

Talent or Bust: Nearshoring's Key for Survival

Numerous factors influence Mexico nearshoring efforts—but identifying and empowering the right leadership team is key to success.

Due to its industrial experience and geographic location, Mexico is a natural destination for companies looking to build resilient and highly flexible supply chains for the North American market. In fact, according to a June 2023 [Morgan Stanley report](#), nearshoring has the potential to boost the growth of Mexican manufacturing exports to the U.S. from \$455 billion today to an estimated \$609 billion in the next five years.

However, all this potential will go to waste without the cultural, social, and political understanding necessary to “stick the landing” in Mexican territory, and—most importantly—an aligned leadership talent strategy.

In this report, Russell Reynolds Associates explores:

- The many advantages of nearshoring in Mexico
- The benefits (and challenges) of building a strong, locally-oriented C-suite
- Why Mexican senior leadership is well-positioned to drive nearshoring efforts
- The human factor in successfully establishing operations in Mexico

Nearshoring:
the practice of
transferring business
operations or
manufacturing to
a nearby country
that is closer to the
destination/ end
consumer market.

Mexico's role in the North American Region

As part of a natural free-trade bloc, Mexico, the United States, and Canada are destined to become one of the most powerful integrated trading regions in the global economy.

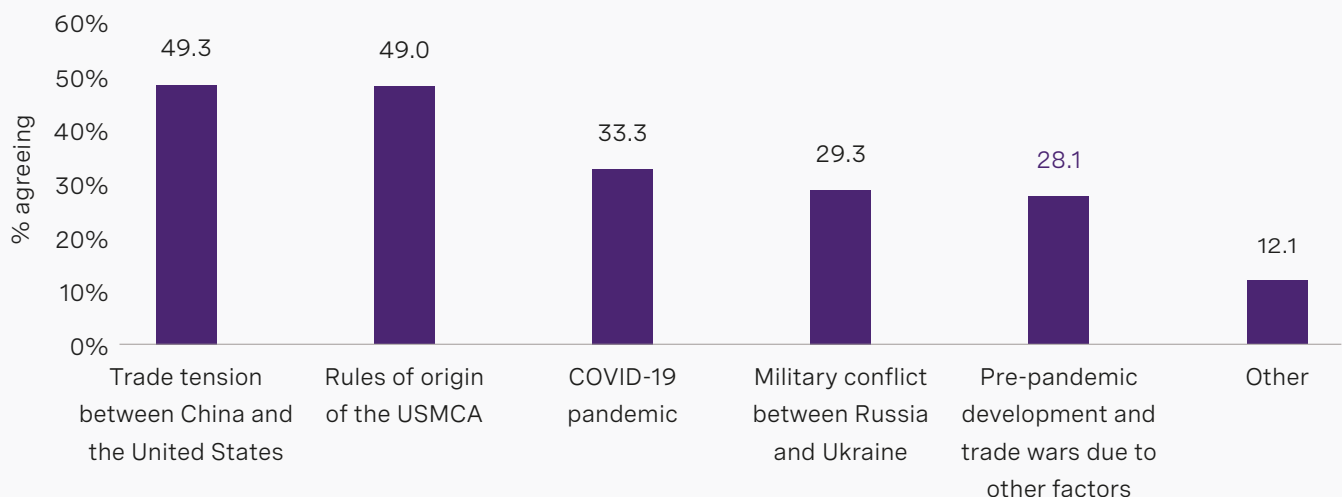
In Mexico, nearshoring has grown significantly over the last four years.

Particularly in the automotive, manufacturing, aerospace, and technology sectors, original equipment manufacturers (OEMs), Tier 1, and Tier 2 companies are choosing Mexico as a nearshoring destination, due to its North American location and integration.

This integration, which had been ongoing for several years, intensified due to the Covid-19 pandemic-induced supply chain disruption, and has continued as a result of geopolitical tensions and conflicts.

Factors attributed to the arrival of more foreign companies in Mexico seeking to benefit from proximity to the United States

Top selections for the question: "In your opinion, what factor(s) affect the arrival of a greater number of foreign companies in Mexico with proximity to the United States?"



