When we look back at the close of the 21st century’s first decade, we’re likely to view the global financial crisis as the final blow that pushed the pharmaceutical industry into a period of upheaval. Human resources executives are being asked to design talent strategies as the business playbook changes daily. Our research identifies the competencies needed to lead an HR transformation and suggests that now is the time for pharma companies to try new ways to develop change leaders.

When asked to define the challenges facing pharma today, most industry executives would likely list these:

1. Major regulatory authorities undergoing change following a great deal of adverse publicity and skepticism.
2. Governments challenging and imposing price controls wherever possible.
3. The difficulty and ever-rising expense of developing new small molecules and converting them into potential blockbusters.
4. The clock marching ever forward toward patent expiry, with no imminent drug replacements in sight.

Add a global recession that arguably was the worst in terms of speed and scope of impact, and it’s no wonder that the market research firm, IMS Health, Inc., predicts that the expected value of the global
pharmaceutical market in 2009 will drop two percentage points over the prior year, with sales growth at its lowest at 2.5 - 3.5 percent.

The four listed challenges have been coming for many years, and the industry has, in some ways, had sufficient time to react. But, the impact of this recession has many companies, despite their huge cash reserves, balancing cost pressures with the need to continue high levels of top-line growth. To cope, many have imposed unprecedented cost cutting, and, when that has been insufficient, they have engaged in rounds of mega mergers.

However, there is a bright spot. The pharmaceutical industry has turned to new sources of revenues in emerging markets outside of North America, a move that a recent UBS study predicts will help maintain sales growth of at least three percent and will ultimately support the industry’s resurgence thereafter. But, since most companies face talent shortages in these high-growth markets, will they be able to seize the opportunity?

Human resources functions in many of the world’s top pharma companies are facing game-changing pressures, which perhaps is a relatively new phenomenon for them. For an industry that is relatively high tech, pharma is not one that is synonymous with change. Why would it be when, with margins hovering around 40 percent for the past few decades, there has been little need for pharma to reinvent itself? And then, the HR function, as with most other functions in this industry, has tended to hire from within, limiting its experience in dealing with so many outside challenges.

So, how are HR leaders in the pharmaceutical industry responding to cost controls, lack of talent, and a changing marketplace? To find out, we conducted interviews with several HR leaders and focused our conversation on two points:

1. The major focus of their HR strategy for the next five years.

2. The Leadership Characteristics they believe necessary to deliver on these strategies.
Transformation Heads the List
With regard to strategy, we found that HR transformation led the way and could be broken down into these components: globalization, efficiency and driving performance, and talent and change management.

Numerous studies in recent years have tried to define HR transformation and what companies are really doing about it. A 2007 study on the topic by Human Resources Executive and EquaTerra found participants divided on the answer. Was it cost cutting while driving process efficiencies, or was it expanding the scope of HR to better support business initiatives?

Drilling down deeper, McKinsey studied strategic HR and rather than finding a definition, concluded that the influence of the HR function within businesses is declining. HR would seem, then, definitely a function in transition.

Everyone we spoke to agreed that their HR functions were in the process of some form of HR transformation, both in terms of a desire to have a greater impact on their organization from a business perspective, as well as to be able to operate more strategically. In nearly every case, our HR executives placed HR transformation as probably their overriding mission.

As Denise Peppard, former SVP HR at Wyeth, stated, “The need is greater than ever for the HR function to be a true strategic partner, which means I need to ensure my whole department transforms itself worldwide, and not just at the corporate level. HR needs to operate as an equal with other functions, with the same accountability to deliver business value. In order to keep its seat at the table, the focus of HR needs to shift from administration to consultative problem solving.”

A similar theme was expressed by Claire Thomas, SVP HR at GSK, who said that in her opinion, “HR needs to be confident and act on an equal footing to other functions. In the past, there has been the tendency to over-engineer the function as opposed to directly

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– Claire Thomas
SVP of Human Resources, GSK
linking the HR strategy to the business plan.” She further added that, “Historically, HR has been the sage advisor behind the curtain, and there is a need today to articulate the value of the function and demonstrate value by measurement and outcome, just as other functions are measured.”

