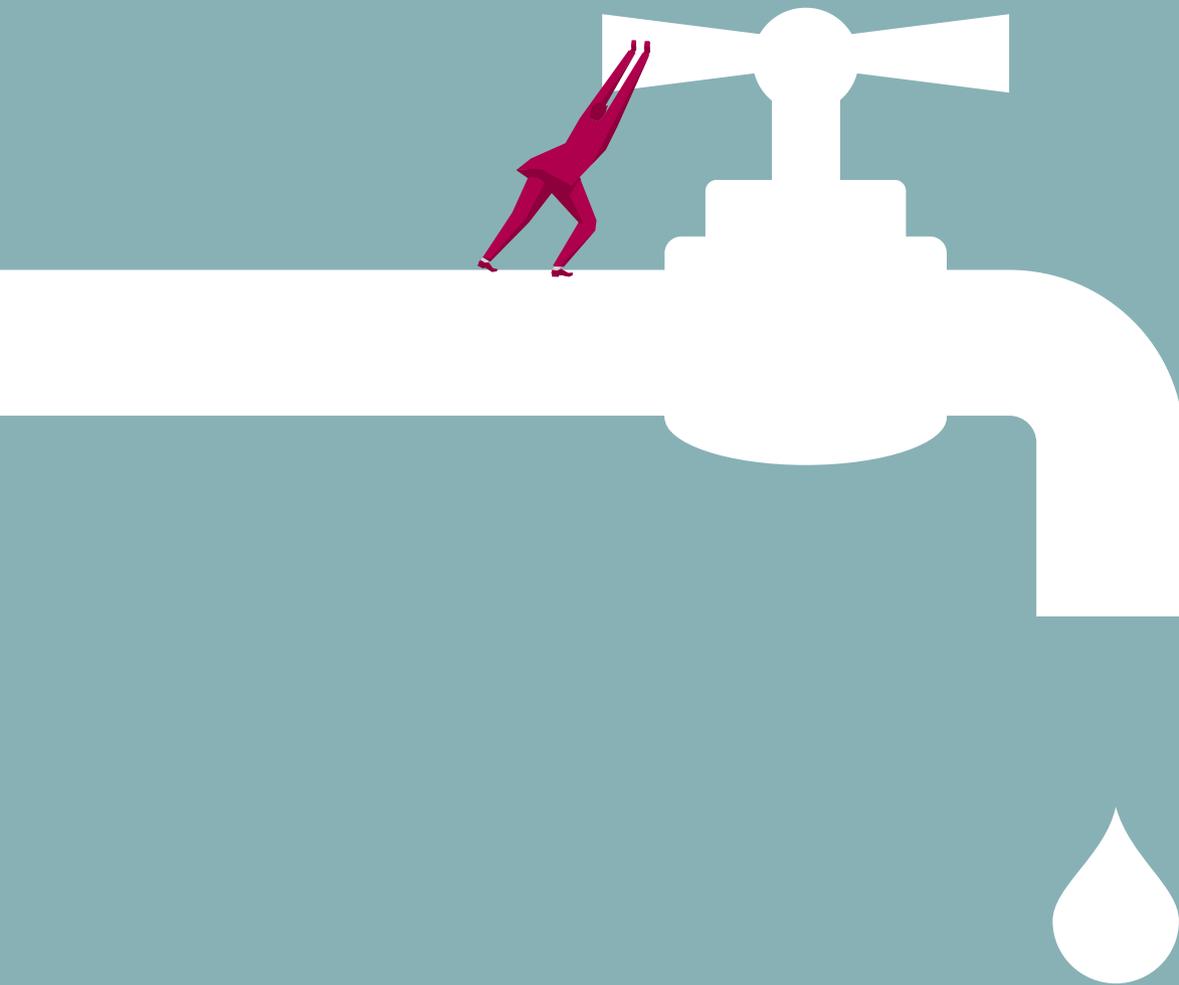


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Preventing a leadership crisis in Asia's talent pipeline

Scarce—and, in some cases, unprepared—management talent is hampering the growth ambitions of some multinational companies in Asia. Forward-looking organizations are rejuvenating their internal and external talent programs.

Succession planning and the development of a pipeline of prospective leaders are vital parts of any company's people strategy: turning to the talent pool to plug leadership gaps at the last moment is a high-risk move that could cause damaging uncertainty if critical positions are left unfilled, even temporarily. Worryingly, there are signs that the talent pipelines of some multinational companies in Asia are inadequate for the challenges ahead.

