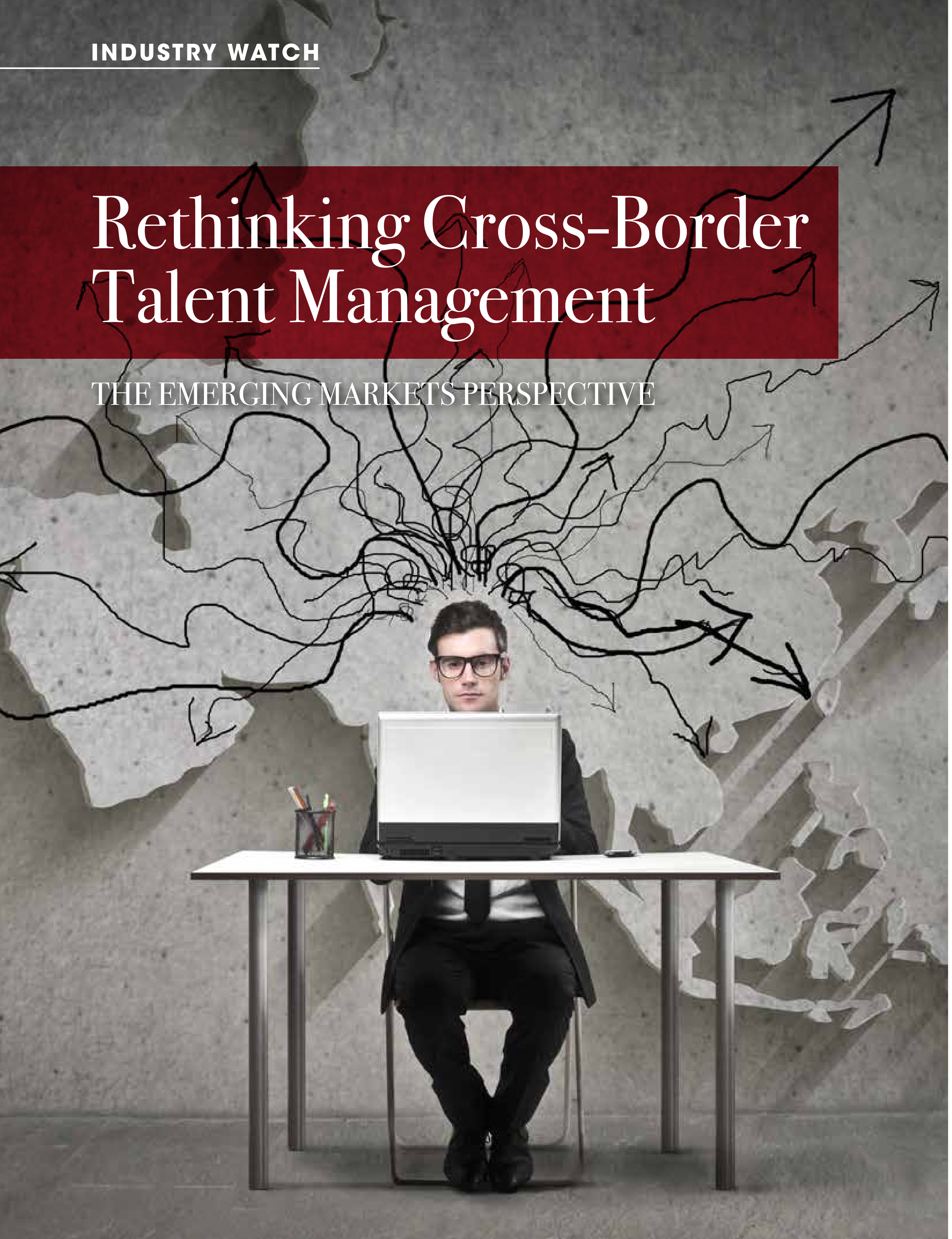

Rethinking Cross-Border Talent Management

THE EMERGING MARKETS PERSPECTIVE

A closer look at the relatively little understood issue of *how* and *why* emerging market MNCs manage their senior talent for international growth leads us to question the conventional wisdom on talent management practices.

