Prospecting for Talent

Michael Segalla, Marc Miles and Jack Anderson conclude their three-part series on creating a matrix for making the best decision on where to locate an institution by focusing on uncovering the risks of attracting and management of global and local talent.

The options for alternative money managers as they examine which location to select for their business are multiplying, not least because capital and labour are highly mobile and back office functions can be outsourced around the world.

This three-part series has identified factors which can help strategic decision-makers make the best choice. Previous articles assessed factors in the location decision matrix including the bite and stability of taxation, the legal and regulatory framework and macro-economic indicators.

Finally we look at human resources and the related topics of cost and quality of living. This is particularly important as there has never been a greater demand for talent, globally and locally – and the best are increasingly choosy about where they go. They demand more than a high salary; equally important is the quality and style of living they are being offered. That means companies have to pay attention to these factors when they are deciding where in the world to base their operations.

Wage levels are of course significant, but there are a myriad of other factors determining overall labour costs, many of which are deeply hidden. Importantly, these costs must then be measured against their resulting benefits: productivity.

Hiring and managing people also involve risks that are not easy to identify or measure. Despite the enormous advances of selection, training, and development by employee psychology researchers, this can still be a hit or miss activity. The reality is that half of all recruitments fail.

The challenge for investment managers is to estimate and reduce the risk, thereby ensuring the right talent will be in the right place at the right time. There are two broad approaches. The first relies on assessing the location through its political, economic and cultural history, and the government's policies. The geographical location of a labour market is extremely important – sun, sand, and scenery make some regions more attractive than others. Countries and cities with lots of this "natural infrastructure" attract more talent than their geographically handicapped competitors.

Hence many governments are convinced that "engineered infrastructure" is essential to make up for the lack of natural endowments. Yet it is arguable that there is more to attracting talent than sports, arts, and intellectual capital. The US city of Pittsburgh, for example, is home to major sports teams, museums, and world-class universities. For decades it has been among America's most liveable cities.

Yet, according to Richard Florida, a leading regional economic development guru and author of The Rise of the Creative Class, it is losing population and its economy remains stagnant. Its most highly creative people continue to leave, sometimes for cities with less cultural infrastructure.

Florida argues that government attempts to develop centres of excellence – he defines them as a "Silicon Somewhere" – are often frustrated when young, talented, creative people ignore their building efforts and settle elsewhere. This creative class of urban professionals wants more than beautiful buildings and good restaurants. They want tolerance, diversity, flexible work schedules, relaxed work rules, respect for individuality, and to be evaluated on their contributions.

