

Emerging Markets Private Equity Association

Private Equity Talent Management in Emerging Markets Survey

August 2013



About EMPEA

The **Emerging Markets Private Equity Association (EMPEA)** is an independent, global membership association whose mission is to catalyze the development of private equity and venture capital industries in emerging markets. EMPEA's 300+ member firms share the belief that private equity can provide superior returns to investors, while creating significant value for companies, economies and communities in emerging markets. Our members, representing nearly 60 countries and more than US\$1 trillion in assets under management, include the leading institutional investors and private equity and venture capital fund managers across developing and developed markets. EMPEA leverages an unparalleled global industry network to deliver authoritative intelligence, promote best practices, and provide unique networking opportunities, giving our members a competitive edge for raising funds, making good investments and managing exits to achieve superior returns.

In support of its mission, EMPEA:

- Researches, analyzes and disseminates authoritative information on emerging markets private equity;
- Convenes meetings and conferences around the world to promote information exchange between leading fund managers and institutional investors;
- Offers professional development programs to enhance knowledge transfer; and,
- Collaborates with stakeholders from across the globe.

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Private Equity Talent Management in Emerging Markets Survey

The Emerging Markets Private Equity Association (EMPEA) is pleased to present the results of its *Private Equity Talent Management in Emerging Markets Survey*. This report aims to provide EMPEA Members and the broader industry with a greater understanding of the current state of hiring for employment at private equity firms across different emerging markets; the challenges that general partners (GPs) face in staffing their emerging market teams; and, how practitioners anticipate the job market will evolve over the next five years. The findings of this Survey are based on data collected from 88 respondents representing 70 private equity fund managers based in 34 countries and operating across the emerging markets, as well as interviews with industry professionals.

Key findings include:

1 – **Competition for Talent:** Competition for qualified talent at private equity firms is expected to intensify in most emerging markets over the next five years, especially in Sub-Saharan Africa and Emerging Asia.

Approximately 75% of Survey respondents operating in Sub-Saharan Africa and Emerging Asia anticipate competition for qualified talent at private equity firms will intensify in those regions. Respondents in most emerging markets consider local private equity firms to be their most direct competitors for talent, followed closely by global private equity firms.

2 – **Talent Acquisition:** Compensation negotiations are seen as the biggest obstacle to acquiring qualified talent in most emerging market regions.

In most emerging markets, respondents point to compensation negotiations as the single biggest obstacle to acquiring qualified talent, with several respondents ascribing upward pressure in compensation to competition from large global firms building new local teams. However, in some regions (most notably China), the biggest obstacle to acquiring qualified talent is instead reported to be a lack of candidates with adequate local knowledge.

3 – **Turnover:** Concerns related to compensation are seen as a key driver of staff turnover. Annual turnover is highest in India at 21%.

Concerns related to compensation—including base compensation, pace of promotion and carried interest—are seen by most respondents as the key drivers of staff turnover at their firms. India leads the emerging markets in terms of turnover, with more than one in five private equity employees leaving in any given year. Annual turnover in Emerging Asia, Brazil and MENA is also higher than the emerging market average of 13%.

4 – **Salary Expense:** Payroll as a percentage of total operating costs is expected to increase over the next two years in all emerging market regions.

Payroll as a percentage of total operating costs is broadly expected to rise over the next two years. For Sub-Saharan Africa, nearly 80% of respondents anticipate payroll's share of total operating costs to increase—the most of any region.

Moreover, one-third of respondents operating in India and Emerging Asia anticipate payroll's share to increase significantly.

5 – **Skill Sets:** Operational expertise is the skill in shortest supply relative to demand across virtually all emerging markets.

Respondents in almost all regions view operational expertise as the skill in shortest supply relative to demand. Practitioners active in the BRICs report an adequate supply of finance-related skills among recent graduates of MBA programs and candidates with investment banking backgrounds, but they point to a dearth of qualified mid-level and senior candidates who marry knowledge of local markets with operational backgrounds and/or private equity deal-making experience.

6 – **Hiring Channels:** Personal references are the most common hiring channel followed by executive search firms. Most private equity firms are satisfied with their experience with executive search firms; those that are not tend to cite the quality of final candidates as the key reason for their dissatisfaction.

