Growing pains

Companies in rapid-growth markets face talent challenges as they expand

Ernst & Young
Quality In Everything We Do

About this report

Growing pains: companies in rapid-growth markets face talent challenges as they expand draws on a survey of 810 business executives from all major rapid-growth markets conducted for Ernst & Young by the Economist Intelligence Unit during March and April 2012. Respondents included companies from 35 rapid-growth markets and 21 sectors. Fifty-three percent of the respondents were CEOs, CFOs or other C-level executives. Forty-four percent of the companies surveyed reported revenues of US$1 billion or more.

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Introduction

Organizations in today's volatile economy are facing major challenges in building and executing effective talent management strategies, but for rapid-growth market companies expanding into new markets, this challenge is particularly acute. Yet our research for this report shows that talent management strategies in emerging global companies are seriously lagging behind widening demand for products and services. The key challenge for these companies in the next decade will be to integrate talent strategies with global mobility strategies to form a top management team that has a mix of international expertise and local knowledge. Only then will a new breed of manager be able to manage effectively across multiple geographies, balancing autonomy and centralization, global and local.

Ernst & Young has been internationalizing successfully for many years by focusing on developing a core of experienced leaders who are able to drive growth and gain a competitive edge across borders. This really is the glue that holds our organization together. In our experience this requires a shift from a "one-size-fits-all" style of management to one that is more inclusive. Top managers need to demonstrate that they can get the best out of their teams through sensitivity to local markets, making everyone feel valued, and being adept at harnessing diverse opinions to produce better results for customers and for clients.

Mike Cullen
Global Managing Partner, People
Ernst & Young

Perhaps the most significant event in human capital in the past three to five years has been talent management's move to the forefront. Not only is it of increasing importance to the development and execution of an organization's business strategy, but it has also become a unique competitive advantage. Global organizations are deploying their talent management strategy to effectively differentiate themselves in the worlds' rapid-growth markets, balancing global and local business and human capital objectives, aligning these objectives to performance management and reward programs, and using mobility as a strategic component within their global talent management planning to provide specific international experiences for future leaders.

Our research for this report, *Growing pains: companies in rapid-growth markets face talent challenges as they expand*, reveals why talent management has become one of the top business and risk areas in global organizations today. Key global market trends continue to challenge organizations' effectiveness in talent recruitment, development, deployment and engagement. And while there are some effective responses – which we explore in this report – there are no permanent solutions. In fact, today's talent challenges are only the tip of the iceberg. Responses will evolve as organizations continue to expand into new markets, searching for the most effective and efficient means to align talent management to business strategy.

Bill Leisy
Global Talent Management Market Leader
Ernst & Young

Finding the right balance

Getting the talent equation right has never been easy for businesses, but as companies globalize, it is proving exceptionally difficult. The numbers say it all. In a recent Ernst & Young survey, 42% of respondents identified talent management as the second most challenging function to manage globally, next only to regulatory compliance.[1] According to the global staffing organization Manpower Group, between 2010 and 2011 alone, employers worldwide reported a dramatic surge in difficulty filling positions. In India, for example, the difficulty jumped to 67% in 2011 from only 16% in 2010, and in the US, it rose to 52% from just 14%.[2]

The talent gap is especially problematic for companies from rapid-growth markets that are seeking to expand beyond their borders, whether into developed countries or other rapid-growth markets. A new Ernst & Young survey reveals that these emerging multinationals face several critical challenges as they build and execute their global talent strategy. In particular, they struggle to build an effective international management team as they grapple with cultural differences, conflicting internal perceptions of talent management, difficulties in balancing global and local talent, and lack of a reliable leadership pipeline.

Although Western companies deal with similar challenges, they have been internationalizing for decades. By contrast, globalization is a more recent and more sudden experience for their rapid-growth market counterparts. As a result, the latter's talent management strategies often lag behind their widening operations. This could have a severe impact on emerging multinationals' ability to succeed beyond their borders and become truly global organizations.

Our research identified four major talent-related challenges that rapid-growth-market companies face and the actions that are imperative if they are to tackle them successfully. The recommendations in this report offer some effective responses to these challenges.

