

In This Issue >

**Message
From The
Editor**

P. 1

**The "B" in BRICs
Goes Green** By
John Murray

P. 1

**Market Movers in
Russia: The
Charging Bear**

With Julia Nikitina
P. 3

Message From the Editor

"BRIC"— an acronym that is on the minds of many people in nearly every quarter of the globe. And for good reason. Brazil, Russia, China and India represent a path to success against tremendous odds.

Each country is significantly different in terms of the strategies and approach to achieving economic success. In addition, the current level of that success is also significantly different.

But each is also similar in one key way: the desire to

become a leader and achieve a higher level of economic, social and cultural standards for its citizens.

In this issue of *Spotlight* and the next issue, we will focus on the BRICs, as they are collectively known. In each of these key economies, Boyden Associates will provide insights into the unique opportunities, challenges and issues facing these economies, as well as examine the opportunities and issues that executive search can work to solve for companies there.

The April issue will discuss Brazil and Russia and the unique issues found in these two fascinating countries. John Murray was gracious enough to offer his perspective on the Brazil economy, and Julia Nikitina worked with us in developing the Russia article. The Russia article is an expanded version of the recent piece produced for *Boyden Worldview*.

We hope you find this information to be interesting and insightful. The issue on India and China will be available in May.

The "B" in the BRICs Goes Green — It's All About Ethanol!

By John Murray

"BRIC" is an acronym invented by bankers. It refers to those giant emerging markets that will produce two digit growth rates continuously for the foreseeable future. If we use this definition, it is questionable whether Brazil deserves to be included as one of the foursome.

Why then should Brazil be included in a group with such lofty expectations? Remember that BRIC was never meant to include or imply the rest of South



America. Brazil was and is a standalone region: 180 million people with a land-mass greater than the continental United States. The national language is Portuguese. Trade is as strong east-west as it is north-south. Growth rates have not come near those prognosticated by the

investment bankers. In 2003 the bankers predicted that Brazil, Russia, India and China would be the economic powerhouses of the world by 2050. In 2006, however, Brazil's GNP growth was one of the lowest in South America. Can, or should, Brazil remain as part of this impressive group



called the BRICs?

The answer, in my opinion, is absolutely yes. Brazil has taken a conservative approach to its economic development and management. And the fruits of this approach have yet to ripen. We will not see explosive growth like in China. But the prospects are for steady, sustainable growth, based on a diversified economic approach to



key areas like the industrial, agricultural and mining sectors.

Russia with its vast energy resources; India with its high productivity ability; and China with its human capital advantages: all have weak points far greater than Brazil. India could be overheated. India's poor are poorer than Brazil's disadvantaged. Russian saber rattling surely must make investors nervous. China is already showing signs of being unable to manage the growing demands of its population.

Brazil, on the other hand,

is showing new promise. When President Bush was recently in São Paulo I had the privilege of being one of a select number of executives to receive him. He pointedly made Brazil his first stop on a long-awaited South American visit. In fact, it is unusual that his visit with President Lula will be reciprocated at Camp David in the very near future.

Something is going on and that something is alternative energy. Bush came to Brazil looking for a partnership: he was not giving something away and he was not imperialistically taking. The old concept of a Latin American Free Trade Association is dead; in its place is the birth of a new Brazil-USA relationship based on ethanol and biodiesel.

The agreement signed unceremoniously last week by Bush and Lula is an historical agreement of cooperation. Agro-energy is the new buzz word. President Lula felt comfortable telling his detractors (and there are many who would not like to see a USA-Brazil partnership) that he was elated with the idea that Brazil would lead the world in the reduction of global warming.

Bush stressed the US need to reduce dependence upon imported energy from countries that are politically unstable. And both saw the challenge of convincing their respective local politicians of the need for a lib-



eralized trade of bio-fuels free from import duties (the USA has a 54 cents a gallon tax on ethanol) and other impediments. Although obviously not all for export, Brazil has the potential to produce all of the 132 billion liters of ethanol that is needed to substitute 15% of the gasoline in the USA and, in terms of cost and the energy exchange required to produce ethanol from sugar cane the mathematics are clearly in Brazil's favor.

