Executive Talent:
A Key to Unlock Brazil's Future

AESC

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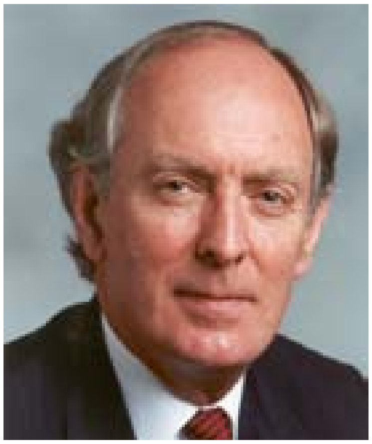
INTRODUCTION FROM THE AESC



"Competition for top performers has never been more intense, nor has the recruitment of that talent ever required more professionalism and skill."

The growth trajectory of the Brazilian economy, remarkable as it has been, has presented an acute set of challenges for our member firms and their clients. Competition for top performers has never been more intense, nor has the recruitment of that talent ever required more professionalism and skill.

Executive search consultants today are providing their clients with value added services across the human resources spectrum – identifying, recruiting, retaining and developing leaders that will lead the best companies into their next stage of growth.

This paper focuses on Brazil and attempts to illuminate the critical nature of senior executive talent to the growth trajectory of Brazilian enterprises and the Brazilian economy at large.

As the worldwide professional association for retained executive search consulting firms, the AESC is committed to promoting best practices in our profession and to helping Brazilian organizations achieve their best value from this specialized form of management consulting.

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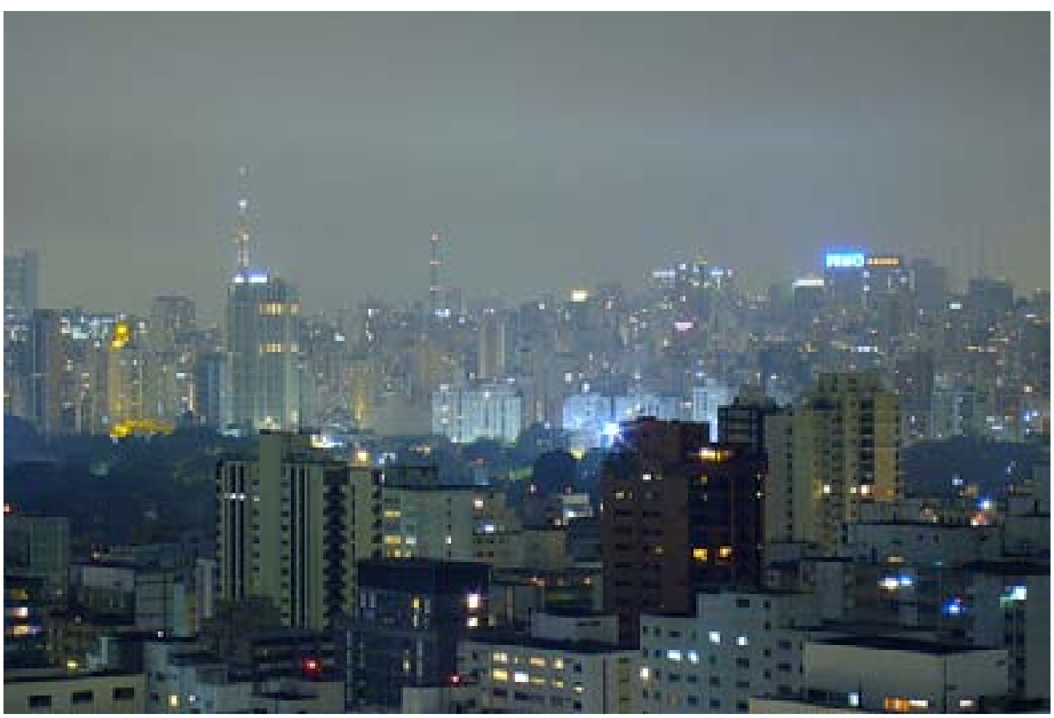
KEY TRENDS

