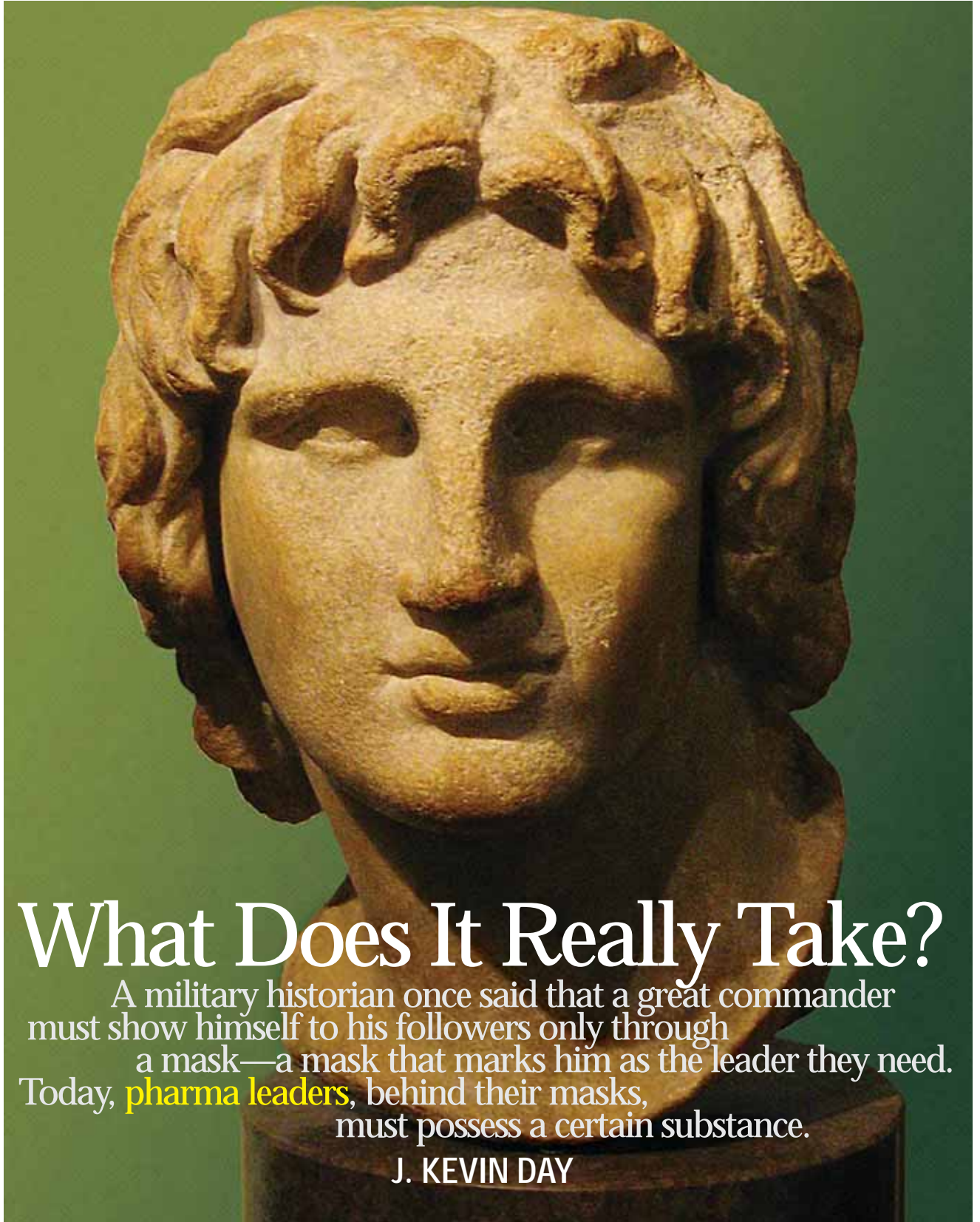


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FOR GLOBAL BUSINESS AND MARKETING LEADERS

Pharmaceutical Executive



What Does It Really Take?