The US, with corn, will quickly outstrip Brazil as an ethanol producer, driven by strong lobby efforts for a massive US\$65 billion in Federal incentives. But, there is a limit. Food comes first and farm land is precious. Brazil, however, is the only place on earth which does not lack new land to plant sugar cane. Brazil is said to have enough arable land — open prairies not forests — to handle any predicted demands. We are talking about 230 million hectares of arable farm land in 2005, only 60.4 million of which were being used. Of those 60.4 million, 5.34 million were planted with sugar cane, producing roughly equal amounts of sugar and ethanol.

So, things are changing even as I write this article. Bush wants Brazil to be a strategic partner. Lula is aware of an opportunity to propel Brazil into a world leadership role heretofore unobtainable. At the same time, Brazil's aspiration to economic leadership overshadows any political movements by other South American leaders.

Clearly there is reason to believe that a new cycle of growth is beginning. It may not be as large as the BRIC bankers first envisioned but 3% a year is attainable and, if sustained, Brazil will properly earn its capital "B" in the BRIC formula.

John deMarmon Murray is a Managing Partner of Boyden Brazil. He is an ex-Director of Boyden World Corporation and the 2002 recipient of the Boyden Bowl for Search Professionalism. John Murray is a graduate of Yale University and is the current President of the Yale Club of Brazil. Boyden Brazil is the pioneer international search company in Brazil, having been established in 1968 as a Boyden subsidiary. Today it is our largest licensee in the region. A propos this article, Mr Murray, a former CFO of Cargill Brasil has many international agribusiness companies among his clients.

Market Movers in Russia: The Charging Bear

Russia is a country that fascinates both the developed world and emerging economies. It was the largest republic in the Soviet Union, and following the Union's dissolution, the rate of change in Russia and the Central Independent States (CIS) was witnessed with great admiration, particularly for the resilience of its people. Russia's geographic location - rich in natural resources, but lacking workable soils and climates - demonstrates the country's extremes, reflected in both its people and its economy.

Since the second half of 2004, the Russian economy has settled into a comfortable pattern of economic development. A resource-based economy, Russia has always held a pivotal position in global energy supply. Inflows from resource exports have now sparked domestic demand, which has driven recent economic growth. A program of diversified growth, instigated by President Putin, resulted in growth for 2006 being concentrated primarily in non-tradable services and goods for the burgeoning domestic market.

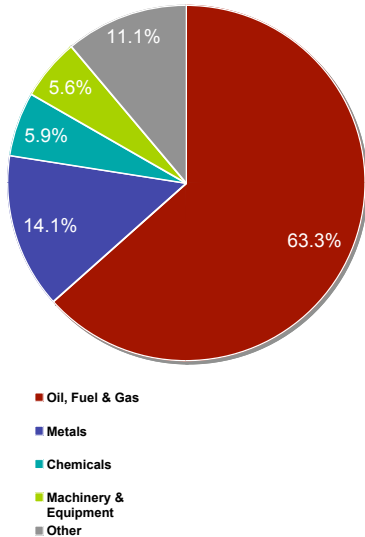
Other policy initiatives articulated last year by Putin's government include a package of measures aimed at promoting an 'innovation



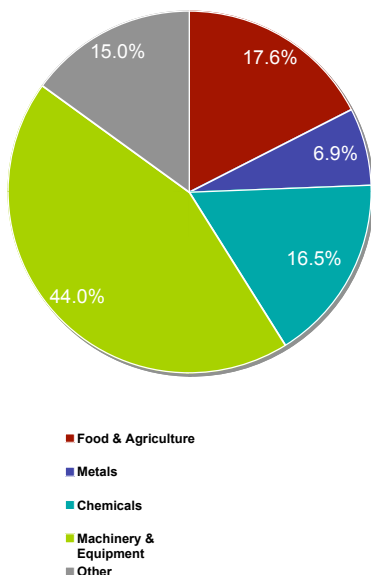
In 1991 Russia embarked on a period of transition from a centrally-planned to a free market economy. A new constitution was adopted in 1993, and reform legislation has gained momentum under Mr Putin's Presidency.