The Brazilian economy experienced real GDP growth over 5% in 2009 and is on pace to well exceed that rate in 2010. The continuation of this growth trajectory will hinge on how Brazilian enterprise addresses the following:

- There is an acute shortage of executive leadership talent. The neglect of the public educational system and flight of the best talent to opportunities abroad over the last thirty years has left Brazilian organizations with a leadership pool insufficient to meet today's requirements.
- Existing corporate governance structures are weak compared to developed economies. The willingness and ability of enterprise to improve corporate governance, and the talent with the perspective to develop and implement it, will play a central role in Brazil's transition from a nation of family businesses to a nation of large public enterprises.
- Brazilian firms that seek to maximize growth for their shareholders are looking for opportunities abroad and seeking the talent necessary to capture these opportunities. The pool of leaders residing in Brazil with the skills and experience to drive international expansion is limited.
- Brazilian culture has long been intertwined with the workplace. Today, Generation Y is creating a new cultural shift that is having a profound effect on Brazilian enterprise. The extent to which Brazilian employers address the unique demands of Generation Y will directly affect their ability to compete.



OVERVIEW OF THE BRAZILIAN GROWTH STORY

While not left unscathed by the global financial crisis, Brazil was and continues to be the engine fueling the economy of Latin America. The awarding of the 2016 Summer Olympic Games to Rio de Janeiro was, in many ways, in recognition of Brazil's economic success.

Brazil was not long ago a primarily agricultural economy, driven in large part by commodities such as coffee and soya beans. Family businesses were the norm and talent was appointed from within the family, often leaving bright talent without a path to advancement. Performance management, if implemented, was not respected as a tool to promote the highest potential talent and thus diversity suffered as families looked to protect their stature and wealth.

In the late 1980s and early 1990s, Brazil developed into a major manufacturing hub servicing automakers, white good manufacturers and other value added industries. In the late 1990's, the U.S. began to look more and more at Brazil, and particularly Sao Paolo, as a financial hub in Latin America.

In the wake of the global financial crisis, Brazil's largest financial institutions have fared well. Brazilian financial institutions did not face the same turmoil as their counterparts in the U.S. and have benefited from strong balance sheets and appreciation of the Brazilian Real against the U.S. Dollar. Today, a growing middle class, strong commodity markets, and skyrocketing trade with China, is fueling Brazilian firms' global expansion. Some 27.8 million Brazilians — out of a population of nearly 200 million — joined the consumer economy from October 2003 to October 2008. Further, the Chinese continuous thirst for commodities, particularly soybeans, iron ore and oil, has been critical. ***"I don't know where we'd be without China,"*** said Jose Augusto de Castro, a vice president of the Rio-based Brazilian Foreign Trade Association.[i]

In addition, foreign direct investment is pouring into the economy and providing firms with the capital required to even more rapidly expand beyond national borders. Since October 2009, there have been eight transactions involving the purchase of U.S. assets by Brazilian firms. JBS, a Brazilian meatpacker, acquired U.S. firm, Pilgrim's Pride, at the end of 2009 followed by another U.S. firm, Swift, in January 2010. Later in January, Petrobras bought a large stake in the Gulf of Mexico's Cascade Oil Field. In February, Braskem, a Brazilian resin producer, acquired part of Sunoco Chemicals and in April, Banco do Brasil, received approval from the U.S. Federal Reserve to open up retail operations in the United States. Most recently, in June 2010, Marfig, a Brazilian meat packer, acquired the U.S. firm Keystone Foods, establishing itself as a key supplier to fast food chains like Subway and McDonald's.[ii]

This rapid expansion, while a boon to the Brazilian economy, has exacerbated an already acute talent shortage, highlighted the need for improved corporate governance, demanded that firms incorporate a new global perspective, and required the reconsideration of certain cultural norms. These challenges will be addressed in the following four sections.

