need and because of the increased confidence that having found the right candidate, the vacancy will not be put on hold. In this they have often been helped by the availability of appropriate candidates. The choice and availability of information security specialists in the recruitment market has often been higher than in other areas of corporate governance. During the final six months of 2009, in spite of the number of defensive registrations falling, the flow of information security specialists into the recruitment market increased.

CANDIDATE REGISTRATIONS

The information security market was hard hit by redundancies and the number of defensive registrations in information security has been higher than in other areas of governance. Whilst still high, redundancies and defensive registrations fell steeply during the final quarter of 2009 and we anticipate this trend should continue. The flow of candidates into the recruitment market is still restricted by concerns about potential job security. This should improve as 2010 develops.

SALARIES

The average salary increase achieved by information security specialists changing jobs was 6% during the final six months of 2009, an improvement on the 4% achieved during the previous 12 months. Whilst the number of vacancies is starting to rise, most information security specialists remain in a weak bargaining position when it comes to negotiating a starting salary. There are still redundant information security practitioners including people who are normally contractors who would currently accept a permanent position.

“ The recruitment market recovered during the course of the second half of 2009 and unemployment in information security is now falling. The recovery is being driven by the financial sector where restructuring has left skill gaps that need to be addressed.

Market Review – Risk Management

Risk Management	Dec 2007	Jun 2008	Dec 2008	Jun 2009	Dec 2009
New vacancies	127	77	53	56	102
Closing vacancies	77	72	37	39	56
Candidates registering	249	241	257	320	331
Defensive registrations	8%	17%	25%	37%	19%
Overall salary increase	21%	16%	15%	7%	9%

Risk management is a discipline that is substantially concentrated in the financial services industry and within that industry, the majority of its practitioners work in banking. Whilst banking went wrong pretty much everywhere, it did so most spectacularly in the City, which had come to be seen as a permanent source of high value jobs and tax revenue. When the crash came, the UK was always going to be badly affected and given the unprecedented contraction in the economy during the first six months of 2009, this turned out to be the case. The raw statistics from our market analysis confirm that it was during this period that the employment market was worst hit. Vacancy generation collapsed and defensive registrations increased, as both actual redundancies and the perceived threat of redundancies rose to unprecedented levels. However, in common with other areas of corporate governance, the recruitment market started to gain traction again during the third quarter of 2009. The banks were no longer going to imminently collapse and many, having undergone reorganisations and mergers, had skill gaps that needed to be addressed. By the end of a highly unusual year, some semblance of normality had returned to the recruitment market.

VACANCIES

The number of new vacancies doubled from 56 in the first six months of 2009 up to a more healthy 102 in the second. Whilst the closing number of vacancies was only 56 we are able to take a positive view on this. The majority of vacancies in risk management are now being filled rather than just nominally existing. Interviews and selection processes are resulting in offers of employment. The increase in vacancies was at least partially the result of a build up in demand caused by an extended period when many banks instituted blanket recruitment freezes. The natural wastage of staff that occurs in all departments with or without a recession resulted in a sudden uptick in vacancies once external recruitment was sanctioned. Demand was fragmented and has been noticeably stronger in areas such as insurance and broker dealers. Whilst some banks, especially those that have received governmental support, appear to have now ramped up their recruitment others remain absent from the recruitment market. We anticipate their return to the recruitment market during the course of 2010.

CANDIDATE REGISTRATIONS

Candidate registrations reached a record high during 2009, as did defensive registrations during the first half of the year. Defensive registrations are now falling. Many risk managers are entering the recruitment market for the more prosaic reason of career development. However, the flow of candidates into the recruitment market usually falls in the final quarter, as bank workers do not wish to miss bonus payments. In the final quarter of 2009 candidates continued to move into the recruitment market unfettered by the prospect of missing a bonus.

SALARIES

In the second half of the year average salary increases achieved by moving job marginally rose. There is obvious resistance to offering high salaries. 9% is is an average which hides examples where risk managers with otherwise scarce skills achieved salary increases that were substantially higher. There are also still a number of redundant risk managers who will accept a lower salary. The percentage is indicative of an environment where risk managers are more focused on job security.

