



Spencer Stuart Switzerland

POINT OF VIEW

SUMMER 2008

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Spencer Stuart is one of the world's leading executive search consulting firms. Privately held since 1956, Spencer Stuart applies its extensive knowledge of industries, functions and talent to advise select clients — ranging from major multinationals to emerging companies to nonprofit organizations — and address their leadership requirements. Through 52 offices in 27 countries and a broad range of practice groups, Spencer Stuart consultants focus on senior-level executive search, board director appointments, succession planning and in-depth senior executive management assessments. For more information on Spencer Stuart, please visit www.spencerstuart.com.

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Introduction

“The universe is change; our life is what our thoughts make it.” — *Marcus Aurelius*

In this summer 2008 issue of *Spencer Stuart Switzerland Point of View* we share some of the changes we perceive in the marketplace, based on insights gained from our executive search activities. CEOs, entrepreneurs, indeed all leaders are always looking out for change, responding to it, and exploiting the opportunities that change affords.

In his article, **Phil Le Goff** discusses the challenges presented by private equity leadership roles; how a CEO must be prepared to act and think differently in such an environment.

Roger Rytz expresses his expert view on the critical relationship between the non-executive chairman and the CEO. **Andreas Hürlimann** describes the central role of the marketing function within private equity-backed companies during times of change, with the focus on growth and immediate results.

Maurice Zufferey describes how best to work with an executive search firm, including questions to raise and what you can expect from your search consultant. Based on a recent survey, **Antonio Maturo** looks at the changing role of the general manager in European consumer packaged goods companies in the context of centralised and decentralised models.

Finally, **Francois Clerc** examines the importance of the chief communications officer in establishing and maintaining the reputation of a company.

We wish you an enjoyable read and would be pleased to receive your reactions and feedback.

The Spencer Stuart Switzerland Team

Positioning the Private Equity Portfolio Company CEO for Success

During the past 10 years, Spencer Stuart has conducted more than 1,000 searches for CEOs and other senior-level leaders of private equity-owned companies.

Our interviews with more than 60,000 individuals during this period, including 7,000 candidates for private equity and venture capital clients, have given us insight into the demands on portfolio company leadership and how leading a portfolio company differs from leading a public company. It has helped us to identify best practices for success in this unique environment. Today about 15 to 20 percent of CEO searches are for private equity and venture capital owners.

Today, there are several hundred private equity firms with more than \$1 billion in assets under management and many hundreds more smaller firms. Reflecting the broad acceptance of the model, private equity funds include a wide range of investors, including the largest Fortune 500 companies, high net worth individuals, commercial and investment banks, pension funds, institutional investors and even smaller private equity firms.

The rise of private equity ownership has had another effect on talented executives: it has created more than 3,000 CEO opportunities at privately owned portfolio companies. This has been a welcome development for the growing number of leaders aspiring to the CEO role, whose career options in the past were limited to public companies and family-owned businesses willing to hire outsiders.

One growing source of seasoned leadership talent for private equity firms and venture-backed startups was, and continues to be, from within the ranks of large, public companies. Organisations such as General Electric, Procter & Gamble and others with autonomous businesses and a decentralised organisational structure regularly produce effective leaders who have had opportunities to move into general management roles with monumental leaps in scale and increasingly complex responsibilities.

While these organisations have provided a superb training ground for general managers and future business leaders, the entrepreneurial leaders within these companies often find themselves competing against a large pool of equally skilled general managers for too few opportunities at the highest levels of their organisation. For many of these high-achieving individuals, private equity firms and their portfolio companies represent a more exciting entrepreneurial fit and an opportunity to advance their career to become a CEO — opportunities they may never get if they remain in large, public companies.

Unfortunately, a significant number of executives who thrive in a large public company environment ultimately fail in their first private equity portfolio leadership role, discovering too late that they are better suited for roles in larger companies with more resources and a different culture. Others apply the hard lessons learned from their first assignment and succeed in their next one — if given the opportunity. The executives who most successfully make the transition to private equity portfolio companies, including management buyouts and corporate spin-offs, typically are change agents, problem solvers and have financial savvy. They also possess a sense of urgency about executing the company's mission.

They are able to adapt quickly to new environments, evolving leadership requirements, unique ownership models and a higher degree of board oversight. Because of the unique challenges and opportunities inherent in running a portfolio company — and the high risk of failure — identifying and attracting the best and most appropriate talent can be a significant challenge.

Private equity challenges: high debt, high risk, fewer resources

Because of its unique blend of risks, rewards, challenges and opportunities, a private equity portfolio company is not for everyone. For entrepreneurial executives, however, the lure of a portfolio company includes the opportunity to break free from the traditional corporate structure along with the potential payoff following a successful sale or initial public offering.

What specifically are the challenges? Very often, private equity companies have high levels of debt, requiring constant attention to cash flow, spending levels, debt repayment and financial targets in order for companies to achieve their exit strategies.

As a result, “cash is king” at portfolio companies, so quickly increasing revenue and tightly controlling costs are top priorities for their CEOs. They often have to make quick and difficult decisions to cut costs and preserve cash. The attention to cost-cutting also means that portfolio company CEOs may have to do without the perks of the title.

Portfolio companies also have fewer human and financial resources. When pursuing new strategies or launching new products or marketing initiatives, these businesses do not have the deep pockets of a large corporation behind them. Furthermore, without the reputa-

tion and global brand of a major corporation, portfolio companies can have a more difficult time attracting top talent under the CEO.

Freedom and greater reward potential

Despite the challenges and the risks, many entrepreneurially minded executives are drawn to portfolio companies for the freedom from the constraints of the corporate world and the potential of much greater rewards. They are willing to exchange the relative security and longevity offered by corporations for the potential of greater wealth. In a portfolio company, fewer parties have large equity stakes in the company, yet a sale or IPO can provide a significant payout to top executives.

Most CEOs in a private equity-backed company must commit to a lifestyle and management style change, and they must think like the owner of the business on every issue they consider and act upon. The longer term horizon and inherent illiquidity characteristics of a private equity stake encourage CEOs to make decisions that are in the best interest of the company over a three- to five-year period. The overriding objective is to pay down the company's debt in a reasonable time frame — typically five years — and to get the de-levered value of the asset, several years out, to provide a 20 per cent or greater annual ROI. A CEO with an equity stake in a company that achieves those goals can realise tremendous economic value upon execution of a variety of exit strategies, including an IPO, outright sale of the company, recapitalisation or a merger with another company.

