

EMA NOVO

EMA – EXCELLENCE IN EXECUTIVE SEARCH

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EXECUTIVE SEARCH – WHY SO EXCLUSIVE?



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In this edition of EMA NOVO, we are delighted to include an article from our new South African Partners. I hope you enjoy this and all the other articles.

Just recently being elected as the regional coordinator for the EMEA region in EMA Partners International, it gives me an opportunity first of all to introduce myself.

Coming from a legal background, and working for a few years within that profession, I soon found out I would rather be working with the human resources of a company than with the legal problems. I therefore started a career that brought me to various companies, in various businesses, as a HR manager and director. After 15 years, I decided to join a well established executive search company, Hartmark Consulting in Oslo, 6 years ago. Three years ago, we were invited into EMA Partners International, a partnership we have found both challenging and very rewarding.

When you are a part of the executive search business, you will see that the business is maturing. The total market is increasing; more companies buy recruitment services than ever before. This, of course, in its turn is encouraging more actors to join the market. Many of these new actors run their businesses as traditional search and/or selection companies, but today we see a new trend.

Companies that originally based their activities on temporary employment and staffing, such as Manpower and Adecco, are now more and more into selection, and even search assignments. They have been doing this partly by upgrading their own organisations, but also via buying search and selection companies to broaden their range of services. We have even seen that a global company within services like cleaning, facility service, etc, ISS, is buying a company that has been providing temporary employees and selection services.

These are all companies that are well reputed and respected. They are all global and they possess huge resources, both financially and competence-wise. They also have a great range of customers, and massive sales forces. We must of course take their challenge seriously!

Why, then, should our clients think carefully before turning to these companies when they need assistance in finding a new person to fill a management position? What should make an executive search company, for instance within the EMA Partners International, better able to do the job?

- First of all, we feel that business understanding is a crucial point in that respect. In EMA we only have consultants with extensive management experience. This, of course, makes it easier to understand the client and easier to discuss and test the client's views. When drawing a profile for the position this is essential.
- In an executive search consultancy you will find no mass production. The client is unique, and gets the full and undivided attention.
- The big companies may talk about their big databases, and that they have

a massive amount of potential candidates. In my view, the best candidates, especially for the higher position, never put themselves into database. So the value is limited. What a serious executive search company would do is to conduct a thorough research, mostly done by professional researchers, whose only job is to be updated on where the best people are, and to sell in the challenges of the jobs in question to them.

- The networks of both the consultants and the researchers are also very important.
- A good executive search consultant is well capable of conducting a process with the necessary confidentiality, which is extremely important to most candidates.
- And last, but not least, a serious executive search company will maintain great quality in the process of assessing the candidates, by using both experience and the right tools to strengthen the assessment.

I am not saying that the above mentioned companies are not able to do this, but I think careful consideration of their core business and expertise should be given. Best luck the next time you need a partner to find a new employee!

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Regional Coordinator EMEA

EVALUATING THE

**WE HOPE THAT THIS ARTICLE WILL GIVE OVERVIEW AND GUIDANCE
TION AND TO THOSE WHO WHISH TO DEVELOP THEIR METHODS**



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This is an extract of a paper presented at the 8th International Conference on Corporate Governance and Board Leadership at Henley College on 12 October 2005. The title was «Evaluating the boards of the city of Stockholm».

★ The role of the board is instrumental in good corporate governance. The task is characterized by the pressure of responsibility, limited time and distance to the reality which the board is set to direct and control. Board evaluation can help the board to tune its contribution to the sustained success of the company. Board appraisals are prescribed by the Combined Code and other codes of governance, but many boards are still uneasy when facing assessment. It may in part be due to the absence of established practice. The literature describes methods based on questionnaires and in

terviews. Questionnaires usually have a simplistic design and therefore have limitations. Interviews require a thorough understanding of the conditions of board work and not all boards are prepared for them.

IT IS ABOUT PERFORMANCE

★ The role of the board is crucial in every corporate governance system. The board is the bridge between shareholders and management. If the company gets into trouble – the question is raised: Why didn't the board ...? The quality of the work of the board has great importance for the performance and prosperity of the company. Should it not be watched closely? This has not been the case in the past. The good news is that, at last, board evaluations are happening.

