

# crisis in china: talent management

By Steve Mullinjer

Talent management is the single greatest problem that multinational companies – be they joint ventures or wholly owned foreign enterprises – face in China.

A 2004 survey<sup>1</sup> CEO Challenge Survey by HIS/Conference Board covering 430 business leaders in China showed that 93% deemed the ability to attract, develop and retain leadership teams their number one challenge. CEOs and Human Resource executives here have battled this issue on three distinct fronts: (i) China's unique emerging market model; and (ii) the huge influence of multinational companies entering the market; and (iii) increasingly aggressive local PRC companies.

In the battle over talent, CEOs and HR leaders are experimenting with a wide range of new approaches. Yet the solutions mooted here often are not far from what companies employ in other markets. These priorities for staff development would sound familiar to any MNC operating in the world:

- Create a culture of top-down ownership of leadership development and succession planning.
- Invest in technology, such as online assessment, and other alternative approaches to identify and manage leadership talent.

<sup>1</sup>CEO Challenge Survey – HIS/Conference Board, 2004

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- Create a talent management process that integrates both internal and external stakeholders (for example, business partners).
- Instil job performance, assessment and development as a core management process.
- Make the company an ‘Employer of Choice’ organization.

Despite this talent shortage, most US and European MNCs that have approached the China market over the past 15 years are influenced by a talent management model which does not really apply in China.

While elements of these are essential to create global parity in any MNC, tactics that work elsewhere cannot necessarily be shoehorned to fit the China scene. Talent problems in China are magnified by what McKinsey & Company refers to as the paradox of “shortage amongst plenty.” In a 2005 report<sup>2</sup>, McKinsey forecasts that the demand for globally capable PRC executives would reach 75,000 by 2008. Yet the number of suitably qualified executives in 2003 was at best 5000. Even if the talent pool grows at 30% per year, there would still be an enormous imbalance between supply and demand. Unless there is an unforeseen and dramatic economic downturn in China, Heidrick & Struggles believes this imbalance will continue for at least another 10 years.

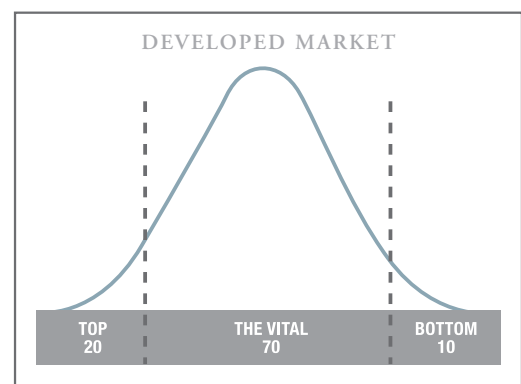
Despite this talent shortage, most US and European MNCs that have approached the China market over the past 15 years are influenced by a talent management model which does not really apply in China. This model is best evidenced by former General Electric CEO and Chairman Jack Welch’s ‘Talent Vitality Curve’<sup>3</sup> which is graphically summarised below:

### Talent Vitality Curve

Under this model a company will:

(i) invest heavily in its top 20% (the company’s future leaders); nurture its high performing ‘core’ management, and systematically fire and refresh its bottom 10% on a yearly basis. This model worked extremely well for GE and has been adopted in different guises by

global businesses as a way to retain a competitive edge.



<sup>2</sup> The McKinsey Quarter, “China’s Looming Talent Shortage, 2005 No. 4

<sup>3</sup> Jack Welch, ‘Straight From the Cuts’

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However, this model does not reflect the environment in China. For example, China does not have ‘depth’ in its senior leadership ranks, nor does it have a similar category of high performing ‘core’ middle managers. To further complicate matters, Chinese companies have a much higher number of underperforming executives who are difficult to assess.

We believe two new classes of employees must be identified and evaluated when considering talent development in China, which we refer to as ‘Potential’ and ‘Grey Community’ categories. These classes could be described as employees who are intelligent, motivated, well educated and ambitious, but lack the following key attributes:

- Business experience and professional maturity.
- Emotional intelligence (EQ).
- Polish, poise and presentation with competent English skills.
- Career management skills.
- Effective role models and mentors.

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These employees are ‘rough diamonds’ – executives who have the substance, intellect and desire to be successful, but who are easily overlooked because they are not a polished product. We think this category of Chinese employees is the most critical for businesses to build a high calibre and sustainable leadership team in China. Recognising this talent segmentation requires a talent development model which enables a company to identify this significant talent pool and provides a development, assessment, retention and training program which is culturally in tune with the real situation in China – a critical step in creating a strong middle management foundation and future company leadership.

The second sub-class we identify – the Grey Community’ – is equally important as the ‘Potential’ group. These executives exist in a ‘grey area’ where performance is not clearly visible to the organization, often because firms do not have the tools or performance management systems to properly assess and manage this segment. Since multinational HR programs are based on a mature market model, it is difficult – and even dangerous – to make hasty decisions about performance. The organisational structure may be flawed and job responsibilities ill-defined, and training, development and retention programs may not be

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culturally sensitive – all this makes performance difficult to measure. Cultural and economic factors can potentially distort the assessments of an executive's performance.