By Tejpavan Singh Gandhok and Richard R. Smith

Markets are grappling with volatility and unpredictability, and becoming increasingly reactive to economic conditions surrounding them. At the same time, organisations are struggling to redefine their business models, operating structures and people practices to do what they can to protect their future.

Yet despite rising unemployment in some regions, many organisations are still unable to find the right talent with the necessary skills and expertise to meet their strategic and operational goals. According to the Mckinsey Global Institute, there will be a 13 percent shortage of high-skill professionals globally by 2020. The overall shortage of skilled professionals is estimated to be around 85 million.[i]

Getting the right cross-border talent management approach is thus a must for the health, prosperity and long term viability of many organisations and their ambitious business plans.

While there is plenty of conventional wisdom on the practices relating to international talent management of multi-national corporations (MNCs) from developed markets, little has been done to understand these practices for emerging market MNCs. As a result, little is understood about how emerging market MNCs manage their senior talent across international borders.

We studied a sample of 14 Indian origin MNCs across a variety of sectors, including information technology, pharmaceuticals, consumer and industrial (see Table 1). All these companies satisfied the following criteria: they were publicly-listed, had recorded over 25 percent sales outside India with operations in more than four countries, and had revenues exceeding US$500 million per annum.

The key questions we asked during our qualitative and inductive research included: Where does the top talent come from? Where does the top talent go next in terms of posting, and when? Why do organisations choose a particular approach? And how do organisations enhance their effectiveness in managing senior talent across borders?

Through this research, we sought to understand how these MNCs managed their senior talent across borders, and thereafter offer insights and implications for MNCs in other emerging markets, as well as MNCs originating from the West.

TABLE 1: PROFILES OF COMPANIES INCLUDED IN THE RESEARCH

Sector	Companies in the sample	Sample significance	No. of senior roles in sample	No. of countries/ geographies	Percent of Indian talent in sample
IT	Infosys, Tata Consultancy Services, Wipro	These top three IT companies command more than a 60% market share of the Indian software industry	31	All six key continents	87%
Pharmaceuticals	Ranbaxy, Sun Pharma, Dr Reddy's	These three are amongst the largest pharmaceutical companies by revenue and market capitalisation. They command more than 15% market share of the Indian pharmaceutical industry which is fairly fragmented: the next seven companies have 25% market share, and the balance (60%) is spread over another 30+ companies	20	14 countries	67%
Consumer	Godrej Consumer Products Ltd, Marico, Fortis Healthcare*, Tata Global Beverages	These are four of the largest seven to eight consumer players that fulfil our criteria (*Fortis Healthcare has subsequently significantly divested its international operations and is moving to an India-focused strategy)	15	All six key continents	53%
Industrial Goods	Tata Motors, Mahindra & Mahindra, Tata Steel, Hindalco	These are four of the largest private sector industrial companies. They have also done large international M&A deals totalling over US$500 million invested for each of these companies	10	Several countries in Western Europe, North America and Asia	50%

While there is plenty of conventional wisdom on the practices related to international talent management of multi-national corporations (MNCs) from the developed markets, little has been done to understand these practices for the emerging market MNCs.

A classification of cross-border talent management approaches

We classified the senior cross-border talent management approaches used generally by organisations into five categories:

Ad-hoc: A one-time custom solution for the position in hand. It generally signifies a solution designed for a specific problem or task, and is non-generalisable or not intended to be merely replicated in other situations.

Home Market or Country of Origin: Talent hired from the country where the organisation is headquartered.

Local Talent: Hiring talent from the country that the firm is planning to enter or expand to.

Regional Development: Talent is chosen or groomed into the role as he/she has done well in a similar or neighbouring market.

Global Rotation: Talent is regularly rotated across borders, the typical practice is to rotate people every two to three years across a very broad range of countries across the globe, in an attempt to create a 'global plug-in and play' cadre.

The above five approaches can be considered along a continuum starting from Ad-hoc and proceeding all the way to Global Rotation.

We observed that the MNCs in our sample mainly use two cross-border talent management styles. The IT sector MNCs use mainly 'Home Market' talent, while the other three sector MNCs balance this evenly with 'Local Talent', especially when they grow through mergers and acquisitions (M&A).