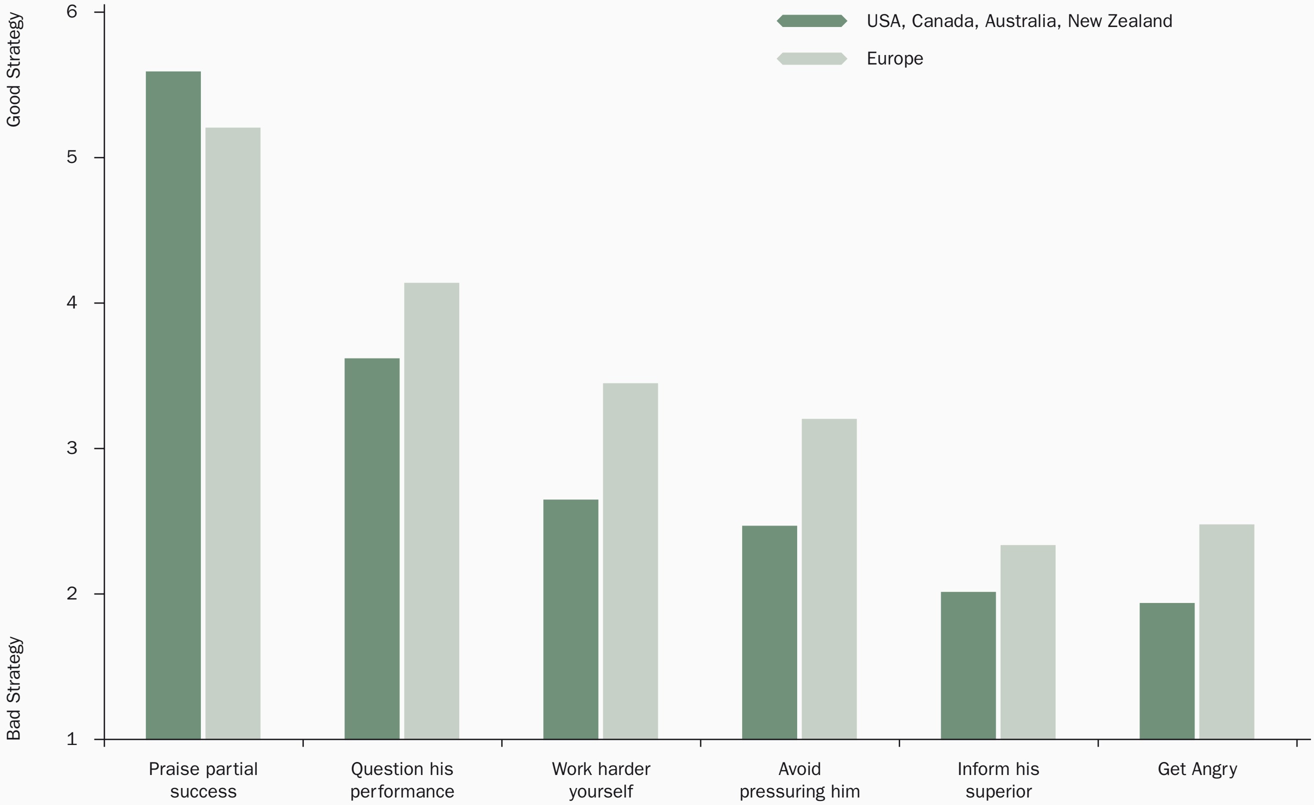
The challenge for international investors moving to rapidly developing economies is to be certain that the social and economic capitals of the region meet these needs.

But, let's assume that there is, or soon will be, a large pool of talented, highly qualified, multilingual professionals in the target investment location. The second basic risk is the clash of cultures, with differing experiences leading to differing expectations. This might be as banal as expecting an employee to wear formal attire when meeting a client, as fundamental as expectations of certain days off for local religious or national traditions, or as deeply hidden as what is deemed appropriate ethical behaviour. This risk is substantial when hiring foreign workers.

Research by HEC School of Management in Paris and Boyden Executive Search, who conducted a global survey of nearly 2,300 C-level executives, managers, and business students, indicated that some problems, such as managing a business task, are generally "cultural free" – that is they depend mostly on experience. But two other types of problems, managing others and self management, appear be influenced by national cultural factors.

Take problems in work ethics, which are measured annually by the World Economic Forum. A frequent work ethic issue is dealing with underperforming employees. The HEC-Boyden survey (Chart 1) found differences between the new world Anglo-Saxon countries (USA, Canada, Australia, and New Zealand) and the old world European

CHART 1 – MANAGING UNDERPERFORMING TEAM MEMBER



Source: HEC-Boyden.

countries. Although there is overall agreement about the best and worst strategies, Europeans are less likely to praise partial progress and more likely to work harder to make up the shortfall.

This behavioural pattern leads to resentful anger, and eventually to a greater likelihood of informing the boss about a colleague's under-performance. We could call this behaviour the "blow up and get even later" strategy.

The reality is that winning the hearts and minds of everyone from staff to local bureaucrats is often the hardest challenge for companies moving to a new location and achieving this goal is not automatic as people often fail to understand, agree, and act on behalf of your imperatives. As you venture out of the familiar market place, the risk of failure increases.

It is necessary to consider which governments are actively creating conditions of success and invest where well-funded, unified, and innovative governments work to create socially, economically, and environmentally attractive workplaces. The need to make choices is becoming particularly acute for alternative investment managers, who are discovering that New York and London are no longer the only nor the best place to manage global funds.

