

2008

# POINT OF VIEW

PERSPECTIVES ON LEADERSHIP



SpencerStuart

## ABOUT SPENCER STUART

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.

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In a time when more is demanded of corporate boards, new directors often have less experience than their predecessors had when they joined a board — a potential problem for board effectiveness. As they appoint more directors who are new to the role, boards should take steps to improve the effectiveness of first-time directors.

*This article was published originally by BusinessWeek.com in January 2008.*

**Making the right business decisions** is not simple in the most stable of times, but decision making becomes even more difficult during periods of volatility. Uncertain economic times also accentuate the significance of leadership on a company's long-term performance and its ability to respond to new challenges, risks and opportunities.

In short, times like this call for superior leaders. These executives have the intelligence and operational experience to run their companies well and also find ways, even in tough times, to make strategic investments in innovation and people development.

This issue of *Point of View* focuses solely on leadership — the qualities that distinguish exceptional leaders, including what we define as Executive Intelligence, and the skills executives and organizations will need as the workplace becomes even more global and diverse. We share insights about leadership development and, from the world of private equity, lessons for cultivating a high-performance culture. Finally, we look at the shifts in board composition, particularly the influx of first-time directors, and what boards can do to help new board members acquire the knowledge and experience they need to be most effective.

On behalf of all of us at Spencer Stuart, I hope you enjoy this issue of *Point of View* and welcome your comments.

**David S. Daniel**

Chief Executive Officer

Spencer Stuart

## DEFINING EXECUTIVE INTELLIGENCE: THE SKILLS THAT DISTINGUISH GREAT LEADERS

CATHY ANTERASIAN, *Silicon Valley*

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ROBERT STARK, *Silicon Valley*

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The most successful business leaders consistently recognize opportunities, pursue the right ones, identify and overcome obstacles, manage potential risks and mobilize their organizations to act. These executives, according to Jack Welch, are “constantly looking around corners, anticipating and ‘smelling out’ issues.” And he says, “Asking the right questions and anticipating problems is a big aspect of leadership.”\*

Why are some executives better equipped to get at the heart of important issues and effectively anticipate and manage challenges that arise? What skills do these leaders possess?

Management theories abound, but years of research and interviews with scores of successful business executives show that the most effective leaders possess a quality that we call Executive Intelligence. This vital component of business judgment and leadership refers to an executive’s capacity to accurately analyze situations and solve problems, work with and through people, judge oneself and adapt behavior accordingly.

\* Executives’ quotes originally appeared in the book *Executive Intelligence: What All Great Leaders Have* by Spencer Stuart’s Justin Menkes.

Having leaders with these capabilities always has been critical to the success of companies. In today's business environment, where growth is more difficult to achieve, competition is more intense and scrutiny of business practices is greater, it is more important than ever that organizations identify the individuals who possess these critical thinking skills and ensure that they rise to the company's key roles.

## WHAT IS EXECUTIVE INTELLIGENCE?

Executive Intelligence is related to, but not the same as, academic intelligence. Academic aptitude in language, math and spatial reasoning, which are measured through standard IQ tests, has little relevance to many of the day-to-day demands of business. As Jim Kilts, former CEO of The Gillette Company, explained: "Many of the top business leaders have attended elite academic institutions, and this education can serve as a good foundation — the ability to think critically and understand concepts. So a doctorate can be an indication of intellectual horsepower. But in a business setting, you must be able to not only generate ideas, but translate those ideas into results. That is the hardest thing and requires abilities that go beyond academic skills."

Specifically, business leaders must excel in three areas: accomplishing the tasks of leadership, working with and through people, and evaluating their own attitudes and behaviors and making adjustments when necessary.

Leaders with a high degree of Executive Intelligence are able to better assess complex economic environments and identify appropriate responses to the key business issues. They anticipate likely obstacles to achieving objectives and identify sensible ways to circumvent them. These leaders critically examine the accuracy of underlying assumptions and recognize what is known about an issue, what more needs to be known and how best to obtain the necessary information. They also are able to examine issues from multiple perspectives to identify possible unintended consequences of various plans.

In working with other people, these executives are able to recognize the agendas and motivations of individuals and groups who are involved in a particular situation. They anticipate the possible emotional reactions people may have to actions or communications. They accurately identify the core issues and perspectives that are central to a conflict and balance the different needs of relevant stakeholders.

Skilled leaders also are able to look objectively at themselves. They pursue and encourage feedback that may reveal errors in their own judgment. They recognize their own personal biases or limitations in perspective and use this understanding to improve their thinking and plans for action. They recognize when it is important to acknowledge their own flaws or mistakes and make a change, and when it is appropriate to

resist the objections of others and remain committed to a certain course of action.

*“In a business setting, you must be able to not only generate ideas, but translate those ideas into results. That is the hardest thing and requires abilities that go beyond academic skills.”*

In practice, great leaders not only conceptualize and formulate strategy, but also see initiatives through to completion. This requires them to make adjustments based on new information or early results, understand challenges and potential consequences, ask thoughtful questions and probe the assumptions of others. A senior telecommunications executive explained it this way: “Clear thinkers — the ones that can cull everything down to the right point — can be very hard to find. But if you get yourself a team of clear thinkers, the possibilities are endless. ... They are good listeners and are thoughtful, and they apply those traits to any set of issues with which they are engaged. They have the ability to listen openly, reflect on varying viewpoints and rapidly synthesize what is useful or meaningful when dealing with a particular issue. They quickly get to the core of a problem.”

Leaders without these skills fail to question conventional wisdom or underlying assumptions, and don't anticipate unintended consequences. They do not recognize the motivations or agendas of others and how these might impact the way decisions are made or applied. Finally, they are unable to look critically at their own biases

or limitations in perspective and make adjustments.

