

Experience is the Best Teacher

Asia's Technology CEOs on how yesterday's crises help them weather today's downturn



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Introduction

There have recently been a number of reports published showing signs of gentle upticks in economic activity. Increasingly, business decision makers are more optimistic about their markets and their prospects, even if there is still a sense that a full recovery will not take place for some time. In other words, we are beginning to glimpse the light at the end of the tunnel, even if we have a long way to go before we emerge into the open air.

It is notable that despite a certain amount of bad news and less than satisfying results in the past year, technology companies on the whole are floundering much less in Asia/Pacific than in North America and Europe. In fact, some are even flourishing in the region. Substantial growth has taken place; more than a few local Asian firms have taken advantage of the opportunities the crisis has brought to emerge as serious global players. In general, Asia's economies remain fundamentally sound and probably will emerge from the global downturn more rapidly than economies in other regions. Is this a coincidence or does Asia know something that the rest of the world does not?

There are certain fundamentals that help. Asia has an enormous emerging middle class, sizable infrastructure needs that continue to drive capital investment through the downturn and some of the world's largest sovereign wealth funds. But Asia has another advantage over the West: More extensive experience of managing large-scale crises. The Asian financial crisis in 1997 and the Severe Acute Respiratory Syndrome (SARS) outbreak of 2003—in addition to the global dot-com bubble in 2001—produced a generation of leaders with significant first-hand knowledge of how to respond to worst-case scenarios. In order to take a closer look at how experienced business leaders view the current crisis, we had confidential, one-on-one conversations with a dozen regional chief executive officers (CEOs) of leading technology companies in Australia, China, Hong Kong, India and Singapore during August and September, 2009.

These conversations focused on two central topics:

- How has your business focus for the region changed in response to the current global downturn?
- What human capital strategies have you adopted to position your business for the recovery?

Business Focus

While cautioning against overgeneralisation, the technology CEOs with whom we spoke were united in the view that the Asia/Pacific region has borne the impact of the crisis much better than the United States or Europe. “We are the best-performing region in the world” was a common remark. Even so, it is undoubtedly the case that perspectives and priorities have needed to change.

A renewed focus on decision making

As is the case elsewhere in the world, decision-making processes—by management and by customers—have slowed significantly and cost-consciousness reigns. Every potential investment is scrutinised under the litmus tests of necessity and potential return. “Our investment decisions are both more disciplined and more creative than ever before,” noted one CEO. “For every investment decision we make, we ask ourselves: Would we have spent this money in this way before?”

Not only is the decision-making process changing, but the identities of the decision-makers are changing as well. “CIOs are no longer making technology investment decisions alone,” noted the chief executive of a telecom service provider. “The CEO or the board is involved now.” Another CEO noted that there is now a greater premium placed on financial astuteness throughout the C-suite—sales and revenue generation are no longer enough to drive the business.

Opportunities for the fortunate and the fast

Any crisis presents opportunities. Technology companies in Asia that entered the downturn already positioned as a low-cost alternative were well-positioned to take advantage of the opportunities this crisis brought. “The past year's turmoil has actually helped us grow,” noted the CEO of one such company, echoing the sentiments of others.

The companies that did not occupy a low-cost niche found that they could prevail by refusing to panic and adapting quickly. Having strong partnerships and channels was essential: “There is a new level of interdependence with our partners”, commented one CEO. “We realise we are all in this together. It has really created a camaraderie and a focus on working together to deliver a better outcome for the customer.”

Previous experience helped CEOs read the situation quickly and react without hesitation: “I was the one who had to sort out the dot-com fallout at my company,” recalled one CEO with whom we spoke. “From that experience, I learned the importance of getting on the front foot and making the tough decisions early.”

Human Capital Implications

Despite Asia's relative position of strength, the crisis took its toll in headcount as waves of layoffs swept through the region and a number of CEOs and senior executives accepted pay cuts. Many CEOs see the layoffs as painful but necessary: "We were fat before. We needed to lose weight," said one. For employees under 30, this first brush with something other than growth and expansion was particularly painful: "The younger people in my company have had the shock of their lives. Their egos are punctured," noted one executive.

"Only when the tide goes out, do you discover who is swimming naked."

This quote, usually attributed to Warren Buffett, summarises what many CEOs told us: The crisis shone a bright light on the talented—and the less talented—people on their teams. Tough times make it easier to see who is performing and who is not. As one CEO put it, "It's easier to identify leaders who still get strong business results despite this downturn. The crisis has helped us differentiate the A players from the B players." Another commented that the crisis made it easier for him to identify "the great leaders of tomorrow."

The talent pipeline is a strategic asset

As in earlier crises, the current downturn reminded the CEOs with whom we spoke of the importance of having a strong pipeline and proactive succession planning. More attention is being given across the Asia region to identifying top talent and high potentials already on staff and providing them with the training, mentors and development support they need to continue to shine. Companies are performing assessments and then are working to move talented directors into executive-level positions while grooming the next-in-line successors.