"Our talent mix historically has been 'India-centric', although in the past five years or so we have started to develop local talent—especially in Delivery, Project Management and even Sales roles—as we've moved to diversify delivery centres across the globe, as well as moved further down the value chain in key developed markets. However, interestingly, our senior leadership pattern remains 'Indian-centric'— although this is not by any grand design—it is merely an end outcome in which individuals have been fit for the right role at the right time".

IT major

"...although we have tried local hires to head many of our key markets, surprisingly we haven't always found these moves to be more successful when compared to home market talent in that job. In our business, the issues are beyond citizenship, it's much more about relevant domain knowledge, skills, networks and relationship management..."

IT major

"...the bulk of our international growth has been through acquisitions, and in each of these, initially, we prefer to take control through local teams to ensure no trust deficit, and put in processes and frameworks for visibility at corporate headquarters (a key finance function person is usually a trusted home market placement) ... Over time, we fill key gaps as required, but usually still ensure that the consumer facing roles are suitably local talent..."

FMCG major

Key factors that help in choosing the right talent management approach

Based on our interaction with organisations, and observation and experience as consultants, we have distilled five underlying factors that seem to have a significant bearing in choosing the appropriate talent management approach from the above-mentioned choices (refer to Table 2). In order, these are *first*, the international business strategy and the balance between home market advantage vis-à-vis the role of local market insights/capability; *second*, an organisation's maturity level of operating internationally and in the target market; *third*, the degrees of dynamism and complexity of the market; *fourth*, target market talent availability; and *fifth*, expatriate talent suitability, which comprises capability of talent under consideration, his/her cultural adaptability, acceptability and cost of availability.

An objective understanding of these factors and their dynamics can also help organisations understand how to move along the continuum of talent management approaches that we mention above.

TABLE 2: KEY FACTORS THAT HELP GUIDE THE CHOICE

Key factors	OBSERVED CHOICES
International business strategy and the balance between home market advantage vis-ā-vis local market insights	**INITIAL**
Organisation's maturity level of operating internationally and in the target market being considered	Ad-hoc
Degrees of dynamism and complexity of the market in which the organisation operates	Home-culture dominated leadership
Target market talent availability	Local Talent
Expatriate talent suitability, capability, cultural adaptability and cost	**OVER TIME**
	Regional development
	Global rotation

The following cases illustrate the relevance of our proposed framework in helping to understand the underlying rationale for why the observed players have chosen their range of cross-border talent management approaches. It is especially interesting to note the contrast in their approaches, and we argue that this is because of their unique contextual realities and business needs.

TATA GLOBAL BEVERAGES (TGB)

A Local Talent approach for international growth

TGB is the world's second-largest manufacturer and distributor of tea and a major producer of coffee. Key brands include: Tata Tea, Tetley, Good Earth, Eight O'Clock, JEMCA, Tata Coffee and Himalayan mineral water. It has key alliances with PepsiCo and Starbucks, and over 3,000 employees. TGB has achieved this remarkable transformation from being a plantations-based India-centric focus to becoming a renowned international and consumer brand as well as a healthy beverages player in just over a decade. The company has grown rapidly through international acquisitions (mainly in western developed markets), and has by and large retained the key local management of its acquisitions. Hence around half of its key senior management pool is Local Talent.

Rationale for using Local Talent strategy

International business strategy: TGB's international growth strategy is multi-local, that is, it has largely acquired local/regional brands in various key markets. Hence, given that its mode of entry and growth has predominantly been M&A with a focus on business-to-consumer(B2C), local market insights are of key importance.

Organisation's level of maturity in operating internationally and in that target market: TGB is in the early stages of growth, and its internationalisation strategy is only a little over a decade old.

Degrees of dynamism and complexity: The B2C and local/regional brand strategy requires a stronger appreciation of local consumer preferences.

Target market talent availability: The most significant part of TGB's M&A growth has been in the developed markets of the West, such as the U.S., U.K. and Europe, where local talent is readily available.

Appropriateness of home market talent for the target market: This is low in TGB's case as it brings relatively little home market advantage to its international businesses.

We observe that the MNCs in our sample use two main cross-border talent management styles. The IT sector MNCs use mainly 'Home Market' talent, while the other three sector MNCs balance this evenly with 'Local Talent', especially when they grow through mergers and acquisitions (M&A).

