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## The Human Resources Agenda for CEE & CIS

Trends, challenges and opportunities, 2009-2014

March 2010

## About the Survey

In July and August 2009, Amrop surveyed the HR agenda of the leading investors already established and operating in Central & Eastern Europe (CEE) and/or the Commonwealth of Independent States (CIS). This survey compared their last five years' key priorities with today's main concerns, ambitions and targets for the five-year period until 2014.

More than 300 CEOs, regional and country human resources directors covering most industrial sectors responded. This survey addresses the main areas of strategic HR Management: regional governance (centralization vs. decentralization), expatriate policy, talent management, training and development, executive search and recruitment.

The initial inquiry has been completed with in-depth qualitative interviews between September and December 2009 with a selection of top decision makers in the region.

# Editorial

Attracting the right contingent of top performers from outside or internally developing high potentials and promising talents in compliance with the organization's development needs usually satisfy the same goal: delivering sustainable performance through people: This has been Amrop's mission since its inception.

With more than ten years of experience in 17 countries composing CEE & CIS, delivering executive search, management assessment and talent development assignments, Amrop has developed a unique and advanced knowledge of leadership skills needed to manage effectively in the region, per each industry segment. In addition, Amrop acquired a perfect understanding of Talents' and Top Performers' motivation drivers which influence their results and loyalty after recruitment, with expertise in HRM best-in-class and benchmarks in the region.

In CEE & CIS, maximizing talent and top performers usually requires strong leadership able to balance learned authority and emotional proximity with a reinforced control of execution. Successful management style has so far been more authoritative than participative. But given the new context, this must change soon.

Actually, within the current downturn, and taking into account its relatively strong impact on emerging markets, it is Amrop's duty to investigate the influence it might have on human resources management in CEE & CIS. To what extent does the reversal of the economic framework - switching from a fast-growth context into a slowdown - modify the role for CEOs and HR Directors in the region?

In what respect do the new organizational challenges suggest a new management approach or new set of leadership key competencies? What are the immediate consequences of the downturn on HR planning and policy at the regional level? What real opportunities may the downturn offer to enhance performance? Can we state that talent and top performer pools are, on average, managed as such and properly engaged in change? How can organizations neutralize the roots of resistance to this dynamic? To what extent can rewards satisfy financial constraints and greater engagement needs at all organizational levels? How will investors react and look at these major challenges? How will the regional and country levels share responsibilities?

This is the non-exhaustive but illustrative list of questions we submit to you and sincerely hope you will find answers in this report. Obviously, the best approach and most relevant solutions to address can differ from one organization or country to another. Speaking broadly, this survey shows that challenges within human resources in CEE & CIS are somehow converging. We concentrated on the relationship between organizational change needs vs. leadership development, and hiring new top performers vs. engaging the existing talent pool to sustain performance.

One thing is sure: The downturn has brought to the forefront lessons learned in CEE & CIS which will influence decisions, reshape the human resources strategic plan of most investors and suggest new approaches to deliver sustainable performance in the near future.

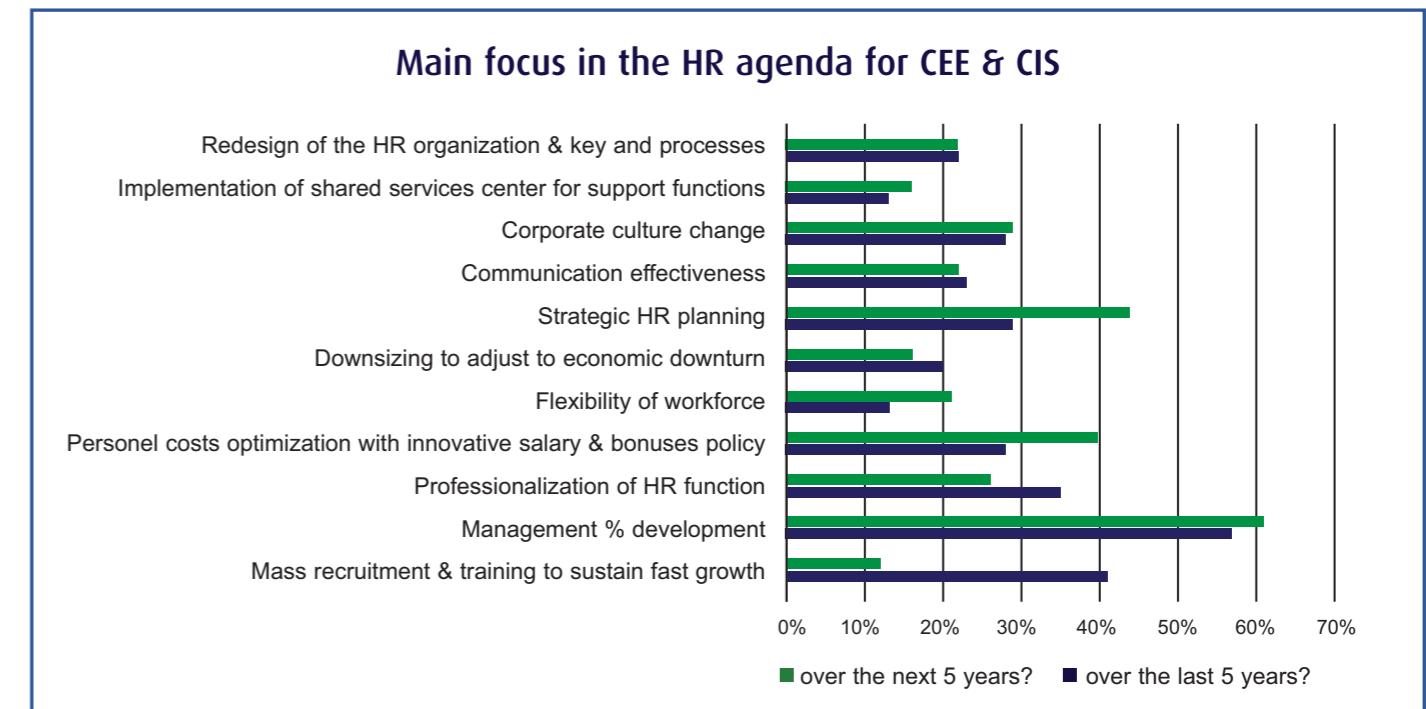
Sincerely yours,

**Günther Tengel**  
Chairman, Amrop CEE

**Jerome Touiller**  
Head of Practice, Human Resources Services  
CEE & CIS Region

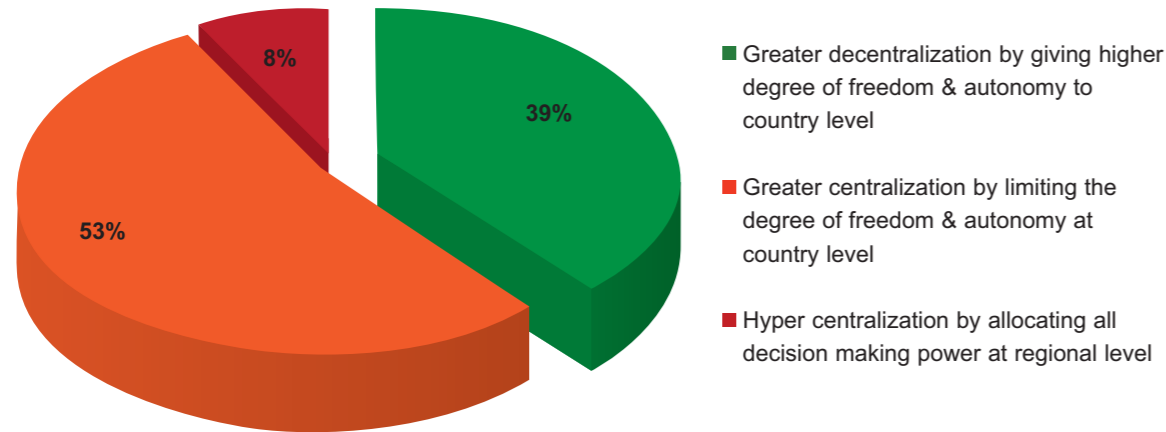
# Key findings

- Despite the global economic downturn, the strategic appetite for CEE & CIS remains almost intact for investors who already operate in the region. 61 percent of respondents said they would maintain their initial investment plan, while the rest of the sample decided to postpone it. Only a very few decided to stop investing altogether. Overall, investors seem to have maintained their confidence in the significant long-run potential of the region.
- The upgrading and restructuring of sales and marketing functions come first in the ranking of priorities as initiatives to recover performance in the region, ahead of cost-cutting programs.
- Management development, personnel cost optimization and strategic HR planning constitute the three main areas where investors are willing to concentrate their attention by 2014.