A DIRE TALENT SHORTAGE

While the Brazilian economy has grown significantly, the nation's educational system has not kept pace and Brazilian enterprise is stressed to identify, recruit, develop, and retain necessary talent. Brazilian students consistently rank academically below their peers in other countries, thus entry level talent is under-skilled and faces challenges as it develops into management – slowing the growth of individual enterprises and national GDP.[iii]

According to a recent survey of 35,000 employers across 36 countries released this year, 64 percent of employers in Brazil indicated difficulty filling positions in their organizations. This was more than twice the global average and placed Brazil second only to Japan as the most difficult country in which to fill a position. Only 14 percent of employers in the United States noted difficulty filling positions.[iv]

Brazil's education system is sorely lacking. While the upper classes are often educated overseas or in a small number of elite universities, half of Latin America's illiterate population lives in Brazil. Twenty percent of Brazilians are completely unable to read. More than half of all Brazilian children have never gone to school at all.[v]

In contrast to Brazil's neglect of its educational system, India has had a decades old emphasis on the development of its secondary schools and universities. Employing a different strategy but with similar focus, China has traditionally identified top performing students at an early age and provided educational opportunities abroad for its best and brightest. Notwithstanding economic growth even more rapid than in Brazil, only 16 percent of employers in India reported difficulty filling positions and 40 percent of employers in China reported such difficulty.[vi]

Brazilian firms are forced to pick up the slack left by a poor educational system. Given the dearth of suitable talent, employers have reluctantly become the source of secondary education for many of their employees. However, the capacity to train talent during employment simply is dwarfed by the rate of promotion necessary to keep pace with business demands.

Many firms are taking a gamble on younger talent, more likely to be educated abroad or exposed to international standards of business. However, leadership and skills development takes time. The fast tracking of young talent, whose management experience does not match their technical acumen, presents risks and places additional requirements on employers.

"The problem is that universities in Brazil today are able to train about 30,000 engineers annually, and only a subset have management capabilities. In contrast, South Korean universities produce 80,000 engineers annually, India universities produce 250,000 engineers annually, and Chinese universities produce 400,000 engineers annually. Brazil does not have enough engineers, and certainly not enough engineers who will develop into managers," noted one leading executive search consultant.

Many of Brazil's top graduates over the past two decades have been recruited to the U.S. and other developed markets. Marcio Ponchman, a noted Brazilian economist, conducted a study in 2006 in which he found that 140,000 to 160,000 Brazilian degree holders left the country each year for professional opportunities abroad.[vii]

Had these individuals remained they would today be leading the nation's enterprises. Instead, many of these executives are now well rooted in their adopted countries and don't intend to return to Brazil during their working life.

As one search consultant shared, ***"We exported talent and are now short of executive talent. The years of turmoil in the Brazilian economy drove many to developed markets. Like football where our best players are spread around the world, attracted by the dollars and increased reputation, we continue to export our executives."***

Those that remained in Brazil and now sit atop Brazilian enterprise are having difficulty finding successors. According to one recent study of 1200 Brazilian executives, 85 percent said they lacked talent with the necessary qualifications to be promoted to leadership within their company, and 70 percent said they lacked a competent successor for their own role.[viii]

The shortage of suitable talent in Brazil is not showing any signs of subsiding. Qualified people to fill key roles are only becoming scarcer as the most experienced executives are retiring and the professional demands of fast growing organizations increase. Retained executive search consultants are well positioned to assist Brazilian firms with the battle for scarce talent, providing their clients a tailored service and unique competitive advantage.