A military historian once said that a great commander must show himself to his followers only through a mask—a mask that marks him as the leader they need. Today, **pharma leaders**, behind their masks, must possess a certain substance.

J. KEVIN DAY

Leadership.

It's been a subject of abiding interest ever since Eve allegedly led Adam to bet the Garden and tempt fate. The bet was not a good one, and our first mother became history's first example of the throw-caution-to-the-wind, high-risk style of leader.

Risk taking is one of the qualities that often get included on lists of key leadership traits, along with being a visionary, a strategic thinker, a steward, a coach—and, yes, even a servant. Such lists are too abstract to be helpful. Leadership, after all, evolves from the dynamic of particular situations. Without Hitler, Churchill may well have been remembered as a quirky backbencher.

To understand what it takes to lead in today's pharmaceutical environment, it's important to first understand the nature of six major challenges facing the industry—they speak volumes about the leadership qualities that will separate great industry leaders from the pack.

The Challenges

1. Finding New Ways to Grow

Mergers and acquisitions and price increases were once the one-two punch for sure-fire growth that helped Big Pharma keep the wolves at bay, especially during periods of pipeline drought. The result of all the merger and acquisition mania: Companies, like Pfizer, with its 40- to 50-billion dollars top line, must generate four to five billion dollars a year to sustain the growth shareholders have come to expect and demand. But, with only a few major players left, the consolidation game is pretty much over.

What about raising prices? This, too, is becoming less of an option. With the US government contemplating picking up what may be a \$50 billion tab for Medicare drugs, count on pressures for price controls to intensify; companies may end up not only freezing prices, but also cutting them.

The industry needs to find new ways to grow. That means identifying major unmet needs and developing effective, profitable drugs to address them.

2. Translating Technology Into Drugs

There has never been a more exciting time for the healthcare industry. There are huge untapped areas, enormous unmet medical needs, and a robust stream of new, promising technologies. The challenge: How do you decide which technologies to invest in, which business partners to trust, and which markets to pursue? How do you calculate the risks involved, and how do you deal with failure if it happens? These are tough decisions on which companies—and leaders—will be judged.

Leadership evolves from the dynamic of particular situations. Without Adolf Hitler, Winston Churchill may have been remembered as a quirky backbencher.

3. Providing Personalized Medicine

If personalized medicine isn't here yet, it's on its way. There is a revolution brewing within an increasingly vocal and powerful payer community that is unwilling to accept the fact that most major drugs aren't effective in up to one-half of the patients who take them. And recent headlines over OTC and prescription drugs with severe side effects have only added fuel to the fire. The pressure is on to identify those patients who will respond positively to a specific therapy, then to develop drugs to target them.

4. Moving Fast

As existing drugs come off patent, replacements must be found—and fast. The old model of taking 10 to 15 years to develop a blockbuster drug on which companies “bet the farm” is no longer viable. Technology is moving at breakneck speed. *Business Week* recently reported, “A decade ago there were fewer than 10 oncology drugs in clinical trials. Today over 400 cancer drugs are being tested in humans.” The race will definitely be to the swift.

5. Doing Business Globally

For many years, doing business globally meant marketing US-made drugs and devices overseas. Now, however, overseas markets are coming into their own: They are setting up their own companies, manufacturing their own products, and securing intellectual property rights. Alliances will have to be forged, foreign capital—both financial and intellectual—will have to be won, and profits will have to be distributed using new formulas.

6. Fighting the Talent Wars

Consider the challenge facing Genentech, which in the coming year, must bring aboard nearly 2,500 people. But where to find them? Talent is in scarce supply, and qualified employees are commanding premium salaries, a boatload of fringes, and ideal working conditions. Today, the average tenure of the American worker is a mere four to five years. In the talent wars for the best minds, only those companies that go beyond a gilded compensation package—providing a sense of purpose, a dynamic leader, and a culture where people are valued and mentored—will be able to attract and retain winners.