economy.' This is not only an important, but a realistic goal. Russia boasts a highly-educated population. Enrollment in higher education puts Russia on a level with Germany and South Korea, and far ahead of other BRIC economies. Literacy rates, at 98 percent and above for men and

Main Exports 2005



Main Imports 2005



women, show a general wealth of ability, topped by the kind of successful executives for which the Soviet education system was so well known. Yet this rapidly growing, large economy is facing a significant disparity in supply and demand of the right kind of executives. This is the most critical, and potentially limiting, factor in the expansion programs of international companies and the ambitious growth plans of local firms.

Large Labor Market, Small Talent Pool

It is not that talented executives do not exist. As Julia Nikitina, managing director of Boyden in Russia explains, "Westerners are often surprised to find a number of impressive executives in Russia, with numerous star players in international terms, particularly in financial services and professional services. It is the rate of change over the last ten years that is outstripping supply." And talented Russians are not necessarily staying at home. Figures from expatriate clubs show that they are a highly mobile group with, for example, approximately 10,000 Russian bankers working in London.

From Generalist to Specialist

When the recruitment market first took shape approximately 15 years ago, it was potential that search

consultants were looking for among good candidates. And they found it in abundance. "It was quite common to find highly-educated, mathematically-talented executives with good degrees gained in the 1980s," says Nikitina, remembering the days when Russia was known for its rocket scientists. "Executives who were graduates, spoke English and were open-minded could pursue highly satisfying careers. These people are now CEOs with European responsibilities, and typically offer experience working in Russia, elsewhere in Eastern Europe and also in mature markets such as the United Kingdom."

Now, beyond potential is the need for proven success and specific experience. Given current growth rate predictions, Russian companies need executives with experience from well-developed markets and multinational companies who can work with the cultural and economic challenges in Russia. In this generation skills shortages cannot simply be offset by expatriates, as it was 20 years ago. "Most companies prefer their executives to have had experience specifically in Russia, in addition to international exposure," comments Nikitina. "Those companies keen to get to IPO stage, particularly, are driving demand in investment banking, where experience in the Russian market is essential."

Attracting and Retaining the Best

A research study carried out by the London Business School among its MBA graduates showed that the overriding motivation in the quest for a new job was independence. This is exemplified in Russia, where, like other talent-hungry markets, remuneration is not the main driver for job change. "What talented Russians are looking for is a high level of responsibility and above all, independence - being empowered to make decisions and execute strategy," says Nikitina. "Russian firms offering these incentives are able to hire talented executives from multinational companies, offering the chance to work closely with a firm's owner, and build some equity for themselves."

Remuneration, though, is still important and with positive growth projections for the economy, Russian companies are able to offer attractive packages to complement extensive responsibilities, with a high base salary, bonus and options scheme.

Retention Still an Issue

This high demand for talent, coupled with a supply of candidates which is 'behind the curve,' is resulting in retention becoming the key issue it was in mature markets 10 years ago. "Companies are seeing more and more job rotation, typically every two years or so, and with it, increasingly

high salaries," says Nikitina. Companies faced with the loss of a key executive are responding by making counter-offers with salary increases of as much as 25 to 50 percent.

The Vice President of Commercial Operations at Wrigley worldwide states that Russia now ranks in the top five among the 180 countries in which Wrigley does business around the world.

the complex and slow progress of Russia's future membership of the WTO. Putin points to the success, for example of Citibank - one of the first banks to open in Russia with foreign capital - in running its operations as a Russian subsidiary [see box]. Nevertheless, Russia has achieved a bilateral agreement with the United States that could pave the way for entry into the WTO in 2007.

Did You Know?

By 2004, 40 percent of Russia's US\$546 b economy was controlled by 22 business groups.