Footnotes

1. *The world is bumpy: globalization and new strategies for growth*, Ernst & Young, 2012
2. *Talent Shortage 2011 Survey Results*, ManpowerGroup

Key talent management challenges

1. Top management teams lack international experience. Rapid-growth market companies are not confident that their organization has or can build an effective international management team. Top management teams lack awareness of local cultures and understanding of global markets, according to our survey results.

2. Lack of an internal management pipeline forces companies to recruit from rivals. Companies in rapid-growth markets are building their international management teams through the development of internal pipelines as well as recruitment from other organizations. While building an internal pipeline requires time and investment, the latter can result in high turnover and salary inflation.

3. Companies are unable to retain and reward high performers in different markets. Some companies report it can be difficult to appropriately incentivize performance across different markets and cultures. According to our survey results, many companies feel they can improve their approach to retaining high performing global talent.

4. C-suite leaders and lower-level managers hold conflicting views on talent management. The gap in priorities across C-suite and managers presents an additional challenge to talent management. In particular, our survey found significant differences in viewpoints around recruiting locally from new markets, effectiveness in rewarding high performance and aligning business strategies with an individual's performance objectives.

Business implications and responses

Integrate talent management and global mobility strategies. Two key considerations for companies looking to broaden their international footprint include developing leaders from within and mandating global experience for staff. An integrated approach to talent management and global mobility will be an important factor in striking this balance.

Align business strategies with individuals' objectives. *It is i*mportant for companies to identify talent needs across markets and align opportunities to those with the right skillsets at the right time in their career. In addition to having the resources necessary to achieving business needs, it's important individuals feel their own ambitions are also evaluated.

Connect short-term recruitment strategies with long-term workforce planning. To effectively manage talent, companies must have both a short and long-term approach. Recruitment and development can take considerable time, so an effective response will include planning beyond the immediate horizon.

Establish uniform metrics for managerial performance. In addition to traditional performance measures, developing talent has become an important metric. Employee engagement can be fostered by promoting from within, investing in learning and development and aligning an individual's goals with those of the business.

Create an inclusive people culture with clear communication across all levels. Effective communication and an appreciation for diversity are increasingly important as organizations become more global. However, a single company mission must connect all levels and regions.

Challenge 1

Top management teams lack international experience

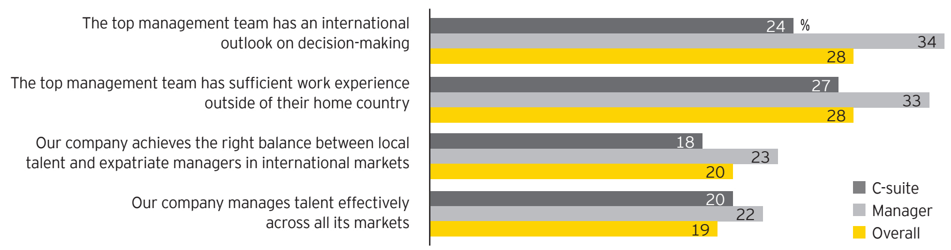
Without the ability to develop a core of experienced managers and leaders for a newly global workforce, firms based in rapid-growth markets face rocky terrain ahead as they look beyond their national borders. The majority of our respondents lack confidence that their organization has or can build an effective international management team. Less than a third of the respondents polled are strongly confident about their top management teams' international outlook on decision-making. And C-suite executives are even less sure than their line managers, with only about one in four (24%) expressing confidence, compared with one in three (34%) of the managers. Overall, just one in five executives believes that their company achieves the right balance between local talent and expatriate managers in international markets (see Figure 1).

In fact, the two main knowledge gaps in top management teams are an awareness of local culture and an understanding of global markets, according to our survey results (see Figure 2). China, for example, while clearly a major global market, has many nuances that can be addressed only by managers with hands-on local experience. Pankaj Ghemawat, Professor of Global Strategy at IESE Business School, cites the case of a luxury goods manufacturer planning to push into the interior of China, and notes that there are 40 tier-two cities, 130 tier-three cities and more than 400 tier-four cities there. "You start to get a more accurate texture, a feel for the texture of the market and the kinds of responses that are needed," he says. "You also come to the conclusion that it's going to be impossible to pull this all off with expatriates."

A big hurdle for all global businesses, though, is that the skills they need to expand geographically are not readily available in rapid-growth markets. Ghemawat points out that even though there are large numbers of graduates coming from business schools and other tertiary institutions in places such as China and India, the quality is not high enough yet. "The number of people who are actually fit to be employed in positions of significant responsibility is very, very limited," he says.