### UNDERSTANDING THE HORSEPOWER OF THE TEAM

The history of business is rife with examples of leaders who have lacked the capabilities associated with Executive Intelligence, sometimes with disastrous consequences for their companies and their shareholders:

- > Leaders who have failed to recognize or ignored changing market or competitive conditions that made the company's business model unsustainable
- > Executives skilled in technology and operations, but unaware of the internal politics and cultural issues that threaten the company's future
- > Executives who — intentionally or not — isolate themselves from contrary points of view that could improve their decision making

In today's volatile and highly competitive business environment, the risks of poor decision making are greater than ever. CEOs and their top leaders must make the right judgments about market direction, the competitive landscape, and investments in products and technologies. When decisions are made without a proper understanding of the risks, potential complications and underlying assumptions, a company may jeopardize its reputation with customers, miss important opportunities or misdirect scarce financial or human resources. By contrast, strong leaders not only



make better decisions themselves, but also help attract other exceptional leaders. Together, these executives demand the best from each other and improve overall decision making.

As Robert L. Johnson, founder and former chairman and CEO of Black Entertainment Television (BET), explained, success in business does not come down to one person but requires the collaboration of many people. “Even the sharpest thinkers need teams of sharp people around them. And these high-performing teams develop over time. It is one of the basic laws of attracting talent: the more talented people you have, the more talented people you can attract,” he said. “You get the highest level of input in decision making and the best critique of things you should or should not undertake when you are surrounded by such individuals. Once you reach that critical mass of talent, there’s literally nothing you can’t undertake.”

In addition, today’s flatter and more dispersed organizational models require that people throughout the business operate at a higher level. “Decision making in today’s business environment is decentralized. Decisions are made at a local level or at a functional or operating level,” observed Andrea Jung, chairman and CEO of Avon Products. “You can’t grow a business around two to three good thinkers anymore, because your success depends on quality decisions at every level — sales people, marketing people, strategy people and so on. Everyone has to be able to think smart.”

Certain high-stakes periods in the life of an organization require even more attention to talent decisions. At one time or another, all companies will face a critical strategic event that raises questions about the strength of its leadership team. These events and transitions — ranging from mergers and acquisitions or a CEO transition to a new strategy implementation or reorganization — provide opportunities to step back and evaluate whether the right individuals are in each role.

*“It is one of the basic laws of attracting talent: the more talented people you have, the more talented people you can attract.”*

## ASSESSING EXECUTIVE INTELLIGENCE

Given the importance of making sure the most skilled executives are in key roles, particularly in times of transition, how can companies evaluate the capabilities of individual leaders and identify the most promising executives for the future?

Unlike standard intelligence tests that are written in multiple-choice format and have only one right answer, the best way to measure Executive Intelligence is through a live interview that takes the individual through a series of situations that he or she must analyze and make judgments about. The situations must be unfamiliar to the executive, so he or she cannot draw on past experience or knowledge of similar situations.

The interview format exposes the executive's problem-solving approach and the cognitive skills used to reach an answer. This is crucial because a candidate's final answer to a question is not an adequate indicator of Executive Intelligence. Rather, it is the thinking process leading to the conclusion that exposes the person's strengths and weaknesses.

*“You can't grow a business around two to three good thinkers anymore, because your success depends on quality decisions at every level — sales people, marketing people, strategy people and so on. Everyone has to be able to think smart.”*

In an Executive Intelligence evaluation, the interviewer provides realistic business scenarios and poses questions that call for the use of certain problem-solving skills. For each scenario, the individual analyzes the situation, draws a conclusion and justifies his or her reasoning. In a sense, the interview imitates the job itself; questions and problems are posed on the fly and the individual has to provide skilled guidance to others in the moment.

The interview questions should not cue the person to the aptitudes necessary to analyze the situation. For instance, a question meant to reveal a person's ability to identify the flaws in other people's suggestions would not prompt the person to do so. Instead, the executive would be asked to analyze a situation; someone with this capability would identify the essential flaw in another's suggestion as part of the response. In follow-up questions, execu-

tives would be asked to explain why they would take a certain course of action, revealing the quality of their thinking skills.

The Executive Intelligence evaluation represents an important breakthrough in executive assessment because of its effectiveness at measuring an individual's fundamental business aptitude. However, it is just one piece of the assessment puzzle. Research has shown that the most accurate approach to executive assessment combines an evaluation of intelligence — in this case, Executive Intelligence — with a competency-based interview, which measures an executive's proven skills in relation to a specific role, and third-party referencing to verify the individual's statements and interviewer's observations. For this reason, Spencer Stuart's executive assessment service combines these three methods.

## CONCLUSION

Facing a far more complex set of challenges than in the past, companies require leaders with a broad set of experience and competencies; international experience, a strategic mindset and exceptional communication and interpersonal skills all are leadership characteristics that have grown in importance in recent years. In addition to these requirements, the best leaders also have the ability to evaluate opportunities and risks accurately, work effectively with and through internal and external audiences, and assess and adapt their own behavior when necessary — the set of skills we call Executive Intelligence. Companies looking to improve the quality of their talent increasingly will evaluate

executives not just on their past performance, but also on their level of Executive Intelligence to understand their ability to take on new challenges and perform over the long term.

#### ABOUT THE AUTHORS

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## TEN LESSONS FOR ALL COMPANIES FROM PRIVATE EQUITY

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Since 2001, private equity firms have invested more than \$2 trillion to acquire or take stakes in some 11,000 companies around the world. The current credit environment may have slowed private equity investment this year, but the industry's footprint and influence remain enormous. Private equity's unique blend of risks, rewards, challenges and opportunities has changed the way that many people think about effectively operating a business.

What do the most successful private equity firms and their portfolio companies do right? What can all businesses learn from the private equity experience? Below are key findings from our discussions with leaders in this sector, summarized in the form of 10 lessons that can be learned from private equity.