Ford became the number one-selling foreign brand in Russia in 2006.

Half of American companies surveyed report sales increases of 200% in Russia from 2001 to 2005.

As many as 90% of Russian employees of American companies in Russia support expanding relations with the US, compared to 52% of employees working for Russian companies.

There are an estimated 250,000 Russians and Russian-speakers from CIS in London.

Alfa Bank estimates there will be US\$30-35b worth of new share offers from Russian companies in 2007, compared with US\$17.6b in 2006 and less than US\$5b in 2005.

In early 2007, Russian telecom company Sistema completed the largest-ever IPO by a Russian company on the London Stock Exchange, raising US\$1.56b.

A Priority Growth Market

Multinationals who invested in the post-Soviet free market of 1991 have seen impressive results, particularly in the new Millennium. According to the General Manager of IBM in Russia & CIS, in 2006 IBM's business in Russia grew by 20 percent. In the last quarter of 2006 growth exceeded 38 percent - a faster rate than in China, India or Brazil.

An indication of Russia's status in Europe comes from the President of cosmetics company Mary Kay Europe, who notes that Russia represents the largest subsidiary in Europe for the company, with 53 per cent of 2006 net sales for the region.

As a key market for US-based multinationals, Russia is one of the fastest growing markets for Delta Air Lines. During 2006 Delta's sales increased by 70 percent, with strong expectations for future growth.

Banking - Open or Closed?

The banking industry shows significant potential in Russia and in 2006 the financial sector attracted a notably higher share of FDI than in previous years. As a percentage share by sector, FDI in finance rose from 3.8 in 2004, to 11.2 for the first nine months of 2006. This is despite Putin's reluctance to open up the banking sector to foreign investors — the primary reason behind

The Value of a Search Consultant

The executive search market in Russia is, like other service industries, seeing exponential growth, but simply finding executives with the right experience is not enough. Nikitina explains, "the challenge for search consultants with candidates is to develop a real sense of what motivates each person as an individual. The challenge with clients is to develop such a deep knowledge that candidates can be closely matched with the client's corporate culture. "In an environment where there is so much opportunity, Nikitina knows the importance of a successful, long-term hire. "A client that offers the right candidate an exciting role, with responsibility and the independence to achieve impressive results will have less retention difficulties. This is crucial in order to not lose valuable time and momentum in this buoyant market."



The Leapfrog Effect

Executive search consultants are active in a surprisingly modern market in terms of human talent. Again, those with enough experience in Russia have seen that in the old centrally-planned economy, the workforce was predominantly male and individuals secure in their jobs for the majority of their employable years. However, in just half a generation (based on the common reckoning of a generation spanning 30 years), Russia has seen a vast increase in both young CEOs and successful senior women - a phenomenon that has taken at least one generation in Western economies. The Russian market has grown so fast that new experience and knowledge have been gained very quickly and there are more successful young CEOs here than in more mature markets such as Germany and the United Kingdom. "Look at it this way," says Nikitina,

"The evolution of Western markets over the last twenty years is being played out in say, only five in Russia. This is the rate of change and opportunity that we are working with."

Women have also leapfrogged into the new Millennium and are a growing source of talent in Russia. However, rigorous assessment is still essential in search work; in keeping with the dynamics of this country, women are a far from homogenous group. "What they do have in common though is an acknowledged results-oriented approach, underpinned by a high level of commitment," says Nikitina.

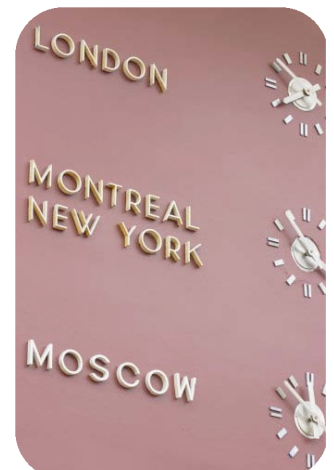
The highest concentrations of successful, senior women are in the areas of human resource management, consulting, audit and other financial services. The larger economies in Eastern Europe are well-known for their successful women executives. One of the most powerful women in Europe is Russian Olga Dergunova, Regional Chairwoman of Microsoft Russia and CIS. Miss Dergunova's success bears testimony to the outstanding career opportunities that exist for young, talented and highly educated Russians. With specialist degrees in finance, technology and business administration, fluent English and an international background, today's young, motivated executives like

