Latin America Perspective

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HEIDRICK & STRUGGLES

Latin America
An Overview

Up until mid 2008 the Latin America business environment was encouraging. But in September & October, when global financial markets collapsed, even Latin America was victim to it.

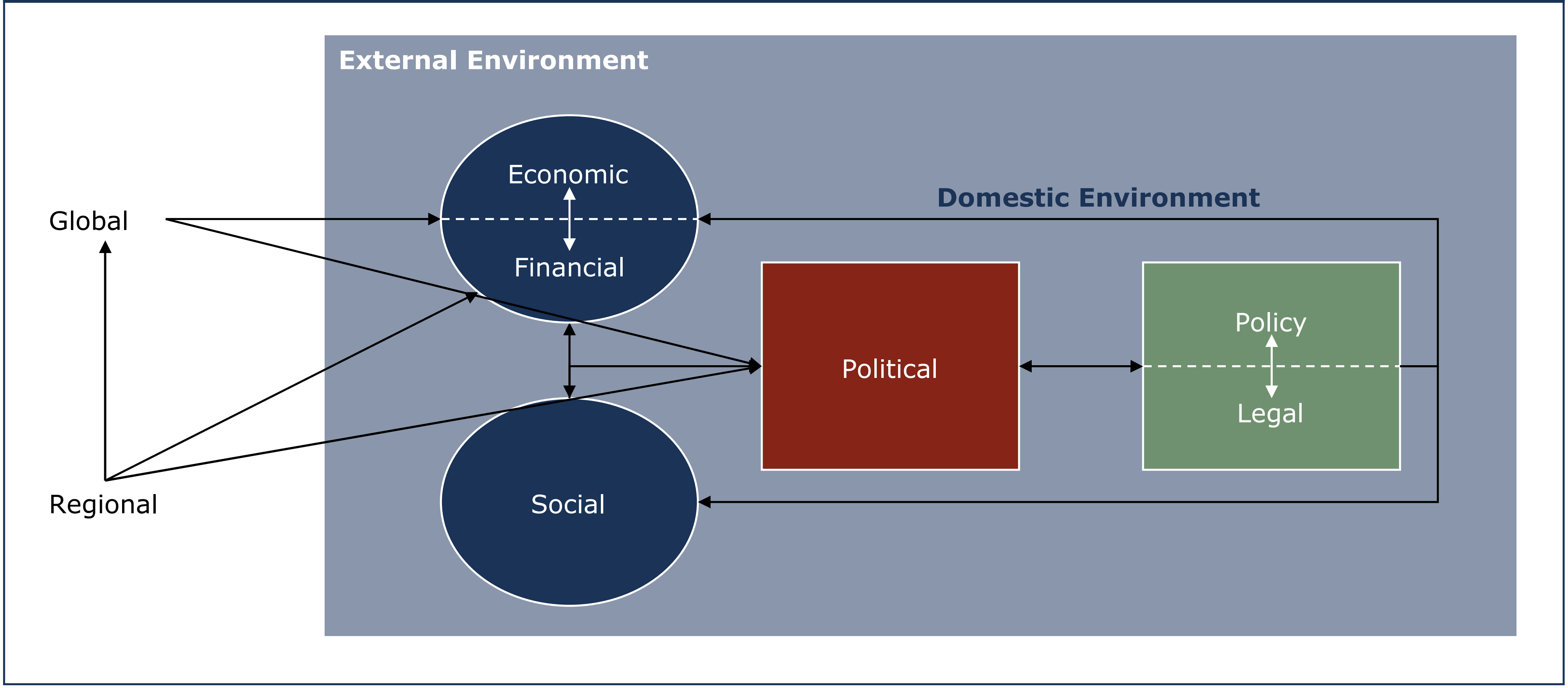
	Latin American Business Environments						
	2007 Environment			2008 Environment			2009
	Attractive	Problematic	Mixed	Attractive	Problematic	Mixed	Outlook
Mexico	↑			=			↓
Dom Rep	↑			=			↓
Costa Rica	=			=			↓
El Salvador			↑			↑	↓
Guatemala			=			↑	=
Honduras			=				↓
Nicaragua		=			=		=
Panama	↑			↑			↓ ↑
Bolivia		=			↓		=
Colombia			=			↑	↓
Ecuador		=			↓		↓
Peru	↑			↑			↓
Venezuela		↓			=		↓
Argentina			↓			↓	↓
Brazil			↑	↑			=
Chile	=						=
Paraguay			↑		↑		↑
Uruguay	↑			↑			=
Totals	**7**	**4**	**7**	**8**	**4**	**6**	