Personal references account for more than one-third of hiring at a typical respondent's firm, while roughly 20% of hires are selected through executive search firms. A majority of respondents (76%) use executive search firms, with most reporting satisfaction with their experience. Among those that are dissatisfied, the quality of final candidates is the most cited reason. Among respondents whose firms do not use executive search firms, cost is the primary impediment.

7 – **Feeder Schools:** Recruitment of MBAs at the entry level is highly concentrated among graduates of Harvard Business School (HBS), Wharton and INSEAD.

While most respondents stressed the importance of familiarity with local markets, they tend to source entry-level hires from schools based in developed markets. The most-cited school based in an emerging market (Universidade de São Paulo) ranks sixth behind HBS, Wharton, INSEAD, London Business School (LBS) and Stanford. Recruitment of local graduates is concentrated in Brazil, Sub-Saharan Africa and India.

Competition for qualified talent at private equity firms is expected to intensify in most emerging markets over the next five years

Approximately 75% of respondents operating in Sub-Saharan Africa and Emerging Asia anticipate competition for qualified talent for employment at private equity firms to intensify in these regions over the next five years—more than any other emerging market region.

Opinion is divided for China; although a majority of respondents expect competition for talent in China to intensify, almost one-quarter expect it to diminish—the highest proportion of any region. Russia/CIS, CEE and Turkey have the highest proportion of respondents predicting that the level of competition will remain the same.

Overall, respondents consider local private equity firms to be their most direct competitors for talent for employment at their institutions, followed closely by global private equity firms. Institutional investors and corporates are seen as relatively less direct competitors.

“It’s a war for talent in the emerging markets right now.”

—Pan-emerging market fund manager

Exhibit 1: How Will Competition for Talent Change Over the Next Five Years?

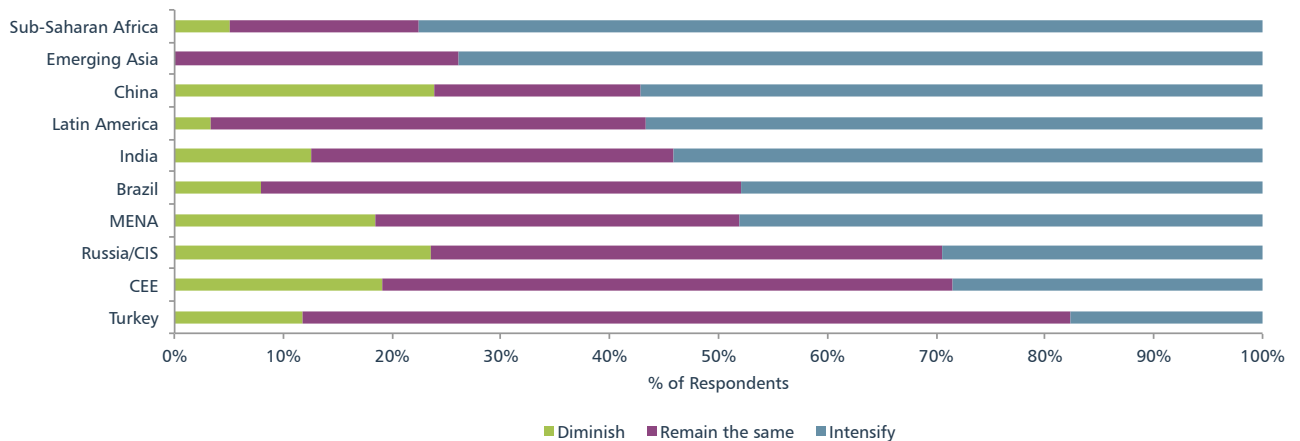
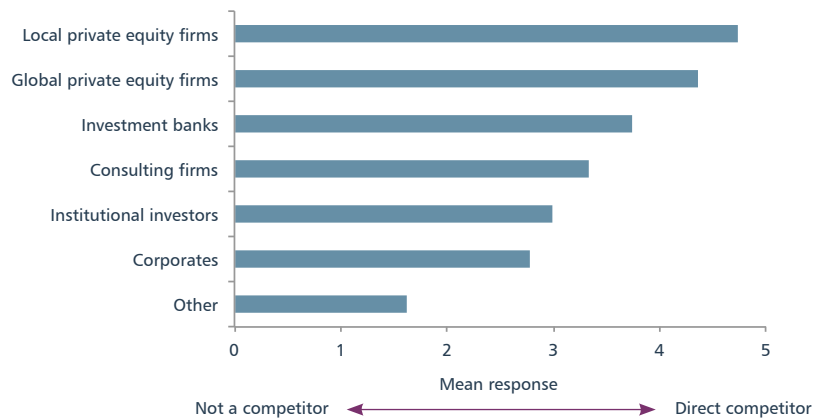


Exhibit 2: Who Are Competitors for Talent?



