



G7 becomes E7

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The E7 will be 25% larger than the G7 in terms of US dollars and 75% larger in terms of purchasing power parity. In fact, China will have surpassed the US in purchasing power parity by 2050. What are the implications of this for the management of human resources? We have already seen the electric pace of growth in China, with India fast out of the starting blocks and catching up.

THE RISE OF THE EMERGING MARKETS

There is already a rapid relocation of manufacturing activity taking place. Automobiles, aircraft engines, clothing, footwear, computers, mobile phones, domestic appliances, toys and furniture are some of the products that are being made in large and increasing amounts in China, India, Russia and Brazil. Walmart alone imports US\$ 15bn dollars worth of goods from China. This trend will continue and accelerate for the next 50 years. Why?

Delphi, the major automotive parts supplier to General Motors, illustrates why this is occurring. Delphi is now trying to emerge from Chapter 11. One of its biggest problems was that its labour costs were too high. As a result of its restructuring, the company is forecasting that it will be able to reduce its labour costs from US\$26 per hour to US\$16 per hour. If you take into consideration that the labour cost in China, India, Brazil and Indonesia are US\$1 per hour, then you can understand why so many companies are opening up offices and factories there.

The relocation of sophisticated manufacturing from the G7 nations to the E7 nations is already moving at a fast pace. This requires large numbers of experienced expatriates and local managers, engineers and technicians to source this influx. In support of these high tech activities companies such as Intel, Visteon, Phillips and Carrier have set up major Technology centres in E7 countries. We have already seen massive outsourcing of IT and back office operations to India.

This is happening in Brazil, Mexico and Vietnam as well. Russia has become a global player in both oil and gas. Brazil has become a pioneer in bio-fuels. Indonesia has developed its vast natural resources – including timber, oil, gas, minerals and precious metals. As Turkey's economy develops closer economic links with the EU, the role of the state is shrinking as massive privatisation efforts are taking place in essential sectors, such as industry, banking, transport and communications.

In fact, Turkey is becoming a major player in the garment industry. Mexico is considered to be a major oil exporter as the North American Free Trade Agreement (NAFTA) that was signed by the US, Canada and Mexico in 1994 has provided a means for this country to access the US market, leading to an emergent industrial sector.

Therefore, all these E7 countries are increasingly becoming major influences in different sectors of the global economy.

BROADENING THE BASES

MNC's are expanding into the E7 for two main reasons.

First of all, because it is cheaper to source or manufacture their products in these countries as the costs are significantly lower than in the developed economies of Europe and the US. Competition in the high street is so intense that MNC's are being forced to find cheaper sources of production. Secondly, local producers in the E7 are developing international brands, such as Embryair Aircraft in

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Brazil, Kingfisher Beer from India and Haier and Broad Air Conditioners from China.

Global trade in goods and services is expected to rise more than threefold to \$27 trillion in 2030, and trade as a share of the global economy will rise from one quarter today to more than one third. Approximately half of this increase is expected to come from developing countries. This is dramatic, especially when you take into account that only two decades ago developing countries provided 14% of manufactured imports to rich countries. This figure is now 40%, and by 2030 is expected to supply more than 65%.

At the same time, according to the latest figures of the World Bank, import demand from developing countries is emerging as a locomotive of the global economy. By 2030, 1.2 billion people in developing countries – 15% of the world population will belong to the “global middle class,” up from 400 million today. This group will have a purchasing power of between \$4,000 and \$17,000 per capita, and will enjoy access to international travel, purchase automobiles and other advanced consumer durables, attain international levels of education and play a major role in shaping policies and institutes in their own countries and the world economy. In China itself, it is estimated that there is already a middle class (annual income US\$ 60,000) of 150m consumers who aspire to, and are, capable of purchasing branded/ imported luxury goods.

SEARCHING FOR ADDED VALUE

Major companies operating in the emerging markets are now looking for high-quality professional executive search firms to recruit for them experienced and technically qualified executives who can speak the language and understand the cultures of these countries. Whilst expatriates will be needed to assist with technology transfers, the majority of these executives will be coming from within the E7 countries. Thus, the Chief Executives and HR Directors of major corporations in the US and Europe increasingly want to engage the services of executive search firms that have in depth knowledge and experience in these emerging markets.

They are increasingly requiring these firms to provide them advice on how business is done in these countries and not just a recruitment execution service. They also want to have a global or regional service provider who can provide a single and authoritative point of contact.

Our own experience in China has demonstrated that because so many firms are setting up for the first time they want advice on where the main activity clusters are, where to locate, how to find an office, how to structure remuneration packages as well as recruiting their staff. Therefore, we have developed our services to respond to each of our client’s individual needs.

We have also seen that our executive search assignments are becoming much more intra-regional. Companies are looking to attract candidates who have good interpersonal skills and understand the cultural nuances. However, candidate pools tend to be regional rather than global as there are important differences between South America, Middle East and Asia Pacific.

Expatriates are still in high demand, especially those with technical skills who are needed to assist with the transfer of technology. Nevertheless, local country operations are increasingly being managed by internationalized local managers that have received their education and have gained work experience in Europe and the US. Clients are increasingly demanding that their search partner assess the cultural fit. Those search firms that have local senior consultants who are effective in assisting them to make the “right choice” are greatly valued as they are able to enhance this partnership even further.

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Companies that are starting up operations in a country for the first time are progressively looking for advice on payment structures, preferred locations and business introductions. They are increasingly selecting search firms that can provide them with these types of consulting services rather than simply providing them with a good recruitment service.

Looking at the *search-consult* global league table of the top 5 executive search groups published in 2006, it is instructive to see that the famous names which would have appeared ten years ago whose operations were clustered in the G7 have now been replaced by new groups who have a very wide global coverage and are more strongly oriented towards the E7.

These groups largely consist of the better quality local executive search consultancies that provide a wider range of services, which are by definition closely in touch with their local markets. Their consultants are normally senior local business executives, with the occasional expatriate who has been in the country for a number of years and is very well networked. It is obvious that this trend will continue to dominate the search world for many years to come.

The future is the E7. This is what is now driving global economic development. Executive search consultancy is not just about finding heads, but about strategically partnering with clients to add value in all aspects of human resourcing.

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