★ Why have boards not been evaluated previously? The

opinion that it should be done was brought forth in the sixties. A guide for board appraisals was published in the late seventies. As a result of growing interest in corporate governance, boards in the US began to undertake assessments of their work. In the mid-nineties, already one quarter of the boards of Fortune 1000 companies were reported to have made board evaluations. In 2001, the NACD, the National Association of Corporate Directors, Washington, published a report about board assessment – focusing on the «right» things the board should do and observe. Codes of best practice recommend board evaluation in the UK and in Sweden. Recommendations of annual performance evaluation have been included in the listing requirements of the stock exchanges in New York, in London through the Combined Code and in Stockholm.

★ Over fifty per cent of the listed companies in the US undertake a formal board evaluation and half of them include individual appraisal of each director. In Sweden, board evaluation received scant interest in a survey in 2001. Since then, it has been accepted among the large listed companies. In the UK, the FTSE 100 companies have by and large adopted the formal requirements of the Combined Code and inform about board assessments in their annual reports of 2005. Of these, 25% were handled by external advisors and 55% reported that appraisals led to some sort of action.

★ Smaller listed companies in Sweden have been given a few years of grace. There are still no reports of compliance to the Combined Code among listed companies up to and beyond the FTSE 350 and the AIM companies are ex-

BOARD

BOTH TO THE BOARDS WHO INTEND TO DO THEIR FIRST EVALUATION TO MAKE EVALUATION MORE PRODUCTIVE.

empted. There is anecdotal information that larger US non-profit organisations follow the example of the listed companies and perform board assessments. No reports of evaluation of boards in companies owned by municipalities have been found.

★ It is difficult to find rational reasons why boards should not be evaluated like any other function of the company. The hesitation is probably due to psychological factors. Many directors may not be used to having their performance put under the magnifying glass. Some might feel a certain uneasiness due to lack of experience of the process. The aim, as well as the methods, should therefore be clarified. Is the goal to improve the quality of board work? Are the results meant to give input to the nomination committee? The Swedish code of corporate governance

states that the results shall be submitted to the nomination committee, which apart from the chair, consists of representatives of the shareholders.

IT IS NOT A BEAUTY CONTEST

★ Board evaluation is not about grading a board in relation to others. The ratings that business magazines perform may cause misunderstanding. The titles «The best...» and «The worst board» have little to do with reality. These ratings depend on public data about the composition and size of the board, on committees, the number of meetings, etc. Although these input data are important, they have little bearing on the quality of the output. Enron had a good board rating – formal requirements were met – but we still witnessed one of the greatest failures of board work.

★ We will never see the perfect board because its mission is overwhelming. The board shall, with limited investment of time and removed from the reality (for non-executive directors), take all the major decisions and control the company. The quality of board work depends on the interplay between directors and the respect they show each other. The dynamics of the boardroom depend on trust and candour, openness, willingness to challenge each other, time for reflection and much more. The chair is the single most important person to set the right conditions for productive board work. Board leadership is vital for the quality of the operations of the board.

★ Board evaluation should be part of a continuous process to improve and adjust the work. The scene changes and the board aims at a moving target. The business environment and competition alters,

CEOs come and go, organisations are contracted or expanded and the composition of the board is changed. Problems occur where they are not expected. Does the board have the right information, is it on top of what is happening, does it challenge the strategies and discuss alternatives and does it understand the values that drive the organisation? Board evaluation is about the road and not about the goal.

ALLOW TIME FOR REFLECTION

★ The benefit of board assessment lies in the follow-up. It is important that the board is attentive to the signals that evaluation gives. The board should set aside generous amounts of time to discuss the evaluation, give space to listen to opinions and take decisions. The quality of the signals the board receives from the evaluation does not lack importance.

★ Boardroom practice does not have the same characteristics in all countries. Fundamentals of good board practice do however have similarities, even if there are differences. In Sweden, the boards consist of non-executives. In 58% of the listed companies, the CEO is also a board member. In the US, the role of CEO and the chair are usually not separated. The influence of institutional investors and of the codes tend to make board work more and more similar.

★ Corporate governance is defined as the system by which companies are directed and controlled. It can be applied to companies irrespective of geographical origin or ownership structure. The art of board evaluation is still an emerging field and experience is accumulated within consulting firms rather than in the public arena.