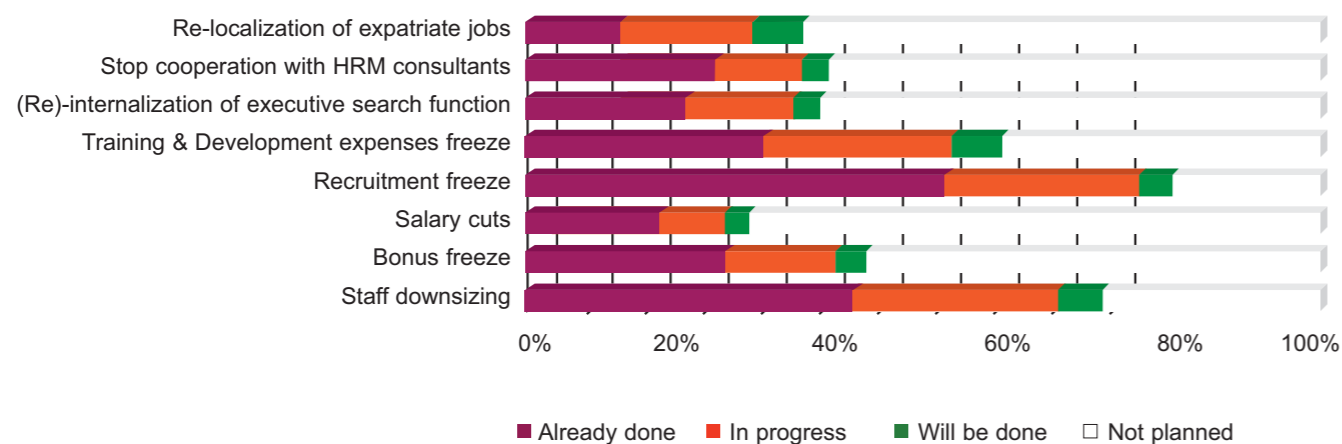
- 43 percent of the surveyed organizations believe that attracting and recruiting top talent for key positions will be as difficult or even more difficult in the period to 2014, despite the current downturn as compared to the recent fast-growth context in the region.
- One third of the studied sample plans to decrease the contingent of expatriates in CEE and/or CIS region(s). This movement illustrates the desire to empower the local country's management team and save on costs.

### Evolution of Regional Headquarters' role over the next five years in CEE & CIS regions



- The role of regional headquarters will be reinforced by 2014. 61 percent of respondents declared their intention to implement a higher degree of centralization in the near future. The motivation is mainly financial. The move towards reinforcing management control enhances savings programs and new synergies at the regional level.
- While the results of our research show the emphasis on management development, 60 percent of surveyed companies already have or plan to freeze their training budget. Management will look for new approaches such as in-house engagement programs rather than traditional executive education. For example, the demand for coaching will increase by 25 percent during the next five years in the region.
- Recruitment freezes and staff downsizing are the two main measures widely implemented by organizations operating in CEE & CIS to recover profitability affected by the recession. 75 percent of surveyed companies already used or planned to implement them.

### Impact and influence of the downturn on HR Policy



## Despite a fast-changing context that raises difficult trade-offs and demanding new challenges, most investors keep faith in the real growth potential of CEE & CIS regions.

These numerous past successes reflect and demonstrate the great and wide potential of the region as well as the remaining number of niches for fast development opportunities in the long run...

Attracting and accumulating significant flows of foreign direct investments during the last decade, the CEE & CIS region has watched world-class organizations' subsidiaries as well as new local key players on the market grow. Some were set up from scratch by entrepreneurs or through mergers and acquisitions in all segments of the economy.

Quite often, these companies rapidly approached and even overcame the average performance or size of investors' top business units to become the new worldwide benchmarks: it has to do with a boom in local demand, the speed of market shares growth and, sometimes, unusual and exceptional returns on equity.

It also has to do with the age of the investment portfolio in the CEE & CIS region: still young compared to that of old Europe, for example. As with green field operations, these investments often benefit from the latest technologies and standards.

Some corporations had to reinvent their organizational models to satisfy the local demand, especially in the retail industry. These numerous successes reflect the great potential of the region and fast development opportunities in the long run, but in many cases, these had extremely short-term financial returns. In the service industry, returns lasted up to one year vs. five years in manufacturing.

One may argue that this picture is a bit idealistic and only represents yesterday's reality. Nevertheless, the potential still exists in the long run.

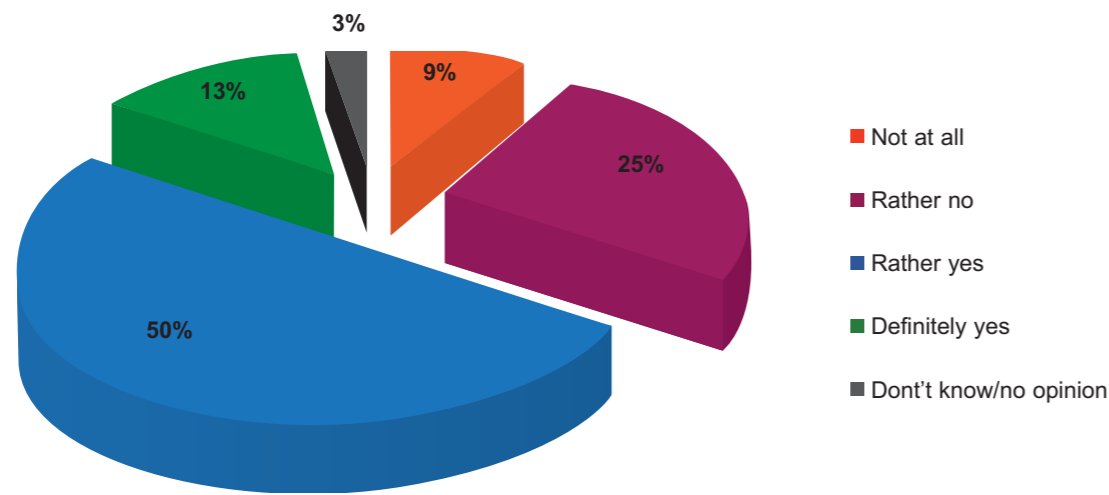
This is why most investors in the region (61 percent) did not simply change their minds nor review their investment plans, but kept an intact "strategic appetite" for the CEE & CIS region despite the current downturn, as illustrated by Amrop's recent survey results.

# The duty of Talent care during challenging times: engagement, retention & development - the triptych for success in CEE & CIS.

To deliver short-term performance and make long-run growth sustainable. Despite concerns about retention, the survey results show that the external mobility (leaving rates) of key employees has not increased in CEE & CIS since the beginning of the recession.

