

The Talent Squeeze At The Top - A Look Ahead...

Autumn 2024

Ten years ago, it was commonly predicted that the 2020s would be a time of significant labour shortages. The laws of demography meant the UK, the US and other major economies would start to experience a talent squeeze as their populations either started to shrink or grow more slowly than in the past.

And so it has come to pass.

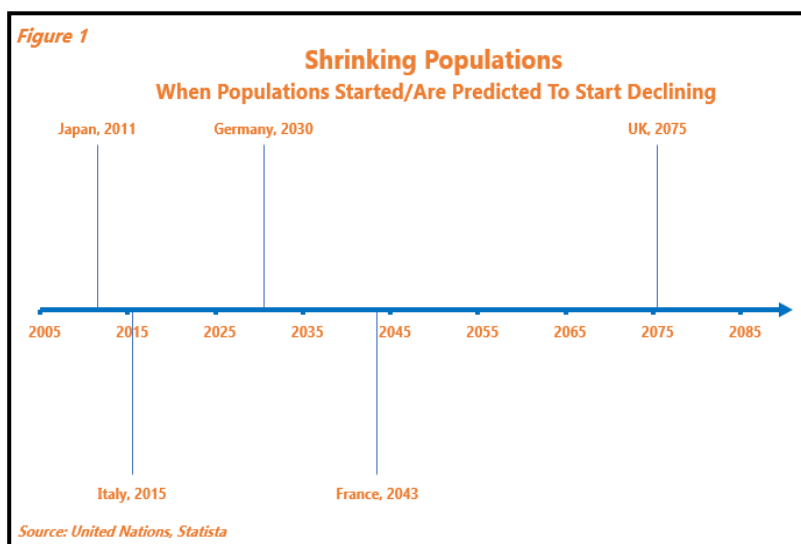
Japan and Italy saw their populations start to shrink in 2011 and 2015 respectively, and the UN forecasts that Germany's population will begin to decline in 2030 [See Figure 1]. Meanwhile, the UK and US are among several advanced economies experiencing slowing population growth.¹

The result is clear. According to McKinsey, labour markets in the advanced economies are "tighter than at any other time over the past two decades".²

The Race to Hire C-Suite Executives

Every level in the corporate hierarchy is being impacted by the talent squeeze—but the biggest challenge is hiring the C-suite executives needed to lead companies through today's challenging economic times.

Why is this? Shrinking populations is only one reason. Another is increasing demand. In the U.S., for example, the government says that demand for top executives is set to increase by 6% between 2023-2033. That's faster than the average for all occupations and amounts to nearly 3.45 million openings for top executives over the decade.³

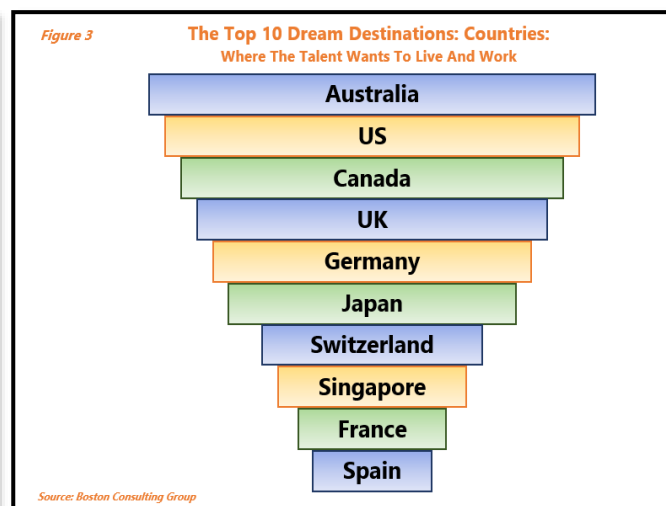


This competition for executive talent is being driven by several factors, including:

- The increasing attrition rate of CEOs, as the challenge of running companies in today's tough economic environment starts to take its toll:
 - According to a report on "CEO-churn" by the *Financial Times*, "bosses across the S&P 500 and FTSE 350 stayed an average of 7.6 years in role in 2022, compared to 9.2 years in 2018"⁴
- The rise of private equity, where the mandate to create value leads to frequent restructures and exits
- The rising importance of growth markets:
 - Scions of business dynasties in countries such as India (now the world's most populous with more than 1.4 billion people) increasingly wanting to devolve control of subsidiaries to professional managers
 - Major Chinese companies wanting to expand abroad and actively seeking managers with international expertise
 - Countries such as the United Arab Emirates and Saudi Arabia offering attractive incentives to persuade senior executives to relocate to the Middle East

The UK: Mirroring the Rest of the World

Like other advanced economies, the UK, the world's sixth largest, is experiencing severe labour shortages, even though it ranks second (behind the US and ahead of Canada, the UAE and India) in the list of the biggest recruiters of highly skilled expatriate workers [See Figure 2] and fourth (behind Australia, the US and Canada) in the list of preferred destinations of professionals actively looking for jobs abroad [See Figure 3].⁵



Although the UK is not expected to suffer population shrinkage until the 2070s, its population growth rate is slowing, and its labour shortages have been exacerbated by the more than nine million people of working-age who are not in work or actively seeking a job—a total figure that is some 700,000 higher than before the Covid-19 pandemic.⁶

It is striking that UK corporates are beginning to face real challenges appointing C-level and one below C-level positions. As the *Financial Times* reported, there was a “decade-high turnover among Chief Financial Officers in the UK” in 2023. Meanwhile, the search for a permanent CEO of Asda, the UK's third-largest supermarket chain, is now entering its third year.⁷

But a bright spot for UK companies—and those operating in the UK—is the enduring strength of London as a magnet for talent. According to Boston Consulting Group, London tops the list of preferred cities for expatriate workers—ahead of Amsterdam, Dubai, Abu Dhabi and New York [See Figure 4].⁸



The reasons for London's popularity are manifold, and include:

- English is the primary language
- An exceptional global network
- Plentiful economic and financial opportunities
- A welcoming, multicultural brand (despite Brexit)
- Access to Europe and the US
- World class schools and universities

What Companies are Doing to Hire their Current and Future Leaders

Facing challenges in the labour market, some companies are choosing to grow their own talent—and develop leaders from within. Others have had success luring back former employees who already know their business and can hit the ground running.

Yet there are many companies that realise that to appoint the very best talent and access a diversity of experience, they must look outside their company. For this reason, they are deepening their understanding of the changing dynamics of international and domestic talent pools while rethinking the attractiveness of their offer to prospective business leaders.

And this is the key point: in the current environment, prospective CEOs and CFOs, whether they live abroad or reside around the corner, have options. They need to be persuaded to move.

So, how can companies attract the best? Pay, of course, remains an important part of any pitch. As the *Financial Times* recently reported, median annual pay, including cash and equity, for CFOs in the S&P 500 jumped 13 per cent to \$4.7 million (£3.5 million) between 2021 and 2023—and the five best paid US finance chiefs all make more than \$25 million per year.⁹

In the UK, the pay is lower, but corporate boards are acutely aware of the competitive market: earlier this year Abrdn, the asset manager which dropped out of FTSE 100 last year, sought to pay its new CFO £675,000—25% more than the predecessor.¹⁰

But pay is a “hygiene” factor. Few people will be motivated to relocate as the result of an enhanced compensation package alone; and for many ideal candidates (especially those who, from a financial perspective, never need to work again), other factors are important. These include:

- Meaningful work that gives them a sense purpose and career progression
- A high-quality peer group: the best like to be surrounded by top quality people
- A good work-life balance
- Family considerations—especially educational opportunities for children

And there is another factor that we see as especially powerful: it is the enduring allure of “home”.