Source: 2008 Latin American Business Environment Report

Latin America Business Environment
An Overview

- In 2008 the environment for business and investment in Latin America, which had grown increasingly attractive over the previous five years, external developments caused a dramatic downturn at the beginning of the fourth quarter.
- At outset of the year a moderate slowdown was expected because of the problems in the U.S. economy, but there was a growing consensus that Latin America had become immune to the external shocks that had historically triggered economic crises in the region.

Components of the Latin American Business Environment



Source: 2008 Latin American Business Environment Report

Latin America Business Environment
An Overview (cont'd)

External Environment:

Three negative external developments affected the Latin American business environment:

- The credit crisis, which began in the United States in 2007 as a sub-prime credit crisis, and later spread to the rest of the world in the latter half of 2008.
- The economic slowdown that also had U.S. origins, but spread to the other mature economies, most notably the EU and Japan.
- Rising energy and food prices generated inflationary pressures around the globe.

Domestic Environment

- The domestic components of the business environment in Latin America were generally strong at the beginning of 2008, although there were country-to-country variations.
- The turmoil of September and October, however, suggested that by year's end the inter-related domestic components of the Latin American business environment would be significantly realigned.

Source: 2008 Latin American Business Environment Report

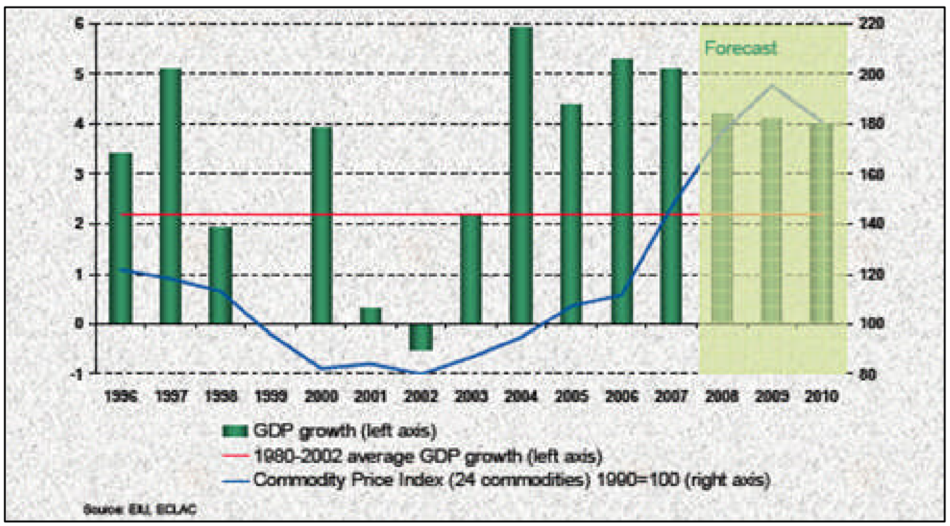
Latin America – Overview of Economic Conditions

Gross Domestic Product & Economic Growth & Inflation

- Real GDP grew 5.1% in 2007 – 5th consecutive year of growth & significantly above the 2.2% historical average.
- Latin America's growth depends majorly on global demand for its exports.
- Latin America experienced four years of above-average growth and low inflation.
- Consumer inflation declined considerably in Latin America.