This is especially true since the origins of capital are changing and those sovereign and other deep-pocketed investors want their fund managers located nearby. The Gulf states, with, according to the Middle East Economic Digest, $2.17 trillion of investments – a figure that is expected to triple by 2020 – are making substantial efforts to compete in this market. But, these countries have to meet the needs of the alternative investment managers, who insist on putting hard data in their decision matrix. Reliable measures of country comparisons are therefore essential.

The differences in the quality of living in cities around the world are widely acknowledged by employers. Some cities are perceived to be safer, some providing more cultural and sports activities and some to offer ample education opportunities. These differences can have a direct impact

CULTURE AND HUMAN RESOURCE RISKS

The cultural origins of most HR risk factors have not been studied systematically, so it is necessary to create a broadly applicable risk identification procedure. We use a model based on the concepts of MIT professor Edgar Schein, who argues that to understand culture fully several layers must be examined. There are at least four levels relevant to identifying human resource risk: communication clarity, preferences or habits, unchangeable values, and cultural infrastructure – and each is increasingly difficult to identify.

COMMUNICATION RISKS

A commonly overlooked problem is communicating clearly with different nationalities. Anything from corporate emails to a training brochure can create the misunderstandings that can lead to an ineffective – or worse – workforce. This can be caused by mistranslations, images, internal branding campaigns, and many other communication-dependent business processes. Even the version of a language (American vs British English or European vs Mexican Spanish) sends signals that may be misinterpreted.

This can have very important consequences. It was widely reported that the chief executive of a large US industrial company was fired by his German boss because of his very American habit of explicitly restating each performance demand. His boss, not as fluent in the idioms of the English language, grew frustrated with this constant repetition, interpreting it perhaps as a lack of comprehension, and publicly fired the executive. If both had spoken the same language with equal ease, an embarrassing news item in the Wall Street Journal could have been avoided.

To reduce this risk requires hiring more genuinely multilingual executives, as well as making managers aware of the problems and the editing of all company communications with care, clarity and cultural sensitivity.

CHANGEABLE HABITS OR PREFERENCES

Some habits and preferences are the result of conscious decisions; others are acquired unconsciously from family, friends, teachers, even advertising. Foreign employees may adopt (maybe with regret) the foreign employer's expectations, but it may take the judicious application of training, reward, or punishment to achieve the desired work behaviour.

Take for example the contrast between Swedish and American attitudes. When a large Swedish financial institution decided to train its workforce to become more client oriented, it hired an American consulting firm. The consultants, many of whom had years of North American experience, were quite shocked when, having explained their customer satisfaction model, they were asked by the bankers why it was important to have happy customers since their bank was often the only one in a small town. The difference with the United States was acute – in hundreds of similar presentations there, the consultants had never once been asked that question.

Reducing the risk that local habits seriously hamper operations requires the thorough education of both local and global staff to explain why they should follow the firm's practices and policies. If education fails to change behaviour, be ready to offer incentives.

DEEPLY HELD VALUES

In some cases it is simply impossible to transfer your corporate values and practices to a new location – perhaps they are simply too shocking or offensive. Such deeply-held values rarely change. An Italian manager once remarked that American firms in Italy often enforce informal relationships among the personnel in their firms – the use of formal pronouns (e.g. thou or thy) was discouraged. Consequently many Italians used the informal pronouns while at work but as soon as they left the office reverted to the more formal greeting. In most cases, companies don't even get a temporary alteration in behaviour – their foreign employees, customers, or suppliers simply refuse to change.

Changing cultural values is often easier in newly created sites than in those acquired by merger or acquisition. Freshly recruited staff are likely to be less resistant to your firm's values than those inherited from the previous owners.

