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TRENDS IN EXECUTIVE TALENT

Update from Asia: Industry Trends and Human Capital Challenges

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As companies continue to mature and expand their geographic footprints in Asia, they face greater competition than ever before to tap best-in-class executives to lead their Asia teams. To successfully recruit top-level professionals away from competitors while retaining current employees, organizations must stay attuned to hiring trends, market dynamics, and candidates' needs and demands.

The talent landscape in Asia has changed dramatically since companies first entered the region in the 1980s; 20 years ago, the cost of labor was cheap and the workforce generally inexperienced. With a first-mover's advantage, many multinational corporations (MNCs) were able to combat the shortage of senior business leaders in the region by pulling expatriate executives from their native countries to lead in Asia. Today, Asia is saturated with businesses large and small, public and private, across all industry sectors that are generating substantial sales and becoming vital components in their organizations' global structures. As companies continue to mature and expand their geographic footprints in Asia, they face greater competition than ever before to tap best-in-class executives to lead their Asia teams. To successfully recruit top-level professionals away from competitors while retaining current employees, organizations must stay attuned to hiring trends, market dynamics, and candidates' needs and demands.

Executive Talent Market Trends in Asia

Asia is a fragmented talent market, where each sub-region (e.g., Greater China, Japan, etc.) acts as a unique market with its own strengths and challenges. To understand how to best approach creating talent strategies in Asia, companies must first identify the industry and recruiting trends that impact business decisions.

Moving from north to south, Japan has recovered from the tsunami and crises in 2012 and returned to more stable economic conditions. Companies in Korea have been very active in technology and media-related industry sectors; Korea-based companies are also doing well in the retail and consumer market in China.

Companies in China use more executive search services across all industries than in any other market in Asia. Although Japan is successful across a broad range of business areas, its economy is mainly driven by a few key sectors. Similarly, business activity in Korea and Taiwan largely revolves around technology instead of a wide variety of industries. The business landscape in China is unique in that every sector is doing well: industrial, automotive, and consumer industries are strong, financial services continues to grow steadily, and although life sciences has been met with setbacks due to recent regulatory and compliance issues, businesses continue to grow. The executive search industry in Hong Kong is fueled by southern China. Many search professionals in Hong Kong are busy conducting searches on behalf of clients in China, with very few Hong Kong domestic searches—with the exception of assignments in the financial services sector.

Economically, the jewel in the crown for Asia in the last 12 months has been South East Asia (SEA). The Philippines and Indonesia are doing very well. Market activity in Vietnam has been volatile, but the population is very young and increasing its income status quickly. About 60 percent of people in Vietnam are under the age of 30, and the population of middle and affluent class citizens is expected to grow from 12 to 33 million people by 2020.[1,2] To use a term coined by former Federal Reserve Chairman Alan Greenspan, there is also a lot of "irrational exuberance" with the opening of Myanmar. The combined populations of Myanmar, Vietnam, Thailand, Cambodia, Laos, and the whole SEA cluster total around 250 million people, which is a very substantial market. The infrastructure in Myanmar is a point of concern for businesses cautiously moving into the region. Unlike other SEA countries, Myanmar is instituting political, social and economic reforms in one fell swoop, causing substantial growing pains for a region that cannot afford to stall progress and lose out on foreign investment.[3]

Australia is an active market driven primarily by businesses in the natural resources and professional services sectors, as well as government agencies; Australia most closely resembles the economies of the United Kingdom and Canada, where the government and private organizations use executive search services more frequently than in other Asian economies.

Broadly throughout Asia, the industrial, manufacturing and consumer retail sectors are very strong. Consumer retail in particular is growing quickly; when you aggregate the growing middle class populations of China, Vietnam, Indonesia, and other emerging economies in Asia, millions and millions of people are coming up in income and are beginning to spend money on luxury and non-essential products for the first time. The population of middle class citizens in Asia hovers at 500 million people and is expected to balloon to 1.75 billion people by 2020, which paints a compelling growth story for consumer companies looking to establish or expand their presence in Asia.[4]

1 Vu Duc, Khanh, "Fear of Change in Vietnam," Asia Times Online, March 2013, Web.

2 "Vietnam's Middle Class Set to Double by 2020: BCG," AmCham Vietnam, Web.