Figure 1: International experience of top management team

To what extent do you agree with the following statements?



Note: Overall base = 810; C-suite = 371; manager = 162; scores shown = percentage of respondents who strongly agree

Figure 2: Knowledge gaps in top management teams

Where does your organization's top management team need more knowledge and insight to be successful in today's global marketplace?

Note: Base = 810; scores shown = percentage of respondents

Challenge 2

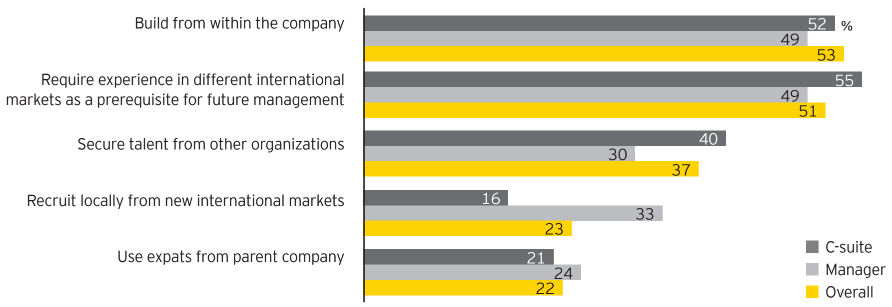
Lack of an internal management pipeline forces companies to recruit from rivals

Given the limited availability of high-quality graduates emerging from the universities in rapid-growth markets, companies are most often forced to develop their own. Building an internal pipeline requires time and investment, but is clearly the preferred route for most. Yet in order to plug the gaps, firms frequently also have to recruit from their rivals. The process may be self-defeating by worsening high turnover rates and salary inflation – hardly desirable after the firm has invested in developing internal candidates – but companies argue they have little choice.

Our survey supports this point. Securing talent from other organizations, while not the top recruitment method, ranks as quite important on our respondents' list. Tellingly, the latter is valued more highly as a tool by respondents within the C-suite than by managers (by 40%, as opposed to 30%) (see Figure 3).

Figure 3: Building an international management team

In building your international management team, which approach will you most emphasize over the next three years?



Note: Overall base = 810; C-suite = 371; manager = 162; scores shown = percentage of respondents who strongly agree

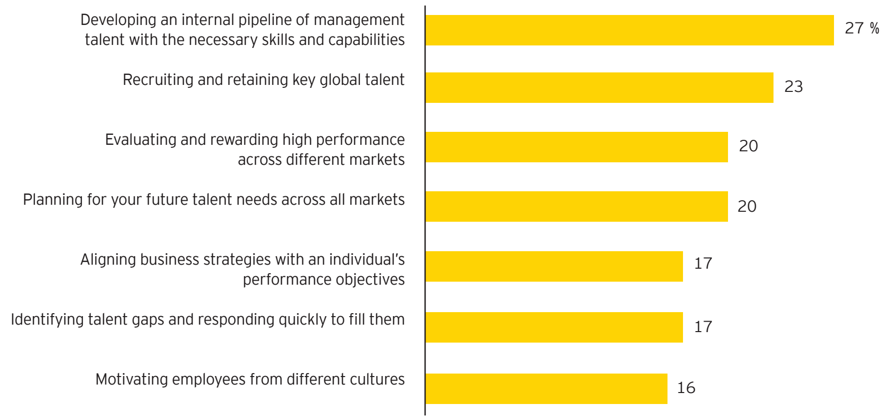
Challenge 3

Companies are unable to retain and reward high performers in different markets

Getting good people is one thing; keeping them is another. Companies find it particularly difficult to provide appropriate incentives for different markets. What might galvanize employees in one culture can turn off employees elsewhere. Overall, this is an area that most firms feel they can do better at. Only 20% of our survey respondents believe their companies do an effective job of evaluating and rewarding high performance across different markets, and only 23% think their company is good at retaining key global talent (see Figure 4).

Figure 4: Effective talent management

How effective is your company at the following aspects of talent management?