### 1. HAVE AN ENGAGED AND KNOWLEDGEABLE BOARD

Of all the advantages of private equity, one of those most often cited is the strength and focus of the board of directors. Portfolio company boards tend to be smaller and more hands-on — so everybody

counts and must contribute. Investor representatives on boards meet frequently with management and can bring to bear the resources and contacts of their firms. Their outside directors typically provide valuable operational, functional or industry expertise, and can serve as mentors to the CEO.

Portfolio company boards also operate under fewer regulatory requirements than public companies and away from the scrutiny of external shareholders, analysts and the general public. Without these pressures and distractions, they have more time to devote to value-adding activities, according to private equity leaders.

Portfolio company directors also have significant equity stakes in their companies; beyond receiving options or stock as part of their compensation, they often invest their own money into the business. This, private equity executives say, aligns directors with shareholders and the management team and increases their focus on performance. “The biggest difference between public and private boards is that, essentially, there is one shareholder — it’s us and management. We’re partners. That is the ultimate level of accountability. We’re giving the CEO great resources in a focused, high-performance board, but we’re driving accountability and we’re measuring it,” said JP Conte, chairman and managing director of Genstar Capital.

## 2. DEVELOP A CLEAR AND COMPELLING PLAN FOR CHANGING THE BUSINESS

With valuations at high levels, private equity firms no longer can rely on financial engineering and sharp cost-cutting to create value. In most cases, portfolio companies must be strategically transformed and restructured to reach the level of profitable growth required to accomplish the exit strategy, whether it is selling the company or taking it public.

Central to portfolio company success is reaching an agreement upfront between the board and management team about the potential for the business and defining a plan for getting there. Private equity firms use the extensive due diligence process to understand the business fundamentals and identify opportunities to improve performance.

*“The biggest difference between public and private boards is that, essentially, there is one shareholder — it’s us and management. We’re partners.”*

To make sure management buys into the plan and commits to its milestones, Aurora Capital Group hosts what it calls an “outside-in session” with management after the transaction closes. “We literally spend an entire day with the management team and we turn the tables around. We share with them all of the work we’ve done underlying our investment decisions. The point of that meeting is to make sure that we all agree on a set of facts and data, and together define what full potential is for this business. We then create a blueprint that details who’s responsible for what and how fast,” said Aurora Capital Managing Partner John T. Mapes.

## 3. ALIGN EQUITY HOLDERS AND THE MANAGEMENT TEAM AROUND THE BUSINESS OBJECTIVES

Portfolio company CEOs and their top executives typically have a significant amount of personal wealth tied up in the

portfolio company. As a result, their interests are closely aligned with the interests of shareholders, and they have an incentive to accelerate the rate of change.

*“With private equity, you need to be much more straightforward and open about the challenges you face, what you are doing about them and the likelihood of success.”*

Private equity’s potential financial rewards tend to attract “economically motivated” managers. “That lines up well with investors,” Mapes said. “Investors want to get the biggest return in the fastest way humanly possible. If they aren’t set up that way, public companies will attract very good executives, but they may value things other than economics.”

With both management and directors heavily invested in the company, a true partnership develops between the CEO and the board, Conte said. “That leads to great communication about what’s going on at the company, sooner rather than later,” he said. John Samuel, who was CEO of Molnlycke Health Care, one of Apax Partners’ most successful deals, agreed: “With private equity, you need to be much more straightforward and open about the challenges you face, what you are doing about them and the likelihood of success.”

#### 4. BE DILIGENT ABOUT CASH FLOW MANAGEMENT

In most private equity situations, portfolio companies have high levels of debt,

requiring constant attention to cash flow, spending levels, debt repayment and financial targets. “Cash is king” at portfolio companies, so finding new sources of revenue and controlling costs are top priorities for their CEOs. In practice, this means that portfolio company management is disciplined about concerns such as ensuring that capital spending proposals have a payback and improving receivables collection.

A key player in this effort is the chief financial officer, who typically has a commanding role in improving cash flow and driving value. Vivek Paul, partner in the Venture Group of Texas Pacific Group and formerly vice chairman of Bangalore-based Wipro, sees the CFO role as both consigliere and irritant to the CEO, whether the company is private or public. “CFOs are in the best position to challenge a CEO as to whether he can do more,” he said.

#### 5. FOCUS ON GROWTH AND BUILDING VALUE

Having to answer to many investors and stakeholders and navigate myriad corporate demands, public company leaders can lose their focus on the business. The private equity environment removes some of those distractions and focuses the organization on a few clear objectives aimed at value creation. “I liked the directness of the approach, the total focus on value creation without having to water down your plan because one is worried about how investors might react,” said Samuel. “The great thing about private equity is that you never have to worry about the real agenda.

The real agenda is ‘Make money. Create value.’ That’s it.”

*“What’s more powerful than reflecting on an idea with your top shareholder who owns 70-plus percent of the company?”*

In addition, the relationship between the board and management creates a culture of accountability for performance, private equity leaders say. “The performance demand on the CEO is more direct in private equity,” said Paul. While a public company director might present a concern indirectly in the form of CEO coaching, portfolio company directors are more likely to be direct. “On the private equity side, you pick up the phone as soon as you feel there is value to be had and say, ‘I think we can do this a little bit better. Let me know if you need any help analyzing this.’ The conversation is much more direct,” he said.

## 6. ACT DECISIVELY

While a portfolio company has to be far more focused on fewer goals and a well-defined end game, the alignment of its management and board makes it easier to mobilize the organization to accomplish those goals and make decisions quickly. Management teams and boards are analytical — ideas are presented and evaluated based on their potential impact on income or cash flow — and important decisions can be made without involving layers of management or external stakeholders.

Board members, particularly those from the private equity investor, speak frequently with management, helping to streamline decision making. “As the lead directors at our companies, we’re on the phone with our CEOs every week. The CEOs are running major businesses and often need to effect a lot of change on an accelerated basis. They want to bounce ideas off someone, and what’s more powerful than reflecting on an idea with your top shareholder who owns 70-plus percent of the company?” Conte said.