CXO COMPENSATION IN INDIA – CURRENT TRENDS



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CXO compensation levels in India are headed north, but are still significantly lower than their counterparts in international markets. The recent increase in compensation we are witnessing now is largely due to the demand/supply scenario and is more accentuated in certain sectors like financial services, retail, technology enabled services, aviation and life sciences. The burgeoning demand across sectors for seasoned business leaders is pushing compensation to stratospheric levels in the Indian context. Indian corporations are increasingly looking at an extended global pool of candidates for leadership roles.

★ However, at a larger level, India is still not a first stop destination for top notch global executive talent and is still some distance from being an active participant in the global cross border interplay of talent in most sectors. Due to the unprecedented and sustained growth there is an acute need to attract culturally competent business leaders to India from other parts of the world. But the biggest impediment today

is the current size and scale of Indian businesses. Most Indian corporations are still in the process of globalizing their businesses and building size and scale. Though we are moving in that direction it would be unrealistic to expect Indian CXO compensation to be at par with global benchmarks at this point.

★ Global corporations establishing captive centers in India are also setting new benchmarks on local compensation. Though these benchmarks are significantly higher than local levels still it offers them significant arbitrage operating out of India.

★ Total compensation including base pay and variable performance pay is largely a function of value delivered by the CXO to the business when measured on various parameters including relative growth vis-à-vis competition. Historically variable compensation in India has remained a small percentage of fixed or base pay with no significant upside. In certain markets variable pay by definition is non linear and in some cases it is even 20–25 times base

pay and payable on achievement of laid down business and profitability objectives. Going forward we need to take a closer look on the overall design and structure of CXO compensation in India and incorporate measurable performance metrics and suitably reward hi-performance on a non linear basis. This will go a long way in fostering a business promoter mindset for CXOs as opposed to a key employee mindset.

★ The other significant aspect of CXO compensation in India is the huge disparity which exists between promoter/owner CXOs and professional CXOs. In the case of multinationals operating in India there is a significant gap in compensation between expatriates serving in India and local managers. The occasional spikes we see in CXO compensation is largely on account of this factor.

★ With the market dynamics and the economy undergoing rapid change there will be a shift in employer – employee relationships which will alter the compensation philosophy of many organisations. Today most

Indian organisations have moved the definition of compensation beyond cash and are building a more holistic package which includes stock plans, performance pay, deferred pay and a slew of exit barriers and of course long term wealth creation opportunities for their key executives. Already stock plans have added significant wealth to senior managers in the past few years and today are real exit barriers for many of them.

★ Moving forward, as India Inc globalizes and the business leadership becomes more diverse and multicultural, Indian corporations will have to compete on a global basis for talent. Then we would see a systemic shift and perhaps we could imagine a situation where compensation levels in India would be at par with respective global industry benchmarks.

★ Well, rather than broadly addressing CXO compensation on US\$ terms the scenario will perhaps look different when the figures are adjusted for purchasing power parity and relative size of organisations.

MANAGING DIVERSITY – A SOUTH AFRICAN GLOBAL ADVANTAGE



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Ongoing studies at major Business Schools into effective leadership qualities are increasingly focusing on the ability to manage Diversity as a key differentiator between expected management skills and exceptional leadership talent.

★ This focus on Diversity Management as a key executive competency is creating a global awareness and appreciation for the qualities of senior management emanating from an unusual part of the world, South Africa.

★ The ability to manage Diversity goes far beyond the obvious aspects of different racial and cultural groupings, and reflects on an ability to provide effective leadership in the context of extreme uncertainty and change on many fronts.

★ One only has to look at the economic and political landscape impacting on South Africa over the last 15 years to realize that what has emerged today is a cadre of management competence that has had to perform and provide effective leadership throughout a period of unprecedented challenges in many areas.

★ To emphasise this point, let us highlight 10 such areas of challenge existing over the last 15 years in the South African economic landscape:

1. A highly volatile and militant trade union environment where the workplace has had to endure political agendas quite separate from normal employer/employee issues.

2. The un-banning and eventual inclusion in democratic elections of the ANC and other po-

litical forces leading to the first all-inclusive democratic elections in the country's history.

3. The transfer of political power to a new majority government determined to address and redress the generations of marginalized opportunities for the vast majority of the country's population.