**Components of Transformation**

Regarding HR transformation in the pharma industry, our interviews uncovered several interrelated themes and drivers for change, although in different levels of importance depending on the company. In summary, they could be grouped as follows:

- Globalization
- Efficiency and Driving Performance
- Strategic Change Management
- Talent Management

**Globalization:** As Western markets have peaked in terms of sales growth, major pharma companies have long been exploring emerging markets. Already, many are well established in Brazil, India and China (the BRIC countries) and most have already tackled market leadership issues in those regions.

But, as Lynn Tetrault, EVP HR and Corporate Affairs at AstraZeneca, noted, “Having an innovation center in China as we do, doesn’t necessarily address issues of globalization. We need to drive different thinking from our corporate offices so that every policy is written with thought as to the immediate effect on far-flung markets. Those markets today force us to truly start to think and act globally.”

**Efficiency and Driving Performance:** In the present business climate, it is hardly surprising that nearly every pharma company we encountered, even those that are riding this storm well, have been looking for ways to operate more efficiently and effectively. While the proposed mega mergers will see an anticipated shedding of more
than 65,000 jobs in the next year or two, the consensus among our participants is that efficiency will be built less on job cuts and more on a new way of thinking about operations.

For example, Astra Zeneca’s Tetrault said that while her company is very successful, they are turning to external benchmarking initiatives to get more rigorous performance measures. While this may be common practice in other industries, pharma has tended to judge “best in class” via intra-sector comparison, and these initiatives, in many respects, have been driven by the commercial and financial functions rather than by HR.

Technology was offered by others as an answer to improving efficiency. Peppard of Wyeth believes technology and a drive for global standardization of enterprise-wide processes will make the greatest impact. Using technology tools to provide managers with direct access to data for decision making, she says, would help to move HR from an administrative function to one that is more strategic, and that standardization of processes would further help to remove the burdens of duplication and wasted resources.

This idea was endorsed by Janet Tuffy, EVP from King Pharmaceuticals, who joined the pharma industry from the financial sector and believes that “good HR has in many industries already moved beyond the dashboard-of-metrics approach to working with the senior leadership team as an equal to resolve business issues.”

Discussion of efficiency and performance led to the topic of outsourcing. For at least a decade, the pharma industry has used outsourcing numerous processes, be it to augment clinical capability or for manufacturing. In the case of pharma HR, outsourcing has been used for everything from recruitment process outsourcing (RPO) to payroll.

Most of the executives we surveyed anticipate this trend continuing and further helping to establish HR as a more effective function and one that brings greater value to the business. Marc Schorpion from J&J is of the opinion that in order to be more effective in
driving the value proposition, HR leaders need to fully understand the implications of the increasing trend of external partnerships. He further added, “HR needs to constantly strive to bring value for investment and needs to be more innovative in the way it operates.” He felt it was important for HR functions to learn how to create these new operating business models.

With outsourcing increasingly eroding HR’s transactional side, HR will need to raise its strategic profile in order to remain relevant, a viewpoint shared by those we interviewed, many of whom predicted that taking away much of the process and low-value tasks will allow the entire HR team to have more time to engage with business leaders.

It will be interesting to see whether a predicted increase in outsourcing will be driven by the desire of the HR leaders to be more efficient or simply be cost driven. Either way, it will require considerable change management.

**Strategic Change Management:** Synonymous with the term “transformation” came the term “change management.” Every HR function we encountered was in the process of some degree of driving change, not only within the function, but also by being the catalyst for new thinking within their organizations. Our interviews indicate that HR wants to lead in determining what employees need in order to operate and think differently to face the new wave of challenges.

Thomas explained that GSK has developed various work streams across the company and one of them is entitled “accountability.” According to Thomas, “HR needs to be the catalyst for change in an organization, and we are questioning how we release the capability and energy in our employees so that they can break out of the mold that has been successful for the past decade and adapt to meet the challenges of the future.”