## 7. PLAN FOR THE LONGER TERM

Quarterly financial reporting is a fact of life for public companies and likely will continue to be. With this focus on quarterly results, however, the public environment can be hypercritical in the short-term and less strategically oriented. The finite time frame for achieving an exit strategy, typically three to five years, gives structure to portfolio company plans and encourages risk-taking that may pay off over the medium to longer term. Private equity tends to have a greater appetite for risk, making it easier for portfolio companies to make dramatic moves or embark on fundamental changes in strategy.

Portfolio companies do have to hit short-term performance targets; they have bank payments to make and covenants to keep. At the same time, they have more room to make changes or investments for the long-term benefit of the company, even if they result in a bad quarter in the short term, private equity leaders say.

“It’s not all about the next quarter of the current year; we take a three-year look at how we can make the company better,” Mapes said.

### 8. CULTIVATE A SENSE OF URGENCY

In a portfolio company, the leverage and alignment of management incentives with company performance combine to create a “burning platform for change.” This burning platform encourages an action-oriented culture, with a bias toward making decisions.

*“Public companies are relatively unlevered, and so the onus is on the CEO to create that atmosphere.”*

“By its nature, the higher debt level creates a crisis. There’s not as much room for error when you have a levered balance sheet, so it makes management very proactive and creates an atmosphere that encourages people to make decisions and act. Public companies are relatively unlevered, and so the onus is on the CEO to create that atmosphere,” Conte said. In the private environment, there is more tolerance for making a mistake than for missing a promising opportunity, said Paul. “My sense is in public companies, there is a much higher cost of flubbing it and a much lower penalty for missing an opportunity. In other words, what’s not done doesn’t get punished,” he said.

### 9. DRAW ON EXPERT ADVISERS

When they are looking for investment opportunities or need advice during the due diligence process, private equity firms tap their networks of operating executives, advisory board members and board directors of other portfolio companies as resources. When a challenge arises or a portfolio company needs help opening a new door, the CEO and board members are able to reach out across the family of portfolio companies to find the expertise they need.

Aurora Capital Group further leverages these resources through its annual CEO roundtable that brings together portfolio company CEOs to share ideas and discuss issues. “That has become a real winner for us and for our investors because value seems to be generated from those meetings,” Mapes said.

### 10. BACK THE INITIAL TEAM, BUT BE WILLING TO MAKE CHANGES WHEN NECESSARY

Many private equity firms invest in companies based on the strength of the management team. Others parachute trusted leaders into new investments or those that are struggling. Regardless of their approach, private equity firms recognize the critical importance of strong, effective leadership to the success of their investments. Firms typically regard their ability to assess management as a core competency.

One approach is to evaluate management within a few weeks of completing an



investment. This helps the firm understand the quality of the executive team, identify any gaps in the organization's capabilities and learn more about executives' motivations and willingness to commit to the long-term plan. Early assessment also helps reveal issues that the private equity firm may need to manage, such as a CEO's tendency to be overly optimistic. Another approach is to assess the performance of management six months into an investment to confirm that the right team is in place.

*“You try to be as supportive as you can be and, in some sense, you're an accomplice to the problem because you're much closer to the business than public company directors might be and, therefore, you do tend to be fairly understanding. On the other hand, if the problem is clear, there's no inertia about making a change.”*

As the primary shareholder, a private equity firm can move quickly to replace an executive when necessary without having to worry about the reactions of analysts or the public. They are able to tap their CEO networks or bring in an executive-in-waiting if they need to make a change or supplement the existing team.

Still, removing an executive in a private equity environment is not done lightly. Private equity firms weigh these decisions against the desire to protect their reputation with chief executives. “You want to make sure that you can attract great CEOs, and CEOs don't want to feel that

they're walking into a situation with a trigger-happy bunch,” said Paul. “You try to be as supportive as you can be and, in some sense, you're an accomplice to the problem because you're much closer to the business than public company directors might be and, therefore, you do tend to be fairly understanding. On the other hand, if the problem is clear, there's no inertia about making a change.”

## CONCLUSION

Portfolio companies enjoy a number of advantages when it comes to building efficient, high-growth businesses, including their ownership and compensation models, fewer competing distractions and the power of leverage. Meanwhile, public companies will not be free any time soon from quarterly financial reporting requirements, governance rules meant to drive accountability and transparency, or the demands of a larger pool of stakeholders. Nevertheless, private equity's bottom-line focus can be adapted to the public environment. The following are the foundations of this approach.

**A robust and engaged board of directors.** A strong board that works effectively with the CEO to set strategy and holds the CEO accountable for results is essential to the success of any company, public or private. Attracting the very best directors — those with the leadership skills and relevant industry perspectives — begins with an effective nominating process. Wise boards will want to foresee where the company is headed in the future and take advantage

of natural attrition to recruit directors with the expertise required to help the company respond to the new challenges and opportunities it will face.

**A culture of urgency.** In the absence of the high debt levels under which most portfolio companies operate, a public company CEO has to create a culture that is decisive and action-oriented. To do this, the CEO needs to work with the board and management to create a partnership based on performance, together defining the potential for the business, putting a blueprint in place and paying attention to the progress against the plan.

**A compensation model that rewards performance.** While they may not be able to match the huge equity-based rewards that can be gained from a successful private equity venture, public companies can structure compensation in a way that rewards longer-term performance. That means less reliance on cash and more on performance-based equity compensation.

**A talent assessment process that identifies and develops outstanding leaders.** Making a talent mistake in today's business environment can have dramatic consequences for organizations, in the form of lack of strategy, missed market opportunities and poor execution. A primary responsibility of the board and CEO is to ensure that the company has succession-planning and assessment processes in place. Times of change, such as a major strategy shift or change in organizational structure, are natural opportunities to reflect on the strength of the man-

agement team, determine whether the right people are in each role and identify leadership gaps.