Note: Base = 810; scores shown = percentage of respondents who strongly agree

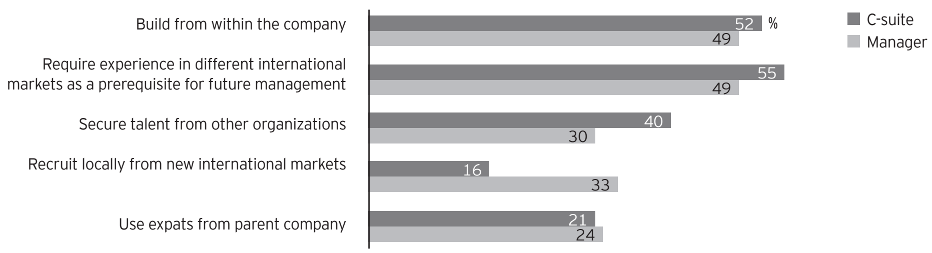
Challenge 4

C-suite leaders and lower-level managers hold conflicting views on talent management

It's difficult to make much headway on talent management if internal perspectives on the issue are not in agreement. As companies expand into new markets, it becomes harder for the corporate office to be aligned with satellite operations and for C-suite leaders to be in sync with rank-and-file employees. The overall impression from our survey is that managers and senior executives are rather far apart in their perceptions about talent management. The widest gap is in their priorities with regard to building an international management team: C-suite respondents give a very low priority to recruiting locally from new international markets, compared with managers (16% as opposed to 33%; see Figure 5). There are significant differences, also, in perceptions about companies' effectiveness in various areas of talent management. Compared with managers, C-level respondents have a much lower opinion of their companies' effectiveness in rewarding high performance across different markets (19% vs. 26%) and aligning business strategies with an individual's performance objectives (13% vs. 25%) (see Figure 6).

Figure 5: Building an international management team

In building your international management team, which approach will you most emphasize over the next three years?



Note: Overall base = 810; C-suite = 371; manager = 162; scores shown = percentage of respondents who strongly agree

Figure 6: Effectiveness of talent management: C-suite vs. managers

How effective is your company at the following aspects of talent management?

Note: Overall base = 810; C-suite = 371; manager = 162; scores shown = percentage of respondents who strongly agree ranking "very effective"

Business implications and responses

Clearly, the complex talent challenges that emerging global companies face do not allow for simple solutions, and no single approach can be considered foolproof. But there are some helpful steps that companies can take to make sure that their talent strategies keep up with the speed and breadth of their expansion into new markets. The following are some effective responses to ongoing challenges.

Integrate talent management and global mobility strategies

How must companies reconfigure their leadership teams to reflect a broader international footprint? Our respondents say two things are critical: build leaders from within the company, and make global experience mandatory for staff to be considered for future management positions. But this is easier said than done. "Talent management and global mobility need to be fully integrated to make this happen," says Bill Leisy, Global Talent Management Market Leader in the Human Capital practice of Ernst & Young. "For instance, if companies are going to require international experience for managers from different markets, how do they achieve this? This just doesn't happen overnight. What typically happens is a formal process of determining which jobs need what type and level of international experiences, embedding these within career paths and employee development, and then selecting and mobilizing the right talent. So if you need country managers someday to have experiences in emerging, developing and mature markets, the process must include integrating your talent management and global mobility strategies. A company cannot effectively globalize without having these two strategies completely integrated and aligned to the overall business strategy."

Developing managers – including those with international experience – into leaders is even more difficult. In some cases, acquisitions can do the job. For example, the world's largest meat company, JBS of Brazil, has expanded rapidly overseas by buying other firms. In 2007, it acquired Swift, the biggest beef processor in the US, based in Colorado. This, and the purchase of Pilgrim's Pride, a Texan chicken producer, has enabled JBS to export to Japan and elsewhere in Asia. These acquisitions have not only opened up new markets for the firm's products but also provided JBS access to a large, well-educated labor pool – the US. "There are more people available who have the right skills and are well-educated," the firm's head, Wesley Batista, told *The Economist*.[3] What is more, because of the boom in Brazil it is now getting easier to persuade staff to move from Colorado to Brazil than the other way around.

The development of leaders is something that should be started early, because it takes a considerable amount of time to nurture the right people. "In my view, you should try as a company to create local leadership as soon as possible, and it will take a couple of years, obviously," says Ben Noteboom,

Footnote

3. *"Beefed up," The Economist*, 24 September 2011

"This is a growing issue with global and globalizing organizations today — what resources, skills, competencies and experiences are needed in what markets and how we identify and develop those in the most effective and efficient ways."