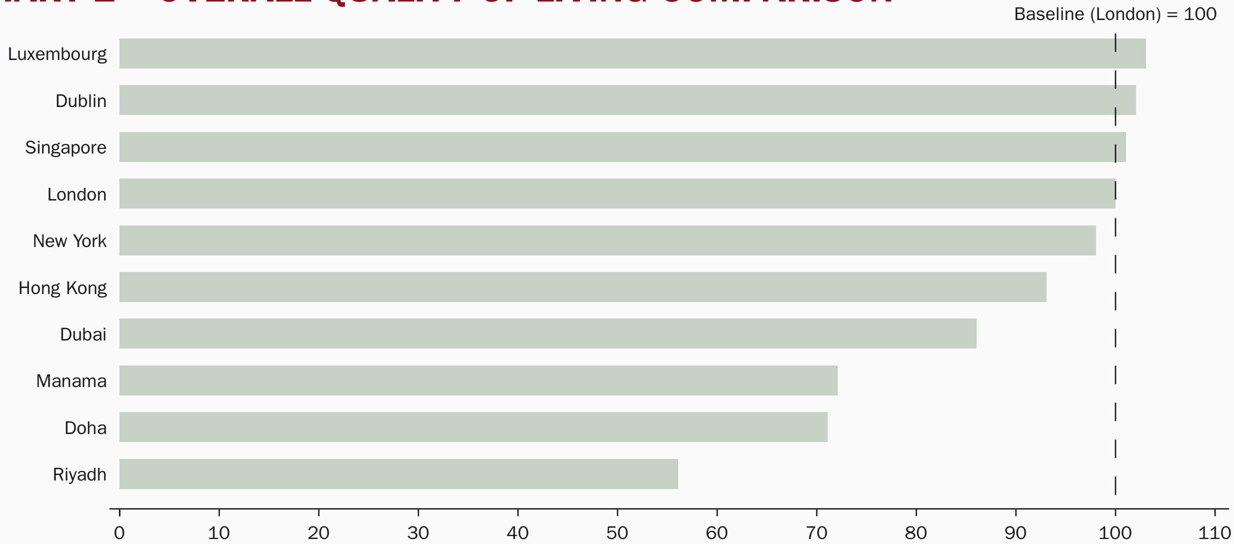
CULTURAL INFRASTRUCTURE

The cultural infrastructure of a country is paradoxically both the most visible and invisible source of cross-cultural risk. This ranges from education (too focused on rote memorisation in Japan, too authoritarian in France, too lax in the United States) to the legal system (too unpredictable, too divisive, too slow, or too opaque), politics, communication and transport, social services, the tax system and many other aspects inherently woven into the fabric of a country.

The implications can be far-reaching. In France, General Electric Medical paid large fines for not translating its internal documents and forms into French after its employees sued, fearing that job promotions were being tied to English language competence. In some Gulf states the lack of available local talent resulted in a huge influx of talented foreign workers, which prompted a local backlash with governments imposing quotas. This in turn undermined the work ethic of local employees, leading to absentee rates of nearly 25 per cent in some states. according to McKinsey.

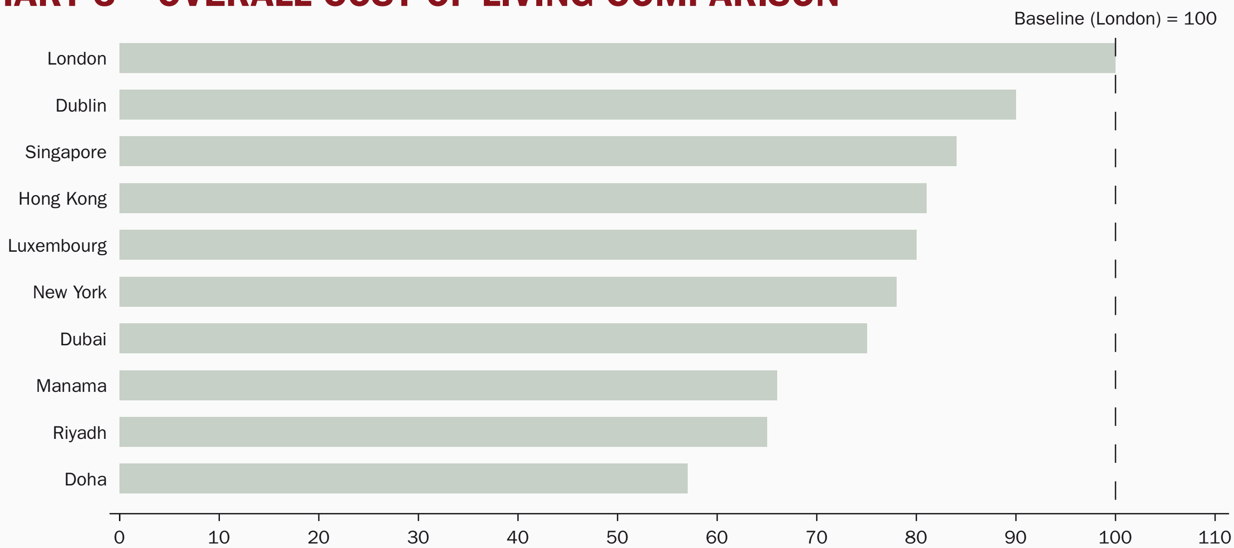
Reducing this risk is the hardest task of all. Countries rarely rewrite labour laws, restructure tax policies, revamp school systems, or change languages simply to attract foreign investment. But many countries will make changes around the margins with relaxed import and export controls, discretely implemented treaties, and attractive tax holidays.