Given the witch's brew of challenges facing the pharmaceutical industry—without even touching on FDA—it's imperative that companies determine methods for distinguishing great leaders from the pack. Leadership styles abound, but some are especially suited for trying times. See next page to uncover

10 Traits for Tough Times

1. The Shrewd Dealmaker

In today's environment, a successful leader can't be a specialist. "The new CEO must be a renaissance person—someone who is an expert in marketing, fundraising, legal issues, and, above all, putting together business deals," says Mel Engle, president and CEO of Dey LP.

Rodney A. Ferguson, partner, J.P. Morgan Partners, believes there are two kinds of successful leaders in health-care today. The first, like Art Levinson of Genentech, is the rare technical genius who excels at coming up with first-in-class therapeutics to create robust pipelines. The second—and a bit more common—are business masterminds who can craft brilliant deals, like the one Henry Meyer conceived and negotiated between Roche and Genentech.

"The best M&A deal in the history of pharma was probably Roche's [1999] acquisition of Genentech," Ferguson says. "They paid \$2 billion for 60 percent of the company. Today, they own 60 percent of its \$75 billion market cap and most non-US rights to Genentech products." Ferguson believes Pfizer's Hank McKinnell is another M&A genius, with the ability to nose out deals, such as those with Pharmacia and Warner-Lambert, which gave Pfizer the late-stage drugs that made the company a leader in statins.



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RODNEY A. FERGUSON [left]

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MEL ENGLE [right]



Guidant's former CEO, Ron Dollens, made decisions quickly, sometimes with only a modest amount of data. He often went out on a limb, but more often than not, he made the right call. He knew more than anyone else in management about what was going on in the operating units of his companies.

JOE MANDATO

2. The Careful Risk Taker

Nothing ventured, nothing gained. Moving a company in a new direction is always dicey, but perhaps less so than remaining frozen in place. Not that today's effective leader must become a Monte Carlo-style risk taker. "You don't want the wild card, someone who will throw money at the hottest new thing without thinking about risk," says Scott Morrison, US life sciences practice leader at Ernst & Young (E&Y). "You need someone who will only take strategic, calculated risks."

Successful risk takers get the opinions of thought leaders and experts, and draw on their own relevant experiences. They subject the data to long, hard analysis before making a move.

Case in point: Ron Dollens, former CEO of Guidant. As Joe Mandato, managing director of DeNovo Ventures, put it, "Ron made decisions quickly, sometimes with only a modest amount of data. He often went out on a limb, but more often than not, he made the right call." Mandato should know: He formerly was CEO of one of the medical device companies that Dollens spun out from Eli Lilly to create a new entity.

Like all careful risk takers, Dollens believed in data-driven decision making. "He knew more about what was going on in any of the operating units of the company than almost anyone else in management," Mandato says.

Think about risk in terms of two factors: impact and seriousness. A smart risk taker asks, "What do we stand to lose if we don't take this step?" And: "What could go wrong if we do?" "How serious will the consequences be?"

Dollens' calculated risks certainly paid off: The \$25 billion paid by Johnson & Johnson for the company is 25 times Guidant's valuation when it went public in 1994.

A good leader also encourages a risk-tolerant culture, which means avoiding the nailing-for-failing mentality. "In Germany, if you have ever worked for a company that went bankrupt, you are stigmatized," says E&Y's Morrison. "Contrast that with Silicon Valley, where if your resume doesn't include at least one failed company, people don't take you seriously."

3. The Agile Reinventer

Think of today's great leader as the ancient Phoenix, capable of rising from its own ashes—not just once, but many times.