"Having a sufficiently deep bench is my biggest concern," says Aidan O'Meara, president of the Asia Pacific region of VF Corporation, one of the world's biggest consumer brands—a \$12 billion conglomerate that owns household names such as Vans, Nautica, The North Face, Lee, and Wrangler.

Atul Khosla, vice president of human resources for the Asia Pacific region at Mondelez, a global snack-food conglomerate, agrees, saying that while a critical talent shortage may not exist today, it is imminent. "If organizations do not invest in developing their teams now, there is a big risk of a leadership crisis within two years," he says.

What factors are behind this pessimism? Why are multinational companies operating in Asia, in particular, at risk? And what can they do about it?

That there is an urgent need for scarce Asian talent is indisputable. In a recent survey by ManpowerGroup, for example, 48% of Asia Pacific employers reported that they faced difficulty in filling positions—particularly in management and executive roles—compared to 38% globally.¹ This is partly due to demographics: some 19,000 people in the Asia Pacific region hit retirement age every day² and are not

being replaced by new entrants to the workforce, leading to acute talent shortages in countries such as Japan, South Korea, and even China.³

Moreover, existing talent in the workforce is not being trained to succeed: according to CEB, "just 26% of Asia's rising leaders believe their successors are ready to move to executive roles, compared to 43% in the rest of the world" who believe so.⁴ A study by Mercer, meanwhile, found that the majority of companies in Asia—59%—said their people managers have little or no accountability for developing leaders.⁵

The Asian talent we need

As Asia's economies mature, seizing opportunities to grow in the region will require much more adept, and locally informed, leadership. Senior management teams and even boards can start by better understanding the landscape as well as the unique attributes required of leaders in the region.

Evolving business demands

To be sure, Asia is still home to some of the fastest-growing economies in the world (and the two largest countries by population). Nevertheless, as growth in these markets slows, easy gains—or the "beta" achievable through riding a wave of double-digit growth—are evaporating. Companies increasingly need leaders skilled enough to wring "alpha" returns from bigger, more complex organizations in larger, slower-moving economies.

¹ ManpowerGroup, *2015 Talent Shortage Survey*, 2015, manpowergroup.com.

² Oracle, "Modern HR in the cloud: Get ready for a new era of HR for Asia," 2015, oracle.com.

³ See, for example, Rainer Strack, Jens Baier, Matthew Marchingo, and Shailesh Sharda, *The Global Workforce Crisis: \$10 Trillion at Risk*, BCG Perspectives, July 2, 2014, bcgperspectives.com.

⁴ CEB, "Closing the leadership gap in Asia," cebglobal.com.

⁵ Mercer, *Asia Pacific Leadership Development Practices Study*, 2013, mercer.com.

For Mondelēz, “China and India have gone from emerging-growth markets to large-growth businesses,” says Khosla. “These are full-blown, complex, large, multicategory businesses. We now need the kind of leaders who understand the complexity of this part of the world and can run these businesses.”

Mitch Williams, senior vice president in Asia Pacific for Rexel, an electrical-equipment supplier, agrees. “When you grow over about \$20 million or \$30 million, it’s difficult to find people to run those businesses,” he says. “We need people who will step up and be proactive—broad thinkers who are able to take on senior, general management, or even operational roles.”

Jon Clark, Asia Pacific chief executive of the industrial conglomerate Danaher, also thinks that taking the next step will require a special cadre of leaders: “The group that got you the first \$100 million may not necessarily be the group to take you to the next \$100 million.”

Unique attributes required

Heidrick & Struggles research has shown that high-performing teams are a cornerstone in accelerating organizational performance.⁶ In Asia, what leadership attributes are needed in senior teams to help deliver this growth? In addition to the usual qualities of tenacity, flexibility, and openness, our experience suggests that the following distinct attributes are needed to succeed in Asia’s diverse and rapidly changing markets:

- The ability to *manage multiple reporting lines* and operate in a matrix structure. Business leaders in Asia are required to work with both global business heads and partners in local offices, so they must be comfortable juggling numerous overlapping reporting lines.
- The ability to *operate in a “culturally neutral” fashion*. The implication of matrix reporting is that leaders must be able to deal with senior

executives of various nationalities and backgrounds, putting a premium on communication and stakeholder-management skills. This requires the suspension of sometimes clashing cultural perceptions and the ability to transcend culturally ingrained mind-sets. A Chinese leader of a multinational business unit in South Korea, for example, must approach issues from a Korean perspective regardless of his or her own background.

