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LATIN AMERICA - Driving Toward Sustainable Business Advantage

Perspectives from TRANSEARCH International

Like many other regions impacted by the global economic crisis, investors and business executives across Latin America have been forced to recalculate expectations of return on investment and corporate earnings.

In recent months, most financial analysts have revised growth expectations for the region downward. A recent survey of more than 100 executives from large, mid-sized and small banks from 19 Latin American and Caribbean countries by the Inter-American Development Bank and the Latin American Bank Federation (FELABAN) finds that most of these respondents expect to feel the impacts of the global financial crisis for one to three years.



The Organisation for Economic Co-Operation And Development (OECD), in its Latin American Economic Outlook 2009, acknowledges important challenges for the region, including “revenue generation that relies on volatile non-tax sources and regressive indirect taxes...” and recognizes the key linkage of fiscal policy and development as a key indicator of economic growth within the region’s high-potential economies.

The clear consensus among the region’s bankers and other business executives is that 2009 will, no doubt, be a challenging year for Latin America and other regional players in the world economy.

Yet the same OECD outlook report recognizes steps taken by Latin American governments since the end of the debt crisis of the 1980s that have “reduced deficits, lowered fiscal volatility, increased public expenditure and pioneered fiscal innovations.”

Lessons learned from the region’s past experiences with debt and currency crises and volatile commodity markets provide Latin American business executives the perspective, experience and agility to adapt to shifting business challenges and the resourcefulness to seek out new opportunities for business growth.

While the business community in some parts of the region remains in need of political and economic stability, there remains a significant growth story to tell.

Long overshadowed by the explosive growth of Asian economies, Latin America continues to reveal its market potential even amid the turbulence of the global economic dynamic.

A recent KPMG LLP survey of private equity (PE) investors reveals that Latin America continues to offer greater investment opportunity than many other regions around the world. While many investors are now adopting a longer-range view of investment returns in Argentina and other countries, confidence in long-term PE activity in Brazil, Mexico and Columbia offers moderated optimism.

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The question across the region, as is the case in other regions challenged by serious financial crises, is whether market and business reforms will prove sustainable in light of the continuing economic pressures.

One of the primary drivers of future economic development and expansion is the quality and depth of Latin America’s labor force, including its senior management leaders, on whose shoulders rest both the responsibility and accountability for driving business performance in large regional and multinational companies.

A recent survey by the Economist Intelligence Unit finds the single biggest workforce-related challenge facing small and medium-sized enterprises (SMEs) is their inability to attract qualified, high-potential candidates, as the following chart illustrates:

Top Workforce Challenges Facing Small and Medium-Sized Enterprises In Latin America*

Inability to attract qualified candidates	30%
Mismatch between employee skills and organizational priorities	27%
Inability to retain key employees	26%
Inability to build a properly motivated workforce	22%

* Multiple responses accepted

Source: Economist Intelligence Unit, September 2008 survey

Global companies continue to rely on the appointment of talented executives to lead their operations in foreign markets. Increasingly, these leaders must draw not only on years of experience leading teams in the region but also on relationships and trust built within increasingly global circles of corporate authority and influence.

Regional business enterprises – including SMEs – also continue to draw on and capitalize on exceptional management talent, whether recruited in-region or from global pools of remarkably qualified leaders.

As the perspectives of TRANSEARCH International’s Latin American executive search consultants reveals herein, the pace of future business growth will continue to hinge on the region’s ability to develop, attract and leverage the right business leaders who can drive talent equity and sustainable business advantage.

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THE VIEW FROM BRAZIL: The Potential Of Sustainable People Policies

The largest of the Latin American economies finds that the sheer size of its markets exposes them uniquely to the global economic currents, yet paradoxically, Brazil also finds its business growth engines somewhat insulated from the same challenges.

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The precautionary economic measures instituted by the former government, which have been accepted and reinstated by the current administration, have tempered the economic impacts of the broader financial crisis in the global markets. So while the full extent to which Brazil will feel the ripple effect of the global recession remains to be seen, there remains some confidence that its proactive economic steps will put the country on the road to economic growth perhaps sooner than some of its neighbors in the region.

From his vantage point as senior consultant and partner in the Sao Paulo office, Luiz Felipe de Sousa Calazans sees opportunity in the current retrenchment of corporate and investment decision-making in companies of all sizes.

“There is no doubt that the challenges are immense, and, added to the effects of the global crisis, become quite a heavy burden for companies in Brazil and the people who lead them,” he says.

