Building Leadership Capabilities For Future Growth In Medical Technology
-A European Perspective

Facilitated by the Global Life Sciences Practice
The economic landscape in general and the European healthcare sector in specific have undergone significant changes since 2008. Market spaces are being redefined and, like other sectors, the medical technology industry faces many challenges as it reinvents itself in the region.

The first half of 2014 saw unprecedented activity in the global medical technology sector with mergers, consolidation and funding. These trends are likely to continue into the near future.

• So what impact does this have on medical technology organizations in Europe?
• What do business and HR leaders in the region see as their key business and leadership challenges and priorities?
• How can an effective leadership and talent development strategy help develop and execute an effective response to a changing market-place?

To answer these and other questions, Heidrick & Struggles conducted a study involving senior business and HR executives from multinational and local medical technology players in Europe. Our findings should help medical technology companies compare their own situations with the rest of the industry and provide insights regarding talent management in the future.
The study revealed that the near-term issues facing medical technology companies in Europe are on four fronts: price pressure, driving top-line growth, attracting/retaining/developing talent, and market access and reimbursement.

More than 70% of the executives felt that price pressure will be the most important challenge they will face in the near future, followed by driving top-line growth. Approximately 35% of the respondents selected market access and reimbursement.

These findings suggest an increasingly challenging environment as payers and healthcare providers look to cut costs and focus on efficiency and value creation.

Dealing with these challenges requires leaders to set priorities. These priorities should reflect the inherent strengths and weaknesses of the sector in general and prompt questions as to the organization’s ability and readiness to respond to the challenges.

When asked about the top two priorities for the next couple of years, many leaders cited top-line growth, innovation and development of new products, and driving operational efficiencies.

“Growth in Europe is essential for a global player like us-in order for the company to reach its overall growth objectives”

Senior executive of a major med tech corporation

The top three issues facing my company over the next 1-2 years in Europe will be:

- Price Pressure: 71%
- Topline Growth: 63%
- Attracting/Retaining/Developing Talent: 38%
- Market Access/Reimbursement: 35%
- Operational Efficiencies: 29%
- Healthcare Reforms: 25%
- Profitability: 21%
- Regulation: 8%

The top two priorities for my company in Europe over the next 1-2 years are:

- Topline Growth: 40%
- Innovation and New Products: 38%
- Driving Operational Efficiencies: 37%
- Pricing and Gross Margins: 35%
- Attracting and Retaining Talent: 27%
- Manage Bottom Line While Maintaining Revenue Levels: 17%
- Market Access and Reimbursement: 12%
- Consolidation or Contraction: 2%
LEADERSHIP IS STRONG TODAY BUT A LONG-TERM CONCERN

An organization’s ability to meet its strategic goals depends on its leadership team. A strong, talented, stable leadership team is the best catalyst for growth, efficiency and innovation. However, the leadership competencies required to drive growth in competitive markets is constantly changing. As a result, leaders need to adapt, be flexible and innovate.

Successful organizations usually have a bench of leaders deemed capable and ready to take over when there is a change, internally within the leadership or externally via changing market conditions. More than 50% of the respondents in our survey think that their organization’s leadership capability to drive strategy is solid today, but there is concern about the long term and preparedness for the future.

Leadership teams in most European medical technology firms are stable today, but change requires companies to rethink business models and their approaches to the market. Any organization that wants to grow and innovate must be willing to consider new competencies and new perspectives.


“Building capabilities for future growth is most critical. Leaders in MedTech must use internal and external resources and networks to build these capabilities including looking beyond our own industry and learn from retail, telcom and other industries”

Maarten Van Beek
Executive Vice President Human Resources & Corporate Communications at Mölnlycke Health Care

The following stands true for my organization’s leadership capability to drive the strategy

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding Leadership for &quot;Today&quot; &amp; the Future</td>
<td>31%</td>
</tr>
<tr>
<td>Solid &quot;Today&quot; But Long-Term Concern</td>
<td>52%</td>
</tr>
<tr>
<td>Somehow Managing &quot;Today&quot;</td>
<td>13%</td>
</tr>
<tr>
<td>Immediate Concern (Struggling With &quot;Today&quot;)</td>
<td>2%</td>
</tr>
<tr>
<td>Don’t know/Can’t Say</td>
<td>2%</td>
</tr>
</tbody>
</table>
LEADERSHIP GAPS IN A HIGHLY COMPETITIVE TALENT MARKET

The most important talent needs for the next five years are in sales and marketing, general management, and market access and reimbursement roles.

Despite a high priority for innovation and new products, only 12% of leaders think they will be investing in research and development talent, because so much of the medical technology R&D is based in North America. There is an inherent risk of misalignment between local needs and central R&D priorities. This raises a question about how companies should organize themselves for better alignment across regions in terms of customer needs, regulatory constraints and payer priorities.