Casey McGlynn, chairman of the life sciences practice at Wilson, Sonsini, Goodrich & Rosati, points to Robert Reiss, head of Interventional Technology (IVT), as an excellent example of a turn-on-a-dime leader. IVT began as a phacoemulsification company. But when Reiss realized that it wasn't going to succeed as such, he shifted the company's focus to cardiovascular, and eventually turned IVT into a manufacturer of the Barath balloon. He found a way to manufacture this balloon at low cost and high reliability. Eventually, IVT was sold to Boston Scientific for over \$600 million.

4. The Focused Innovator

Focus is as important as creativity. Given the need for speed, and the opportunity-rich environment, it's easy to lose sight of the advantages of keeping within the core capabilities of the business. Genentech is a textbook example of a company that hasn't succumbed to the temptation.

As Kimberly Popovits, president and COO of Genomic Health Incorporated and a former senior player at Genentech, points out, "At Genentech, the focus became predominantly oncology, even though there were other therapeutic areas that presented opportunity."

Popovits and her colleagues are applying the insight at her current company. "At Genomic Health, we want to be the best in the world at analyzing tumor tissue and developing genomic-based diagnostic tests for cancer. Even with endless resources, you need to decide on a core competency and not stray from it if you want to become the world leader in your field."

Genomic Health's CEO's vision was contagious. I had to be a part of it; it was like a calling. How could I not help to make individualized treatment planning a reality for cancer patients?
KIMBERLY POPOVITS



5. The Inspirational Visionary

Go back to the time when gene splicing was in its infancy. Most people thought the commercial possibilities were a pipe dream. Not Bob Swanson, co-founder of Genentech. As Nick Simon, formerly general partner at MPM Capital and now managing director of Clarus Ventures, tells the story, Swanson saw what others could not. He convinced Tom Perkins, of venture capital firm Kleiner Perkins, to give Genentech \$100,000 to found the company. "Everyone doubted them," Simon recalls. "The entire industry thought it was just going to be an academic experiment, but Swanson saw possibilities they were completely blind to."

A strong vision alone doesn't guarantee success, however. The leader's vision must be compellingly communicated so others embrace it as their own. By all accounts, that's where Bob Swanson excelled, and it's one of the qualities Popovits most admires in Randy Scott, CEO of Genomic Health.

It was Scott who lured Popovits from a top position at Genentech. "As he spoke to me about his friend's cancer and his frustration with the way treatment decisions were made, I realized that this wasn't a business or a career for him; it was a passion that consumed him," Popovitz says. Scott's vision was contagious, she says. "I had to be a part of it; it was like a calling. How could I not help to make individualized treatment planning a reality for cancer patients?"

Genentech's Art Levinson is another visionary who has been able to inspire his troops with his fervor. Known in the industry for his passion for oncology, he has a way of including everyone in the company's mission and its implementation. Popovits and others who have worked with him say that his focus is never on "I," always on "we."



Great leaders have a sense of urgency about staffing their organizations, but they aren't interested in just filling jobs. They try and identify superior talent.
CASEY MCGLYNN

6. The Team Player

Narcissistic leaders build teams that are little more than reflecting pools of their own images. It's not an effective model, given the challenges ahead. Leaders that simply fill-in-the-gaps, as Mel Engle of Dey points out, "don't typically add value, and they tend to merely reinforce a leader's shortcomings." The leader who is an effective team builder looks for complementary capabilities.

Strong team builders are centered and secure; they avoid the paranoia trap fostered by churn and change. James L. Taylor, president and CEO of Carl Zeiss Meditec, recalls one executive for whom he worked years ago. "He was the best day-to-day manager, the best problem solver I had ever met. But he wasn't comfortable delegating to his team because, as he once told me, 'I just don't ever want to get screwed.' And maybe he never did, but he also never got the best from his people."

Great leaders make great personnel pickers. As Casey McGlynn, of Wilson, Sonsini, Goodrich & Rosati, observes, "They have a sense of urgency about staffing the organization, but they aren't interested in just filling jobs. They try to identify superior talent."