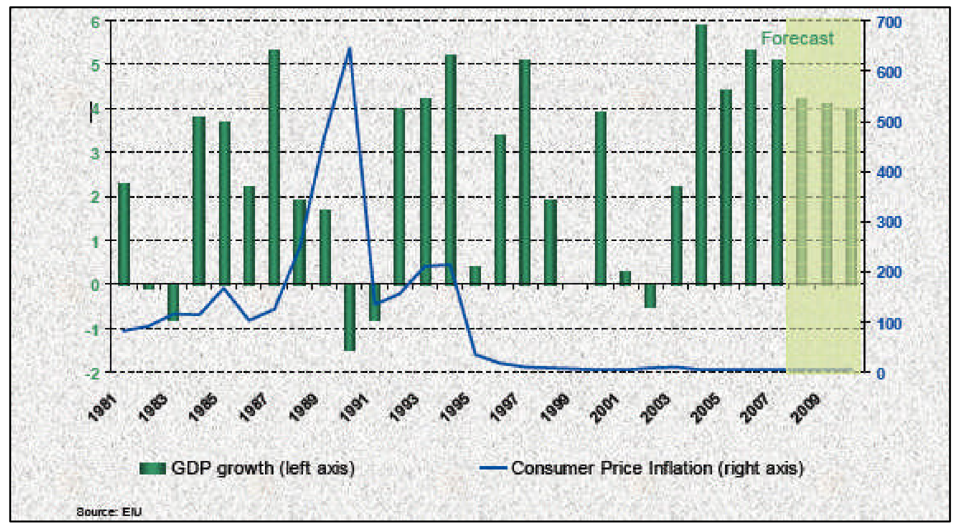
Real GDP Growth & Commodity Prices

Annual % Change



Economic Growth & Inflation

Annual % Change



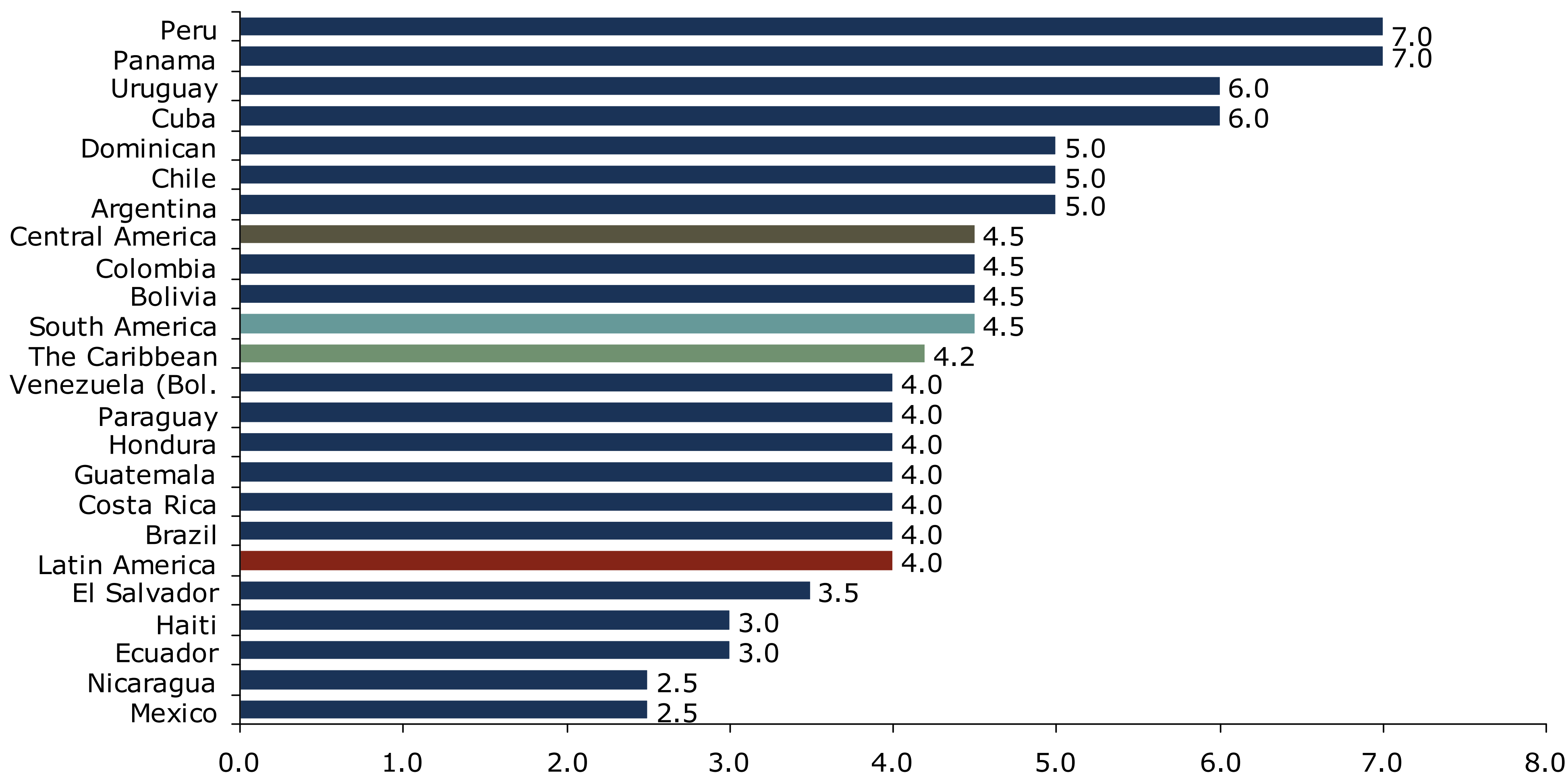
Source: Federal Reserve Bank of Atlanta

Latin America – Growth Prospects

In 2009 an estimate of 4.0% of GDP is made but will still be the seventh consecutive year of growth at an annual average rate of over 3% per capita.

2009 Will Be The Seventh Consecutive Year OF Growth at 4.0%

Latin America and the Caribbean: Expected Growth Rates for 2009 (%)