European leaders should reconsider their R&D priorities in terms of the competencies required to accelerate innovation and new products. They should be asking whether their organizations have the right R&D talent in place to bring significant new value to the business, and thereby generate growth in the top line and market share.

From a geographic perspective, finding the right talent for medical technology companies is more difficult in Central and Eastern Europe than in the rest of the region. Leaders need to treat Europe as one large talent pool and leverage skills and competencies by sourcing cross-border talent and effectively integrating them into the organization. A pan-European and even a global perspective on talent development has never been more relevant.

Many organizations do not have adequate bench strength and succession planning in place for these critical roles. About 46% of the executives in our study are not confident about filling senior-level talent.

The top three most important talent needs within my company over the next 3 to 5 years for Europe

<table>
<thead>
<tr>
<th>Talent Need</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales &amp; Marketing</td>
<td>69%</td>
</tr>
<tr>
<td>General Management (P&amp;L)</td>
<td>63%</td>
</tr>
<tr>
<td>Market Access and Reimbursement</td>
<td>55%</td>
</tr>
<tr>
<td>Operations</td>
<td>24%</td>
</tr>
<tr>
<td>Supply Chain and Production</td>
<td>20%</td>
</tr>
<tr>
<td>Finance</td>
<td>14%</td>
</tr>
<tr>
<td>Research &amp; Development</td>
<td>12%</td>
</tr>
<tr>
<td>Human Resources</td>
<td>10%</td>
</tr>
<tr>
<td>Board Directors</td>
<td>10%</td>
</tr>
<tr>
<td>Information Technology</td>
<td>6%</td>
</tr>
<tr>
<td>Others</td>
<td>6%</td>
</tr>
</tbody>
</table>

In my company, the biggest talent gaps are in the following two regions

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastern Europe (EE minus CIS)</td>
<td>46%</td>
</tr>
<tr>
<td>Central Europe (Germany, Switzerland, Austria)</td>
<td>44%</td>
</tr>
<tr>
<td>Southern Europe (Spain, Italy, Greece)</td>
<td>38%</td>
</tr>
<tr>
<td>Western Europe (France, Benelux)</td>
<td>31%</td>
</tr>
<tr>
<td>Middle East</td>
<td>25%</td>
</tr>
<tr>
<td>Northern Europe (UK, Nordics)</td>
<td>23%</td>
</tr>
</tbody>
</table>
requirements that will come up in the next five years, which is proving to be a major concern for these organizations.

While attracting and retaining talent is critical for any organization to achieve its business goals and objectives, it becomes even more difficult in a highly competitive environment. More than half the participants in the study were not confident that their organization will be able to attract or retain good talent.

Companies today are not only looking at hiring from within the industry but from outside as well to fill their key leadership positions and add best-in-class competencies to their organizations. When companies look for talent outside the organization they find the best fit in other medical technology companies, followed by pharmaceuticals and biotech companies.

When we have recruited people from outside, the following two industries have proven to be the best fit for candidates

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other Medical Technology</td>
<td>67%</td>
</tr>
<tr>
<td>Pharmaceuticals and Biotechnology</td>
<td>43%</td>
</tr>
<tr>
<td>Other Healthcare</td>
<td>29%</td>
</tr>
<tr>
<td>Industrial and Manufacturing</td>
<td>22%</td>
</tr>
<tr>
<td>Consulting</td>
<td>12%</td>
</tr>
<tr>
<td>Consumer Products</td>
<td>8%</td>
</tr>
<tr>
<td>Others</td>
<td>2%</td>
</tr>
</tbody>
</table>

My organization will be able to fill senior level talent requirements in Europe internally in the next 3 to 5 years

- Very Confident: 6%
- Fairly Confident: 48%
- Not Very Confident: 40%
- Not at all Confident: 6%

We use external recruiting mainly to fill senior positions in

- General Management (P&L): 76%
- Sales & Marketing: 69%
- Finance: 65%
- Market Access and Reimbursement: 39%
- Human Resources: 39%
- Operations: 33%
- Supply Chain and Production: 31%
- Board Directors: 29%
- Research & Development: 18%
- Information Technology: 16%
- Other (please specify): 10%
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The Medtech Talent Scorecard

- **My organization has adequate bench strength and succession planning for critical roles:**
  - Disagree: 52%
  - Neither Agree Nor Disagree: 20%
  - Agree: 28%

- **It is critical for my organization to better attract top talent in order to successfully execute its business objectives:**
  - Disagree: 4%
  - Neither Agree Nor Disagree: 8%
  - Agree: 88%

- **Attracting and retaining talent in my company is an issue:**
  - Disagree: 46%
  - Neither Agree Nor Disagree: 38%
  - Agree: 16%

- **My company has successfully recruited from outside the industry to fill key leadership positions in the last two years:**
  - Disagree: 26%
  - Neither Agree Nor Disagree: 16%
  - Agree: 58%