3 Mahtani, Shibani, "McKinsey Warns Over Myanmar Investor Risk," *The Wall Street Journal*, May 2013, Web.

4 Mahbubani, Kishore, "The Expanding Middle Class in Asia," *The Huffington Post*, March 2014, Web.

Growing Significance of Asia-Based Operations

Ten to 15 years ago, business operations in Asia only accounted for about 12 percent of a company's bottom line. Businesses were fragmented, talent pools were very shallow, and senior leadership teams had to withstand a revolving door of expatriate executives tapped to serve on short term assignments in the region. Today, a number of our clients' operations in Asia now make up 18 to 25 percent of their global businesses. As the Asia market matures and becomes a more significant contributor to global revenue, companies must reevaluate how to best structure their senior leadership teams for optimal long-term results. To illustrate this shift, consider that Coca-Cola generates almost six billion dollars in sales in Asia, YUM! Brands over five billion dollars, Anheuser-Busch InBev over two billion dollars, Pepsi over one billion dollars, Proctor & Gamble around 15 billion dollars, and Mars over three billion dollars.[5,6,7,8] With so much on the line, companies need to use the same strategies as they do globally to recruit a strong bench of best-in-class executives to run their business in Asia and move away from hiring executives on a rotational global training program who are only in the role for a short period of time.

Circumventing the Talent War in Asia

The pool of talent at the senior strategic level hasn't developed at the same pace as the rapid business growth in Asia and the wave of direct investment by both MNCs and the investment community. Clients are still frustrated that the talent pool is very shallow. In a developed market like the U.S., the talent chart is almost a straight 45 degree line moving from very junior people with little to no experience at the bottom to experienced senior leaders at the top. In Asia, the talent chart is more of a bell curve in that there are very few people at the high end with a lot of years of experience. There aren't a lot of Asian nationals with experience running multibillion dollar businesses because corporate success has only really emerged in Asia over the last few years.

With competition for top talent high, the executive search process needs to be even more thorough than in stable talent markets that have strong talent benches. Executive search consultants must tailor their messages to each specific candidate when conducting outbound calls because most highly sought after executives are busy running complex, large businesses and are not thinking about changing jobs or looking for new opportunities. Because the talent pool is so shallow and competition is high, executive search partners have a very short window of time to get the candidate's attention and engage him or her in the search process. For that reason, consultants need to approach candidates at a very personal, tailor-made level, have the ability to discuss the position in detail, and advocate on behalf of organizations trying to attract them away from surrounding businesses.

With social media and online presences, the value of an executive search consultant stems less from identifying candidates than it does from expertise in attracting and evaluating them. It's amazing how many clients will say that they want to kick off a new search and present the search firm with five LinkedIn profiles of people they would like to be approached about the opportunity. It has become much easier in recent years for clients to identify candidates, but successful recruiting—especially in a highly competitive market—really comes down to the whole process: the due diligence, market understanding, and candidate outreach and messaging strategies. Many of our clients are frustrated that the pool of senior executives with the right level of experience is very shallow. In some markets in Asia where businesses have grown very quickly, people have been over promoted and have inflated titles that don't accurately reflect their skill sets. Executive search consultants' expertise lies not only in generating interest for the positions they are recruiting for, but also vetting candidates that may seem ideal on paper but lack the fundamental requirements of the senior role at hand.

Categories of Employers in Asia

There are really three different categories of employers in Asia. The first category is the classic strategic MNC: Coca-Cola, Diageo, Pepsi, KFC…these are the classic western MNCs that need to recruit in Asia to build their businesses.

The second category includes direct investment and private equity clients, who have the capital to put into businesses but need assistance in restructuring and organizing their management teams. There is a lot of search activity from direct investment clients because they are backing the growth story but need to recruit from the traditional MNCs in bucket number one to drive businesses.

The third category consists of large Asia-based companies that want to recruit globally competitive executives to help structure their operations in Asia and further develop their business overseas. A sampling of companies that seek this type of geographic growth include Samsung, Daewoo, Toyota, Haier, Lenovo, and Midea amongst others. Asia-based companies were initially hesitant to use executive search services but are now turning to search more and more to help round out their global teams.

