

Emerging Markets Trend Talk

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With origins dating back to 1980, CTPartners serves clients with a global organization of more than 400 professionals and employees, offering expertise in board advisory services and executive recruiting services in the financial services, life sciences, manufacturing, professional services, retail and consumer, and technology, media and telecom industries.



Navigating the Talent Market Waters of Emerging Economies

Building and managing a talent base across multiple geographies, including mature and emerging markets, is a continuing challenge for global corporations. Emerging markets in particular often present new hurdles, almost universally including shortages of senior and specialized executive talent, even as regional operations are growing rapidly.

When the portion of corporate revenues generated in emerging markets amounted to a few percentage points, it was easier to downplay the significance of such challenges. That is no longer the case. **As an ever-growing portion of the revenue of global businesses is earned in emerging markets, corporations must direct new attention to fully understanding and appreciating those markets and the unique talent management requirements that must be met in order to operate effectively in target regions.**

Today, a global talent imbalance persists, with mature markets facing high unemployment amid economic malaise, while emerging markets experience talent scarcity amid more rapid economic growth. And although it is a significant challenge to recruit and retain expert, experienced executives across the globe, that is especially the case in emerging markets, where senior and specialized talent shortages are the norm. Amid rapid growth, **multinational corporations need well-informed and thoughtful strategies for navigating the talent markets of these pivotal economies, as well as targeted development programs that will build the emerging markets leaders of tomorrow.**

The Cost of Doing Business

When multinational corporations consider the various ways in which the global talent imbalance will impact their businesses, it is perhaps appropriate to first understand the

financial impact of this imbalance. Stated succinctly, talent is not cheap in emerging markets. **Real constraints in the talent market drive salary inflation that works in tandem with the upward wage pressure already present in rapidly expanding economies.** During 2011, workers in the U.S., Canada, and Western Europe experienced some of the world's lowest base salary increases, hovering around 3%, while some of their peers in emerging markets enjoyed average salary increases of twice that rate or more (see sidebar, "By the Numbers").

Of course, those numbers speak to averages. Add to the equation the strong competition for skilled and experienced senior leaders and specialists, and the impetus for the emerging markets salary wars becomes quite clear. Seasoned leaders ready to manage P&L businesses, or head global and regional functional and general management roles, are in extremely short supply in many emerging markets. This is true across industry groups.

Quite naturally, in the markets where the perceived business potential is highest, the competition for talent is most pronounced. So senior leaders in India and China, for instance, often draw larger compensation packages than do their peers in smaller emerging markets. And while utilizing expatriates may cost the company more when all of the components of an expat package are factored in, the expat salary may actually be lower than the salary that would be paid to a local leader filling the role. The net result is that, **quite often, leaders running smaller businesses in emerging markets will be paid more than their counterparts in larger, mature markets.**

The Scarcity Factor

The crux of the global talent imbalance is that talent is most scarce in the regions where



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it is often most in demand. And this situation is not likely to resolve itself soon, as senior leadership development is by nature a slow process, while talent demand in emerging markets grows yearly by leaps and bounds.

The most experienced senior leaders and highly-trained specialists are understandably scarce in the regional talent pool of developing economies. So in Israel, for example, it is difficult to find the kind of seasoned executive who has the experience and know-how to take a rising technology company to and through its next stage of growth. In Russia, fraud investigation accounting professionals are notably scarce. The financial services industry in Asia is heavily dependent upon expatriates, particularly in the hedge fund field. And executives with the broad international experience required to fill general management and global functional roles or lead regional businesses are in short supply from Asia Pacific to the Middle East to Latin America.

Even amid this talent scarcity, corporations are locating an increasing number of senior leadership roles in emerging markets. Pitney Bowes, for instance, has located senior global markets leaders in Singapore, while Schneider Electric has a senior emerging markets leader in Turkey. SanDisk has moved such global roles as SVP, Worldwide Operations and Supply Chain, to Shanghai. Other companies have moved Asia Pacific Regional Business Heads from Hong Kong or Singapore to China. These moves are generally intended to demonstrate a commitment to the region while also enabling the corporation to get closer to suppliers and customers. In the long run, these moves should foster talent development in the region, though in the short run, some of these roles are being filled by expatriates (see sidebar, “The Expatriate’s Allure”).