"The majority of vacancies in risk management are now being filled rather than just nominally existing. Interviews and selection processes are resulting in offers of employment.

Market Review – Compliance

Compliance	Dec 2007	Jun 2008	Dec 2008	Jun 2009	Dec 2009
New vacancies	107	99	67	64	76
Closing vacancies	76	62	33	23	19
Candidates registering	146	165	186	145	148
Defensive registrations	26%	32%	41%	47%	26%
Overall salary increase	22%	21%	11%	8%	6%

Compliance is the exclusive preserve of the financial services industry. There are two conflicting pressures relating to the employment prospects of compliance specialists. Without doubt the financial services industry, after a long period of growth, is in the process of shrinking. Against this, although a slimmer industry is in the process of emerging, it will be better controlled and regulated. Whilst it is fair to question the effectiveness of regulation, particularly as it related to banking, nobody seems to have concluded that giving it another go with even greater amounts of resource should not be part of the solution. For the moment, as in other areas of corporate governance, the nadir of the compliance recruitment market was in the first half of 2009. It was during this time that the compliance market along with the rest of the UK economy effectively collapsed. However, it began to gain traction in the third quarter and the market in the second half of 2009 was somewhat better than the raw statistics appear to suggest.

VACANCIES

The number of vacancies rose in the six months to December 2009. This was the first increase in two years but still only 40% of the level in 2007. Whilst the number of closing vacancies has fallen, this can be misleading. Those financial services companies with vacancies, actively filled them during the course of the third quarter of 2009. The lower number of vacancies at the end of the year is testament to their success. Although not explicably clear from our data, the rate at which compliance vacancies were being filled in the final quarter of 2009 was higher than at any time in the previous two years. Nobody should assume that the compliance recruitment market is vibrant but offers of employment are now regularly being made and accepted. Many companies operating within the financial services industry need to recruit compliance specialists as a business requirement. As they are now more confident about the future, their recruitment policies have responded accordingly. We anticipate that the number of vacancies will continue to rise as 2010 develops.

CANDIDATE REGISTRATIONS

The percentage of defensive registrations fell in the second half of 2009 after having peaked at an unprecedented 47% in the first half of 2009. Although a good sign, redundancy is still a feature of the compliance recruitment market. Redundancies are still occurring, albeit at a much reduced level during the second half of 2009. The number of candidate registrations marginally increased and the majority were under no threat of redundancy and were simply looking to improve their career prospects.

SALARIES

The salary increase achieved by compliance specialists moving job fell in the second half of 2009. This is not representative of a deteriorating market. Rather perversely it is indicative that more people are being offered and are accepting positions. The percentage salary increase has declined as a number of those who have accepted positions were redundant. Not surprisingly given the straightened business environment, few companies necessarily feel the need to offer a higher salary to secure an acceptance.

“Many companies operating within the financial services industry need to recruit compliance specialists as a requirement of being in business.

Market Review – Legal

Legal	Jun 2008	Dec 2008	Jun 2009	Dec 2009
New vacancies	62	51	27	49
Closing vacancies	10	22	13	21
Candidates registering	205	367	453	391
Defensive registrations	29%	39%	57%	28%
Overall salary increase	11%	6%	0%	4%

There are two conflicting pressures relating to the employment prospects of lawyers working in the financial services industry. Without doubt the financial services industry, after a long period of growth, is in the process of shrinking. Against this, although a slimmer industry is emerging, it will be more managed, controlled and regulated. There is no doubt lawyers will have a role to play in this process. It is already clear that legal input is required and sought at an earlier stage of the various deal making processes that make up investment banking. The government is intent on better protecting the public from those aspects of retail banking that they are in touch with. This, together with more regulation, and notwithstanding the apparent failure of what went before, will require greater input from lawyers. Like most other areas of the economy, and certainly corporate governance, the nadir of the legal recruitment market was in the first half of 2009. It was during this time that the legal market along with the rest of the UK economy effectively collapsed. However, it began to gain traction in the third quarter and the market in the second half of 2009 was somewhat better than the raw statistics appear to suggest.