Compensation negotiations are seen as the biggest obstacle to acquiring qualified talent in most regions

In six out of ten markets (listed in Exhibit 3), compensation negotiations are seen as the biggest obstacle to acquiring qualified talent. In particular, more than 70% of respondents operating in India and 60% of respondents operating in Brazil cite compensation negotiations as an obstacle to adequately staffing open positions. Compensation negotiations are also cited as the biggest obstacle to acquiring qualified talent in MENA, Sub-Saharan Africa, CEE and Latin America. Several respondents ascribe upward pressure in compensation to competition from large global private equity firms building new local teams.

However, in the remaining four markets, a lack of candidates with adequate local knowledge is seen as the biggest obstacle to acquiring talent—ahead of compensation negotiations. In China, respondents cite a lack of candidates with adequate local knowledge (67%) twice as frequently as compensation negotiations (33%). A lack of candidates with adequate local knowledge is also the most commonly cited obstacle in Emerging Asia, Turkey and Russia/CIS.

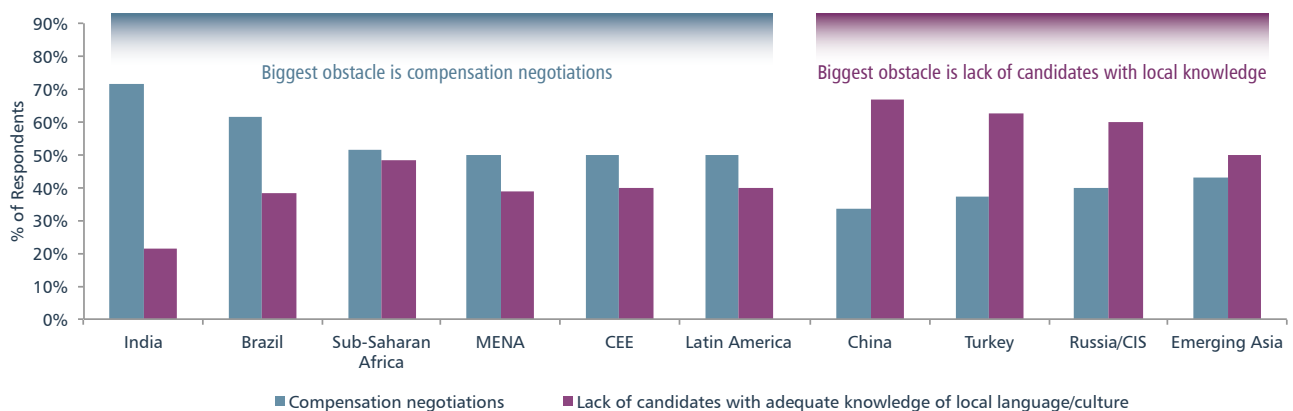
“Remuneration in China is starting to slow down a bit. It’s still very competitive, but I can see it maturing.”

—Lou Baran, Director, Chief HR Officer, Actis

“In many markets, historically the turnover risk was monumental. It’s been that way for a long time as big global players enter and push up market salaries.”

—Mounir Guen, CEO, MVision Private Equity Advisers

Exhibit 3: What Are Substantial Obstacles to Acquiring Qualified Talent?



Focus on India

Mukul Gulati, Managing Director, Zephyr Peacock India Management

The two main challenges in acquiring talent in India are a lack of operating experience and high compensation expectations (though the latter has moderated dramatically in the past year or so).

There aren’t many people in Indian private equity with operating experience; the top graduates from business schools tend to join investment banks and consultancies. As a result, it is easier to find someone with transactional experience than someone who has run an actual business. Especially rare are operators with the analytical mindset required to transition into private equity, as the firms they work for do not emphasize those skills as much as their Western counterparts do.

The main driver of rising compensation has been candidates returning to India from developed markets who do not want to take a pay cut. As a mobile business where people have international opportunities, private equity in India looks to global compensation as a benchmark. However, entry-level hiring has seen less of a spike in compensation, since new graduates who just want to break into the industry are not as demanding when negotiating salaries.