The CEO of a private equity-backed portfolio company must be wholly committed to medium term value creation and be comfortable with a compensation package that rewards success in five to seven years. Along the way, the CEO is paid fairly, but the big

upside comes only at the end. While a portfolio company has to be far more focused on fewer goals and a well-defined end game, its smaller size makes it easier to mobilise the organisation to accomplish those goals and make decisions quickly.

Despite the pressure to achieve financial milestones, CEOs from private portfolio companies traditionally have not had to contend with the heavy emphasis on reporting and preparation of quarterly financials required of a public company and, now, all the expense and preparation required for compliance with the Sarbanes-Oxley Act. With incentives freed from quarterly analysts' demands, these CEOs can typically take a longer term view on the company.

Traits of the successful private equity CEO

Because of the debt load, portfolio company CEOs must possess in-depth financial knowledge and experience. They must know how to manage high debt and reduce costs, understand pricing strategies and be comfortable reaching out to capital markets. In fact, the private equity firms we work with routinely ask us to identify candidates who have had exposure to a high-debt environment and, ideally, experience in a private investor-backed business. Portfolio company CEOs also need broad experience leading every function, particularly product development, supply chain management, sales and finance. Successful portfolio company CEOs also excel at setting priorities and efficiently allocating resources, and are able to build an effective partnership with a more hands-on and financially astute board.

CEOs who are most likely to succeed are those who stay “laser focused” on capital management and debt reduction. However, they need to have a risk orientation, which functional and public company executives often lack.

Equally important as the types of financial and operating experience they have amassed are their leadership skills. Private equity CEOs must keep the organisation focused on executing key priorities, and must be willing to roll up their sleeves to get the job done. At the same time, employees look to the CEO for personal guidance and leadership much more often than within the traditional Fortune 100 company and they frequently test the CEO's values, intellect and decisions.

The private equity CEO often is reliant on a small, highly focused team that may lack the perceived star power seen in bigger companies. Thus, the CEO's passion and ability to sell his or her vision for the company — both the strategy for building the company and the potential financial reward for success — is crucial. The portfolio company CEO also must demonstrate a passion for the business, have a clear picture of the company's future that will excite others, and be able to spell out the compelling rewards stemming from a potential success. Successful portfolio company CEOs are not territorial about their role and willingly take on any task that needs to be accomplished.

Finding the private equity CEO

As demand for portfolio company CEOs grows, it becomes more challenging to recruit the best and most appropriate leaders for these positions. Experienced private equity CEOs who have successfully completed an exit and are on the hunt for the “right” opportunity are in very high demand and can be expensive to recruit. Meanwhile, a current portfolio company CEO has experience, but little incentive to leave before the exit strategy is achieved, due to the value built up in his or her equity stake.

The supply of experienced portfolio company executives being limited, most investors must expand their search to the corporate world. Often, division heads or corporate “entrepreneurs” bring exceptional industry and management experience and, when they are a good fit culturally and their transition to the private equity world is well managed, they can become successful CEOs.

Often overlooked are portfolio company CEOs who earlier in their careers presided over a failed business. While it might seem natural to discount these individuals, we find it worthwhile to investigate the reasons behind the failure before doing so. If the reasons were beyond their control, they may prove to be viable candidates.

To improve the odds of finding the right candidate, private equity or venture-backed organisations should also look for individuals who have demonstrated an entrepreneurial bent throughout their corporate careers. For example, entrepreneurial individuals are often given international assignments, which tend to be much more decentralised and include full P&L responsibility and functional oversight. Frequently accepting new assignments within an organisation is another sign that an individual has benefited from incremental leaps of opportunity and has achieved broader leadership success over all functions. Executives who have taken these entrepreneurial roles, which often are riskier and in less-than-ideal geographies, have tested their leadership skills and adapted to different cultures and environments. Unfortunately, a lot of people coming out of the corporate environment do not want to go back to delving into details, running a plant or making sales calls again.

Board governance is uniquely challenging and rewarding

In addition to recruiting the right leader, private equity firms can help position the CEO for success through decisions about the board composition and role. Private equity company boards tend to be more hands-on and, as a result, can provide the CEO with more insightful input. In fact, many portfolio company CEOs and private equity partners say that CEOs, particularly those who are new to private equity, benefit when a board member serves as a mentor or sounding board.

Private equity company boards should have at least two or three independent directors with CEO and/or industry experience — something few portfolio companies have today. Boards of S&P 500 companies average about 10 directors with 80 per cent to 90 per cent of the board independent. Portfolio companies, if they include outsiders at all, typically have five or six directors usually with one or occasionally two directors who are independent of management and the investing firm.

Furthermore, because most private equity partners come from investment banking, commercial banking or the legal profession, they often lack the industry knowledge and operating experience that can be an invaluable resource for a new portfolio company CEO. Historically, private equity firms have been reluctant to bring outside directors onto portfolio company boards, in part because of the cost of an outside director and because they want to maintain their control.

Increasingly, more portfolio companies with public debt — or those looking ahead to an IPO or sale to a public company — may have little choice but to add new independent directors in light of

the greater scrutiny being placed on the governance practices of all companies and the demands of the Sarbanes-Oxley Act.

Conclusion

First-time portfolio company CEOs, particularly those who have spent their careers in the corporate world, often struggle with their first private equity assignment. Managing in a high-intensity environment with fewer resources and cash constraints requires skills that are not necessarily learned or rewarded in corporations — a desire to seek out and drive change and a willingness to live on the edge.

While private equity leadership roles can provide dramatic rewards for those who are successful, they are not for everyone. Executives new to private equity need to understand the trade-offs and evaluate whether their experience and preferences represent a good fit for a private equity role. Those who are most likely to succeed in the private equity environment are individuals who possess in-depth financial knowledge and experience. They thrive amid challenges, are comfortable with risk and can quickly adapt to new environments. By choosing a CEO with the appropriate experience, core competencies and passion for the company's success and working collaboratively with the CEO — private equity firms can improve the odds that their investment will pay off.

Phil Le Goff, Zurich

Traumpaar an der Unternehmensspitze?

Die Beziehung zwischen VR-Präsident und CEO als massgeblicher Erfolgsfaktor

„Wir haben ein Traumpaar an der Unternehmensspitze,“ meinte kürzlich der Asien-Chef einer der grössten Schweizer Firmen. „VR-Präsident und CEO treten innen und aussen mit einer Stimme auf und leben die Kultur vor, die sie predigen.“

Eine gute Beziehung zwischen VRP und CEO und eine entsprechend fruchtbare Zusammenarbeit erweisen sich immer wieder als Voraussetzung für den Unternehmenserfolg — wenn auch keine hinreichende.