Bill Leisy, Global Talent Management Market Leader, Ernst & Young

CEO of the Dutch firm Randstad, a global staffing organization. "But that's the biggest challenge. Then you will have local senior management managing that operation in that specific country and that to me is the ultimate, because they are the people that best understand the local environment."

Align business strategies with individuals' objectives

Part of the response to the challenge of developing managerial talent lies in integrating a company's talent strategy with its global mobility strategy to achieve the best blend of global and local expertise. But it's also important to find the right people with the right skills at the right time in their careers, with consistent personal career goals and ambitions. Only 17% of our respondents believe their companies are doing this effectively, and just 20% believe their organization is good at planning for future talent needs across all markets (see Figure 4). "This is a growing issue with global and globalizing organizations today – what resources, skills, competencies and experiences are needed in what markets and how we identify and develop those in the most effective and efficient ways," explains Leisy.

Practical responses to the problem include recognizing the different skills needed in different markets, matching these with career opportunities, exploring the widest talent pools both globally and locally, and focusing on practical coaching and training at the individual level.

Connect short-term recruitment strategies with long-term workforce planning

Leisy argues that a company's recruitment and mobility strategies must have both a short-term and a long-term view. They need to be agile in terms of quickly filling skills gaps. At the same time, they should connect to a robust workforce planning strategy three to five years into the future. And in this area, he says, companies are making progress. "Organizations are starting to get pretty sophisticated at this process. They look to their businesses and say, 'I'm going to need ten engineers in India with these skills. How do I get them? Do I go out and recruit them, do I poach, or can I develop them internally?'" In Leisy's view, the answer is increasingly the latter.

Establish uniform metrics for managerial performance

For many emerging multinationals, the retention of talent is a persistent challenge. If these companies do not try to align individual employees' goals with business objectives, talented people will feel they have no stake in the future of the company and will quit. Noteboom stresses the need to promote local employees to positions of responsibility as soon as possible. "You should have the courage to promote people sooner than you would in a more mature market," he says, although he has noticed that employees in rapid-growth markets are starting to take a slightly longer-term view of their employment prospects. Within Randstad, there is a heavy investment in training and company practice that 80% of all promotions have to be internal appointments.

Jeff Joerres, the Chairman and CEO of ManpowerGroup, takes a similar view. "There's really no substitute for rewarding local employees by promoting them to more senior positions if the turnover rate is to be reduced," he says. "If they feel as if they're growing and contributing to the overall success and vision of the company, they're going to stay longer."

But in Leisy's view, the pendulum can also swing too far toward local autonomy, leading to "siloed behavior within business units, sectors and functions." Instead, he sees a shift toward a blend of key company metrics – along with values aligning the company to business units and to individuals – with key business unit, sector and functional metrics. "I think we are going to see a huge movement toward this," he says. In his view, the common metrics for measuring managerial performance will continue to be growth, quality of customer service, efficiency of operations and financial performance, but with a new and maybe the most important measure: the development of talent. Companies will need to allow for the fact that some markets will be growing faster than others, but overall, there will be a push for closer alignment of performance metrics between the corporate headquarters and the subsidiaries.