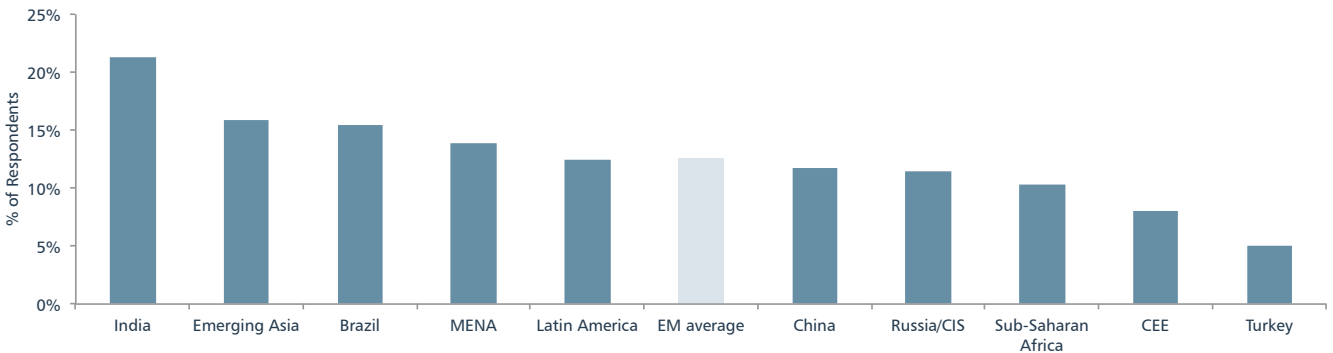
In terms of where we source candidates, there are two factors pulling in opposite directions. Even though Indian management schools are often even more selective than top schools in the West, Western schools—and especially Western work environments—do a better job of developing the ability to work in teams and communicate in a coherent fashion. On the other hand, Indians who move abroad sometimes become divorced from the reality of doing business in India and the particular way of relating to people here.

Concerns related to compensation are seen as a key driver of staff turnover

India leads the emerging markets in terms of staff turnover, with an annual rate of 21%. Turnover rates in Emerging Asia, Brazil and MENA are also higher than the equal-weighted emerging market average of 13%, while the lowest turnover rates are reported in CEE and Turkey.

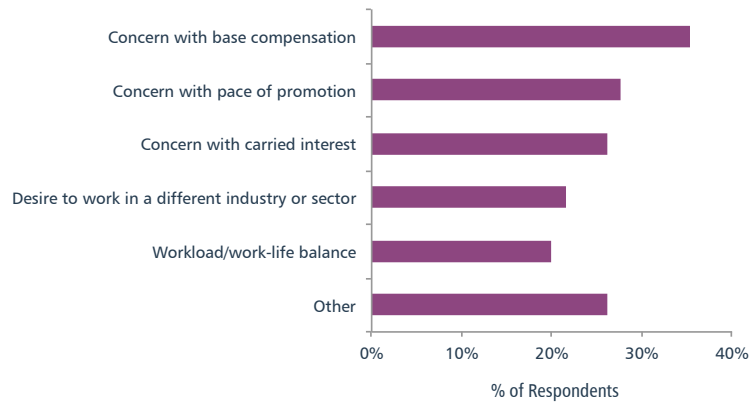
A better work-life balance and a desire to work in a different industry were each cited by fewer than one in four respondents.

Exhibit 4: Average Annual Staff Turnover



Factors related to compensation—concern with base compensation, pace of promotion and carried interest—are seen as the variables most responsible for staff turnover at respondent firms. Most respondents cited at least one compensation-related factor, and 28% cited at least two.

Exhibit 5: Factors Driving Staff Turnover



“How you make it to Partner is the million-dollar question. That’s one of the biggest areas of concern for investment professionals.”

—Lou Baran, Director, Chief HR Officer, Actis

“Carried interest is not meeting expectations and comes in a timeframe too distant to be meaningful for all but the most senior of professionals.”

—Pan-emerging market respondent

Payroll, as a percentage of total operating costs, is expected to increase over the next two years in all emerging market regions

Respondents expect payroll as a percentage of total operating costs to rise over the next two years in all emerging markets. Almost 80% of respondents active in Sub-Saharan Africa anticipate relative private equity payrolls to increase over the next two years—the most of any region. Moreover, one-third of respondents operating in India and Emerging Asia, as well as roughly 30% of those operating in Brazil and China, anticipate relative payroll costs to increase significantly.

