



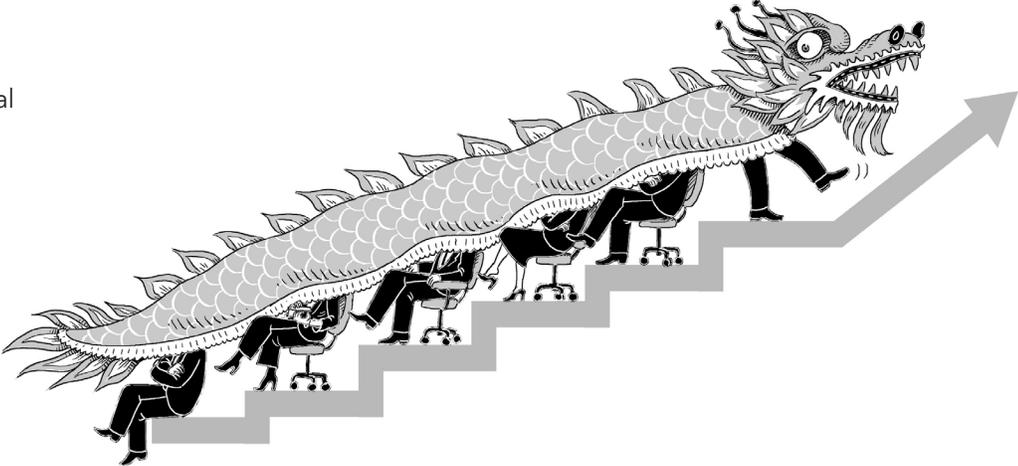
A Russell Reynolds Associates Series

Leadership for a Changing World. Articles in our *Leadership & Talent* series address key issues companies face in creating effective talent management strategies—to identify, develop and retain successful leaders and leadership teams.

Six Talent Dilemmas Facing Multinational Companies in China

Hiring senior executives in China is challenging, and, for many, the solutions are not readily apparent. In this article, Adela Yang, Elisa Hukins and members of our team in China look at six specific talent dilemmas facing multinational companies in China and consider the solutions that will ensure sustained business success.

The growing trend within multinational companies is to appoint local talent to leadership roles in China. But the reality is that experienced local talent is scarce at senior levels, and candidates' track records tend to be light. At the same time, expatriates often have strong leadership experience but lack the market knowledge, local networks and government relationships that are required to be successful in China. These issues must be considered



against a backdrop where it is not unusual for organizations, even in the current economic climate, to want

to grow their headcount in China by three- or four-fold over the next 12 to 24 months.

The Dilemmas

- 1. We either take a risk on inexperienced locals or we take a risk on untested expatriates.**
- 2. If we invest in developing our people, other companies will poach our talent.**
- 3. We want to be close to the market AND ensure integrity and compliance.**
- 4. We want to develop local talent as regional leaders, but candidates don't want to travel overseas to further their development because the action is here in China.**
- 5. We want to attract the best talent, but we do not have fancy titles nor will we pay at the top of the market.**
- 6. We need to balance different expectations in China and the West as to how leaders should behave.**

Dilemma No. 1 **We either take a risk on inexperienced locals or we take a risk on untested expatriates.**

Increasing numbers of multinational companies are coming to China to expand their operations, compounding the pressure of talent shortages for all organizations. (For example, more than 50 foreign law firms set up operations in China in 2010 alone, creating even greater competition in an already highly competitive talent market.)

Given this imbalance between supply and demand, organizations face a difficult choice: to bring experienced expatriates into key roles, even though they don't understand China, or to hire local executives who have not worked

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in global organizations and who often have less significant leadership track records. Historically, expatriates were the more expensive option, but the compensation gap between the two quickly is narrowing.

In China, talent in general—no matter its source—is not fully tested. There are considerable risks with either option.

Hiring local candidates: Local candidates with ideal profiles are rare and, as a consequence, tend to go to the highest bidders. Some organizations select local candidates with good potential and appoint them into more senior roles than appropriate in the hope that they will be successful. Other organizations identify junior local candidates in the hope that they can step up later and, in the meantime, fly in expatriates to fill the gap, hoping they will quickly learn the nuances of China. Each option requires careful management.