The Enduring Allure of “Home” as a Hiring Strategy

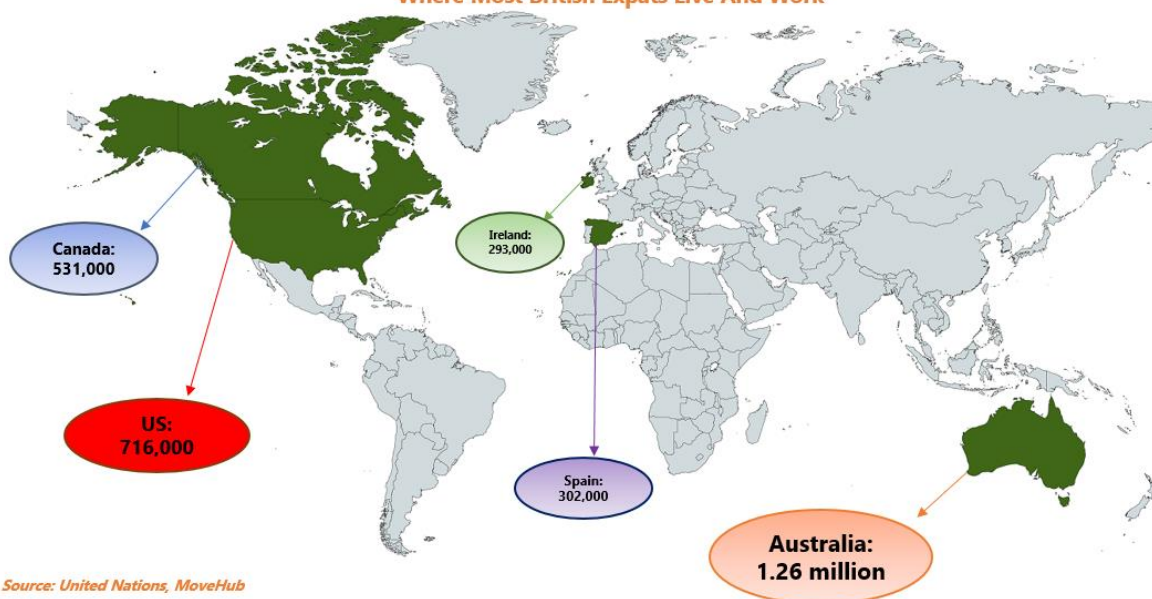
There are some 80 million highly skilled people (those with at least a bachelor’s degree) living and working in a foreign country, according to BCG estimates.¹¹ But how do you target 80 million expatriates?

Here, at EM, we have found great success by focusing on the different national diasporas. The Indian diaspora is the world’s largest, numbering nearly 18 million people, according to the UN. The next largest is Mexican, with nearly 11 million living abroad.

The British diaspora, with around 3.5 million people, is spread far and wide. According to the UN, the top five countries with the biggest populations of British expatriates are Australia (1.26 million), the US (716,000), Canada (531,000), Spain (302,000) and Ireland (293,000) [See Figure 5].¹²

Figure 5

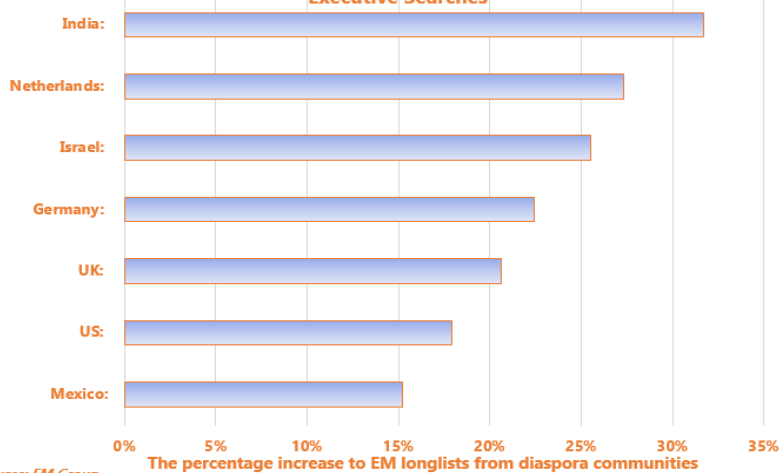
Brits Abroad Where Most British Expats Live And Work



On average, our longlists of candidates for Indian companies are augmented by 31.7% with people from the Indian diaspora. For companies based in the UK, Germany, the Netherlands, and Israel, the different diasporas contribute more than 20% of the people on our longlists. For US and Mexican companies, the percentages are somewhat smaller: 17.9% and 15.2% respectively [See Figure 6].

