Interview with Murat Yesildere, Official Leader, Egon Zehnder Turkey

21.08.2012

You are managing partner of Egon Zehnder Turkey since 2007. Could you start by introducing the company to our readers and its scope of activities in Turkey?

Egon Zehnder International is a global executive search firm. We have activities in more than 40 countries with around 65 offices. The Istanbul office and our Turkish practice started in 1989, since then we are the leading and the most established global search firm, active in Turkey.

We are the first foreign firm in executive search to come to Turkey and we are still one the few who is here with an organic presence; instead of through franchise or representative offices as it is the case for most competitors.

We are a generalist firm, i.e. we do not have sectors of focus. We focus on each and every industry, although life sciences is in fact one of the areas where we have quite an established practice in and out of Turkey. I have been in the firm for the last 12 years, i.e. since 2000. I am one of the managing partners of Egon Zehnder International around the world, and I am the leader of our life sciences practice in Turkey. Until quite recently, we had a strong practice, but of course the developments in the local pharmaceutical industry have made it a bit more difficult for the pharma companies to invest into advisory and consultancy projects. As a result, our business in Life Sciences is stagnating.

Apart from pharmaceuticals, Turkey has enjoyed a strong growth in the recent years. What is the contribution of Turkey today to the company’s revenue?

Istanbul is one of the mid-sized offices with four consultants out of 400+ consultants. Our contribution is comparable to the size of the office of the general network. More importantly, Istanbul is a growth hub. Our growth rate is significantly above that of other emerging markets over the past few years. Even compared with some of the BRIC countries, Turkey has more impressive growth rates, which is related to the economic environment and the increased amount of foreign interest in the Turkish assets, either through financial investments or direct investments.

What is the importance of the healthcare and life science activities for Egon Zehnder's revenue and business model?

As we are a long term oriented firm, we do not focus on interest on penetrating our investments according to the short term cycles. Therefore life sciences for instance, for the Turkish practice, are among the top 4 areas we are investing in, together with financial services, consumer, technology&telecom. These four areas of focus have been rather stable for the past 20 years. In the past, life sciences used to be the second most important area, but it has been downgraded to 3rd or 4th due to market developments

Egon Zehnder's core assumption is that leadership is key to any organization. They are as many work and company cultures as they are countries. How would you describe the Turkish work culture, and how is the degree of hierarchy in Turkish organisations?

Turkey is a transition country, both in terms of the general business world, and also in life sciences.

In life sciences, Turkey still focuses more on the specialist executives versus generalist leaders. Therefore when people come and give us mandates, often what they are looking for, are people who have done the job in the past, the same job in the same industry in the same way. If you are looking for sales executives, you are looking among sales executives in the pharma industry, among the competition. They are not that much open to different ideas, cross-cultural or cross-sectors injections. The country and the industry are more focused on proven capabilities rather than potential. It is not yet leadership, but we are more talking about functional executives who have done the job and who will be doing it again in a similar environment.

On one hand, it gives you the comfort to do it again, on the other hand, if you think about the future potential and growth, if you are looking from the same angle at the same industry, you won't be able to change much. It's a marginal organic growth that you are focusing on. Sectors sometimes need radical shifts, and that could only come from people who are looking at it from the other side of the table.

In any industry, Turkey still has a very hierarchical business culture. The country has always had a strong "father dominated" family culture, and strong "teacher dominated" school culture. Family businesses penetrate into the business world; it is the father or the chairman who dominates. This

has slightly changed over the years, with the increased amount of foreign direct investment, although it is still a very hierarchical culture. Most executives in this country are more used to hierarchical promotional progress than situational leadership or developing themselves in special competencies.

What is Egon Zehnder's added value when it comes to family businesses?

In the last few years, Egon Zehnder global has put in place a practice group named family business . Under that practice, we are focusing more on the needs of family businesses around the world. This is to create first the right corporate governance environment; then harmonizing or stabilizing the succession of the family businesses to the professional management or to the next generation(s)

We are working on three silos of the family business: one is the family, the other is the ownership, and the third one is the professional management or the business itself. We have services to supply all three silos. We work on the family's inter relationships, shareholder structure, their aspirations for the future; on the ownership structure, on how the family affects the company and on the family constitution and general legal structure; and then we work on the professional management, with executive search, evaluating the executives, developing them, and preparing them for future roles.

Sometimes, the family, the owners and the professional managers are just the same persons.

In Turkey, most of the family businesses are in a development mode: they do not want just to stay with one small entity business for instance, but they want to have new businesses, new companies, and venture in new sectors. They see the necessity of having different perspectives and of looking at their business from different angles.

In pharma, looking at the last acquisitions, in most cases, one can comment that they were not strategic divestments; it is more about popular trends, or financial necessities pushing the company to sell the business. Most of the family business owners fall in love with their business; therefore it is not as easy for them to think about strategic timing to divest the business. They are so attached to their company that they cannot see the business going down. Once they see it, it is often too late.

Can you describe Egon Zehnder's client portfolio in pharma as well as the split up between local and international clients in Turkey? MNCs have really taken leadership in the Turkish market in the past few years. How is this trend reflected in Egon Zehnder's client portfolio, and in your view will this continue?