TATA CONSULTANCY SERVICES (TCS)

A mainly Home Market Talent approach

TCS is the largest Indian-born IT company by revenue and market capitalisation. It operates in over 40 countries and has around 200 branches across the world. The company employs nearly 300,000 people. Its rapid growth has predominantly been organic, with M&A activity so far consisting of relatively small but strategic deals. TCS, as is the case with other key players in this sector like Infosys and Wipro, uses a predominantly 'home market' cross-border talent management approach, with nearly two thirds of its senior cadre being Indian. Contrary to popular perception, TCS has relatively more 'local hires' than Infosys and Wipro in its senior cadre (this incorrect perception stems mainly from the fact that Wipro has, in the past, and Infosys has recently appointed 'Local' talent in CEO roles).[ii]

Rationale for using mainly Home Market or Country of Origin Talent and Local Talent

International business strategy: TCS' international growth strategy is 'global', given the technical nature of its IT Services offering. The balance is in favour of home market advantage. This is further reinforced by the off-shoring model of Indian IT players to undertake cost arbitrage due to the availability of relatively cheap and abundant technical talent in India—and over time, Indian software capability has developed a positive brand perception that also seems to help. Whereas the role of local market insights has been relatively low as the mode of entry/growth in most markets has been predominantly organic, the business-to-business (B2B) segment focus is on large global key accounts and hence the key success factors include technical capability, industry context understanding, key account relationships, etc.

Organisation's level of maturity in operating internationally and in that target market: This is relatively high, as TCS (as is the case with most Indian IT majors) was 'born global' in the sense that the bulk of its business has always been from outside India, and predominantly in Western developed markets.

Degrees of dynamism/complexity: This is fairly high both in terms of technology and client contextual knowledge—which favours a paradoxical fluid rotation of project level staff, yet seeks stability for key accounts, industry verticals and regional senior managers, given the strategic relevance of key account relationships to maintain the high sales growth rates.

Target market talent availability: This remains a challenge in most markets, given the above complexities.

Appropriateness of home market talent for the target market: In markets which are culturally more homogenous, such as China, Japan and Latin America, TCS relies on local hires to run their businesses. However, 'home market' talent runs their key regions, North America and Western Europe, and industry verticals (which happen to be the major portion of their business) as TCS' key global accounts in these markets are culturally much more open and heterogeneous.

Our observations suggest that, "all players need not at all times" avoid the home-market dominated leadership, because the success of this approach depends on context specific factors such as home market advantage versus local insights, the ability of home market managers to cope with target market needs and heterogeneities, as well as their acceptability in the target market.

GODREJ CONSUMER PRODUCTS (GCPL)

A Local Talent approach for international growth

GCPL is among one of the leading home-grown FMCG players in India, with strong positions in personal care, household insecticides and hair colour categories. It has achieved a remarkable transformation from a predominantly India-based business that responded to liberalisation of the Indian economy in the mid-1990s with a strategy of forging joint ventures (JVs) with western MNCs such as P&G and Sara Lee for its home market; to subsequently exiting these JVs in the late 1990s. In the past decade, GCPL has grown via a string of international M&A to achieve 40 percent of its revenue from international operations in mainly emerging market countries, such as Indonesia, Nigeria, Kenya, Argentina; and the U.K. GCPL has by and large retained the key local management of its international acquisitions.

Rationale for using Local Talent strategy

International business strategy: GCPL's international growth strategy is multi-local in that is it has predominantly acquired local/regional brands in emerging markets, and then grown selectively in contiguous geographies and/or categories. The balance is largely in favour of local market insights, given that its mode of entry and growth has been primarily M&A, with a focus on B2C trade.

Organisation's level of maturity in operating internationally and in that target market: GCPL is in the early stages of growth mode and its internationalisation strategy is only a little over a decade old.

Degrees of dynamism and complexity: The B2C and local/regional brand strategy requires a stronger appreciation of local consumer preferences and local trade practices.

Target market talent availability: The most significant part of GCPL's M&A growth has been in the emerging markets, where finding and retaining local talent is a challenge.

Appropriateness of home market talent for the target market: GCPL tries to leverage home market talent to supplement the local market talent gaps mainly in up-stream functions (such as Manufacturing and Finance), but prefers where possible—at least in the early stages of acquisition and/or presence in that market—to rely on local talent for the 'local context decisions' in consumer facing roles in its international businesses.