Source: Economic Outlook of Latin America, 22nd September 2008

Latin America – Economic Outlook for 2009

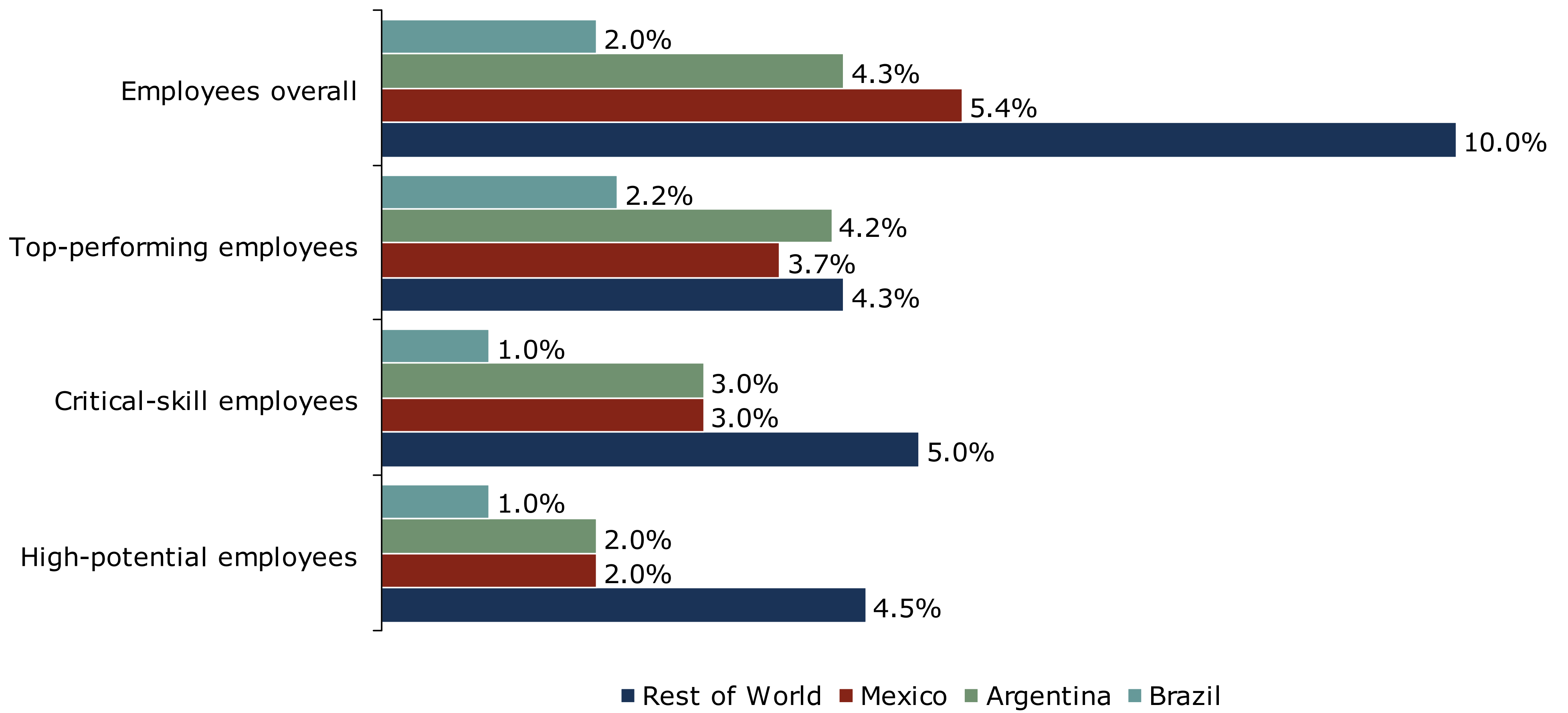
- The effects of the global recession are not expected to be as intense in Latin America as in other parts of the world. Most countries in the region should post slight growth rates in 2009 and 2010. Meanwhile, the downturn will serve to ease inflation in the region
- The latest consensus GDP growth forecast for the region is 1.4 percent for this year, down from 3.6 last September
- The country specific projections indicate zero to negative growth in Mexico, Argentina and Venezuela. The remaining large countries will grow at rates closer to 2 percent (Brazil, Colombia, and Chile). Peru will continue to outperform the rest of the region with a growth rate that will be close to 4.5 percent (but low compared to the 9 percent in 2008)
- Growth in Latin America will come from domestic sources, notably consumption and investment
- An important source of concern for the region's financial outlook is related to changes in the current account of Asian economies, most notably China's. A reduction in the current accounts in Asia could alter the demand for treasuries and consequently their yield
- Although a sudden stop to capital flows appears unlikely at this point, the region should be relatively prepared to withstand the collateral damage high levels of borrowing by the US Treasury and lower global savings
- The economies in Latin America are decelerating as industrial production contracts and consumer confidence reaches historical lows. Industrial and commodity export volume has declined as global demand cooled off

Source: Brookings - January 22nd 2009, PREI

Talent in Latin America

- Given Latin America's robust economic growth, the demand for skilled talent has been outstripping the supply. Latin American companies report even more difficulty retaining key talent than companies in other regions.