- **Executives brought into my organization from the outside have a difficult time being successful:**
  - Disagree: 40%
  - Neither Agree Nor Disagree: 38%
  - Agree: 22%

- **My organization has strong learning and development capabilities and a track record of growing top talent from within the organization:**
  - Disagree: 22%
  - Neither Agree Nor Disagree: 29%
  - Agree: 49%

- **When recruiting from within the industry we operate in, my company has found it difficult to find top notch talent:**
  - Disagree: 32%
  - Neither Agree Nor Disagree: 30%
  - Agree: 38%

- **Attracting talent has more to do with external forces than the company’s brand equity:**
  - Disagree: 60%
  - Neither Agree Nor Disagree: 26%
  - Agree: 14%
IN CONCLUSION

Top priorities imply profound changes in the medical technology sector

Top-line growth and development of new products have become top priorities in a post-crisis environment for the European leadership of medical technology companies. The two priorities go hand-in-hand from the perspective that innovation and new products bring sustainable top-line growth. Innovation is needed not only for researching and commercializing new products, but also for sales practices, talent management processes, and efficiency programs.

Bringing innovation back to the front line will require companies to evaluate whether they have the right competencies in place to do business differently in the new environment. It is important to have or bring in talent who can adopt new approaches and develop and execute new strategies. A change in company culture could also be on the agenda for companies to develop into true partners with health care providers, payers and patients.

Identify leadership competencies required to manage innovation

The survey demonstrates that the talent agenda remains key for companies to achieve their objectives of top-line growth and increased innovation. Medical technology companies need to focus on developing the competencies their executive require in order to deal with this dynamic environment. Building strong leadership teams and managing talent is essential. Those who address these issues early will progress faster and be better prepared to face the future.

Go for best practices within talent management

Our research suggests five initiatives to enhance the talent management process within medical technology.

1. Rethink competencies:

Resources need to be identified from a highly innovative and sophisticated talent pool. This pool should be experienced in:

- handling both business and operational skills.
- taking an entrepreneurial approach to business opportunities and customers.
- negotiating with a high number of different stakeholders.
- understanding technical aspects.
- analyzing and understanding data.
- linking business strategy to human capital.
- optimizing processes and relentlessly striving for performance.
- agility to act in a changing environment, adopting business models.

2. Conduct proper succession planning:

Effective succession planning is an essential prerequisite to building strong leadership teams.
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It helps organizations convert strategy into goals. To successfully execute a strategy an organization needs the right people at the right place.

Organizations should measure the strength of their talent and understand their talent gaps so they can develop them into leaders who can focus on customers, drive innovation and think outside the box.

3. Treat Europe as one talent pool:

Overall, leaders see long-term gaps in their talent pool. There is a geographic dimension to this challenge as the gaps appear to be more important in certain parts of Europe than others. The new talents and competencies required to induce innovation into R&D and commercial business modeling are not necessarily available at the medical technology company next door. Even more than today, companies will need to have a pan-European dimension to their talent acquisition strategy.

4. When recruiting externally, look at best-in-class sectors:

The survey highlights the practice of looking for the right skill sets outside the traditional medical technology space in adjacent sectors such as pharma, biotech and other healthcare sectors. Changes in market dynamics are likely to accelerate this. Looking at best-in-class sectors for new talents and competencies is becoming part of today’s talent acquisition strategy.

5. Be mindful of cultural fit and the onboarding process:

Molding new talent to fit the culture of the organization should be a key priority, particularly for executives coming from different cultures, geographical regions or industry sectors. Significant resources are applied in identifying and hiring new talent, but an elevated selection and onboarding process is becoming increasingly important to ensure successful integration of new talent. It is a process that starts with early detection of critical cultural fit during the search process and ends months into the hiring when the new talent receives structured feedback and action plans from managers, colleagues and other stakeholders.

“We have established a direct-to-consumer business platform by hiring FMCG talents from outside the industry. Talents which will gradually transform the DNA of the company”

Senior executive of a major med tech corporation
Heidrick & Struggles is the premier provider of senior-level Executive Search, Culture Shaping and Leadership Consulting services.

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About the Life Sciences Practice

In 1988, Heidrick & Struggles formed the profession’s first Healthcare and Life Sciences Practice. Today, the practice has more than 80 consultants and associates based in principal cities around the world, operating as an integrated global team. Our practice specialists possess first-hand knowledge of the criteria for successful leadership with many being veterans of the space. Our team has deep expertise in multi-country and global projects, and is highly successful and well known for our work specifically in growth markets.

Serving a wide variety of public and private companies from early stage start-ups to large public companies, our work gives us unique access to insights obtained through conversations with clients and candidates alike. We collaborate with colleagues from our firm’s functional practices and leadership consulting and always assemble the most appropriate team for every mandate. Together, we help our clients achieve their business objectives.

WE HELP OUR CLIENTS CHANGE THE WORLD, ONE LEADERSHIP TEAM AT A TIME™

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