4. The massive exchange rate fluctuations that saw the halving in value of the nation's currency against the US dollar, UK Sterling and Euro in a dramatically short space of time. The impact of these currency swings causing equal measures of joy and hardship depending on whether one was an export or import-sensitive business.

5. The introduction of a new and dramatically liberal Constitution which in itself spawned a complete suite of far reaching legislation affecting employment practices in the country. This ranged from new Labour Relations and Employment Equity Acts, to revised access to employee grievance mechanisms, heavily weighted in favour of easy access and speedy resolution of transgressions in the

arena of employer/employee relations.

6. The removal of international sanctions and the immediate opening up of the South African economy to international competition exposed several large, previously protected monopoly-type entities to the reality of global competition for the first time. The survival imperative of becoming globally competitive required dramatic transformation leadership abilities.

7. The relatively small and racially-restricted skills pool in the country has required accelerated development exposure and fast-tracked management development at a pace not achievable for young managers in more established economies. This has necessitated the inclusion of mentoring programmes at all levels of management accountability.

8. The introduction of legislation, intent on increasing the economic participation of black owned business in the mainstream of the economy has further challenged the way in which business is managed and structured.

9. The legacy of under-investment in basic services for the majority of the country's population has impacted heavily on the national fiscus, depleting funds which would otherwise have been available to support economic activity.

10. With fewer than 50% of the population formally employed, and a high incidence of HIV/Aids infection throughout the workforce, exceptional circumstances and exceptional times has led to exceptional demands on management abilities.

★ Taking any one of these 10 scenarios would be demanding enough for any senior executive, but putting them all together in a condensed period of time, has led to the development of exceptional Diversity Management skills throughout a broad cross-section of management talent in South Africa.

★ It is therefore no surprise to us to find a growing acceptance and appreciation globally of the existence of this important quality among South African leaders.



WHAT INFORMATION IN AN INTERVIEW?



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Many managers are not sure about how much information they really can get about a candidate in a short interview. A personal meeting naturally helps to evaluate the candidate's appearance, communication capabilities and exterior features. In most cases the candidate is «on guard», diligently dressed and his/her behaviour at its best. How much information can you get about the personality and management style from just discussing with the candidate?

★ A successful interviewer can perceive the candidate's characteristics and basic factors of the emotional life and define the candidate's feasibility not only for the job in question but also working for the specific company. Of course, an absolute necessity is that the interviewer appreciates the requirements of

the position and the knowledge of the company's «personality» – its customs, traditions and style. A successful interview requires that you know what and who you are seeking.

★ However do not reveal to the candidate the required professional background or the characteristics demanded by the job: otherwise the candidate will give you answers that he/she believes you want to hear. Do not subconsciously give clues by making notes of answers that you consider to be important. It is better to wait, until the candidate is answering another question and not till then make a note of the specific detail.

MOTIVATION

★ A fact, that you presumably want to clarify, is the motivation of the candidate: for instance is he/she looking for au-

thority, is the candidate ambitious or does he/she primarily want to be popular? Different motives are convenient for different types of work tasks.

★ Helpful questions are e.g.: «What do you think are your most important achievements?», «Which job did you really like most of all and why?», «What do you prefer to do in your leisure time?» and «What motivates you: money, control and authority or achievements?»

★ A candidate whose answer to the last question is money, can involuntarily expose something totally different if he/she at the same time describes as the most important achievement a start-up of a company's sector including considerable risks and furthermore making the operation successful; describes as the most pleasant work a job that includes daily crises; as the

best free time hobby the construction of wooden cabinets. These are all «achievement»-answers and in conflict with the evaluation regarding the candidate given by him/herself.

MANAGEMENT STYLE

★ Certain positions in the company demands a leader, who is good at motivating others, create a team, other positions or companies need the «Lone Ranger»-type. However, in the interviews we too often ask: «What would you do if...». Such a question is too complex and dependent on too many different things. An intelligent candidate can presumably shape the correct answer based on the situation.

★ Better would be questions in free format, questions that relate to earlier work performance, such as:

CAN YOU GET

«In what way have you controlled how your subordinates perform?».

★ Some candidates might list the daily telephone calls, the regular visits and reports. Somebody would describe the specifying of targets and positioning of objectives and would leave the attendance of daily details to his/her staff. In the earlier case, we have a manager, who wants to interfere and to be involved in everything; whilst the latter case is a manager, who prefers to work at «elbow-distance». Neither one is right nor wrong – they just fit or do not fit in the specific job situation.