Private equity leaders naturally are proud of their success in turning around troubled companies and improving the performance of others, thus creating value for their investors, their management team and their companies. These 10 lessons from their experience suggest ways that all companies might perform at higher levels.

### ABOUT THE AUTHORS

Catherine Bright leads the firm's Private Equity Practice in Europe. Jonathan Visbal leads the firm's global Technology, Communications & Media Practice and led the firm's Silicon Valley office in San Mateo, California, from 2000 to 2006. Nick Young leads the Private Equity Practice in North America.

*“The CEO needs to work with the board and management to create a partnership based on performance, together defining the potential for the business, putting a blueprint in place and paying attention to the progress against the plan.”*

# INTERCULTURAL COMPETENCY: A STRATEGY FOR THE EVOLVING GLOBAL WORKFORCE

VIRGINIA CLARKE, *Chicago*

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The global workforce is changing. For many companies, demographic shifts, growing workplace diversity and expansion into new markets will profoundly change the makeup of the workforce to one that is more geographically dispersed and multicultural.

The ability of organizations and individual leaders to succeed in this environment will depend a great deal on their success in developing and nurturing what we call an “intercultural competency.” What do we mean by this? Fundamentally, it refers to the individual and organizational ability to recognize cultural differences between and among employees at every level, to encourage the maximum contribution from individuals in these diverse groups and to create a framework for global collaboration and knowledge sharing. These considerations transcend the traditional nomenclature of “diversity” (race, ethnicity, gender, sexual orientation, age, etc.) to include considerations of tradition, religion and values.

Why is this capability so important today and for the future? First, companies with a well-developed intercultural competency will gain an edge in recruiting and retaining the highest-performing executives.

Individuals want to work for strong, well-run companies that provide opportunities for development, exciting challenges and a positive culture that values individual contributions. In addition, companies able to

efficiently share knowledge and skills — especially across borders — will be better able to adapt to new competitive opportunities and challenges, wherever in the world they arise.

## THE NEW WORKFORCE DYNAMICS

Globalization and several significant demographic trends are converging to reshape job requirements, changing how organizations attract and deploy talent and, ultimately, changing the face of the global workforce. While some of these trends are well-established, we are only beginning to see the impact of others. They include:

*The increasingly global nature of business.* Companies are expanding their global operations, setting up research and manufacturing operations across Asia and Eastern Europe to lower costs or be closer to suppliers or customers. Others are relocating global business units or functions to new regions, particularly the Asia Pacific region. The challenge for these companies is not only to identify, develop and retain strong local leaders — as they increasingly try to reduce reliance on expatriates — but also to effectively deploy the right people with the right capabilities in each location around the world.

*Migration and immigration shifts.* The ability to travel more easily and less expensively than in the past is increasing the mobility of workers in all regions; more often, workers are crossing borders to go

where the jobs are. For example, among Eastern Europeans who migrated to the West for higher-paying jobs after the expansion of the European Union in 2004, some are returning to pursue economic opportunities back home. In the U.S., immigration — including the immigrants themselves and their children — is projected to add 117 million people to the population by 2050,<sup>1</sup> while companies in India and elsewhere in Asia are recruiting returnees and expatriates.

*Growing ethnic, racial and gender diversity.* By some estimates, “people of color” will represent 40 percent of the population in the United States by 2050. Diversity is not just a U.S. phenomenon, however. In India’s technology industry, which was once almost exclusively male, 35 percent of employees last year were women. According to Nasscom, the software industry trade group, the percentage of female employees in technology will rise to 45 percent by 2010. As the workplace becomes more heterogeneous, organizations are looking at different ways to attract, motivate, develop and retain their employees.

*The anticipated surge of retirees.* Baby boomers in many European countries as well as in the United States, Australia and Japan are reaching retirement age. The exodus of experienced leaders — along with their vast reservoir of business and institutional knowledge — is likely to have a significant impact on many companies. In response to the aging workforce, companies in established industrial countries are adopting strategies to retain

older workers while systematically transferring knowledge and identifying new sources of talent for the long term, including experienced leaders from other regions.

*Dynamic workplace.* Many companies have adopted a less top-down organizational structure that encourages decentralized decision making and more collaboration. At the same time, businesses are preparing for the influx of a new generation of employees — the so-called Millennial generation, born after 1978 — who often bring different workplace values, different views about corporate social responsibility and different expectations about work-life balance. These changes are creating challenges for companies managing individuals with a range of work styles and expectations.

Amid these changes, the companies that will be the most effective at managing and leveraging their talent will be those that develop the intercultural competency. These companies will build a nimble, globally dispersed organization able to efficiently move people, resources, ideas and information around the world. They will have an infrastructure that encourages collaboration and provides the flexibility to respond to changes in the competitive landscape.

### BUILDING INTERCULTURAL COMPETENCY INTO ORGANIZATIONAL CULTURE

What are the characteristics of an organization that values individual differences and leverages the intercultural competency? These organizations have a culture not just of tolerance, but of awareness and understanding. They consciously create a culture that accepts varying styles and is open to wide-ranging perspectives. They view diversity of thought as contributing to a more complete understanding of the opportunities and issues before them. This, in turn, contributes to better decision making and, ultimately, global competitive advantage.

In practice, an organization with a strong intercultural competency is able to effectively develop and deploy its talent globally by doing the following activities well:

#### **Establish a learning culture and embed processes to transfer critical knowledge and skills.**

Employees at all levels of the organization benefit from having access to formal and informal sources of knowledge and new skills, whether they reside in headquarters, at operations in other regions or with experienced employees who may be approaching retirement. Tactics such as mentoring, training and educational programs, onboarding of new employees and creating global communities of interest will help to preserve knowledge and promote information sharing among employees.