Source: BofA Global Research Banxico

While there are obstacles—including the current government's ambivalence in certain policies—as more foreign organizations flock to the country, Mexico presents clear competitive advantages for those interested in integrating with the North American block, including:

- The [US-Mexico-Canada Agreement](#) (USMCA)
- A large and long-standing automotive and manufacturing base that is highly integrated with the North American market (see below for additional details)
- Macroeconomic stability
- Well-positioned executive talent
- Skilled labor force with competitive compensation
- Overall lower costs for transporting goods
- More resilient supply chains, as operations occur within a country that shares time zones, values, and perspectives with the North American market

However, successfully establishing operations in Mexico requires multiple considerations. Among them:

- Choosing the best location
- Understanding regulations and legal frameworks
- Getting acquainted with access routes to markets of interest
- Analyzing skilled workforce availability at the desired location
- Considering local communities and stakeholders
- Developing a well-positioned C-Suite



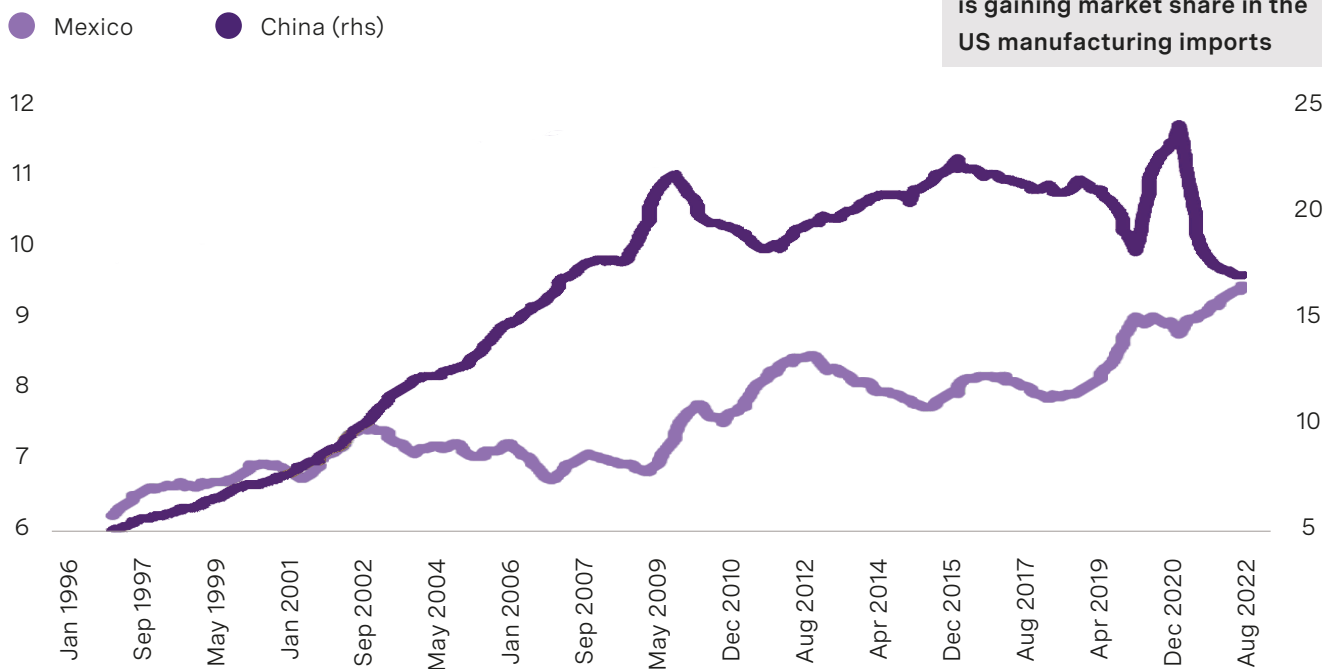
Deep Dive: Mexico's significant expansion in manufacturing and the automotive industry

Under the nearshoring model, the automotive and manufacturing dynamism has had a remarkable effect.