Actually, in fact, retention is perceived as a major and harder issue to cope with for the next five years. Almost half of respondents believe that the risk of losing staff is greater today than before the crisis.

Do key employees benefit from appropriate care/retention policies in CEE & CIS?



The risk of losing valuable managers is actually higher in the case of best performers and high-potentials for two main reasons. First, these categories of employees are usually aware of their market value and confident when applying for new positions, whether hunted or not. Second, thanks to the depressed labor market and companies' reactions to it, competitors can more easily recruit skilled and experienced talent, who are more difficult to recruit in prosperous economic times.

One reason high achievers are more likely to leave their employer in a crisis stems from the way a company treats employees who leave and stay; those who stay can be adversely affected psychologically if layoffs are not handled well and will carry these memories into better times when job offers might be more plentiful. Thus, the feeling of affiliation to the team and to the company depends a lot on the management style and dominant behaviors.

This short-term orientation greatly influences the level of commitment and engagement at work today, which tends naturally to decrease in organizations.

One usual but unavoidable consequence of the downturn is decreasing confidence of employees toward the near future and their employers' ability to guarantee their professional growth and/or stability in the mid run. With some exceptions, this statement is also valid among top performers, talents and high-potentials.

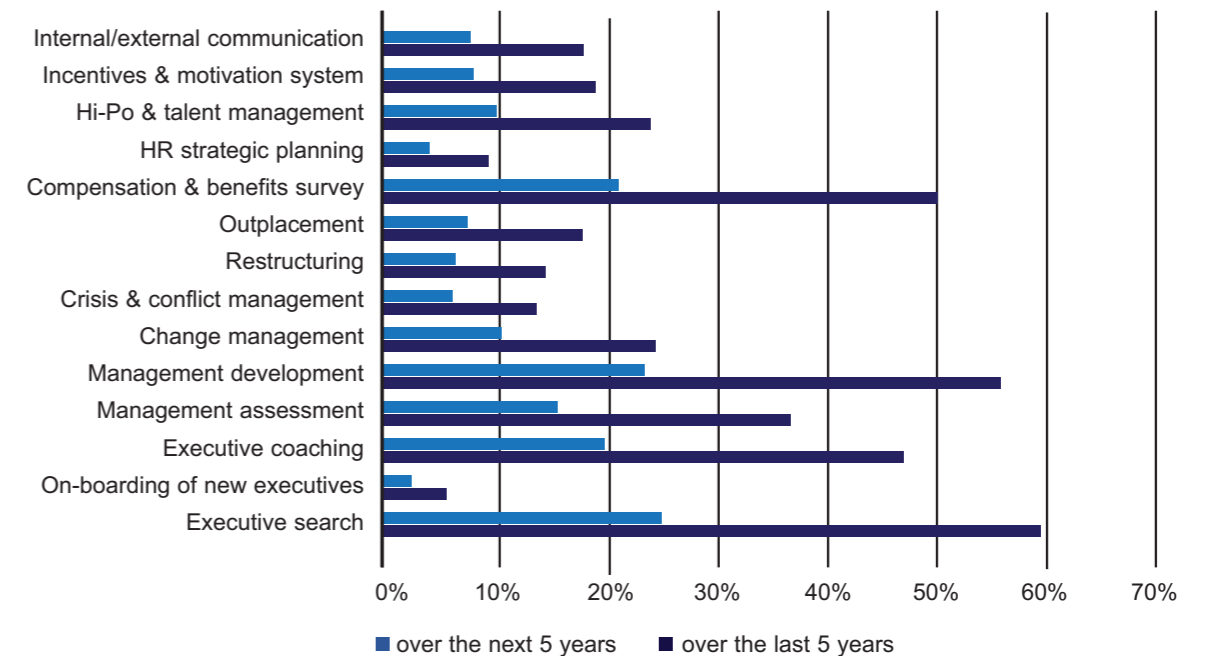
But this phenomenon is somehow amplified in CEE & CIS, as local nationals are much more concerned with short-term than long-term perspectives, which has to do with cultural and historical roots. This short-term orientation greatly influences the level of commitment and engagement at work today, which tends naturally to decrease in organizations.

This disengagement also appears to be stronger in case of restructuring, which becomes a major concern for most investors in the region, as this can have a significant impact on productivity, quality and customer care.

For the same reason, the risk of losing talents and top performers increases.

This risk is particularly serious in CEE & CIS, as 45 percent of respondents to the Amrop survey estimate that the identified populations of talents, high potentials and best performers are simply not yet managed as such in their respective organizations. One third even emphasizes an absence of appropriate retention policies.

In which HR area(s) are corporations willing to invest and use the services of external specialists ?



Thus, the current downturn also suggests a need for greater support and external assistance to deal

with crisis and conflict management, change implementation, executive development and coaching.

## Warning: the “boomerang effect” of restructuring is not always anticipated

Optimization and rationalization recently became fashionable concepts in the region when organizations pursue the same goal – with some exceptions - striking the optimum balance between their workforce and the decreasing workload influenced by shrinking business portfolios.

Nevertheless, restructuring, as a main measure or applied alone, is far from constituting the absolute answer to improving performance.

Apart from optimizing wage totals, its main benefit often looks like a «healthy optimization» of human resources in the region, to strike the most appropriate balance between headcounts and workload.

It is particularly the case when recruitment processes did not apply the appropriate quality filters, notably because of the recent fast-growth context and labor requirements combined with a shortage of good profiles in the labor market.

This kind of limitation accepted under constraints and by default during staffing activities was quite often verified in the region. That was true above all in Russia where annual growth rates of 50 to 70 percent used to be quite common only a few months ago.

Within an overheating labor market characterized by a shortage of knowledgeable candidates and talent “ready to employ” in comparison to organizations’ immediate needs in manpower, know-how and confirmed experience in the job are, sometimes, too strict selection filters for recruitment. Indeed, the majority of investors looked rather at the development potential of candidates and tried to compensate for the lack of professional experience and appropriate track records with intensive inductive training programs – sometimes abroad – to fill gaps and reach international standards of personnel quality.

Nevertheless, beyond this healthy optimization, a restructuring program does not usually bring anything really positive to the Human Resources Performance; it can even create the opposite effect.

In addition to the disengagement and external mobility risks explained earlier, a lot of other undesirable side effects worth consideration are predictable: increasing stress, sharply decreasing motivation, decreasing personal commitment at work, worsening organizational climate, increasing risk of conflict, fuzziness of the strategic vision for the mid and long run, etc.

Thus, if these symptoms stay obvious and relatively easy to diagnose, very few organizations in CEE & CIS have truly anticipated and measured the corresponding risk of a boomerang effect on their financial health and business sustainability in the long run.

It’s especially worrisome to managers of talent and top performers. The HR operational risk is concrete, and even increases with the downturn. For instance, the undesired departure of one or several top performer(s) and/or high potential(s) can definitely weaken - sometimes even disable - the company from sustaining its competitive advantage over the long run, which limits its ability to maintain and reinforce its growth potential once the crisis is over.

