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The Decline of the Expat Executive

by William J. Holstein

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The Decline of the Expat Executive

Peter Felix, president of the Association of Executive Search Consultants, discusses the new effort by multinationals to hire local executives in foreign locales.

by William J. Holstein

Executive expatriates are expensive, as many multinational firms have learned. Moving a manager to a factory or corporate office in Dubai, Russia, or India can be a costly experience after providing relocation dollars, tax equalization, and housing allowances. For that reason and others, Western and non-Western companies competing in emerging markets are dramatically reducing the number of Western executives they retain on full-fledged expatriate packages, replacing them with local nationals, third-country nationals (executives who live in the region but not in either the home or host country), and returning nationals, says Peter Felix, president of the New York–based Association of Executive Search Consultants (AESC). According to recent surveys by AESC of hiring activities in China, India, Brazil, the Middle East, and Russia, only 12 percent of senior executives in those markets are expats, compared with 56 percent 10 years ago. Given this profound shift, Felix believes that there is a war for management talent brewing in emerging countries and that the ability to hire the best may determine who comes out on top in the fastest-growing global markets.

S+B: What are the most significant changes occurring in the way global talent is distributed?

FELIX: We're seeing huge and explosive growth in demand for executive talent from multinational and local companies in emerging markets like Russia, India, and the Middle East. They're looking in many different places to find that talent. In particular, they are seeking "returning talent": returning Chinese, returning Indians, maybe even returning Russians, who have been educated, for instance, in the United States, worked there for a period of time, and have now come back to their home country. In seeking these executives, companies are hoping to find people who have broad experience — building infrastructure, implementing management practices, modernizing financial services and retail, and developing efficient steel and manufacturing operations — but who also have enough native knowledge of the region that they can fit in easily. At the moment, the expatriates still have a role in these markets, but that will continue to diminish as these local markets are more successful in finding either local nationals, third-country nationals, or returning nationals to fill the jobs.

S+B: What is the cost difference between using an international expatriate versus a third-country national or returning national?

FELIX: Expats are at least two or three times more expensive than the others. If the executive is an American working for an American company, then the company has to pay hefty tax equalization costs, covering any taxes

William J. Holstein
(bholstein2001@yahoo.com)
is a contributing editor of
strategy+business. A veteran
business journalist and author,
he is based in New York. For
more of his work, visit
www.williamholstein.com.

the executive and his or her family pay to the host country. In many of these developing countries, accommodations are becoming extraordinarily expensive, and often companies provide either a housing allowance or adequate accommodation, which is an increasing burden.

Then, there are the significant costs of training people in the regional lifestyle and commercial habits and, in some cases, providing classes to improve their ability to speak the local language. Unfortunately, much of the investment that companies make in sending executives overseas doesn't actually pay off, because those executives often leave the company a year or two after they get back to the home country: They may have problems fitting into the structure at headquarters or perhaps they have a hard time reconnecting with their colleagues. But whatever it is, they feel frustrated and leave.

And with these high costs as a backdrop, consider that there is a greater supply of local executives available, as many of the barriers between markets are falling. There is more mobility. The traditional brain drain from Russia, China, and India to the West has now reversed and many of these executives are staying home.

S+B: How should global companies operating in emerging markets manage the transition between management teams made up primarily of expatriates and teams that favor locals?

FELIX: This is the ultimate question. Companies that are fully committed to globalization have come to realize that there is real danger in imposing the culture of their country of origin on a worldwide organization. If a U.S. company, for example, is seen as reserving top executive slots for Americans, it will affect the company's success. Global corporations are recognizing that they have to organize themselves in a way that will allow multicultural executives to come up through the system and reach top jobs. We're seeing some evidence of that — the chairman and CEO of Sony Corporation was born in the U.K. and is now a U.S. citizen; a Brazilian-born executive based in Paris is running Nissan Motor Company; the chairman and former CEO of French cosmetics company L'Oreal is British. So there has been a big shift in the thinking of major multinational corporations. They're realizing that power can't stay just in their home market.

S+B: Are Western multinationals losing talent to emerging market competitors?

FELIX: They are losing some people, so they're putting new emphasis on talent management and their recruitment propositions. Many corporations are doing serious soul searching, particularly if their own recruitment propositions have been materially harmed by negligence. For example, if a U.S. company has laid off a lot of people or management has had problems back in the States, this could upset the ability of a corporation to recruit local nationals overseas. For that reason, companies are trying to clean up their reputations abroad even as they try to hire new talent.

In this war for talent, you have to be well-equipped to fight. If you're not well-equipped, you're going to lose people.

S+B: Aside from compensation, what other factors influence this new breed of executives with regard to what companies they want to work for?

FELIX: It's not just companies that are competing for talent; it's also countries. We did a survey recently, asking our database of 45,000 global executives, "If you were to consider an overseas assignment, where would you prefer to go?" There was a high preference for China, the next preference was for India, and the lowest preference by far was Russia.

How well these big emerging markets compete for talent will depend on what perception people have of their national companies. Do I want to work in India for an Indian company? Do I want to work in Russia for a Russian company? Do I want to work in another market for one of those companies? Or do I want to work for a global company in one of these markets?

Companies will have to develop more attractive promotion policies to recruit executives. With the notable exceptions of Nissan and Sony, the Japanese, who have 20 years or more of experience operating overseas, have never gotten this issue quite right. When it came to integrating senior non-Japanese into the corporation, there was a glass ceiling; non-Japanese were never likely to make it to the top because of a very insular culture. Frankly, I would predict that's going to be a challenge for some of the emerging multinationals. They're going to have to put together recruitment propositions that are attractive to the most talented executives. +

Resources

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