CHART 2 – OVERALL QUALITY OF LIVING COMPARISON



Source: Mercer Quality of Living Index 2007 (the Index measures the quality of different categories including political & social environment, economic environment, healthcare, education, transportation, recreation, housing, and natural environment).

CHART 3 – OVERALL COST OF LIVING COMPARISON



Source: Mercer Cost of Living Index 2007.

on the cost of business, because employees will require financial incentives to relocate to certain destinations.

While the differences between cities in Europe and North America may be marginal, the emerging financial centres lag behind. The principal countries in the Gulf (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and UAE), which are all ranked in the top third of 131 countries for GDP per capita, are using their increasing wealth to improve the quality of infrastructure and life for their inhabitants. These efforts are closing the gap (Chart 2) in terms of quality of living with North America, Europe, and Asia.

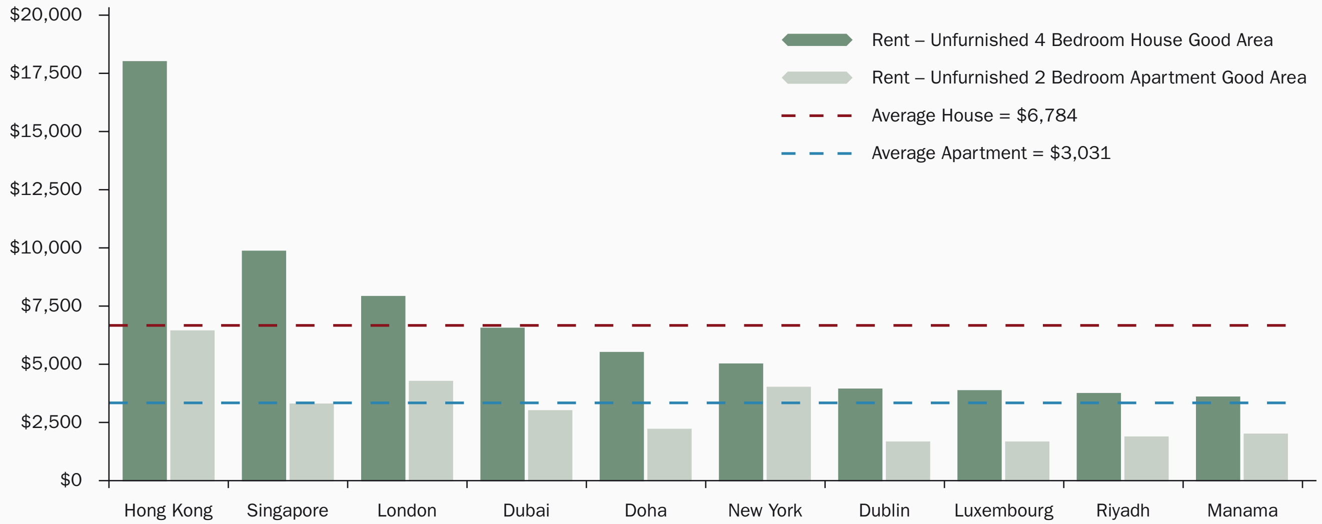
The final factor for employees to consider is the cost of living, which is easier to calculate than the quality of living. Some key elements included in a cost of living index (Chart 3) are housing, food, transport, utilities and healthcare. Perhaps because the Gulf countries are still developing the quality of life infrastructure, their cost of living figures are substantially lower than other attractive locations for international investment. Governments should try to offer attractive environments in balance with their costs.