Organizations must conduct early and in-depth assessments of step-up local hires, focusing on cultural fit and potential. Companies should develop targeted onboarding plans for these locals over a six- to 18-month period; often these plans require individuals to lead or participate in special projects designed to develop necessary competencies and test them in real-life situations, thereby reducing the risks when these locals take on leadership roles. At the end of the onboarding process, individuals need to be given enough trust and autonomy to operate independently or they will look for other opportunities.

Appointing expatriates: Too often, we have seen expats “not work out” in China for a variety of reasons. Experienced organizations now are making very careful choices about who they move, evaluating candidates

beforehand and supporting them in a more structured way as they enter Chinese business. Establishing cultural fit is essential, but organizations must ensure that expatriates have local confidants, advisors and go-to people to help open doors and navigate relationships. Companies also must make sure that expats are clear on the success criteria in terms of developing the China team around them, identifying successors early and having plans in place for them. There must be regular checkpoints to ensure that expats are getting the feedback they need to make course corrections along the way.

Dilemma No. 2 **If we invest in developing our people, other companies will poach our talent.**

Investing in people development is critical for two reasons: 1) to ensure employees' skills and capabilities are up to date and 2) to improve retention levels. People development ensures employees engage strongly with their work and their organization and helps firms to be more competitive. The concern expressed by many of our clients is that well-trained employees are a prime target for other companies that are seeking talent—and not just for traditional competitors but also for those in related industries where convergence is driving new requirements for non-traditional skill sets.

Well-developed executives, as well as becoming more of a talent target, often have higher expectations in terms of pay and promotion. In addition, such individuals may quickly feel as though they have reached a glass ceiling (at least for the next six to 12 months) and so seek outside

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opportunities. HR and senior leaders thus are faced with the question of how to strike the right balance between people development and retention.

Solutions need to be creative and integrated. They should include clearly articulated career paths for individuals that are based on a rigorous assessment of their potential, tailored development plans that are linked to the delivery of results, and compensation and status indicators that are “stepped” to allow for more regular progression. In short, adjustments to global processes and systems often are required in order to cater to the specific talent environment within China.

Some companies have been quite creative in their responses to this

dilemma. For example, organizations have divided the talent pool into groups based on their long-term potential and have applied different development and retention strategies to each. A pivotal talent pool consists of those who contribute strongly to the sustainability, growth and/or continuity of the business. Firms usually are willing to make a significant investment into this group’s development and retention, including through compensation and benefits, development support, recognition and the provision of opportunities for career progression. Those outside this talent pool are provided with sufficient training and development to ensure that their skill sets will allow them to competently perform their jobs for the next two to four years, but long-term retention is not as essential for this group. This approach allows organizations to focus their investment effectively.

Dilemma No. 3
We want to be close to the market AND ensure integrity and compliance.

Ensuring access to the right local relationships and information is key to successfully doing business in China. Particularly when a large portion of revenue is driven from local consumption or when products and solutions are not highly differentiated, local content, knowledge and relationships are

critical to make a company stand out from its competitors. Multinational companies, therefore, often seek to hire local Chinese talent. However, in doing this, they must contend with the fact that local people do things in local ways that are not necessarily aligned with the firm’s global policies and compliance standards, thus possibly putting the company at risk. Notably, business in China primarily is relationship driven rather than

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process driven, and this differs from the methodologies adopted by many multinational companies. As a result, risk-averse multinational organizations often choose to hire Asian expatriates who can speak the Chinese language and bridge the disparities between China and the West.

Multinational companies must educate local Chinese hires early on, even from their point of entry into the organization as graduates. By clearly articulating the implications and personal risks of “doing things the Chinese way,” highlighting the purpose and nature of global standards and policies,

and encouraging a more global perspective of consistency and integrity, organizations can shape the mindsets and behavior of employees. This is a long-term and collective effort for multinational companies in China. Some creative organizations have put in place a “buddy system,” whereby local senior hires are partnered with a globally savvy colleague who co-manages decisions and actions that have implications for compliance and risk. The partnership is phased out over time as the confidence and experience of the local leader grow.