Spannungen zwischen VRP und CEO wirken sich auf die Stimmung und die Zusammenarbeit sowohl im Verwaltungsrat wie auch in der Geschäftsleitung aus. Dann genügen weder die hervorragende Zusammensetzung des Verwaltungsrates noch die überzeugende Sitzungsführung durch den VRP: mangelhafte Information durch den CEO und unerquickliche, spannungsgeladene Diskussionen, die sich an falschen Prioritäten erhitzen, führen zu ungenügender Kreativität in den Lösungen, zu falschen Entscheidungen und zu Feuerwührungen, weil der VR hinter den Problemen her rennt.

„Spannungen zwischen VRP und CEO wirken sich auf Stimmung und Zusammenarbeit sowohl im Verwaltungsrat wie auch in der Geschäftsleitung aus“

Erfahrene Verwaltungsratsmitglieder kennen das Problem, und doch wird es kaum je direkt angegangen.

Die Beziehung muss aktiv gepflegt werden

Die Qualität der Beziehung zwischen VRP und CEO zeigt sich an jeder VR-Sitzung. Nichts schlimmer als ein VRP und ein CEO, die sich Revierkämpfe liefern.

Im Idealfall führt der VRP den Verwaltungsrat, und der CEO leitet das Unternehmen. In überlappenden und in Randbereichen aber müssen die beiden Rollen schriftlich festgelegt und oft immer wieder neu verhandelt werden, abhängig von Firmenstruktur und aktueller Leistung des Unternehmens, Persönlichkeit von VRP und CEO und verfügbarer Zeit des VRP. Beide sind idealerweise starke Persönlichkeiten, wobei der CEO nach innen und aussen profiliert auftritt und der VRP primär eine den CEO anleitende und unterstützende (nicht primär kontrollierende) Rolle im Hintergrund einnimmt.

Spannungen zwischen VRP und CEO entstehen nicht nur aufgrund unterschiedlicher Charaktere, sondern auch aufgrund von ungenügend klargelegten Verantwortungen und Abgrenzungen. Über die Aufgabenteilung sollten die beiden Betroffenen von Anfang an schriftlich Klarheit schaffen und ihre gegenseitigen Erwartungen kennen lernen. Dies braucht psychologische Flexibilität von beiden Seiten und ein starkes gegenseitiges Vertrauen. Das Verhältnis zwischen VRP und CEO ist dort am besten, wo es zum Thema gemacht und bewusst daran gearbeitet wird. Eine gute solche Beziehung zeigt sich vor allem auch daran, dass erfolgskritische Fragen hart und nachhaltig diskutiert werden können.

„Das Verhältnis zwischen VRP und CEO ist dort am besten, wo es zum Thema gemacht wird“

Häufige, engagierte und offene Gespräche zwischen VRP und CEO führen zu einer wertschätzenden Zusammenarbeit. Idealerweise interpretieren VRP und CEO Informationen und Ereignisse in übereinstimmender Weise, was zu einer stillen Übereinkunft in den wichtigsten Fragen führt. Gleichzeitig muss der VRP zum CEO genügend Distanz halten, damit er ungenügende Leistungen des CEO mit ihm ansprechen und ihn wenn nötig entlassen kann.

Die Hauptverantwortung liegt beim VRP

Der VRP entscheidet weitgehend über die Qualität der Beziehung zum CEO, die meist auch die Qualität seiner Führung des Verwaltungsrates widerspiegelt. Selbstverständlich trägt auch der CEO zu einer guten Beziehungen bei, wenn er sich für die Qualität dieses Verhältnisses engagiert, die Grenzen seiner Rolle respektiert, den VR zeitgerecht mit der relevanten Information versorgt und einen offenen Diskussionsstil pflegt.

Der VRP zeigt durch sein Verhalten, dass seine Beziehung zum CEO auch eine sehr kritische Diskussion erträgt. Er schafft Raum für die unterschiedlichen Ansichten und Gefühle der VR-Mitglieder zu den einzelnen Themen und verhindert, dass der Verwaltungsrat sich polarisiert. Er schafft eine Atmosphäre, in welcher die VR-Mitglieder miteinander sprechen wollen und ohne Angst vor Ausgrenzung durch andere VR-Mitglieder ihre Ideen, Vorschläge oder Bedenken einbringen. Auch kritische Fragen werden offen diskutiert, und trotz der starken Egos rund um den Tisch gibt es keine Dominanz der einen oder anderen Person. Traktanden erhalten entsprechend ihrer Priorität genügend

Diskussionszeit, und die oft sehr unterschiedlichen Ansichten und Ideen werden zur best möglichen Meinung verschmolzen.

„Gesucht sind VR-Präsidenten, die sich all die notwendige Zeit für ihr Amt nehmen, die Branche gut kennen und geistig unabhängig sind“

Geeignete Prozesse für die Zusammenarbeit im Verwaltungsrat und mit der Geschäftsleitung und engagierte, unterstützende Beziehungen unter den Beteiligten führen zu einer erfolgreichen Verwaltungsratsarbeit.

Bei ungelösten Spannungen zwischen VR und CEO oder unter den Verwaltungsratsmitgliedern selber machen sich die Probleme selbstständig: sie werden nicht nur nicht gelöst, sondern drücken auch auf die Stimmung im Verwaltungsrat und reduzieren drastisch die Zahl und die Qualität der Voten.

Gesucht sind also VR-Präsidenten, die sich all die notwendige Zeit für ihr Amt nehmen, die Branche gut kennen und geistig unabhängig sind. In der VR-Sitzung schaffen sie Raum für substanzielle Diskussionen, in denen zündende Ideen vorgebracht und von anderen aufgenommen werden, sodass am Ende eines Meetings ein klarer Weg aufgezeigt ist. Dies setzt ein grosses Engagement und Nähe zum Unternehmen voraus, gepaart mit der Fähigkeit, Unternehmen, Verwaltungsrat und Geschäftsleitung aus sachlicher Distanz zu betrachten.