**Strive to integrate, not assimilate, individuals with diverse backgrounds.**

Organizations with a strong intercultural competency create a culture of acceptance, not assimilation. Rather than trying to mold individuals into a single ideal of leadership, these companies accept and accommodate the range of styles and perspectives housed in the organization. This may require the company to expand its notion of what it means to be a leader. Organizations with a well-developed intercultural competency will be disciplined in evaluating people based on their performance and contributions, rather than who they are or whether their styles conform to traditional expectations. Organizations that overlook high-performing leaders who do not exhibit traditional leadership traits — individuals who Harvard Business School Professor Linda A. Hill describes as “stylistic invisibles”<sup>2</sup> — risk losing effective leaders or wasting their potential by assigning them to less important roles.

Top management must signal the importance of cultivating high-performing talent by creating the expectation that managers will identify and nurture promising executives, regardless of their backgrounds or styles, and evaluate managers’ success in this area. Managers must be willing to give promising individuals stretch opportunities or match them with jobs that might not be obvious on the surface.

**Embrace and reward individuals with the intercultural competency.**

Efforts to promote diversity and inclusion

suffer when they are viewed as separate from the other activities of the business. An important way to reinforce the importance of the intercultural competency is to hold employees across the organization accountable for advancing intercultural priorities. Create incentives in the compensation structure that reward managers who support diversity, whether in human capital planning, succession planning or recruiting.

**Have a recruitment strategy that seeks out talent from nontraditional sources.**

Similarly, talent development and succession planning processes should include the conscious strategy of identifying high-potential individuals outside of traditional leadership sources and those with different styles and points of view. Rewards should be tied to individuals’ performance and contributions to the organization, rather than self-promotion or political savvy.

## CULTIVATING AN INDIVIDUAL INTERCULTURAL COMPETENCY

A company cannot build intercultural competency at the organization level without cultivating the competency in individuals at every level of the business.

What does it mean for individuals to have this intercultural competency? These executives have a global orientation. They possess an awareness and curiosity about cultures other than their own. They have compassion and empathy for others and are skilled at recognizing others’ core

### EVALUATING YOUR ORGANIZATION

There is not a specific formula for cultivating intercultural competency, but there are practices that help to create a culture that embraces people's differences and encourages collaboration. Consider the following questions to understand how your organization addresses and resolves key talent issues:

- > How do we build teams and share information?
- > Are there roadblocks in the form of policies, practices, assumptions, attitudes or behaviors that individuals with different backgrounds or nontraditional leadership styles encounter?
- > Is the company developing the intercultural competency in individual leaders and putting in place a structure that makes it easy for people across the organization to share information and collaborate?
- > How do we assess people? Are we using the appropriate tools?
- > What is the organization's training agenda around multiculturalism, diversity and inclusion?
- > Who are we sending abroad and how are we preparing them?
- > What are our expectations for individuals and managers with respect to intercultural competency? How do we hold them accountable to these expectations?
- > What are the barriers to inclusion, and how can they be changed? Who controls those barriers and can change them?

### BUILDING YOUR INDIVIDUAL INTERCULTURAL COMPETENCY

- > Seek experience working internationally or with international teams.
- > Reach out to people who are outside your normal circle for work projects or social outings.
- > Recognize that qualities often associated with strong leadership — a commanding presence, for example — may reflect tradition rather than actual leadership capabilities.
- > Cultivate self-awareness about your strengths and weaknesses and those of others.
- > Seek to understand how your communication style and approach to working in teams may differ from others.



strengths and weaknesses. They are natural problem-solvers, have a high level of self-awareness and humility and are comfortable with risk.

In practice, these individuals resist the urge to work with or promote only the people with whom they are most comfortable and are willing to reach out to people who are outside of their normal circle of associates and friends. Because they strive to understand the motivations and aspirations of others, they are able to get maximum performance from their teams.

Senior leaders have had to adapt to a variety of new expectations over the years. For example, as business has become more global and more complex, senior leaders increasingly are expected to have international experience and the ability to lead matrixed organizations. We expect that, over time, the personal qualities and characteristics associated with the intercultural competency will become more important for senior executives to develop in themselves.

## CONCLUSION

Organizations are evolving the way they manage their global workforces as they expand operations into new regions and grapple with demographic trends that are making the workplace more diverse. Companies that successfully develop the intercultural competency — creating a culture that rewards performance, embraces different styles and points of views, and provides a framework for

global collaboration and knowledge sharing — will have a competitive advantage. Companies with the best work environments and strong employer brands will attract best-in-class talent and have lower employee turnover. They also will be better able to move information, skills and knowledge around the organization.

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## ABOUT THE AUTHOR

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## A CONVERSATION WITH CONATY: OBSERVATIONS ON SUCCESSION PLANNING AND DEVELOPING WORLD-CLASS LEADERS

CLAUDIA KELLY, *Stamford*

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A 40-year veteran of General Electric, William J. Conaty served the last 14 years of his career as senior vice president of corporate human resources. Renowned for its talent development, GE not only produces the leaders it needs for its own executive ranks, it regularly exports senior executives to leading companies around the world. Its success in producing exceptional executives reflects a decades-long commitment to leadership development throughout the organization. During Conaty's tenure, he led GE's talent revolution, championing the company's talent development processes, and served as the right-hand "talent" man to two CEOs (Jack Welch and Jeff Immelt). Conaty retired from that role in 2007 and has since been actively consulting with the CEOs of several global Fortune 100 companies.

Conaty recently attended Spencer Stuart's annual CEO succession planning meeting. Claudia Kelly, global leader of the firm's Human Resources Practice, interviewed him on the topic of developing world-class leaders. In that conversation, Conaty put forward seven key tenets of an effective succession planning process.

## 1. INSTITUTIONALIZE LEADERSHIP DEVELOPMENT

The building blocks of an effective talent development program are well-recognized — attract great people, continuously assess and develop them, and retain the best players. “What differentiates an exceptional organization from a good one is that its leadership spends as much time on developing, managing and retaining talent as they do on attracting the right people. Everybody wants to attract great talent. Many do that part well. It’s the ability to excel at assessment, development and retention that differentiates the best organizations,” said Conaty.