- Latin American employers share the universal challenge of attracting critical-skill and top performing employees, with more than 70 percent reporting moderate to great difficulty recruiting such staff. More than 50 percent of Latin American companies report similar difficulty retaining these employees.

Median Voluntary Turnover Varies by Country



Source: Watson Wyatt Worldwide Study

Talent in Latin America – Reasons for Attraction

- Latin American employers recognize the importance that employees place on career development and promotion opportunities, base pay and employer reputation in deciding whether to join an organization.
- However, employers underestimate the importance of the nature of work and work/ life balance.
- They overestimate the importance of company culture and job security.

Employers and Employees Rank Attraction Factors Differently				
	Employers	All Employees	Highly Engaged Employees	Top-Performing Employees
Base pay	2	1	2	3
Career development opportunities	1	3	1	2
Employer reputation	3	4	6	4
Company culture	4	12	8	11
Nature of work	8	2	3	1
Job security	5	8	7	10
Work/life balance	8	5	5	5
Promotion opportunities	5	6	4	6

Source: Watson Wyatt Worldwide Study

Talent in Latin America – Reasons for Retention

- In considering reasons for turnover, Latin American employers and employees concur on the importance of base pay, career development and promotion opportunities, and work/life balance.
- Roughly half of the employees surveyed say they are satisfied with the opportunities their employer offers, and 66 percent plan to remain with the company for at least another year. Building employee engagement can boost satisfaction significantly — three-quarters of highly engaged employees report satisfaction, and 90 percent plan to stay another year.