Expectations that relative payrolls will decline, while a minority view, are most widespread in Russia/CIS, where 22% of respondents predict a fall.

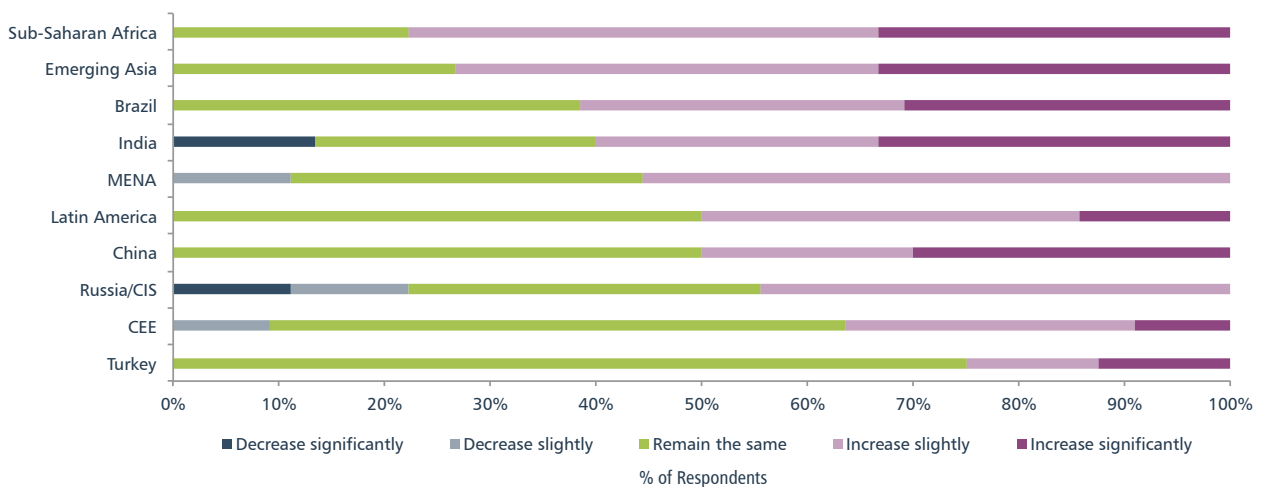
Reasons respondents expect payroll as a percentage of total operating costs to increase significantly in:

Sub-Saharan Africa: “There is high market growth, accompanied by cost/wage inflation.”

Emerging Asia: “We have to offer top-flight compensation packages if we are to compete with global private equity firms.”

Brazil: “Compensation in Brazil has skyrocketed and is likely to continue to increase.”

Exhibit 6: Predicted Change in Payroll as Percentage of Total Operating Costs Over the Next Two Years



Focus on Brazil

**Piero Minardi, Partner,
Gávea Investimentos**

There is no constraint in staffing entry-level positions in Brazil; there are more Brazilians coming out of investment banking and seeking a role in private equity than there are opportunities. At that level, you can find people with the necessary skills: essentially, a very smart, analytical number-cruncher.

At the senior level, on the other hand, it's much more difficult. This may explain why it has taken some international players so long—as long as two or three years—to staff their Brazil teams.

It's difficult to move people out of their jobs at this point; everyone is making money, everyone has carry, so the switching costs for many professionals are high. Some firms split the function into a very experienced advisory person with high-level contacts in the business community and someone more operational, but even then it is difficult to find people suited to private equity.

Hiring on the portfolio company side can be just as problematic. The CFO is the eternal problem, because they usually have either treasury experience or accounting and control, but rarely both. In addition, many Brazilian CFOs grew up in an economy that was hand to mouth, so very few have the mindset of being guardians of the value of the company. In this space and among senior professionals at the fund level, there will continue to be a gap in supply going forward.

Focus on China

Stuart Schonberger,
Managing Director, CDH Investments

At the Vice President level and below in China, it's a buyer's market. It's relatively easy to hire smart MBAs who have basic skills and minimal practical experience. We expect the market to slacken further as fundraising decelerates. At the Managing Director level and above, however, it's a very thin market for trained professionals.

