

NEWSLETTER

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EMERGING MARKETS: EXPATRIATE OR LOCAL MANAGER?



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EMERGING MARKETS: EXPATRIATE OR LOCAL MANAGER?

Shall a company entrust the management of its new branch to an in-house manager or a local executive to be searched for outside the company? May a competent "local expatriate" be found in the target country? Such questions are acute not only for startups but also for appointment of new managers to the already established business units.

Obviously, the three models have their advantages and disadvantages. Of course, employers have more trust in an employee, who has been working for a company for years. They are most likely to be entrusted with delivering the corporate culture into the target country, and further acting in conformity with the corporate guidelines. Excellent knowledge of corporate products and internal processes are further advantages of such an appointment.

However, may an employee ready to work in India, China or Iran be found among the company staff? As a rule, such a candidate is expected to completely relocate for at least three years, shuttling between two places is usually not preferred.

If the employee basically agrees, complicated negotiations commence: How will the children be educated, and how will accommodation and transportation be set up in the target country? What happens to the existing insurances and pensions? In the end, the company may have to agree to considerable expenses, which may significantly exceed the costs to be borne for a local manager.

Another obvious disadvantage of the "conventional" expatriate model is that expatriate managers, as a rule, do not know the hosting country's language and culture. Alongside with the lack of knowledge of the local market, it is considered a serious disadvantage compared to local candidates.

Local executives are familiar with the local conditions, and easily cooperate with employees, customers and authorities of their native environment. At the same time, they do not face any troubles with relocation and expatriate packages.

However: Though a local manager may efficiently work in the target country the question is whether they are also able to integrate into the structures and reporting lines of an internationally acting company?

Matrix organization, a formal reporting system and strict codes of conduct may be complicated for a candidate from hierarchical company structures, whose compliance conduct does not conform to international standards.

Therefore, a company considers only the candidates who have socialized in multinational companies or have spent enough time in Europe or North America. European and American companies are used to consider countries like Russia, China, India or Iran as complicated in terms of compliance, therefore, they will recruit only people they can trust.

In this regard "local expatriates" seem to be an attractive alternative. They are specialists or executives who have relocated their professional or personal life abroad and work there under local employment contracts. Usually, they live with their



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families and work for international or local companies. They often speak the hosting country's language and are familiar with the hosting country's specifics.

However: Usually, local expatriates have higher expectations in terms of remuneration than local candidates. Sometimes, it is required to prove, to which extent an expatriate is really integrated into the hosting country - may they be as efficient as a local manager? How do they communicate with customers and authorities?

Another point to be taken into account is: Has anyone already immersed so deeply into the local culture that they have caught the local compliance practices? Where does the employee's loyalty lie - with the company or with the social environment?

The desired option - "local expatriate" - may fail due to the lack of competent candidates. Outside such strongholds as Dubai, Singapur or Shanghai, the number of expatriates is very limited; for instance, the number of foreign businesspeople who constantly live in Tehran can be counted on the fingers of two hands.

Criteria	Expatriate	Local Manager	Local Expatriate
Knowledge of language, culture and market of target country			
Cost (salary and benefits)			
Knowledge of company products and culture			
Compliance awareness/loyalty			
Qualification for sales/marketing			
Qualification for technical/administrative roles			

Legend to the picture: Advantages and disadvantages of the concept "expatriate", "local manager" and "local expatriate" - of course, it is worth investigating each case separately.

IN & OUT: GLOBAL EXPATRIATE TRENDS

China

A few years ago, the majority of local expatriates consisted of Europeans and US Americans who were sent to the country by international companies on short-term assignments. The arrangement often included generous housing allowances, school fees, and home flights for the entire family. A stay in China was considered to be good for career.

Apparently, this pattern has distinctly changed. Lately, since the financial crisis, the companies started reducing the amount of compensation paid to expatriates. Moreover, more and more Chinese become executives of international companies' subsidiaries. Many of these are returnees who have got education and work experience in Europe or North America.