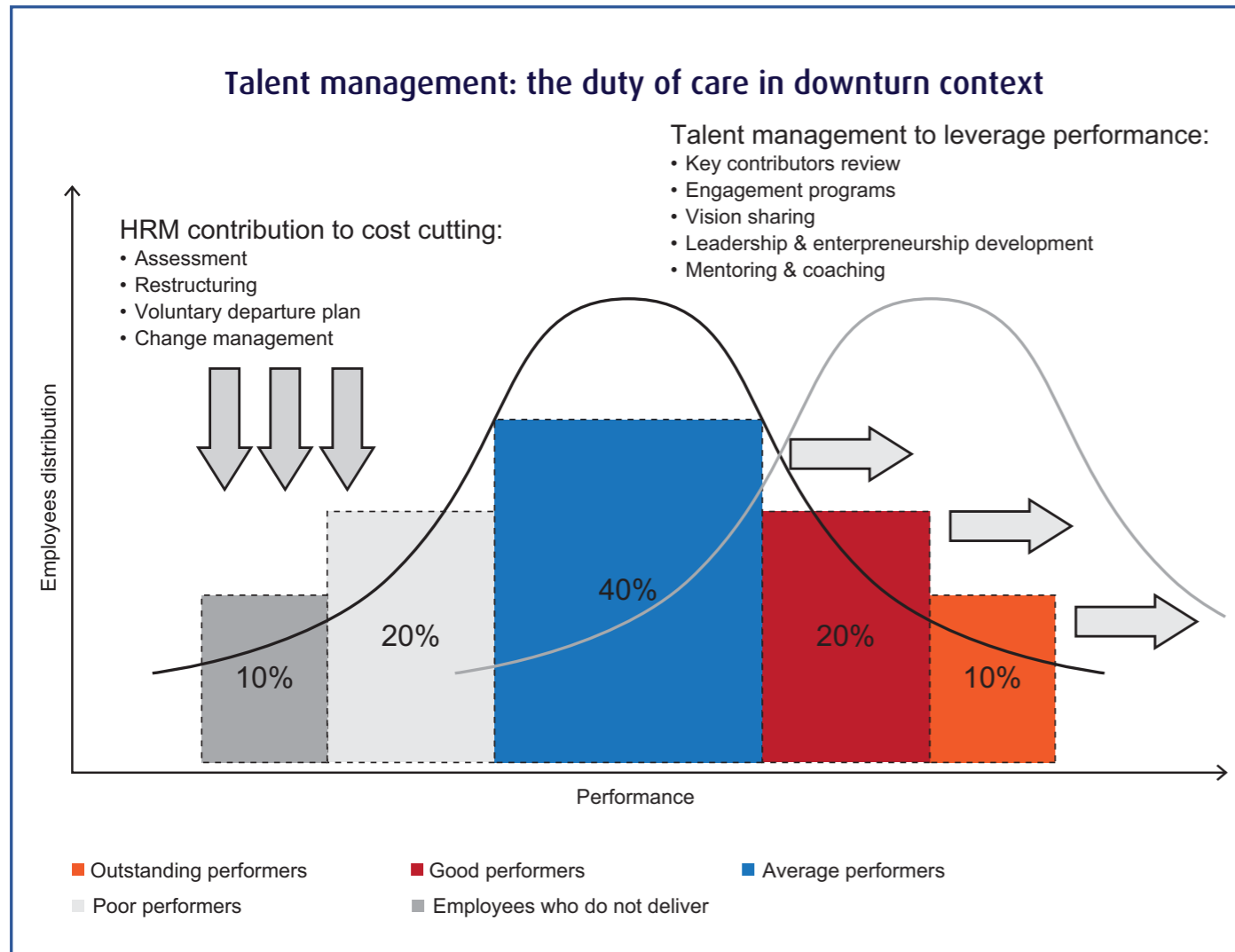
If key employees are not actively looking for new career opportunities or professional growth outside during the recession, they are usually eager to seriously consider offers from headhunters who are direct or indirect competition. The rapid generalization of wages and/or bonus cutting in the region simply enhances that risk.

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## Talent retention: no panacea, but which approach should prevail for CEE & CIS?

The consulting assignments managed by Amrop in the area of Talent Management in CEE & CIS before and during the economic downturn have demonstrated so far - on a systematic basis and regardless of the industry segment - that, with remuneration package within the first quartile over the market median, adding financial incentives doesn’t influence individual performance more than marginally. That is equally true when a company mainly wants to retain top performers, talents or high potentials.



Our analysis of main motivation drivers also demonstrates the influence of recognition and sense of affiliation on engagement of key employees in the region. Among others, the reinforcement of cooperative opportunities – vertically with the top management & horizontally with other functions inside the organization - along with extensive teamwork and strong corporate communication can be helpful.

The main constraint investors encounter here is that such practices are not natural, or at least not yet common locally. It has to do with cultural background, which has always been in favor of high hierarchical distance between the boss and the “remaining staff”. The directive style still prevails in most organizations in CEE & CIS.

Need for reinforcing and structuring individual follow-up focusing on top performers, identified high potentials and confirmed talents, with four main objectives: better retain, maximize their value creation, engage to make sure they deliver on time, and/or reshape their management approach if needed.

Another major challenge for investors in CEE & CIS: develop risk-taking ability and a real sense of responsibility among key employees.

In the region, top performers and talents expect above all from their employer: a well-delineated professional growth path within the next two to three years at least, management that favors a participative style and/or specific behaviors and values such as listening well, nurturing respect, inclusion in making decisions and valorizing new challenges.

This last expectation constitutes indeed a true opportunity, given the need to enhance engagement and motivate employees to deliver quick wins and leverage performance.

Nevertheless, the fact that this specific employee population is usually eager for rapid professional growth or career development does not necessarily mean that employers can count on the appropriate level of professional maturity.

This creates a major challenge for investors in the region to invent the appropriate scenario for developing the risk-taking ability and tangible sense of responsibility among key employees.

This statement confirms, as well, the need for reinforcing and structuring individual follow-up focusing on top performers, identified high potentials and confirmed talents, with four main objectives: better retain, maximize their value creation, engage to make sure they deliver on time, and/or reshape their management approach if needed.

For example, practices such as mentoring and coaching are more and more applied and tested; they will be more and more widely developed in the near future in CEE & CIS, as highlighted in the Amrop survey results.

## Participative management, coaching & mentoring: new promising practices in CEE & CIS to compensate for increasing gaps between employers and key employees' expectations

Common practices such as participative management, coaching and mentoring are well known and promoted but still, on average, poorly implemented in the region. They are usually applied for the on-boarding of new executives, expatriates or not, or as an alternative solution to a classical executive program with a focus on leadership development, personal effectiveness, conflict or crisis management and managerial communication.

Such an approach applied to support top performers, high potentials or project teams gives an opportunity to reinforce the commitment and re-engage the usually underestimated reserves of energy and intelligence available in the organization. This is particularly true in CEE & CIS, where we see quite a high hierarchical distance between the Top and the Middle Management lines, with a top-down, well-established and dominating style, which does not encourage initiative nor the development of entrepreneurial spirit.

On the opposite side, the participative approach should facilitate the vertical and horizontal models of cooperation with a more systematic bottom-up communication and contribution flow; but this format is clearly not yet a favored way to manage people in the region. In other words, the willingness to launch such programs will require, upstream, a certain "education" and preparation for the management in order to upgrade and reshape the dominating style.

Still, we see a kind of paradox. What we observed in a fast-growth context during the last decade in CEE & CIS is no longer true. Actually, investors were keen to dedicate a lot of efforts toward attracting and retaining confirmed top performers, identifying and developing "greenhouses" of promising talents in preparation for their future development in the region, whatever the model - external or organic growth. These significant investments occurred during the overheating economy, on a CEE & CIS regional level, a region well-known for its structural shortage of talent, but the scarcity enhanced their price.

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retention of Top Performers and Talent, which for the last decade were considered a priority to maintain competitive advantages, very few organizations keep investing, truly, in this population today. This is despite the increasing disengagement or departure risks, as explained in the previous chapter. The number of initiatives launched to improve talent and top performance retention and engagement remain limited.

At the same time, widespread bonus freezing and budget cutting on training and development programs could widen the gap between key employees and employer expectations.