She added, “We need to help managers take risks and become more instinctive, as opposed to being analytical and scientific in their day-to-day decision making.”
The theme of risk taking was echoed by Tetrault. “With an industry that has been under fire in terms of public perception, we can’t stick with the old tried-and-tested models of operation. We need to encourage more risk taking and creation of the new and different, and [we need to] hire leaders who can also be far more inspirational.”

“The next generation of leadership,” says Neil Anthony from Novartis, “will have to be able to deal with increasing levels of complexity, to truly understand where growth will come from and how to grow some of the important markets around the world.”

We know from research by Lominger International, a Korn/Ferry company, that many of the competencies necessary to accomplish the tasks outlined by the HR leaders we interviewed (e.g., managerial courage, dealing with ambiguity, and innovation management) are among the hardest to develop and are those we find the least number in the talent marketplace.

Consequently, I would argue that finding or developing the leadership necessary for successful change management is going to be a major feat in the pharma industry, since it traditionally has prided itself on being a meritocracy. The need for executives who want to join the industry to have “carried the bag” still echoes back to my days when I was hired and progressed up the ladder doing just that!

**Talent Management:** A casual observer from outside the industry would look at the issue of talent management in the pharma industry with some disdain. After all, isn’t this one of the industries laying off thousands of people? How could any pharma company say there is a dearth of talent?

Nevertheless, every HR executive has talent management as a current and future priority. As Collette Taylor, VP HR from Astellas stated, “To try to embrace the degree of change that we need in a Japanese company, where the style is quite deliberate, we need to hire in fresh talent, and failing that, to focus not on our top levels as they are unlikely to drive the degree of change that we are seeking, but instead focus on the identification of young stars.”
Thomas went further, “It is still tough to compete for great talent in our industry, especially around areas where we all have technical capability gaps. Also, competing for leaders in some of our faster growing emerging markets is quite a feat.” Tuffy added an interesting perspective in stating that she believes the industry will continue to face challenges in attracting young talent because there is cynicism about the drug industry in general. To combat that she says pharma companies need to reconsider how they brand themselves.

Pharma HR, therefore, faces talent challenges on two fronts: established traditions that discourage developing people outside the standard career progressions and the inability to attract external talent.

Perhaps an answer to these challenges is for the industry to revert back to development models perfected by the likes of GE and P&G who moved young managers into more challenging management roles in different divisions and locations internationally early in their careers. It would certainly address a need for a more flexible workforce, more leaders in emerging markets and the ability for organizations to think globally.

Evidence of this development technique’s effectiveness is offered by Lominger research showing that international assignments, start-ups and turnaround situations, help executives develop some of the competencies most difficult to find in the marketplace.

It is interesting that the executives we interviewed from Japanese pharma companies and from one lone North American firm, Abbott Pharmaceuticals, generally agreed on the need for these seven mission-critical characteristics, but the talent management and transformation strategies their HR professionals would be called on to execute differed from those of their European and U.S. counterparts.

Laurene Bentel, VP of Human Resources and Administration of Takeda’s U.S. affiliate, explained that while the firm is cost conscious and continues to seek talent, their focus is on long-term

Lominger’s validated research sheds light on exactly how leadership skills can be acquired. In its work, the leadership development firm determined that successful development is built on this platform:

- 70 percent from key jobs or roles (e.g., working in start-ups, turnarounds, etc.).
- 20 percent from learning from others (that could be a good or a bad boss).
- 10 percent from formal course work.
To ascertain from those we interviewed what leadership characteristics they believed would be needed by pharma HR professionals in order to succeed in today’s environment, we shared with them a list of 20 characteristics identified by Lominger research as necessary to achieve transformative leadership.

From among these 20, seven emerged as “mission critical.” We then placed these seven into four groupings as follows and offer selected comments made by interviewees regarding the need for these:

**Strategic Skills**
- Understanding the business – “We are a science-driven organization in a sector that is undergoing dramatic change. It is essential for HR to operate as a business partner.”
- Making complex decisions – “Decision making needs to be faster and more dynamic. The degree of complexity won’t lessen; we need leaders who can operate in such an environment.”
- Creating the new and different – “Our industry hasn’t truly changed in decades – it hasn’t needed to. We need to think and act differently. Some in the pharma sector have woken up to the issues and have change management on their agendas.”