Great leaders also know that with the right people you can move mountains—and even ho-hum technology. Ross Jaffe, managing director of Versant Ventures, used to think it was all about the technology, the clinical issues. Now he realizes that success in the healthcare industry really depends on the team's ability to execute. "A C-level team can screw up an A-level technology or opportunity, while an A-level team can make a resounding success of a C-level one," Jaffe says. "An A team focuses on what it needs to do to achieve success, while a C team gets so caught up in its own issues that it can't possibly be effective."

Everyone doubted the commercial possibilities of gene splicing. But Bob Swanson of Genentech saw what no one else did.
NICK SIMON

7. The World Citizen

Paul Sartori, vice president, organizational development and human resources for Focus Diagnostics, recalls the response Jack Welch gave when an interviewer asked him what kind of person should succeed him at GE: The next leader shouldn't look like him. Welch was born and raised in the United States and had always worked here; GE needed a truly global leader—a citizen, not only of the United States, but of the world.

It's no different with healthcare companies. "Attitude" is a strategic disadvantage, especially in an environment focused on forging successful partnerships with local scientists and businesses in China, India, and other emerging markets. Think about the current generation of leaders in healthcare. How many of them can move fluidly across different social, business, and regulatory environments? Sartori finds European healthcare executives to be much more globally apt than their American counterparts.

"Americans come out of one massive market that they tend to



By the time most American healthcare executives get international experience, they are in their thirties or forties, or older. Europeans grow up surrounded by multiples cultures.

PAUL SARTORI

processes and protocols for encouraging information, issues, and different perspectives to bubble up from throughout the network.

Sartori points to Jan Leslie, who headed up GlaxoSmithKline, and Dan Vasella of Novartis as examples of leaders with the background and experience to really connect with other cultures.

confuse with the rest of the world," Sartori says. "By the time they get some international experience, they are in their thirties or forties, or older, while Europeans grow up surrounded by multiple cultures."

One of the great assets of a global leader is the ability to reach out across geographies, cultures, and nationalities to touch others. The hub-and-spoke approach to communication, where all messages radiate from a central locus of wisdom, is obsolete. Good global communicators not only "show up" well on all the channels open to them in the modern enterprise, but they put in place



8. The Skillful Decision Maker

A drug's efficacy or side effects come into question and FDA, the media, and the public want answers—fast. When a new product for a novel target becomes available, do you invest or walk away? Hesitate too long, and you may lose out.

It's a familiar moment of truth. The ability to make the right decisions is a defining leadership quality. Good decisions create halos; bad ones cast shadows over a company and those who lead it. What most often separates a good decision maker from the pack is the ability to access, assess, and act quickly upon information.

This is why Clarus Ventures' Nick Simon points without hesitation to Sue Hellman, president, product development of Genentech, as a role-model decision maker. Hellman excels at tapping into the collective brainpower of her colleagues to assess the potential of new products.

"Sue has a natural ability to determine who has the most relevant information to help her make a particular decision," Simon says. "She is also an insightful questioner and can extract, with just a few well-chosen questions, the critical data. By the time she has elicited the information and analyzed it, she is completely confident in making her recommendations—and they have been excellent ones for Genentech."

The decision-making process is only as deep and rich as the ideas that go into it. Autocratic decision makers operate at a competitive disadvantage. They and their organizations are the sum total of the leaders' ideas.

Given today's challenges, better to cast the

decision-making net far wider than before. Good leaders seek outside counsel. Ross Jaffe of Versant Ventures uses an analogy from physics, the Heisenberg Uncertainty Principle, to make the point: "When you are inside an organization, you are 'riding on the electron': You have a good sense of your trajectory, but you lose your sense of where you are in three-dimensional space. What you need are people who can help you balance the view you are getting from the trenches with what is going on in the broader, outside world."

The best leaders surround themselves with people, often outside board members or consultants, whose observations can help them enrich their perspective.