Employers and employees rank attraction factors differently

	Employers	All Employees	Highly Engaged Employees	Top-Performing Employees
Base pay	2	1	2	1
Career development opportunites	3	4	5	4
Promotion opportunities	1	3	3	3
Relationship with supervisor/manager	4	6	8	8
Stress levels	6	2	1	2
Work/life balance	5	5	4	6

Source: Watson Wyatt Worldwide Study

Talent in Latin America

Actions to Reduce Turnover for Employee Groups Vary by Country

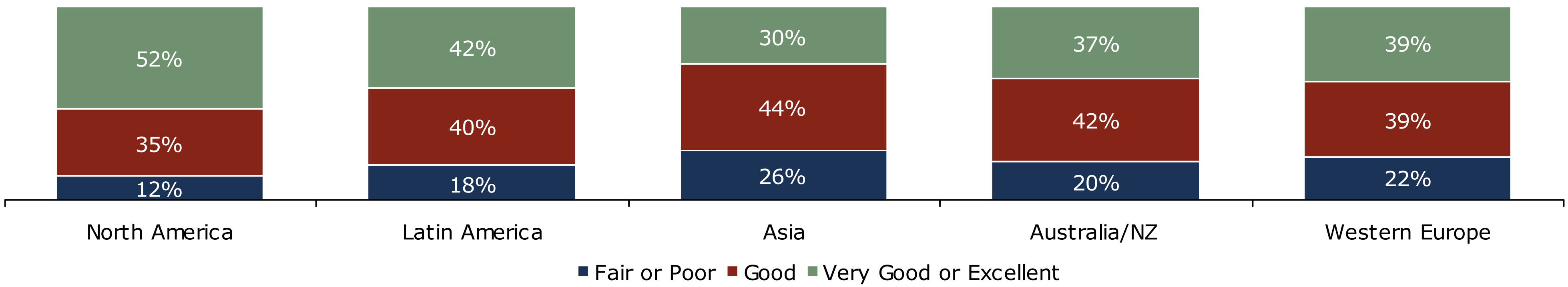
	All Employees				Top-Performing/High Potential Employees			
	Brazil	Argentina	Mexico	Latin America region	Brazil	Argentina	Mexico	Latin America region
Implemented off-cycle salary increases	63%	49%	15%	39%	63%	65%	61%	63%
Improved work/ life balance	44%	19%	42%	32%	38%	9%	24%	20%
Increased efforts to survey employee opinions	19%	23%	42%	29%	19%	19%	24%	21%
Offered rotational work assignments	38%	16%	15%	20%	50%	35%	36%	38%
Increased responsiveness to findings of employee opinion surveys	31%	9%	24%	19%	25%	7%	12%	12%
Accelerated career development opportunities	6%	9%	21%	13%	31%	47%	46%	44%

■ Latin America region ■ Mexico ■ Argentina ■ Brazil

Source: Watson Wyatt Worldwide Study

Leadership Quality – Global & Latin America View

Ratings of Leadership Quality by Region



Average Use of Leadership Development Methods by Region(1)

	North America	Latin America	Asia	Australia/ New Zealand	Western Europe
Reading articles/books/other	2.7	2.3	2.6	2.6	2.6
Computer-based learning	2.3	2.2	2.3	2.0	2.1
Development based on tests, assessments, other measures	2.1	2.4	2.2	2.0	2.2
Coaching with external coach	1.9	2.0	2.0	2.3	2.5
Coaching with internal coach	2.3	2.1	2.5	2.5	2.4
Formal workshops, training	3.0	3.0	3.0	3.1	3.3
Movement to different position to develop targeted skills	2.2	2.4	2.4	2.4	2.6
Special projects outside one's job	2.4	2.5	2.5	2.5	2.5
Special projects within one's job	2.9	3.0	3.0	3.1	3.1
Average	2.4	2.4	2.5	2.5	2.6