VALUES

★ One most revealing question in this case could be: «What sort of manager has your best and your worst superior been?». The description of the worst manager can in-

voke an image of the following manager of the candidate – and this way eliminates the candidate from the list.

★ Whilst the answer regarding the best manager often indicates what kind of person the candidate him/herself wants to be. The candidate could answer for instance, «My manager demanded results, but he/she was objective». The answer defines the candidate's scale of values.

PERSONALITY

★ A useful method here could be a range of questions linked together, but even so questions asked separately: «Were you and your sister – or your brother – alike when you were children?», «Are you and your wife – or your husband – alike or different? In what way?». What do you admire most of all in your spouse – or partner?».

ANSWERS:

1. «We are very different. My brother is quite and diligent.»

2. «We are very different. My wife is much more companionable than I am.»

3. «I admire my wife's ability to become familiar with other people.»

★ The two first answers seem to be in conflict with each other. They describe a boisterous juvenile, who has become introvert in the mature age. Because people do not change so obviously, we have to study this more in detail. The third answer tells us something else: the candidate, still being companionable, is afraid that his ability in situations that demands sociability (my wife is different, she can easily become friends with other people). A range of answers like these, though here presented in a simple way, indicates, that the candidate may have pro-

blems if the human contacts are important regarding the position.

★ How much can we then build upon the individual's own assessment of him/herself? Most people really are familiar with their strong and weak characters. They have repeatedly heard about them from their bosses, their family members and their friends. However we have to believe that the candidate is consistent in his/her answers. Regardless of the capability of the interviewer there are some limitations with the personal meeting. The interviews cannot guarantee that we can expose dishonesty – when we meet people who have this character defect. It is also well known that alcoholism can be skilfully concealed. In this matter it is useful to pay attention to expressions and gestures. Turning the look elsewhere, putting the hand in front of the

mouth, if the person's conversation suddenly becomes too fast or too hesitating, moving the fingers nervously or any abnormal behaviour maybe important and can give information, that should be taken into consideration.

★ There are many things in the life of the candidate that can be opened other ways than in the interview. When evaluating the previous work performance, analytical abilities and certain details regarding intelligence, it is important that the carefully fulfilled interview is followed by a range of objective tests and extensive checking of references. This information, that we get outside the interview also prevents the interviewer stepping into the trap of «falling in love» with the candidate because of his/her personal characteristics. However glorious those characteristics may be, love is often blind!



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BEST PRACTICE FOR EXTERNAL RECRUITMENT



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- ★ Take time to interview a candidate and carry out several interviews. He/she should also be interviewed by other members of the company whenever possible.
- ★ Clearly explain any problems he/she will deal with and what you expect his/her contribution to be in his/her assigned position.
- ★ Talk about the company and its future projects. Encourage enthusiasm toward the project without concealing or misrepresenting the actual circumstances.
- ★ Be as transparent as possible. Create an atmosphere of trust.
- ★ Precisely state his/her salary and incentives. Be creative and flexible with respect to rewards relating them to specific objectives.
- ★ Fully explain to whom he/she will report and what his/her job responsibilities will be. Also describe the company's organisational climate.
- ★ Ask the candidate if he/she is looking for employment at other companies and gauge the interest he/she expresses in them.
- ★ Have him/her explain why they are interested in this position as it relates to his/her present job or that which he/she aspires to.
- ★ Ask him/her what he/she would do if his/her current employer would make them a counteroffer with respect to his/her employment. Attempt to obtain an unambiguous answer with respect to this issue.
- ★ Promptly carry out the interview plan. Do not let time pass by resulting in a loss of interest and eagerness for the job offer.
- ★ Specify how long it will take to make a decision about hiring and stick to this schedule. The candidate is restless and needs to know what is the situation concerning this important decision in his/her life.
- ★ If you have used a consultancy service to search for and select potential candidates, ask them about the candidate's reaction toward the company. Find out about potential problems that may arise when inserting the candidate into the company.



REGIONAL COORDINATORS

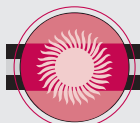
EMA Partners International have «divided» the world into four regions. Every region has a coordinator who is in regular contact with the other coordinators. For questions or further information about a specific area please contact one of the below mentioned coordinators.



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