Additional elements which are important when comparing the cost of living between cities are housing and education. Although the rental prices in Gulf cities are still below the average monthly cost for housing across the ten cities analysed (Chart 4), the Gulf region has seen rapidly increasing property prices. In global terms Luxembourg and Dublin are nearly tied for low-cost housing, while Hong Kong is by far the most expensive housing market. Meanwhile, the cost of secondary schooling in London (Chart 5) is actually higher than the UK's GDP per capita – $40,907 compared with. $39,213.

Equipped with the information available from this article and the preceding ones (see www.quantummagazine.com), it should be possible for alternative investment management to choose the right locations to operate from, even though they are operating in a dynamic and rapidly changing world. They are no longer constrained by traditional choices and the options are multiplying to include locations where liquidity is found and expanding.

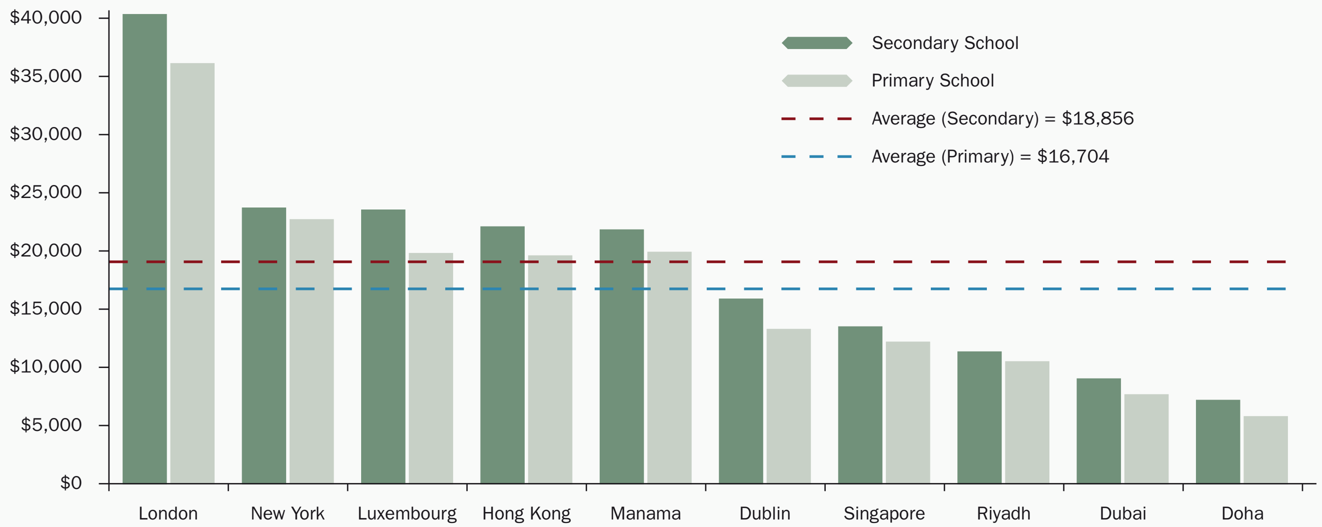
The key is sound strategic thinking, backed by the use of a location decision matrix tool that simplifies that process. Readers are now equipped with a tool to continue their analysis and to further identify and evaluate the unique factors for their choice of location. They may well be surprised at the conclusion they reach. Q

CHART 4 – DETAILED COMPARISON OF MONTHLY HOUSING COSTS



Source: Mercer Cost of Living reports 2007.

CHART 5 – DETAILED COMPARISON OF ANNUAL EDUCATION COSTS



Source: Mercer Cost of Living reports 2007.