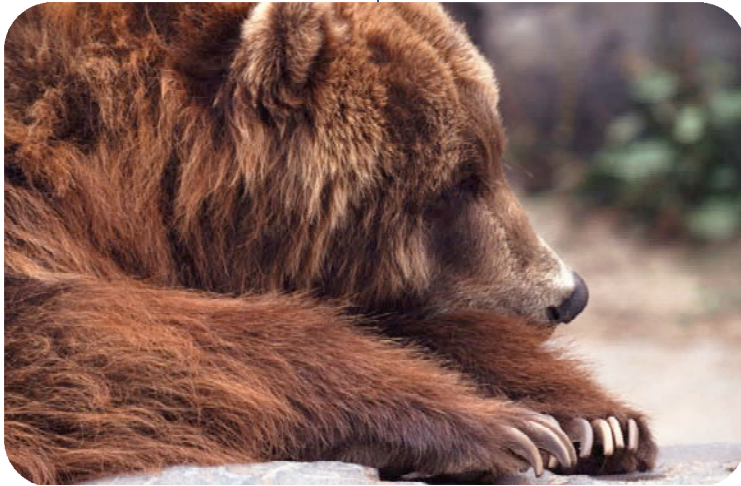
Miss Dergunova are well-placed to help Russia reach its potential as a globally dominant market.

A Global Exchange

Just as Russian executives are keen to extend their experience into Western economies, Russian leaders are also building impressive brands outside the domestic market. As a resource-based economy, it is Russia's energy companies that are leading the expansion, particularly into Europe and the United States, for example, Norilsk Nickel, the world's leading producer of nickel and palladium. The largest oil company in Russia, Lukoil, dominates oil supplies far beyond its neighboring states — Romania, Poland, the Czech Republic, Bulgaria, Turkey and the US.

INTERROS is a private investment company with US\$15 billion of assets, held in Russia, Europe, Asia and North America. INTERROS is a member of several international bodies including the World Economic Forum, Global Compact - a UN





However, Nikitina advises caution. "Expansion plans always need to include the dynamics of the local labor market, bureaucratic and legal parameters and regional discrepancies in this huge country." During the last 12 years companies entering the Russian market have experienced fantastic success and also dismal failure. Boyden's network of international offices with market-leading

that can only be understood from the inside. Its size, resources and potential are exciting, guaranteeing Russia its place on the world stage. The charging bear has no reason to stop. As Russian novelist Ivan Turgenev said, "I share no-one's ideas. I have my own." Russia will chart its own course. Having the right search consultant beside you is the decisive factor in success or failure.

Secretary-General international initiative and the Prince of Wales (UK) international business leaders' forum.

Russia's buoyant domestic market is supporting the expansion of foreign brands in the country, primarily in the consumer and automotive industry. These brands include Coca-Cola, Pepsico, Unilever, Ford and Toyota. Business services and suppliers brands include Microsoft and IBM.

Looking to the Future

The overall picture is one of much greater mobility for goods and people and therefore growing competition. In moving to an innovation economy, the government is making sure Russia is strategically placed to win increasingly global battles for business and talent. Risk levels are coming down and are generally perceived as the same as in any emerging market.



consultants offering strong local expertise is an essential resource for corporate expansion. "The critical issue is to find the right people to implement a company's strategy in the local market," says Nikitina, who frequently draws on her organizational development expertise to provide tailored solutions for clients in Russia.

In essence, Russia offers extraordinary opportunities, but it is a complex market

Boyden would like to thank the American Chamber of Commerce in Russia for its kind permission to reproduce some of the key facts on commercial opportunities in the country.