At these companies, leadership development and succession planning is a continuous process, Conaty said. These organizations identify promising executives with the potential to develop into broader and more complex roles. They are put through a rigorous assessment, which includes a thorough evaluation of work history and personal backgrounds and 360-degree interviews with each executive’s peers, subordinates, customers and clients. When conducted by highly trained assessors, these evaluations can provide specific feedback about each executive. It is critical that the executives themselves also receive an assessment report that includes developmental suggestions to help them advance in their careers.

## 2. DRIVE TOWARD DIFFERENTIATION

“Differentiation breeds meritocracy; sameness breeds mediocrity,” said Conaty. Leadership development that focuses on differentiation — that is, recognizing and rewarding the best performers and letting others know where they stand — breeds stronger, more effective executives.

“Talent is assessed daily in best-in-class companies; everyone understands that they are always being assessed and receives feedback continually,” Conaty said. “That way, employees know where they stand, whether it’s up or down, so they can get on with life in a proactive way.” GE’s process, for example, looks at an individual’s performance, values and any unique skills he or she has in a particular area. Each person is assigned an overall rating that falls into three categories — top talent, highly valued or less effective — on which the company’s recognition and reward system is based. Executives get clear communication about their current standing and potential career trajectory. It is much more honest to let underachievers know where they stand so they can move on with their lives and find a culture more closely aligned with their skills.

### 3. HOLD LEADERS ACCOUNTABLE FOR SUCCESSION PLANNING

In Conaty's view, succession planning should be seen as the responsibility of the business, not an administrative function. It also is an activity on which the CEO should spend significant personal time — and ensure the board focuses on it, as well. Without this level of commitment at the highest levels, the organization receives contradictory messages about the importance of succession planning. "If the CEO demands it and models it, the rest of the organization will follow," Conaty said.

To be effective at leadership development, companies must hold executives accountable for developing successors. Even at those companies that excel at leadership development and succession planning, there is the occasional leader who is reluctant to groom a successor.

"Great leaders develop succession plans," said Conaty. "If you've got an insecure leader who really doesn't want someone to replace him, the candidates are never going to be the right ones. I really put a premium on having in-depth succession plans. If you find one of those leaders who continually 'kills off' his or her successors, then you have to start looking at the person who is doing the killing."

Companies also should consider outlawing horse races between candidates or efforts to "run for office." Ideally, succession planning is an all-winners process, Conaty said. Taking this approach, GE has been suc-

cessful at keeping the experienced leaders it does not want to lose. For example, Conaty estimates that GE has been able to retain 97 percent of the top 600 executives it wanted to keep during the past 15 years.

### 4. OVERCOME OBSTACLES TO IMPROVING TALENT DEVELOPMENT

One of the main reasons many companies do not handle succession planning well is a lack of commitment and communication. This is not a process for middle managers. Rather, the senior-most leaders must focus on developing the leadership bench. In the best-run companies today, the board, the HR/talent leadership team and the CEO work together to make succession planning and leadership development an absolute priority. The board has the opportunity to set the tone by expecting CEO succession to be done in a first-class manner. The CEO has the mandate from a world-class board to ensure that strong HR leadership and processes are in place. And, the HR team must partner and support the business so that they truly own the process.

*"Great leaders develop succession plans. If you've got an insecure leader who really doesn't want someone to replace him, the candidates are never going to be the right ones."*

## 5. AS BUSINESS NEEDS CHANGE, SO SHOULD THE COMPANY'S LEADERSHIP DEVELOPMENT PRIORITIES

As business priorities and marketplace conditions change, the leadership requirements for senior executives necessarily must evolve. Consider how the role of the CEO has evolved. While many of the leadership requirements have remained consistent over time — such as strategic orientation and the ability to drive results — developments such as globalization, heightened regulatory pressures and the rising influence of institutional shareholder groups suggest a need for a new set of skills. Increasingly, CEOs must have international experience, global perspective, effective team-building and communications skills, a real understanding of risk management and a tolerance for intense pressure and scrutiny from a variety of stakeholders.

*“Continuous learning is the name of the game. Individuals have to continuously raise the bar on their own personal performance because the bar is always rising.”*

“The best leadership development programs evolve to reflect new priorities and business realities, while retaining the company’s core business values,” Conaty said. For example, today’s leaders are more likely than in the past to be assessed on growth traits, such as external focus, clear thinking, imagination, inclusiveness, domain expertise and

globalization, as companies increase their focus on commercial excellence and growth. At the same time, companies rapidly expanding in new regions or through acquisitions will want to use the evaluation process to reinforce the company’s core values with new executives. Companies do this by incorporating the newly desired traits into their evaluation processes. “That way, individuals either buy in or check out,” Conaty said.

## 6. CONTINUE TO RAISE THE BAR ON PERFORMANCE

“The best companies always are raising the bar on performance,” Conaty said. In well-functioning talent development programs, individuals receive feedback — at least annually — on how they fit into the organization, what their strengths and development needs are, and whether their career aspirations match the company’s. If they do not, the feedback should include recommendations for making them more compatible.

“The process should be very disciplined and rigorous. It should be owned by the business units and facilitated by HR,” Conaty said. The process should help the company’s leaders and the board understand, business by business and organization structure by structure, how the leadership teams are evolving and who the backups are for each leadership role. It also provides a mechanism for pushing out key initiatives throughout the organization. “Where this sort of process is deeply ingrained in the culture, the

business leaders see the value to them and the company as a whole,” Conaty said.

### 7. EMBRACE CONTINUOUS LEARNING

“Continuous learning is the name of the game,” according to Conaty. “Individuals have to continuously raise the bar on their own personal performance because the bar is always rising.”