There are more than just financial reasons for reduction in the share of expatriates: Chinese top candidates do not earn less these days than European or American expatriates. To a larger extent such trend is driven by the need for adaptation to the local market with its strong cultural, linguistic and legal specifics.

The interest of Chinese companies for foreign employees may only partially compensate for such decline in demand. Export-driven Chinese companies hire foreigners due to their ability to build bridges - this time from China to the global sales markets. However, such positions are seldom based out of Shanghai or Beijing, but more often in tier-2 or tier-3 locations.

Both domestic and foreign companies have access to a large pool of local expatriates, approximately one third of which live in Shanghai. Beijing is home to the second largest expatriate community in China.

Dubai / The Gulf Region

Palm trees, luxury hotels and clubs like in Las Vegas - Dubai is by far the most popular city with expatriates of the Gulf Region. Dubai is the unrivalled business hub of the Gulf Region and the entire Middle East. Many companies also manage their sales to North African markets out of Dubai.

Last year, the share of foreigners among the population of the United Arab Emirates (UAE) amounted to 87 percent, and made up more than a half of the population of Qatar and Bahrain. Nearly every third inhabitant of Saudi Arabia has a foreign passport. The economic life of the region would be virtually inconceivable without expatriates.

Even if companies do not have to attract employees to the region by high allowances anymore: No taxes are accrued to salaries in the UAE, thus, attractive net remunerations may be achieved even upon payment of high rents.

This is one of the reasons why European, US American and Asian expatriates equally like the UAE. Expatriate are commonly recruited in the area of sales of capital goods, construction-related products, medical equipment, and pharmaceutical goods. Financial experts are also demanded.

Despite the dependence from foreign specialists, the countries of the Gulf Region are introducing a more or less strict localization policy. While the UAE requirements are most liberal, Saudi Arabian employers are classified by the share of local employees. Those who employ too many foreigners face problems obtaining further work



China



Dubai / The Gulf Region

permits. Companies and candidates need to inform themselves in due time of the current state of employment and accommodation law in the country of their interest.

India

With an expected GDP growth of over 7 percent in 2016, India is deemed one of the rapidly developing economies.

Nearly 40,000 expatriates, most of which are based in New Delhi or Mumbai, live among a population of 1.25 billion natives. Usually, they are invited by multinational companies for a limited period of time to take managing positions, or to transfer technologies, e.g. during establishment of production sites.

Therefore, most expatriates work in manufacturing, particularly, in the field of automobile industry, pharmacy and medical equipment. Other sectors are telecommunications and banking.

Pharmaceutical companies often employ Israelis and Japanese. Enterprises of the automobile industry most frequently employ Germans, US Americans and French people. Since the last couple of years, the number of expatriates in India has been increasing by 10-15 percent per annum.

However, in the fields of IT and e-commerce foreigners are invited to a very limited extend, as India has a large pool of excellently trained specialists. Many of them go abroad - the most prominent example is Sundar Picharai, the CEO of Google from Madurai, Tamil Nadu.



India

Iran

In 2016, Iran is a top-ranked place of destination for many European companies. The companies try to set up or recover contacts with prospective customers, and to develop distribution networks through establishing of representation offices and subsidiaries.

Thus, sales specialists are most demanded. The vast majority of the companies prefer Iranians who already live there and have gained experience in international companies.

The number of European expatriates in Tehran is below 100, only a handful of them speak Farsi.

Therefore, some companies are interested in the large group of Iranians living in Europe, the USA, or the UAE. However, just few persons of this group are ready for a long-term return to Iran. Although many of them are open for the shuttle model with Iran as the place of business, almost none is ready for a complete relocation.

Europeans without experience in Iran are not yet really demanded - however, the situation might change when companies launch more intense market development and build up production capacities in Iran.