Two thirds of our business comes from multinationals or Joint Ventures and one third comes from local companies. It is not much different in any industry to tell the truth.

Looking at the top two local companies, they are very much like the organization structure we try to picture: very centralized organizations, shareholders or CEOs dominate organizations, with central decision making, but they know the industry and the people in this industry so well that they can respond very well and in a very quick manner to the environmental changes.

In this market, things change so quickly that it is sometimes more important to make an early response than to make the right response.

The multinational organizations in Turkey which are successful are the ones which have invested a lot in evaluating and hiring the right talent at the top of the company, and then delegating extensively to this person, rather than sending an expatriate and having the most important decisions taken some place else. I assume this does not work in any emerging market, and it definitely does not work in Turkey.

Egon Zehnder has different areas of expertise. What are the specific needs of the pharma industry in Turkey at the moment?

Looking at the last ten years, the needs are more or less the same, but the scope has slightly changed. The two services that are the most demanded and appreciated are executive search and what we call the management appraisal, which is the evaluation of the existing talent in the company according to the leadership competencies we decide jointly with our clients. The demand for management appraisal has gradually increased over the last few years.

The scope has changed in the sense that the talent profile of the sector has changed significantly. It is not a conscious change; it is an imposed change by the regulator.

Turkey is probably the country with the largest sales forces around the world. For instance, the market leader has over 2,000 sales representatives. Now, it is a performing model, but if you look at the sector, one can easily say that this is not sustainable. You have to decrease that number and find a more efficient way to do the sales promotion. The regulator has said that it would control the entrance of sales representatives to all the hospitals or units, so that sales reps will no longer be able to enter.

All players have decreased their sales forces when the price structure has changed, but never thought of doing it in a more effective way. It is not like an educated or conscious effort. The regulator decides on the environment, and the companies try to fit into that environment as it comes.

There needs to be a radical mental shift in the industry to prepare more for the future. The industry should be able to consult or advise the regulator about where this is going.

A recent research issued by IESD and BCG basically says that Turkey has missed the train of global generic manufacturers, and is about to miss the train of bio-similars. It also says that there is a difference for the market which offers plenty of potential, and the industry which is facing real uncertainty. Do you agree with these analyses and what in your view should the Turkish industry try and implement to "see the light"?

The multinational who have invested in this country did not do it because Turkey would become a hub or a global centre, but because there is a huge domestic market, and there is over 80% reimbursement, which is what has made this market appealing for the last twenty years.

In my view, no one is thinking that Turkey would become another India, creating molecules in a cheap manner and exporting them. For some products, Turkey has been a manufacturing hub for some of the multinationals, Pfizer, Novartis, or Sandoz.

However, I do not think this country remains a strategic country for most of the MNCs.

What are the objectives set for Egon Zehnder to grow in the next five years, and what are the next initiatives or strategies you will implement to reach those objectives?

Although the pharma industry in Turkey is in a transformation mode, we see increased interest and also demand in other areas of life sciences: health services are a place attracting more and more investments. Looking at financial investments of private equity investors in Turkey, each and every big firm has invested in a hospital group.

As Egon Zehnder, we need to find a way to satisfy that need. This industry is in an even poorer situation in terms of available talent and leadership than the pharma industry. In the past, it was totally local, dominated by medical doctors, and it was more the functional need versus the leadership. Now, they are trying to learn how to run hospitals as a business, hence they look for CEOs to lead the business for the next generations. We are looking to adapt to that, and find the right talent who is willing to work in that industry and who would fit well in that industry.

The second area of focus for Egon Zehnder is med tech and diagnostics. The limitations and regulations imposed to the pharma industry have not been so stretching for that segment. As the hospital industry is growing, the needs of the private sector are also growing. In the past, most of hospitals were linked with the social security system. Now, with the private health insurance and to some extent the international health tourism bringing in patients from Middle East, Balkans, Africa, the private sector is growing. We are therefore trying to bring talent to this sector from different industries.

With the new dynamics of this industry, the role of the pharmacists is changing, so it is decreasing the significance of the two big distributors in the industry. From the pharmaceutical companies' point of view, they will need to use the pharmacy channel as a real retail network. You need people

who come from retail industry, from consumer health industry, who would know the dynamics of that channel management. In other words, you need people from different industries in pharma.

You also need more people with experience in corporate affairs and market access, able to deal with increasing need to communicate with the regulator.

In response to this dynamic, we are trying to expand the boundaries of our pool, and to put in fresh blood into that pool. Out of the top 35 pharma companies in Turkey according to IMS, only three CEOs have non pharma exposure in their professional career. It is too few to be sufficient in a transforming industry.

Turkey is a big country, still appealing, and this is also valid for life sciences in general and pharmaceutical industry in particular. Turkey is getting more and more complex than ten years ago. Therefore you need to be more creative, and you need to understand the dynamics of the market. From a professional point of view, we have lots of interest from international people who would like to explore opportunities in Turkey. It is one of the few countries with such a growth potential. Turkey's future is bright, but companies need to be more creative and strategic in order to be successful, rather than just being reactive. As a result, Egon Zehnder will also be expanding its team in Turkey, hopefully to 6 consultants (from 4) in Istanbul by next year.

See more interviews