„Unser VRP beeindruckt an unseren Sitzungen mit grosser Präsenz und einer gelassenen Überlegenheit, die nicht vor allem ein grosses Ego, sondern einen starken Charakter widerspiegelt,“ beschrieb ein CEO seinen Präsidenten. „Er wird von uns

allen geschätzt und respektiert, wir fällen mit ihm sinnvolle Entscheidungen, und es gelingt ihm immer wieder, einen Konsens zu erzielen und sinnvolle Entscheidungen zu fällen, ohne primär sein eigenes Urteil einzubringen.“

„Unser VRP beeindruckt an unseren Sitzungen mit grosser Präsenz und einer gelassenen Überlegenheit“

Die Wahl des VRP ist kritisch

Wer über die Wahl eines VRP entscheidet, muss Situation und Umfeld des Unternehmens kennen und Führungskräfte beurteilen können.

Erfolgreiche Leistungsausweise der Kandidaten in ähnlich gelagerten Unternehmen und Märkten sind Voraussetzung für die Wahl eines VRP, genügen aber nicht. Die aktuelle Situation des Unternehmens bezüglich Leistungsfähigkeit, Stellung im Markt und anstehende Herausforderungen, ebenso wie die Persönlichkeit des CEO und die massgeblichen Persönlichkeiten im Verwaltungsrat müssen in die Überlegungen einbezogen werden. Vor allem aber muss er dank seiner Persönlichkeit und seiner Erfahrung in der Lage sein, zum CEO — und zum gesamten Verwaltungsrat — eine produktive Beziehung herzustellen.

In diesem Auswahl-Prozess ist es hilfreich, wenn man mehrere herausragende Beispiele von VR-Präsidenten selber erlebt hat, aber auch Gegenbeispiele beobachten konnte.

Roger Rytz, Zürich

A different set of rules: Marketing in a private equity environment

With money continuing to pour into private equity funds at record levels, private equity firms and their portfolio companies have become a significant force in many industries, consolidating businesses, shifting industry economics and competing for top talent.

Indeed, as the influence of private equity has increased, firms and their portfolio companies are attracting leaders from among the ranks of the world's top business executives. And marketers are intrigued. In fact, a recent Spencer Stuart survey of senior-level marketing and general management executives found that 86 percent of these executives who have never worked in a private equity environment would consider a private equity role today.

There may be more opportunities for these senior-level marketers. As the traditional view of private equity firms, as solely focused on cost management, gives way to a model that has growth as its main focus, the marketing function is playing a more central role in the success of private equity ventures.

Private equity today: The growth imperative

The private equity model of the 1980s and 1990s relied on financial engineering and sharp cost-cutting to create value. In the past several years, however, as investments in private equity have soared and funds face increased competition and higher prices for deals, it has become more difficult to create value in these

traditional ways (i.e. high leverage, restructuring, sharp cost control). Today, private equity creates value through profitable revenue growth — by focusing on marketing and innovation.

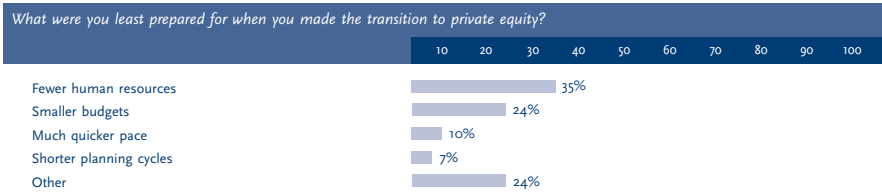
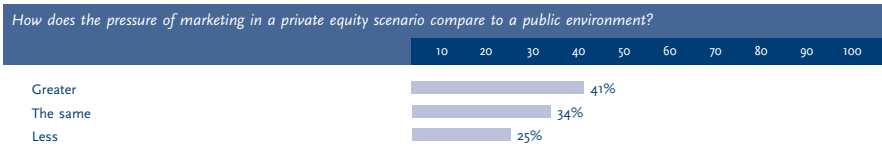
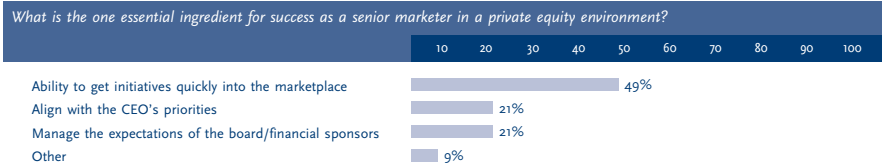
Consequently, the imperative to profitably grow revenue and outperform the competition has implications for marketing, elevating the influence of the marketing function in identifying new opportunities for growth, setting appropriate pricing and effectively managing relationships with the most profitable customers. The paradigm in private equity has shifted dramatically from some 15 years ago: it is expected that cost controls are in place and the management team will focus on scaling up, expanding, broadening and evolving the business models at a rate that is both acceptable in terms of economic returns and profitability.

Marketing friend or foe

With a reputation as hard-nosed cost cutters, private equity, many assume, would take a dim view on spending on marketing, particularly on such initiatives as brand advertising that may be less measurable. But the reality is that private equity firms are more than willing to spend on marketing initiatives that benefit the business. They will expect the management team to be smart and to continue innovating, investing in technology and marketing. It is clear that they will continue to cut cost where they find opportunities but just to re-invest the money back into the top-line growth.

For senior-level marketers, a private equity role can provide an opportunity to make a significant difference in the business, something that can be more difficult in a large organisation. Portfolio companies are keen to attract talent with the best practices of industry who master the ability to track, retain and refer the best customers as well as to quickly put a new idea into practice.

Among current or former portfolio company executives



Laser focus on growth

It is the ability to act quickly and to focus the organisation’s efforts on results that appeals to many senior executives. Without the pressure of having to meet quarterly financial targets, portfolio companies are freed to invest in intermediate-term strategies that build toward an ultimate exit, which could include the sale of the business or an initial public offering. Therefore, the laser focus is on growth and a CMO in the private equity environment can concentrate on his long-term strategy and on growth. It can be harder to grow in a public company because a long-term look might be the end of the next quarter

While private equity has an inherent bias to employ more measurable media for marketing campaigns, marketers can demonstrate the value of traditional media advertising through the use of more sophisticated econometrics models. Investments in distribution channels are often highly measurable and, if done smartly, will have a positive impact on the EBITDA.

The “dark side” of private equity

Even as private equity has grown as an attractive opportunity for executives, it may not be for everyone. Portfolio companies typically have high levels of debt, requiring constant attention to cash flow, spending levels, debt repayment and financial targets. Portfolio companies often lack the human and financial resources of large, public companies, requiring the leaders of these companies to wear multiple hats. Finally, despite all the attention private equity receives, not every private equity venture is successful; and a struggling portfolio company can be a very difficult place to be.