A CHANGING VIEW OF BUSINESS PRACTICES AND CORPORATE GOVERNANCE

Brazilian enterprise, working cooperatively with regulatory authorities, has made great strides toward improved corporate governance. Implementation of robust practices is a challenge in a market dominated by family owned companies where many shareholders – up to 2/3 in many companies – hold preferred shares carrying no voting rights. In 2001, companies were limited to issuing 50% of their stock in preferred shares, but existing listed enterprises were permitted to remain under the old more lenient regulatory cap.

As a consequence, control of many companies in Brazil remains with a small number of shareholders. In fact, over 60 percent of publicly listed companies in Brazil have one shareholder who controls over 50 percent of voting shares. Majority shareholders often disregard the interests of minority shareholders and Boards of Directors are often controlled almost entirely by insiders or representatives of the majority shareholders.[ix]

While quarterly financial statements and other reports generally required in developed markets are not yet mandated, regulatory reforms are expected to bring Brazil in compliance with international standards by the end of 2010. Today, audit committees remain relatively uncommon or controlled by the majority shareholder, though some firms are establishing permanent fiscal boards to review their books and records.

Brazil has made significant advances, particularly in the last decade, as entrepreneurs and senior executives have come to recognize the value of investing in corporate governance. Increasing foreign investment interest in Brazil will incentivize management to modernize corporate governance procedures and policies. ***"There is an important movement of foreign private equity firms to enter the Brazilian market,"*** noted Luiz Eugenio Figueiredo, President of the ABVCAP – Brazil's Private Equity Association. ***"I think it's very good because they are bringing international standards and practices to the market."***[x]

This new way of doing business in Brazil is already proving to increase the competitiveness of the early adopters of robust corporate governance policies. In fact, modern corporate governance policies are becoming an important differentiator for talent weighing the merits of various employment opportunities. Firms that showcase good corporate governance in the recruitment process will naturally attract talent that will seek to reinforce and improve corporate governance. Retained executive search consultants with an understanding of corporate governance and experience presenting that understanding to candidates are critical to attracting this talent.

LOOKING OUTSIDE THE BORDERS FOR GROWTH

Brazilian firms that aim to maximize returns to shareholders cannot ignore markets outside their national borders. While the Brazilian consumer continues to provide a healthy base of revenues, Brazilian firms are looking to sell their products and services in other emerging economies, most notably in China. Brazil exported USD10.64 billion of goods (15 percent of total exports) to China in the first five months of 2010; making China the single largest destination for Brazilian goods.[xi]

With trade barriers decreasing and the spending power of international consumers increasing, the lack of leadership talent is the primary obstacle to capturing opportunities in international markets.[xii] Brazilian firms that identify and develop leaders with foreign language skills and a global perspective – talent able to adjust strategies and models to markets beyond Brazil's borders and manage teams in culturally diverse environments – will catapult ahead of the competition.

Most multinational firms in Brazil offer foreign assignments to their high potential and management talent. Whereas the most highly motivated talent – that considers itself globally mobile – would once have only considered working for a U.S. or European multinational company, today that talent is looking at careers in Brazil's leading enterprises. This top talent will be leading Brazilian enterprises into international markets.

"The leaders of global companies have historically been from the UK and USA, and soon it's going to be China, Brazil, India or Russia," noted Keith Dugdale, Director of Global Recruitment at KPMG.[xiii]

Given the diaspora of Brazilian executives across the globe and the benefit of experience in local markets, the talent that will lead Brazilian enterprise abroad will not necessarily be found in Sao Paolo or Rio de Janeiro. Identifying and developing talent with the capability and a desire to shepherd the organization beyond Brazil's borders often requires a global search by retained executive search professionals with access to BlueSteps or another global network who are trained at recognizing talent in different cultures.

EXAMINING THE CULTURAL ASPECTS OF THE BRAZILIAN WORKPLACE

Brazilian enterprise is tightly intertwined with the nation's distinct and strong cultural framework. Progressive human resources executives have long recognized the cultural underpinnings that influence the Brazilian workplace. Class stratification, loyalty to family, and strong gender identification, along with well defined racial, ethnic, and regional stereotypes, have traditionally influenced roles and professional assignments.