Yet the genesis of new ideas about countering economic and competitive challenges and identifying sustainable business practices is human capital, he says. This accentuates the value of fresh insights shared in recent months during organized events featuring speakers from the Dom Cabral Foundation, one of Latin America’s leading economic research institutes.

“What makes the difference is the human being, the greatest asset that an organization can have,” de Sousa Calazans contends. “Those who build or those who manage to build a sustainable advantage, because they operate with a differentiated managerial team, whether in times of crisis or not, doubtlessly are a step ahead in relation to the competition.”



To build and sustain competitive advantage in Brazil, he says, global and regional companies must recognize and retain the managerial talent that sets the agenda, assumes risk and rewards performance across the enterprise. Yet companies’ ability to leverage these organizational assets have been challenged by the large number of mergers and acquisitions that have constantly shifted the composition of many management teams.

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Research by the Sao Paulo office finds that the majority of companies operating in Brazil, both local and international, do not have much clarity in their managerial profiles and few have prepared management succession plans in an ordered and technical manner.

The slimming down of corporate management teams and the impression that the availability of more unemployed candidates for senior leadership roles should make it easier to attract top talent doesn't make the search for world-class business leaders any easier.

As evidenced in other countries across Latin America, there has been a shift in the candidate market – especially among the most desired candidates for critical management roles. Executives are more concerned about the sustainability of their careers, and for that reason, those who remain employed are injecting more diligence into the process of researching a new opportunity and new employer.

“In this climate of uncertainty, people increasingly seek security and market niches that are less subject to the dire consequences of the ‘crisis,’” de Sousa Calazans explains. “Salary negotiations are difficult, but we have managed to conclude them, making use of our negotiation capacity and the image of seriousness and confidence that we have achieved in the market.”

THE VIEW FROM MEXICO

Companies Selectively Upgrading Executive Talent

The lingering challenges that have touched every region in the world economy have exerted a combination of financial pressures on business enterprises in Mexico.

The road to economic recovery and sustainable prosperity will require Mexico to decide how best to stimulate its national economy in the face of the global recession, to address the devaluation of the peso, and to balance its dependency on manufacturing exports to the United States. Add to this challenge the rising security issues related to Mexico's ongoing drug war, and one begins to appreciate the implications on business growth and the flow of future foreign direct investment into the country.

The good news, says Salvador Elizaga, managing partner of the Mexico City office, is that “Mexico has already undergone several economic catastrophes, which seem to give it an edge psychologically...We are also finding that some sectors, such as pharmaceuticals, energy and certain consumer goods sectors, have done well, or have at least maintained sales growth, despite the economic downturn.”

The current economic challenges – felt most acutely in the financial services and automotive sectors – have already ushered in some important structural changes that will help it compete long into the future.

These reforms, Elizaga observes, “are forcing Mexico to design a strategic economic development program that involves the participation of government and the private sector. The govern-

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ment has taken steps, through public investments, to preserve jobs and improve security for employees. And companies are trying hard to take advantage of their existing resources and to be more productive.”

Given that human resources remain the single largest intangible assets on corporate balance sheets, it’s not surprising that some Mexican companies see potential in creating workforce efficiency and making their teams and leaders more productive.

Mexico as a country, with its close proximity to the United States and Canada, as well as being one of the gateways to the rest of Latin America (especially the northern countries), needs to develop internationally oriented leaders to increase its competitiveness.

“Finding leaders who are fully bilingual and multicultural and who can fully understand and



adapt to a U.S.- or European-owned organization is not easy,” Elizaga says. “Although there are more executives available in the market, there is still a demand for multicultural, multilingual, executive talent with experience working and/or studying outside of Mexico. At the C-level and one step below, few want to risk a move to a company that is less economically stable. And because Mexico’s population is young, even fewer have had the experience of managing or leading in a severe economic crisis, even though they may have been working during the previous downturns.”

Companies across Mexico would be well served to remember that simply because there are more candidates available in the job market does not necessarily mean the talent pool has increased in depth.

“In an economic environment like this one, where there are multitude of quality unemployed executives, there are also the usually underperforming executives on the market,” Elizaga cautions.

“Companies cannot risk making bad hiring decisions. For this reason, organizations need to have a methodical and comprehensive selection process, which ensures an attractive and successful partnership for both the company and candidate.”

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Further, he adds, “The companies that make hiring global talent their priority, as well as including among their key objectives programs to develop global leaders, will have an advantage over their competition.”

To gain that edge, Elizaga points out, corporate “C-level” management have been weeding out the ‘B’ and ‘C’ grade managers and hiring or promoting the so-called ‘A players’ whom they can depend on to lead in times of crisis. This is a result, he adds, of top executive leaders needing to identify key executives, build strong teams and get more out of managers who now have fewer resources.