In the Spencer Stuart survey, 41 percent of respondents said the pressure on marketing is greater in private equity firms compared with a public company. Among the reasons executives gave for this view was the “results or out” pressure, the significant debt load and focus on short-term cash flow, and relatively fewer resources. As one respondent put it, “You don’t have time to test the market, but you can’t be wrong.”

A struggling or unsuccessful portfolio company can be a function of an inappropriate capital structure on the business. As a result of the debt load, there can be little room for a misstep in product launches, marketing and pricing. With one misstep, the management will spend an inordinate amount of time in meetings with bankers explaining what they are going to do about it. This can be

a very serious drain on management time but can also seriously affect the amount of cash flow that is available to reinvest in the business — in the brand and new products — or to retire debt.

Improving your chances

How can marketers considering a senior role at a portfolio company improve their odds of joining a successful venture? Careful due diligence about the portfolio company's strategy and financial position and the private equity firm are essential, panelists said. First, it is critically important to understand the fundamentals of the deal.

Marketers should strive to understand whether there are structural barriers that would prevent the executive team from being able to operate and grow the business. Once the inner workings of the capital structure are understood, the future CMO should do all the normal due diligence in terms of a brand's prospects and ability to grow. Back-of-the-envelope arithmetic around the valuation will help to understand the potential value of the equity position. Nevertheless, it is imperative that marketers be fluent in the vocabulary of private equity, understand how the financial engineering works and believe in the three- to five-year model with the underlying operating plan.

Private equity firms are looking to align executive compensation with the economics of the owners: actual cash compensation or bonus package might be below expectation; however the overall compensation in view of the long-term plan is likely to be very attractive. Wise leaders will also consider how compensation and incentives for the rest of the organisation are aligned with the performance of the company in order to maintain and grow motivation of all employees.

Among current or former portfolio company executives

How likely would you be to join a private equity-backed company in the future



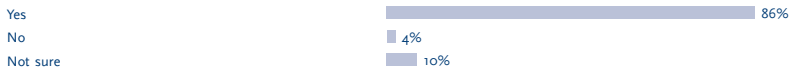
What factors attracted you to a private equity-backed company?*



*Percentage rating these factors as "very important"

Among executives who have never worked in a private equity environment

Would you consider a role at a private equity portfolio company?



If "yes," what attracts you to a private equity environment?*



** Respondents could choose multiple reasons

Beyond compensation, marketers should consider whether they believe their work style and preferences are a good match for the culture and style of private equity, which is about delivering real-time results and mastering the key dimensions such as driving demand, market share, prices and effectively making the decisions about the marketing spend. Anyone who has worked at a big company knows that there are people who can have long and successful careers in a big company through PowerPoints and relationships, and one can never really trace results back to them.

Conclusion

Despite the risks and unique pressures, executives with private equity portfolio companies overwhelmingly indicated that they would join another portfolio company in the future. Ninety percent of respondents to our survey said they were “likely” or “very likely” to join a private equity backed company in the future, citing the entrepreneurial opportunity and the ability to make a real difference in the company’s success.

While private equity represents an attractive opportunity for many senior marketing leaders, marketing executives considering a portfolio company role should understand the financial structure of the deal, the opportunity for growth and whether they are well suited for the challenges of private equity.

Andreas Hürlimann, Zurich

Working with an executive search firm: a guide

Looking outside of your organisation for exceptional senior-level talent — automatically rather unfamiliar territory — is not an easy task. That is why many companies turn to executive search firms in the hope of minimising potential risk factors and improving their odds of hiring the best executives.

However, hiring an executive search firm does not automatically guarantee success. For those who want to hire exceptional senior-level executives, here are a number of tips and strategies based on our 52-year experience in global executive search. They should be viewed as an insider's guide to helping you better manage the hiring of senior executives.

Hire an executive search consultant — not a “headhunter”

As a general rule, avoid “headhunters” and instead find true search consultants who:

- > Come prepared to talk about realistic solutions
- > Are more interested in doing the assignment than winning the assignment
- > Are not encumbered by numerous searches in their early stages
- > Set time lines that are not just geared to winning the assignment
- > Know they can't be all things to all clients
- > Propose fees that are aligned with the value and resources required for success.

When evaluating potential executive search firms, it is important to ask the right, and sometimes uncomfortable, questions. In fact, some of your most important interviews may not be with candidates, but rather with the executive search firms vying to work with your organisation.

Some questions are obvious:

- > What is their depth of industry and functional expertise? Walk away if the firm does not have a proven track record of success in your industry and function.
- > What is their search experience in this sector? The numbers do not always tell the whole story. Go deeper.
- > How well do they know your company? Cultural fit is the difference between a good and a great placement. But to do this, your search firm must know your strategic direction and culture or be willing to invest heavily in learning.
- > Do they know the universe of candidates? Do they have the relationships with candidates? Just as important, do they have the knowledge and access to expand those candidate relationships?

Other questions are less obvious:

- > Who will do the work? Make sure those selling the work also will be doing the work.
- > What is their placement rate? And more importantly, how do they define a successful outcome?

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- > How do their placements perform? Placing a person is just the first step. How do they perform?

Make sure everyone is grounded

Now that you and your search consultant are aligned at the top, it is time to get to the details. Everyone needs to share the same expectations and work within the same framework. This not only includes you and your search consultants, but anyone else who will have a role in the recruitment process. Take the time early in the process to establish roles and responsibilities. It will help you avoid unrealistic or ill-informed expectations down the road.

Decide upfront who will be involved, from reviewing the position specification to interviewing candidates. Try to have the key hiring executives involved from the very beginning, as a late arriving player may have a different view of the need. This should not be a work in progress.

Search firms sometimes forget that they are not mind readers. It is vital that your search firm understands your priorities. They should seek to understand the following:

- > Do you prefer to receive regular updates via the phone or through written status reports?
- > What specific information do you want in a progress report?
- > How many candidates do you expect to meet?
- > How important is speed, and why?
- > Do you wish to see benchmark candidates?
- > Would you rather meet good candidates as they are discovered or have the search firm present a comprehensive slate of candidates at agreed-upon intervals?

Your consultant should take the lead ... but speak up if he or she is out of step.

Your search consultants are responsible for navigating the recruitment process for you — or, at the very least, they should stay focused on the fundamentals of executive search. If your search consultants have not done the following, speak up:

- > Advised you on the state of the marketplace. From compensation and general fluidity to candidate availability, this information will impact the success of the search.
- > Pursued a tailored fit. Based on your needs and their knowledge of the space, they have created a detailed, customised position specification.
- > Presented a full slate. They looked for potential candidates by examining organisations with similar competencies and by speaking with third-party sources.
- > Offered valuable advice. They have provided strategic guidance and objectivity during all stages and assisted in the negotiation process to help eliminate surprises and reach agreement.