As shown in the above examples, these players may prima facie be wrongly perceived as preferring home market talent or local talent. However most of them in reality have a well thought out plan that is in line with their strategic context. We must also keep in mind that these firms are still maturing as MNCs, and even after a decade or so, their underlying processes and policies are dynamic and evolving.

While most of our research has been India-centric, we have also seen many Chinese, Korean and Japanese MNCs tending to favour a home market talent approach. Some like the Chinese MNC, Huawei, appear to choose a variety of approaches, including 'Home Market' and 'Local Talent', based on their business priorities and local market needs.

This strengthens our belief that the five-factor framework can help with decision-making on cross-border postings in a more holistic context; and provide a useful tool kit to evaluate which cross-border talent approach would be best suited for the business environment. While our point of view stems from a sample of Indian-born MNCs, our findings lead us to question the prevailing conventional wisdom.

HOME MARKET TALENT SOURCING IS OKAY

Use of 'Home Market' or 'Country of Origin' talent is often regarded as an inferior approach for cross-border talent management, lacking in sophistication and doomed to fail. However, our observations suggest that, 'all players need not at all times' avoid the home-market dominated leadership, because the success of this approach depends on context specific factors such as home market advantage versus local insights, the ability of home market managers to cope with target market needs and heterogeneities, as well as their acceptability in the target market.

For the Indian IT MNCs in our sample, this 'Home Market' talent approach appears to have served them well for over two decades, with no apparent adverse impact on performance or valuation. Also it is worth noting, that since Indian executives are making it to the C-suites of established Western MNCs, they should also be well suited to drive the ambitions of Indian MNCs.

> An organisation's cross-border talent approach should be well grounded in the context of the strength of its people, business and local market priorities, and corporate strategy.

GLOBAL ROTATION MAY BE LIMITING

The practice by many Western MNCs of a regular two to three years 'Global Rotation' approach is often regarded as aspirational best practice and a mark of sophistication. On the contrary, our observations suggest that, especially for emerging markets, having suitably longer stints for business unit heads ranging over five years allows for a better and stronger understanding of the local market and relationship building–which go a long way in most emerging markets. The shorter one to three years' rotations should instead be focused on hi-potential middle management talent. As one IT major pointed out, "We find that longer-term postings (typically five to six years) work very well–not only for the business and the individual–but also for their family life, which is equally important to us in a more holistic work-life balance context. As long as the business unit and the individual running it are performing well, we are happy to maintain status quo and now no longer look at a longer stint as a negative or question mark…"

TALENT STRATEGIES SHOULD FOLLOW BUSINESS STRATEGIES

Firms should avoid following a particular talent management approach merely out of imitation or aspiration. Instead, an organisation's cross-border talent approach should be well grounded in the context of the strength of its people, business and local market priorities, and corporate strategy.

GLOBAL AND LOCAL BUSINESS NEEDS CAN BE ALIGNED

Finally, rather than focusing on 'where the talent comes from' and 'moves to next', what matters more is how effectively MNCs can integrate local and global issues, and align these issues with the strategic context of their organisation and the nature of their business.

It would be interesting to see how well the key takeaways mentioned above fit into MNCs from other emerging markets, and Western MNCs expanding within emerging markets. We see a potential here for future research.

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Reference

[i] McKinsey Global Institute Research Paper, June 2012, "The world at work: Jobs, pay, and skills for 3.5 billion people".

[ii] For the purposes of this study, Indian origin leaders (such as Satya Nadella, the chief executive officer of Microsoft), who have completed most of their education and professional career in western developed markets are classified as 'Local Talent' and not 'Home Market'.

[iii] Black, J. S., & Morrison, A. J., 2010, "A cautionary tale for emerging market giants", Harvard Business Review, 88(9), 99-103; which exhorts BRICs MNCs to avoid the Japanese MNCs 'mistake' of an overly 'Home Market' focused leadership approach.

[iv] For example, the Indian IT majors such as TCS, Infosys and Wipro have higher operating margins and sales growth rates as well as PE and Sales to Market Cap valuation multiples than their western competitors such as IBM and Accenture.