A far more positive market developed in the second half of the year, with defensive registration, whilst still high, almost 50% lower than in the first half.

VACANCIES

The number of new vacancies registered in the second half of 2009 almost doubled, rising from 27 in the first half of the year to 49 in the second half. The increase was welcome and was across all the main sectors of the financial services industry. What was also welcome was that the rate of increase was not only sustained but grew towards the end of the year. This bodes well for 2010 together with the number of enquiries regarding the prospects of commencing recruitment in 2010. Whilst the number of closing vacancies at 21 appears disappointing, we are able to take a positive interpretation. Within the legal recruitment market there are now a much lower number of seemingly nominal vacancies that exist but are not actively being recruited for. Most recruitment processes are now arriving at their logical conclusion, an offer of employment and this is helping to dispel much of the frustration felt by lawyers. These lawyers were part of recruitment processes in the first half of 2009 that were seemingly never able to identify the perfect candidate.

CANDIDATE REGISTRATIONS

The number of candidates registering peaked in the first half of 2009. The level of apprehension was such that 57% of the registrations were judged to be from lawyers who had either been made redundant or indicated some concern it could be a potential outcome. Not surprisingly, those in secure jobs avoided entering the recruitment market. A far more positive market developed in the second half of the year, with defensive registrations, whilst still high, almost 50% lower than in the first half.

SALARIES

Salary increases achieved by changing jobs fell considerably throughout 2008 and 2009. It was not unusual for lawyers to take a cut in salary. The result was that lawyers changing employer achieved an average 0% salary increase in the first half of 2009. There were signs that their bargaining position was improving during the final quarter of 2009. However, any return to the multi-offer environment and strong bargaining power that existed before the recession is for most lawyers still over the horizon.

06 – OUTLOOK

We suppose, and it is nothing more than a passing thought, that for everything that has been spent on corporate governance and regulation within the financial services industry, are we any richer? One might speculate that amongst enlightened and responsible management 'Treating the Customer Fairly' is hardly a revolutionary concept, Capital Adequacy a fundamental of being in business and just maybe effective management needs no one either internally or externally to tell them whether the risks to their business are adequately controlled. **Perhaps executive management is too ready to take the rewards but not the responsibilities,** particularly when personal financial success can seemingly be extracted from abject managerial failure. The prospect of financial pecuniary may have a wonderfully concentrating effect on the minds of executive management when confronting what risk management is really about.

We can dare to wish for such things as there is no prospect of them coming to pass. Whilst corporate governance did not seemingly make a difference when it really mattered, the response to this failure has been that there was not enough and if there was, then it was the wrong type. We may be about to end up with a slimmer financial services industry, however, little is going to be spared on its governance and regulation. **It is a conclusion that we are happy to go along with whilst having the humility to lift our eyes to heaven in thanks. We are confident that demand for corporate governance staff will continue to exceed demand in the wider economy.**

Unfortunately we probably have more to worry about. Recruitment is a function of economic activity. We have a simplistic view of the economy and that is the way we like it. Yes, the economic environment has brightened. Has the excess debt that is the root of our economic problems gone away? No, it has been transferred from the private to the public sector. From there, and from the same people who brought us no more boom and bust, the message appears to be that we should go on borrowing and spending more. Unfortunately our debt problem is in the process of getting bigger and the government proposes, without detailing the means, to simply legislate that it will get smaller.

There are only three solutions to government debt. Governments can inflate it away, default on it or they can marshal the economic and political means that provide for it to be paid back. Options one and two do not look good and unfortunately it may take a real national economic crisis before people are prepared to accept option three - the inevitable adoption of an economic model biased towards production rather than consumption. **We are at least grateful that corporate governance is destined to play a significant role in whatever developments confront us.**

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