- **Mexican exports of manufacturing goods** have [exceeded pre-pandemic levels by 73%](#) (in US-dollars).
- According to the Banco de Mexico, **16% of companies** with more than 100 employees are already reporting nearshoring benefits.
- **Mexico's share of manufacturing imports** entering the US is gradually gaining ground on China.

These figures confirm **Mexico's advantage as a platform** for exports, not only to the United States but also to other Latin American countries, with which it has numerous trade agreements.

Share in US imports of manufactured goods by classified materials (%)



Source: Haver, US Census Bureau



The challenge: building a great C-suite team

We have seen it too often. A company devotes considerable time and resources to model the financials, find the “right” location, design the building and ensure supply of materials, but staffing and talent discussions are an afterthought. After all, Mexico is not so different, therefore implementing corporate decisions cannot be that hard, right? Wrong.

Nearshoring (and any) models are highly dependent on the expertise, capabilities, and resilience of the management teams executing them. Therefore, building a superior team—effective and aligned—is a mandatory component and an essential condition for achieving the desired results.

To build the best management teams, it’s crucial for organizations to:

- Precisely define the type of leadership (and culture) required for the operation
- Be clear about the competencies that each C-suite member should have
- Understand what resources are in-house and what external resources are needed
- Conduct fair hiring processes for all parties involved
- Offer the right conditions (rewards, working environment, career opportunities, etc.)
- Have a local ally who adds value, knows the market well, and can advise decision making processes

66% of leaders in Mexico cite the availability of key talent/skills as the most pressing challenge for organizations.

**Russell Reynolds Associates, H1
2023 Global Leadership Monitor**

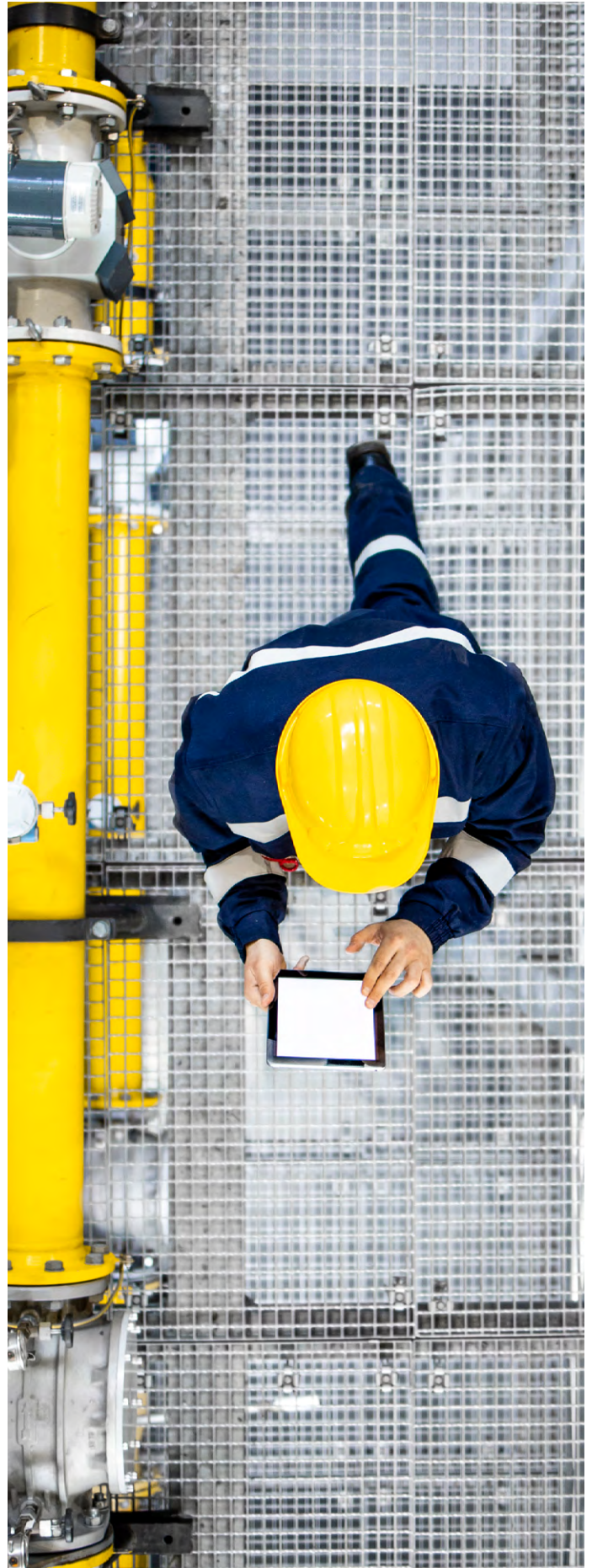
Local, blended, or imported C-suites: which approach is best?