Iran

Russia

By 2014, Russia had turned to a major consumer of capital and consumer goods. Many international companies have also established production in Russia to be able to supply to the Russian domestic market and other countries of the Eurasian Economic Union.

Expatriates mostly used to be the ones entrusted with management of international



Russia

companies' subsidiaries in the 1990s. At that time, there were hardly any competent candidates among Soviet-styled managers. In 2005, the share of expatriates among all the top managers working in Russia still amounted to 13 percent, 38 percent of which worked for Russian companies.

Quite the opposite has been happening since then. More and more international companies have appointed Russian candidates to executive positions as the local pool of well-educated managers has been continuously increasing.

The localization trend has accelerated during the crisis of 2008-2009 and drastically gained momentum during the political and economic crisis in 2014-2015.

According to often quoted statistics of the Federal Migration Service, approximately one third of German citizens living in Russia left the country in 2014; the same may be said of other European nations. Although the statistics refer not only to "expatriates" (managers who stay in Russia for professional reasons) they nevertheless reflect the immensity of the trend.

The employment contracts with expatriates in Russia are often amended to set ruble as the contract currency, which can result in material salary reduction and higher financial risks due to the volatile ruble FX rate.

Currently, international companies are not really interested in expatriates. At the same time, Russian companies occasionally recruit foreign technical specialists, e.g. in the field of agriculture or food production.

Singapore

The international investments into the ASEAN region may be compared with the cash flows to China, a great portion of them go to Singapore. The city remains equally popular with Western and Asian companies, legal barriers to employment of expatriates used to be insignificant within a long period of time. Consequently, the number of foreigners working under an Employment Pass (EP) has increased by one forth in 2009-2014.

Since then, the Government has changed its policy. The salary requirements to EP issuing have become stricter; companies are forced to look for local candidates before considering employment of a foreign one.

However, such regulations do not constitute real barriers for high-qualified expatriates with high salaries. All required specialists may not be found among the Singapore population with a 2 percent unemployment rate. Thus, many foreigners are often employed in the field of top management, HR, finance or creativity.

Singapore is popular not only with "Western" expatriates – nowadays, many people come to the city particularly from China and the ASEAN region. However, the expatriates without regard to the country of their origin have one thing in common – most stay significantly longer than two or three years as they intended in the beginning.



Singapore

„CURIOSITY MADE ME COME TO RUSSIA“

What features does an expatriate need to be successful abroad?

A lot of features are required, though flexibility, creativity and readiness to face something new are the most important ones.

The new environment, with which they are usually not familiar, forces expatriates to tune to the hosting country's culture, and to develop appropriate strategies.

At the same time it is important not to forget and not to betray your own values and the corporate culture. Sometimes, it may be complicated to find the right balance. An optimistic mood and a healthy curiosity for everything new help to survive such tension.

What are the advantages of living abroad as an expatriate?

A long stay abroad is a valuable contribution to the development of your own personality.

Expatriates broaden their minds, they are often forced to learn a new language.

All of it makes you change the old pattern of thinking and to see things from a different perspective. I found it very refreshing.

What challenges may expatriates be faced with when they come to their native country after a longer stay abroad?

After a long stay abroad one may lose their connections in the native country – friendship might be affected by such forced long pauses. In the same way it affects the professional network.

Those who have stayed in Russia, China or India for a long while are used to the conditions that are quite different from those in their native country. Afterwards, it might feel complicated to integrate back into the company and even into the private environment.

Abroad, a foreigner always strikes an eye of natives – at home you turn again to a German among Germans or to a Finn among Finns in my case. Having come back, many of them notice the lack of dynamics associated with their responsible positions abroad.

Why did you decide to go to Russia at that time?

Definitely, because of curiosity. I was fed up with living in Finland and was ready for something new. To be honest, attractive salaries and low taxes used to play a significant part in that decision, too. Still, my priority was to see something new, to meet new people, and to do something unusual.



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