Create an inclusive people culture with clear communication across all levels

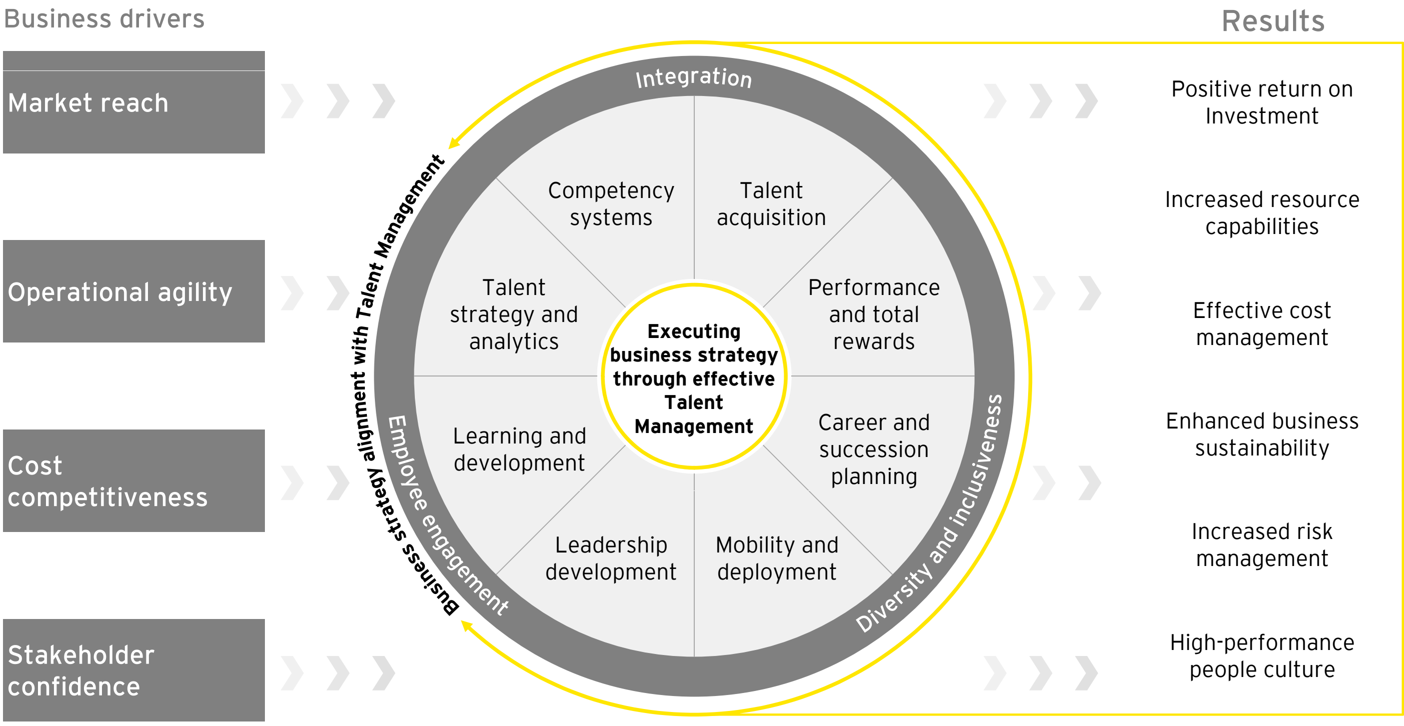
Ideally, the best-run companies would achieve a perfect balance between autonomy and centralization and between global and local, and would have efficient communications between the top of the company and the bottom. These companies would be led by individuals who are sensitive to the nuances of different markets, communicate effectively with their teams as well as with employees across the company, and understand the value of diverse perspectives in producing better outcomes – all while keeping the overall mission and values of the company in mind. In reality, not many such companies exist.

The magic is in the mission

Every global company, whether it is taking its first steps into new markets or is already a full-fledged international operation, is grappling with the task of building and sustaining an effective international management team. In many ways, the job is harder for companies coming from the rapid-growth markets. They have less international experience than their developed market rivals. But their rapid expansion does at least give them some leeway to make a few mistakes.

Overall, two lessons stand out for emerging multinationals. One is that metrics are important. Numbers are the only true common language. A single set of metrics that can enable firms to compare one region's talent management process with another helps to provide a yardstick, however imperfect, by which to measure performance. The second lesson is that without a common corporate culture, the numbers are virtually meaningless. There has to be a single mission statement, and a related organizational approach, that everybody can sign on to, whether they are from Indonesia or Indiana, China or Canada. This is the glue that holds great companies together. "I have found that the culture at the root of the person is amazingly similar," says ManpowerGroup's Joerres. "You need profit for flexibility, but it's also a sense of mission. When you get that and can sustain that, you have found some of the magic in what it means to run a global company."

The talent equation



Every company faces unique challenges and business drivers. No single talent management approach applies to all of them. Yet Ernst & Young's research and client work indicate that leading companies adhere to the following principles:

- Alignment and integration are the keys to the success and effectiveness of global talent management and are proven to correlate strongly with superior business performance, both financial and non-financial.

- Talent management (how an organization manages and develops its people consistent with its business strategies) must be an integral part of the business strategy to be effective.

This may sound simple, but executing it properly can be a challenge. Managing talent means trying to harness the full potential of your human or people capital – that intangible resource that brings the complexities and connections to human behavior.

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