Today, many companies working within (or interested in being part of) the North American supply chain are considering Mexico as a destination to establish their operations. Most of them are contemplating fiscal, location, and market issues. However, many organizations do not spend enough time planning how their C-suite will collectively function. Like any country, Mexico has particularities that leaders must take into account. Operational expertise may not yield the expected results without the right talent to navigate this market's political, social, and cultural nuances. And while many different approaches exist, a C-suite team that knows and understands the Mexican market is crucial.

Depending on their particular style, companies interested in joining the new global supply chain scenario choose different paths when it comes to building their C-suite teams. While some prefer C-suites 100% comprised of expatriates, others would rather form mixed teams or change the mix, little by little, slowly adding executives from the host country to the management ranks.

If the organization chooses to form a purely international team, it will also need an advisory board, as the operation will be more likely to fail if its leaders disregard local context.

In general, C-suites mostly comprised of expats are not a sustainable solution, nor are they desirable in the long term. An adequate nearshoring C-suite must not only understand the company's global strategy—it also needs to understand the domestic and local markets and know how to nimbly navigate and adapt to volatile, uncertain environments.



The Mexican senior executive: expertly positioned for nearshoring

Nearshoring to Mexico has accelerated in recent years, but it has been steadily happening over the past two decades. The good news is that companies coming in now have the advantage of being able to access a skilled talent pool with experience in multinational corporate settings.

Jaime Padilla, Industrial Practice Leader, RRA Mexico

One essential nearshoring factor to take into account is the ability of each C-suite member to understand and act in multicultural environments. It should not be forgotten that Mexico has already gone a long way in this direction.

Mexican senior executives have long term experience with multicultural corporations, especially in OEMs, Tier 1, and Tier 2 companies.

In this environment, leaders learn how to manage across many cultures. These leaders have developed the ability to work in different locations than their customers and their bosses, navigating hyper-connected environments at a distance.