Candidates care about first impressions, too!

- > During the interview process, remember that candidates are assessing you as much as you are assessing them. Creating a positive environment during the interview process can make all the difference in tipping the scale in recruiting the best candidates.
- > Be on time. Candidates are taking time out of their hectic schedules to meet with you. Do not make them wait.

-
- > Ask the right questions. Because the majority of senior-level candidates are savvy interviewees, rigorous interviewing and assessment methods are needed to uncover their true character.
 - > Be transparent. Your questions should target the required skills and behaviours
 - > Have the right people involved. Cut down the administrative back-and-forth by making sure the right people participate in the interviews from the very beginning.
 - > Mix it up. While time is precious, try to meet with prospective candidates on multiple occasions and advisably in different settings.

Avoid the common pitfalls

- > If the position is critical to your organisation, treat the search as such. If key decision makers are not actively engaged or time lines are abandoned, the candidate will question the importance of the position. The focus is a moving target. While change and evolution can be necessary, be cautious when the assignment's priorities continually shift. Stay focused and remain true to your goals.
- > It is not implausible to meet the best candidate first. While snap decisions are never recommended, have confidence in your judgment (and that of the search firm) if you are partial to a candidate you met early in the process.
- > Your search firm needs to deliver on the mutually agreed upon expectations. If a problem arises, the firm is responsible for

flagging early indicators and bringing them to your attention. If the firm is not delivering on this counsel, beware.

- > Never feel pressured to wrap up a search if you are not comfortable with the outcome. Without question, your search firm should have your organisation's best interests at heart and not push you to place a candidate. Your search fees will pale in comparison to the cost of a bad hire.
- > The end of the search process is really only the beginning. In the excitement of hiring the right candidate, do not overlook the importance of properly integrating the new executive into your company and providing him or her with the support you said you would. A positive transition helps to ensure the executive is well equipped to thrive both personally and professionally.

A final word: We promise

Your search consultants are your ultimate ambassadors in the marketplace. How they interact with potential candidates and referrals reflects on you as much as it reflects on them. By following some — if not all — of these tips, you will increase your chances of hiring the best executive in a manner that complements your organisation's reputation.

J. Maurice Zufferey, Zurich

The changing role of the country manager in consumer packaged goods multinationals

Over a six-month period, Spencer Stuart consultants interviewed over 30 executives at major multinationals in the consumer packaged goods sector about the role of the country general manager. The interviewees comprised current general managers, CEOs, regional presidents and category heads as well as other senior executives.

In the past, CPG companies tended to grant full responsibility for all facets of the business in a given market to that country's general manager. However, a need to leverage global brands or categories, reduce unnecessary duplication, maximise R&D investments, optimise manufacturing resources, as well as the move to reduce costs through outsourcing/insourcing, have all led to a change in emphasis for today's general managers.

The questions we sought to answer included: How have these developments affected the role and influence of the country general manager? What skills are needed to excel as a country general manager in today's environment? What are the career drivers that determine success? And, is a stint in country general management still an attractive career proposition for the ambitious CPG professional?

Local autonomy versus leveraging scale

While agreeing that if you have global brands and big bets to make on R&D you need some form of centralisation, the general managers we spoke to expressed frustration that they no longer have the same control over their businesses as in the past. Their influence on innovation, brand strategy or marketing budgets for their countries has been markedly reduced, yet they are still responsible for achieving sales volumes. In extreme cases — particularly when the change from one system to another had occurred recently — they felt demotivated and disempowered.

The more successful companies have tackled the ownership issue by ensuring that local general managers are better connected to the broader development of category and innovation strategies. They have established more regional, almost semi-local, category development centres as opposed to running everything globally and have general managers sitting on global brand teams.

Managing the customer and local consumer insight

The successful country general managers are those who can “act effectively at the local level yet understand the global platforms and contribute to their strategic development through local insights”. At the same time, there are still many local brands which need nurturing and which can provide both a laboratory for testing new ways of reaching the consumer as well as empowering general managers to be more entrepreneurial at the local level.

The best manufacturing footprint, product launch or winning marketing campaign is no good without informed consumer understanding. As one CEO said: “Through our general managers we leverage shopper understanding and local consumer needs and habits which, together with winning relationships with our

retail customers and outstanding execution, lead to success in the market place.”

The general manager as ambassador

Another theme mentioned throughout our interviews was the increasingly important role played by the general manager in managing external stakeholders. Because of the attention now paid to the environment and corporate social responsibility by governments, the public, media and NGOs, the country general manager is charged with representational as well as commercial duties, acting as the face of the organisation to an external audience. The general manager also needs to ensure the company’s views are heard as far as legislative developments are concerned.

One senior regional leader made the point that: “Increasingly, it is not what you sell but how you sell it and how you conduct business that is important. There is a requirement to be seen to be creating social benefits in the wider community.”

Leadership and talent development

One aspect of the general manager’s role that has not changed is the leadership imperative. General managers still need to create a vision and an environment that inspires their local teams to achieve outstanding business results. Increasingly, general managers are measured on how they embody the values of the company and how they attract and develop talent.

Many companies use employee survey results to measure the performance of their general managers. They look at the depth and quality of resource that the general manager has built up in that particular country. Many cited a lengthening of general manager tenure with the two-year term being extended to four if not five

years. This enables companies to see how general managers perform over several cycles.

Managing the matrix

While the scope of the general manager role today may have reduced compared with the past, many of our respondents argued that the role of today's general manager has become more complex.

General managers now need the influencing skills to gain buy-in and support for their country agenda. This management of interdependency — the ability to manage from the centre of a complex web — was mentioned again and again as one of the key skills of the modern general manager.

General manager — the skills required

- > the ambassadorial skills to manage the external environment and enhance the reputation of the company;
- > the cultural sensitivity that goes with this, particularly if there is a joint venture or distributor type agreement locally;
- > a sufficient understanding of corporate and social responsibility to successfully manage this agenda at the local level;
- > the leadership skills in terms of setting a vision for the business, gaining alignment and maintaining morale and team spirit;
- > the ability to hire and develop great talent, both local and expatriate;

-
- > excellence in execution: local P&L management, cost control, driving for business results: “entrepreneurship at the local level”;
 - > customer management across all channels; developing an effective go-to-market strategy and acting as business partner to local retailers;
 - > the ability to drive local marketing activation through superior consumer insight and, where relevant, build on local brand franchises;
 - > the influencing and networking skills to manage interdependency and the matrix;
 - > the strategic skills to align the local brands and businesses to global brand strategies as well as contributing to the development of these strategies;
 - > the self-awareness, integrity and coaching skills to model the values of the company;
 - > a sufficient understanding of legal and corporate governance matters to take on the necessary fiduciary responsibilities;
 - > awareness of IR issues and employee affairs generally.

