



NGS GLOBAL

TRENDS IN EXECUTIVE SEARCH

Managing Human Capital Challenges Across the Emerging Markets

Authored by Julian Buckeridge , Soumitra Agarwal, Maxim Chuvaev, Terry Veitch, Can Önen
-NGS Global

In this article for Global Perspectives, NGS Global partners Julian Buckeridge, Soumitra Agarwal, Maxim Chuvaev, Terry Veitch, and Can Önen, assess the current challenges and trends affecting human capital within corporations expanding their global reach across the emerging markets. These insights can assist executives managing organizations in emerging markets to recognize where they are in the development curve today as the markets transform and what the coming challenges will be for talent in their marketplaces.

May 2017

Defining Emerging Markets

The economic globalization of marketplaces has profoundly improved the status of developing countries, which were previously thought of as economically negligible.

There are varying degrees of evolution within the emerging markets. However, there are overarching characteristics that can be used to distinguish these countries and identify them, while establishing solutions for growing business and managing talent. Characteristics of an emerging market include increasing market freedom - with a lack of strict financial regulation, an expanding urban middle-class and highly fragmented trading conditions and route to market. The problems inherent with establishing business in these countries can include currency fluctuation, political volatility and lack of infrastructure.

For human resources these challenges can include a lack of local executive talent, retention and salary inflation and inconsistent compensation due to variance in the mix of executive talent availability.

Traditional View of Emerging Markets

The traditional talent strategies flowed from advanced markets to emerging markets in a top down manner. Compensation and benefits were based on western norms, prompting expatriates to return home to their mother country. R&D functions were located and staffed in developed markets where innovation was cultivated and hence flowed to the emerging markets. Products and services were developed in the mature markets and shipped to emerging markets. Traditionally emerging markets provided cheap labor and cost advantages but did not have a place at the table for innovation and strategic decisions.

Evolving View of Emerging Markets

Emerging markets now account for the bulk of global economic and demographic growth, and this will only increase in the 2020's. Emerging markets have now created alternative strategies and ideas that are being adapted, and some strategies are being adopted by developed markets such as moving talent between emerging markets or having emerging market executives represented on global boards. Emerging markets now provide a growing number of senior executives at a global level, who are closer to the consumers in the emerging high growth markets than previous global leadership. R&D has transitioned to emerging markets and products and services are being developed for the emerging markets by in region R&D. Innovation and technology have, in some cases, leapfrogged ahead due to indigenous innovation. Emerging markets are now part of the strategic decision-making process.

Dynamics of Emerging Markets Evolution

Early Phase

- **Talent Pool:** No large domestic companies with talent banks. Limited multinational corporation presence with small talent pool. Talent that moves overseas does not return. Talent has low performance and efficiency. Widespread use of expatriates for leadership roles.
- **Market Attraction:** Low - Considered hardship with challenges in health care, schooling and taxation.
- **Talent Attraction:** Attracted to career development opportunities in multinational corporations through training and development.
- **Compensation:** Low compensation and cheap labor. Excessive cost of expatriates. Polarized compensation.
- **Example countries are:** Ukraine, Myanmar, Cambodia, Bulgaria, Slovakia, Romania

Post Opening

- **Talent Pool:** Multinational corporations develop talent which stays in the company pool but there is cannibalization by multinational corporation's late entries. Country-level management talent develops functionally and operationally. Domestic companies start to build talent from a separate pool. Expatriates still being used broadly at leadership roles but not as much functionally.
- **Market Attraction:** Some hardship aspects, but schools, medical services and infrastructure develop. Talent starts to return from overseas and from the diaspora.
- **Talent Attraction:** Talent attracted to brands in multinational corporations, to career development and to higher salaries.
- **Compensation:** Extremely variable and salaries are higher in multinational corporations than in domestic companies. Salary inflation begins as supply and demand are not matched.
- **Example countries are:** Vietnam, Indonesia