GE has cultivated a learning culture, Conaty said. One of the company’s primary leadership development tools is its John F. Welch Leadership Center at Crotonville. Opened in 1956 as part of an effort to better train managers, Crotonville today serves as GE’s “business school,” helping executives tackle new business problems and share knowledge with customers, suppliers and business colleagues from around the world. It also plays a crucial role as an agent of cultural change at GE. The company invests about \$1 billion annually in training and sends some 10,000 people a year to programs at Crotonville. Likewise, high-performing employees are nominated to attend courses there when they achieve certain career milestones.

#### ABOUT THE AUTHOR

Claudia Kelly is the global leader of the firm’s Human Resources Practice.

## TRENDS IN BOARD MEMBERSHIP: THE RISE OF THE FIRST-TIME DIRECTOR

JULIE DAUM, *New York*

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*Editor's note: Through our work, we have seen an increase in the number of first-time board directors joining boards. This trend was reaffirmed in the research for our 2008 Spencer Stuart Board Index, which found that nearly one-quarter of new independent directors on S&P 500 boards are serving on an outside public-company board for the first time. In light of this trend, we thought it would be valuable to share this perspective, which appeared originally in BusinessWeek.com.*

Institutional investors and activists have got their wish for more independent and powerful boards, but not without unintended consequences. In a time when more is demanded of corporate boards, new directors often have less experience than their predecessors had when they joined a board — a potential problem for board effectiveness.

Boards, through the nominating and governance committee, have assumed responsibility for identifying and recruiting new directors. Spencer Stuart's experience working with boards shows this committee is more strategic now than in the past in identifying criteria for new directors. The committee is casting a wide net to identify and contact the best candidates, going beyond the traditional practice of looking at people they know. However, boards are experiencing increasing difficulty in getting candidates to accept director positions. The result is boards with more diverse backgrounds, but with less experience, maturity and scope than boards of the past.

### FINDING ALTERNATIVES TO CEOS

The principal challenge now is that few active chief executive officers, who bring the most experience in running a company, will serve on boards of other corporations. The job of CEO is more demanding, and the job of a director requires more time and preparation than ever before. As a result, most CEOs don't have the time to serve on a board. Second, the job of a director carries greater risk than in the past of lawsuits and loss of reputation, and there is the threat of heavier pressures from institutional investors and shareholder activists.

Further, more boards are telling their own CEOs to stick to their jobs and not to serve on outside boards, or at least to limit their involvement with other boards. Today the average number of outside boards on which active S&P 500 CEOs sit is less than one, a dramatic decline from 10 years ago, when the figure was two. Among the top 20 CEOs in the S&P 500, only six serve on an outside board. In 2007, active CEOs represented 33 percent of all new independent directors, down from 41 percent in 2002 and 53 percent in 2000.

Activists may smile because this change has disrupted the so-called "old boys" network, but boards now are missing much of the collective wisdom that CEOs bring from facing comparable issues, making decisions under pressure and responding to multiple constituents. Because they cannot readily attract active CEOs, today's boards are turning to other sources for

directors, among them divisional executives with strong general management credentials but without enterprise-wide experience, and specialists in disciplines such as finance or information technology.

### FIRST-TIME DIRECTORS

As a result, for each of the last two years, about a third of newly added independent directors are serving for the first time on a public company board. The increasing share of new directors across the entire S&P 500 is consistent with what we are seeing in Spencer Stuart's own placements of directors.

As companies appoint more directors who are new to the role, it will take them longer to have the most effective boards. To learn the job of a director takes time. Moreover, since many first-time directors are active executives, they are limiting their service to one board rather than several. So it will take longer for first-time directors to gain the experience required to serve effectively than it would if they served on several boards.

All new directors have challenges that limit their value for their first year or two. They must learn about the company, its business, its management team and the culture of the board. For first-time directors, there is even more to learn. They must learn how to translate their narrower experience into guidance of a total company. They need to understand their role of governance versus management, and they will see issues that normally do not reach a divisional executive. As a result, new



directors tend to defer to senior directors with more experience, but this is not optimal. Today's boards are small and require every director to pull his or her weight. A new, first-time director may slow down or weaken effectiveness.

Boards need seasoned executives in the room. This is one reason why more boards are raising the mandatory retirement age for directors — both in recognition that it is getting harder to recruit experienced directors and in hopes of retaining the good ones already in place. Two-thirds of the S&P 500 boards that specify a retirement age now set it at age 72 or older, up from 35 percent in 2002. And 11 percent now set their retirement age at 75 or older, compared with only 1 percent five years ago.

## HOW EFFECTIVE BOARDS OPERATE

Boards are like any team. Directors have to find their roles and know how to work with other directors to achieve consensus. A well-functioning, mature board understands its advisory role and does not meddle in management decisions. It has a solid understanding of the company, the culture, the management team and its dynamics. It fosters trusted relationships among directors that allow free and open discussion and harmonious action. It encourages strong communication among directors, and it has a high degree of self-confidence.

An effective board operates in the best long-term interests of a company, and

offers a wealth of experience to the CEO and management team. It knows how to lead and has in place an independent chairman or strong lead director. While some of this can be learned through diligent study and director-education programs, much of it depends on experience gained in the boardroom.

There are some things boards can do to help first-time directors. New directors should receive an in-depth orientation in all aspects of the company upon appointment. Boards should assign new directors to committees where they can gain experience quickly. Some boards are assigning unofficial mentors. Lead directors or chairmen should go out of their way to ask new directors for their insights in relevant areas, to incorporate the newcomers into the team more rapidly. In regular self-evaluations, boards should ask how far along new directors are in the maturation process, how much farther they have to come and, specifically, what the next steps should be.

Boards need to recognize the challenges they face with inexperienced, first-time directors. It is not enough to assume they will catch up. Boards face too many issues and too much pressure to assume that a *laissez-faire* approach is sufficient.

## ABOUT THE AUTHOR

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