- The ability to *be strategic*. In Asia’s maturing economic environment, and given the unique challenges of growing a business in today’s emerging markets, leaders in the region must be able to create and drive strategy. The days when HQ could cascade a global strategy down to regional markets and direct local leaders to implement it are long gone.

Expats and returnees: An interim solution

Leaders with the aforementioned qualities are hard to find because demand is outstripping supply. Historically speaking, global multinationals have had to rely on two sources of supply for such positions: expatriates and returnees. The recent study by Mercer, for instance, found that 29% of surveyed companies had expatriates in over 30% of their top 10 leadership positions and only 20% reported that all their top leadership roles were filled by locals.⁷

Regarding expats, there are fewer and fewer of the “fly-in, fly-out” variety: more and more roles are filled by those with long experience in the region and with a nuanced understanding of the markets they

⁶ Colin Price and Sharon Toye, “Accelerating performance in teams,” *The Transformation Mandate: Leadership Imperatives for a Hyperconnected World*, January 26, 2016, heidrick.com.

⁷ Mercer, *Asia Pacific Leadership Development Practices Study*, 2013, mercer.com.

are responsible for. They often have families in Asia and speak a variety of languages. These “localized” expats are in the pipeline to become heads of Asian businesses, but their numbers are not being replenished at a sufficient rate—especially compared to the flood who came to Asia in the wake of the global financial crisis.

Meanwhile, native Asian talent who have sought education and experience in Western markets and returned to apply this knowledge—sometimes referred to in China as “sea turtles” because of their migratory behavior—have been another dependable supply of leaders. Yet they too are ultimately an interim measure. Returnees with the right qualities are no less expensive than expats. And the supply of such talent is unlikely to be able to match growing demand, particularly as the incentives to stay put in the West will rise as demographic pressures in those markets also grow. Multinationals also face ever-increasing competition for this talent from fast-growing Asian companies with international ambitions.

The combined effect is that, while there is an abundance of entry-level professionals in Asia, there is a dearth of mid-tier and top management experience, which explains why many executives are so worried about succession. In the longer term, for multinationals to succeed they must develop local pipelines of talent with the capabilities to take senior leadership roles.

“For KPMG, from a professional-service perspective, we are doing the right thing to localize the positions,” says Polly Yip, head of HR for KPMG China, “[but] definitely we need expert insight from other locations and member firms in other parts of the world, to supplement each other. It’s all about collaboration.”

The evolution of Asian leadership

Finding leaders in Asia poses unique challenges. To be sure, the overall quality of local executives has improved significantly over the past 30 years, given improvements in education and language ability. This has also been partly due to the entry into various markets of multinationals themselves—as well as the increasing appetite of local companies to go global. But the evolution has been far from steady across different Asian markets and has depended to varying degrees on the development of the economies in question.

India, for example, has always had a dependable supply of leaders skilled in international communication and management, thanks in part to its high level of technical education and, with regard to language, the legacy of its colonial history. But the opening of its markets has been carefully controlled and investment in certain sectors consequently uneven, leading to gaps in international experience and a patchy local-leadership pipeline. Similar stories apply to many Southeast Asian markets, with available talent pools broadly reflecting their economic development and the historical level of overseas investment in given sectors, often circumscribed by local rules and regulations (or, as with natural resources, the focus of disproportionate attention).

Meanwhile, the rapid development of China, from its opening in the 1980s until the early 2000s—and, in particular, the acceleration of foreign investment in the manufacturing sector—led to the development of a cadre of local executives skilled at managing and

growing local operations but with limited experience overseeing more complex operations across borders. For multinational investors, outsourced operations frequently required an expat or returnee go-between to bridge cultural and linguistic barriers.

Now, however, succeeding in China requires much more multifaceted leadership skills. And with ambitious Chinese companies increasingly expanding abroad, the competition for talent is increasing. Many multinationals haven't scaled up their domestic talent pipelines commensurately.

Indeed, many companies have found the country's success to be problematic for developing local talent pipelines. In the retail sector, for example, the competition for skilled managers in the rapid growth of recent years has provided little incentive for many local executives to seek opportunities outside the region—and they consequently have little conception of how to run businesses across borders.

The CEO of a fashion brand observes that many of the younger, more inexperienced people holding manager titles do not know how to manage in a downturn. The challenge, he says, is to train them in the skills required for more complex roles by teaching them how to look at the business from different angles.

Inevitably, some industries are better placed than others to manage the talent-pipeline challenge. One indicative factor is the degree of product localization required. Companies that can sell generic products globally with minimal differentiation have had little incentive to develop local talent with the cultural insights necessary to develop market-specific business lines. Contrast, for example, the uniform products made by global pharmaceutical giants like GSK and Novartis with the localized products crucial to major fast-moving consumer-goods businesses like Unilever—and consider the greater pool of local knowledge the latter requires.