If business leaders understand that top performers and talents might be more eager to leave the company as a result of such a negative environment and disappointments at work, very few act accordingly to lower such a risk. If the majority of companies surveyed are keen to invest more than before in management development, coaching and mentoring, the question remains: will they leverage the positive impact these programs have on individuals? Will they take the opportunity to improve follow-up on key employees' concerns and expectations and take care of their "self-realization"?

## Key Employees Reviews: innovative approach to leverage performance by raising awareness & readiness for change and design the engagement program

The recent Key Employees Reviews conducted by Amrop in the CEE & CIS region have demonstrated that key employees (top performers, talent, high potentials) are looking for "prestigious" challenges or opportunities to achieve goals that will contribute to their own professional growth.

They are usually ready to work hard if they will see the results of their input, while at the same time they are supported and recognized by management for their achievements.

The professional growth perspective, the quality of the management and the involvement in decision making are top-ranked factors that can make a real difference to engage and retain in the long term.

With the multiplication of its visible damage to market shares, shaping sales curves and financial results, the downturn has easily raised the collective awareness of the urgent necessity to find alternatives that would rapidly leverage performance. In other words, the level of awareness is common among suffering organizations in the region.

Being conscious of the immediate challenges and risks their employer faces, the existing talents and top performers are usually eager to re-engage in the deployment of new progress plans and synergies. By doing so, they can see their contribution to value creation. The greater the challenge, the better. Sometimes, they are given the opportunity to collectively invent a new business model.

They also understand, in a sense, that they are recognized by the top as those who can deliver.

They not only become aware that they have a greater chance of staying onboard, even in case of heavy restructuring, but they above all feel the collective responsibility once a need for major change comes about without other alternatives to leverage performance or simply save the organization.

As mentioned before, the general case shows that these specific populations are even ready to deliver more without any additional compensation as long as they will be fully supported, which looks simply perfect when "saving money" comes first in decision making.

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This process delivers the expected results only if the top management applies the appropriate approach: a mix of participative management techniques framed by team coaching and/or individual mentoring, along with strong, accurate and redundant communication to explain benefits of change, but also update regularly the progress achieved collectively, as compared to the key milestones of the initial plan.

The main idea is to re-engage top performers and talents by placing them in successive roles. First, they will have the opportunity to share their opinions, discuss their own views about changing priorities, submit their main concerns and propose concrete actions to leverage performance.

Second, they will have the privilege of debating the main trade-offs and "co-design" the change or transformation program with top management.

And third, they will take the lead on chosen initiatives – selected out of their own proposals – and embody the role of «change agent» during the implementation phase of the transformation program.

Whatever change program scale - heavy transformation, soft transition, or true revolution towards a new strategic business model and/or positioning on the market - such a buy-in approach usually improves the organizational climate and helps retain talents and top performers despite difficult and sensitive optimization context.

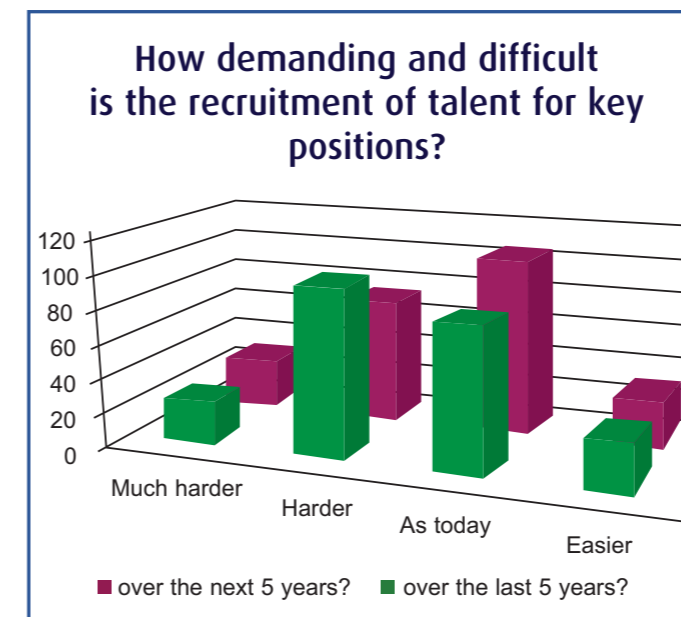
To summarize, the challenge consists essentially in engaging Top Performers and High Potentials on a good mix of projects along with the appropriate coaching and/or mentoring support and assistance. On one hand, a range of operational projects would target immediate performance. These visible quick wins can be highly motivational for the overall program. On the other hand, some other projects will instead contribute to the long-run growth without excluding opportunities in terms of mergers and/or acquisitions if a crisis tempted management to seek "cheap acquisitions".

Last but not least, it sounds as though such engagement and change management processes offer a unique opportunity to the HR function to contribute, in a positive manner, to the performance recovery in CEE & CIS, which can partially compensate for the side effects of a downsizing program.

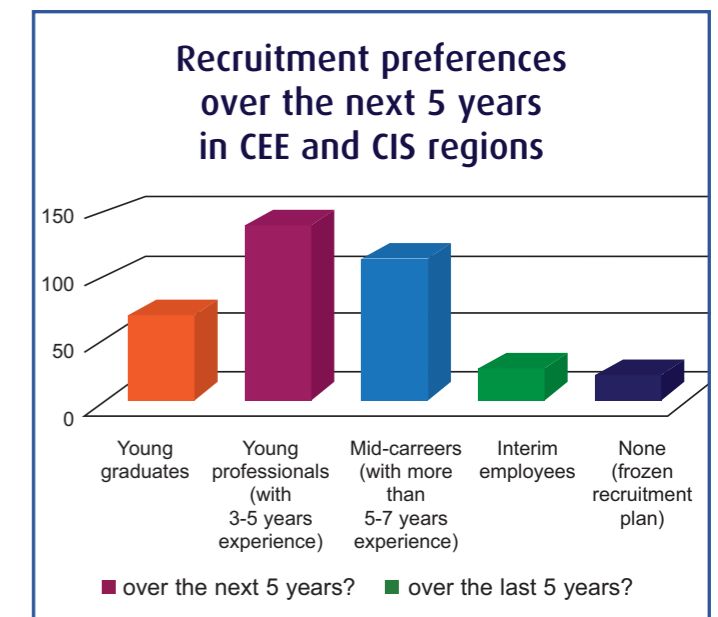
## Recruitment: attracting talented executives will become more and more demanding in the near future

Employers in CEE & CIS see their ability to guarantee employment stability and provide clear career development opportunities diminishing over the next five years. At the same time, finding and attracting top talent will remain difficult. Hand in hand with this,

a major obstacle to attracting the best managers will be the company's inability to meet candidate expectations. However, the survey does show that the respondents feel there will be some modest improvement in this area over the next five-year period.



43% of respondents estimate that the recruitment of talents for key positions will be harder, even much harder, over the next five years in comparison with the recent fast-growth period.



However, the executive search process will be partially (re)internalized. The movement is mainly motivated by savings programs, if not exclusively.

# Downturn: great window of opportunity to upgrade and professionalize Sales & Marketing, Operations and Risk Management in CEE & CIS

Certainly one of the greatest lessons learned from the downturn in CEE & CIS is that Sales & Marketing, Operations and Risk functions were not necessarily staffed and managed properly and, in most organizations, not always adjusted to the corporate strategy.

In order to recover part of the sharp decrease in sales and take on additional market shares recently lost by their “dying competitors”, most organizations are nowadays eager to develop excellence, reinforce aggressiveness and show pro-activeness among their sales forces in the region.