Dilemma No. 4
We want to develop local talent as regional leaders, but candidates don't want to travel overseas to further their development because the action is here in China.

In China, we have seen a wave of talent localization happen at a country level. The quality of people in key functions such as sales, manufacturing, supply chain and R&D has developed significantly over the past five to 10 years, and multinational companies now are comfortable—and, indeed, see the strong rationale—in appointing local talent to head-of-country functions and operations.

A second wave of localization now is occurring as multinational companies see China as a strategic growth area.

Many are starting to move their regional and global headquarters here and are seeking to appoint locals into corresponding regional and global roles. It is a complex issue on several levels. There is a capability issue: Local

The second wave of localization is complex in terms of capability, opportunity and motivation.

candidates do not have the relevant experience or track record to manage businesses of such scale or complexity. There also is an opportunity issue: Expatriates who currently occupy these positions may not wish to return to their home country because of the glass ceiling they are likely to encounter there. Finally, there is a motivation issue: Local people do not find the opportunity to go offshore and seek international experience particularly attractive. This often is because they enjoy the status they receive internally as “China experts” (especially as China receives so much global attention), and locals are worried about losing currency after being out of the China equity market for 12-18 months.

Again, solutions to this dilemma need to be integrated and long term. To address the problem, we see organizations taking steps much earlier in a leader's career to ensure global exposure and accountability for assignments that cross borders. Some

organizations require their leaders to take the lead on increasingly complex and wider geographies and engage these individuals on regional and global initiatives. Other companies have made commitments to place local candidates in senior roles and hold a senior-level executive accountable for each person's coaching, development and success. Increasingly, the current crop of expatriate managers is not only being asked to deliver results but, more important, is being measured and rewarded on the growth, development and engagement of the senior teams. Moving locals offshore still is a struggle, but some have been enticed by roles and opportunities that clearly tie them back to China and allow them to stay current and involved.

Dilemma No. 5
We want to attract the best talent, but we do not have fancy titles nor will we pay at the top of the market.

Many multinational companies in China struggle to apply internal global standards to job titles and pay in the country. In a bid for higher status, local hires particularly are attracted by senior titles, and so those who might be regarded as mid-level leaders in other contexts have titles such as vice president in the China market. And with the growth in the Chinese market, remuneration levels have increased markedly, often not

in line with the level of skill and capability of the incumbent. It is not unusual to find employees with skill levels approximately equal to first- or second-line managers in other countries yet are in far more senior roles in China.

This “title and pay inflation” in the China market causes a number of problems, not only with internal equity but also with ensuring consistency in titles and compensation rates across geographic borders.

What is needed from multinationals is greater flexibility and creativity, and we are starting to see a few firms demonstrate this. For example, some organizations have developed a set of external titles (market and candidate driven) and have matched those with internal titles so that each role has an external and internal title. An education process at the corporate level is needed to allow for such flexibility along with changes to systems. Additionally, some organizations have built extra steps into their pay ranges to allow for frequent pay raises, and some have created special rewards for particular knowledge and skills in return for delivery of certain results.

However, it simply is not sustainable to implement continuous upgrades in titles and/or raises in pay rates. To attract and retain talented individuals, companies need to be transparent from day one about the

long-term career prospects of their employees and must make it clear that management is committed to personal development. Firms that have successfully attracted and retained local candidates have provided comprehensive and structured onboarding programs and clearly have shown how candidates can develop and grow in the company over the next three to five years (for instance, from a marketing manager role now to a general manager role in the future). Most important, companies have taken ownership of employee development and have made themselves accountable for making it happen. In this way, organizations have demonstrated their long-term commitment to individuals and have created a mindset where employees look toward longer term benefits in their careers.

Dilemma No. 6 **We need to balance different expectations in China and the West as to how leaders should behave.**

In China, society is organized hierarchically, with decisions being made from the top down. In a business context, team members tend to expect their seniors to make decisions. Additionally, people are trained to do well in exams and learn by rote. As a result, local employees often are considered by expatriates

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to lack creativity and proactivity. In contrast, citizens in Western societies are trained to learn key concepts and apply those in different contexts. Western leadership, therefore, focuses more on creating a vision and empowering employees to achieve this through their own decisions and actions.