The leadership challenge also correlates broadly with profitability: low-margin businesses have been forced, for reasons of cost, to develop local talent more assiduously, rather than rely on expensive expat or returnee managers. Take the financial-services sector. Our analysis indicates that retail banking, which has historically operated with much stricter margins than that of corporate or investment banking, has done much more to develop leadership pipelines in Asian markets than have high-margin financial-services businesses. The latter—corporate and investment banking, asset management, and so on—still rely much more heavily on expensive, and scarce, non-local or returnee leadership and will find themselves at a disadvantage as the war for leadership talent heats up.

Finding solutions

Visionary multinational companies that recognize the increasing importance of Asia to their businesses are adopting the following strategies to ensure an adequate supply of future talent.

Put leadership on the management agenda

Solutions to the talent challenge will be found at the boardroom level. Companies are increasingly aware that the severity of the issue demands attention from senior leadership. Multinationals must ensure that developing talent with a view to filling future senior leadership roles is an agenda item for both the global CEO, who should determine overall strategy, and the regional chief executive, who should prioritize the development of an Asian talent pipeline as a means of achieving these strategic aims.

That this is a responsibility of the organization's most senior leaders is indisputable: our research shows that in this hyperconnected and continually changing

world, one of the five imperatives for successful CEOs is to serve as a “talent magnet,” attracting top talent from various backgrounds and geographies and building a truly diverse senior team.⁸ Developing an Asian talent pipeline will be increasingly important in this regard.

Rejuvenate internal talent programs

Visionary companies in Asia are adopting innovative strategies to rejuvenate their internal talent-development programs. Following are some of these strategies.

Fast-track and enhance management training

Accelerated management training that includes an element of geographical and operational mobility is vital to build a robust leadership pipeline. Hand in hand with the notion that Asian leaders will increasingly be needed to run global operations is the need to give them sufficient experience to do so.

This is something KPMG understands well, says Yip. “One of our key initiatives for senior managers is to provide a briefing on the career ladder so they understand how to achieve [their goals] and what it takes to be a director or partner,” she says. Mentoring high performers within the firm is therefore crucial. Says Yip, “[Mentors] need to be able to listen to them, care about them, and understand their career aspirations.”

The role of personalized management training in addressing any experience gaps is also crucial. The CEO of the fashion brand notes that this is becoming increasingly important as the region’s key economies slow. He believes that since many managers in China are relatively new to a downward cycle, company leaders need to coach and mentor them, and help them understand what the new paradigm requires.

Develop leadership metrics

On an operational level, defining metrics to enable the identification of high-potential talent is crucial.

Grace Wang, HR director in the Asia Pacific region for Carestream, a provider of medical imaging and IT solutions, explains how a transformation in the business drove the company to develop a competence model that identified what skills and traits were required for sales leaders. The company then evaluated the talent status quo to identify gaps and provided training in leadership and sales skills to help prospective leaders compensate for any deficiencies. This, among other measures, has led the company to create a robust pipeline for sourcing leaders—some 70% of whom are in place through internal promotion.

Provide an inspiring career path

If CEOs need to be talent magnets and management training is necessary to coach and mentor talent, the key to retaining and developing high-potential employees in Asia is to ensure that their “view to the top” is clear.

Consequently, some organizations are trying to build stronger, clearer career paths and are focusing on developing high-potential people to address their lack of local leaders. “Coaching and mentoring,” notes a senior executive at a construction company, “are important throughout one’s career—at the graduate level, during key career-change steps for postgraduates, as well as for very experienced people who are getting closer to senior roles.”

Build diversity in the workforce

Spotting the potential of high-achieving employees also requires that talent-management executives look broadly enough. Michael Marquardt, chief operating officer of the Asia Pacific region for investment-management corporation BlackRock, argues that promoting gender diversity is a way of deepening the pipeline: “For top leadership roles and asset

⁸ Tracy R. Wolstencroft, “Leading transformation: Five imperatives for CEOs,” *The Transformation Mandate: Leadership Imperatives for a Hyperconnected World*, January 26, 2016, heidrick.com.

managers, the talent pool in Asia isn't deep enough, and it is especially not deep enough for female leaders. We need strong local leaders with international skill sets. It's about diversity of gender, diversity of ethnicity, and ultimately diversity of thinking."