Actually, while improving customer care orientation has been one of the key priorities of investors in CEE & CIS, mainly since the '90s and the opening of these markets, we observe that this main focus has somehow lost its ranking after the fast-growth decade.

In a fast-growth favorable context, repeated outstanding sales records can lead to certain negligence of sales workforce quality and relative management standards.

With the downturn, the “easy selling” due to a booming demand to satisfy and financial ability to consume has vanished.

Consequently, the real performance of sellers can really be assessed today. The weakest are simply unmasked.

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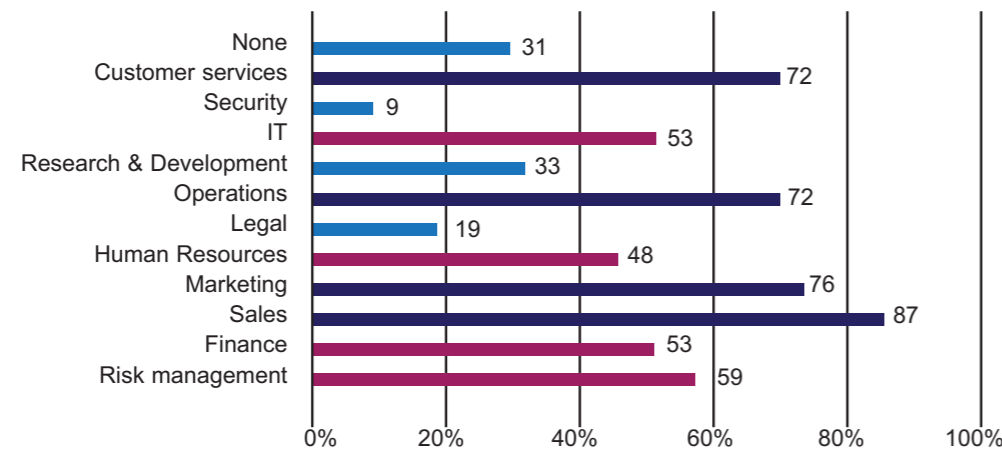
They also want to strengthen their ability to retain and develop clients while being more selective to improve the quality of the portfolio and limit the bad debt ratio which requires professionalization of segmentation. They are also keen to introduce new standards and new practices such as data mining to reinforce customer care, promote sales, new initiatives and enhance innovation & creativity on pricing policies and distribution channels.

The number of executive searches for Top Sales Position has clearly increased since the beginning of the downturn. Investors are, more than ever before, keen to completely remodel and reshape their sales management teams by attracting top performers and leaders from the benchmarked industries. They are looking for profiles with extremely good marketing background and risk management awareness, able to segment the existing client portfolio and propose effective sales recovery strategy with the appropriate implementation scenarios.

The ideal candidate must demonstrate good strategic thinking, confirmed analytical skills, leadership and excellent change management capabilities.

Apart from reinforcing the customer care orientation and ability of the organization to retain and develop its portfolio of existing clients, the expected revolution in sales in CEE & CIS may also concern the incentives policy for sales people, in a context where most salary increases and bonuses are simply frozen, which can lead to a dilemma at a certain responsibility level.

## What functions definitely need to be restructured and remodeled?



In the recent fast-growth context, the real performance of the sales function was masked by the high market demand dynamic in CEE & CIS. The slowdown has revealed the real value of each contributor in the supply chain. Consequently, a significant number of companies have initiated major restructurings of their sales and marketing departments.

Along with the downturn, improving Sales Effectiveness became the key priority of almost all organizations in CEE & CIS.

We can easily state that the development of sales excellence was not the norm during the recent decade in the region as sales targets were, in most cases, easily achieved when not overcome, thanks to a developing economic background, sometimes even overheating, as in Russia. In such a positive framework, the real challenge was not to sell but rather to deliver on time with or without the right level of quality.

This fundamental statement has, indeed, a major influence on the way Sales & Marketing functions were staffed and managed until recently in organizations.

The focus was, in a sense, not always put on quality nor on customer care, but rather on market shares, profit and turnover growths.

Afterwards, the quantitative dominated the qualitative, but that is changing from now.

Customer satisfaction, quality service and innovation are also strategic areas where most surveyed organizations by Amrop want to make rapid progress by 2014. It seems that the downturn has contributed to the re-focus on “customer care”. At least, Client Awareness is rising in almost all organizations.

In order to develop excellence in Marketing & Sales, most investors are keen to rely on an existing pool of identified talents. In-house development and/or engagement programs are preferable to external sourcing and traditional executive education.

As for the Risk function, we can state that during the last fast-growth decade, most risk managers in the region were kept separate from top management and often not considered essential contributors to the successful implementation of corporate strategy.

But most important of all - given the euphoria and kind of blindness provided by a too lengthy and comfortable continuous-growth path - boards simply ignored or neglected, in a number of cases, the risk scale facing their organizations. One reason is that the emerging generation of smart managers in CEE & CIS never had experienced real downturn challenges.

Indeed, many young talents met by Amrop consultants in the region over the last few years developed spectacular professional growth, sometimes unusually fast, in a unique reference framework: a continuously growing or overheating economy. It looks as if this long run and very favorable context for their personal achievements - about a decade - affected their sensitivity to cost and risk management but also limited their ability to assess objectively their own real value contribution to the business, performance and potential under new constraints.

Nowadays, the level of awareness regarding this specific background is increasing in the region. Top managers and business owners are keen to really invest in reshaping and upgrading the risk function.

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It is not about eliminating risk which remains a fundamental driving force in business and entrepreneurship in CEE & CIS where country risk scoring can be high as compared to more mature markets', but rather to make sure that risks will be understood, managed and, when appropriate, communicated.

Most experts recommend separating risk management and management control functions. They obviously need to be kept fully independent from profit centers. For instance, the "Chief risk officer" or equivalent should ideally report directly to the Board of Directors or its equivalent.

**As for operations**, this function concentrates today a significant amount of attention from the Top, as there is no performance program without key process optimization, which usually requires significant re-engineering programs.

This re-engineering work often requires the introduction of new norms and standards. Moreover, in order to achieve the savings expected from cost-cutting programs, Operations needs to work hand-in-hand with Finance and Management Control.

By doing so, a lot of investors in the region simply discovered that the current operations management practices do not really reflect the state of the art in their organizations.

## Delicate turn for HR Directors in CEE & CIS: switching from fast- growth facilitator to downsizing architect role without either real transition or strategic HR tradition in the region

During these five to ten recent years of significant growth preceding the downturn, Human Resources played a central, perhaps even key role within organizations that invested heavily to satisfy their ambition of fast development in CEE & CIS.

Actually, the contribution of HR to local business development has always been crucial when it comes to attracting talents, managing mass recruitment and training, integrating acquisitions, facilitating mergers, changing and developing organizations accordingly, identifying and retaining High Potentials, reinforcing the spirit of initiative, strengthening leadership or reshaping management style.

The full range of HR strategic accountabilities listed to sustain fast growths during the last decade ensured that the function has always suffered from the absence of a real «tradition» in its strategic contribution in CEE & CIS, which is still valid.

Most specialists appointed for the definition and implementation of HRM projects locally demonstrate solid experience in personnel administration, but don't always master the challenges and key processes of strategic HRM, organizational behavior or development. Consequently, HR Management's strategic scope is often orchestrated by the Country Director himself, with the support of Group or Regional headquarters in the region.

Thus, if these strategic accountabilities usually greatly contribute to the successful implementation of growth strategies, the Amrop experience in CEE & CIS clearly shows that their influence on value creation is also much greater in emerging markets.

HR Management's strategic scope is often orchestrated by the Country Director himself, with the support of Group or Regional headquarters in the region.