However, today, a new group with a distinct cultural identification – Generation Y – is presenting employers in Brazil with challenges not previously confronted. Generation Y is most often defined as individuals born between 1981 and 2001; a group of young professionals known to have a vastly different vision of employment than their older colleagues. As a group, Generation Y employees expect flexible work schedules, increased training programs, state of the art technology, decreased hierarchy, and higher pay. They are known to lack loyalty to any one employer – believing that their managers should be grateful to have them on the workforce and perceiving that another job with equal or better benefits is always available for the taking.

In fact, Generation Y's perception is quite accurate in Brazil. Today, given the shortage of senior level executives, the top talent in Generation Y is in very high demand. However, employers have been slow to provide a workplace that meets the expectations of this generation – leading to challenges in the recruitment and retention of this business critical segment of the workforce.

"There is a 'tale of two mindsets' when it comes to understanding which employee groups are leaving and why they seek to leave." Research from consulting firm Deloitte and Touche indicates that ***"corporate leaders often fail to understand the non-financial priorities of their employees. . . ."***[xiv]

As one Brazilian search consultant stated, ***"Understanding how to retain the talents of the new generation, maintaining a stable workforce and understanding trends leading to future generations are still the great challenges and goals of managing people in Brazil."***

One Brazilian entrepreneur recognized the need to provide a new type of workplace over 25 years ago – and today his firm, Semco, serves as a model of what Generation Y seeks in an employer. Semco, today a Brazilian conglomerate with 3000 employees and US$212 million in annual revenues under the leadership of Richard Semler, was once a small engineering firm. Semco is guided by the principle, ***"if you want creative employees, don't smother them."*** He challenges everything about traditional workplaces and provides his employees with what he calls a "democratic workplace" where managers work at the behest of the teams they manage.

Semler asks, ***"Why should employees feel compelled to read their emails on Sunday evening, but can't go to the movies on Monday afternoon? Why should they take work home, but can't bring their kids to the office?"***[xv]

While some of Semler's ideas may be difficult for traditional companies to incorporate, there is no question that he has created an employee value proposition that has consistently attracted and retained top talent. The Semco workplace is just the sort of workplace that attracts Generation Y – a generation that is changing the culture of the Brazilian workplace and placing a premium on employment that offers personal freedom.

Brazilian enterprise is slowly shifting its policies to be more attractive to this new generation of employees. Retained executive search consultants with experience guiding cultural reforms in peer organizations, particularly reforms that create more democratic and flexible workplaces, are a valuable asset for firms looking to implement changes that will attract this new generation of talent.

CONCLUSIONS

Brazil, propelled by the success of its homegrown enterprises, is poised to make the transition from a developing to a developed nation.

Scarce high potential talent must be recruited and retained by Brazilian enterprises. As these enterprises implement more stringent corporate governance policies and procedures, they will attract increased foreign investment. Foreign direct investment will provide the resources required to expand into international markets which, in turn, will increase the demands on scarce talent. To recruit and retain that scarce talent, employers must develop workplace environments attractive to today's employees.

Talent is at the center of each of these transitions. Qualified retained executive search consultants are poised to assist Brazil's leading enterprises with identifying, recruiting, developing and retaining this talent.

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ABOUT THE ASSOCIATION OF EXECUTIVE SEARCH CONSULTANTS

The Association of Executive Search Consultants (AESC) is the worldwide professional association for retained executive search consulting firms. The AESC promotes the highest professional standards in executive search through its industry recognized Code of Ethics and Professional Practice Guidelines. The AESC also serves to broaden public understanding of the executive search process and acts as an advocate for the interests of its member firms.

The AESC also provides BlueSteps.com, a career management service for senior executives, and CorporateConnect - at www.executivesearchconnect.com - a service for Human Resources professionals offering search industry information and access to the AESC membership directory.

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