Revamp external talent programs

Ensuring that talent searches outside the company are sufficiently innovative is also crucial to addressing pipeline deficiencies in Asia. Naturally, this begins at graduate recruitment with those taking their first steps on the career ladder. But while leading multinational companies are certainly expanding their graduate programs in Asia (Citi, for example, is targeting the hiring of 750 people for internships and graduate jobs in the summer of 2016, up from last year⁹), visionary companies are also adopting the following innovative strategies to ensure success.

Look beyond traditional markets

For markets where the potential talent shortage is of most concern, graduate recruitment could focus on universities not in those countries but overseas to develop potential returnee talent. For example, some 20,000 Malaysians go to Australia each year to study, suggesting targeted recruitment programs at universities there could pay dividends for the Malaysian leadership pipeline in the future.

Identify strategic mid-career hires

Looking further along the career timeline, current economic conditions in Asia give companies an opportune means to bolster their leadership pipelines with qualified mid-career talent—if they keep a close eye on their competitors' strategic moves. Barclays, for example, made the decision in early 2016 to scale back certain business lines and its operations in Asia, with as many as two-thirds of the overall 1,200 job cuts planned in the region.¹⁰ Such opportunities for competitors to acquire mid-career talent may be more frequent in investment banking than in other sectors but are bound to increase as multinationals in various industries adjust to new economic realities.

Cultivate rehires

Tracking and monitoring mid-career talent will become increasingly important. The largest companies in any sector are, in effect, leadership academies. Unless there is an institutional prohibition against rehires, it is beneficial to formally track employee alumni as they progress through their careers—with the view potentially to approach them for senior leadership positions when they have obtained relevant experience elsewhere. A dedicated "alumni program" could reap long-term leadership pipeline benefits. These are still comparatively rare, though: the Citi Alumni Network, which includes more than 14,000 former employees, is one notable exception.

Investigate crossover hires

Given the common traits of successful corporate leaders, there is no reason why monitoring and mapping potential talent should be restricted to a company's core industry sector. Indeed, sourcing "crossover talent" could be another viable solution to the leadership-pipeline challenge, especially given the likelihood of increasing career mobility for senior executives in current economic conditions.

The diversity of backgrounds of senior hires in some sectors has been steadily increasing for some time, while others have yet to catch up. Take big pharmaceutical companies, for instance: in the period from 2011 to 2014, some 78% of their talent came from within the sector, according to our analysis of more than 7,500 senior-executive moves in the industry. For biotech firms, though, the figure was just 37%, suggesting an openness in that sector to a more diverse and creative pool of potential leadership hires.

⁹ Simon Mortlock, "Citi to hire 750 grads and interns next year in boost to Asian intake," *eFinancialCareers*, November 10, 2015, news.efinancialcareers.com.

¹⁰ Chad Bray, "Barclays to scale back Asia businesses as part of overhaul," *New York Times*, January 21, 2016, nytimes.com.

KPMG's Yip recognizes the benefits of widening the talent pipeline by looking across disciplines and sectors, from graduate recruitment all the way to senior hires: "Apart from accounting, finance, and business [students], we will also look at people from all different disciplines, such as IT, engineering, and also life sciences, and provide conversion programs to widen the pool." Meanwhile, for hires into the firm's advisory services, the plan is to increase the sourcing of candidates with experience in areas such as biotechnology, science, and engineering, in addition to those with the traditional finance and accounting backgrounds.

Averting the crisis

If Asia is facing a leadership crisis, the time to act to avert it is now. There are concrete steps—internal and external—that companies can take to ensure that their talent pipelines are sufficiently robust to withstand the pressures that will reshape their businesses in the coming years.

Some visionary corporations that recognize the increasing importance of Asia to their businesses have decided to relocate senior global roles to the region. Industrial firms that have invested heavily in Asia, including Caterpillar, GE, and Schneider Electric, are among those companies taking this step.

By having their global senior roles located in Asia, organizations will have a better local understanding, allowing them to make better global decisions. The

presence of these global roles in the Asia Pacific region would also make them aware of the urgency of Asia's talent-pipeline issue and motivate them to align the company's goals and motivations with those of its most talented employees in the region.

Visionary companies setting the stage for managing the impending talent crisis in Asia are also keeping this issue high on the agenda of senior leaders. Forward-looking companies that view Asia as a strategically important hub for R&D, not to mention a valuable market in its own right, will continue to position the Asia talent pipeline as a key topic at boardroom meetings. Only by taking such a long-term approach can organizations win the war for talent and ensure the continuation of their own global success. ■

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