The reasons are multiple in a favorable overheating market context: with the multiplication of competition locally, the windows of opportunity are somehow shrinking while entrance ticket increases accordingly with time. In other words, the number of hurdles and difficulties faced by investors to set up businesses or take on new market shares in the region is usually growing.

At the same time, the labor market becomes rapidly very demanding and highly unstable. Faced with talent shortage, investors sometimes must deal with significant wage expectations from candidates without any guarantee regarding their loyalty as compared to more mature countries.

The scarcity is also valid for good senior profiles with relevant experience in many areas of expertise, which remains one of the specific features of the region because of past economic transition and old system collapse. It is still partially true and not yet even achieved in CIS, by the way.

Thus, along with the generalization of the downturn, the main role of HR function has dramatically changed recently in the CEE & CIS region by having to switch without real transition from supporting fast-growth management to implementing optimization programs including, sometimes, heavy restructuring.

While the level of risk borne by investors is always symmetrical with the level of their financial commitments, the scale and amplitude of the current economic slowdown are recognized for being much more significant in emerging zones such as CEE & CIS – with the remarkable exception of Poland – compared to the rest of the world.

Consequently, the Finance and Management Control functions rapidly came back to the forefront, at least in organizations that invested massively during the last decade. Cost-cutting initiatives, investigations of new synergies and productivity gains are the new leitmotifs of top decision-makers and shareholders. In addition, the main focus is placed, today, on short-term financial results rather than on long-term growth development. The future is, more than ever before, highly unpredictable, despite the recent signs of recovery.

Along with this major change, the Human Resources function has been somehow «downgraded» losing its strategic weight, while Finance, Sales and Risk Management definitely became the first rank functions: the new triptych under pressure to leverage performance.

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Within this new panorama, the HR function is, in return, requested today to take part in the implementation of optimization programs. Its new mission often consists of assisting the so-called and quite generic «survival strategies» that prevail in many organizations, so HR is waiting for better days in the CEE & CIS region. Comfortable or not, these new strategies often (re)position HR leaders to perform the «disliked job» of assessing people, downsizing structure, and liquidating positions that are no longer justified...

Simultaneously, their main budgets are frozen, which generally affects recruitment, training and management development areas, as it is clearly highlighted in the Amrop survey results (see Key findings chapter in introduction).

# New leadership challenges for CEOs and HR Directors in CEE & CIS: shaping & driving change and engaging talents to deliver performance and sustain growth potential in the long run

Towards a new leadership style in the region: during challenging times, currently and for the next few years, CEOs will have to embody the HR Manager role but also excel at Corporate Communication

Because of the downturn and its high resonance in CEE & CIS compared to more mature markets, CEOs are already required to take on the roles of Corporate Communication and Human Resources Directors in addition to their existing accountabilities. The challenge is to keep employees informed, motivated, engaged and involved in business concerns.

Actually, they have to prepare the ground for change and effectively lower resistance. To do so, they need to get closer to their employees, apply frank and more systematic communication globally at all levels of the organization, which definitely is not the natural way of managing people in the region.

The challenge here is to raise the level of confidence in the company, its future and the quality of its management.

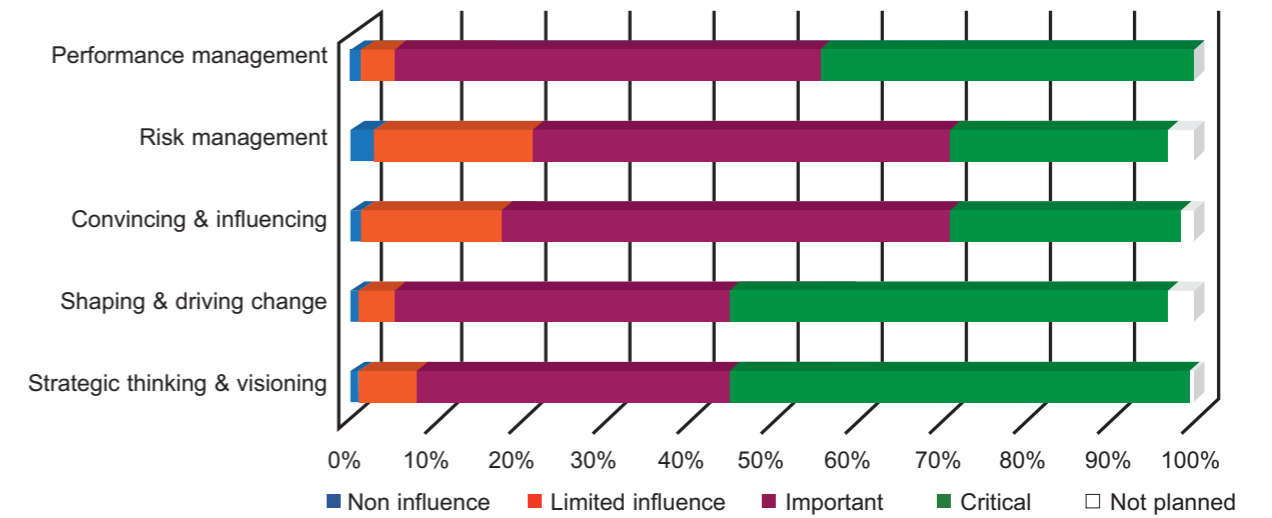
The quality of the corporate communication indeed constitutes a real keystone in times of turbulence and high uncertainty. Its effectiveness is always critical to the change implementation success. The chosen key messages, the employed channels, and the compliance of its content with the top management behaviors can unite or separate employees, increase or decrease resistance to change, leverage the engagement and boost productivity or decrease, on the opposite end, the level of motivation and commitment at work.

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All these new accountabilities constitute a major challenge indeed, particularly in CEE & CIS where the boss usually embodies the "Father" role, including all attached symbolic responsibilities. But also because both functions, Corporate Communication and Strategic HRM, have quite a poor tradition along with a limited involvement in decision-making for strategic concerns locally. In other words, the professional maturity of these two critical functions for today's challenges is not always at the requested level.

Taking into account these specificities, the temptation for local CEOs to neglect these new accountabilities might be high, as these functions deal much more with soft matters and intangible assets: people and information. In the region, most local CEOs feel more concerned about hard matters such as Strategy, Finance, Sales or Operations. Another reason for such an assumption is the chronic absence of real Corporate Communication function in most organizational charts.

What key leadership competencies drive organizations' success in CEE & CIS?



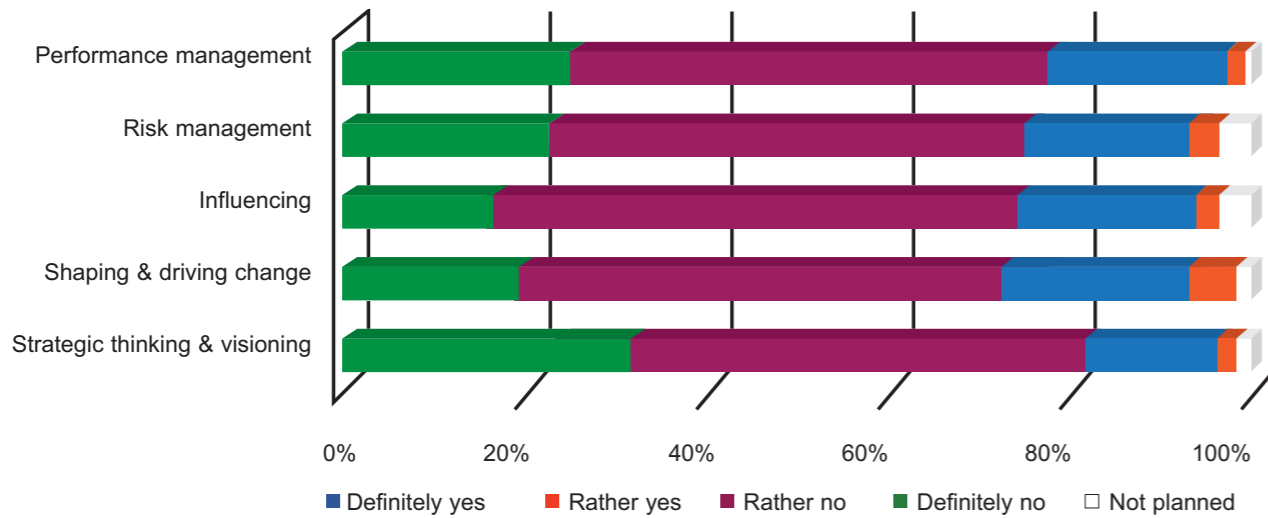
Locally, CEOs have a multidimensional role indeed. Their ability to understand and decode their key employees' concerns and specific expectations promotes a motivating and engaging environment, which often makes the difference between organizations who win and the others. This performance factor is particularly true and verified in situations of economic slowdown.