Career considerations

While this survey is primarily aimed at those who have chosen to get to the top of big CPG multinationals, competition for this talent from outside the industry remains intense. All CPG professionals who aspire to the top will be presented along the way with opportunities to harvest their careers by joining smaller or mid-sized companies as CEO.

HR professionals in CPG companies are striving to retain their talent in a variety of ways: some are responding by creating similar “mini CEO” general manager-type environments where their top talent can have this autonomy.

While it was generally acknowledged that the future CEOs of CPG companies need to have spent a formative part of their careers as general managers, many companies are now institutionalising twin-track careers: in-country general management as well as global category management. Indeed, one of the most successful CPG organisations now stipulates that their senior managers will not reach the board without having spent time in central category leadership roles as well as in-country general management roles.

Conclusion

All agreed country general manager roles still remain the primary testing ground for future CEOs and continue to be critical in terms of talent development. While the autonomy general managers enjoyed in the past has in most cases disappeared, there are new and different challenges that require new behaviours and skills, mastery of which bring their own reward in terms of career progression.

Our survey underlines the change in emphasis but not the importance of the general manager role. Some maintain that general

managers are now no more than “glorified salesmen”; in fact the survey results point the other way. The skills required make this role an ideal training ground for high-fliers from many different functions.

What may be needed is a new vocabulary, a new definition. In most CPG multinationals, there is now only one general manager who has full control of all the functional levers, namely the CEO. Perhaps the general manager description should now only be used as a grade: recognising the achievement of a certain level of leadership and broader business management ability as opposed to the old general manager “mini CEO” definition.

Talent managers and HR professionals in CPG companies need to ensure that their top general managers are well plugged in to the development of brand and innovation strategies, otherwise they will not be equipped to become the CEOs of tomorrow. At the same time, ambitious CPG professionals aspiring to the top need to embrace the newly defined general manager roles and the different skills and behaviours required of them. They also need to accept the twin-track career concept. Providing this is the case, we maintain that the general manager role remains an attractive — and essential — career stepping stone for the ambitious CPG professional.

The full report is available on the Spencer Stuart web site:

www.spencerstuart.com/research

Antonio Maturo, Geneva

The rising chief communications officer

CASSIO: “Reputation, reputation, reputation! O! I have lost my reputation. I have lost the immortal part of myself, and what remains is bestial. My reputation, Iago, my reputation!”

SHAKESPEARE, OTHELLO, THE MOOR OF VENICE — ACT II. SCENE III.

Spencer Stuart recently conducted a study, in partnership with global PR firm Weber Shandwick, exploring the priorities, viewpoints and challenges of the world’s leading corporate communications professionals.

The study, which involved participants drawn from some of the largest companies in the U.S. and Europe, underscores the critical and evolving role of the chief communications officer (CCO) and identifies a strong correlation between a company’s corporate communications organisation and its reputation ranking on *Fortune* magazine’s “World’s Most Admired Companies” list¹.

The primary purpose of the corporate communications function is to support business objectives and build and protect the company’s reputation. The chief communications officer (or communications director) may have a variety of responsibilities in his or her portfolio, ranging from corporate communications and public relations

¹ Research participants included 141 senior corporate communications professionals at the largest Fortune 500 companies in the U.S. and Europe. The survey was conducted online with KRC Research in July/August 2007.

to government affairs, corporate social responsibility and internal/employee communications.

In 48 per cent of cases, we found that the CCO reports to the chief executive officer (CEO). The CCO may be a member of the executive board and has on average seven interactions with the company's main board, including one invitation to attend a board meeting.

Managing the communications risks and opportunities, both internally and externally, is the CCO's mission. The CCO's audience typically includes a wide range of stakeholders: employees, shareholders, media, business influencers, the press, the local community and the wider public.

The CCO works alongside senior marketing and HR colleagues, as well as the legal and finance functions over communications with investors, analysts, customers and board members. As everyday decisions impact the reputation of the company, the CCO's role is becoming increasingly critical.

“It is becoming increasingly important for corporate communications to serve as an internal business resource. It's not just about communicating the actions of the enterprise; it's about using communications to help the enterprise succeed.” FORTUNE 500 CCO

Reputation is everything.

Reputation is far more than a matter of opinion. A shift in reputation, for better or worse, can have profound consequences for an organisation, its workforce, investors and wider stakeholders. The financial impact of reputational damage can be extreme, making reputation as important as brand in terms of its value to a company. As with intellectual capital, intangible assets such as reputation and brand must not only be protected, but also enhanced.

The challenge of the CCO is to strike a balance between, for example, managing good and bad news, taking measures that have a short- and long-term impact, selecting the important from the trivial and distinguishing between topics of global and local importance.

“Actively managing reputation risk is key to creating a truly value-added corporate communications function.” FORTUNE 500 CCO

The relationships between CCO and CEO

The CEO sets the tone of the company, defines its direction and acts as a magnet for talent. As the human face of the organisation, the CEO’s personal reputation is inextricably linked to that of the company and generally stems from his or her track record.

The CCO needs to be close to the CEO, protecting the interest of the company and making sure that the CEO’s image is in line with it. This is one of the reasons why the chemistry between the CCO and CEO is so important. Our survey found that CCOs are assessed on qualitative metrics: 75 per cent on positive media coverage and 73 per cent on the CEO’s ‘gut feelings’. It is not surprising, therefore, that CCOs are likely to leave with the arrival of a new

CEO. They are far less often assessed by quantitative metrics such as the number of media mentions (35%) and cost controls (32%).

A changing landscape

As the impact and visibility of the corporate communications function grows, so too does the role of the corporate communications officer (CCO), who is becoming more valuable and influential at the highest levels of business every year.

A new and more complex corporate communications landscape has emerged and is presenting never-before-seen challenges for companies of all types and sizes.

Whether mastering revolutionary technologies that instantly spread news and opinions to audiences across geographic borders or satisfying an ever-growing group of demanding stakeholders, the senior corporate communications role has expanded beyond anything that could have been predicted. Given the proliferation of media outlets and new technologies for dissemination, it is perhaps not surprising that CCOs we surveyed say that their workload today is slightly more tactical (58%) than strategic (42%).