Maturing

- **Talent Pool:** Multinational corporation shift country-level management talent to regional roles to enhance retention and development. (i.e. India/China to Singapore). Interregional expatriates are developed and traditional expatriates reduced. Local talent returns in growing numbers.
- **Market Attraction:** Business size and scale increase as does infrastructure and quality, hence the market attracts talent.
- **Talent Attraction:** Domestic companies expand and begin merger and acquisitions overseas which draws on multinational corporation's talent pool. Multinational corporation's talent is attracted to local companies at leadership levels and compensation equalizes.
- **Compensation:** Becomes more aligned between domestic and multinational corporations and in some cases, exceeds, therefore reversing the outflow of top talent.
- **Example countries are:** China, India, Turkey, Russia, Brazil

Post Emerging Markets

- **Talent Pool:** Emerging market leaders arrive at global headquarters in leadership roles, providing strategic insights, and decision-making at the highest levels. The talent pool is porous and merges cross-border talent.
- **Market Attraction:** Executives are choosing to relocate rather than expatriate.
- **Talent Attraction:** Talent is attracted to multinational corporations in equivalence to public companies or to investor-backed C-Suite roles. Multinational corporations are no longer defacto priority employers.
- **Compensation:** Becomes globally aligned and there is a premium for emerging market executives. Emerging market executive's compensation exceeds home markets in some cases.
- **Example countries are:** Singapore, Hong Kong, Korea



Talent Reversal: Emerging Market Leaders Acquire Western Companies

China

- Bright Food Global acquires Weetabix Limited (UK)
- Shuanghui International Holdings Ltd. acquires Smithfield Foods Inc. (US)
- ChemChina acquires Syngenta AG (Swiss)
- Tencent Holdings Limited acquires Supercell (Finnish)
- Haier Group acquires General Electric Co. Appliance Business (US)

India

- Tata Motors Limited acquires Land Rover and Jaguar (UK)
- Wipro Limited acquires Appirio (US)
- HCL Technologies acquires Axon Group (UK)
- Aditya Birla Group acquires Novelis (US)
- Bharti Airtel Limited acquires Zain Africa BV
- Mahindra Group acquires Pininfarina S.p.A. (Italy)

Turkey

- TAB Gıda Sanayi ve Ticaret AS becomes Burger King's (US) master franchise in China
- Yidiz Holdings acquires Godiva, McVitie's, United Biscuits, and DeMet's Candy (US/UK)

Russia

- Seversteel acquires Rogue Steel Co. (US)
- Sherbank acquires Austrian Volksbank International AG and Turkish DenizBank AS

Saudi Arabia

- Saudi Basic Industries Corp. acquires GE Plastics (US)

South Africa

- Woolworth's Holdings acquires David Jones (AUS)
- Truworths International Ltd. acquires Office Retail Group (UK)
- Steinhoff International Holdings N.S. acquires Mattress Firm Holding Corp. (US) and Poundland
- The Foschini Group (TFG) acquires Phase Eight (UK)

Closing Thoughts

Emerging markets are the key drivers of future growth demographically and economically. By recognizing which phase of development each market is in, as economic growth changes the dynamics in emerging markets, we can anticipate the talent management challenges ahead and incorporate strategies to attract, develop and retain key executive talent such as:

- Recognizing where each market is in its evolution and determining the impact on talent and hence developing talent attraction and compensation and benefits plans suitable to the market.
- Choosing the right strategy ensures the organization has the right leadership to take advantage of growth markets and maximizes its ability to gain rapid market share at entry.

- Creating opportunities for interregional talent exchanges and regional talent development, evens the compensation pool, delivering lower costs and utilizing executives who are closer to the market.
- Mentoring executive leaders from emerging markets and aggressively developing them to provide deeper strategic leadership, requires good retention plans and positive action.
- Championing the right talent with clear strategies can build businesses and create success at critical junctures of market openings allowing companies to capitalize on these opportunities.

AUTHORS



JULIAN BUCKERIDGE

Managing Partner - Greater China
T +86.21.5178.5298
E julian.buckeridge@ngs-global.com



TERRY VEITCH

Managing Partner - South Africa
T +27 021 674 0860
E terry.veitch@ngs-global.com



SOUMITRA AGARWAL

Managing Partner - India
T +91 98203 31932
E soumitra.agarwal@ngs-global.com



CAN ONEN

Managing Partner - Turkey
T +90 212 261 0900
E can.onen@ngs-global.com



MAXIM CHUVAEV

Partner - CIS
T +7 915 001 1006
E maxim.chuvaev@ngs-global.com

For more information please visit www.ngs-global.com