Cultural differences between the two lead to differing expectations about conduct in leadership roles. Those from a Western viewpoint may perceive Chinese leaders to be lacking autonomy, creativity and independent thought and to be “rule driven.” In a similar way, those with a Chinese viewpoint may find it difficult to understand what the expectations and roles of Western leaders are and may perceive them to be lacking the rigor and depth needed for strong decision making and performance delivery.

It needs to be acknowledged, though, that regardless of the varying expectations stemming

from different societies, the most effective leaders have a range of soft skills that take time to develop.

Companies need to think clearly about the problems they want to tackle and the opportunities they want to leverage in this market.

However, due to rapid growth and change in China, individuals often do not have sufficient time in a role to develop soft leadership skills. Importantly, such individuals also will not necessarily remain in a role long enough to witness the consequences of their actions and learn from them.

Education about the impact of cultural differences on expectations for leadership certainly is a fundamental first step in addressing this dilemma. Both Chinese and Westerners need to understand what “success” means in China and what “good output” looks like, and these concepts may well be hybrid. A high level of patience is required to understand the cultural differences and to find ways of working together. In addition, those in leadership functions in China need to be given opportunities to apply their thinking, make things happen and witness results. Testing leaders’ abilities to make things happen through others—including holding people accountable, confronting

them when things go wrong and dealing with the consequences—is the only way to truly accelerate the development of strong leaders who deliver sustainable results.

Solutions for these dilemmas need to be strategic, multifaceted, innovative and holistic.

1. Adjustments to global processes and systems that cater to the environment in China are needed.
2. Dividing the local talent pool into groups and applying different development and retention strategies to them will allow organizations to focus their investment and retain the pivotal talent pool effectively.
3. Well-sponsored, untested local talent, over time, brings less risk compared with untested expatriates. Risks will be reduced when organizations make early and in-depth assessments of step-up local hires, focusing on cultural fit and potential, followed by targeted six- to 18-month onboarding plans.
4. Multinational companies need to make a long-term and collective effort to educate people on the purposes and nature of global standards and policies, encouraging a more global perspective of consistency and integrity.
5. A “buddy system” will impose a check and balance system to co-manage decisions and actions that have implications for compliance and risk, helping local employees develop the right behaviors over time.
6. Organizations should take steps early in a leader’s career to ensure global exposure and accountability for assignments that cross borders.
7. Expatriate managers must be measured and rewarded on the growth, development and engagement of their senior local teams.
8. Organizations need to demonstrate their long-term commitment to people development by providing comprehensive and structured onboarding programs, articulating clearly how employees can develop and grow in the foreseeable future, and assigning clear ownership and accountability to make this happen.
9. A great deal of effort and patience is needed to reach an understanding of different expectations for leadership, as well as alignment on what success should look like.
10. Allowing leaders to make things happen through other people and witness the consequences of their actions is equally important to many other factors in leadership acceleration.

Conclusion

In the coming years, we will see ever more local candidates stepping into senior roles in multinational companies in China. This is a necessary—and exciting—development and one that organizations need to work strategically to support. Their tactics, while providing some short-term relief, will only be band-aid fixes to larger systemic issues of talent attraction, development and retention in China.

To address the dilemmas set out above, what is needed is increasingly flexible and creative solutions within a broader strategic framework. Trust and greater autonomy also are key if multinationals are to give local candidates the authority and decision-making power they desire in order to have an even larger impact. For many firms, however, greater localized authority is not an easy move to make.

In China, time is short, the pace of change is fast and the talent supply will remain constrained for many years to come—particularly given that Chinese privately owned companies are growing and developing at a rapid pace and already are winning talented local individuals away from multinational competitors.

In time, and as the market matures, it will be an organization’s culture and the right fit between person and firm that attract and engage talent. Until then, the challenge remains for multinational organizations to examine how they operate globally, to make sure they understand the local talent market, and to build China-specific strategies to leverage and adjust capabilities, systems and individuals. These short-term actions will create the longer term benefit of a competitive edge for the organization, not only in China but all around the globe.

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