What China lacks are professional managers, both at the portfolio company level and the private equity fund level. If you're an international fund, you may already have enough senior people who are culturally attuned and able to interact with the home office; what you need now are bodies on the ground that can get the work done. From this perspective, foreign-educated Chinese do not necessarily have an advantage over locally educated candidates; if anything, the latter have greater familiarity with the market. But they are rare, unlike in developed markets, where there are entrepreneurs who want to get into private equity and other professionals that understand both operations and finance. There is a specific lack of talent to fill the needs of operating partners at private equity firms. Most successful, professional managers are 40 to 50 years old and at the height of their careers. They are not seeking opportunities to become operating partners at a private equity firm, as may be the case in the developed markets.

Compensation pressures, however, are largely in line with emerging market norms. Aside from cost of living differentials, private equity in China keeps pace with global trends, since global firms provide roughly equivalent packages across geographies and local firms generally match these.

Operational expertise is the skill in shortest supply relative to demand

In virtually all emerging markets, respondents view operational expertise as the skill in shortest supply relative to demand, usually followed by finance skills. The shortage of operational expertise is seen as especially acute in CEE and India, where about 80% of respondents report that the demand for this skill outstrips supply.

Among the BRICs, the lack of experienced operators also appears to be linked to distinct candidate pools for entry-level versus experienced hires. In interviews, practitioners active in the BRICs report an adequate supply of finance-related skills among recent graduates of MBA programs and candidates with investment banking backgrounds. However, they point to a relative shortage of mid-level and senior candidates who have both familiarity with local markets as well as operational backgrounds and/or private equity deal-making experience. In China and Brazil, in particular, interviewees describe idiosyncrasies in the local entrepreneurial culture that limit the pool of seasoned operational hands available to private equity firms.

“Going forward, there will be an increasing need for multi-talented individuals in the emerging markets: private equity professionals who can contribute both commercial acumen and traditional financial skills.”

—Pan-emerging market respondent

“South Africa suffers from an excess of corporate financiers with accounting backgrounds trying to enter private equity, but a shortage of people with operational and/or entrepreneurial business experience.”

—Sub-Saharan Africa-focused respondent

Exhibit 7: Skill Sets in Shortest Supply Relative to Demand

	Operational expertise	Finance	Investor relations	Research / Knowledge management	Legal	Fund admin / Back office
Emerging Asia	67%	60%	47%	20%	27%	13%
China	69%	62%	38%	31%	15%	15%
India	79%	57%	36%	7%	14%	14%
CEE	80%	60%	10%	20%	30%	20%
Turkey	67%	67%	17%	17%	33%	17%
Russia/CIS	63%	38%	25%	38%	0%	50%
Latin America	50%	43%	43%	21%	14%	36%
Brazil	67%	42%	25%	33%	17%	58%
MENA	67%	67%	27%	27%	27%	27%
Sub-Saharan Africa	60%	63%	43%	33%	23%	37%

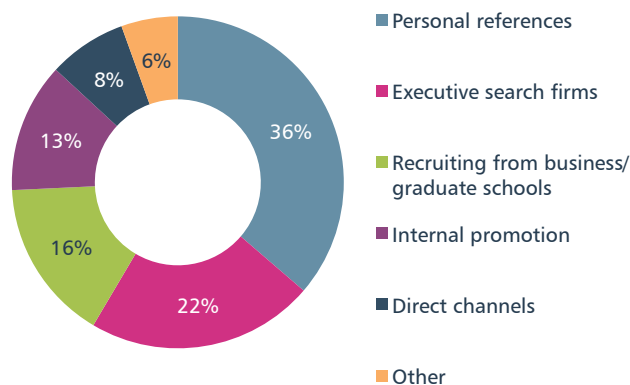
*Indicates percentage of respondents answering for each region/market.

Personal references are the most common hiring channel, followed by executive search firms

Personal references account for more than one-third of hiring at a typical respondent's firm, with another 22% of hires selected through executive search firms.

More than three-quarters of respondents report that their firms use executive search firms, and most of those that do are either very or somewhat satisfied with their experience. Among those who are dissatisfied, most cite the quality of final candidates. Among those whose firms do not use executive search firms, cost is the primary impediment, while several respondents volunteer that executive search firms are not familiar enough with their region of focus.

Exhibit 8: Hiring Channels at a Typical Firm



“Though the charm of a PE job is still there among most of the business school graduates, there is a visible shift toward alternative career opportunities.”

—India-focused respondent

Exhibit 9: Use and Satisfaction with Executive Search Firms

“The trick is finding executive search firms that have got their own good network on the ground and have access to the sort of talent that we’re looking for.”