**Courage**
- Evaluating and deploying people accurately – “The pharma industry traditionally has recruited from its own ranks. We need to truly assess our internal talent and make some tough decisions, not be held hostage by managers concerned that the person will leave if we ask them to do something different.”
- Focusing on action and outcome – “There is a huge drive for measurement and determining what we are truly getting for the huge investments we continue to make, not only in R&D but also in our people.”

**Organizational Positioning Skills**
- Communicating effectively – “Clearly we are trying to drive change in our organization. We need to take greater responsibility for ensuring everyone understands. This will be a new organization and HR will be the catalyst of change.”

**Personal and Interpersonal Skills**
- Inspiring others – “There is so much pressure in our organization after downsizing and reorganization, so we need leaders who can help their teams understand the new direction and inspire them to follow.”
investment. While competitor companies have scaled back their development programs, both Takeda and the U.S. affiliate of Astellas have increased theirs. For example, Collette Taylor, SVP, HR and Corporate Administration, Astellas US LLC, explained that the firm has improved long-term employee benefits, such as pension and healthcare contributions, a move that was echoed by Steve Fussell, CHRO/SVP, Abbott.

Developing Leaders
It’s clear that the seven Leadership Characteristics identified as mission critical will be needed by human resources professionals working in the pharmaceutical industry, and it, therefore, behooves these individuals to develop these skills in themselves and in their managers if they are truly to shape their organizations in the future.

One other influential development factor is being faced with hardships, which have proven to be very developmental, but, of course, not easy to orchestrate and plan!

One could argue that the current pharma industry climate may impede a firm’s ability to move people to different roles in different markets. But, it’s equally valid to consider this an ideal time to take some of the risks that our interviewees advocate. Such moves may have the dual effect of re-engaging employees and offering a road map for development within their organizations.

The Right Time for Risk Taking
Consensus appears to exist among global HR leaders in the pharmaceutical industry on the primary elements of current HR transformation trends (talent management, globalization, the need to drive performance and strategic change management), which leads us to believe these elements are addressing pressing business needs. The path to achieving the goals may differ, as demonstrated by our small sample of Japanese companies who have chosen investment and longer-term planning instead of cost cutting, but the HR function in pharma companies will be moving in a more strategic direction.
In addition, despite some slight variations, the core Leadership Characteristics that were defined as mission critical were broadly aligned, and so we offer suggestions of roles, be they temporary assignments, part time or full time, that might allow managers to acquire the competencies needed for the future.

All of the HR executives interviewed are not only experiencing unprecedented change in their companies, but also appear to be driving an aggressive agenda to help their organizations meet the transformation they advocate. It is apparent that there is a renewed energy and determination to drive HR to be more strategic and to help change their organizations.

We know that the pharma industry will go through a “trough” from 2010 to 2012, but the prediction is that after the crisis, it will bounce back and enjoy past levels of growth. If ever there is a time for HR transformation, it is now. Taking some risks now in developing members of the HR team and high-potential leaders will position pharma companies to thrive in the future.

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**LEARNING BY DOING, CONTINUED**

If moving HR professionals on your team directly into such situations is not feasible, perhaps your manager can partner closely with someone leading the relevant assignment.

Other suggestions for temporary “developmental” assignments include:

- Managing an area outside of the individual’s span of expertise.
- Leading a team working against very tight deadlines.
- Managing a team with more expertise or experience in a particular field than you have.

These types of experiences would certainly help managers develop the ability to deal with ambiguity, to drive for results, to motivate others, to manage vision and purpose, and to enhance creativity, all competencies within the seven mission-critical leadership characteristics.
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The Korn/Ferry Institute was founded to serve as a premier global voice on a range of talent management and leadership issues. The Institute commissions and publishes groundbreaking research utilizing Korn/Ferry’s unparalleled expertise and preeminent behavioral research library. It also serves as an exclusive destination for executives to convene and hone their leadership skills. The Institute is dedicated to improving the state of global human capital for organizations of all sizes around the world.

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