It seems, however, that decisions about upgrading talent in times like these is, within many organizations, a matter of individual decision-making rather than a thoughtful, consistent approach to improving organizational performance.

Most companies doing business in Mexico do not have well-defined talent management strategies and/or succession plans, and this remains one of the major human resources challenges in the country.

“Except for a few multinationals that are more closely aligned with the strategies of the home-office,” Elizaga contends, “most organizations are losing talent because there are no defined retention programs, career tracks or leadership development programs. Typically, the Mexican business culture has produced leaders with a more autocratic leadership style, some of whom remain and clash with up-and-coming, high-potential talent.” In Mexico, he adds, the time has come to align human performance with business strategy.



“Today, more than ever, it is increasingly important to establish effective communications within teams; inspiring and involving all team members to focus all of their efforts towards a common goal in the most productive and efficient ways,” Elizaga advises.

“We advise our clients to perform a serious analysis of their teams, making a great effort to identify and retain the top talent and their high potentials. The goal should be to achieve a mutual commitment focused on a long-term relationship with these key executives.”

Looking ahead, if the current recession and economic crisis rebounds as is expected by early 2010, Elizaga predicts, “Many companies may be caught short of key executive talent in the near future as we have already seen gaps in organizational structures where management positions that would normally be filled internally do not have the adequate talent pool and need to be sourced from the market.”

THE VIEW FROM VENEZUELA: A Fluid Economy Puts Premium On Adapta- tion

There is a saying among Venezuelan business managers, rising now to the point of widespread belief, that translates, "Somebody who manages in Venezuela can manage everywhere."

The political, social and labor dynamics in this oil-rich economy have created an atmosphere in which enterprise management has to devote a great deal of energy and resources to adapt to the crises and potential crises created every day by political decisions and behaviors.

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Price and foreign exchange controls, sudden and unexpected changes in the rules of doing business, and bureaucracy are the norm to which business leaders – both native and foreign – have learned to expect and navigate.

The result, however, is an environment of increasing uncertainty.

One consequence of such a fluid economic and business environment is the flow of young professionals and also experienced management executives out of Venezuela in search of more stable business and working conditions elsewhere.

"From an organizational perspective," says Juan Antonio Bustillo, partner director of the Caracas office, "multinational companies, in particular, have grown accustomed to the chain reaction of decisions forced by the fluid nature of the country's highly interconnected economic and political systems."



These dynamics often move multinational operations in Venezuela to consult with their global headquarters on issues that often force them to adjust budgets and modify business expectations. What works today simply may not apply tomorrow.

As a result, multinational companies are experiencing more difficulty expatriating their global or regional executives into some of their leadership positions based in Venezuela. This has placed a high premium on Venezuelan and other Spanish-speaking executives, turning it into a highly competitive market for top leaders.

So how to plan for the future?

Bustillo acknowledges that many employers are left to ponder how they can plan for the future when the rules of business regularly reveal themselves as moving targets.

“Our reply is...precisely now is the time to plan for the future because it’s essential to have a clearer vision of potential business decisions and options for making them, however opaque the broader business environment,” Bustillo says.

After all, the more things change in Venezuela, the more things stay the same.

THE VIEW FROM PERU

Like many of its neighbors in Latin American, Peru has experienced a number of crises in the last two decades. But unlike some of them, it has also witnessed steady GDP growth above 5% per year since 2002, having posted a 9% gain in 2008.

Forecasts of GDP growth for 2009, however, have been adjusted downward to 5%, an enviable figure for any country in the region, and on the broader world stage, for that matter. But the pressures of the global recession are being felt in Peru, especially in the mining sector of the economy.

Jorge Velaochaga, managing partner of the Lima office and regional director of TRANSEARCH

“one of the challenges today is to motivate employees to adapt to the new rules of the market”

Latin America, says that despite its comparably buoyant economy, business leaders in many sectors are shifting their priorities.

“Executive-level management is now implementing strategies to diminish the effects of the crisis like it has done in the past, maybe with a few changes in form,” Velaochaga says. “One of the challenges today is to motivate employees to adapt to the new rules of the market.”

It is already clear that the global recession has had the effect of moderating the pace of corporate growth in Peru, shifting it from an ‘explosive growth’ phase to a more organized, measured pace than has been seen in recent years.

Similar to the shifts in the executive labor markets seen elsewhere in Latin America, Peruvian executives are now more cautious when it comes to evaluating potential career moves. “They are more rigorous when evaluating their possible performance bonuses and the financials of the potential employer,” Velaochaga explains.