"I have put people in their first management jobs," one CEO confirmed. Another said his company was making a special effort to make high-potential employees aware of their company's interest and investment in them. There is also a broad effort to "match A players to A positions," as one chief executive phrased it. Not surprisingly, there is a similar focus on identifying those at the opposite end of the spectrum. "We're working on exiting bottom performers via a much more rigorous process," said one CEO with whom we spoke. A similarly stringent CEO noted that "we are being more assertive in differentiating talent with bonuses—the calibration process was much more comprehensive this time, and our top 10 percent took a much bigger slice of the bonus pool."

Recruiting is harder, but retention is easier

Many of the executives with whom we spoke noted that it is simultaneously easier to retain talent and harder to recruit new talent than it was before the economic meltdown. Retaining team members in a downturn is easier because people are less likely to move from company to company. "The downturn has made people become more pragmatic," noted one CEO. "They are more focused on their own career development and how they build experience and expertise." Another added, "It is definitely an opportunity to build loyalty and team spirit and, as a result, to strengthen the culture of the organisation."

But while there are certainly many more people on the job market than before, highly qualified people may be even harder to find than before because their companies are holding on to the best performers: "There are many people looking for a job, but they may not be the right people to hire," was a regular refrain. "We need to sieve through more sand in order to find the gems." In this environment, the value of a complete assessment of candidates and an analysis of his or her fit with the corporate culture is made all the clearer.

Smart CEOs are preparing for the uptick

Part of the challenge of a crisis is getting ready for the inevitable uptick, with a heavy emphasis on human capital management: The CEOs with whom we spoke all viewed having the right team in place as vital to being competitive once the crisis passes. "The biggest issue is building the capabilities of your people, because the market is going to come back," one said. A number of technology companies highlighted that they are looking to expand their capabilities by recruiting talent from other sectors.

In laying the groundwork for the future, many CEOs felt that some of the budget cutting of the past year may have been short-sighted. Cuts in travel budgets were often mentioned as a false economy. "We shouldn't have cut travel so much", summarised one CEO in hindsight. Indeed, the value of the human relationship and the need for in-person meetings are more important in Asia than elsewhere: "In Asia, people need face-to-face meetings to establish trust and to build a relationship," noted one executive. "Conference calls won't work here. We just can't do business over the phone like people can in other countries."

Looking Forward

There does indeed seem to be a cautious optimism emerging across the region: Most CEOs expect to have a better year in 2010 than they did in 2009. In preparing for the year ahead, they are focusing on innovation, sales discipline and instilling rigour across their organisations; they are investing in their brand and in deep conversations with partners and investors. Most CEOs with whom we spoke agreed that companies with the following characteristics are most likely to come out on top next year:

- **Customer-focus:** Companies that stay close to their customers and continue to add real value to their customers' activities will best survive the downturn.
- **A strong and proven offer:** The market is not sympathetic towards untested solutions. Companies with established and reliable products and solutions have an invaluable foundation.
- **Portfolio diversity:** The more diverse a company's customers, markets and products, the easier it is to balance difficulties in one area with stronger performances in others.
- **The right corporate culture:** In trying times, having a strong company culture that brings people together as a team is a competitive advantage.

Leveraging the Asian Experience

Multinational technology companies around the world might want to regard the Asian experience with more than passing interest. Having survived three separate crises in the dozen years before the current downturn, regional CEOs and senior executives learned invaluable lessons that they are applying to today's challenges.

This series of conversations, as well as other discussions with our clients, confirms the importance of managing the talent pipeline, and the value of conducting regular assessments of the existing management team. This was already recognised as important during the growth period prior to the crisis when organisations moved from reactive hiring to capability building; now the need to ensure the right fit between and within teams and to develop and support a cohesive corporate culture is all the more vital.

A Strategic Approach to Today's Leadership Challenges

The leadership challenges faced by today's CEOs, boards and senior leaders do not occur in isolation, and cannot be addressed that way. Russell Reynolds Associates' consultative approach to executive and board-level search and assessment provides leaders with tailored strategies that help drive long-term growth and success.



About Russell Reynolds Associates

Leadership. In today's global business environment, success is driven by the talent, vision and leadership capabilities of senior executives.

Russell Reynolds Associates is a leading global executive search and assessment firm with more than 300 consultants based in 39 offices worldwide. Our consultants work closely with public and private organizations to identify, assess and recruit senior executives and board members. We value teamwork, serving our clients with a collaborative approach that spans our international network of sector and functional experts.

Our in-depth knowledge of major industries and our clients' specific business challenges, combined with our understanding of who and what make an effective leader, ensure that our clients secure the best leadership teams for the ongoing success of their businesses. For more information, please visit us at www.russellreynolds.com.