9. The Person of Integrity

In any discussion of effective leadership, few words come up with greater force and frequency than "integrity." It's the social cement of the leader-follower dynamic. Making a financial investment in someone is the ultimate leap of faith—and trust. It's where leadership theory meets reality.

When deciding where to invest his company's capital, Joe Mandato of DeNovo Ventures puts a premium on an honest, trustworthy company leader. He asks:

- » Does the person know and acknowledge what he or she doesn't know?
- » When the person describes the investment opportunity, is there extreme hyperbole or is the focus on data? And is the data being presented in a rational way?

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ROSS JAFFE



Leaders at mid-size and smaller companies must create similar leadership-development opportunities to those of their larger counterparts.

JAMES TAYLOR

» Does the person have in-depth knowledge of the venture, or are they just reading from a script?

» Is he or she willing to listen to and accept advice?

If all else fails, try judging trust levels in a leader or the company by Ross Jaffe's sleep test: "I've had companies that were doing poorly, but I didn't lose sleep because I trusted the people who were running them," he explains. "I can, however, recall several instances in which companies were making good progress, but I wasn't sleeping well. I just didn't have confidence in the leaders and was waiting for the other shoe to drop."

Jaffe considers honesty—with themselves and others—a make-or-break quality in leaders. Being able to acknowledge the gap between where you want the company to be and where it actually is takes a lot of moral fortitude.

"Those who can't face the true issues in their company, especially if they are the result of their own actions, will never be as successful as those who face reality, accept responsibility, and figure out how to move on," Jaffe says.

Trust and value creation aren't typically linked, but as Sartori points out, integrity is about creating value. "A person of high integrity says to him- or herself, 'I am here to create value for others—for our clients and patients, for my colleagues, for our investors, and for myself—so I can learn and contribute,'" he says. "The result will be trust from all these groups, and they will help you."

10. The Greener of Future Generations

To the extent that leadership is about protecting and growing an organization's resources in the face of volatility, great leaders invest themselves in developing future leadership potential. They treat succession not just as some human resources exercise but also as a personal priority.

Ken Freeman, for example, distinguished himself, both at Corning and at Quest Diagnostics. "Ken made a commitment to create a succession plan and pass on a solid company to the next generation of leaders," Sartori says. "He understood that it's not enough to hire the best people. You have to engage them, connect with them."

Unfortunately, Freeman is not the norm. "In most pharma companies, management spends hours each month reviewing the status of drugs in progress; far less time is spent reviewing the status of people in progress," Sartori says. "One exception occurred early in the merger of Ciba and Sandoz that formed Novartis. In contrast to the practice of the predecessor companies, CEO Dan Vasella initiated in-depth reviews of the senior talent in the organization and [looked at] how to make the most of it going forward. Today, those reviews are ongoing and ingrained in the culture of the company."

While it is unquestionably easier for larger healthcare companies to free up resources for leadership training, adept leaders of mid-size and smaller companies create similar development opportunities. "You have to decide that bringing leaders along is a priority and be creative in the way you accomplish it," says James Taylor from Carl Zeiss Meditec. Taylor selected five or six people at his company whom he believes have a high degree of management potential. He mentors them, gives them direction, and encourages them to drop by for informal chats. For the small company without a lot of development dollars, it's a great way to keep the people pipeline filled.

Forward-looking leaders know that leadership development requires not just training, but also, as Genomic Health's Popovits states, "playing your bench." This, in turn, requires careful planning and providing the right venues for having future leaders apply their skills. At Genomic Health, management is committed to having development plans for its up-and-coming talent. Human capital is a frequently discussed topic at meetings. ☐

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Contact Information:

J. Kevin Day, Managing Partner
Day & Associates
577 Airport Boulevard, Suite 130
Burlingame, CA 94010
Phone : 650-343-2660
Fax: 650-344-8460
E-mail: JKDay@DayAssociates.net
www.DayAssociates.net