—Lou Baran, Director, Chief HR Officer, Actis

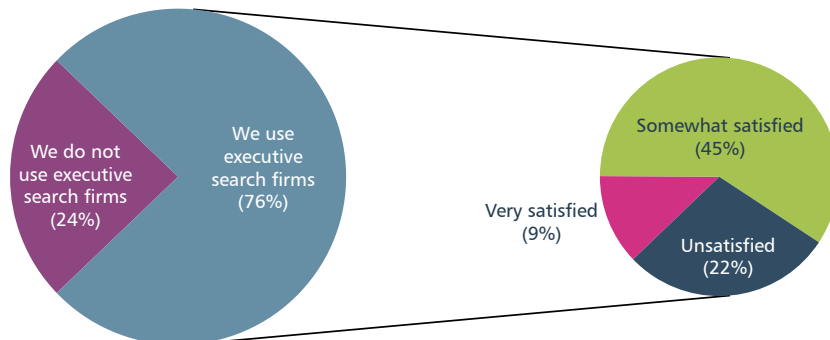


Exhibit 10: Reasons for Dissatisfaction with Executive Search Firms

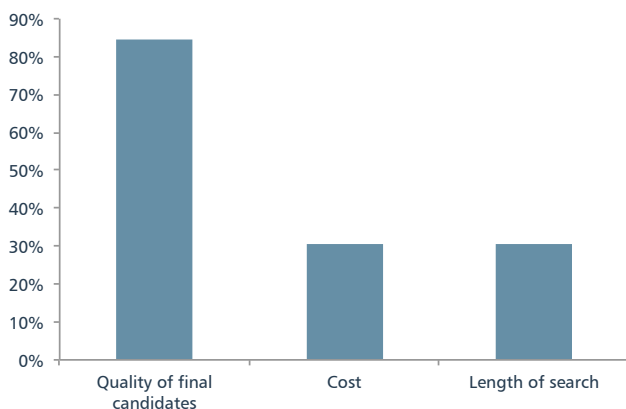
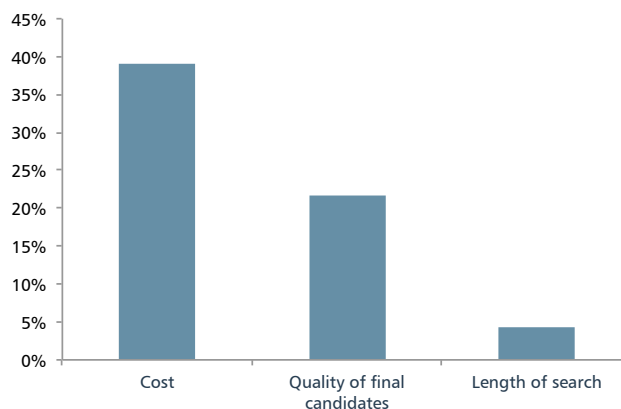


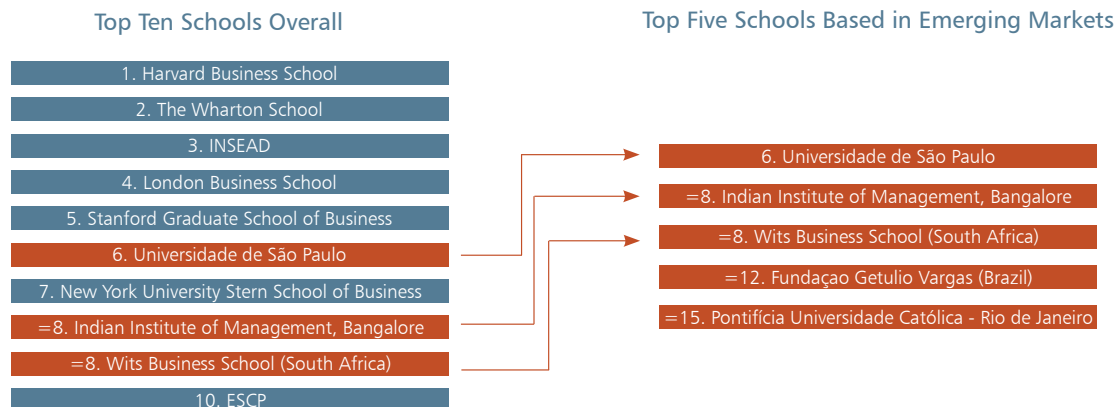
Exhibit 11: Reasons for Not Using Executive Search Firms



Recruitment at the entry level is highly concentrated among graduates of Harvard Business School, Wharton and INSEAD

While most respondents stress the importance of familiarity with the local market, when asked to list the best-represented business or graduate schools among entry-level hires, they cite schools based in developed markets. The most popular schools for recruitment are Harvard Business School (HBS), Wharton, and INSEAD; 38% of respondents list one of these three schools as their top feeder school.

