

### Continental drift

## New paradigms in the global competition for talent



**CLAUDIO FERNÁNDEZ-ARÁOZ**

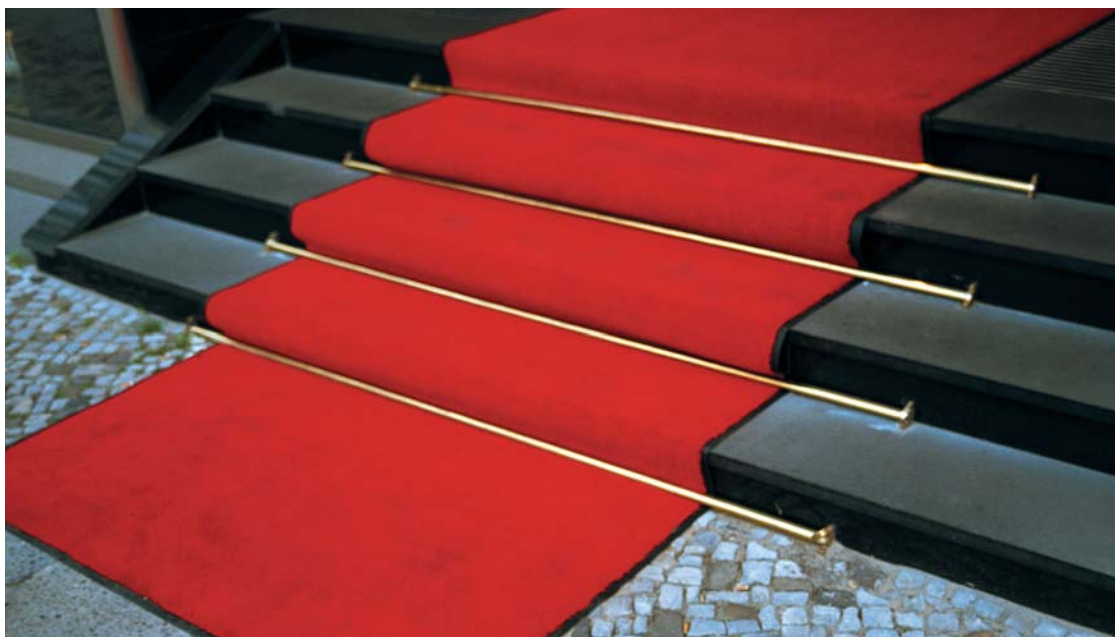
Egon Zehnder International, Buenos Aires  
claudio.fernandez.araoz@ezi.net

**The shift in economic power from West to East that we are currently witnessing calls for new approaches to gaining and retaining managerial talent. While few leadership disciplines have been so neglected in the past as talent management, best-selling author and expert HR consultant Claudio Fernández-Aráoz is convinced that we are about to embark upon a new era in the practice of people decisions. Better late than never.**

WHILE THERE ARE several factors driving the need for radical change in the competition for talent, none is stronger than globalization. We are all fully aware of the dramatic shift in economic power, at unprecedented pace, from Western Europe and the United States to a number of emerging countries. Senior executives around the world have woken up to the fact that the BRIC countries (Brazil, Russia, India, and China) are today not only a fast-growing market of almost two billion people, but also a source of increasingly qualified, relatively inexpensive labor and highly competitive brains. Almost without exception, the multinational companies we studied are planning a substantial increase in the proportion of talent they aim to recruit outside their original home country over the next five years.

#### Growing demand for managerial talent

These companies are, however, painfully aware that capturing these opportunities (and controlling the threats) is no easy task. In the first place it is extremely difficult to find qualified professionals in these new markets. China, for example, had no business schools until the mid-1990s, and to meet the demand for managerial talent there is only a very shallow pool of Western and Asian expatriates, mainland Chinese returnees, and mainland Chinese locals. The markets in India, Brazil, and Russia are facing similar problems of shrinking talent pools to support their breakneck growth and exploding demand.



In addition, retaining talent has become an unprecedented challenge in a region which, in the past, was well known for paradigms of lifetime employment. Today, despite past traditions of worker loyalty, the “stick rate” of hired candidates in Asia has already fallen lower than that of the United States and Europe.

### **Lack of rigor, professionalism, and knowledge**

Unfortunately, many multinational corporations are approaching this new global competition for talent largely unarmed. Making people decisions is still one of the weakest of all organizational practices. Having discussed this point with hundreds of senior leaders of global corporations, I have still not found one who would contest the fact that their companies’ financial decisions are made with a completely different level of rigor, professionalism, and knowledge than their people decisions. In most cases, senior leaders agree, the process of people decisions is distinguished by a lack of rigor at every step along the way – and that applies to internal promotions and external hiring decisions alike.