For companies considering moving into or expanding their footprints in Asia, it is important to understand the industry

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5 Cavale, Siddharth, "Coca-Cola Sales Best Estimates as China Volumes Soar," *Reuters,* April 2014, Web.

6 Kuo, Lily. "KFC Makes Most of its Money in China, and Now That's a Big Problem." *Quartz*, April 2013. Web.

7 Anheuser-Busch InBev NV/SA, Bringing People Together: Anheuser-Busch Inbev / 2013 Annual Report," February 2014.

8 The Proctor & Gamble Company, "2013 Annual Report," June 2013.

competition. To be successful in Asia, businesses must be market leaders and trend setters because followers pay a much higher entry cost, which is one of the critical issues our clients must understand. The entry cost to China was affordable 20 years ago, more costly 10 years ago, and is now very expensive. The cost to enter the market rose mainly because the first movers who came into southern China in late 80s, and then into the Shanghai area in beginning of 90s, have now been here for 20 years and have built substantial businesses. Companies that are just now arriving in Asia and don't have business scale and size must be prepared to pay the market rate to recruit costly executives from the early movers to their organizations if they want to compete in the war for talent.

Investment Activity in Asia

There is also a much higher degree of M&A activity for MNCs with operations in Asia than we've seen before. L'Oreal acquired a face mask company, Magic Holdings, for $840M USD to tap into the face mask sector in China; Nestle bought a 60 percent stake in Hsu Fu Chi—the number three confectionary company in Asia—for $1.7B USD; Diageo acquired Shuijingfang for 1.3B USD, which is a leading Chinese white spirits company.[9,10,11]

Roughly thirty percent of our search assignments in Asia come from direct investment and private equity clients; they buy into the demographic and economic trends they see in the emerging markets and want to fund the growth of companies in the region and back the winners who are likely to be market leaders across different categories. As an example, one of our clients called to say that they are thinking of acquiring a cosmetics brand that has sales of 200 million dollars with almost no presence in China. They want to acquire the company so they can take control of the brand and bring it to China, where they feel they can double the sales just by launching it in the region. In a number of cases, private equity firms feel they can bring brands or businesses to China and develop them quickly and efficiently by funding growth ahead of profitability.

If you combine the foreign direct investment (FDI) of MNCs—which is significant considering the numbers above—with the activities of the private equity and investment community and Asian businesses, it is clear that many people remain optimistic about the future growth opportunities in the Asia market. Because the Asia region is so fragmented and dispersed, the consolidations that occur from these various forms of investment and strategic acquisitions come from a very broad base and don't impact the market in the same way as it would a more mature market.

The fragmentation in the Asia market also means that there are a lot of inconsistencies in the pay scale of key players at companies large and small, tax compliant and non-compliant. Emerging economies face much greater variance in the talent pool as it relates to age, experience, nationality, compensation and benefits, and location. Each region in Asia has specific tax rules that under certain circumstances might entice some organizations to offer their employees low salaries and large expense allowances to fall to a lower tax bracket. Asia doesn't have the homogeneity of one market like the U.S., where you have one legal system and you know approximately where the pay scale should be.

Closing Thoughts

Asia has come of age and now accounts for a significant percentage of companies' global revenues. As businesses in Asia continue to mature and expand into other regions, the need for senior executives who have the necessary skills and experiences to manage substantial global organizations at scale in Asia is more critical than ever before. With competition for first class talent high, companies must be prepared to pay competitive compensation packages comparable to those offered in the U.S. and Europe for the best leaders and approach candidates with tailor-made messages that fit their interests and career goals. The leading markets in Asia, such as Japan, Korea, Singapore and Hong Kong, are already at OECD levels comparable to Europe and the U.S. In the next 10 years, hundreds of millions more Asians in neighboring sub-regions will move to similar levels of economic status; it will take extraordinarily skilled business leaders to navigate the opportunity to tap into the growing middle class population in Asia and increase business results in their Asia market.

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9 Larson, Christina. "L'Oréal Acquires Major Chinese Beauty Brand." Bloomberg Businessweek, January 2014. Web.

10 Azhar, Saeed and Koltrowitz, Silke. "Nestle Buys 60 Percent of Chinese Candymaker for $1.7 billion." Reuters, July 2011. Web.

11 Hook, Leslie. "Diageo Acquires a Taste for China Spirit." Financial Times, June 2011. Web.

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