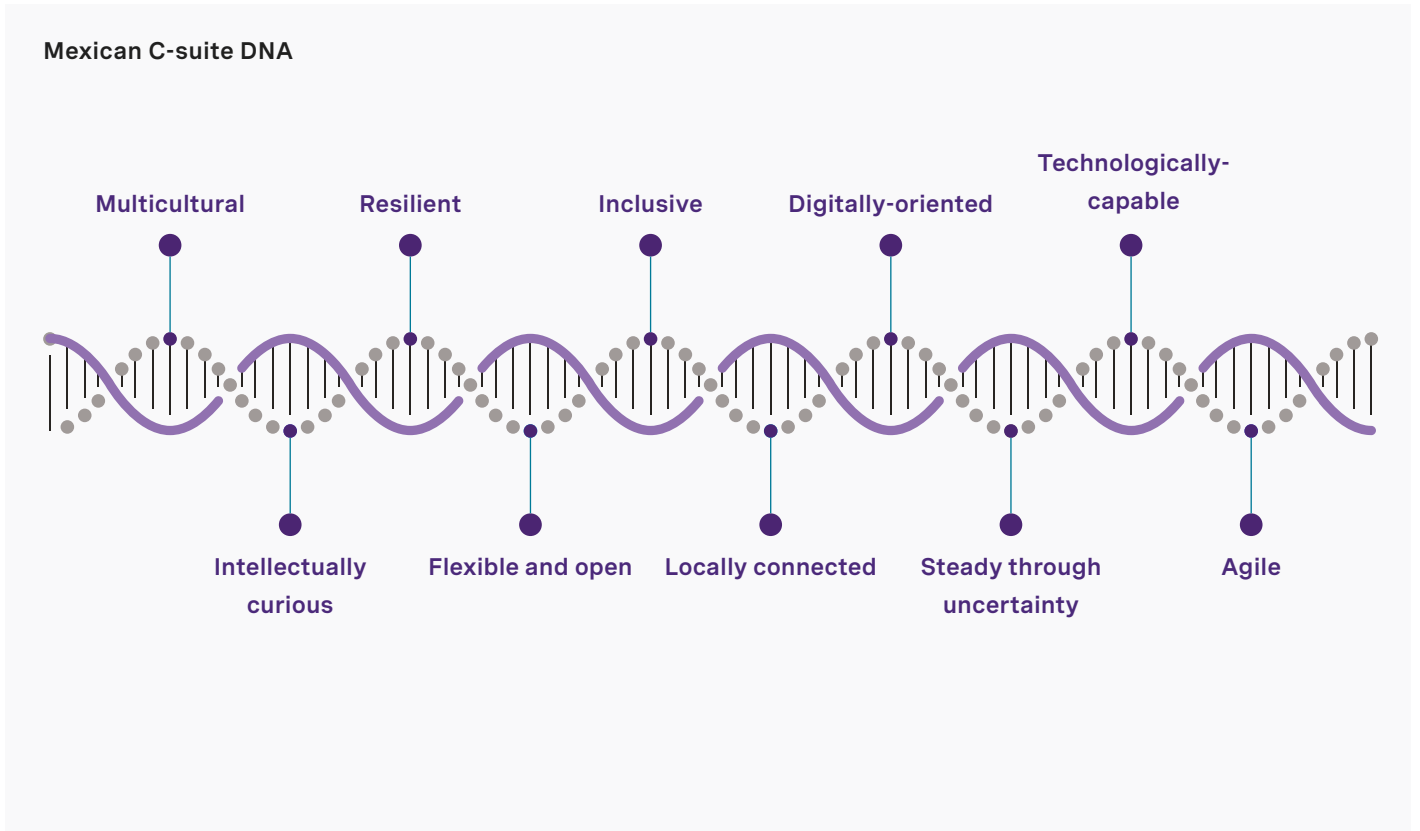
Furthermore, volatility and uncertainty are the Mexican senior executive's bread and butter. It is in their DNA to stay motivated and energetic despite occasional economic setbacks.

This capability, among others, allows the integration of flexible and resilient C-suite teams capable of managing the nearshoring model in Mexico.

In Mexico, senior executives are accustomed to uncertainty, which makes them flexible in highly volatile environments. They are often able to adapt, accelerate, or pivot much more rapidly than leaders from more stable, developed economies.

Francisco Ruiz Maza, General Manager, RRA Mexico

Mexican C-suite DNA





The key to “sticking the landing” in Mexico: The human factor

Successfully landing in Mexico depends on multiple dynamics. Perhaps most important: understanding the depth of available talent, especially at the C-level.

Ultimately, organizations should aim to build a management team that has the knowledge, skills, and flexibility to lead and align the operation with the core strategy. Partnering with an expert in this field allows you to work faster and make better decisions the first time around.

Defining the management team's DNA is key to a successful nearshoring operation. Achieving this depends on essential recognitions, such as:

1. A C-suite may not be adequate if their members have not operated in Mexico before. This market requires at least some local talent.
2. What has worked in moving operations to other geographies may not work in Mexico, at least not to the same extent. Mexico is its own ecosystem.
3. Numbers, financing, and supply chain always need to align with the local context and complexities.
4. The most important thing, today and always, are the organization's people and management team talent.