Poor practices exist even at many distinguished companies. Last year, in Egon Zehnder International’s survey of our panel of more than 100 top executives from the USA, Germany, the UK and France, only half of the respondents believed that they were successful at identifying top performers and key potentials within their own organizations, to say nothing of when it comes to hiring

and integrating talent from the outside, in largely unknown and complex geographies and cultures.

Make no mistake, there are indeed exemplary companies that have an amazing track record of hiring exceptional talents at the bottom of the pyramid and promoting and developing them in a remarkable way, creating immense wealth for their own organizations, and even producing leaders for many other organizations around the world. The example of GE stands as perhaps the most salient case: GE has focused on talent as a core priority for well over a century. It has also put into practice a development process that has produced outstanding leaders for GE itself (including Jack Welch, who led one of the largest creations of industrial value in economic history) as well as a very large number of senior leaders for many other organizations.

Companies like GE are, however, clearly the exception rather than the rule. While most companies these days have adopted similar development processes to those of GE, few actually walk the talk with real discipline. Even more important, the challenges (and opportunities) in the new competitive landscape cannot be solved by development alone, but require an amazing level of skill and effectiveness in hiring practices – not least because development takes time, and emerging markets already are an urgent reality. At a recent conference of senior HR leaders from some of the largest U.S. multinational corporations in New York, a survey was conducted asking them to rank the six most pressing

issues of their roles. While development did feature at the end of the list, the two hottest issues were in fact the acquisition and integration of talent.

In what is an unprecedented geographic challenge, even those companies with the best development practices are finding it increasingly difficult to move their resources geographically, for reasons including lower loyalty, higher divorce rates, and second families. But another factor here is a discrepancy in values between employees in the most developed nations versus those in emerging countries, with the former prioritizing work-life balance, while the latter generally emphasize work and professional success.

On the demographic front, too, in every industrialized nation employers are facing a major challenge due to the aging of the baby boomer generation. Among 50 large multinational corporations that we recently studied, the percentage of executives aged 35 to 44 was expected to drop from its current level of 30 percent to just 18 percent over the next five years.

### **Wanted: a best practice model**

While hiring talent has thus become a burning priority for competitiveness and opportunity in the new global environment, we have also realized that it is precisely in this crucial aspect of people decisions that not only is practice generally poor, but also there is simply no model of best practice. Unlike the case of development, where such a model does indeed exist and has been adopted, at least in theory, by most global corporations, we have found that although CEOs are personally involved in recruiting senior managers (as indeed they should be) their approaches vary greatly. We identified huge differences in practices regarding key aspects of the hiring process, such as the number of candidates to consider in a search; the assessment process itself; preferences for internal or external candidates; the on-boarding support provided for hired candidates; as well as the role of the HR department and the use of outside professional help. It emerged from our research that these individualistic approaches seemed not to be a function of company, sector, market, or circumstantial needs, but rather the result of implicit personal preferences and organizational traditions that were not based on any solid foundation of valid research and best practices.

While all the above may seem to present a negative perspective, I am convinced that it is exactly the opposite. Innovation happens as a result of pressing

problems, and the combined opportunities and challenges of the new global environment will promote the development of a completely new generation of best practices in the field of people decisions. That was the case once before, when the process of making great people decisions made a major leap forward around the time of World War I, when massive hiring led to the development of much better testing and interviewing techniques.

The fact that the practice of people decisions is still so primitive should not really come as a surprise, given the widespread lack of formal education on the topic. This gap in the curriculum urgently needs filling at a time when – as current estimates reveal – 70 percent of the value of the typical S&P 500 company is represented by intangible assets such as talent. So do we have any evidence that the necessary change in mindset is happening already? Indeed we do. Over the last few months, I have seen some of the world's best business schools incorporating into their curriculum the topic of making great people decisions, realizing that they cannot produce tomorrow's leaders if they don't teach today's students how to choose the right followers. Likewise, many global corporations are also starting to train their senior leaders, so that what used to be an intuitive art is becoming much more of a disciplined craft.

Given the huge size of the markets and companies involved, as well as the dramatic difference between a top performer and an average individual in complex leadership roles, this new mindset and level of best practice in the global competition for talent will dramatically change the level of productivity and wealth creation all around the world. Put simply, making great people decisions is the key to building a brilliant future. Or as the grand old man of management Peter Drucker once put it: "The best way to predict the future is to create it."

### **THE AUTHOR**

**CLAUDIO FERNÁNDEZ-ARÁOZ joined Egon Zehnder International in 1986. Since 1998 he has been a member of the firm's Executive Committee. He is the author of the highly acclaimed book *Great People Decisions*, originally published in English by Wiley in 2007 and since translated into several languages including Chinese and Vietnamese.**