Brazil Update:
A Superheated Talent Market

By Mark Bowling and Warren Rosenstein
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Overview

As the world economy struggles to gain its footing, Brazil is in the midst of a new “golden age”. Having overtaken the United States and tying China as the most favorable country for investments as well as playing host to the Olympics and the World Cup in the near future, the stage is now officially set for Brazil to further cement itself as a prominent world player.

Even as GDP growth figures have slowed from the extreme highs in early 2010, consumer confidence remains elevated and many economic indicators still demonstrate the promise of sustained growth. Due to the discovery of large amounts of off-shore oil reserves, Brazil is expected to be a major exporter of crude oil within the decade. This development, coupled with the major upcoming infrastructure projects in anticipation of both the World Cup and Olympics in 2014 and 2016 respectively, gives investors a good reason to flock to the country.

Compensation Trends

In 2008, as the bottom dropped out of the credit market, compensation plummeted in most regions. Many firms that were focused on having an investment in the BRIC nations opted to maintain pay levels in Brazil as this began to look more and more like the one of the best opportunities in these emerging locations. The relatively small staff sizes made it a somewhat inexpensive investment, and global firms needed to be mindful of the high performing / rewarding local firms that compete head-to-head with the bulge bracket for both deals and talent.

Going forward, Brazil will continue to see pay that is likely to be de-linked from broader global trends. While 2010 is projected to be a year of retraction in total compensation for most regions of the world, this may not necessarily be the case in Brazil.

As regulators tighten the reins on firms based in the European Union and the US, it appears that local Brazilian banks may have a competitive advantage over global firms, depending on where the local regulatory environment winds up. In practice, this will hit European firms the hardest given that the CEBS regulations are the most stringent.

Talent Crunch

As the Brazilian market continues to move forward, financial services firms are looking to keep pace with aggressive hiring plans. These proposed staffing increases come at the same time as Hedge Funds, Asset Management and Private Equity firms are expanding within the country. The acquisition of Gávea Investimentos by Highbridge Capital Management and the recently acquired stake in Pátria Investimentos by Blackstone are evidence of the anticipated opportunity in Brazil. The biggest challenge these firms will face is finding sufficient talent to fulfill their growth targets.

In order to compensate for a limited talent pool, it is not uncommon practice to accelerate employees through the ranks at a rapid pace or hire junior staff into more senior roles. Firms may consider a broader use of expats to fill seats and keep pace with lofty growth strategies, but this is unlikely to be adequate enough to actually drive

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the growth firms are envisioning. At the end of the day, the shortage of talent will likely put upward pressure on pay rates, and business results will need to continue to soar in order to fund pay.

Compensation Structure

As foreign firms look to enter into the Brazilian market, they would be well served to invest in top HR talent. HR practitioners on the ground in Brazil are very savvy when it comes to compensation, and this is important as the structure of compensation in Brazil is complex. There is a strong focus on profit sharing plans and a general eye on delivering compensation in the most tax advantageous way possible. Unlike the US market, where many highly compensated employees are relatively unconcerned with benefits and pension plans, these are important parts of employment packages in Brazil.

In Conclusion

The future continues to look bright for Brazil in terms of overall economic and financial stability. It will be interesting to observe whether the growth firms are targeting will be achieved, or if firms will simply battle each other for the existing pool of talent, without any real broad growth across the industry.

In terms of where compensation levels will fall out, it is difficult to predict. A global downward trend will depress local pay levels, while scarce talent and strong ambitions for growth will push levels upwards. Similarly, the impact of pay for current performance vs. optimism for pipeline will also impact year-end pay.

Overall, this is a tricky location to make very specific predictions in, but it seems safe to assume that local pay rates will see at least some protection from the larger decreases anticipated in the US market. ■

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