Lower than other regions | Higher than other regions

(1) 4-point scale, ranging from "Not used" to "Extensively used"
Source: DDI World Study- The Global Leadership Forecast 2008|2009

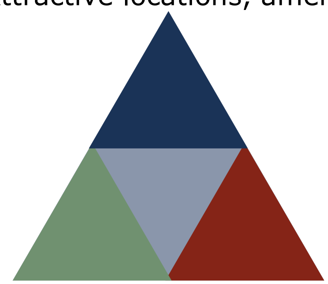
Talent in Latin America – ITO & BPO Sectors

Latin America has clearly become a hot story. Companies have been outsourcing a host of functions to countries there in recent years, ranging from IT Maintenance, software development & operations support to Business Process Outsourcing, shared service centers & call centers.

Key Attributes of Latin America

Cultural affinity

- Relevant language skills
- Time zone proximity
- Physical proximity
- Cultural similarities
- Attractive locations, amenities



Cost attractiveness

- Wages
- Real estate
- Telecom and infrastructure
- Travel

Talent and resources

- Available work-force
- Major talent hubs
- Higher unemployment, lower attrition
- Established BPO market

Source: AT Kearney Study 2007

Latin America Country Attractiveness Assessment

Criteria	Argentina	Brazil	Chile	Mexico	Colombia	Costa Rica
Cost attractiveness	4	3	2	2	4	2
Availability of skilled labour	3	3	2	3	1	2
Language capabilities	3	2	1	3	1	3
Political & Economic stability	1	2	4	2	0	4
Government support	2	1	4	1	1	4
Cultural affinity	3	2	3	3	1	3
Total attractiveness	3	3	2	2	1	2
Key highlights (pros and cons)	▶Lowest wages for skilled labour in the region ▶Political and economic stability for a relatively short time compared to neighboring countries	▶Significantly outnumbers country peers in call center and ITO industries, though it has a strong domestic focus ▶Limited number of English and Spanish speakers	▶Remarkable stability of political and business environment ▶Limited availability of professionals fluent in English	▶Closest to the United States ▶More developed market for BPO in the region, especially in finance and accounting ▶Key costs (salary, real estate) are higher than most peers	▶Stable economy with available labor ▶Reputation impact, although crime rates in Bogota are lower than in Sao Paulo, the country's reputation reduces the inflow of investments	▶Very good bilingual skills ▶Strong presence of large international (captive) service centers and vendors ▶Limited workforce availability given population size and potential saturation

0 Least attractive ➔ 4 Most attractive

Source: AT Kearney's 2007 Global Services Location Index™, Datamonitor, ADI Argentina, InvestorChile, CINDE, best cities ranking by America Economia, Mercer Global Pay Summary, Colliers International, Gartner Group and AT Kearney analysis