Figure 6

Tapping The Pool Of Expat Talent How Diaspora Communities Augment EM Group's Country-Specific Executive Searches



Within these diasporic groups, we look for potential "returnees": the people who move abroad, gain high-level international experience that makes them attractive to companies in their native markets, and then move back home. When we compiled a longlist of candidates for a #2 job at a major UK retailer, we included an experienced British business leader living in the Asia-Pacific region. After a tough selection process, he got the job and relocated with his family back home.

For a very different executive search, a major Indian company asked us to find a leader who would unlock the potential of their business as Managing Director in Mumbai. Of an all-Indian shortlist of six, two were candidates we identified as potential returnees: one resident in the Middle East, the other in Singapore.

What motivates people to return home? Several reasons—and they are almost always deeply personal. For example, some tell us they wish to spend more time with aging parents; some say they want to ensure their children are educated in the country of their birth; some, like the Asia-Pacific based British executive who came back to a top retail job, relish the prospect of a new challenge; and some just decide that they have seen enough of the world and that it's time to go home.

How An Executive Search Consultancy Can Help

Even at the best of times, finding the right executive—someone who is the right fit for your company—is a tricky business. But now, with the talent squeeze such as it is, the margin for error is very small.

Some say that A.I. can help—and it probably can for recruiting further down the corporate hierarchy. But for hiring senior executives, there is no substitute for personal connections. As the *Wall Street Journal* rightly reports, “landing a job” has become “all about who you know (again).”¹³

Few people taking up a top executive job (especially those returning home after working abroad) do so after making a snap, overnight decision. A job switch can be years in the making.

This is why an intermediary such as an executive search consultancy can help.

At EM, we work with companies on their long-term strategy, helping them build proprietary longlists and shortlists of potential future leaders. We make it our job to identify talented people long before any job falls vacant and to begin a constructive dialogue with them. We talked with the British executive for a decade before they landed the #2 job at the UK retailer.

Hiring the best leaders is as much an art as a science. It requires not only an understanding of the core competencies of C-level appointees, but also forward-planning, patience, and an appreciation of nuance and what makes people tick.

Companies that do this tend to get the people they want.

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Endnotes

- ¹ Anu Madgavkar et al, *Help Wanted: Charting the challenge of tight labor markets in advanced economies*, McKinsey, 2024: <https://www.mckinsey.com/mgi/our-research/help-wanted-charting-the-challenge-of-tight-labor-markets-in-advanced-economies>; Felix Richter, "Tipping Point: When populations peak," Statista, 12 July 2024: <https://www.statista.com/chart/32594/projected-start-of-population-decline/>.
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- ⁷ Brooke Masters, "The scramble to find CFOs as departures hit decade high," *Financial Times*, 11 January 2024; Laura Onita, "Asda's woes deepen after co-owner of UK's third-largest supermarket steps back," *Financial Times*, 18 September 2024.
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- ¹¹ Harnoss et al, "Global Workers, Local Impact," Boston Consulting Group, 28 March 2024.
- ¹² Anna Fleck, "India has the world's biggest diaspora," Statista, 12 September 2023; Neil Johnson and Elise Uberoi, "Overseas Voters," House of Commons Library, Research Briefing, 16 January 2024: <https://commonslibrary.parliament.uk/research-briefings/sn05923/>; Beth Howell, "Top 10 countries Brits choose over the UK," MoveHub, 11 May 2023: <https://www.movehub.com/blog/top-10-countries-brits-choose/>.
- ¹³ Callum Borchers and Lindsay Ellis, "Landing a job is all about who you know (again)," *Wall Street Journal*, 30 May 2024.