Consequently, among their new key accountabilities, CEOs and HR Directors in CEE & CIS will have to focus on talent management and share the same agenda.

The existing pool of talents and top performers, which required so much effort and investment to attract and retain during the last decade of fast growth, definitely needs to be developed and supported nowadays – preferably on an individual basis. The loyalty of high achievers will strongly depend on the quality of this follow-up process.

The talent pool also needs to be involved in change if they present professional maturity and readiness. In a few words, the dream team of today is not necessarily the dream team of yesterday, and it probably won't be tomorrow's dream team.

To what extent do organizations already own these key leadership competencies in CEE & CIS?



30% of the surveyed companies estimate that leadership skills such as initiating and leading change effectively are missing from existing management teams in CEE & CIS. Strategic thinking, vision sharing, shaping and driving change are the main leadership competencies that can leverage companies' performance in the region.

The implementation of drastic change and sometimes the revolution of the business model may also require reshaping the dominant management style, remodeling the talent pool and redesigning the reward system.

When the appropriate leadership skills for shaping and implementing the requested transformation are missing, the induction of new leaders from outside can be the perfect alternative. Bringing their own experience and benchmarks to the business, they can easily be used as "change agents," as they embody a kind of rupture with the past.

## Change of paradigm to motivate and assess CEOs' performance in CEE & CIS?

While top managers were assessed on their ability to attract and retain talents to sustain fast growth on the one hand, or win the race against competitors and develop new market shares aggressively on the other hand - sometimes at the cost of huge investments - during the last decade, they are nowadays often assessed on the basis of concrete and optimization achievements: save profitability, excel in cutting costs and limit losses in the worst cases.

Key managerial competencies requested during the last decade differ from the leadership skills requested today to implement the optimum cost structure, downsize the organization, save short-term profitability or change the business model of the company.

More specifically, the current downturn requires other key competencies such as: fixing objectives and motivating people under uncertainty, shaping and driving change, sharing the vision, managing conflicts, lowering tensions and resistance to change...

We can also wonder to what extent these new accountabilities and new leadership requirements really affected the composition of country management teams in CEE & CIS since the beginning of the downturn.

Thus, it seems a bit risky to state that most investors reviewed and aligned their bonus and incentives policy - as they are supposed to stimulate the appropriate behaviors among top managers - with the new challenges in the region. That's simply not true, for the time being at least...

## Conclusion

The word employed for crisis in Chinese can have the meaning of both danger and opportunity depending on its usage context. This ambivalence has never been as true as the present.

Without a doubt, the majority of organizations who already invested or still invest today in CEE & CIS today have to cope with difficult trade-offs and make uneasy decisions that will shape their business trends and affect their performance over the next five years.

In addition to supervising their business in times of pressure, most CEOs in the region will have to embody the HR & Corporate Communication Directors' roles in order to engage everyone within the appropriate change dynamics. Shaping a new vision of the future, sometimes challenging and reinventing the business model, and engaging key employees while limiting resistance to change at the same time -- all these new challenges require certain leadership skills which are not necessarily the same ones that made the same CEOs successful during recent euphoric years.

However, investors who look for new opportunities and alternatives to cost-cutting programs, adopting a positive approach to their talent and business initiatives should overcome the recession more easily than others, having prepared the groundwork for growth and recovery with an advanced Talent Advantage once the downturn is over. Actually, the ability of any organization to take over and develop further market shares lost by competitors will require an adequate "HR reservoir", which is strong, engaged and motivated in the near future.

Therefore, HR Directors will have to show their creativity and ability to innovate to tackle the side effects of the downturn by combining approaches that focus not only on saving money, but above all on engaging, developing and retaining top performers & talents.

At the end of the day, the Talent Advantage will really make the difference once the crisis is over. The winners, for the upcoming years in the CEE & CIS region, will be organizations that keep investing in top performers and talents and who are capable of leveraging performance and new growth opportunities through people engagement, not only through cost optimization.

The necessity to save profitability or limit losses in the very short term should not lead to the negligence of the main competitive and performance challenges over the mid and long run in CEE & CIS. And these challenges will greatly depend on the quality of human resources and the way they will be managed and engaged.

In other words, enhancing key employees' engagement, developing and retaining talents are to become the number one topics over the next five years. The challenge here is not only to successfully manage change globally, but above all to guarantee in the near future the organization's ability to deliver sustainable performance.

## Amrop's key recommendations to enhance performance through talent

- Benchmark the key positions of your organization with what the market may offer to guarantee the best in class level;
- Conduct key employee and talent reviews to speed up the professional growth of individuals (promotion, cross-functional move, job enrichment), nourish the retention plan with incentives that preferably match individual motivation drivers and update succession planning;
- Identify and segment the key contributors to the value creation: talents, top performers, high potentials, critical positions (experts, key account managers...);
- Qualify the main motivation driver and specific short-term and long-term expectations per each key contributor (career path expectations, mobility readiness...);
- Structure and reinforce the follow-up on an individual basis for key contributors (coaching, mentoring);
- Test the organizational climate, monitor perceptions and reshape the management style when needed;
- Check the convergence of vision shared at all levels of the organization and align individual objectives and the company strategy;
- Invest in engagement programs to enhance performance: improved retention will be an immediate outcome;
- Involve key contributors in the development of Progress Plans; participative management will lower resistance to change and motivate commitment to achieve and deliver during their implementation;
- Develop Excellence programs in order to disseminate best-in-class practices and benchmarks lessons learnt to reinforce sales effectiveness and professionalize risk and operations management;
- Structure and reinforce the Corporate Communication function to support change dynamics.

## About Amrop

Amrop is a global executive search network with over 80 offices in some 50 countries. With offices throughout the CEE & CIS regions, Amrop is truly the leading firm in executive search in Central and Eastern Europe.

As a strong proponent of leadership development and human capital solutions, Amrop provides outstanding search services for top-level management and board positions.

From Budapest to Moscow, from Tallinn to Sofia, Amrop has a strong local team to meet your executive search needs.

To satisfy its clients' specific development needs, Amrop also offers a range of complementary and innovative services that aim at enhancing HR performance, such as: change management, new executive on-boarding, mentoring and executive coaching, engagement programs for best performers and top talent, management assessment and talent development.

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Jerome Touiller leads Amrop's Human Resources Services for the CEE/CIS region, which offers consulting in five main areas: Leading Change, Managing Talent (identification, development, retention, succession planning), Performing HR Acquisition & Integration, Developing Management, Engaging top performers. Jerome holds an MBA awarded "with distinction" from Warsaw University of Technology jointly with HEC Paris & London Business School (2004).

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