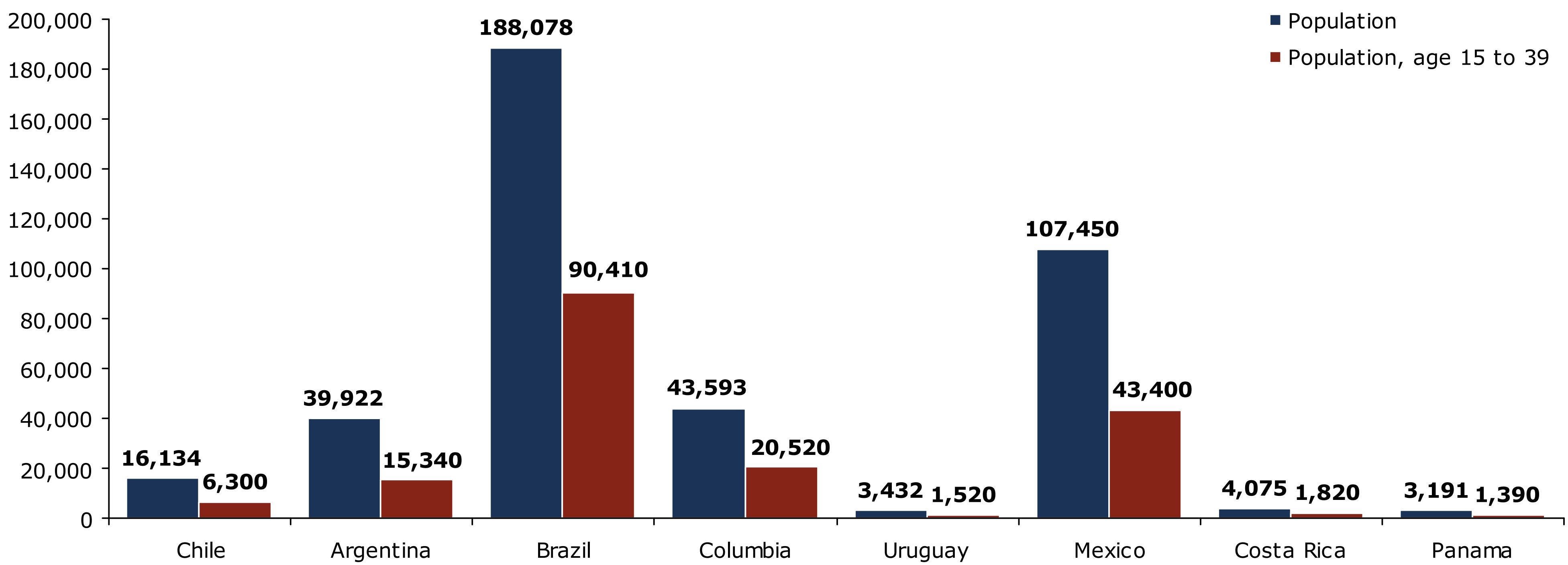
Talent in Latin America – ITO & BPO sectors

- The United States & Latin America share a number of cultural similarities which is an advantage to attract expatriates to the region.

Talent & Resources:

- The availability and quality of labour are key factors to consider in choosing a global service location.
- Latin America has a significant number of people between the ages of 15 to 39, which is a proxy for the labour force available for ITO & BPO global service centers.

Latin America has an Attractive Labor Force



Note: Population ages 15 to 39 used as a proxy of the workforce targeted by ITO and BPO employers in a country.
Sources: CIA World Fackbook, 2006; population ages 15 to 39; U.S. Census Bureau, 2005; A.T. Kearney analysis
Source: AT Kearney Study 2007

Conclusion - Challenges/ Opportunities for Talent in Latin America Region

Workforce planning:

- The region's economic and demographic realities mean that Latin American employers' workforce priorities differ from those of their counterparts in North America and Europe.
- Scalable businesses in growing economies and established businesses in mature markets require different kinds of talent.
- With Latin America's younger population, companies have more opportunities to grow talent entering the workforce than to buy experienced talent, which will place added pressure on Latin American companies to identify, develop and retain high-potential candidates.

Understanding employee reward preferences:

- Few Latin American companies conduct employee reward-preference research or reflect employee priorities in reward design.
- Monitoring employee preferences, especially given the changing makeup of the workforce, sets the stage for employers to optimize their reward portfolio now and going forward.

Source: Watson Wyatt Worldwide Study

Conclusion - Challenges/ Opportunities for Talent in Latin America Region continued…

Using goal setting to improve employee understanding of reward opportunities:

- Based on employees' perceptions, Latin American companies outperform their counterparts in other regions at building employee line of sight and setting meaningful goals.
- The companies should use these effective performance management processes as a platform to build employee understanding of reward opportunities and the link between performance and rewards. This will improve employers' ability to realize returns on their reward investments.
- Although the prospect of global economic slowdown may provide a temporary respite from the labour crunch in developed markets, long-term demographic trends will contribute to reshape the world's talent pool.
  - With birth rates falling and baby boomers retiring in western Europe as well as in countries such as Russia, Japan, Australia and New Zealand, companies will need to look to new regions such as Latin America, Africa and Asia to supply their need for workers.

Source: Watson Wyatt Worldwide Study, Economist Intelligence Unit - 2009

Source: Watson Wyatt Worldwide Study, Economist Intelligence Unit - 2009

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