Complicating matters, it is important to remember that **identifying and pursuing resident talent in emerging markets often requires different strategies than multinational corporations typically utilize in western markets.** Professional databases may be lacking or less developed, and in places such as Russia, executives are less apt to make professional and biographical information public. And there can be other hurdles. In China, for instance, complete corporate organizational structures are not always public information, and cultural tradition requires that an introduction to a stranger be made by an acquaintance (see “Recruiting Leaders in China,” CTPartners 2010). Suffice to say, locating talent in emerging markets is far from a simple task.

Unique Market Dynamics

When operating in markets with a local talent shortage, companies also must pay particular attention to procuring talent with the needed local cultural knowledge. In such cases, an informal talent hierarchy often evolves.

A look at the talent marketplace in China offers a good example that is typical of other nations and regions as well. Given candidates with equivalent experience and skills, a multinational generally will give preference to the Chinese national executive for a China-based position, as that executive is expected to have the most extensive cultural understanding, market knowledge, and local contacts. Alternatively, a Chinese returnee, someone who was born in China but who has lived and worked outside of China for a period of time, might be almost equally desirable.

Continuing along the talent hierarchy, in the absence of a Chinese national or repatriate, expatriates from other Asian nations are chosen to fill many roles in China. Global expatriates that have decided to make Asia their home fall next on the list, while western expats on their first three-year rotation in Asia would be considered the least valuable candidates when considering the job requirement of regional knowledge and cultural connectivity. And yet demand is such that these professionals are regularly chosen for China-based assignments when they are deemed to possess other relevant and superior skills and experiences.

While such a hierarchy speaks to generalities, **multinationals entering markets with senior talent shortages must confront the challenges associated with identifying talent that can offer both the necessary professional capabilities and the cultural fit for that particular market.** Making matters more complex, in each mar-

ket, there is different information for multinationals new to the talent market to master. For instance, while Singapore is a marketplace that readily accepts expatriate talent from all cultures, expats are rarely utilized in Korea, with consultants instead being employed to access expertise not resident locally. In China, western expats are often hired to design strategy and framework for business expansions, but the implementation of these programs will generally remain in Chinese hands.

Consider the differences between regional neighbors Kazakhstan and Russia. In Russia, business expansion often is focused externally on the emerging markets of Africa and Southeast Asia, with Russian repatriates providing a strong source of executive talent. In Kazakhstan, a high proportion of investment is internally directed, dominated by the sovereign wealth fund, and talent with experience in government positions is most prized. In Israel, despite the nation's creative and entrepreneurial mentality, relatively conservative hiring practices are observed, and few executives cross industry lines for jobs. And throughout the Middle East, Arabic-speakers are most valued, both for their cultural connectivity and the belief that these leaders will be committed to the region, even during times of political unrest. **Quite simply, there is no effective way to sidestep the learning curve that multinationals confront when entering an emerging market.**

Global Sensitivities

One of the most sensitive challenges for multinationals is handling the varied perceptions of senior leaders both within and across corporate geographies. For instance, western expats still hold many of the regional head and general management roles in the Middle East. While many of those leaders relish the opportunity to mentor and participate in the development of rising regional leaders, other western expats wonder about cultivating the individuals who may eventually take their current jobs, and they begin to feel less valued in the region. Conversely, regional talent can feel that their path to the top jobs is not developing quickly enough.

Other issues arise across geographies. **Given the high salaries and acknowledged title inflation that is found in many emerging markets, it is understandable that leaders in mature markets might wonder how their credentials and experiences stack up against those of their emerging markets counterparts. Issues of parity surface.** After all, emerging markets offer more than just title inflation, also often providing a more rapid

By the Numbers



For the largest salary increases, the emerging markets were the place to be during 2011, according to the ECA International Salary Trends Survey. Salaries across Asia Pacific were expected to rise on average by 6% during 2011, with the largest increases being awarded to employees in Vietnam, India, and Indonesia, each with expected gains of 9% or more. Asia Pacific nations with the fastest growth were expected to see the strongest salary boosts, thanks to local skills shortages. Slightly slower growing and more established markets, such as Hong Kong and Taiwan, were expected to see 3.5% average salary hikes.

Latin America was expected to see the world's largest average salary increase of as much as 27% in Venezuela. Elsewhere in the region, compensation levels also should remain quite strong, with hefty average salary increases of 14.5% expected in Argentina, for example, and employees in Brazil expecting a 6.2% average salary boost.