Exhibit 12: Top Schools Represented Among Entry-Level Hires



Schools in emerging markets account for only three of the top ten schools cited, with the best-placed school in an emerging market (Universidade de São Paulo) ranking sixth. Schools in emerging markets account for 27% of all responses, but most were cited only once each.

Local schools are most likely to rank among the top three best-represented schools at firms active in Brazil, where the most frequently cited schools are Universidade de São Paulo, Fundação Getulio Vargas and Pontifícia Universidade Católica do Rio de Janeiro. Outside of Brazil, feeder schools are concentrated in South Africa and India. No school located in China, Russia/CIS, CEE or Turkey appears among the top three for any respondent firm, including for those that are based in those regions.

“By recruiting through business schools, we know that candidates have already ticked certain boxes—like English ability—whereas we would have to screen for those things ourselves if we went through local channels.”

—Lou Baran, Director,
Chief HR Officer, Actis



Focus on Russia

David Bernstein,
Partner, Baring Vostok

One of the biggest challenges our funds face is that nearly every portfolio company is in need of a key manager—or several—and it often takes time to find the right candidate. That said, with each passing year, as Russia’s market economy develops, it becomes easier to find highly qualified people across functions. This also applies to sourcing new team members at Baring Vostok, both on the investment side and the operational or functional side.

In most sectors, there is growing professional expertise available in Russia today due to a combination of factors, including the presence of multinationals, an increasing number of people receiving MBAs or other international qualifications such as the CFA, and the overall development of the economy. For example, twenty years ago, you couldn’t fill a room with people who knew IFRS or GAAP accounting, but with thousands of young people gaining experience at Big Four firms over the past decade or two, there is now a large base of professionals with these skills. You can see that on the operating side as well: Coca-Cola, Proctor & Gamble and other best-in-class companies have been operating in Russia for 15 years. Today, you have people who have been trained through the “Coca-Cola School” who are now looking for new career opportunities. In addition, leading Russian companies have provided a solid training ground for a generation of young people whose educations and skills have been put to work to service market needs.

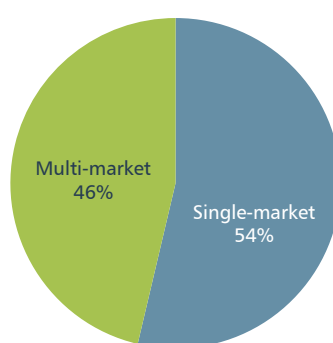
As our team has grown, it has remained very local. Most rapidly growing companies in the regions and sectors our funds are targeting were founded or are being managed by young, energetic Russians. There is no replacement for having someone on our side of the table who (literally) speaks the same language, is a similar age, and has a shared experience of the country’s political and economic developments over the past two decades.

Respondent Profile and Definitions

Between May and June 2013, EMPEA surveyed 88 professionals at 70 private equity fund managers based in 34 countries. The median number of full-time employees at respondent firms is 20, and 93% of individual respondents hold mid-level or senior positions at their firms (defined as Vice President and equivalent or higher).

A slight majority of respondents represent firms that focus on a single emerging market, while the rest represent multi-market fund managers. As a whole, Survey respondents represent a cross-section of GPs operating in all major emerging markets, with at least 15% of respondent firms active in any given region.

Exhibit 13: Breakdown of Respondents: Single- vs. Multi-Market



- “Emerging markets” (abbreviated to “EM”) encompasses the private equity markets of all countries outside of the United States, Canada, Western Europe, Israel, Japan, Australia and New Zealand.
- “Private equity” (abbreviated to “PE”) encompasses leveraged buyouts, growth capital, venture capital and mezzanine investments.
- “Emerging Asia” encompasses all of Asia excluding funds whose primary investment focus is Japan, Australia and New Zealand.
- “Global private equity firms” means private equity firms whose activities span multiple geographic regions.
- “Local private equity firms” means private equity firms whose activities are limited to the geographic region in which they are headquartered, and excludes subsidiaries or affiliates of global private equity firms.



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