With this in mind, any route into a new environment should take into account that:

- The skills and talents in demand for C-level executives have changed. Now, organizations seek hardy individuals with capabilities in team management, strategic thinking, financial, risk management skills, and a deep understanding of customer insights.
- Flexibility and resiliency is critical for C-suite members.
- In many industries, C-suite operations and supply chain roles have evolved, giving the supply chain officer a more strategic, transformational role. The right executive must exhibit evolved leadership capabilities, as well as detailed market knowledge and understandings of changing customer experiences and needs.
- Integrating leaders with superior data analytics capabilities, digital mindsets, and experience in operating enterprise platforms is an indispensable differentiator. Building a leadership team capable of unlocking technology's exponential value is a top priority.
- Finally, we highly recommended forming an advisory board for Mexico operations. These advisors will help the organization's headquarters assess the Mexican market's particularities, while also helping them better understand Mexico as a whole. Additionally, the board can drive rich discussions with local management around the challenges and opportunities that nearshoring presents.



Authors

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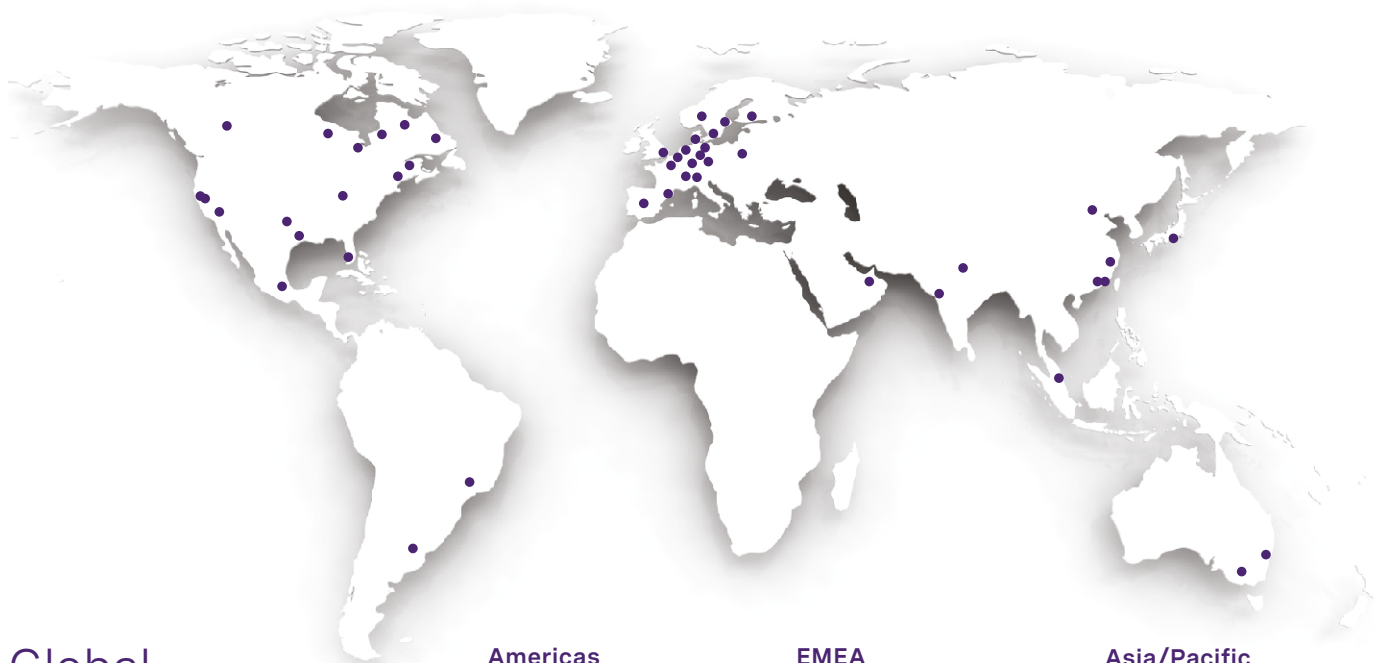
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About Russell Reynolds Associates

Russell Reynolds Associates is a global leadership advisory firm. Our 600+ consultants in 47 offices work with public, private, and nonprofit organizations across all industries and regions. We help our clients build teams of transformational leaders who can meet today's challenges and anticipate the digital, economic, sustainability, and political trends that are reshaping the global business environment. From helping boards with their structure, culture, and effectiveness to identifying, assessing and defining the best leadership for organizations, our teams bring their decades of expertise to help clients address their most complex leadership issues. We exist to improve the way the world is led.

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