In the Middle East, employees were expected to see salary increases hovering around 5% in Saudi Arabia and the UAE. Eastern European workers saw average salary gains of nearly 5% as well, with employees in Russian, Romania, and Bulgaria enjoying the region's largest gains. Mature economies were expected to have the lowest salary hikes, with Western Europe seeing the smallest gains.

For companies shopping for talent in emerging markets the message is clear: **Expect salaries to be commensurate with the marketplace opportunities.**

ascension up the responsibility ladder than might be available in more mature markets.

In emerging markets, leaders sometimes express a concern that the headquarters team just doesn't understand the challenges of these fast-growing regions. Company-wide decisions such as blanket cost cuts or a global hiring freeze may seem sensible in mature markets suffering from economic malaise, but seem inexplicable or even risky to leaders in a market that is growing by 8% a year. Companies report that an increased buzz on these and other topics has developed among senior leaders in recent years.

While multinational corporations have long dealt with the challenges of operating in multiple geographies, the wide disparity of economic climates and the senior leadership global talent imbalance amplify today's talent management challenges.

Talent Management Strategies

Grappling with the global talent imbalance requires forward-looking strategies and effective leadership development programs from multinationals, now more than ever. Managing the rumblings from, and sensitivities of, senior leaders across geographies will demand a consistent global human resources platform that includes policies designed to address these challenges.

The Expatriate's Allure



"Once an expat, always an expat," is an often repeated phrase. It reflects the sentiment of many expatriates that wanderlust can be infectious, and that one rotation in a corporate expatriate post is sometimes not enough. After all, the lifestyle of an expatriate can be desirable in many ways, often including extra "hardship" pay and perks, interesting cultural and travel opportunities, and usually greater autonomy and growth opportunity at the office as well.

So it is no surprise that when the corporate call to return home is made, some expatriates instead seek another overseas post. Today, as western expats contemplate sluggish economies at home, continuing on in a vibrantly growing economy can look more appealing than ever. And their talent profile, including both professional expertise and some local knowledge, can be welcomed by companies in the region.

There is a new twist, however. Middle Eastern nations, such as the UAE, Bahrain, Qatar, and Oman, have traditionally been large users of expatriate professionals. Today, amid less exuberant growth, and as companies operating in these nations work to develop regional talent, some western expats in the Middle East are finding it challenging to locate the next position to keep them in the region. Instead, a trend of some "perpetual" expats relocating from the Middle East to Hong Kong, Singapore, Thailand, and Korea is evident. These professionals can offer an openness and adaptability to new cultures that can be attractive to global corporations.

Optimally, as leaders in emerging markets will be on the front lines of pursuing the company's long-term strategy for the region, these leaders will receive specific communications when new corporate policies alter those regional strategies. To the extent possible, leaders in emerging economies should participate in developing long-term strategies for those markets.

And strong support systems are required from HR, mentors, and the superiors of rising talent in emerging markets, both to undergird their efforts while rapidly ascending the responsibility ladder, and to foster their continued growth as leaders. Indeed, a commitment to the development of regional talent is a key job requirement for senior leaders in many emerging markets (see "The Localization of Talent in the Middle East," CTPartners, March 2011).

Long-term business stability and sustainability in emerging markets clearly requires the development of regional senior talent, and many companies are actively engaged in leadership development programs in those regions. Succession planning and talent mapping, to ensure that the company's internal bench is on par with the market, are among the best practices being utilized by competitors in these regions. And companies including Google, Siemens, L'Oreal, Schneider Electric, Lafarge, and others utilize carefully designed internal leadership development programs, often with a rotational aspect and an overseas assignment, to cultivate promising leaders in emerging markets. Even some more locally focused governments, such as that of Kazakhstan, sponsor programs to develop local talent, sending top students to study business and management in the UK and elsewhere.

For global corporations, the goal is generally to ready native-language-speakers for a P&L role or a country head position within a few years. Among the additional benefits of leadership development programs: They tend to boost retention of valuable professionals, and enhance the company brand among future potential hires, by demonstrating a commitment to developing regional leaders.

In the end, multinationals must approach the talent markets of emerging economies by carefully conducting due diligence, remaining alert to shifting political sands, and being flexible and proactive. While the challenges are real, so too are the potential rewards.

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