For example, an excellent manager in a small Chinese city may not meet business targets because of inflexible company policies or contract specifications – company practices that draw customers in Beijing and Shanghai won't necessarily work in rural China. The real problem may not be the manager, but the lack of autonomy given to the executive.

Proper and complete assessment of a company's talent pool is vital for competitiveness and survival in China. If business growth is 20% to 30% per year, yet one-fifth of company executives are hidden in a 'grey zone' of competency, it's akin to a ship sailing in favourable conditions with its anchor dropped. At a recent H&S CEO dinner we addressed this question to 14 Asia Pacific and China CEOs:

*“Based on your experience managing executives in China, do you think the level of performance is higher or lower in China compared to a mature market?”*

Surprisingly, the collective view was this: They did not know. Many guessed there was a lower level of executive performance in China, but no one had quantifiable evidence either way. Key problems they faced were: (i) they did not have a clear view of performance across their executive talent pool; (ii) many HR departments were constrained by legacy evaluation systems applied to the corporation worldwide, which didn't always fit the China situation; and (iii) firing low performers is counter intuitive in a market characterised by extremely high turnover – an average of between 17% and 20% a year. Executives said there is almost an emotional block to cutting loose large numbers of low performers – with so many opportunities at other companies and nearly one-fifth of employees leaving each year, the GM-Welch system could be disastrous in an already difficult retention climate. The 'buffeting effect' of market volatility, high attrition and low executive supply have created a 'perfect storm' for managing performance in China.

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This class of ‘Potential’ employee modifies the China model below:

### China: Talent Vitality Curve

Many MNC problems in China come from a lack of insight into China’s emerging market model. For example:



- Lack of ‘bench strength’ in both the senior and mid management ranks. The lack of depth in ‘core’ management ranks (particularly in the ‘lead’ and ‘sustain’ categories) explains the continued requirement for significant numbers of ‘expatriate’ or ‘local plus’ (foreign nationals on local payroll) employees from Europe, US or other parts of Asia to ensure their business is run effectively.
- PRC employees in the ‘sustain’ category are often poached or considered for roles that they are not capable of performing. It is the promotion of PRC executives from the ‘sustain’ to ‘lead’ category which contribute heavily to ‘over paying’ and ‘over titling’ in China. The huge disparity between demand and supply for globally capable PRC executives creates a market where PRC executives are often paid 20% to 30% more than their counterparts in mature markets – who in many cases only have 75% to 80% of the competencies for the positions.
- Companies are struggling to create a solid mid-management ‘core’ as they find it difficult to identify and buff the ‘rough diamonds’ that exist in their own organisation. This is the crucial ‘Develop’ category. If companies fail to deploy this crucial resource, they will not be able to deal with growth, attrition, deployment of new strategies and leadership succession planning.
- Companies in China require a much better understanding of low performers. The first challenge for any company should be to evaluate their ‘grey community’ of executives as either ‘potential’ or ‘low performance’. We believe most companies in China are carrying a significant number of low

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performers who should be let go. This ‘grey community’ segment slows down even a great company, no matter how wonderful its products and solid its executive leadership.

### Businesses In China Must Identify And Groom Local Leadership

In a dynamic and competitive market such as China, companies cannot afford to manage their business based on mature market model any longer. Very few multinational companies understand the unique leadership demands in China, let alone tailor their HR programs and processes to this unique model.

We believe the future of leading companies in China will be determined by the ability to find, groom and hold on to talented diamonds in the rough, which will require a more sophisticated process of evaluating executives.

There are understandable reasons for this lag in identifying and grooming talent – the breakneck speed of market changes leaves little time for proactive response. The country’s unprecedented economic growth has created huge volatility in the nation’s shallow executive talent pool. There is a lack of high-calibre HR talent on the ground that both understands local market needs and has the credibility within the company to advocate a change of corporate mindset on this issue.

Intellectual property is a cornerstone of financial success of any company, and corporations go to great lengths to safeguard their IP resources. Talent management – understanding and safeguarding the human capital IP that make up a successful corporation – is the greatest intellectual property a company holds, and when well managed and deployed is a serious weapon to help best the competition. We believe the future of leading companies in China will be determined by the ability to find, groom and hold on to talented diamonds in the rough, which will require a more sophisticated process of evaluating executives. Only then will companies fully reap the rewards of doing business in the world’s fastest growing economy.

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*Steve Mullinjer is the Managing Partner for Heidrick & Struggles, China. He is an active member of the firm’s Industrial and Financial Service practices. He has spent 15 years living and working in China. He speaks, reads and writes Mandarin and has significant joint venture experience working in China. Based in Shanghai, he can be reached at +86 (21) 6136 1988 or [smullinjer@heidrick.com](mailto:smullinjer@heidrick.com).*