Americas

Atlanta

1180 Peachtree St., NE
Suite 2250
Atlanta, GA 30309-3521
United States of America
Tel: +1-404-577-3000

Boston

One Federal Street
25th Floor
Boston, MA 02110-1007
United States of America
Tel: +1-617-523-1111

Buenos Aires

Buenos Aires Plaza
Manuela Sáenz 323
Seventh Floor, Suites 14 and 15
C1107CBP Buenos Aires
Argentina
Tel: +54-11-4118-8900

Chicago

200 South Wacker Drive
Suite 2900
Chicago, IL 60606-5802
United States of America
Tel: +1-312-993-9696

Dallas

8401 N. Central Expressway
Suite 650
Dallas, TX 75225-4404
United States of America
Tel: +1-214-220-2033

Houston

600 Travis Street
Suite 2200
Houston, TX 77002-2901
United States of America
Tel: +1-713-754-5995

Los Angeles

11100 Santa Monica Blvd.
Suite 350
Los Angeles, CA 90025-3384
United States of America
Tel: +1-310-775-8940

Menlo Park

2500 Sand Hill Road
Suite 105
Menlo Park, CA 94025-7015
United States of America
Tel: +1-650-233-2400

Mexico City

Torre Reforma
Paseo de la Reforma
115-1502
Lomas de Chapultepec
11000 México, D.F.
México
Tel: +52-55-5249-5130

Minneapolis/St. Paul

225 South Sixth Street
Suite 2550
Minneapolis, MN 55402-3900
United States of America
Tel: +1-612-332-6966

New York

200 Park Avenue
Suite 2300
New York, NY 10166-0002
United States of America
Tel: +1-212-351-2000

San Francisco

101 California Street
Suite 2900
San Francisco, CA 94111-5829
United States of America
Tel: +1-415-352-3300

São Paulo

Av. Nações Unidas, 8.501
11º Andar
05425-070 São Paulo
Brazil
Tel: +55-11-3566-2400

Stamford

301 Tresser Boulevard
Suite 1210
Stamford, CT 06901-3250
United States of America
Tel: +1-203-905-3341

Toronto

Scotia Plaza, Suite 3410
40 King Street West
Toronto, ON
M5H 3Y2
Canada
Tel: +1-416-364-3355

Washington, D.C.

1701 Pennsylvania Avenue, NW
Suite 400
Washington, D.C. 20006-5810
United States of America
Tel: +1-202-654-7800

Asia/Pacific

Beijing

Suite 1320, China World Tower I
No. 1 Jian Guo Men Wai Avenue
Beijing 100004
China
Tel: +86-10-6505-2688

Hong Kong

Room 1801, Alexandra House
18 Chater Road Central
Hong Kong
Tel: +852-2523-9123

Melbourne

15th Floor
Bourke Place
600 Bourke Street
Melbourne VIC 3000
Australia
Tel: +61-3-9603-1300

Mumbai

Unit 9(A), Grand Hyatt Plaza
Santacruz (East)
Mumbai 400 055
India
Tel: +91-22-6733-2222

New Delhi

203, Eros Corporate Tower
Nehru Place
New Delhi 110 019
India
Tel: +91-11-4603-4600

Shanghai

Room 4504, Jin Mao Tower
88 Century Avenue
Pudong, Shanghai 200121
China
Tel: +86-21-6163-0888

Singapore

2 Shenton Way
#08-01 SGX Centre 1
Singapore 068804
Singapore
Tel: +65-6225-1811

Sydney

Level 40 Aurora Place
88 Phillip Street
Sydney NSW 2000
Australia
Tel: +61-2-9258-3100

Tokyo

Izumi Garden Tower 14F
1-6-1 Roppongi
Minato-ku, Tokyo 106-6014
Japan
Tel: +81-3-5114-3700

Europe

Amsterdam

World Trade Center
Tower H, 18th Floor
Zuidplein 148
1077 XV Amsterdam
The Netherlands
Tel: +31-20-305-7630

Barcelona

Edificio Prisma
Avda. Diagonal, 613, 2ª
08028 Barcelona
Spain
Tel: +34-93-494-9400

Brussels

Boulevard St.-Michel 27
B-1040 Brussels
Belgium
Tel: +32-2-743-12-20

Copenhagen

Østergade 1, 1st Floor
DK-1100 Copenhagen K
Denmark
Tel: +45-33-69-23-20

Frankfurt

MesseTurm
60308 Frankfurt/Main
Germany
Tel: +49-69-75-60-90-0

Hamburg

Stadthausbrücke
1-3/Fleethof
20355 Hamburg
Germany
Tel: +49-40-480-661-0

London

24 St. James's Square
London SW1Y 4HZ
United Kingdom
Tel: +44-20-7839-7788

Madrid

Calle Miguel Angel, 11
Seventh Floor
28010 Madrid
Spain
Tel: +34-91-319-7100

Milan

Via Mascheroni, 5
20123 Milan
Italy
Tel: +39-02-430-0151

Munich

Ludwigstraße 7
80539 Munich
Germany
Tel: +49-89-24-89-81-3

Paris

7, Place Vendôme
75001 Paris
France
Tel: +33-1-49-26-13-00

Stockholm

Hamngatan 27
SE-111 47 Stockholm
Sweden
Tel: +46-8-545-074-40

Warsaw

Belvedere Plaza
ul. Belwederska 23
00-761 Warsaw
Poland
Tel: +48-22-851-68-38

Zürich

Löwenstrasse 28
CH-8001 Zurich
Switzerland
Tel: +41-44-447-30-30

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