In 2008, they expect to focus more on environmental/social responsibility and corporate reputation, with blogging/social media and corporate Web sites becoming more important tools. While U.S. CCOs expect to concentrate primarily on blogs/social media next year, European CCOs intend to focus on public relations.

HOW CCOS FARE IN ‘MOST ADMIRABLE COMPANIES’

Our survey found that CCOs working for organisations that are ranked among Fortune’s ‘Most Admired Companies’ are distinctly different from their peers in less well regarded companies on a variety of factors, as indicated in the following chart:

	Reputation Status*	
	Most Admired	Contender
How CCOs In Most Admired Companies Differ From CCOs In Contender Companies		
<i>CCOs in Most Admired Companies are MORE likely than CCOs in Contender Companies to:</i>		
Have longer tenures	4 years, 10 months	3 years, 5 months
Have prior PR agency experience	42%	32%
Report to CEOs	53%	33%
Have no interdepartmental rivals	25%	9%
Identify reputation management as a top priority in 2008	34%	21%
Report that future CCO success depends on global expertise	52%	41%
<i>CCOs in Most Admired Companies are LESS likely than CCOs in Contender Companies to:</i>		
Rate talent shortage as a significant challenge	35%	47%
Give themselves six months or less to prove their worth when a new CEO arrives	73%	85%

*Based on Fortune’s 2006 Most Admired Survey (March 19, 2007). In general, Most Admired Companies are most highly ranked companies in an industry on overall reputation. Contender Companies are ranked in the industry’s bottom half.

Delivering value

While many CCOs say that top executives appreciate their contribution, they also admit that it is still hard for CEOs to understand the full value they are able to bring the organisation.

What has changed over the past 10 years? CCOs from the largest Swiss quoted companies have made the following observations:

-
- > Effective corporate communications is a fundamental component of value creation. Communications forms one of the three pillars on which a company's value is built, alongside strategy and results.
 - > There is increased professionalism among CCOs who are setting priorities and defining focus and key themes. They are also adopting a more consultative role, with communications becoming more participative and increasingly pervasive.
 - > New technologies are forcing people to act and respond to situations faster than ever, so speed has become a critical factor within the corporate communications function.

Talents

In the war for talent, companies are struggling to find the right people who fit the profile of a modern CCO. Communications jobs have become more professionalised, though not necessarily more specialised.

The challenge for corporate communications staff is to deliver in a large, complex and fast-moving environment, while embedding themselves in the fabric of the organisation. As the CCO of one of the largest Pharmaceutical companies said: "We need people who are multilingual and multicultural — people who are able to navigate the complex culture and structure of the company."

Conclusion

As global challenges continue to mount and instantaneous communication is here to stay, the CCO's function will only increase in significance. The best CCOs can make a difference in many areas, such as employee talent and acquisition, shareholder value, corporate responsibility and reputation building.

APRIL 3 2008 Eastman Kodak Company today announced that it has named the company's first Chief Blogger to provide daily oversight and creative guidance for Kodak's two blogs — "A Thousand Words" and "A Thousand Nerds" — and will boost the company's social media presence.

The CCO is aware that communication is both a vital need and a powerful instrument. The CCO of a top Swiss-listed conglomerate observed: "With the acceleration of change and abundance of information, we tend to lose the company's memory."

Perhaps the CCO of the future will not only be in charge of managing the organisation's reputation, but also maintaining the corporate memory and preserving its history. Strategically speaking, corporate memory is an asset created over time out of collective experience and knowledge. These intangibles, reputation and corporate memory, may well have significant value across the community of stakeholders.

François E. Clerc, Geneva

Spencer Stuart publications

Private banking in Switzerland: a talent market analysis

The private banking market in Switzerland is going through an extremely positive phase, characterized by sustainable growth, historically high revenues and an extremely attractive profit/risk ratio. This rapid growth has, however, resulted in a shortage of talent, which, combined with the complex regulatory environment, makes searching for and finding the right people with the right skills an increasingly difficult task. Maurice Zufferey looks at what leading organisations are doing to combat this talent shortage.



Information technology: Shaping the future of private banking

As markets diversify and become more complex, private banking companies are finding they have to centralise their operations to provide a consistent service to clients. Francois E.Clerc explores how IT leaders are having to adapt to the changing structure and culture of the business, becoming critical enablers of change along the way — whether defining an outsourcing contract, rolling out a standard application worldwide, or providing information to ultra high net worth individuals clients travelling the globe.





Winning in a converging world: Business and talent trends in the global communications industry

Converging technologies, shifting customer bases and explosive growth of emerging markets mean opportunities and challenges for communications companies which, in response to these trends, are expanding into new markets, building distinctive brands and improving operational efficiency. We spoke to senior leaders of communications companies about the need to develop talent for today and the future.



The route to the top for today's enterprise leader

Senior leadership roles are more complex than ever, often requiring skills not previously necessary. To learn more about how the role of the general manager has evolved, we spoke to presidents, general managers, chief operating officers and executive vice presidents about their backgrounds, the issues they face and their perspectives on the challenges of the role.



Winning the talent war in Eastern Europe: Challenges facing the consumer goods sector

Acquiring and retaining talent in Eastern Europe is not the same proposition it was following the breakdown of communism and the emergence of widespread commercial activity. Business leaders and those responsible for acquiring or managing talent need to understand both the nature of, and the reasons for, that change. We spoke to HR leaders in Eastern Europe to determine the specific issues and trends surrounding talent management in the region.

Managing Interindustry Career Transitions

After working in IT within the automotive industry for 15 years, Karenann Terrell made the leap to a new industry - healthcare services. Now the chief information officer of Baxter International, she shares her insight into and perspective on interindustry career transitions.



To read these and other Spencer Stuart publications, visit www.spencerstuart.com/research.

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Spencer Stuart was established in Switzerland in 1959. Today we operate from offices in Zurich and Geneva and employ six consultants and seven research associates. We have conducted more than 700 assignments in Switzerland since 2000. Over 80 per cent of our placements are still with the client organisation four years after joining.

Spencer Stuart applies its extensive knowledge of industries, functions and talent to advise select clients — ranging from major multinationals to emerging companies to nonprofit organisations — and address their leadership requirements.

Spencer Stuart consultants focus on senior-level executive search, board director appointments, succession planning and in-depth senior executive management assessments.

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