Given this renewed level of due diligence by potential executive candidates, he adds, employers can leverage the experience of TRANSEARCH consultants by soliciting their view of compensation packages and related policies in companies from competing or other, similar sectors. Broadening an organization’s view of shifts in executive compensation can give employers valuable insight when it comes to packaging the incentives needed to recruit, develop and retain their top executive leaders.

The process of matching incentives with individual performance goals, Velaochaga says, is far more likely to deliver the desired results if the consultant has a clear view of the company's business model, organizational culture and competitive dynamics. The goal, in essence, should be to "harmonize" the interests of the organization with those of the individual business executive.

Further, Velaochaga advises, companies in Peru and across Latin America should be taking a fresh look at organizational strategy and its alignment with executive's motivation and compensation. Testing the sustainability of corporate strategy and leader engagement are important agenda items in this economic environment, because both must be synchronized in order to drive improved business performance.



"In Peru, sustainable leadership advantage is about being one step ahead to change and not waiting for moves by the competition to react. Adaptation to change ought to come from the strategic level down to the operating level with a clear, common language," Velaochaga asserts.

"Superior executive talent, regardless of the economic situation, is always scarce. Retaining top leaders though continuous motivation and understanding the specific needs of key executives within the organization is important to build and sustain this advantage."

THE VIEW FROM CHILE

The economic ripple effects of the global financial crisis have reached Chile, where they are driving increased unemployment, reducing the corporation valuation and moving business leaders to suspend significant business decisions until the extent of its impact is fully understood. The focus, clearly, is on the bottom line.

This has moved organizations to become very conservative when it comes to budget issues. It has also reshaped the executive labor market by prompting some experienced business leaders to work for less money than they may have earned in the past.

Marisol Duarte, a executive search consultant with the Santiago office, says, however, that as corporate attention has been focused squarely on financial matters, it would be unwise to lose sight of critical human resource issues during these challenging times.

"Companies need to be extremely serious about people matters," Duarte argues. "They must have a clear understanding of the competencies they have in the team, and the competencies they need but don't have. This analysis will inform companies' view of the changes that may be necessary and the upside potential that might be realized if they move on time and ahead of their competitors."

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However challenging the economic environment in Chile and throughout Latin America, Duarte is decidedly optimistic about the region's long-term outlook and the potential for companies to drive future growth. "This crisis won't last forever. Waters will return to course and it will be necessary to have the strategy and the talent to take advantage of the recovery," she says. "In difficult times, it is more important than ever to plan for the future, because the marriage of talent and strategy will ultimately make the difference between success and failure in the market."

Duarte continues: "If you have the best team, you can beat the competition. When everything grows for everybody, talent is less important. In these times, however, companies need to make some changes to meet present and future challenges. This means, in many cases, letting some executives go and looking for new ones with different competencies that better match the situation."

PUTTING BEST PRACTICE INTO PLACE

Considering the informed perspectives of the TRANSEARCH International executive search consulting partners across Latin America, it's clear that the durability of the region's institutions – financial, political, educational and social – will continue to be challenged by global economic challenges that have reset expectations for investors and shifted priorities for even the most experienced business leaders.



Latin America will continue to be challenged in the years to come, and its resolve and ability to capitalize on its natural resources and to leverage its growing political and human capital will be tested. The consensus among TRANSEARCH consultants across the region is that Latin America is poised to adapt to current challenges and seize on future growth opportunities.

For today's multinational corporations, it's more important than ever before to understand that what works in one country in Latin America may not succeed in another.

Hiring organizations of all sizes and across all sectors must invest the time and resources required to understand how opportunity, executive talent market dynamics, and government regulation translate in each country.

Fifty years ago, on 12th April, 1959, John F. Kennedy, the 35th president of the United States, uttered these words: "The Chinese use two brush strokes to write the word 'crisis.' One brush stroke stands for danger; the other for opportunity. In a crisis, be aware of the danger – but recognize the opportunity."

For employer organizations across Latin America now, driving toward sustainable business advantage may simply be a matter of vision and a commitment to find the next opportunity.

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About TRANSEARCH International

TRANSEARCH International has representation in most of the major economic centres of the world with over 50 offices in more than 30 countries and is currently rated as the 9th largest global executive search firm by Executive Recruiter News (ERN). TRANSEARCH International was founded in 1982 and celebrated its 25th Anniversary in 2007. For more information contact the TRANSEARCH Central Office (contact@transearch.com).

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